

WORLD

Proposed U.S. sanctions on Russian gas pipeline would help Ukraine in stand-off with Moscow

The U.S. sanctions could delay Russia's Nord Stream II gas project for several years by targeting Western firms that help install the deep-sea pipelines.



Pipes for the Nord Stream 2 Baltic Sea gas pipeline loaded onto a ship at the port of Mukran in Sassnitz, Germany on Dec.12, 2019.

Stefan Sauer / dpa/picture alliance via Getty Images file

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By Dan De Luce

KYIV, Ukraine – Proposed U.S. sanctions on a [Russian gas pipeline to Europe](#) would be a "game changer" for Ukraine and the European gas market, giving Kyiv more leverage in negotiations with Moscow, the head of Ukraine's state energy company said Friday.

In an interview with NBC News, the CEO of Ukraine's [state-owned energy company Naftogaz](#), Andriy Kobolyev, said the U.S. sanctions, which have won initial approval from House lawmakers, would have a major impact on the stalled negotiations between Russia and Ukraine over the transport of natural gas to Europe.

"If [the sanctions] are signed and implemented, I believe the European gas market will benefit significantly, and Ukraine will benefit. And European consumers will benefit," Kobolyev said from his company headquarters in Kyiv. "The U.S. sanctions for the gas market are a game changer."

The Ukraine impeachment inquiry has put a spotlight on Naftogaz and Kobolyev as associates of President Donald Trump's personal lawyer, Rudy Giuliani, tried to push for Kobolyev's removal earlier this year. The former U.S. ambassador to Ukraine who Giuliani helped force out of her job, Marie Yovanovitch, told lawmakers in October that Kobolyev was "as clean as they come."



[Russia, Ukraine hold peace talks](#)

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The sanctions, which would penalize any company installing deep sea pipelines for Russia's Nord Stream II gas project, have been approved by U.S. lawmakers in the House as part of a defense spending package and are expected to be adopted by the Senate within days.

Germany unsuccessfully lobbied against the proposed sanctions and President Trump has vowed to sign the bill.

Russia has counted on the completion of the Nord Stream II project to reduce its reliance on Ukraine's pipelines to deliver gas to European markets. The project would allow Russia to bypass Ukraine and deliver gas through pipelines under the Baltic Sea. But the sanctions could mean a delay of several years for the project, by targeting the Western firms needed to construct deep sea pipelines. Only a handful of companies have the technology to install undersea pipelines, and it could take Russia several years to develop the capability on its own, experts say.

Congress took up the sanctions bill as Ukraine and Russia remain at an impasse over negotiations on a new contract for the transit of Russian natural gas through Ukraine's network of pipelines. The current 10-year contract expires at the end of the month. Russia provides about 37 percent of Europe's natural gas, and much of it moves through Ukraine's pipelines.

Ukraine has proposed a new 10-year deal with Russia, and wants Moscow to pay off a nearly \$3 billion debt that a Stockholm court ruled it owed to Ukraine. But Russia has called for a one-year agreement and demanded Kyiv drop the claim and forgo the award won in the Stockholm arbitration ruling.

[A decade ago](#), Russia cut off gas supplies in the middle of winter for three weeks, triggering a spate of shortages across Europe. Since then, European countries have built up stockpiles and are less dependent on Russian gas, but EU leaders are anxious to secure an agreement and avoid a breakdown in the talks.

Russia has sought to inject the gas dispute into diplomatic talks aimed at ending the conflict in eastern Ukraine, where pro-Russian forces have refused to recognize Kyiv's authority. Relations have remained tense between the two countries after protests in Ukraine forced out a pro-Kremlin president in 2014 and Russia invaded and annexed the Crimean peninsula.

Kobolyev said he expects Russia's state-owned gas company Gazprom will try to put pressure on Ukraine and possibly cut off gas deliveries. But he said Naftogaz is ready if that happens.

"I fear that Gazprom is actually not interested to have a contract, and they want to create a crisis," he said. "If worse comes to worse, Ukraine is ready, Europe is ready."

He added: "I don't think the Russian side will be able to coerce Ukraine."

With time running out on the existing contract, Russia likely will temporarily halt gas supplies in an effort to push up gas prices, said Oleksandr Kharchenko, managing director of the Energy Industry Research Center in Kyiv.

But that tactic might prove less successful this time around, he said.

The U.S. sanctions "will dramatically change these negotiations in favor of Europe and in favor of Ukraine," Kharchenko said.



[Zelensky to meet with Putin on Monday as Trump impeachment inquiry continues](#)

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Alexei Miller, the CEO of Russian state-owned Gazprom, said earlier this month that new tariffs proposed by Ukraine on Russian gas transported through its territory were unacceptable.

"The tariffs are very, very high," Miller said. "They are significantly higher than the current tariff at which we are now supplying gas through the territory of Ukraine."

[Anti-corruption efforts](#)

Rudy Giuliani, the president's lawyer, tried to push for the CEO's removal earlier this year as part of a failed attempt for a gas-supply deal. The U.S. ambassador to the EU, Gordon Sondland, also proposed a shake-up in the leadership of Naftogaz, NBC News has previously reported.

Kobolyev declined to comment on any questions related to the impeachment case, but current and former U.S. diplomats have praised him as a champion of anti-corruption efforts at Naftogaz.

Since Kobolyev took over in 2014, the company now turns a profit after years of operating a deficit of billions of dollars and its tax and dividend payments make about 15 percent of the government's revenues.

Kobolyev has repeatedly clashed with previous governments in Kyiv and won international support for maintaining a supervisory board – comprised of four foreign members and three Ukrainian nationals – that oversees the company's management.

The country's energy minister, Oleksy Orzhel, said last week that the government planned to change the supervisory board and management of some state enterprises, including Naftogaz. His comments alarmed Western governments and the International Monetary Fund, which have strongly supported the role of the supervisory board in insulating the company from political pressures.

German Chancellor Angela Merkel and Russian President Vladimir Putin chat as they pose for the media at Schloss Meseberg castle in Meseberg, northeastern Germany where they met to discuss conflicts in Syria and Ukraine as well as energy issues. Tobias Schwarz / AFP - Getty Images file

But the minister of economic development and trade, Tymofiy Mylovanov, later appeared to shoot down that idea, saying there was no such plan for Naftogaz.

"I don't know where Mr. Orzhel was coming from and why he said what he said," Kobolyev said of the energy minister's comments. But he said he was hopeful that Ukrainian President Volodymyr Zelenskiy's government would preserve the role of the supervisory board, which is designed to ensure accountability of the company's management and minimize political interference.

Naftogaz was a hub of corruption until 2014 and how Zelenskiy handles the company could provide a barometer on his willingness to confront corruption in the country, experts and transparency activists say. Western officials have urged Zelenskiy's government not to take any rash decisions on Naftogaz, said a former U.S. official briefed on the matter.

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