

# When everyone but not the population of Ukraine benefits

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In the struggle for energy independence from Russian gas supplies on August 31 in Warsaw, a tripartite agreement „On cooperation to strengthen regional security of natural gas supplies” was signed between Ukraine, Poland and the United States.

As part of the agreement, the first batch of American LNG will arrive at the Polish terminal in Swinoujście. After regasification in early November, it will arrive to Ukraine.

US Energy Secretary Rick Perry called the agreement an „extraordinary victory” over Russia in Europe’s gas market. He said that „the United States is helping Poland to reduce its dependence on Russian gas by supporting Warsaw’s desire to become a regional center for LNG exports. This will help another ally, Ukraine, to prevent the threat of a reduction in Russian gas supplies. For Ukraine, energy security is national security,” the minister said.

A gas supply contract was concluded between the Polish oil and gas giant PGNiG and the little-known Ukrainian company Energy Resources of Ukraine. Then this company will resell the received gas to Naftogaz of Ukraine.

The peculiarity of the transaction is that interstate contracts are implemented by the largest national companies. And if everything is clear with the Polish representative, then from Ukraine it would be logical to see Naftogaz directly, and not an intermediary.

And it’s all about the owners of the „Energy Resources of

Ukraine" (ERU). They are American citizens Andrey Favorov and Dale Perry. Cooperation between the subsidiary of Energy Resources of Ukraine – ERU Trading (the general director is Andrey Favorov) and Naftogaz's subsidiary Ukrtransgaz began in 2016. And in November 2018, the head of Naftogaz Andrey Kobolev appointed Andrey Favorov as the head of the integrated gas business of Naftogaz Ukrainy.

In August of this year, Andrey Favorov changed the approach of Naftogaz of Ukraine to further development. He expressed the opinion that „it is not necessary to produce your gas at any cost when it is possible to import it from Europe at 4300-4500 hryvnias per thousand cubic meters.” And two weeks later, the aforementioned trilateral memorandum on the supply of American LNG to Ukraine through Poland was signed.

Now about the cost of American gas. After delivery to Poland, regasification and transportation to Ukraine, its cost will be about \$ 200 per thousand cubic meters. Naftogaz has set a price of about \$ 284.5 per thousand cubic meters for the population. Thus, the profitability will be about 25%. For comparison, gas produced from Europe by reverse costs Naftogaz \$ 130 per thousand cubic meters.

So, the winners of the deal are clear. These are the American suppliers of LNG Port Arthur LNG and Cheniere Marketing, the Polish PGNiG, the Ukrainian ERU and Naftogaz.

And the losers? It seems that this is the population of Ukraine, which will soon feel the price of this transaction in their receipts for utility bills.

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