



The January 2009 Russia-Ukraine Crisis: contextual background

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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 RosUkrEnergo 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
- *The 2007 Russia-Belarus gas agreement*, Katja Yafimava and Jonathan Stern, January 2007
- *The Russo-Ukrainian Gas Dispute of January 2009*, Simon Pirani, Jonathan Stern, Katja Yafimava

Free downloads from www.oxfordenergy.org

Russian and CIS Gas Markets and Their Impact on Europe, ed. Simon Pirani, Oxford University Press, 2009