Russia-Ukraine Gas Transit Deal Nears Completion

"Just societies cannot be run by big money or armed forces with their too narrow agendas. Limitless desire for wealth and blind ambition must be watched and contained as potential public dangers." ~ Plato

It was a deal that many said could never be done. Why? Because of too much bad blood, as in $125 billion in counter claims between Russia and Ukraine, which made it the largest arbitration dispute in history. Agreement was announced on December 21st that both parties have agreed to settlement terms to for a new five-year gas transit contract where just about everybody comes out winners.

No one attempted to strong arm the other party into a bad agreement, as both needed a settlement that both sides could benefit and live with financially and politically. Long term budget planning had been floating in the air for both sides without predictable sales volumes for Russia’s Gazprom and transit revenues for Ukraine’s Naftogaz, money desperately needed for Zelensky’s budget and a needed big accomplishment for the new president.

The Stockholm arbitration agreement had given Ukraine a $2.9 billion award which Russia will be paying, and Ukraine agreed in return to drop $12 billion in pending claims.

While Ukraine had wanted a 10-year deal, Russia did not want to go that far now, but did agree to having a 10-year renewal option. We have not yet seen what the fine print in the option is, but I bet you it has a clause along the lines of “if both parties have faithfully abided by the terms of the agreement.”

The political ramifications are more complex, as they involve both real and fake issues. The main real issue was that the EU wanted to solidify needed gas imports, which are at record levels due to a decline in European production. Germany especially was in favor of multiple gas lines serving Europe from various directions as protection against war and geopolitical uncertainty, like the unpredictable trade sanctions from the US. Trump has already unleashed a new barrage of year-end Russophobia in his build up to his State of the Union address in January.

Despite what Trump and the NeoCons think about excessive dependence by the EU on Russian gas, they conveniently leave out of their analysis that the deal makes them cross dependent on each other, a win-win for both.

The 40 billion cubic meters of gas flowing through Ukraine to the EU in years 2 through 5 of the contract, added to the double Nordstream pipe flow of 110bcm when the second line is completed will cover a major chunk of the EU’s 200 bcm market for natural gas. That leaves room for the Turkstream project to add additional supplies and a better future distribution network, particularly for the Balkans area.

The EU was master of ceremonies for assisting Russia and Ukraine work their way through a long list of disputes and did not let one of those torpedo the deal. Both sides accepted that transit pricing had to be done based on already established EU regulations, which removed endless debating for which there was no time left.

Politically, all are winners but the US. The EU has solved its declining gas production shortfall, along with Germany winding down the last of its nuclear power plants by 2022. The EU has chosen natural gas to run on for the foreseeable future for many reasons.

Because it is critical to home winter heating and industry, the EU has continued to facilitate a more diversified supply network. With its flat 1% growth prediction for next year, maintaining low gas prices is not a luxury but critical for protecting the EU from going into a recession if the trade wars continue to get worse or if someone starts...
a stupid war which would tank EU economies even more.

The market responded quickly to the news, with natural gas prices falling sharply. That is bad for Mr. Trump’s unrealistic plans to twist the EU’s arm into overpaying for US LNG as part of US sanctions relief. Trump got China’s president Xi to agree to buy $50 billion in US agriculture and pork products to work toward relieving the big trade imbalance.

Europe does not want to play a similar game, because frankly it does not want to buy a lot of US products that Europe does not want, with expensive US LNG at the top of the list. And Germany’s Merkel is up in arms over Trump’s sanctioning Nordstream2, when it is a month or two from being finished.

The Swiss-owned undersea pipelaying company Aleses agreed to stop operations after receiving a threat of “crushing sanctions” from Senator Ted Cruz. Merkel quickly said the pipeline would be finished, without details as to how.

That has been followed by Dimtry Peskov on December 12th stating that the Nordstream 2 will be finished, and that the sanctions were,

“a direct violation of international law” and “an ideal example of unfair competition and the spread of their artificial dominance in European markets, ...and that, “imposing on European consumers more expensive and uncompetitive products – more expensive natural gas.”

Despite the US throwing more and more sanctions onto Iran, it keeps discovering new oil fields; and today announced it started pumping natural gas out of its new sea platform; 14.2 million cubic meters (mcm) a day out of its third drilling rig in phase 14 of the South Pars field, the largest in the world. The continuing new production of gas will keep prices down in a world that needs low cost energy and lots of pipelines to move it around.

Russia gained a diplomatic bonus, as the agreement shows that it was always fake news of a Russian threat to take over Eastern Europe. Russia wants to do business, as productive trade relations are what tie countries together with the bonds need to defend against “trade interference” which seems to have become in vogue with the Trump regime.

I have written numerous time over the last five years how, before the US-NATO violent coup in Ukraine, Russia enjoyed an $110-billion trade surplus with Europe, which it was turning around and spending most of it on importing a variety of EU products, both food and manufactured goods.

So why would Russia want to kill the golden goose of great business relations with Europe? Putin was focused on building a strong balanced economy to support Russia’s recovering from the horrible 1990s, when the US Deep State gangsters had looted the country blind.

As with all the chaos we see currently in the world, none of it happened accidentally. With hindsight, we can see how it was staged to create the current conditions, which can be exploited by the unipolar gangsters, who consider that working on a level playing field is only for suckers. They preferred a poker game where they had a marked deck, plus the ability to change the rules on the fly so the home team always won.

We go into the new year with the Brexit torment hopefully over for all of us but the Brits, who may look back in it as a walking the plank exercise. Trump looks like he is holding off inking the China trade deal when the impeachment circus has hit a lull, and he can use that to kick off his 2020 reelection campaign.

However, Trump has a problem. Despite that the Republican Senate has guaranteed not to remove him from office, the polls now show the public would. That could be the wound that seals his fate next year. The Democrats have left open that if the House can get access to the Trump business and financial records that it wants, there may be new impeachment charges in that material, and this is why he has fought so hard to keep his financial records hidden.

I am afraid we will start out 2020 with continual turmoil that will serve only the few at the expense of the many. The unipolar versus multipolar battle will continue until a winner emerges.

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