WORLD

Ukraine Gives Reason for Allowing Russian Gas Transit Despite War

BY DAVID BRENNAN ON 9/27/23 AT 9:30 AM EDT

WORLD RUSSIA-UKRAINE WAR RUSSIA UKRAINE NATURAL GAS

Tens of millions of cubic liters of natural gas are still flowing daily from Russia to Europe across Ukraine through pipelines crisscrossing some of the areas most

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cruise missiles, drones and shells into Ukraine, Russian energy executives send billions of dollars' worth of gas.

Ukraine isn't happy with the incongruous state of affairs, Oleksiy Chernyshov, the CEO of the state-owned Naftogaz energy giant, told *Newsweek*. "Naftogaz is in a position to execute, run, and maintain this transit only in favor of Ukraine's European partners," he said in an exclusive interview.

"The only reason we are still technically doing that is just to support European countries, especially landlocked countries. Some countries have limited access to other channels, such as the Czechs, Austrians, Hungarians, Slovaks and others. It's a very important question."

"I've been asked this question in the way of: 'How could you dare to work with your enemy right now?' Well, in a way, how can you continue consuming Russian gas? We're doing it only for you in order for you not to be freezing."

A worker walks among pipes and valves at the Dashava natural gas facility on September 18, 2014, in Dashava, Ukraine. The country is looking to revitalize its natural gas production and export capabilities amid the full-scale Russian invasion.

SEAN GALLUP/GETTY IMAGES

Ukraine earned some $1.2 billion per year in transit fees for Russian gas before the Kremlin launched its full-scale invasion of the country in February 2022. The route supplies around 5 percent of Europe's total gas imports.

With the freezing—and destruction—of the Nord Steam pipelines running to Germany, the Ukrainian route and TurkStream artery are the only two remaining avenues for Russian natural gas to get to the continent.

The Ukrainian route has survived, despite Russia's war of annihilation. The symbiosis continues even as Moscow tries to collapse and erase the Ukrainian state, and as Kyiv works to remove Russian forces from its territory.

behemoth Gazprom is due to expire next year. There appears to be no hope of its renewal.

"Any kind of commercial, practical, or contracted relationship between the parties in such conditions is impossible," Chernyshov said, when asked if the deal could be extended.

Newsweek has contacted Gazprom by email to request comment.

The imminent closure of the Ukrainian route poses serious questions for European nations struggling to wean themselves off Russian energy imports. Unlike coal and oil, imports of Russian natural gas have never been put under European Union sanctions; a reflection of its importance to EU economies.

Europe's 'Strange' Dance

EU nations are cutting their reliance on Moscow, having halved natural gas imports from a monthly average of about 5.6 million tons to around 2.7 million tons from the second quarter of 2022 to the same period this year.

The drop in pipeline gas demand has been particularly notable, with Russian state bank VEB this month predicting that pipeline exports for 2023 would be almost two-thirds lower than in 2022, and more than six times lower versus 2021.

But Russian natural gas is still sought after by major EU nations, including France, Spain, Belgium and the Netherlands. Such demand means Russia is still the EU's second-biggest natural gas supplier, second to the U.S.

The EU has a plan to phase out all Russian natural gas by 2027. Chernyshov suggested this is too slow. "We would welcome that this would happen earlier," he said.

"The volumes of gas that the European Union is requiring from Russia is declining, and we welcome the decline," he said. "But in practice, there is still a gap. Why is this happening? Because of the capacity of LNG [liquid natural gas] terminals and overall production in Europe is still not enough."

bring it. But it's a problem to offload it and bring it to European storage because the LNG terminal capacity is limited. This ultimately means that the European Union might need some volume from somewhere. And currently, this is still the Russian Federation."

Floating Storage Regasification Unit (FSRU) ship "Hoegh Esperanza" docks at the liquefied natural gas (LNG) terminal at the port of Wilhelmshaven, Germany, on December 15, 2022. Europe's pivot away from Russian natural gas is being hindered by a lack of LNG terminals.

FABIAN BIMMER/POOL/AFP VIA GETTY IMAGES

The challenge is more daunting for central European nations without access to LNG terminals at large ports. Austria—long more hesitant to exorcise Russian influence and money than many of its European partners—for example, has increased its Russian gas imports to pre-invasion levels. Russian gas accounted for around half of the country's energy imports in May.

Austrian energy giant OMV, meanwhile, has agreed a deal with Gazprom to continue to import Russian gas until 2040. "As long as Gazprom will supply...we will continue to take these quantities from Gazprom," CEO Alfred Stern told *The Financial Times* in July.

Moscow for the foreseeable future. During a visit to Moscow in April, Foreign Minister Peter Szijjarto said: "As long as the issue of energy supply is a physical issue and not a political or ideological one, like it or not, Russia and cooperation with Russia will remain crucial for Hungary's energy security."

Chernyshov said it was "rather strange" to see EU nations and major companies taking steps incompatible with the bloc's aim to decouple from Russian energy. "It's 2040, not 2027," he said of the OMV deal. "They've signed a contract which is, in a way, ridiculous."

Europe's 'Power Bank'

The Naftogaz CEO said he wants Ukraine to become a net exporter of natural gas to "the greatest market" of the EU, ideally stepping in to fill the gap left by dwindling Russian imports.

"It is not a problem that the European Union consumes gas," he said. "This leads to economic growth and other things: you cannot develop your economy without energy. It's so important. I think the opportunity for Ukraine is to become, in a way, a 'power bank' of energy for the European Union."

Ukraine is the third-largest natural gas producer in Europe, behind Norway and the U.K., and has been touted as second on the continent for reserves. Naftogaz ranks Ukraine second in Europe for "total recoverable economical resources," and third for "commercial reserves that are either proved or probable."

The ongoing war, though, imperils Ukraine's energy network, extraction capabilities and prospects for sector growth. Naftogaz was in default from July 2022 due to the inability of many customers to pay their bills as a result of the Russian invasion. The firm only emerged from default earlier this month.

Naftogaz CEO Oleksiy Chernyshov. The executive told Newsweek he wants Ukraine to become the EU's "power bank" as the bloc weans itself off of Russian fossil fuels.

NAFTOGAZ

"The sky's the limit," Chernyshov added. "Ukrainian potential is extraordinary." But Kyiv will need help.

"Any gas production, or any energy production with fossil fuels or any other, would require significant investment," Chernyshov said. "It is obvious that Ukraine is an equity shortage market, even before the war. During the war, it's several times shorter."

In 1975, Ukraine accounted for one-quarter of all the natural gas produced in the Soviet Union, with extracts reaching 68.7 billion cubic meters. The independence era has been leaner. This year, Naftogaz expects Ukraine to produce around 19.1 billion cubic meters of gas, the same level as 2010 and down from 19.9 billion in 2015.

"We want to keep on track for a 7 percent [annual] increase in gas production," Chernyshov said. "Our next year target would be 14 billion cubic meters by Naftogaz only, plus other equity. And equity is about incentives. And incentives are about the reform agenda.

"Ukraine should be focused on serious incentives of private business and private investors to come to the market," Chernyshov said. "And this might lead to a recovery of those numbers."

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