The January 2009 Russia-Ukraine Crisis: contextual background

Professor Jonathan Stern
Director of Gas Research
Oxford Institute for Energy Studies

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Natural Gas Supply and Transit Problems Between Russia and Western CIS countries

1990s: chaotic decade of trade and transit; many disputes, stoppages of deliveries and diversion of volumes in transit

2000s: less chaotic decade but with landmark transit interruption events:

- January 2004: Belarus
- January 2006: Ukraine and Moldova
- March 2008: Ukraine
- January 2009: Ukraine
Putin-Timoshenko Gas Deal: October 2008

- Import prices and transit tariffs to reach “market, economically based” levels by 2011
  ...understood as, European netback prices

- Gazprom to sell central Asian gas to Naftogaz Ukrainy
  ... so RosuUkrEnergo would lose its transit role

- Gazprom allowed to sell gas directly in Ukrainian market

- Ukraine to pay off debts by 31.10.08
Why the October 2008 agreement failed: economic background

Russia

- Oil prices were crashing down from $140/bbl
- 2009 European gas prices would follow oil prices down, with serious consequences for Gazprom’s revenues
- State remains heavily dependent on oil and gas
- Little room to compromise on CIS import prices

Ukraine

- Industrial production down 26.6% year-on-year to December
- Possible silver lining: gas demand falling
- Adverse terms of trade: steel prices falling, gas import prices rising
- Extremely vulnerable in the financial meltdown
The Crisis: political background

UKRAINE:
- Competition between President Yushchenko and PM Timoshenko
- “Oligarchs” said to be aligned with different leaders

RUSSIA-UKRAINE:
- Antipathy of Kremlin to Victor Yushchenko;
- Kremlin heavily backed and organised his opponent’s campaign eventually leading to the Orange Revolution and Yushchenko’s..
- subsequent pro-EU/NATO orientation including support for Georgia in August 2008 conflict
Last Days of 2008: events

Ukraine:
- left it to the last moment to pay its debts 30/12 (non-payment of $614m disputed)
- sent a letter threatening to divert gas bound for Europe (a reminder of 2006)
- used gas from storage while hoping for the price to come down

Russia
- warned repeatedly that gas would be cut off unless debts were paid and 2009 prices agreed

ECT and IMF:
- The Energy Charter SG reminded all sides of their obligations and offered conciliation
- The IMF confirmed that Ukraine had sufficient money to pay its debts for gas
A Chronology of the Crisis: January 1-6, 2009

STAGE 1 - January 1-6:
- Supplies to Ukraine cut off
- Supplies to Europe continue at nearly normal levels until televised “discussion” shows prime minister Putin instructing Gazprom’s Miller to reduce/cut off all flows possibly due to:
  - customs issues;
  - decision of the Kiev court to set declare 2003-13 transit contract null and void
Chronology of the Crisis: January 7-22, 2009

STAGE 2 – January 7-22
- 7: supplies to Europe cut off
- 11: EU monitors deployed but no gas flows
- 17-18: Political agreement reached
- 19: 10 year supply and transit contracts signed
- 20: European gas flows restart
- 22: European gas flows returning to normal

Gas flows to Europe – 80% of Russian gas supplies - cut off for two weeks
Key Unexpected Development

Ukrainian ability to run its transportation network in reverse mode ie from the storages to the customers in eastern Ukraine which meant:

- Ukraine could withstand a gas interruption for much longer than projected
- Any transit pipelines running in reverse mode could not (by definition) deliver gas to Europe

Flows not monitored by the Mission
2009 RUSSIA-UKRAINE CRISIS WAS THE MOST SERIOUS GAS SECURITY INCIDENT EVER EXPERIENCED IN EUROPE AND ONE OF THE MOST SERIOUS ENERGY SECURITY INCIDENTS

EUROPE LOST 20% OF ITS GAS SUPPLIES FOR TWO WEEKS IN THE MIDDLE OF WINTER; MANY SOUTH EAST EUROPEAN/BALKAN COUNTRIES LOST NEARLY 100% OF GAS SUPPLIES
Some Major Issues Arising from Events of 2009

- Was Ukraine in breach of its ECT obligations?
- Why was the ECT dispute resolution mechanism never triggered?
- Could Russia have triggered dispute resolution?
- Monitoring mission what contribution did it make; could it have made; could it make in the future?
- Impact of Russian withdrawal from the Charter Treaty on future transit disputes
Published Research by OIES on Russia/CIS Gas Transit

- *The Russia-Ukraine Gas Crisis*, Jonathan Stern, January 2006

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