

The Ukrainian government wants to lift the ban on privatising Naftogaz

Wojciech Konończuk

On 26 April a government draft bill was put forward in the Ukrainian parliament providing for the lifting of the ban on privatising the state-owned company Naftogaz, which is responsible for the transport and storage of gas. If the parliament accepts the draft law, then the government will take the final decision to privatise. The draft bill also envisages lifting the ban on the lease of transit pipelines, excluding them from the list of assets that are not subject to privatisation, and liquidating the monopoly of state-owned companies on managing them. Ukraine's gas pipelines are currently owned and managed by the state Ukrtranshaz company, a subsidiary of Naftogaz.

Commentary

- The main objective of the proposed changes is to remove the existing legal barriers that have prevented a gas agreement being achieved with Russia. Ukrainian-Russian negotiations have been at an impasse, due to Gazprom's demand for changes to Ukrainian legislation that would allow the creation of a bilateral consortium to manage Ukrainian transit pipelines or lease them to Russia. Statements by the Ukrainian government (including by President Yanukovich at the end of February) indicate that Kiev has already taken the political decision to cede control over the transit pipeline network to Gazprom, in exchange for lower gas prices and long-term gas transit guarantees.
- However, several important issues remain unresolved, including the question of access to Ukrainian gas pipelines, which is crucial for Ukraine in the context of starting gas extraction from unconventional sources. Another major point of contention is Ukraine's obligations as a member of the Energy Community, including a commitment to implementing the Third Energy Package, which the Russian government (including Prime Minister Dmitri Medvedev) has openly criticised for preventing the creation of a gas consortium.
- In its justification for the bill, the Ukrainian government argues that the proposed changes are in line with its obligations as a member of the Energy Community. This organisation does indeed require the breakup of Naftogaz into independent companies engaged in the extraction, transport and sale of raw materials; but this does not have to be synonymous with their privatisation. On 3 May, a conference was held in Brussels on

modernising Ukraine's gas pipelines, with the participation of the Ukrainian Energy Minister Eduard Stavitsky and the EU's Energy Commissioner Günther Oettinger. The EU stressed the need to promote a trilateral EU-Russia-Ukraine gas consortium, but no specific arrangements were made (Gazprom boycotted the meeting). Kiev's attempt to return to talks with the EU about the consortium should be seen as an attempt to strengthen its own position in its negotiations with Russia.

- The Draft Law on privatising Naftogaz has sparked criticism from all the opposition parties, which have accused the government of "betraying national interests". However in the parliamentary vote, the Party of Regions will most likely be able to count on support from the Communists, which would provide the necessary majority of votes. It can be assumed that the government will try to get the act passed over the coming weeks.