

Outside View: Cub helps Ukraine seek energy independence

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WASHINGTON, April 5 (UPI) – If Russia is a riddle wrapped in a mystery inside an enigma then Ukraine must be even more so.

One of the most important lessons we have learned from observing Ukraine is that labels commonly used by Western journalists of a country divided between "pro-Western" and "pro-Russian" political forces don't reflect the far more complicated reality on the ground.

Nowhere is this more so than in the realm of energy.

Presidents Leonid Kuchma and Viktor Yushchenko both talked a lot about Ukraine's energy independence but did very little to move beyond rhetoric. Under Kuchma an oil pipeline was built from Odessa to Brody to import Azerbaijani oil but the project failed to move ahead. Eventually, the oil flow was reversed with Russian oil pumped south to Odessa.

Ukraine's reliance on Russian increased following the 2006 gas contract with the opaque RosUkrEnergo gas intermediary whose golden era was in 2006-08 under the "pro-Western" Yushchenko.

Gas tycoon Dmytro Firtash told the U.S. ambassador to Ukraine, a cable from Kiev reported, that "He described himself as a close friend and confidante of the President – someone the President can trust totally."

Moving from rhetoric to real work on Ukraine's energy independence only began after Viktor Yanukovich came to power in 2010. With Ukraine paying one of the highest gas prices in Europe, the Yanukovich administration rejected the idea of taking the 2009 gas contract to Stockholm and instead launched four policies to increase the country's energy independence from Russia.

The first is to explore Ukraine's vast shale gas deposits which are reportedly the third largest in Europe at 1.5 trillion cubic meters and 2.5 trillion cubic meters of technically recoverable shale gas. Royal Dutch Shell signed a \$10 billion contract to develop the Yuzovsky shale gas deposit and drilling is to begin this year with production beginning in 2015. The Donetsk regional council controlled by the ruling Party of Regions voted to approve the deal.

U.S. company Chevron signed a shale gas exploration PSA to drill in Western Ukraine but the nationalist Svoboda (Freedom) Party which is in power in the region has led opposition to fracking, the term used for shale gas production, on allegedly environmental grounds.

It is indeed ironic that the anti-Russian Svoboda is opposed to energy diversification that will assist Ukraine in becoming independent of Russia.

The second policy is to construct a liquefied natural gas terminal that would satisfy immediate demand by importing gas 20 percent cheaper than currently. Vladyslav Kaskiv, head of the State Agency for Investment and National Projects, who was a parliamentary deputy from Yushchenko's Our Ukraine, has led the project.

Ukraine launched the LNG project on the Black Sea near Odessa in November, beginning construction of a \$145 million, 40-mile link from the terminal to the national gas network.

Unfortunately pressure to quickly secure a deal led to imposter Jordi Sarda Bonvehi signing on behalf of Spanish

company Gas Natural. The company announced it had no intention to invest in Ukraine's LNG terminal and the search continues for LNG partners. But, it also remains unclear if Ukraine can convince Turkey to permit the passage of large quantities of LNG through the Istanbul Strait.

A third policy is to increase oil production on the Black Sea coast. The Vanco contract will explore the 5,000-square-mile Prykerchenska region of Ukraine's Black Sea shelf that reportedly holds large reserves of oil and gas.

In spring 2008, the Yuliya Tymoshenko government annulled the contract but it has been revived after a positive decision by the Stockholm Arbitration Court. Donetsk oligarch Rinat Akhmetov is searching for joint investors in the Vanco project.

Royal Dutch Shell won a tender in 2012 in a consortium with other international petroleum companies for the exploration of offshore deep-water reserves in the Black Sea's Skifska field. They agreed to pay an upfront premium of \$300 million upon signing the PSA and pledged to invest \$200 million in the exploration phase.

The fourth policy, probably the most important, is supporting an expansion of gas production

Chairman of Royal Dutch Shell Ukraine Graham Tiley told the Ukrainian edition of Forbes magazine last year that it is entirely feasible for a three-fold increase in gas production from the current 20 billion cubic meters.

In the 1960s and 1970s, Ukraine was the biggest gas producer in the Soviet Union and much of this infra-structure of pipelines, underground storage and expertise remains. From the late 1970s the center of Soviet energy moved to Western Siberia and Central Asia.

One of the companies supporting Ukraine's drive for energy independence is Cub Energy, a relatively small player in Ukraine's energy sector registered in Toronto, a city it chose believing it offered better opportunities than London or Oslo.

Chairman Mikhail Afendikov, who was born in Donetsk, says Cub Energy brings together Albertan and Texan expertise and Western technology. Currently, it has nine gas wells in Transcarpathia and the Dnipro-Donets basin with up to 10 new wells planned this year in the 70,000 gross acres of underdeveloped land purchased this month lying adjacent to existing wells. The purchase of contiguous land close to producing gas wells mitigates exploration risks enabling Cub Energy to draw upon existing infrastructure and in place Western technology.

Afendikov has high praise for Ukraine's conditions for foreign investors saying Cub Energy has not experienced problems from local authorities while receiving encouragement from the central government. This is in contrast to earlier experience by Robert Bensch, who is a senior adviser to Cub Energy and Afendikov's partner on day-to-day operations, with the Yushchenko administration. In 2008, after failing to resolve conflicts with oil and banking oligarch Igor Kolomoysky, who was then allied to Yushchenko, Bensch decided to close Cardinal Resources in Ukraine.

It is no coincidence that Ukraine's energy independence is being spearheaded by Cub Energy, a city at the center of the large and active Ukrainian diaspora. It is also no coincidence that the majority of the Western companies that have won tenders in Ukraine's energy sector are North Americans. The Yanukovych administration says that if Ukraine's geopolitical importance grows in Washington's eyes it will be given greater flexibility to pursue domestic policies and will be treated in the same manner as Russia.

Whatever the enigma, on-going steps toward Ukraine's energy independence from Russia and the country again becoming a major European energy player are now on the cards for the first time since 1991. Cub Energy is one of the Western companies assisting in this strategic development.

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