

Stormy Relations between Kiev and Moscow

Conflict over Energy Policy and External Security

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Conflicts over gas supplies and Kiev's overtures to NATO are currently placing great strain on relations between Ukraine and Russia. The energy compromise reached in mid-March will not last beyond the end of this year, and Moscow will continue to oppose any plans to integrate Ukraine in the western alliances of NATO and the EU, arguing that this move would disrupt Europe's security architecture. And the Ukrainian political class is divided, with energetic opposition protests against the government's plans to join NATO paralyzing parliament for weeks. Energy policy and Ukraine's geopolitical orientation are the central conflicts in Ukrainian-Russian relations, with considerable repercussions on the member states of NATO and the EU. Both organizations should intensify and interlink their cooperation with Moscow and Kiev.

On February 12, 2008, Russian President Vladimir Putin and his Ukrainian counterpart Viktor Yushchenko called for speedy resolution of the gas conflict between the two countries, which flared up at the beginning of the year after Ukraine had got into payment arrears. But at the beginning of March Gazprom nonetheless briefly reduced the flow of gas into Ukraine by almost 60 percent. Only after Ukraine threatened to interrupt supplies to the EU did the two sides agree on a gas price of \$179.50 per thousand cubic meters for 2008. This leaves Ukraine paying considerably more than in 2007 (\$130) but for the moment less than the current European

market price (\$315). It was also agreed that energy trading between Russia, Central Asia, and Ukraine would no longer be left to the trading company RosUkrEnergo (RUE). Until then RUE, half of which is owned by Gazprom and half by Ukrainian businessmen, had been supplying Ukrainian consumers through its subsidiary UkrGasEnergo (UGE), and had given preferential treatment to large industrial customers in the south of the country.

Conflict over Energy Security

Bringing gas imports back under the control of the Ukrainian state and having the

country's future energy imports handled directly by the state-owned oil and gas company Naftogas Ukrainy (NGU) was a declared goal of Prime Minister Yulia Tymoshenko. Unlike Yushchenko she was not willing to accept RUE's role continuing temporarily. So NGU knew it could count on government backing when, at the beginning of March 2008, it refused to pay Gazprom for gas supplies until new contracts had been signed and a direct relationship with Gazprom had been arranged.

The Russian government and Gazprom insisted that Ukraine pay off the huge debts it had amassed, but Moscow had no interest in causing further harm to its reputation in the West—which had already been damaged by a string of crises.

In future, under the compromise agreed on March 13, 2008, NGU will be the main recipient of gas supplies at Ukraine's external border. Gazprom promises to supply 7,500 million m³ of gas to Ukraine between April and December 2008, which corresponds to about 10 percent of Ukraine's gas demand. However, for the moment it remains unclear whether RUE will be completely shut out. There is good reason to believe that gas deals between Gazprom—as the supplier of Russian and Central Asian gas—and Ukraine might still be handled via an intermediary in 2008, because the agreement specifies that Gazprom will receive a 25 percent share in the Ukrainian distribution network and will thus be in a position to supply large customers directly or through “companies affiliated with Gazprom.” Initially the Ukrainian supply will comprise one quarter more expensive Russian gas (\$321 per 1,000 m³ for January and February 2008) and three quarters cheaper Central Asian gas (\$179.50 per 1,000 m³). So for the moment the price would remain below the world market level.

Trouble Ahead

Russia's Gazprom would like to see Ukraine paying world market prices for gas by 2011 at the latest. The negotiated price concept

only applies for 2008, because by 2009 the Central Asian states will be demanding considerably higher prices. Turkmenistan has already announced an increase from the current price of \$130–150 per 1,000 m³ to “at least” \$250–270 from January 2009. In view of its current financial crisis, this price perspective poses great difficulties for the Ukrainian government. As well as considerably higher prices, next year Ukraine will also be faced with new and much tougher negotiations with Gazprom, because Russia will have to start paying “European prices” to the Central Asian states too. Higher prices will force Gazprom to make large investments and open up new gas fields. The era of cheap gas is coming to an end for both Russia and Ukraine. Because there is no reliable system of treaties and contracts, stable energy relations between Russia and Ukraine cannot be expected in the foreseeable future—a state of affairs that will surely impact on the EU energy market by next winter at the latest, possibly with new and longer interruptions to supplies.

The conflict between Gazprom and Ukraine will come to a head at the same time as the beginning of the presidential election campaign in Ukraine, which could see Yushchenko and Tymoshenko facing off as rivals. Relations between the two are already tense. When the prime minister stated the new price for Russian gas in public for the first time (\$321) Yushchenko accused her of “plotting” and “lying.”

The much-evoked unity between president, government, and parliament has evaporated of late. Mutual recriminations and the very public nature of the gas conflict with Russia have laid open the divisions between Yushchenko and Tymoshenko for all to see. Alongside the real financial difficulties caused by rising energy costs, these domestic political rivalries and electioneering tactics could lead to a domestic Ukrainian conflict, which is already brewing for 2009, the year of elections and price hikes.

Conflict over External Security

A second conflict between Ukraine and Russia is looming in the field of foreign and security policy, despite the Ukrainian government chalking up some important foreign policy successes: a) completing WTO accession talks in January 2008; b) conducting six successful rounds of negotiations preparing the “enhanced agreement” between the EU and Ukraine; c) opening negotiations with the EU on a Deep and Comprehensive Free Trade Area in February 2008; and d) reaching agreement with the EU on cooperation in EU-led crisis management operations. But Moscow has been eyeing these developments suspiciously, in particular sharply rejecting plans for Ukraine to join NATO. The outgoing Russian president, Vladimir Putin, fuelled the flames of the Ukraine debate about its government’s NATO-joining ambitions by calling the possibility of a decision being made against the NATO-skeptical opinion of the majority of the Ukrainian population “undemocratic” and speaking of the possibility of Russian missiles being aimed at targets on Ukrainian territory if a “Western missile defense system” were to be set up there. Sergei Karaganov, a Russian political analyst with close ties to the Kremlin, inflamed the discussion still further in an article for *Rossiyskaya Gazeta* (March 26, 2008) warning that an “acute and unavoidable political confrontation (perhaps even with a military/political component)” would follow if Ukraine were to join NATO. Such a step would turn the people of Ukraine into “cannon fodder,” he added. More moderate tones were heard from Russia’s ambassador to Kiev, Viktor Chernomyrdin, who said that Moscow would have to “rethink” its relationship with its southern neighbor if NATO really were to open up a clear perspective of membership to Ukraine. President-elect Dmitri Medvedev was also more guarded, warning of a “danger to the present European security system.” Following the EU’s recognition of Kosovo, which had massively affected Russia’s interests in the Balkans, he said,

Moscow would have regarded the approval of a NATO Membership Action Plan (MAP) at the organization’s Bucharest summit in early April as a provocation by the West.

Here it suited Russia perfectly that NATO is itself divided over the issue. NATO Secretary-General Jaap de Hoop Scheffer had to point out that there were two opposing positions within the alliance when he met Ukrainian foreign minister Volodymyr Ohryzko on January 18, 2008. While Germany, France, Italy, the Netherlands, Belgium, and Luxembourg tended to be less enthusiastic about the possibility of agreeing a MAP at the Bucharest meeting and pointed to the weak level of popular support in the country, the United States and Canada were joined by Poland, Bulgaria, Romania, Lithuania, Estonia, Latvia, Slovakia, the Czech Republic, and Slovenia in calling for Ukraine to be offered a MAP at the summit.

Ukrainian supporters of NATO expansion are already worrying about the possibility of a revival of the “Moscow–Berlin–Paris” axis that would enable Russia to play off EU member states against one another. Even after the MAP decision was postponed until the meeting of NATO foreign ministers in December 2009, a confrontative tone currently continues to dominate Ukrainian-Russian relations. Ukrainian President Yushchenko’s decision to recall his ambassadors from Berlin and Moscow immediately after the NATO summit showed that he was severely displeased with NATO’s decision.

Foreign Policy as Domestic Conflict

No other question currently divides Ukraine’s political elite as sharply as that of the country’s foreign policy stance, with a veritable gulf between the president and the government camp on the one side and the opposition parties and their shadow cabinet on the other. In a letter to the NATO secretary-general on January 15, 2008, signed by the Ukrainian president, prime minister, and parliamentary speaker,

the Ukrainian leadership clearly signaled its willingness to bring Ukraine quickly closer to NATO, asking for a MAP to be granted at the Bucharest summit.

How radically the opposition objects to the NATO perspective is best illustrated by the paralysis of the Verkhovna Rada. From its election on September 30, 2007, until mid-March 2008, the Ukrainian parliament managed to meet just twenty times. Largely because of the sometimes tumultuous anti-NATO protests organized since January by the opposition (Party of the Regions and Communists), the work of the Ukrainian legislature repeatedly been deadlocked. If a MAP is granted quickly there are bound to be months of conflict in the Rada and a massive domestic political crisis in Ukraine would be almost inevitable. The election campaign that has just begun—accompanied by a reshuffle of the party spectrum and the governing coalition—is already dominated by the issues of energy policy and external security.

Deepen Relations with Kiev *and* Moscow

Germany, the EU, and NATO should concentrate on fostering Ukraine's political and economic stability, urging the implementation and consolidation of existing agreements as the precondition for further integration, and defending this policy vigorously to Moscow. A political crisis in Ukraine that dragged on until the presidential elections would certainly reduce Ukraine's chances of integration. In 2008 it will be crucial to intensify the EU-Ukraine Action Plan and get the "enhanced agreement" ready for signing. Bilateral relations must be strengthened too. The agreement of March 26, 2008, between Germany and Ukraine provides generous credit terms for Ukraine to increase energy efficiency. Additionally, with an eye to the price hikes in 2009, the idea of a Russia/Ukraine/EU gas consortium should be revived with a view to finding contractual arrangements for these crisis-prone energy relationships.

In the field of security policy, relations between NATO and Ukraine should be further intensified in advance of NATO's sixtieth anniversary summit in 2009 in Strasbourg and Kehl, with Russia kept in the loop via the NATO-Russia Council. NATO must cease to discuss its relationships with Ukraine and NATO exclusively as two separate matters. Nobody—not even Russia—doubts that in the longer term Ukraine is set for Western integration. The Ukrainians can be given practical assistance in at least three fields: 1. Expanding knowledge about NATO within Ukraine; 2. Improving the English language skills among Ukrainian military officers; and 3. disentangling the Ukrainian and Russian arms industries. The idea of bringing Ukraine into the European Security and Defense Policy step by step should be considered.

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