

# Russian gas supplies through Ukraine resume

## Dispute exposes crisis of European energy strategy

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Russia, Ukraine and officials from the European Union have agreed to a deal to resume natural gas supplies to Europe. The deal was signed by Ukrainian Prime Minister Yulia Tymoshenko, her Russian counterpart Vladimir Putin and Mirek Topolánek, prime minister of the Czech Republic, current holders of the EU presidency.

On January 1, Russian state-owned gas company Gazprom turned off gas supplies for Ukraine, following the failure of negotiations with Kiev over a huge disputed bill and prices for this year. Gas intended for the rest of Europe transiting through Ukraine was subsequently cut after Russia accused Ukraine of illegally siphoning off gas. Both states blame each other for the serious shortages that resulted across the Balkans, Central and Eastern Europe.

The tentative agreement follows days of diplomacy between Russia and Ukraine, led by the European Union. EU observers plan to monitor the gas flow into and out of Ukraine. According to the BBC, European monitors were deployed on Sunday to check pumping and measuring stations on the eastern and western borders of Ukraine.

“The deployment should lead to the Russian supplies of gas to EU member states being restored,” the Czech government said in a statement. European Commission President Jose Manuel Barroso said that he would accept the participation of observers from Gazprom as part of the EU mission.

Gazprom said it would turn the taps back on once EU monitors were in place in Ukraine to check the gas flow leaving Russia and entering the western markets. Tymoshenko said Ukraine’s agreement showed that it was an “honest transit country”. Putin told the Interfax news agency that the “transit of gas through Ukraine will start again as soon as the control mechanism starts to

work”.

However, Moscow has warned the deal could be delayed as it had still not received an official copy of the monitoring agreement. “This is delaying our work and the start of monitors’ work at the facilities,” said Gazprom spokesman Sergei Kupriyanov. There are suggestions from sources within the EU that Russia wants to have Gazprom monitors working extensively within Ukraine, a move likely to antagonise Kiev.

Hundreds of thousands of people across Europe have been without heating as a result of the shut-off. If normal gas flows are resumed then Eastern Europe and the Balkans should receive full supplies by today.

The underlying issues in the Ukraine-Russia dispute remain unresolved. The two countries have still not decided on a price for gas or the amount Ukraine should receive for the subsequent re-sale of gas to the rest of Europe.

Gazprom has issued a demand of \$450 per 1000 cubic metres of gas, roughly the European average price but over two and a half times the level Ukraine paid last year. Ukrainian officials said that accepting such a steep price increase would lead to “humanitarian catastrophe” in their country. Kiev has indicated that it was willing to pay an increased rate of \$210 per 1000 cubic metres in 2009.

Ukraine’s Tymoshenko has vowed to “try to continue negotiations with Russia through all possible channels” on a contract for 2009. There are reports that oligarchic clans in the Ukrainian elite have exacerbated the gas dispute in a jostle for power within the multi-billion dollar energy transit industry. The country is also wracked by political infighting between Tymoshenko and President Viktor Yushchenko, who appears to have been largely

frozen out of negotiations with Moscow and the EU.

Speaking at a joint press conference January 8 in Paris, the leaders of Europe's two largest economies called on gas supplies to return to normal. French President Nicolas Sarkozy asked that Russia adhere to contracts with European countries for gas, while German Chancellor Angela Merkel said Germany was willing to provide experts to monitor the transit routes across Ukraine. Merkel added that the EU had to increase the capacity of its gas storage facilities.

The EU organised a crisis meeting of its energy ministers on Monday in response to the gas cut off. While the immediate impact of the gas crisis appears to have been contained, the inability of Europe to organise a common strategic response to its energy needs has been exposed.

Writing in the *Guardian*, January 8, Timothy Garton Ash bemoaned the ineffectiveness of the European elite to respond effectively to such a challenge: "If we had done what the experts have been urging since the last Russian pipeline throttling and had begun to create a single European market in natural gas—if 27 EU member states consistently acted as one in the positions they take with both Russia and Ukraine—then we would never have descended into this sorry mess."

But the chances of the EU acting "as one" are zero, as each member state scrabbles to secure the interests of its own bourgeoisie. Most countries in the EU are involved in separate energy deals with Russia that stymie an EU-wide policy and often pose potential strategic threats to the energy security of their fellow member states.

Germany has highly lucrative tie-ins with Russian energy firms, including Gazprom. Former German Chancellor Gerhard Schröder sits on the board of Nord Stream, a joint venture between Gazprom and German companies to build a pipeline under the Baltic Sea. When completed, the route will transport gas directly from Russia to Germany. This will circumvent the Baltic countries and Poland—all

EU members—and deprive them of valuable transit fees. By giving Russia direct access to Germany, its single biggest market, Nord Stream could allow Moscow to shut-off gas supplies to Eastern Europe without disrupting its main trade to the west.

Schröder has voiced support for Moscow's position in the dispute. Speaking to the German financial newspaper *Handelsblatt*, the former Social Democratic Party leader said it was legitimate that Russia should demand an increase in the price of gas from Ukraine, since "the price Russia is offering is below the world market price." Responding to criticism of his role in backing Gazprom, Schröder merely stated that "Customers in Europe should not be among those suffering from this dispute."

The former chancellor proposed that an international consortium of private companies should take over the transit pipelines in Ukraine from its state-owned company, Naftogaz. "That would also secure the necessary investments needed for Ukraine's dilapidated network and pump stations," Schröder claimed.

The United States and the EU have sponsored alternative routes for gas originating in Central Asia to make it to the European market, such as the Baku-Tbilisi-Ceyhan pipeline from Azerbaijan to Turkey via Georgia and the Nabucco pipeline from Turkey to Austria via the Balkan Peninsula. Both these routes would bypass the network of pipes across Russia and Eastern Europe run by Gazprom, and represent serious threats to the Kremlin's wealth and power.

In response, Gazprom and the Kremlin are preparing the South Stream pipelines as alternative routes to the US-backed network from the Caspian to Europe through Turkey—including the existing network in Ukraine, a country that Moscow sees as too close to Washington following the "Orange Revolution" in 2004. The South Stream project is backed by EU members Italy, Austria and Greece.



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