

Gazprom cuts gas shipments to Ukraine, citing unpaid debt

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MOSCOW: Gazprom cut shipments of natural gas to Ukraine on Monday after failing to resolve a debt dispute, rekindling concern about Russia's reliability as an energy supplier.

Gazprom, Russia's state-run export monopoly for natural gas, reduced deliveries to Ukraine by 25 percent, said a Gazprom spokesman, Sergei Kupriyanov. Gazprom would supply European consumers in full, he said.

The standoff echoes a pricing dispute in January 2006, when Gazprom turned off all Ukrainian exports of natural gas for three days, causing volumes to fall in the European Union. About a fifth of Russian natural gas supplies to Europe travels through Ukrainian pipelines.

"This still doesn't represent a crisis, just a greater degree of brinkmanship," Geoffrey Smith, deputy head of research at Renaissance Capital Ukraine, said in an e-mail after the announcement. "The weather is warm and forecast to stay so, and storage both in Ukraine and further west is unlikely to be depleted after another mild winter."

Kupriyanov said Feb. 29 that the state-controlled company had warned its European trading partners about the situation. "Gazprom is a reliable energy supplier, but we cannot and will not deliver gas without payment," Kupriyanov said Monday.

Europe has been seeking to build pipelines from Central Asia to reduce dependence on Russian natural gas, while Gazprom is planning routes to supply Europe directly, circumventing transit countries like Ukraine.

"No one is innocent," said Peter Halloran, chief executive officer of the Moscow-based Pharos Financial Group. "Both Russia and Ukraine are disrupting the supply chain to Europe. This gives impetus to build alternative pipelines to avoid regional politics."

The EU energy commissioner, Andris Piebalgs, urged both sides to reach an agreement "that we hope is definitive," his spokesman, Ferran Tarradellas Espuny, said last week in Brussels.

Prime Minister Yulia Timoshenko of Ukraine said over the weekend that she did not expect Gazprom to reduce deliveries because there had been no official notification of the threat.

The cutoff represents "an embarrassment" for Timoshenko, said Smith, of Renaissance Capital.

Supplies to NAK Naftogaz Ukrainy, Ukraine's state oil and gas company, were cut by 30 million cubic meters, or 1 billion cubic feet, a day, or a quarter of usual deliveries, a Naftogaz spokesman, Valentyn Zemlyanskyi, said.

"We plan to continue gas talks with Russia," Zemlyanskyi said, without saying when.

Ukraine averted a previous threat by Gazprom to cut supplies on Feb. 12 when President Viktor Yushchenko and his Russian counterpart, Vladimir Putin, reached an agreement in Moscow talks. Kupriyanov said Ukraine had failed to pay its debt in full and had not signed an agreement on future gas imports.

Ukraine owes about \$600 million for 1.9 billion cubic meters of Russian gas it has received without a contract, Kupriyanov said. Gazprom has been supplying Russian fuel after Central Asian deliveries declined, he said last week.

Gazprom is also demanding that Ukraine approve the creation of two companies to handle the gas trade, replacing RosUkrEnergo, the only company currently allowed to import gas into Ukraine. Gazprom and Naftogaz would share ownership of the new companies. RosUkrEnergo, owned by Gazprom and two Ukrainian citizens, was set up to resolve the 2006 price dispute.

Timoshenko and ministers had rejected the Feb. 12 deal, calling on Gazprom to sell gas directly to Naftogaz.

E.ON, Germany's largest supplier of natural gas, expected to maintain normal deliveries to its customers after Gazprom cut shipments to Ukraine, an E.ON spokeswoman Astrid Zimmermann said by telephone. Zimmermann declined to comment on whether the company had seen any change in deliveries of Russian gas.