

Report: Gazprom Won't Yield Soon on Ukraine

By [Anatoly Medetsky](#)

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Gazprom's European customers have wrangled lower prices and retroactive discounts from the Russian export monopoly by threatening arbitration proceedings. **Maxim Stulov**

Gazprom may have agreed to cut prices for many of its European customers, but the chances of its biggest foreign market, Ukraine, getting a discount appear slim, according to an analyst report.

"Perhaps Gazprom cannot afford yet another price cut when its revenues and net profits are under such strain," Andrew Neff, a Russia analyst for IHS Energy, said last week.

In the latest concession, Gazprom agreed last week to shave 10 percent off the price that it charges Polish gas importer, PGNiG. Germany and Italy had won similar discounts in past months on the backdrop of increased scrutiny by the European Commission of Gazprom's business in Europe.

Not a member of the EU, Ukraine doesn't enjoy the political backing of the bloc, and it doesn't have an alternative source for its huge gas imports, Neff said in the research note.

Ukraine's current political leaders bear part of the blame for the price impasse with Russia, the note said.

"Ukrainian policymakers also can point the finger squarely in the mirror for their current predicament," Neff wrote.

After President Viktor Yanukovich came to power in Ukraine, the country made a "major strategic error" when it didn't tear up the current contract with Gazprom containing what Neff called an inflated base price, the note said. Instead, Yanukovich secured a discount for Ukraine's national energy company Naftogaz in exchange for extending the Russian lease of the Sevastopol naval base.

"Not only has Russia argued since that time that Gazprom already has granted Naftogaz a price discount ... but that accord set expectations on the Russian side that any concessions by Gazprom would be matched by concessions by Naftogaz and/or the Ukrainian government as well," Neff wrote.

Thus, Russia has dangled the possibility of lower gas prices for Ukraine if it joins a Russia-led customs union – an offer that Ukraine has resisted so far.

Gazprom's European customers have wrangled lower prices and retroactive discounts from the Russian export monopoly by threatening – or, in PGNiG's case, actually launching – arbitration proceedings. But Ukraine didn't cross that line, Neff noted.

Ukrainian President Yanukovich avoids a raucous legal standoff because his voter base is loyal to Russia, said Volodymyr Fesenko, director of the Penta political studies center in Kiev. The Ukrainian government is also afraid of losing that battle, he added.

Kiev damaged its odds of gaining the upper hand in the price dispute by alienating the European Union political establishment, which criticized the prosecution — and imprisonment — of Ukraine's former prime minister Yulia Tymoshenko as politically motivated, Fesenko said.

Ukraine has chosen the path of increasing its own production of gas — an effort that will not bear fruit any time soon, he said. Even so, significant progress on this could over time compel Gazprom to reconsider its adamant approach to dealing with Ukraine, Fesenko said.

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