

Ukraine announces breakthrough in gas negotiations with Russia

Wojciech Konończuk

The main topic of the meeting outside Moscow on 25 September between Russia's President Dmitri Medvedev and Prime Minister Vladimir Putin and Ukrainian President Viktor Yanukovich was the terms of the changes to the Russian-Ukrainian gas contracts of 2009. Some details of the negotiations were revealed on 26 September by the Ukrainian Prime Minister Mykola Azarov, according to whom Russia has agreed to cut gas prices for individual consumers in Ukraine, in exchange for reducing the rates for the transit of Russian gas to cost level. The most important information, however, is that Moscow and Kyiv have agreed to create a Ukrainian-Russian-EU consortium to manage Ukraine's gas transit pipelines. Prime Minister Azarov did not reveal any other details of the forthcoming agreement, but said that the document will be signed in November and will come into force in January 2012. The head of Gazprom, Alexey Miller, said that the parties had indeed made progress in negotiations but many issues remained unconfirmed yet.

Commentary

- We can assume that as a result of President Yanukovich's visit, a breakthrough in Russian-Ukrainian negotiations to change the gas contracts has been achieved. However, too many details of the forthcoming agreement remain unknown for it to be comprehensively assessed. Gazprom's consent to change the gas contract could only be linked to far-reaching concessions from Kyiv, which could in turn lead to the Russian company significantly strengthening its position in Ukraine. However, it is still possible that despite the Ukrainian government's optimistic predictions, additional problems may arise what could lead to further deadlock in the negotiations.
- The desire to change the high gas prices, as well as Russia's plans to build the South Stream gas pipeline, has resulted this year in a change to the current Ukrainian government's position on establishing a gas consortium, which Russia has sought for many years (but wanted to exclude the European Union from it). However, it is not clear on what basis this consortium is to be created, including what the parties' shares in the venture would be; who the partner from the EU would be; and whether the consortium would just manage the pipelines or own them as well. Nevertheless, Moscow will certainly want to have a decisive influence on the consortium's future (for example, in co-operation with one of the German partner companies). If Ukraine concedes full control

over its pipelines, this will mean that Kyiv has lost one of its most important instruments for strengthening its position vis-à-vis Russia.

- Predictions of reduced gas prices will likely apply to all imported gas, and not just for individual customers. One of the parties lobbying for changes to the gas contracts is Ukrainian big business, which sees high prices as a threat to its effectiveness.
- It is possible that observed acceleration in the negotiations has also been brought about by Kyiv's announcement that it could adopt a third energy package. According to these EU regulations, the gas supplier cannot also be the owner of the transmission and distribution companies. This would *de facto* prevent Gazprom from taking any kind of control over gas transit pipelines in Ukraine.