

## Ukraine announces a limitation and diversification of its gas imports

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During a closed session on 20 January, Ukraine's Council for National Security and Defence decided to take comprehensive measures to diversify its gas supplies and implement energy-efficient technologies. Although details were not given, it can be concluded from earlier statements by the Ukrainian government (including Prime Minister Mykola Azarov and the Energy Minister Yuri Boyko) that this will involve a significant increase in the extraction of its own gas (which currently stands at 20 billion m<sup>3</sup>, one-third of the country's total consumption), as well as taking deliveries from Azerbaijan, and to a lesser extent from Turkey and Romania. It was also announced that during this year, the gas currently used in power plants would be replaced by coal, which would save 6 billion m<sup>3</sup> of gas annually. Eventually, according to Minister Boyko, in 2017 Ukraine would be able to reduce its imports from the current amount of 40 billion m<sup>3</sup> to 12 billion m<sup>3</sup>.

### Commentary

- The Council's decision should be judged as an attempt to put pressure on Russia in the ongoing gas negotiations by showing that Ukraine does have an alternative to Russian gas supplies. In the long run, Kiev could actually significantly reduce the import of gas from Russia, but this would require large financial outlays, and above all, political will and consistent action. However, restricting imports would not solve the fundamental problem (along with high prices) of the gas contract with Gazprom, under which Ukraine must buy a minimum of 33 billion m<sup>3</sup> of gas annually, or face financial penalties.
- The high prices of Russian gas are becoming an increasing problem for the Ukrainian government before parliamentary elections in October. The current authorities are using harsher rhetoric to blame the high gas prices not only on their predecessors but also on Russia, as an excuse for Ukraine's lack of economic success.
- In the short term (i.e. three to four years), the plans to import gas from other countries on a wider scale are unrealistic. There is no sufficient infrastructure to receive gas supplies from Azerbaijan, either on the Ukrainian (gas terminal) or Azeri sides (a gas liquefaction plant on the coast of Georgia). In turn, Turkey and Romania have no surplus gas to sell abroad at the moment. Moreover, any such deliveries would involve reversing some of the pipelines running through the Balkans, as well as additional transit costs, all of which calls the viability of the operation into question.

- Adapting some of the power stations to run on coal is possible, although not as quickly as Kiev has announced. However, this move would make an expensive upgrade of the facilities necessary, and would also increase pollution. It would also be possible to achieve a significant increase in the production of Ukraine's own gas within a few years. However, this too could entail a large financial outlay; moreover, it would be necessary for foreign investors to bring in technologies enabling the extraction of gas from a deep-water shelf, as well as from non-traditional sources such as shale and coal mine gas. Ukraine has signed several memoranda of cooperation with Western corporations (including Shell and ExxonMobil), but they would have wait for several years at least to see any real results. Furthermore, considering the unfavourable investment climate, it is unclear whether Western companies will decide to get involved in Ukraine.