

The growing Russian-Ukrainian gas dispute

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In January, Ukraine's state-owned Naftogaz company reduced its imports of Russian gas on three occasions, by increasing the collection of gas from underground storage facilities. At the same time, representatives of the Ukrainian government, including Prime Minister Mykola Azarov and Energy Minister Yuriy Boyko, announced a reduction in gas imports from Russia during 2012 to 27 billion m³, although according to the contract, Ukraine is obliged to purchase a minimum of 33 billion m³. On 17 January, there was another round of the Russian-Ukrainian negotiations on the revision of the gas contracts from 2009, which have been ongoing for many months; however, this latest session did not produce any results. The main reason for this is Russia's very extensive demands. Ukraine is ready to accept the creation of a consortium to manage the transit of Russian gas to the West, but rejects the possibility of ceding control over its internal gas market. This dispute could spread to other areas.

On 8 January, the head of Russia's sanitary supervision services, Gennady Onishchenko, announced that Ukrainian foodstuffs would be subjected to enhanced scrutiny if Ukraine reforms its phytosanitary monitoring system, as EU guidelines require. On the 11th, he warned that restrictions on the import of Ukrainian cheese might be introduced. Ukraine considers Onishchenko's allegations to be groundless, and has at the same time challenged the quality of Russian meat.

Commentary

- Ukraine's reduction of its gas imports is an attempt to put pressure on Russia in the prolonged deadlock over the gas negotiations. Ukraine has decided to breach its contract, while nevertheless announcing that it will make the payments for the gas it has already received. It is relevant that Gazprom has agreed to make concessions to other customers, including reducing prices for the German company Wingas and France's GDF Suez.
- If imports are reduced to below 33 billion m³, this must be done with the consent of both parties, although Gazprom has not approved Naftogaz's proposal. According to the 'take or pay' clause, Ukraine is obliged to pay the entire contracted amount, even if it receives smaller quantities of gas. If the amount collected comes to 27 billion m³, then at current prices this means that Ukraine will incur a debt to Gazprom of US\$2.5 billion annually.

- A 'gas war' – that is, an interruption of supplies such as occurred in 2006 and 2009 – still seems unlikely, especially as an agreement regulating dispute resolution is now in force between the two parties. If Ukraine violates the terms of the contract, Gazprom may request arbitration in Stockholm.
- Ukraine is having ever greater (although not yet critical) problems with paying the fee for its gas. The problem is, besides the high price (currently US\$416 per 1000 m³), that it contracted to receive too much gas, especially in the light of an increasingly probable economic slowdown (in December last year, industrial production in Ukraine fell for the first time since 2009).
- At this stage, we should not expect concessions from Russia. The possibility that the gas dispute could be transferred to other dimensions of Russian-Ukrainian relations also shows that Russia could bring other available instruments of political and economic pressure to bear in its negotiations with Ukraine.

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