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The Opacity of Russian-Ukrainian Energy Relations

Arnaud Dubien

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Summary

Energy issues lie at the heart of Ukraine's economic, political and strategic challenges. A year after the "orange revolution", the "gas war" served to highlight the country's vulnerable position, being 80% dependent on imports of gas and having the world's most energy-hungry economy. The 2005 crisis also highlighted the extreme opacity of the country's bilateral relations with Russia, which are governed as much by the interests surrounding Gazprom's relations as by those of the state. Yanukovich's return to power in the summer of 2006 coincided with a relative appeasement of relations with Moscow and a new division of spheres of influence in the Ukrainian energy sector.

Introduction

On 4 January 2006, Moscow and Kyiv announced the signing of an agreement between Gazprom and its counterpart Naftogaz Ukrainy on Ukrainian gas supply and transit conditions on its territory. Negotiated in the greatest secrecy, this document put an end to the "gas war" which culminated on 1 January with Russia's suspension of deliveries to its Slavic neighbor. The agreement notably stipulated that all of Russia's gas exports via Ukraine would henceforth be ensured by RosUkrEnergo (RUE), a Swiss-registered company jointly owned by Gazprombank and the Austrian bank Raiffaisen Investment AG, which claimed to act in the name of unspecified Ukrainian interests.

Occurring a year after the "orange revolution", the "gas war" illustrated Ukraine's vulnerability: its economy is the most energy-hungry in the world and its internal gas consumption is nearly 80% dependent on imports.[1] The winter 2005-06 crisis also confirmed energy's key role in Russian diplomacy and the consequences it has for the European Union (EU), collateral victim of the diplomatic wrestling between Moscow and Kyiv.[2] Domestically, the "gas war" weighed heavily on the legislative campaign of the March 26, 2006 by weakening President Viktor Yushchenko—criticized on all fronts for his management of the crisis—and his party, *Narodniy Soyuz Nasha Ukraina* (People's Union Our Ukraine).

This article seeks to analyze retrospectively and prospectively the stakes of the gas issue for Ukraine. What is the genesis and the consequence of the 4 January 2006 agreement? How has Viktor Yanukovich's return to power, in August 2006, affected Ukraine's energy sector? To what extent does the energy context help shed light on the current political crisis in Kyiv? What are Gazprom's true aims in Ukraine? This article's hypothesis is that the evolution of Russian-Ukrainian gas cooperation must be understood as much through the prism of private individual's interests as through those of companies or states.

Translated from French by Jessica Allevione.

[1] In 2005, Ukraine consumed 140 million tons oil equivalent, half of which was gas, and thus at the world last rank with respect to production per kilogram oil equivalent consumed. G. Duchêne, A. Dubien, « L'Ukraine au pied du mur » [Ukraine against the Wall], *Le Courrier des pays de l'Est*, No. 1053, January-February 2006, p. 39. For statistics relating to the Ukrainian energy sector, see *Ukraine. Energy Policy Review 2006*, Paris, International Energy Agency, 2006.

[2] A. Dubien, « Energie : l'arme fatale du Kremlin » [Energy: Kremlin's Fatal Weapon], *Politique Internationale*, No. 111, Spring 2006, p. 371-386.

The Origins of the "Gas War"

From Itera to RosUkrEnergo: A short history of Russia-Ukraine gas relations under Leonid Kuchma

Cooperation in the field of natural gas represents the most opaque sphere of the relation between Moscow and Kyiv. The dynamic set up under Leonid Kuchma's presidency (1994-2004) was partially revealed at the end of the winter 2005-06 "gas war", notably the central role of the structures in charge of the routing of gas coming from Ukraine's principal supplier, Turkmenistan.[3] These intermediaries (Respublika, Itera, Eural Trans Gas, RosUkrEnergo), whose creation did not reflect any rational economic criteria, all had in common a systematic dissimulation of real shareholders or beneficiaries.[4] Their successive creation and sidelining reflect changes in the Ukrainian and Russian energy elites' relative strengths, rather than changing the nature and organization of the existing system

Itera, which dominated the Ukrainian market from the mid-1990s until 2003, is an American-registered company based in Jacksonville, FL. It was created in 1994 by Igor Makarov, a Russian born in Turkmenistan, where he had carried out various trade deals after the collapse of the USSR via the Cypriot company Omrania. Itera had the particularity of being closely related to the people in charge of the Turkmen energy complexe. Since 1996, Itera's Deputy Director has been no other than Valery Otchertsov, former Vice-President of the Supreme Soviet of Turkmenistan (1989-1991), and

[3] According to the International Energy Agency (IEA), Ukraine imports on average between 75% and 78% of its natural gas annual consumption (76.4 bcm in 2005). Before the signature of the 4 January 2006 agreements, which granted RUE the role of exclusive intermediary for the gas supplies to Ukraine, imports coming from Turkmenistan accounted for 44% of the country's needs, the remainder being covered by imports from Russia (30-33%) and domestic production. See *Ukraine. Energy Policy Review*, *op. cit*. [1], p. 168 ff.
[4] « Ukrainian Gas Traders, Domestic Clans and Russian Factors: A Test Case for Meso-mega Area Dynamics », document published within the framework of a research program of Slavic Research Center of the University of Hokkaido. Available at <http://src-h.slav.hokudai.ac.jp/coe21/publish-e.html>.

subsequently Minister for the Economy. Itera was also linked to Gazprom's executives. Incidentally, it was this proximity which cut Itera out of the Turkmen gas delivery scheme in Ukraine. Indeed, beginning in 2001, Vladimir Putin sought to take over control of Gazprom. Its new President, Alexei Miller, spent several months neutralizing the network of his predecessor—Rem Viakhirev—for whom Itera was a bastion.

Eural Trans Gas (ETG) took over in the beginning of 2003. As for Itera, neither Naftogaz Ukrainy—the Ukrainian public company receiving Turkmen gas—nor Gazprom—which controls the gas pipelines network through which it transits—are present in Eural Trans Gas' capital structure. Based in Budapest, ETG is officially directed by Andras Knopp, former State Secretary of the Hungarian Ministry of Culture in Soviet era. The Israeli lawyer Zeev Gordon claimed to have registered ETG at the request of Dmitri Firtash, a then-unknown Ukrainian businessman in Kyiv acting via a Cypriot offshore structure (Highrock Holdings). Questions were rapidly raised about the true owners of ETG, which posted a net benefit of 220 million US dollars[5] in 2003.

In July 2004, President Putin and President Kuchma—whose own succession in Kyiv was far from certain—decided to create a new structure for the transit of Turkmen gas—RosUkrEnergo (RUE). This time, Gazprom—via Gazprombank—took 50% of the shares. The rest was to be controlled by CentraGas Holding AG, a subsidiary company fully owned by Raiffaisen Investment. Wolfgang Putschek, trustee of the company, claimed to act in the name of a "consortium of businessmen and Ukrainian companies well-known in the gas industry" opting for anonymity.[6] The identity of the Ukrainian recipients began a number of controversies, which were only exacerbated during the "gas war" (*cf. infra*). In the end, Dmitri Firtash and his associate, Ivan Fursin, admitted to holding 45% and 5% of RUE respectively. Whether they are acting in the name of anybody else remains a mystery. The Head of the Security Service of Ukraine (SBU), Alexander Turchinov, close to Yulia Timoshenko, declared in the fall of 2005 that RUE was linked to Semion Mogilevich, a Kyiv native very active in Budapest in the 90's. Suspected on various counts of embezzlements (money laundering, among others), Mogilevich—today hiding out in Moscow—is wanted by the FBI. In August 2005, Zeev Gordon stated that Semion Mogilevich, which he was counseling, knew Dmitri Firtash, but that he was by no means related to RUE.[7] Yury Boyko and Igor Voronin, President and Vice-President of Naftogaz Ukrainy in 2004, initially sat at the coordinating committee of RUE. Back in business (*cf. infra*), they denied any participation in RUE, however.

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[5] On this subject, see *It's a Gas. Funny Business in the Turkmen-Ukraine Gas Trade*, Global Witness, April 2006, p. 33 ff, available at <www.globalwitness.org>.
[6] *Ibid*.
[7] *Ibid*, p. 57.

Alongside the colossal financial stakes generated by the trade of Turkmen gas, Russian-Ukrainian relations is marked by Gazprom's repeated attempts to take control of the Ukrainian gas export pipelines, through which the better part of Russian gas is so far delivered to the EU (approximately 130 billion cubic meters [bcm] per year). This was the main aim of the consortium project Vladimir Putin and Leonid Kuchma wanted to create,[8] but which was gradually emptied of its substance due to strong Ukrainian reservations.[9] Reflecting the importance of its relation to Ukraine, and energy's dominating role in Russia-Ukraine relations, Vladimir Putin named Viktor Chernomyrdin, the former Head of Gazprom and former Prime Minister, Ambassador in Kyiv in May 2001.

The orange coalition in search of rupture

As soon as they took office, in the end of January-beginning of February 2005, President Viktor Yushchenko and his Prime Minister, Yulia Timoshenko, let it be known that they wished to fundamentally reform Ukraine's energy system and begin a new bilateral cooperation with Russia. On the domestic front, this notably resulted in the ousting of Naftogaz Ukrainy's Chairman, Yury Boyko—the incarnation of the worst drifts of the Kuchma era in the orange coalition's eyes—and his replacement by Alexei Ivchenko, close to the President, and responsible for the Ukrainian Nationalists Congress, a small faction of Nasha Ukraina. Contacts were also

[8] The creation of a structure in charge of exploiting the exporting gas pipelines crossing Ukrainian territory was decided in June 2002 in St. Petersburg, during a tripartite meeting Putin-Kuchma-Schröder in response to an old claim of Russia and Gazprom, namely, export security to Western Europe. According to President Kuchma, this consortium would make it possible for Ukraine to attract required investments for the modernization of its gas pipeline network.

[9] Russo-Ukrainian discussions, begun in the fall 2002 in order to implement the framework agreement signed by the Presidents revealed deep divergences. The principal one related to the distribution of shares within the new entity. Moscow had required a strict parity—principle which had been confirmed in the intergovernmental agreement signed on 7 October 2002—while Kyiv had wished, for sovereignty reasons, to preserve 51% of the future consortium stocks. There was no consensus on the consortium functioning modalities either: concession to operators or gas pipelines network partial privatization. After the consortium's formal creation, recorded in Kyiv on 1 January 2003, Ukraine favored a “restrictive” reading of the project. Finally, on 19 August 2004, the Russian and Ukrainian governments signed a compromise agreement: the consortium, which did not include representatives of a third country, would only be in charge of building and managing the Bogorodchany-Uzhgorod gas pipeline but not the existing infrastructures. A. Dubien, « L'énergie, vulnérabilité stratégique persistante de l'Ukraine » [Energy: Ukraine's Persisting Strategic Vulnerability], in A. de Tinguy (ed), « L'Ukraine après la révolution orange » [Ukraine after the Orange Revolution], *Revue d'études comparatives Est-Ouest*, vol. 37, No. 4, December 2006, p. 169 ff.

renewed with the trader Itera, well-known for being close to the Prime Minister at the time.[10]

At the international level, the objective was to consolidate Ukraine's energy independence by loosening Russia's grip. In March 2005, President Yushchenko went successively to Germany—where he obtained a 2 billion US dollar credit from Deutsche Bank for the modernization of the Ukraine's network of gas pipelines—and to Turkmenistan, Ukraine prime supplier, in order to convince Saparmurat Niyazov to reconsider a gas price increase decided a few weeks earlier. Comparable processes were observed in the oil sector. The Timoshenko administration reaffirmed its intention to revise the terms of the agreement signed on 27 July 2004 with the Anglo-Russian oil company TNK-BP on the use of the Odessa-Brody pipeline in a north-south direction.[11]

The Moscow-Kyiv gas dispute, which resulted in Russia's gas cut-off on 1 January 2006, dated back to 28 March 2005. That day, a Ukrainian delegation led by Alexei Ivchenko and the new Minister for Energy, Ivan Plachkov, laid out before those in charge of Gazprom their vision of the bilateral gas relations. Kyiv claimed for itself half of the income generated by the transit of the Turkmen gas through Russian territory. Gazprom indicated that it did not object to Naftogaz Ukrainy entering RUE's capital, so long as it was able to retains 50% of the shares. The Ukrainians most notably proposed for Russia to reexamine the terms of gaz transit to Europe. Instead of the 24 bcm provided by Gazprom annually as payment of transit fees (a volume based on 1.09 dollars per thousand cubic meter (tcm) per 100 km), Kyiv wished to be paid thereafter in cash, with royalties aligned to European levels (or, at the time, 1.75-2 dollars per tcm per 100 km). Alexei Miller, Gazprom's CEO, took his Ukrainian counterpart to the word and announced that his company would henceforth deliver gas at European prices (160 dollars per tcm). Because of the global rise in hydrocarbons prices, Ukraine's immediate dead loss would have risen to more than 2.5 billion dollars, were market rules to be enforced.

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[10] O. Yakhno, A. Mushak, « Gaz-politika: uroki proshlogo i perspektivy » [Gas and Politics: Lessons from the Past and Perspectives], February 28, 2007, available on <www.glavred.info>.

[11] Inaugurated in September 2001, this pipeline with an annual capacity of 14.5 billion tons was built on the initiative of the Ukrainian government for routing a part of Caspian oil toward European markets. This project, a measure to provide diversification and to give body to the GUAM (organization that includes Georgia, Ukraine, Azerbaijan, and Moldova), was supported by the United States (US) and the EU, in particular by Poland, which has planned to build an extension to the Gdansk terminal. However, in the absence of volumes of crude available, the pipeline long remained empty. In this context, the TNK-BP company proposed in 2003 to use the pipeline in a north-south direction in order to export a part of its oil. This proposal, financially enticing in the short run, but likely to compromise Ukraine's strategic objectives, deeply divided the Ukrainian establishment, as well as the gas consortium project. Finally, in July 2004, Kyiv gave its approval. The "reversed" use of the Odessa-Brody pipeline should be extended until 2009.

The Ukrainians then sought to back down. In the summer and autumn of 2006, Kyiv promoted the Cooperation Agreement signed in 2003 for a period of 10 years, under which Russia was committed to not revise transit tariffs upward until 2009. Yet a breach had been made into which Russia rushed. As the deadline fixed by Gazprom to find an agreement—31 December 2005—was fast approaching, the bilateral negotiations took place in an increasingly dramatic context; from then on, these dealt with the extent of the price increase rather than with its actual principle.[12] Meanwhile, in order to thwart a potentially harmful alliance between Ukraine and other CIS (Community of Independent States) producers, Gazprom finalized an agreement with Uzbekistan—bottleneck of the Central Asia/Russia gas pipeline—whereby it became the exclusive operator for natural gas flows passing through Uzbek territory.

The negotiations between Naftogaz and Gazprom in 2005 reflect Ukraine's lack of preparation, which thought it could sort out in a few months the long-term strategic challenge that is the country's energy dependency. The Ukrainians also systematically underestimated the Kremlin's resolve: the latter having experienced the "orange revolution" as a major trauma, it was bent on making the "Ukrainian issue" an example of its new energy diplomacy.

[12] A. Dubien, *op. cit*. [9], p. 172 ff.

The Agreements of 4 January 2006: RosUkrEnergo's Triumph

The agreements signed in Moscow on 4 January 2006 between representatives of Gazprom, Naftogaz Ukrainy and RosUkrEnergo brought about diametrically opposite reactions in Ukraine. Touted by President Yushchenko as respresenting a "compromise" guarranteeing "transparent and mutually advantageous relations" between Russia and Ukraine, they were described as the "Pearl Harbor of Ukraine's diplomacy" by Alexander Chaly, former Deputy Foreign Minister, and even of "crime against the nation" by Sergei Taruta, President of the Industrial Union of Donbass (ISD), one of the few "oligarchs" to have supported Viktor Yushchenko at the time of the 2004 presidential campaign. On 10 January the President's opposition—the Party of Regions, the Communists, but also partisans of Yulia Timoshenko, dismissed of her functions at the head of the government in September 2006—voted in the Rada (Ukrainian Parlament) a motion of censure against the new Prime Minister Yury Yekhanurov's administration.[13] Only a few weeks before the 26 March legislative elections, gas had become a major political issue.

Initially, criticism of the 4 January agreements was focused on three points. The first concerned the price of imported gas, seemingly a central element of the showdown with Moscow. Its level, 95 dollars per tcm, was—under article 4—"valid for the first half of 2006." No guarantee was given by Russia beyond this expiry date. The second related the central role played by the Switzerland-based company RusUkrEnergo, which was granted a monopoly for gas deliveries to Ukraine. This point constituted a major symbolic setback for Viktor Yushchenko, who had made an imperative the break with Kuchma era practices and was forced to accept an intermediary whose opacity fueled strong suspicions of corruption, including in his immediate entourage.[14] In addition, Ukraine had deprived itself of its principal strategic asset by dissociating the question of Russian gas transit—whose modalities were fixed for a five years period—from

[13] G. Duchêne, A. Dubien, *op. cit*. [1], p. 40.
[14] For an in-depth study of RUE, see *Ukraine Intelligence*, No. 5, 19 January 2006. On O. Palchikov and K. Chuychenko, Russian administrators of RUE and Gazprom Executive Board Members at the same time, see article by the head of *Novaya Gazeta's* Investigation Services, Roman Shleynov, 6 February 2006, available at <www.novgaz.ru/data/2006/08/00.html>.

those of its gas deliveries.[15] Lastly, Naftogaz Ukrainy had to give up any Russian gas re-exportation, a scheme which deprived the Ukrainian operator of approximately 800 million dollars in annual revenue.

The 4 January agreements also stipulated that RosUkrEnergo and Naftogaz Ukrainy had to create, within a month, a joint venture in charge of supplying the Ukrainian domestic market. UkrGaz-Energo (UGE), created on 2 February 2006, commercialized 32 bcm in 2006. Even more impenetrable than its Swiss shareholder, UGE plays a major yet largely underestimated role in the current reconfiguration of the Ukrainian energy landscape. While it is also supposed to represent the interests of the state, a 50% shareholder via Naftogaz Ukrainy, UGE is in fact a Trojan horse for RosUkrEnergo and Gazprom. UGE's CEO, Igor Voronin, who doubled this post with that of second-in-command at Naftogaz Ukrainy, was, with the current Minister of Energy Yury Boyko, the instigator of RosUkrEnergo. Beginning in the spring 2006, UGE greatly gained in power, and on its way to marginalize Naftogaz Ukrainy on the industrial consummer market.

Deprived of two of its principal sources of income (distribution and re-exportation) as well as sujected to increasing tax pressure (15 billion hryvnas—or approximately 2.2 billion euros—under the 2007 Finance Law, compared with 2.5 billion hryvns in 2006), the public operator faced a very difficult financial standing. Some Ukrainian observers consider that the 4 January agreements have for ultimate objective to bankrupt Naftogaz, which would facilitate the gas export pipeline network's buyout by its indirect creditor—Gazprom.[16] The refusal to deliver announced on 2 November 2006 by UGE to 16 large industrial companies—many controlled by Igor Kolomoysky, an oligarch close to Yulia Timoshenko, and coveted by RosUkrEnergo's principle Ukrainian shareholder, Dmitri Firtash—confirmed that the new operator was far from being neutral.[17] In fact, the redistribution of cards on the Ukrainian gas market potentially paved the way for a vast transfer of industrial property process, even if it was slowed down by rivalries within the new Ukrainian government.

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[15] The text made public at the beginning of January was actually only the tip of the iceberg. An article published on 4 February by the weekly magazine *Zerkalo Nedeli* mentioned that the Ukrainian delegation actually signed seven documents in Moscow. Out of these documents—whose existence had long been denied by negotiators Ivan Plachkov and Alexei Ivchenko, including at the Council of Ministers in mid-January—the most important concern RUE's extremely advantageous gas storage conditions in Ukraine. Yu. Mostovaya, A. Yeremenko, "Sovershite vy massu otkrytiy (inogda ne zhelaya togo)" [You Will Discover Many Things—Sometimes in Spite of Yourself], *Zerkalo Nedeli*, No. 4, 4-10 February 2006, available at <www.zn.ua/1000/1030/52513/>.

[16] *Ibid*.

[17] *Ukraine Intelligence*, No. 23, 10 November 2003, p. 3. Igor Kolomoysky announced at the end of February 2006, that he was waiving his participation in DneproAzot, one of the companies concerned.

Gas Strategies of the Yanukovich Government

On 4 August 2006, the Rada ratified Viktor Yanukovich's nomination as Prime Minister. Eighteen months after its humiliating defeat at the presidential election's third ballot on 26 December 2004, the head of the Party of Regions got a revenge on the Orange Revolution advocates that was as resounding as it was unexpected. Despite having obtained 243 out of 450 seats at the parliamentary elections of 26 March 2006, the pro-presidential party People's Union Our Ukraine, Yulia Timoshenko's faction and the socialist party were unable to form a coalition, both because of basic disagreements (in particular on Ukraine's accession to NATO) and because of insurmountable personal rivalries. Finally, in the beginning of July, the socialist party announced that it would join the Communist Party and the Party of Regions in order to form an "anti-crisis coalition", a turnaround paving the way for a cohabitation between Viktor Yushchenko and Viktor Yanukovich.[18]

Kliuev vs Boyko: The new division of the energy sector

The new Ukrainian government, product of a compromise between the two heads of the executive, included a certain number of people loyal to the President (eight ministers in all, many of whom resigned in October after the final talks between Nasha Ukraina and the Party of Regions for a "great coalition" broke down). The economic faction was, however, under the control of Viktor Yanukovich loyalists. The much coveted energy sector positions were split between two rivaling groups of influence. Yury Boyko, RosUkrEnergo's man, was appointed head of the Ministry of Energy, while Andrei Kliuev became Deputy Prime Minister in charge of the energy issues. Originally from Donetsk—where he was successively second-in-command of the regional Parliament, assistant to the mayor then Deputy Governor—Andrei Kliuev had already occupied these posts between

[18] G. Duchêne, A. Dubien, « Ukraine 2006 : de bons scores économiques en dépit d'une cohabitation à couteaux tirés » [Ukraine 2006: Good Economic Performance in Spite of a Cohabitation at Daggers Drawn], *Le Courrier des pays de l'Est*, No. 1059, p. 30-49.

2002 and 2004 in the first Yanukovich government. In the meantime, he headed a holding company (Ukrpodchipnik) gathering a dozen companies present mainly in the energy sector. In the fall of 2006, Andrei Kliuev placed several of his close relations in key positions: Vladimir Sheludchenko acceded to Naftogaz Ukrainy's presidency, Alexander Rogozin was named head of the National Energy Regulation Committee and Igor Kiriushin replaced Alexander Todiychuk—the main promoter of the Odessa-Brody pipeline supposed to evacuate some of the Caspian oil—at the head of Ukrtransnafta, the public operator which manages the country pipelines network. Yury Boyko, for his part, could count on the support of Igor Voronin (Naftogaz Ukrainy/UkrGazEnergo) and of Sergey Levochkin, Viktor Yanukovich's Chief of Staff. On the other hand, the Minister of Energy did not belong to Rinat Akhmetov's circle of influence, CEO of System Capital Management (SCM) holding company, Ukraine's richest man and the most powerful in the Party of Regions.

The struggle for influence within the Yanukovich government does not point to profoundly different points of view on the country's energy security or international position, but rather to the incompatibility of interests in sharing the financial flows related to gas trade. The Firtash-Boyko-Voronin clan (with Semion Mogilevich in background) labors for the status quo with the support of some Gazprom leaders (Chuychenko and Paltchikov, members of the executive committee and co-Presidents of RUE) and part of Viktor Yushchenko's entourage which participated in the January 2006 negotiations.[19] Andrei Kliuev represents before anything else the industrialists interests of Donbass, very concerned by a rise in gas prices. With the support of Viktor Yanukovich and Nikolai Azarov, the Minister of Finance, he sought to convince Russia to return to a direct intergovernmental gas relation.

Was the arrival of people considered sensitive to Russian interests in Kyiv going to lead Gazprom (via RosUkrEnergo) to show moderation in its tariff policy, thus confirming the essentialy political nature of the "gas war"? The signs coming from the Ukrainian government and the Kremlin at the end the 2006 summer have initially tended to corroborate this assumption. In order not to put the Party of Regions and its allies in difficulty, Russia announced that the price of gas delivered to Ukraine would be maintained at 95 dollars per tcm until the end of the year (despite Turkmenistan billing RUE 100 dollars per tcm since 1 July). Negotiations between Moscow and Kyiv have led to the signature, on 24 October, of a document fixing the price of gas sold in Ukraine in 2007 at 130 dollars per tcm. Yet this is a respite rather than a revision of Gazprom's new policy, since international tariffs will be applied from 1 January 2008.

[19] A. Dubien, *op. cit.* [9], p. 171 ff.

The eternal return of the gas consortium

Seemingly closed, the gas issue was nevertheless again at the heart of Ukrainian political and economic affairs, at the beginning of 2007. The first sign came from the Davos Forum, where Viktor Yanukovich made it clear that a return to the Russo-Ukrainian agreements in force before the "gas war" was possible. Then, on 29 January, Andrei Kliuev declared during of a conference in Brussels that the Ukrainian government was holding talks with Gazrom on this subject. Lastly, on 1 February, Vladimir Putin confirmed during his annual press conference in the Kremlin that Ukraine had made "revolutionary" proposals to Russia. According to him, Kyiv was now ready to put the gas consortium issue on the agenda again, in exchange for stakes in some Russian fields.

On this subject, the Ukrainians pursued three goals. The first and foremost was to obtain direct access to resources and thus secure its long-term supply. Second, Viktor Yanukovich presumably hoped that Gazprom, once it obtained the joint management of the export infrastructure, would agree to maintain gas tariffs at their current level beyond 2007. Third, was a questioning of RosUkrEnergo's monopoly, a structure considered to be all the more useless since it was out of the Party of Regions' control.

Finally, the issue of the gas consortium disappeared as fast as it had come. On 6 February the Ukrainian Parliament passed a bill sponsored by Yulia Timoshenko which prohibited any privatization of export gas pipelines or a modification of their statute. This text obtained a near-unanimous support from the Rada, since it was accepted by 430 deputies. Ukrainian interlocutors then back-pedalled. Nikolai Azarov specified that transfers of property had never been considered. Viktor Yanukovich, for his part, argued that discussions with Russia only dealt with the possible construction of a new spur and not on existing capacities, remarks that seemed out of line with the "revolutionary" character of the Ukrainian proposals evoked by Vladimir Putin. The Russian Ambassador in Kyiv, Viktor Chernomyrdin, considered it useful to add that Russia did not need Ukrainian gas pipelines.

This new imbroglio, which left Gazprom and Russia rather weakened, confirmed the extreme opacity of their bilateral relations in the energy sector. It coincided with the exacerbation of tensions between the Ukrainian gas scene's principal protagonists. On 13 February, Viktor Yanukovich met with Igor Makarov, CEO of Itera, which wants to see competing with RosUkrEnergo. On 1 March Yury Boyko had one of his close relations, Yevgueni Bakulin, appointed as President of Naftogaz Ukrainy to replace Vladimir Sheloudchenko, who had resigned.[20] Modalities of the bilateral gas relation (at least in

[20] *Kommersant-Ukraina*, 2 March 2003.

terms of supply) being *in fine* under Gazprom and Kremlin competences, the Ukrainian clans logically sought support in Moscow. The Chairman of the State Duma Committee on Energy, Transport and Telecommunications Valery Yazev, and Viktor Golubev, a member of the executive committee close to Vladimir Putin (who, as Putin, had come from the Federal Service of Security, ex-KGB, and had worked at St. Petersburg's City Hall in the first half of the 90's), have more or less explicitly spoken out for ousting RosUkrEnergo. In response, the Swiss operator and its relays in Kyiv made new proposals to Gazprom. The transfer, in one form or another, of Ukraine's gas export pipeline network no longer being on the agenda, Yury Boyko declared being in favor of ceding the domestic distribution network and has worked, together with Dmitri Firtash, toward purchasing several regional companies (as Oblgaz).[21]

[21] The leaders of six regional companies coveted by RUE (Zakarpatgaz, Volyngaz, Lvovgaz, Ivano-Frankovskgaz,Tchernovtsygaz and Tchernigovgaz) revealed during a press conference in Kyiv in January 2007 that tax controls and various sanitary checks—often pretext and prelude to a change of hands in the former USSR—had multiplied against their companies in the pas few weeks.

Conclusion

Fifteen years after the collapse of the USSR, the gas issue is central to the domestic and external challenges which Ukraine faces. The country's economic modernization—the condition of its rapprochement with the EU—requires above all an in-depth reform of its production system, which is the world's most energy-hungry. At the political level, the perpetuation of gas management models based on opacity fuels corruption within the leading elites and constitutes one of the principal obstacles in breaking with the post-Soviet heritage. Finally, the Ukrainian foreign and security politics is and undoubtedly will continue to be durably conditioned by the country's vulnerability in terms of hydrocarbons supply.

In this respect, the Russian factor is obviously central. Often analyzed through the prism of Moscow's neo-imperial ambitions, the protagonists of the Ukraine policy instead relates more to a multiplicity interests and logics. It is obvious that the Kremlin has made energy one of the privileged vectors of its strategy for influence. Yet it is more difficult to clearly separate Russian state interests from those of Gazprom or those of concerned individuals. Keeping the trader RosUkrEnergo as the required intermediary of gas relations between Ukraine and Russia, in disregard of any economic rationality, is the most striking illustration of this ambiguous, if not incestuous, symbiosis. The moderation Gazprom has shown in the fall of 2006 has certainly something to do with the position taken by Ukrainian Prime Minister Viktor Yanukovich on NATO,[22] which tends to confirm a linkage between energy issues and broader strategic issues. On the contrary, the alignment of gas prices on international tariffs, envisioned for 2008, is witness to a certain trivialization of Ukraine in Russian perception and to an autonomisation of the gas question. As if the Kremlin was at Gazprom's service and not the reverse.

Can the changes in Turkmenistan after Saparmurat Niyazov's death and the new political crisis in Kyiv at the beginning of April have an impact on the country's energy issues? The new Turkmen President, Gurbanguly Berdymukhammedov, does not appear eager to call into question the agreements signed in 2003 with Gazprom. A situation which thus *a priori* excludes Kyiv from again joining direct

[22] During his visit in Brussels on 14 September 2006, Viktor Yanukovich declared that Ukraine "will take a break" in its rapprochement with the Atlantic Alliance. In the end, NATO did not invite Ukraine to join the Membership Action Plan during the November 2006 Riga summit.

bilateral gas relations, but which offers Ukraine certain guarantees as for the volume of its supplies, which could be called into question should Ashkhabad carry out the project of exporting gas to China or the Indian subcontinent. The show of force between Viktor Yushchenko and Viktor Yanukovich concerning the Parliament's dissolution is not directly related to gas issues, even if the systematic lock the various clans surrounding the Prime Minister have of the energy sector has undoubtedly weighed on the report of the "usurpation of power" stressed by the President to justify his decision. A return of Yulia Timoshenko, if her party were to gain possible anticipated legislative elections, would undoubtedly have for consequence a complete overhaul—short of a cleanup—of gas relations between Ukraine and Russia.