



Ukraine sells itself as the EU's new energy hub

Naftogaz's CEO says Kyiv can help the EU wean itself off Russian fossil fuels.



BY GABRIEL GAVIN
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Repairing Ukraine's shattered energy infrastructure will cost billions but stumping up the cash will help the EU complete its shift away from Russian energy, said the head of the country's largest energy firm.

"Ukraine should be rebuilt not out of mercy but out of practical business interest," Oleksiy Chernyshov, the CEO of state oil and gas producer Naftogaz, told POLITICO.

That's because Ukraine aims to eclipse Russia as a supplier of natural gas while also ramping up its electricity exports to the EU.

"Ukraine has the second- or third-largest reserves and resources of natural gas in Europe," Chernyshov said. "We should be self-sufficient and start supporting the outside world, namely the EU, with more production of natural gas in the coming years."

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Domestic production, he estimates, could cover the country's own demand as early as this winter, with exports possible thereafter.

Ukraine last year extracted 18.5 billion cubic meters (bcm) of gas, while consumption came to 20.1 bcm — a 25 percent drop on a year earlier thanks to the economic devastation and the massive refugee flows caused by Russia's invasion, according to the Warsaw-based Centre for Eastern Studies.

"As long as the intensive hostilities continue, no increase in gas consumption should be expected, particularly in the context of Ukraine's uncertain economic future," the think tank said.

Naftogaz's extraction subsidiary Ukrigasvydobuvannya last year drilled 47 new wells.

Russian ties

Despite the war, Russia continues to use Ukraine's huge pipeline network to send gas to its dwindling number of customers — largely Slovakia and, to a lesser extent, Moldova. Under the terms of a transit deal, Ukraine earns \$7 billion a year from the arrangement and the Kremlin is reportedly open to renewing it when it expires next year.

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Chernyshov said the decision on whether the gas transit deal will be extended is up to those countries still dependent on Moscow, but he said Naftogaz ultimately aims to "substitute the gas currently flowing from Russia to the EU through Ukraine with Ukrainian gas."

Relations between Naftogaz and Russia are at rock bottom. Last month, the Ukrainian company won a \$5 billion arbitration lawsuit against Russia's Gazprom gas export monopoly for the illegal seizure of its assets in Crimea. The two are also sparring over transit fees.

While the country has proven reserves of more than a trillion cubic meters of natural gas, much of it is in the east, either under Russian occupation or close to the front lines.



▲ Compressor station of Ukraine's Naftogaz national oil and gas company near the northeastern Ukrainian city of Kharkiv | Sergey Bobok/AFP via Getty Images

Chernyshov acknowledged harnessing it may prove difficult, and Kyiv won't ever be able to completely replace Moscow's gas exports. The plan, he said, is to make sure there's enough supply to meet the EU's needs temporarily as it transitions to green energy. Once the war ends and Ukraine starts to rebuild, it is likely to turn to green energies as part of its EU accession process, freeing up more gas for export.

"We count on EU gas consumption decreasing and, strategically, Ukraine will in the future export not only natural gas but also hydrogen and biomethane," he added.

Earlier this month, Ukraine's first biomethane plant was connected to the gas network. In February, Kyiv signed a memorandum of understanding with the EU to export decarbonized gases — seen as a replacement for fossil gas.

Kyiv is also optimistic about supplying electricity to its neighbors, something it started to do again last month after a six-month hiatus caused by Russia's attacks on its energy infrastructure.

"When Ukraine liberates the south and gains control of Zaporizhzhia nuclear power plant, the balance of electrical energy in Ukraine will be very positive. If we recover all the energy production in Ukraine, we will immediately be a significant exporter — Europe's powerbank," the Naftogaz CEO said.

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June's Ukraine Recovery Conference in London will discuss how best to mobilize support for the country and shore up its economy.

Before the Russian invasion, Ukraine struggled to attract sufficient foreign capital due to concerns about corruption and legal protections. The country has since embarked on an effort to curb the power of oligarchs and to root out corruption, but Ukraine is still one of the world's most corrupt countries, according to Transparency International's annual Corruption Perceptions Index.

"We are in desperate need for structural reforms that will provide the ability for international businesses to come here," Chernyshov said. "We should start from the rule of law, justice reforms, the protection of private property rights [and] corporate governance reforms."

That's an enormous challenge, said Jacob Kirkegaard, a senior fellow at the U.S. German Marshall Fund.

"They have no experience in running non-corrupt, large infrastructure projects and doing it on time," he said. "Unless the Ukrainian people come back from the trenches, literally, and want better governance then you're going to have this issue."

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