

# Ukraine and Russia reach gas agreement

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A deal has been reached to end the gas dispute between Russia and Ukraine. Millions across Europe have been left with little or no gas for heating in the middle of winter. Normal supplies resumed to most of the east and south-east of Europe by Wednesday.

Russia cut Ukraine's gas on January 1 in a dispute over payment and prices, while maintaining the supply to the rest of Europe flowing through the country. However, following accusations that Ukrainian state energy company Naftogaz was diverting gas into its own reserves, Moscow ordered a complete shut-off.

A European Union-brokered deal between the two countries should have seen gas supplies resume on January 13, supervised by EU monitors. However, Russian gas flows into Ukraine failed to make it westward. Moscow accused Kiev of refusing to pump the gas to its neighbours, instead siphoning it into Ukraine's reserves. Naftogaz complained that the flow from Gazprom was too weak and came through erratically.

European Commission energy spokesman Ferran Tarradellas said that both Russia and Ukraine had breached this initial agreement. "One didn't provide full volumes of gas, and the other didn't allow it to flow," Tarradellas summed up.

Following talks in Moscow between Russian Prime Minister Vladimir Putin and his Ukrainian counterpart Yulia Tymoshenko the two sides struck a deal that saw gas flows resume to Europe.

Speaking after the deal was signed, January 19, Putin told a press conference that he had agreed to a 20 percent discount for Ukraine on the European wholesale price of gas. In return, Kiev has agreed not to increase the transit tariff for Russian gas from the rate paid last year.

This could mean an increase in price for Ukraine from \$179.5 per 1,000 cubic metres of gas up to \$360. However, based on current falling energy prices, Tymoshenko said that Ukraine will pay on average between \$230 and \$250 per 1,000 cubic metres.

Kiev receives \$1.7 per 1,000 cubic metres of gas transited over 100 kilometres to the rest of Europe. The EU gets

around 20 percent of its gas from Russia via Ukraine.

The ten-year deal provides for a switch to a "market-based price formula" from 2010. European Union inspectors will check the movement of gas through Ukraine.

Both parties were under pressure from EU leaders, and from the German government in particular, to reach a deal. European Commission spokesman Johannes Laitenberger said the Moscow talks were "the last and best chance for Russia and Ukraine to demonstrate they are serious about resolving this dispute."

"We will regard this period as a test case for judging whether or not they are credible partners," Laitenberger added.

Speaking to German television station ARD prior to signing the agreement with Tymoshenko, Putin sharply criticised Ukraine's role in the dispute. The Russian prime minister said that Gazprom had lost about \$800 million in damages over the past three weeks.

"Gazprom suffers losses just because of the fact that it does not provide complete and full deliveries of the product to its partners. The company was forced to stop the work of over 100 wells, with no danger of technological difficulties, though. The reputation and the image of the company suffers too as you know," Putin said.

Much of the European press expressed sympathy for Moscow's position, at least in the early stages of the dispute, with German news journal *Der Spiegel* warning that Ukraine's actions had jeopardised its prospects for joining the EU. Germany and several other EU countries have lucrative deals with Gazprom to provide gas and develop new pipelines.

The Kremlin is seeking to encourage the western European powers to provide Kiev with a loan to repay its alleged debts to Gazprom. During talks in Berlin last week, Putin expressed an interest in working with the EU and Ukraine to either privatise or have Gazprom run the Naftogaz's pipeline network.

"We can participate in the privatisation, if Ukraine decides so, but our offer was about taking the gas transmission

system on a long lease, in which the system per se would remain the property of Ukraine," Putin told the German press.

Former German Chancellor Gerhard Schröder, who sits on the board of the Nord Stream joint venture between Gazprom and German companies to build a pipeline under the Baltic Sea, had earlier called for an international consortium of private companies to take over the transit pipelines in Ukraine.

## Divisions in Ukrainian elite

The gas trading company RosUkrEnergo, which controls the wholesale market in gas piped through Russia and Ukraine to the rest of Europe, could be wound up as a result of the deal. The company is part-owned by Gazprom and at least two Ukrainian businessmen and has made vast profits from the sale of gas to the EU.

Tymoshenko had made the winding-up of RosUkrEnergo, a Swiss-based company whose Ukrainian shareholders are her business rivals, a key plank of her energy policy. Ukraine's President Viktor Yushchenko is reputed to be close to at least one of the shareholders of RosUkrEnergo.

There is widespread speculation that Yushchenko will refuse to uphold the Moscow deal if his allies are cut out. Yushchenko, who has played little obvious role in either EU-sponsored or bilateral talks to end the dispute, is locked in conflict with his prime minister over control of the country.

Tymoshenko has emerged from the agreement with political advantage over the president. Ukrainian press and foreign journalist have speculated since the start of January that Tymoshenko and Putin would strike a separate deal, with Yushchenko the intended loser. In an editorial, January 22, English-language newspaper *Kiev Post* acerbically commented on the political outcome of the dispute in Kiev:

"Tymoshenko came out of the tawdry affair looking better than President Victor Yushchenko. He emerged from the deal looking like an incompetent, corrupt bumbler who got caught trying to prop up the shady RosUkrEnergo for reasons of personal gain. When Putin, who rules as a Mafia don, can justifiably call you on the carpet for corruption, you are finished politically. In the end, Yushchenko was left lamely complaining about the price Tymoshenko negotiated."

The disputes over gas prices and distribution deals that have flared up between Moscow and Kiev this winter, and in a similar disruption in January 2006, reflect the growth of

tensions between the two countries since the "Orange Revolution."

Ukraine has been in a political crisis since the US-backed events of late 2004, with leading politicians and oligarchic clans fighting for power and wealth. Tymoshenko, who made her fortune in the post-Soviet gas transit industry, has her own political vehicle, the Bloc Yulia Tymoshenko, which is in a highly tentative coalition with Yushchenko's Our Ukraine party. Though by no means opposed to the use of anti-Russian chauvinism to advance her political position, Tymoshenko's interests and those of a section of Ukrainian industry lie with maintaining working relations with Russia.

A central banker and prime minister under former president Leonid Kuchma, Yushchenko lacks the vast personal fortune and business empire of Tymoshenko and other oligarchs. Nor does he enjoy the support of ordinary Ukrainians. Opinion polls show the president has the support of fewer than one-in-ten voters, while three-quarters oppose his central political demand that Ukraine join the US-led military alliance NATO.

Yushchenko's sole constituency is to be found in the corridors of power in Washington, D.C. The Ukrainian president got to prove his loyalty to the US during the conflict between Georgia and Russia over the breakaway province of South Ossetia. Yushchenko offered unconditional support to the US-backed regime of Mikhail Saakashvili after Tbilisi launched an assault on Tskhinvali, the capital of the Russian-backed province.

Yushchenko refused to attend the conference in Moscow and has dismissed the deal reached by Tymoshenko as a capitulation to Kremlin attempts to acquire control of Ukraine's pipeline network. Indicating that the dispute may re-ignite, Dmytro Firtash, one of the Ukrainian co-owners of RosUkrEnergo, told the Echo of Moscow radio station that his company would seek \$650 million allegedly owed by Naftogaz.



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