Analyses OSW

CENTRE FOR EASTERN STUDIES 30.03.2011 www.osw.waw.pl

Ukraine: Will Firtash's company return to the national gas market?

The National Commission for Energy Regulation has granted the Ukrhaz-Energo company (a joint venture between NAK Naftogaz and RosUkrEnergo) a five-year licence to sell up to 4.8 billion m³ of gas per year on the internal market. This is the company's first step back onto the market of gas sales to industrial customers in Ukraine, although it is not known where Ukrhaz-Energo will buy its gas from, or who its clients will be. The gas will most likely be supplied to chemical plants belonging to the businessman Dmytro Firtash. If the company does resume its activities, this will mean losses numbering in the millions for the state-owned gas monopoly Naftogaz. Meanwhile, an improvement of Naftogaz's situation is one of the conditions for Ukraine's cooperation with the International Monetary Fund.

Ukrhaz-Energo is a joint venture between Naftogaz and RosUkrEnergo (the latter is half-owned by Firtash and half by Russia's Gazprom). It came onto the market in 2006, providing gas to industrial customers. In 2008 the company was taken off the market as a result of an agreement between then-Prime Minister Yulia Tymoshenko and Russia, although it was not liquidated. Receiving a license now does not mean that Ukrhaz-Energo will resume trading in gas, as there are objections from Ukrtranshaz (a daughter company of Naftogaz, which operates the gas pipeline network), without whose agreement it will be impossible to make the deliveries. The company may use the gas which RosUkrEnergo has obtained from Naftogaz, and can buy gas from Gazprom. The most likely customer will be the companies in the chemical industry which belong to Firtash, since it would improve their profitability to purchase cheaper gas from Ukrhaz-Energo. The state-owned Naftogaz would turn out to be the injured party, as it currently holds a monopoly on gas supply. According to its own calculations, Naftogaz would lose US$980 million a year if Ukrhaz-Energo sold all the gas for which it had obtained a licence. <Smat>