Ukraine’s Delusional Energy Calculus full of Shale

One of the stories seen these days is that the Ukraine fight is all about capturing her huge reserves of shale gas and oil. Leading Ukrainian government officials, even under the hapless Yanukovich cabinet, have become convinced a Ukrainian pot of gold lies in their shale rocks. They teamed up with British and American oil giants to exploit the huge reserves of unconventional shale gas and oil from the country’s eastern shale rock formations. The Anglo-Dutch Shell company along with the US Chevron had already signed contracts to develop the shale potentials of Ukraine. There’s one problem the naïve Ukrainians haven’t yet found out about: The US “shale revolution” is a Wall Street hype.

One reason some in Ukraine are so ready to throw caution to the winds and break with Russia is the fact that in January 2013 the energy giant Shell signed a contract with the Ukrainian government to exploit shale gas in Ukraine. At present Ukraine must import about 65% of the natural gas it consumes from Russia. According to then-Ukraine Energy Minister Eduard Stavytsky, at the signing of the deal last year Shell told the Ukrainians that “$10 billion would be invested if the geology met expectations.” Shell’s rights are to the Yuzivska field in the eastern part of the country, just where the strongest pro-Russia sentiment exists.

Soon after Shell, US energy giant Chevron, the former firm of Condi Rice, joined the fray in November 2013 just as the anti-government Maidan Square protests were beginning. The Yanukovich government signed a production-sharing agreement with Chevron Corp. for extraction of shale gas, and was in negotiations also with an Exxon Mobil-led group for the same. The companies suggested that Ukraine might be able to produce enough shale gas from its own fields to add more than 50% to Ukraine’s current domestic natural gas supply. An estimate by the US Department of Energy, hardly an unbiased source these days, suggested Ukraine could hold more than 40 trillion cubic feet of recoverable shale gas, enough to satisfy decades of demand. The problem is that no one knows.

Even leaving aside the huge problems of groundwater toxification from the shale “fracking” technologies, or the possibility of shale drilling inducing earthquakes, the shale gas dream for Ukraine is preprogrammed to become a nightmare.

Companies dump Shale Gas in USA

There’s only one thing wrong with the Ukrainian prospects of a shale gas-based energy revolution. They are based on lies and misrepresentations by the UK and US oil majors and governments. The shale gas revolution in the United States is over only a few short years after it started.

Shell has just announced a huge reduction of its exposure to US shale gas development. Shell is selling its leases on some 700,000 acres of shale gas lands in the major shale gas areas of Texas, Pennsylvania, Colorado and Kansas and says it may have to get rid of more to stop its shale gas losses. Shell’s CEO, Ben van Beurden stated, “Financial performance there is frankly not acceptable ... some of our exploration bets have simply not worked out.” He was putting it mildly.

The problem with unconventional shale gas is that it does not behave at all like conventional gas reserves. It depletes dramatically fast after an initial output surge rather than slowly over years. The trick is to get out before the bubble
pops. But giants like Shell and BP got caught and are now trying, clearly, to lure unsuspecting Ukrainians into the 
shale trap. We can only suspect that the long arm of Victoria Nuland’s State Department is prodding hell, Chevron 
and the other big oil majors to feed Ukrainian illusions of energy independence from Russia via shale gas 
exploitation.

In a recent analysis of the actual results of several years of shale gas extraction in the USA as well as the huge and 
high-cost oil from the Athabasca Canadian Tar Sands, oil analyst David Hughes noted, “Shale gas production has 
grown explosively to account for nearly 40 percent of US natural gas production. Nevertheless, production has been 
on a plateau since December 2011; eighty percent of shale gas production comes from five plays, several of which 
are in decline. The very high decline rates of shale gas wells require continuous inputs of capital—estimated at $42 
billion per year to drill more than 7,000 wells—in order to maintain production. In comparison, the value of shale gas 
produced in 2012 was just $32.5 billion.” Because the gas depletes so dramatically fast, a company is forced to 
invest in drilling ever more wells just to stabilize gas output, like the tiger chasing its tail around the tree. In short, 
shale gas is a vanishing mirage.

Ukraine’s other options?
Another non-Russian gas option being bandied about by those with little knowledge of the world gas and energy field 
is the idea to import Liquified Natural Gas (LNG) from the glutted US gas market. Former Ukrainian Vice Prime 
Minister Yuri Boyko seems to have bought into this illusion. In a recent interview with a US energy journalist Boyko 
declared, “We need support for efforts to ship LNG to Ukraine. Efforts were already underway to establish an 
American-made floating offshore terminal that could receive shipments. LNG arriving offshore Ukraine under an 
American-flagged vessel would be a powerful and important way to support Ukraine...America could become an 
exporter of gas to Europe to offset Russian influence.”

The problem is that the severe cold US winter has drawn down much of US surplus gas in storage. The second 
problem is that companies like Shell, BP and other majors are closing down their unprofitable US shale gas 
production. A third problem is that US law going back to the energy crises of the 1970’s legislates that US produced 

cold and gas be consumed inside the US to reduce import dependency. Of course, Congress could repeal that law, 
though there is little indication it is about to happen. The problem remains the fact that the US shale gas boom is 
going bust. Were Ukraine to make itself dependent on US shale gas and cut its lifeline with Russian gas, it would be 
doing worse than shooting itself in the foot.

Ukraine’s energy politics on one level are in the center of the Ukraine geopolitical gambit of Washington. The 
problem for Ukraine is that Washington is luring Ukraine into false hopes that either Ukraine’s domestic shale 
reserves or US imports can replace 65% of Ukraine’s vital natural gas imports from Russia.

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