

Gas is being pumped again, the situation in the Ukraine, however, with no changes

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After Prime Ministers of the Ukraine and Russia have at long last reached an agreement on the gas prices and after gas flow has been resumed, Europe could sigh with relief. Although it seems likely that one more gas crisis has been resolved, a closer look may let one see that the issue, which by many people is treated as a problem of bilateral relations of Russia and the Ukraine, is in principle only the very cap of the internal political rat-race iceberg of the Ukraine.

CHRONOLOGY OF THE GAS CONFLICT

2008-11-20

D. Medvedev asked “Gazprom” to recover from “Naftogaz” 2.4 billion USD debt. “Naftogaz” admitted the existence of the arrears but only 1.3 billion USD and not to “Gazprom” but to “RosUkrEnergo”. “RosUkrEnergo” declared, that “Naftogaz” was really indebted to it 2.4 billion USD, which it had to pay to “Gazprom”.

2008-11-25

“Naftogaz” declared it was going to pay the debt to “Gazprom” by the 1st of December.

2008-12-31

“Gazprom” stated it had failed to settle the repayment of the debt with “Naftogaz” and supply of gas to the Ukraine would be cut from the 1st of January.

2009-01-01

V. Jushchenko J. Tymoshenko made a joint statement to the Government of Russia asking not to cut the supply of gas to the Ukraine and extend the negotiations related to the gas price. The statement also included acceptable to the Ukraine gas price – 201 USD per 1000 m³ as well as an acceptable price for the gas transit - 2 USD per 1000 m³ transportation across 100 km. Earlier Russia proposed to the Ukraine to buy gas for 250 USD per 1000 m³.

“Gazprom” announced that at 10 o’clock Moscow time it had cut gas supply to the Ukraine.

2009-01-03

“RosUkrEnergo” brought a lawsuit to Stockholm arbitrage wherein it requested to make “Naftogaz” ensure the transit of gas via the territory of the Ukraine to Europe as well as implement the existing agreements. Besides, “RosUkrEnergo” argues, that “Naftogaz” infringes not only the provisions of the agreements, but also the Energy Charter, which provides that even in the event of a dispute over the conditions of the transit the states are prohibited to cut the gas supply.

2009-01-04

“Gazprom” accused “Naftogaz” of the theft of 25 million m³ of gas. A. Miller offered a new price to the Ukraine for natural gas – 450 USD per 1000 m³.

What was left unknown

On the 20th of January the European mass media happily informed that the Ukrainian “Naftogaz” and Russian “Gazprom” have at long last signed an agreement, which terminated a two-week war between Russia and the Ukraine. It has been declared that Kiev and Moscow agreed on the gas price setting formulae for the next ten years and Russian gas resumed its flow in the Ukrainian pipelines and very soon will reach freezing Europe. Some other interesting facts were almost held back. One of the most important of them is the fact that Russia and the Ukraine declined mediator’s services in the supply of Russian and Central Asian gas to the Ukraine. Down to the end of 2008 such mediator was the company “RosUkrEnergo”. According to the newly signed agreements “RosUkrEnergo” will have to leave the Ukrainian gas market.

2009-01-05

Kiev court prohibited “Naftogaz” to make a transit of Russian gas for 1.6 USD per 1000 m³ across 100 km via the territory of the Ukraine in 2009. In attempt to compensate the shortage of gas supplied across the territory of the Ukraine to Europe “Gazprom” increased the volume of gas that was transported via Belarus and Turkey.

“Naftogaz” said that the price of 450 USD per 1000 m³ proposed by “Gazprom” was “inadequate”.

2009-01-07

“Naftogaz” declared that Russia completely cut the supply of gas to the European consumers. “Gazprom” declared that the Ukraine closed the last of four gas pipelines, whereby Russian gas is transported to Europe and thus took the physical possibility from Russia to supply gas.

V. Jushchenko wrote a letter to D. Medvedev and J. M. Barosso wherein he requested “undelayed” resumption of gas supply to Europe via the territory of the Ukraine.

2009-01-08

Tripartite “Gazprom”, “Naftogaz” and EC talks have been revoked. O. Dubyna informed about it and named “Gazprom” as the initiator of the revocation of the talks. “Gazprom” declared that such meeting had not even been planned. “Gazprom” declared that it had agreed with the EU on sending independent observers to the Ukraine. The observers should supervise how the Ukraine discharges its transit obligations.

2009-01-09

EU observers arrived in the Ukraine to supervise the technical part of the gas transit.

2009-01-10

“Gazprom” declared that the President of the Ukraine prevented the Government of the country from signing the protocol initiated by Russia on the multilateral commission to monitor gas transit.

2009-01-12

J. Tymoshenko signed a protocol on the formation of an international commission to monitor gas transit across the Ukraine.

It has been announced that Russia had promised to resume gas supply to Europe in the morning of the 13th of January.

2009-01-13

Russia resumed gas transit across the territory of the Ukraine.

“Naftogaz” declared that it had cut the transit of Russian gas across the territory of the Ukraine due to “unacceptable conditions of transit”, proposed by “Gazprom”. “Naftogaz” said that the volume of Russian gas was too small to resume transit.

Taking an outsider’s view this seems to be a welcome issue and one could not but feel happy about it. In the opinion of some experts this company was in fact a money laundering instrument and its existence made Ukrainians pay a higher price for the gas that they would have paid without mediators. One more interesting fact about “RosUkrEnergo” is associated with the statement made by the head of “Gazprom” A. Miller on the 20th of January. He said that “RosUkrEnergo” obstructed “Naftogaz” and “Gazprom” talks on the gas prices in the last days of December 2008. When at the end of December Premiers of the Ukraine and Russia agreed upon the price of 235 USD per 1000 m³, “RosUkrEnergo” opposed such agreement and proposed to the Ukraine to buy gas for 285 USD.

Again, in an attempt to assess this in terms of economics such step of “RosUkrEnergo” could be justified by its striving to stay in the market. The greatest problem, however, is the fact that economics in most post-Soviet countries is too closely related to politics and this makes

difficult for everyone to separate at first sight economically motivated actions from politics. The mutual interdependence ties are made too secret to see them clearly.

2009-01-14

O. Dubyna declared, that transit of Russian gas across the territory of the Ukraine was impossible for technical reasons – the volume of the gas supplied by “Gazprom” was too small to turn on transit pipelines.

D. Medvedev proposed to organize a summit meeting in Moscow to resolve the problem of gas. V. Jushchenko declared that such meeting might not take place on the territory of Russia.

2009-01-15

V. Putin proposed to Europe to share the risk of gas transit and set up an international consortium, which could acquire the necessary volume of gas from “Gazprom” to resume its transit.

2009-01-16

J. Tymoshenko said she was assuming all the responsibility for the resolution of the gas crisis. According to her, if one wants to act efficiently only one line is necessary in the gas diplomacy. To this end the Premier now needed only “two things: no spokes in her wheel and no stabbing a knife in her back” J. Tymoshenko stressed, that on 30 December 2008 conditions of the gas supply to the Ukraine and its transit to Europe were coordinated on the level of the Ukrainian and Russian Premiers. Later, however, all agreement went to pieces as a result of the misdeeds of some of the Ukrainian politicians.

2009-01-17

An international meeting took place in Moscow to resolve the problem of gas. After the meeting D. Medvedev declared that negotiations related to the given issue would be continued by the Premiers of the Ukraine and Russia. The EU stated that they were not pleased with the results of the meeting.

2009-01-19

It was announced, that Kiev had agreed to pay 360 USD per 1000 m³ for the Russian gas. It was agreed that “Gazprom” would sell gas to “Naftogaz” without any mediators (since 2006 such role was played by “RosUkrEnergo”).

It was announced that the sum of 360-380 USD would be paid in the first quarter of 2009. It is hoped that later it will decrease due to the falling oil prices and may reach the limit of 145 USD.

“Gazprom” and “Naftogaz” signed an agreement for 10 years. After that, “Gazprom” was instructed to resume the supply of gas to the Ukraine and across its territory to Europe. Two documents were signed. One of them specified the conditions of the gas supply to the Ukraine and the other – the conditions of the gas transit via the Ukraine to Europe.

2009-01-20

“Gazprom” confirmed that the Ukraine started receiving Russian gas into its gas transportation system.

President vs. Premier

It is no secret that in recent years the relations of the President V. Jushchenko and Premier J. Tymoshenko are far from being very good. Nobody is any more surprised about the mutual accusations of high treason, representation of the interests of Russia or even disability. Especially taking into consideration the fact that in January 2010 presidential election should be held in the Ukraine and both top officials of the state are going to covet the post. It is very interesting to assess the behaviour of both politicians within this context of internal competition. The first important fact, which is assessed as the victory of J. Tymoshenko is the fact that it was her who reached the agreement with V. Putin related to the resolution of the gas problems. It should be reminded you that on the 16th of January she declared that she assumed all the responsibility for the regulation of the conflict and only wishes for “nobody to put a spoke in her wheel or stab a knife in her back”. The latter words were clearly devoted to V. Jushchenko. As it is already known, today the

Premier managed to keep her word and end discord with “Gazprom”. It may be argued that J. Tymoshenko did not reach the best possible agreement for the Ukraine. Compared to 179 USD per 1000 m³ in 2008, gas price for the Ukraine in the first quarter of 2009 will amount to 360 USD and throughout the year it should comprise around 250 USD per 1000 m³. At the same time the price for the transit across the territory of the Ukraine will be the same (1.7 USD per 1000 m³ of transportation across 100 km). Besides, on the 1st of January 2010 a transition to European prices will be made. That will be a more abrupt and more painful transition than the one provided in the memorandum signed by the premiers of the

Ukraine and Russia in October 2008, which provided for a three-year transitional period. As some analysts say, the present agreement provides a possibility for the internal opponents of J. Tymoshenko to criticize her in two aspects. On the one hand, the President may accuse the Premier for a too soft position in the negotiations and that she failed to reach an agreement on cheaper gas and more expensive transit. On the other hand, V. Janukovitch who also fosters big political ambitions in the coming presidential election may point to the fact that former very strict J. Tymoshenko's position towards Russia prevented her from arriving at more useful agreements for the Ukraine. But speaking in terms of personal political baggage J. Tymoshenko is doubtless a winner in the present situation. This is determined by some basic factors. First of all, J. Tymoshenko may easily present herself as a compromise option, as an actor who is able of combining different interests between the two extreme positions represented by V. Jushchenko and V. Janukovitch. On the other hand, elimination of "RosUkrEnergo" from the Ukrainian gas market may be assessed as a painful kick at the former "orange" partner V. Jushchenko. We shall try to explain why.

Gas Oligarchs and Policy of the Ukraine

We should start from the fact that in many Western states, including Lithuania, there is an erroneous conviction that orange revolution in the Ukraine was an essential breakthrough on the way from the authoritarian L. Kuchma's regime towards the consolidated democracy. Without belittling of all V. Jushchenko's merits for the success of the revolution, the phrase from the Soviet animated cartoon - "The rioter is dead, long live the dragon!" must be remembered.

RosUkrEnergo – "Gazprom" daughter company registered in Switzerland, which deals with the transportation of Central Asian natural gas to the East European countries. 50 % of the company shares belong to "Gazprom", and other 50 % – to the Ukrainian entrepreneurs Dmitriji Fyrtash (45%) and Ivan Fursin (5%).

In the case of the Ukraine it was V. Jushchenko who failed to escape the fate of the rioter turning into the dragon. As M. Balmaceda¹ discloses in her book on the energy systems of post-Soviet countries, V. Jushchenko failed to alter radically the dependence of politicians on the major

oligarchs that survived from L. Kuchma's times. In other words, orange revolution in the Ukraine substituted the ruling persons but failed to alter the very system. It remained corrupted, oligarchical and clientelist. The role of V. Jushchenko in suppressing large-scale corruption cases in the energy sector (against "Naftogaz" and the same "RosUkrEnergo") can not but confirm the given fact. Names of R. Achmetov and P. Poroshenko and many other billionaires are well-known in the Ukraine. Open secret is also the fact that many oligarchs support political parties only to be able to influence their political and business decisions. Finally, many oligarchs are at pains to be elected to the Parliament (Verkhovna Rada) to get legal immunity. In this context ousting of "RosUkrEnergo" from the gas play in the Ukraine is an unequivocal victory of J. Tymoshenko in her battle against V. Jushchenko. Explanation is very simple. Entrepreneur D. Fyrtash who is in control of 45% of "RosUkrEnergo" shares is known as one of the major financial supporters of the President of the Ukraine. Obviously, operation of "RosUkrEnergo" in the energy market of the Ukraine irrespective of its obvious inutility for the Ukraine is associated with the "support from above", i.e. V. Jushchenko's surroundings. It is also obvious that it is J. Tymoshenko, for whom ousting of D. Fyrtash from the political game is useful since in this way she eliminates the supporter of her main competitor. Taking into account all those facts it may be stated that in the period of gas crisis J. Tymoshenko received a strong political trump card. In society's eyes it was her who managed

to settle the gas conflict and secure Russia's supply of gas to the Ukraine. On the other hand, she managed to discredit V. Jushchenko as a "person putting spokes in people's wheels". Finally she delivered a blow to one of the President's financial supporters.

What are the conclusions to be made? The most important, perhaps, should be devoted to the EU. It is obvious that Russia's striving to maintain the Ukraine within the sphere of its influence is an extremely important fact, which determines the energy insecurity of Europe. It is of no less importance, however, to perceive that the political system of the Ukraine creates all prerequisites for Russia's successful making use of not only the external impact levers it possesses but also the possibilities arising of the internal problems of the Ukraine. Oligarchization of the Ukrainian policy after the orange revolution failed to disappear. Neither V. Jushchenko, nor J. Tymoshenko are independent or politicians oriented to the creation of democracy in the country. They rather remind the actors who strive to create a Russian-type clientelist political regime, which allows satisfying their needs of power and control of their opponents' activities. The EU must have learned a lesson from the given gas crisis that the tactics of democratization and westernization of the Ukraine failed to be successful and that new, more aggressive and more corresponding to the peculiarities of the Ukrainian public and political life instruments have to be sought. Finally, it must be perceived that it is not freedom and human rights that are the greatest values for the nowadays Ukrainian political elite. Power and money are always at the top of the pyramid of the Ukrainian politicians, to be more exact, of their supporting oligarchs. It is power for which those politicians may resort to any measures, including trade with "Gazprom". The evident flirting of J. Tymoshenko with Moscow supports this conclusion.

¹ Margarita M. Balmaceda *Energy Dependency, Politics and Corruption in the Former Soviet Union*, London: Routledge Series on Russia and East European Studies, 2008