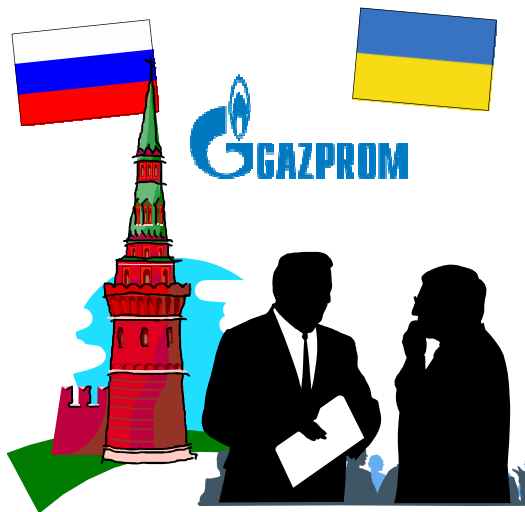




Stand-Off Over as New Talks Launched

Normal levels of gas supply were restored to Ukraine by the Russian state gas company, Gazprom, after its CEO, Alexi Miller, reached a settlement with Oleh Dubyna, CEO of Ukraine's Naftohaz Ukrainy.



Prior to the agreement, Gazprom reduced the level of gas supplied to Ukraine by 25 percent last Monday and a further 25 percent on Wednesday. The resumption of supply was reached as fears grew that gas supplies to Europe would be impacted. Western European countries are reliant on a quarter of their gas imports from Gazprom with 80 percent flowing through Naftohaz's pipelines.

"It was a game of brinkmanship and the Kremlin blinked first," was how Christopher Weafer, an analyst with Moscow's Uralsib investment bank,

described the stand-off.

According to a government statement, "The parties reached agreement that gas deliveries from January 1 to March 1, 2008 will be fully registered and repaid by Naftohaz of Ukraine according to the pattern effective by the beginning of the year."

Prime Minister Yulia Tymoshenko said, "I am very glad that Ukraine held out in this very complicated confrontation and has not gone back a step in key issues of national security."

The dispute centred upon a \$600 million unpaid gas bill and the lack of a contract governing gas consumed in 2008.

This week Naftohaz will resume meetings with Gazprom officials to hammer out a deal.

Major Sticking Point

On 12 February, Russian Federation President Vladimir Putin met with Ukrainian President Viktor Yushchenko in Moscow. The leaders agreed to establish two 50:50 ventures between Gazprom and Naftohaz for the import of Central Asian and Russian gas to Ukraine and for its onward sale inside the country.

The proposed replacement of intermediary companies RosUkrEnergo and UkrGazEnergo by the two new joint venture companies was rejected by Ms Tymoshenko, who has long campaigned against the need for any intermediaries in brokering gas supply agreements. Such companies are believed by many to be vehicles for siphoning off money into private pockets.



"The cabinet cannot agree with parts of the accord," read a letter from Ms Tymoshenko, "notably the replacement of one intermediary by another."

According to Ms Tymoshenko, Naftohaz aims to sign a direct contract with Gazprom Export, which holds contracts with Kazakhstan, Turkmenistan and Uzbekistan for the purchase of Central Asian gas.

"Our goal is for Naftohaz to contract for gas directly," said Ms Tymoshenko, who advocates long-term supply contracts for Ukraine. "We should put an end to the tradition of short-term contracts for several months. I consider that long-term contracts are what both the Ukrainian and Russian sides need."

The prime minister's uncompromising stance drew criticism from President Viktor Yushchenko who favours the new joint ventures.

While the Russians have agreed to the removal of RosUkrEnergo, the main interest of Gazprom is believed to be the partial control of Ukraine's domestic gas supply market and gas transit network.

Roman Kupchinsky, an energy analyst quoted by Radio Free Europe/Radio Liberty, said, "The intermediaries are not in Russia's interest either, as a country Russia loses taxes because of intermediaries, it gives away money for no good reason to intermediaries... Gazprom wants to get into the Ukrainian domestic market, it wants 50 percent of the market."

Recognising the importance of domestic distribution and the strategic value of Ukraine's international gas transportation network, Ms Tymoshenko claimed the February deal would only "preserve corrupt schemes and abuses, and lead to the bankruptcy of Naftohaz and so contradict national interests."

While last week was an undoubted success for Ms Tymoshenko, she was quick to play down what looks like a psychological victory and which Kommersant called "the first failure of Gazprom's foreign policy."

"This is not Ukraine vs. Russia, it's not about scoring political points. It's about finding common ground and reaching a transparent commercial agreement that will normalise our gas relations. I trust that we will have calm and balanced negotiations and will find a common will to achieve this goal," said Ms Tymoshenko.

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Prime Minister Yulia Tymoshenko. ►



Who is Kidding Who?

The month-long blockade of the speaker's podium in Ukraine's parliament, the Verkhovna Rada, came to an end last week. The protest, led by the Party of Regions and Communist Party, was allegedly over the "letter of three" signed by the president, prime minister and speaker, which represented a request for Ukraine to join the NATO Membership Action Plan (MAP). However, most observers believe the blockade was less about NATO and more a ploy to bring about the dissolution of the parliament.



The disruption came to an abrupt end on 6 March after a compromise agreement was signed. In the end the protesters, who had demanded an immediate referendum on NATO membership, settled for a resolution that any decision to join NATO would be based on a national referendum. Ironically, this has always been the agreed policy of both the Bloc of Yulia Tymoshenko (BYuT) and the pro-presidential Our Ukraine - People's Self-Defence (OU-PSD) bloc.

The Verkhovna Rada resumed its duties and passed at its plenary session the resolution, which was supported by 175 deputies from the Party of Regions, 34 from the BYuT, 19 from OU-PSD, and 20 from the Lytvyn Bloc. The 27 deputies

belonging to the Communist Party abstained from voting.

Yesterday's People

Looking and sounding like yesterday's people, Communist Party deputy Leonid Hrach summed up the mood of his faction, "We, the communists, do not play these dirty games. That is why we didn't sign the 6 March protocol on the understanding that we will not fall for the lies aimed to mislead the nation."

A somewhat crest-fallen Viktor Yanukovich, leader of the Party of Regions, vowed to take his protest to the streets saying that his party had "exhausted its options in finding ways to convince the Orange leaders of their hopeless position. Now we will turn to the nation for support."

With more than 50 percent of Ukrainians still opposed to joining NATO, Mr Yanukovich appears to be linking the request to join MAP with that of joining NATO. "Let our fellow countrymen ask the government why it does not want to consult with the nation on the viability of joining the MAP in conditions where society is not unified on this sensitive subject," said Mr Yanukovich.

"MAP is about closer integration of Euro-Atlantic structures and levels of cooperation. It is not related to any decision to join NATO, which, will of course, be put to a national referendum."

Vice Prime Minister ▶
Hryhorii Nemyria.



Vice Prime Minister Hryhorii Nemyria was quick to point out the differences. "MAP is about closer integration of Euro-Atlantic structures and levels of cooperation. It is not related to any decision to join NATO, which, will of course, be put to a national referendum."



Mr Nemyria reiterated the need for a public information campaign on the issue and quality dialogue. "It is insulting to the people for their leaders to pretend to know the answers without making an effort to educate the people and have a quality discussion; we haven't had a quality discussion yet."

So why the political posturing by the Party of Regions over NATO MAP?

Perhaps the real reason was spotted by Yuriy Yakimenko, Director of Political and Legal Programmes at the Razumkov Centre, Kyiv, who wrote: "The Party of Regions seeks to conclude an alliance with the pro-presidential Our Ukraine Bloc to change the coalition's composition. This is one of the major reasons for blocking the Verkhovna Rada, the Party of Regions would like to come to power again. But the point is that the majority of Our Ukraine members are not ready to build a coalition with the Party of Regions."

A No Win Situation for Regions

The longer the blockade went on without yielding results the worse the situation became for the former-prime minister, whose party's ratings dropped whilst BYuT's soared. Clearly he could not go on haemorrhaging public support indefinitely.

Furthermore, an orchestrated collapse of the Tymoshenko government would only see BYuT pick up even more seats in a snap election; perhaps even forcing the Lytvyn bloc and Communist Party under the three percent barrier needed to enter parliament. In any event, it is unlikely the political landscape would change dramatically. The odds are that a democratic coalition would again be formed with a slender majority. And while much has been written about wafer thin majorities, it is worth noting that, before the recent blockade, the democratic coalition managed to pass resolutions without difficulty.

As one commentator said, "Why should Ukraine be a special case? Other countries have slim majorities and function perfectly well." Germany is a case in point.

Using the non-functioning of parliament as a pretext to topple the government would also be a disaster for the president's policy of EU integration. A short-lived government and snap election would undermine the credibility of Ukraine in the eyes of exasperated EU officials who have called for a period of stability if Ukraine's European aspirations are to be taken seriously.

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