
The EU's Gas Impasse

By Richard Galpin
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Europe has never known anything like it.

The deliberate cutting off of crucial gas supplies for almost two weeks in mid-winter by one of the European Union's most important energy suppliers - Russia.

One EU member state, Slovakia, which depends entirely on Russian gas, declared a state of emergency and threatened to restart an ageing Soviet nuclear reactor to prevent a total power failure across the country.

To the south, Bulgaria, which is also almost totally dependent on Russian gas, faced acute difficulties with more than 150,000 homes in the main cities reported to have lost their heating and some schools and businesses forced to shut down.

Even the normally tame European Commission started to bare its teeth, describing the cut-off as unacceptable and urging European energy companies to sue those responsible.

Market rate

So who exactly was responsible?

As far as Moscow is concerned, the answer is simple - it was all Ukraine's fault.

In negotiations which collapsed at the end of last year, Kiev failed to agree a price for imports of Russian gas for its own consumption.

And when Moscow cut those supplies on 1 January because the contract had expired, it accused Ukraine of stealing the gas being piped across its territory to customers in Europe.

The result was that on 7 January, Russia stopped all gas flows into Ukraine including the vital supplies for European customers.

Looking at the details of the deal which was finally signed on Monday between Russia and Ukraine, it does seem the genesis of this latest dispute was the price Ukraine would pay for its gas.

Moscow was determined to make Kiev pay the normal market rate which European countries are charged, instead of the subsidised rate which Ukraine had been enjoying as a former member of the Soviet Union.

Ukraine power struggle

On the face of it that seems fair enough - why should Russia subsidise what is now an independent, sovereign nation especially when Moscow needs to maximise revenues in the midst of the global economic crisis?

But on the other hand, is Russia making the same demand of other former Soviet states which import its gas such as Belarus or Armenia?

The answer is no, at least for the time-being. Both currently pay only a fraction of the market rate for Europe.

Could it be then that Moscow is singling out Ukraine for punishment because its government is trying to move into the Western sphere of influence by joining Nato and even the EU itself?

Other neighbouring countries that have tried to break away from the Russian zone, such as Georgia, have also faced the wrath of Moscow.

It is perhaps no coincidence that the deal to end the dispute, which emerged at the weekend and was signed on Monday, was negotiated not with President Viktor Yushchenko, but with Prime Minister Yulia Tymoshenko.

It is she who can now present herself as the saviour of her nation in a year when Ukraine is expected to hold presidential elections.

While Ms Tymoshenko was in the vanguard of the Orange Revolution four years ago, she is now viewed as having shifted her allegiances and become much more Kremlin-friendly.

And her rival, Mr Yushchenko, who is still pushing hard for his country to join Nato, is being left out in the cold.

Search for alternative

For the EU, which now imports a quarter of all its gas from Russia, this political dimension of the dispute will add to concerns over whether the 10-year agreement just signed between Moscow and Kiev will hold.

It is a crucial question for the EU - 10 member states depend on Russia for at least 60% of their gas supplies and at the moment there are few alternatives.

So even though this latest crisis has profoundly shaken the EU's belief in Moscow and Kiev as reliable energy partners, it still has to keep looking east for its gas.

One immediate concern for all European consumers will be whether Ukraine can afford the steep price increase for its own supplies of Russian gas.

And then there is the question of the large debts which Russia says Ukraine still owes for last year's supply.

The Ukrainian economy is already in a tail-spin due to the global economic crisis.

It is significant that advisers to President Yushchenko are now warning that the deal could hurt the country.

If Kiev fails to make all its payments on time, it could trigger another crisis.

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