

Russia-Ukraine Discuss Long-term Gas Deal

Russia and Ukraine are set to agree and sign a comprehensive natural gas agreement before 15 September. The goal is for the deal to ward off any repeat of the recent gas disputes and cement a long-lasting supply agreement between the two countries.



▲ Prime Minister Yulia Tymoshenko with Russian Prime Minister Vladimir Putin. The two leaders had wide-ranging discussions. Yet uppermost in their minds was brokering a new gas deal for 2009 and beyond.

Last week, Ukraine's Prime Minister, Yulia Tymoshenko, met with her Russian counterpart, Vladimir Putin, to discuss a prospective energy deal and address other issues that have raised tensions between the two neighbours.

Ahead of the meeting, Alexei Miller, chief executive of Russia's state gas company, Gazprom, warned Ukraine that it may have to pay Western European-level prices for natural gas. This would mean a near doubling of the \$179.50 the country is paying this year for gas.

"Our understanding is as of 1 January 2009, gas supplies to Ukraine will work on market principles," said Mr Miller.

The big hike in the cost of gas is because Central Asian states are raising their prices.

Ms Tymoshenko is keen to agree a long-term gas deal, lasting a minimum of three-four years. The desired deal would guarantee supply and increase prices incrementally, giving Ukrainian industry and consumers time to make the transition to market prices and lessen their dependence on relatively cheap and plentiful gas.

Fuel and Energy Minister Yuriy Prodan, who accompanied Ms Tymoshenko on the Moscow visit, said that the contracts would be ready for signature in September.

Baloha Critical

Viktor Baloha, the head of the president's secretariat, said that the timing was flawed and that Ms Tymoshenko had failed to carry out the instructions of the president, which was to agree a new contract for signature before the end of July – so as to give the economy more time to respond to price rises.

"We still do not have a clear understanding from whom, on what terms and what volumes we will be buying next year," said a statement issued by a combative Mr Baloha.

The argument goes that Ukraine needs to know gas prices in order to calculate subsidy submissions for the draft 2009 budget, which must be presented to parliament by 15 September.



Reaching an agreement by July can only be described as wildly optimistic. Traditionally the annual haggling and agreement on a price has taken months and Ukraine will be determined to reduce the \$400 per thousand cubic metres price. Geoffrey Smith of Renaissance Capital said, "It's best to see this as an opening gambit in a negotiating process."

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The \$400 price tag is a daunting prospect and the government has made it clear that any major rise would be accompanied by a reciprocal hike in the transit fees Gazprom pays for transporting its gas to Europe through Ukraine's pipeline network. Currently, a quarter of the EU's natural gas imports are from Gazprom with about 80 percent transiting through Ukraine's pipeline network. And that amount appears to be rising. Last week figures revealed, that in the first six months of the year, Ukraine transported 65.3 billion cubic metres of natural gas to Europe, up 23 percent year-on-year.



▲ Minister for Fuel and Energy, Yuriy Prodan, called for gradual increases in the price of gas.

Ms Tymoshenko said, "The hike to \$400 is absolutely impossible for the economy of Ukraine." She did not deny the likelihood that Ukraine would eventually pay western market rates for its natural gas imports, but suggested that it meet "the European level within the next three-four years." Mr Prodan said, "Our goal is to negotiate a gradual change in the gas price which will be to the benefit of both parties."

In return, Mr Putin said that it was too early to specify a figure as the final cost and transport tariff would be the subject of discussions over the next few months.

Last Chance Saloon for UEFA Euro 2012

Both President Viktor Yushchenko and Prime Minister Yulia Tymoshenko shared the same script as they pledged their wholehearted support to Ukraine being ready in time to co-host the Union of European Football Associations (UEFA) Euro 2012 soccer tournament. During his visit to Kyiv, the President of UEFA, Michel Platini, described his talks with the two political leaders as "superb."

The ex-European Player of the Year and French soccer legend, conceded that a lot still needed to be done. "The next three months will be very important for Ukraine," he said.



The crunch date is in September, when UEFA leaders meeting in Bordeaux will make a final decision if the tournament is to remain with Poland and Ukraine, or be withdrawn and given to another country. Spain, Scotland, Italy and Germany have all been named as likely contenders if UEFA does not consider Poland and Ukraine are sufficiently prepared to host the tournament.

Behind Schedule

The two former-Soviet bloc countries were awarded the championships ahead of Italy and a co-hosted bid by Croatia and Hungary in April last year.



Ukraine's preparations for the tournament are behind schedule which prompted Mr Platini to say ahead of his visit, "we asked the two countries to wake up and we gave them four months to show us progress."

Some estimates suggest that Ukraine needs to spend at least \$20 billion to ready itself for the tournament and cater for the massive influx of travelling fans. Roads, railways and airports need to be upgraded and hotels and stadiums built.



▲ President of UEFA, Michel Platini in Kyiv. Mr Platini met with both the president and premier who pledged their full support to Ukraine being prepared to co-host the tournament. The tournament is watched around the world and in 2008 it was screened in 180 countries.

Work on the venue for the final game – the 85,000 capacity Olympic stadium in Kyiv – has been subject to political wrangling over an adjacent shopping centre which has delayed construction work.

Three other Ukrainian cities – Donetsk, Dnipropetrovsk and Lviv – have been selected to host the tournament, while Kharkiv and Odessa are standby cities.

Despite the delays, both the president and prime minister are confident that Ukraine will step up to the mark and put on a memorable tournament.

"We will do everything, even achieve the impossible, to make sure that the tournament turns out to be a great success – one that the whole world will recognise and which will show Ukraine to be an excellent partner," said a confident Ms Tymoshenko.

"Hosting the Euros will really put Ukraine on the international map," said a western diplomat based in Kyiv, "Let's hope that it gets recognition for all the right reasons. The country will be under an intense spotlight."

Need to Pass Budget Amendments

The UEFA leadership clearly wants the tournament to be played in Eastern Europe and despite the lengthy to-do list, it is not inconceivable that Ukraine will meet its deadlines. However, action needs to take place now. Both branches of government must work together and this includes passing much needed budget legislation.

Putting on a brave face for the cameras, Mr Platini said, "The final, final, final decision will be taken in Bordeaux at the end of September."

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Plans to Privatise Coal Mines

The government of Ukraine has announced plans to privatise and reform the country's ailing coal mining industry. The announcement follows a visit by Prime Minister Yulia Tymoshenko to the Frunze coal mine in the town of Rovenky in the Luhansk oblast, where she saw first-hand the inhospitable conditions faced daily by Ukraine's miners.



The visit prefaced government plans to breathe life back into the country's antiquated mining industry. A more efficient and productive coal mining sector will help support Ukraine's lucrative steel industry and lessen the nation's dependence on expensive natural gas imports, which, according to Alexei Miller, the chief executive of Gazprom, could rise above \$400 per 1,000 cubic metres in 2009, from \$179.50 this year.

"Coal is seen as a national asset," said a leading energy trader, "and a vital piece in the jig-saw of Ukraine's future energy independence plans. What's missing is huge investment to modernise the mines."

The government plan involves reorganising publicly-owned coal mines into groups. Bids will be accepted for 12 offerings of two mines each, with mines in Donetsk, Luhansk and Lviv oblasts put up for sale. In addition, the price of coal will be raised and miners paid by the hour rather than on volume. Currently, miners earn around UAH 3,000 (\$600) per month and are paid piecemeal, earning nothing if there is no coal production.

The privatisations are aimed at attracting domestic and foreign investment to improve mining infrastructure and productivity. The government's target for output in 2007 is 82 million tonnes.

Coal output has steadily declined since Independence. Between 1992 and 1998 alone, production dropped nearly 44 percent. Output fell to 75.43 million tonnes in 2007 which was 6 percent down on 2006. In the first five-months of this year coal output was 33.3 million tonnes. According to experts, this is miniscule compared to the nation's coal deposits that amount to a massive 117 billion tonnes.

Improving Safety

Improving safety is a priority. The country's 200 coal mines have an unenviable safety record. On average, three miners die for every one million tonnes of coal brought to the surface.

Ukraine has some of the deepest coal mines in Europe extending to depths of 1,000 metres. By comparison most Western European mines seldom reach beyond 500 metres. Conditions in some mines have been described as Dickensian with about 50 of the county's mines over 100 years old.

Methane explosions are the biggest killer in the mines. The most recent tragedy occurred only a month ago at the Karl Marx mine near Yenakiyevu city, in the Donbass. One man was killed, 24 were rescued and 12 are still missing after a methane explosion ripped through the mine, which was closed for failing a safety inspection. Last November another methane explosion killed 101 miners at the nearby Zasyadko coal mine.



▲ Prime Minister Yulia Tymoshenko with a miner at the Frunze coal mine in the Luhansk region. The government has announced plans to reform the sector.



Experts believe 75 percent of Ukraine's mines are vulnerable to methane explosions. Yet the same deadly greenhouse gas can be recovered. It is understood that the government is studying a number of proposals to do this; an initiative that would be welcomed by miners and environmentalists alike.

The reform plan announced by the government will deliver on one of the pledges of the Bloc of Yulia Tymoshenko's (BYuT) "Contract with Investors." BYuT views Ukraine's coal reserve as a strategic asset that needs to be developed with domestic and foreign investment and expertise.

"They are an essential part of an integrated energy strategy," said Coal Minister Viktor Poltavets, who suggested that the first privatisations could be the Lysychanskugol firm and the Volynugol mine.

Successive governments have talked a lot about revitalising the mines. In August 2007, the then prime minister, Viktor Yanukovich, said his government planned to increase coal production to 100 million tonnes by 2010.

In contrast, a growing chorus of critics, the World Bank among them, have called for half of Ukraine's mines to be closed. But Ukraine's energy intensive industry – steel in particular – is reliant on the country's black gold. With the price tag of \$50 per thousand cubic metres of natural gas now a distant memory, industry is looking for coal to bridge the gap and satisfy its voracious appetite for cheap energy.

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Although a sensible and practical privatisation of the coal industry is long overdue, the government may face an uphill struggle to implement its reforms. The State Property Fund appears hell-bent on stopping any privatisation that could swell the government's coffers. Its goal is to starve the Cabinet of Ministers of funds to prevent it repaying lost Soviet-era bank savings to millions of citizens; a miscalculated attempt to thwart the popularity of the premier ahead of the 2010 presidential election.

A Lasting Impression

Ms Tymoshenko's visit to the Frunze mine clearly left a lasting impression on the premier. Donning protective clothing and a hard hat, Ms Tymoshenko took the cage on a three-stage descent to reach coal seams at a depth of 980 metres.

"The impression is like descending to the Earth's core. It appears impossible conditions for normal work – temperature, humidity dustiness – but people work there to provide Ukraine with coal." She went on to describe the miners as "heroes."

Pressing home the need for reform, Ms Tymoshenko said, "I want the ministers to go down and experience the conditions in which these people work. They need to see it for themselves and appreciate what is given to supply Ukraine with coal."



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Bloc of Yulia Tymoshenko