

President Yanukovich announces a gas deal with Russia

Arkadiusz Sarna, Prezydent Janukowycz zapowiada porozumienie gazowe z Rosją

On 22 February President Viktor Yanukovich, during the TV show “Dialogue with Society” announced that it would be possible to sign a gas deal with Russia in the first half of the year. The deal would involve Ukrainian transit gas pipelines being leased to Gazprom in exchange for lower gas prices and as a guarantee of Russian gas supplies. Yanukovich also gave assurances that the government would not increase gas prices for households. The IMF has been calling for such an increase as one of its main conditions for granting a new loan. He also criticised the Energy Community, an organisation established by the EU and the Balkan states in order to create a common energy market which Ukraine joined in 2011. The nub of the criticism was that the Energy Community did not treat Kyiv as a partner and did not support it in gas negotiations with Moscow. Yanukovich even hinted that Ukraine could withdraw from the Energy Community. Gunther Oettinger, the EU Commissioner for Energy, expressed his concern over Kyiv’s growing criticism. Simultaneously, at the EU-Ukraine summit (held on 25 February) the EU declared its willingness to “revive” the project to modernise Ukraine’s gas pipelines.

Commentary

- It can be inferred from the statement made by Yanukovich that gas negotiations with Russia are at a rather advanced stage and their finalisation is very realistic and close. It may be assumed that a political decision has been made in Kyiv about the establishment of a Ukrainian-Russian gas consortium which will controlling the Ukrainian transit gas pipelines system (the precise legal form is not at present clear). Kyiv expects that in exchange for this its steep gas prices will be reduced and it will receive long-term guarantees of the transit of Russian gas through its territory.
- President Yanukovich's firm declaration that domestic gas prices will not be increased is noteworthy since this would practically rule out the possibility of receiving a loan from the IMF, which Ukraine is striving for due to its poor economic situation. It may mean that Kyiv is expecting substantial financial aid from Russia, which is likely to be included in the gas deal. It could save the country from economic destabilisation and the political implications of socially costly co-operation with the IMF. From the perspective of the government in Kyiv this is the key challenge in the context of the presidential election scheduled for 2015. A condition of this Russian offer would have to be Ukraine agreeing

to set up a consortium according to the option proposed by Russia, i.e. without the involvement of the EU (which was earlier championed by Kyiv). Already at the beginning of February Mikhail Zurabov, the Russian ambassador in Kyiv, hinted that a deal of this sort could be drawn up which would also include Russia's withdrawal from its claims concerning last year's gas shortage and Ukraine joining the Customs Union.

- The criticism of the Energy Community is linked to gas negotiations with Moscow for it can be assumed that the gas deal with Russia will be incompatible with Ukraine's commitments in the Energy Community. This applies in particular to the necessity for Ukraine to implement the third energy package, which is unacceptable to Russia. Ukraine has softened its criticism of the Energy Community and declared it does not intend to withdraw from the organisation following declarations on gas co-operation which the EU made at the EU-Ukraine summit and which improved Kyiv's negotiating position in the decisive stage of talks with Russia.