

## Laura Solanko: No winners in Russia-Ukraine gas war

Because Ukraine has accrued payment arrears and there is no agreement in force for 2009, Gazprom suspended its natural gas deliveries to Ukraine's national gas company, Naftogaz, at the end of December. Gazprom announced that it had supplied in full the gas intended for the EU countries up to Wednesday, 7 January 2009. From Ukraine's side, one hears that Russia has cut back on all deliveries already since the start of the year and that deliveries to many EU countries were reduced substantially at that date. Gazprom in turn blames Ukraine for siphoning off transit gas for its own use. Without measuring stations, it is difficult to get reliable readings on pipeline pressure at the Russian-Ukraine border, nor has the agreement of mid-January (11 Jan 2009) on international inspections calmed the situation. Even at this moment, gas is not flowing from Russia to Ukraine nor from Ukraine to the EU area. According to the latest excuses, Ukraine is unable to accept transit gas because that would leave much of the country without natural gas. Moreover, the two countries are constantly at odds over - among other things - payments for technical gas.

### Transparency is key to a long-term solution

The dispute has lasted too long. Never before have disagreements between the two countries had such a huge impact on gas deliveries to other countries. The hardest hit have been the central and southern countries of Europe, countries that are hard pressed to obtain gas through other channels. For example, in Slovakia the whole industrial sector will soon be shut down for the second week due to a shortage of energy. It should not take long to reach agreement on gas deliveries to Ukraine in 2009; the differences over prices are not so large. And there is a transit agreement covering 2010 already in place, which could be just as loosely enforced as has been the case so far. But, just as in previous years, such an agreement will not resolve the repeating disputes.

Throughout the post-Soviet era, Russia and Ukraine have been wrangling over the use, pricing and transit fees for gas. Russia is dependent on Ukraine because some 80% of total pipeline capacity for gas exports to the EU area runs through Ukraine.

Moreover, a substantial part of the gas reserves from Soviet times is located in Ukraine. On the other hand, Ukraine's heavy industry in particular is highly dependent on large quantities of reasonably priced gas imports. Relations between Ukraine and Russia regarding natural gas have always been marked by short-term, opaque agreements, repeated accusations of gas theft, political disputes, and a motley group of gas transit companies with opaque ownership arrangements and political and economic ties.

A permanent solution to the European transit-gas problem must be based on a trade agreement that is as transparent and candid as possible. Ukraine, for its own good, needs to work towards a clear and long-term agreement on deliveries that ties the pricing to that of other energy sources and not eg to transit fees or profits of gas exporting companies. Albeit, this will inevitably lead to an increase in gas prices. Gazprom - perhaps with support from the large European customers (Eon Ruhrgaz, GDF, ENI) and the EU - should strive for a gas-transit agreement with verifiable marketing terms and conditions. And the European Union should in the future take more seriously the concerns over energy transit. The current EU talk on energy security focuses too heavily on ensuring that sufficient amounts of energy are produced.

### Currently there are only losers in the game

There is not likely to be a victor in the present war. Ukraine's reputation as a reliable transit gas country has been irreparably damaged; Russia's reputation as a reliable supplier is hanging in the balance; Gazprom is losing tens of millions of euro every day; and many EU countries are forced to substitute expensive fuels for natural gas and to reduce their industrial output. Moreover, the EU, as an institution, is now obliged to seriously ponder its role in the making of energy policy.

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