

Ukraine: Sale of shares in Naftogaz announced

On 29 March, the Ukrainian gas monopolist Naftogaz announced an invitation to tender for the audit of the raw materials in its deposits. This is a first step on the road to the sale which the Ukrainian government has announced of minority shares in Naftogaz on foreign exchange markets. However, without reform of the gas market in Ukraine or the reorganisation of the company, it is unlikely that they will attract investment in Naftogaz from the West, and the only interest will come from Russia's Gazprom, or from Ukrainian businessmen operating in the gas industry who already collaborate with Gazprom.

President Viktor Yanukovich had already raised the possibility of selling part of Naftogaz, and the head of the company Yevhen Bakulin announced that a partial privatisation has been planned for the period 2012-2013. The Ukrainian government hopes to make around US\$5-6 billion from the sale of 20-25% of shares in the company. The idea of selling the shares has been firmly supported by the Energy Minister Yuri Boyko and the oligarch Dmytro Firtash.

It will be difficult to issue and sell Naftogaz's shares on foreign stock exchanges for technical reasons. This will require changes to Ukrainian law, and an independent assessment of the company's financial condition and overall value. Considering Naftogaz's current situation (it relies on continuous subsidies from the state budget) and the Ukrainian gas market's lack of regulatory transparency, it seems very unlikely that European investors will be attracted by the sale of shares in Naftogaz. This proposal should rather be seen as an attempt to create a legally valid opportunity for Gazprom (which has repeatedly submitted proposals to create a joint venture with Naftogaz) or certain Ukrainian businessmen to take over part of the state gas monopoly's shares. <Smat>