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Ukraine Wants Review of Gas Price

By The Moscow Times

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Yanukovych, second right, and Azarov, third right, taking part in Ukraine's Independence Day celebrations Tuesday. **Mykhailo Markiv**

Ukrainian Prime Minister Mykola Azarov said Wednesday that his government wants Russia to review the price it charges for gas supplies, saying that even with a discount, fuel costs are squeezing the economy.

"Our aim is to review extremely unfavorable agreements with Russia," Azarov said at a government meeting. "Only the agreements signed in Kharkiv, under which we have a $100 discount, allow us to avoid collapse."

A January 2010 agreement between Russian gas giant Gazprom and Ukraine's gas holding Naftogaz set a base formula for the price of gas that the Ukrainians say is onerous despite a subsequent deal in Kharkiv last April.

In that deal, President Viktor Yanukovych's administration secured a $100 discount on the price for 1,000 cubic meters of gas in exchange for allowing Russia to keep its Black Sea Fleet

in a Ukrainian port until 2042.

But it is now saying this is not enough.

Azarov said his government would work to persuade the Russian side that the January agreement, reached by the previous administration of Yulia Tymoshenko, was unfair.

"This formula continues to weigh on us, and this is a fact that cannot be denied. The price goes up by $25 every quarter," Azarov said.

He said that in the fourth quarter this year the price of gas without the $100 discount would reach $390 per 1,000 cubic meters. "Such a price would mean catastrophe for the economy and the people of Ukraine," Azarov said.

Gazprom charged Western European customers an average $307 per 1,000 cubic meters in the first quarter, compared with an average of $187 per thousand cubic meters on Britain's spot market, according to Troika Dialog.

Gazprom spokesman Sergei Kupriyanov declined to comment on whether Ukraine had formally sought a review of contracts.

Under pressure from the International Monetary Fund, which has just opened up a $15 billion standby credit line to Ukraine, the Azarov government has announced austerity measures including a 50 percent rise in the price of gas for the Ukrainian householder.

Yanukovych said Tuesday that his administration would launch a campaign to explain to people the need for tough reforms to modernize the economy.

Ukraine, which ships about 80 percent of Russia’s gas exports to Europe, also wants guarantees for transit volumes through its pipelines, Yuriy Boyko, the country’s fuel and energy minister, said in an e-mailed statement over the weekend.

Russia is planning several pipelines bypassing Ukraine, including Nord Stream, which is being built across the Baltic Sea, and South Stream, across the Black Sea. The links may lower volumes crossing Ukraine.

Ukraine increased transit of Russian natural gas 22 percent to 57.4 billion cubic meters in the first seven months of the year, the Fuel and Energy Ministry said Wednesday.

The government is raising the gas price for households to help trim a budget deficit and qualify for future payments from the $15.2 billion loan program that the IMF approved last month.

(Reuters, Bloomberg)

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