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Dmytro Firtash's companies are monopolising the retail gas market in Ukraine

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In recent weeks, shares in Ukraine's regional and local natural gas distribution companies (NGDCs) have been privatised; these previously belonged to the state-owned Naftogaz. Fourteen of the seventeen winners of competitions were business structures linked to Dmytro Firtash, one of the most influential businessmen in Ukraine.NGDCs deal with the supply and sale of gas in different regions of the country (known in Ukrainian as *oblhazy* in the regions and *misk'hazy* in the cities); they are *de facto* local monopolies upon which the end-users, including industrial plants, are dependent. At the same time, as part of the general transformation of the sector, on 3 October the government took a decision (which was not published until 16 October) to revoke Naftogaz's monopoly on importing gas (which was introduced in 2008 by the then Prime Minister Yulia Tymoshenko as a move against the importer RosUkrEnergo, a company owned by Firtash and Gazprom). This latest move paves the way for the direct import of gas by other entities, including the NGDCs. Previously, the government had also given the NGDCs economic powers to manage local gas networks (formally remaining under state ownership).

Commentary

- Taking control of virtually all the privatised NGDCs has given Dmytro Firtash an effective monopoly of the Ukrainian gas distribution market. As of today, the companies he owns (mostly Gaztek) have full control of the NGDCs in fourteen districts, and are co-owners of a further seven [see Appendix]. Such control over the retail gas companies gives Firtash a potentially important instrument to influence Ukrainian business.

- The privatisation of the NGDCs and the liberalisation of the market formally fit into Kiev's commitments to the Energy Community to transform the country's gas sector. In fact, however, the process of Firtash's structures taking control over the gas market, at the expense of the state company Naftogaz, is being finalised – a process which has been ongoing since the start of Viktor Yanukovych's presidency. The government's decision to liberalise gas imports could lead to a situation where Naftogaz will have problems with selling all the gas it contracted to import from Russia (to the end of 2019), as independent importers, including the NGDCs, may now emerge on the market.

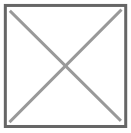
- The ongoing replacement of the state monopoly Naftogaz by a private monopoly (i.e. Firtash's business structures), in a strategic sector of the economy, is also confirmation

of the so-called ‘Firtash group’s position as one of the three pillars of the current structure of business and political influence in the country (along with Rinat Akhmetov’s group, and the so-called ‘Family’, that is, the business associates of the head of state, who are mainly linked to the president’s son, Oleksandr Yanukovych).

- Firtash and the interest group he represents is considered the most pro-Russian of all the major interest groups in Ukraine. The development and success of Firtash’s gas business used to depend largely on the Gazprom policy and on how he cooperates with the Russian company. Hence there is speculation that the ultimate beneficiary of the ongoing distribution of the gas market in Ukraine may be Gazprom, which has not formally been admitted to the process of privatising the regional and local NGDCs in Ukraine. This could be a way for Gazprom to take over Ukraine’s gas market in a situation where the state-run Naftogaz is deprived of its basis for functioning, and is thus prevented from meeting its obligations under its contract (which is still valid) with the Russian company.

Appendix

Ukrainian *oblhazy* (regional NGDCs) controlled by Dmytro Firtash



source: *www.dt.ua*