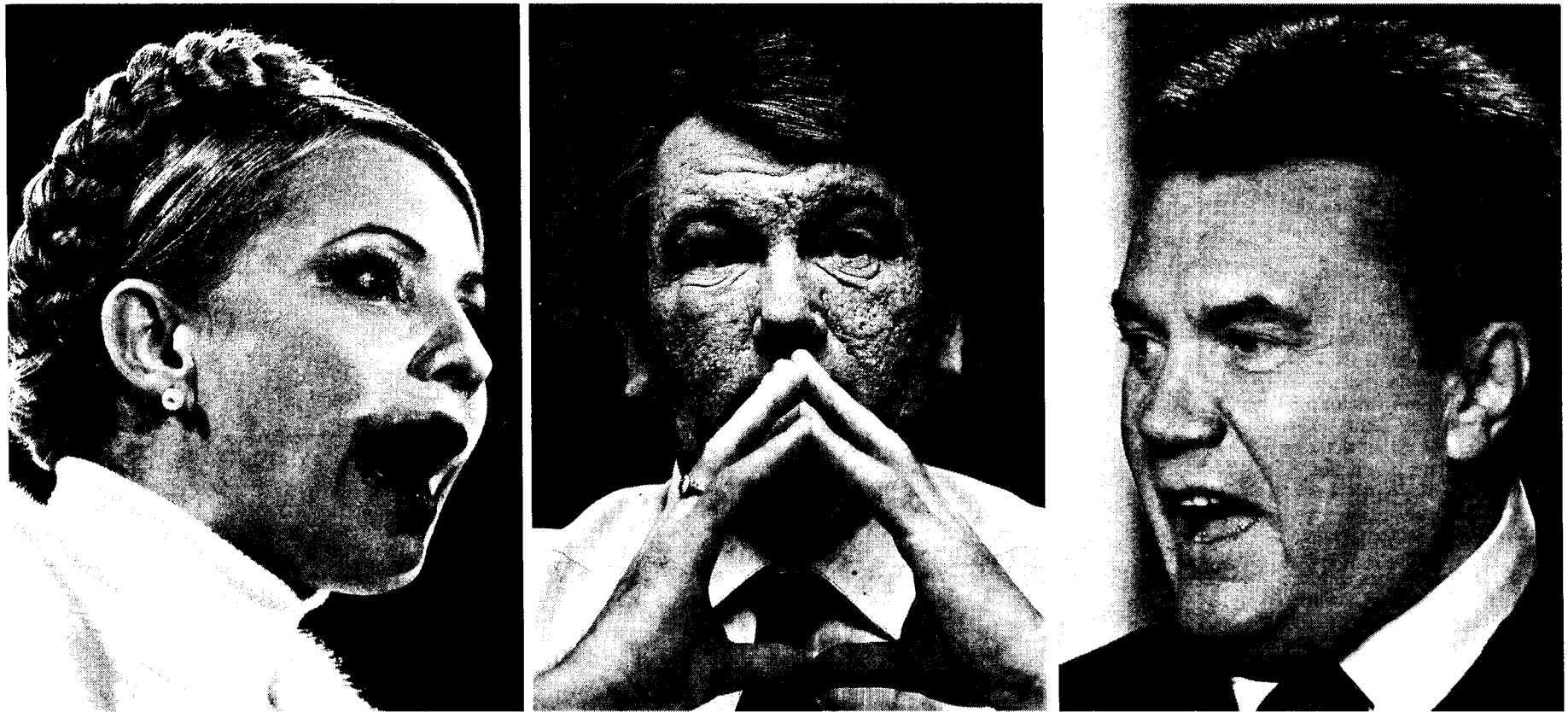


Ukraine — split by elections ✓

The inconclusive vote creates new opportunities for Russia and the West to influence political processes in the second biggest Soviet republic. ✓



THREE IS A CROWD: Ukraine's warring leaders, Yulia Tymoshenko, Viktor Yushchenko, and Viktor Yanukovich. — PHOTO: AFP

Vladimir Radyuhin

THE RESULTS of the March 26 parliamentary poll in Ukraine published on Friday showed that the country remains politically split along geographic and ethnic lines into the Russian-speaking south-east and the Europe-oriented north-west.

The split was first highlighted in the presidential election at the end of 2004, when the Russian-speaking south-east voted for the Russia-backed Viktor Yanukovich, then Prime Minister, while the north-west supported the pro-Western former Prime Minister, Viktor Yushchenko. Mr. Yanukovich won the runoff, but was stripped of his victory by court following massive street protests against alleged vote rigging. A re-vote held on a high wave of the heady "orange revolution" gave victory to Mr. Yushchenko with 52 per cent of the vote, but also confirmed the split: the new President received massive support in the north-west, while the south-east solidly voted for Mr. Yanukovich, who got 44 per cent.

In the election to Parliament last month Mr. Yanukovich took revenge, benefiting from a steep economic decline, infighting, and corruption scandals that hit the "orange" government. His party came in first with over 32 per cent of the vote, against less

than 14 per cent for Mr. Yushchenko's Our Ukraine. The geographical pattern of the vote was exactly the same as in 2004, even though the "orange" support in the north-west this time was divided between the President and his estranged ally, the former Prime Minister, Yulia Tymoshenko, who finished second with over 22 per cent of the vote.

The current divisions in Ukraine run along historical fault lines. The country's south-eastern provinces were part of Russia and then the Soviet Union for 350 years, while western Ukraine for long stretches of history was under the rule of Austro-Hungary and Poland.

"Orange" policies of the past year have done little to narrow the split. Mr. Yushchenko's goal of joining NATO and the European Union met with enthusiastic response in the west, but was rejected in the south-east, which is focussed on closer ties with Russia. Kiev's aggressive policy of imposing the Ukrainian language on the Russian-speaking provinces has created new tensions.

With no party winning a majority in Parliament in the March poll, President Yushchenko has a chance to try and reunite the country by forming a coalition with Mr. Yanukovich's Party of the Regions. On the oth-

er hand, if he recreates an "orange" coalition with Ms. Tymoshenko, this could fossilise Ukraine's split. Both choices are bad for Mr. Yushchenko. An alliance with his political opponent, Mr. Yanukovich, can destroy Mr. Yushchenko's "orange revolution" credentials among his pro-Western constituencies. A coalition with Ms. Tymoshenko, a far more charismatic and determined leader, whom he fired from the post of Prime Minister last September in a bitter fight for power, is likely to eclipse Mr. Yushchenko altogether. What makes his dilemma particularly hard is that after the March vote Ukraine becomes a parliamentary, rather than a presidential republic, with Parliament and the Prime Minister gaining more powers than the President.

Ukraine's inconclusive vote creates new opportunities for Russia and the West to influence political processes in the second biggest Soviet republic.

Drawing lessons from its heavy-handed involvement in Ukraine's 2004 presidential election on the side of Mr. Yanukovich, Russia this time stayed out of the fray and expressed readiness to cooperate with any government in Kiev. At the same time, Moscow bluntly told Kiev it would not pay for Ukraine's drift towards NATO and the EU with cheap natural gas supplies. Three

months ahead of the parliamentary poll, Russia nearly doubled the price of its gas for Ukraine, and reserved the right for further price hikes.

For its part, the West is pushing for an "orange" coalition in Ukraine that will pursue Euro-Atlantic integration even though this course offers few economic or political prospects. Ukraine's economy depends on Russian energy supplies and the Russian market for its exports. Moreover, 80 per cent of the country's GDP is generated in the pro-Russian south-east. The West keeps dangling before Kiev the carrot of membership in the EU, but tells it to wait for at least 15 to 20 years. Instead, the United States is working hard to drag Ukraine into NATO, promising this would facilitate Kiev's EU bid. It is this kind of policy that can deepen the political split of Ukraine, where a strong majority of the population is opposed to NATO membership.

Russia is deeply suspicious of the West's motives in Ukraine in the light of the role NATO and the U.S. played in the break-up of Yugoslavia and Serbia. Many Russian politicians and analysts are convinced the West is tearing up Serbia, Russia's traditional Slavic ally, in order to cut off Russia from Europe. They fear the West has similar goals in Ukraine.

02 APR 2006

THE HINDU

Split vote in Ukraine

Pro-Russian Yanukovich grabs the biggest share

Vladimir Radyuhin

MOSCOW: Early returns in Ukraine's parliamentary poll on Sunday show that pro-Russian Opposition leader Viktor Yanukovich has grabbed the biggest share of votes, but fell short of a majority enough to form a Government.

With just over 35 per cent of the votes counted by Monday afternoon the Party of the Regions led by Mr. Yanukovich captured the lead in the 45-party race with close to 27 per cent followed by the bloc of the former Prime Minister, Yulia Timoshenko, with less than 24 per cent and President Viktor Yushchenko's Our Ukraine Party with over 16 per cent. Two other parties have also cleared the 3 per cent threshold to make it to Parliament.

The split vote dictates the need for the winners to forge a coalition in the 450-member Verhovna Rada to form government.

Charismatic leader

Ms. Timoshenko, the charismatic leader of the pro-Western "orange revolution" which paved the way for Mr. Yushchenko's presidency in late 2004, has already laid claim to the post of Prime Minister confidently predicting her coalition with President Yushchenko's party.

Mr. Yushchenko, whose third place in the poll amounts to a humiliating defeat, faces a hard choice between his former ally, Ms. Timoshenko, whom he sacked as Prime Minister several months after the "orange revolution," and his former rival, Mr. Yanukovich.

28 MAR 2006

THE HINDU

Belarus Opp leader held in cop-protester clash

Associated Press

MINSK, March 25. — Riot police wielding truncheons clashed today with protesters who held a defiant rally against the disputed election that extended the rule of Belarus' hard-line President Alexander Lukashenko.

Many protesters were detained, including one of the Opposition leaders, Mr Alexander Kozulin.

The clash occurred after a gauntlet of riot police blocked the path of protesters marching to a jail where demonstrators arrested in previous protests were being held. Police beat their shields with truncheons and advanced on the crowd.

Four explosions ripped through the air, apparently percussion grenades set off by police, and protesters began to disperse, yelling: "Fascists!"

But police detained at least a score of people, loading them into trucks. At least two people lay injured on the ground, and one was seen being taken away by ambulance.

Earlier, rows of black-clad police blocked the central Oktyabrskaya Square where Opposition leaders had called for a midday rally. Officers pushed the crowd of about 3,000 back in a bid to end a week of unprecedented protests in

USA plans sanctions

WASHINGTON, March 25. — The USA has said it would impose sanctions against Belarus for a crackdown on political protesters after an election that the West, including America, alleged was "fraudulent". The announcement of sanctions, but only with bare details, came from both the White House and State Department. **PTI**

the tightly controlled former Soviet republic. Demonstrators shouted "Sham-us!" and "Long live Belarus!" On the other side of the sprawling square, Opposition leader Mr Alexander Milinkevich led another crowd of several thousand to a nearby park, where he announced "the creation of a movement for the liberation of Belarus".

The authorities can only confront the striving of the people for change with persecution and violence," Mr Milinkevich told the crowd, which grew to as many as 7,000 people.

"The people have come out today, they have come out in the face of truncheons, in the face of arrests," Mr Milinkevich said. "The more the authorities conduct repression, the closer they bring themselves to their end." Mr Milinkevich praised Belar-

usians who have protested since the 19 March election, but acknowledged that their numbers are not enough to defeat Mr Lukashenko's government.

"We can be proud of what we have already done: Fear is vanquished," he said. "But today there are not 200,000 or 500,000 of us coming out into the square. If there were, they (the authorities) would run away from the country." We are starting work against dictatorship, and this work will sooner or later bear its fruit," he said.

The tense scenes came a day after police stormed a tent camp in Oktyabrskaya Square that had been the focus of round-the-clock protests over the election in which Mr Lukashenko won a new five-year-term by a landslide in a vote the Opposition denounced as a farce and the West criticised as undemocratic.

Mr Milinkevich, who officially received about 6 per cent of the vote and wants a new election without the participation of Mr Lukashenko, had been calling all week for a major demonstration today, marking the anniversary of Belarus' first independence declaration in 1918.

Police took no action against the park rally, and did not prevent people from joining it.



Belarus Opposition supporters scuffle with the riot police during their march on Nezalezhnosti (Independence) Avenue in Minsk on Saturday. **AFP**

Man with Russia tilt may win Russia polls

KIEV (Ukraine), March 25. — Ukraine's efforts to move closer to the West could face a setback in tomorrow's parliamentary elections, with an Opposition leader advocating closer ties with Russia poised to win the most votes.

Coming on top of constitutional reform that trimmed presidential powers and gave a broader authority to parliament, the vote could potentially allow Mr Viktor Yanukovich, who lost the contested 2004 presidential elections, to alter the nation's pro-Western course and seek improved ties with Moscow.

Amid disillusionment over the sharp slowdown in economic growth, President Viktor Yushchenko's party is in the doldrums and Mr Yanukovich's fortunes have dramatically recovered since he was accused 16 months ago of rigging the presidential vote.

Mr Yanukovich, who enjoys broad support in Ukraine's Russian-speaking industrialised east and ties to its powerful tycoons, is set to secure a comfortable lead for his party. **AP**

Belarus quashes protest

Opposition leader vows to continue fight

MINSK: Belarus quashed an unprecedented mass protest against President Alexander Lukashenko here on Friday, smashing a tent camp, arresting hundreds of Opposition supporters and triggering an angry response from the West.

About 100 black-helmeted riot police swooped on October Square in central Minsk in the dead of night and carried or herded protesters into green trucks with barred windows. There was no violence or resistance.

Colonel Yury Podobed, who headed the operation, was quoted by Moscow Echo radio saying: "The revolution is over."

But top Opposition leader Alexander Milinkevich vowed to continue his fight to have Mr. Lukashenko's landslide reelection victory last Sunday annulled.

He accused the Government of using "the language of repression" and said a rally planned for Saturday would go ahead.

The sweep brought sharp condemnation from the European Union, whose leaders agreed at a summit in Brussels to widen sanctions on the regime. Without spelling out the nature of the measures, the Austrian E.U. presidency said they would broaden restrictions beyond the six visa bans now in place on Belarus officials.



A woman being detained by a police officer on the Oktyabrskaya Square in Minsk on Friday. - PHOTO: AP

The summit "decided to take restrictive measures against those responsible for violations of international electoral standards, including President Lukashenko," Austrian Foreign Minister Ursula Plassnik said.

25 MAR 2006

Belarus police break up opposition protests

Minsk: Police stormed the opposition tent camp in the Belarusian capital Minsk early Friday morning, detaining hundreds of demonstrators who had spent a fourth night in a central square to protest President Alexander Lukashenko's victory in a disputed election.

The arrests came after a half dozen large police trucks and around 100 helmeted riot police with clubs pulled up to Oktyabrskaya Square in central Minsk about 3 am. The police stood around for a few minutes and then barged into the tent camp filled with protesters.

They first wrestled about 50 resisting demonstrators into the trucks. The rest of the 200 to 300 demonstrators then filed into the trucks quietly, seeing that the end had come for the days-long protest that was unprecedented in the authoritarian ex-Soviet state.

Journalists were kept about 20 meters away behind police lines, and it was unclear whether police gave protesters a chance to disperse on their own before they were arrested and bundled into the trucks.

The police had long truncheons, but were not seen beating demonstrators, as they had done often when breaking up smaller opposition rallies in past years. One local journalist said she saw police kick a few demonstrators who fell as they were being hustled into the truck.

By the end of the 10-15 minute operation, all of the protesters had been taken away, leaving only the remains of their encampment—about 20 backpacker-type tents, blankets, thermoses, refuse and several of the red-and-white flags that the demonstrators had waved. The flags were post-Soviet Belarus' official standard, but under Lukashenko they were scrapped for a flag restoring Soviet-era designs. City workers soon began throwing the remains of the camp

into dump trucks, aided by two bulldozers scooping up debris. A stray dog wandered in during the operation and scrounged for food in what was left of the camp.

The raid left in doubt the prospects for the opposition forces who had rallied behind presidential candidate Alexander Milinkevich, who wanted a rerun of the election without the participation of Lukashenko, whose election he contends was unconstitutional because he was allowed to run



Many supporters of opposition leader Alexander Milinkevich were detained in the early morning raid

for a third term after a fraudulent referendum in 2004 abolished presidential term limits.

"The authorities are destroying freedom, truth and justice. There was only enough democracy for three days and this shows the essence of the regime that has been established in Belarus," Milinkevich said after the storming. AP

Belarus Opp rejects poll results

Associated Press

MINSK, March 19. — The main opposition candidate in Belarus said he would not recognise the results of today's presidential election, urging a repeat election and calling for protests after polls closed.

The statement by Mr Alexander Milinkevich stoked concerns of a violent confrontation between Opposition supporters and the forces of hard-line President Alexander Luka-

shenko, who have banned election-day demonstrations. "These elections will be recognised neither by us nor by democratic countries," Mr Milinkevich told a news conference.

He spoke hours after exit polls by two groups that critics say are loyal to Mr Lukashenko projected the incumbent would get more than 80 per cent of the vote. The polls were released only two hours after voting began.

"People will laugh at

those figures. In Poland people began laughing at communist authorities and this is when Solidarity won. We are getting there," he said. "I won't be surprised if someone allows himself to claim 120 per cent." He repeated his calls for a peaceful protest.

Mr Lukashenko has vowed to prevent the kind of mass rallies that helped bring Opposition leaders to power in Ukraine, Georgia and Kyrgyzstan following disputed elections.

20 MAR 2006

Russia, Ukraine leaders clear the air

Gas agreement fair and legitimate, say leaders



REDUCING TENSIONS: Russian President Vladimir Putin (left) and Ukrainian President Viktor Yushchenko, during a meeting in Astana, Kazakhstan, on Wednesday. — PHOTO: AP

Vladimir Radyuhin

MOSCOW: During their first meeting in 12 months, Presidents of Russia and Ukraine, Vladimir Putin and Viktor Yushchenko cleared the air in bilateral relations poisoned by a bitter dispute over the price of gas Russia supplies to Ukraine.

Meeting in Astana, Kazakhstan, on the sidelines of President Nursultan Nazarbayev's inauguration on Wednesday, the Russian and Ukrainian leaders hailed the recent gas agreement as fair and legitimate.

Mr. Putin said the agreement, which raised the price of Russian gas for Ukraine by 90 per cent, had been compiled "with full

respect for the interests of both sides," while Mr. Yushchenko said the deal "suits everybody."

Russian delegation sources said Mr. Yushchenko backed away from his earlier threat to raise the fee for the Russian Black Sea fleet base in Sevastopol. Mr. Yushchenko said the two sides were "close" to signing a border delimitation pact on disputed sections in the Azov Sea and the Black Sea.

The two sides also agreed to reconvene a joint committee on trade and economic ties and to intensify cooperation in the nuclear energy sphere.

Mr. Putin said Ukraine's Prime Minister Yuri Yekhanurov will visit Moscow shortly.

House ousts Ukraine govt over gas deal

Kiev, Jan. 10 (Reuters): Ukraine's parliament voted today to sack the government over a controversial gas deal with Russia, plunging the country into a crisis just two months ahead of a parliamentary poll.

A no-confidence motion was backed by 250 deputies in the 450-seat parliament, angry over the deal that will force Ukraine to pay nearly twice as much for its gas imports this year.

President Viktor Yushchenko, on a trip to Kazakhstan, said he believed the vote to oust his government was unconstitutional. His lawyers in Kiev said it was binding.

Prime Minister Yuri Yekhanurov, who will remain as acting premier until Yushchenko names a replacement, said he would do everything he could to prevent any impact on the gas deal with Russia which followed acrimonious negotiations.

Moscow cut off gas to Ukraine for two days at the start of the year, also hitting supplies to customers in the West.

The vote is the latest blow to Yushchenko who came to power on the back of popular protests but who has spent his first year in office battling poor economic growth and corruption scandals.

And it comes ahead of a parliamentary election in March when his supporters will struggle to beat off a challenge by the Opposition.

"This is an attempt by political Opposition in Ukraine to seize political initiative

from President Yushchenko's camp ahead of the March election," said CSFB economist Sergei Voloboev.

Officials said a new government could emerge only after the poll. "The absurdness of the situation is that neither the President nor parliament will be able to form a new government until a new parliament is elected," justice minister Serhiy Golovaty said after the vote.

He said the parliamentary vote was binding. Mykola Poludenny, the

presidential legal adviser, was quoted by *Ukrainska Pravda* web site as saying the vote was legal and parliament had enough powers to sack the government. Yekhanurov is seen as a long-term ally of the President.

A main driving force behind the no-confidence vote was former Prime Minister Yulia Tymoshenko, sacked by Yushchenko last September after the partnership that swept them to power in Ukraine's Orange Revolution turned sour.



Former Prime Minister Yulia Tymoshenko speaks at a news conference in Kiev. (Reuters)

The New York Times
nytimes.com

January 5, 2006

Russia and Ukraine Reach Compromise on Natural Gas

By ANDREW E. KRAMER

KIEV, Ukraine, Jan. 4 - Ukraine and Russia settled their dispute over the price of natural gas Wednesday with a deal that allowed both countries to save face, although Ukraine walked away with cheaper prices than most of Russia's other gas customers.

President Vladimir V. Putin of Russia paid a stiff political price as his country's natural gas company, Gazprom, backpedaled on ultimatums of a gas embargo against Ukraine under pressure from European leaders who questioned the Kremlin's reliability as an energy provider.

But Mr. Putin, speaking at his dacha outside Moscow, sought to calm those fears, calling the settlement a guarantee of energy supplies to Europe. "I think undoubtedly this success will have a positive effect on the whole sphere of Russian-Ukrainian relations," Mr. Putin said. "We can work not just with each other but also together in the market of third countries."

Ukraine's gas bill will about double next year, and the solution entangles Kiev in a complicated deal that surrenders control over its natural gas imports to an offshore company with a shady history even by post-Soviet standards.

"I have nothing consolatory to say," Ukraine's prime minister, Yury I. Yekhanurov, said at a news conference here. "Ukraine will have to pay more."

The countries settled the argument by naming RosUkrEnergo, a company now owned 50 percent by Gazprom and 50 percent by an Austrian-based shell company with unknown beneficiaries, as the exclusive supplier of natural gas to Ukraine.

Under the deal, Russia will sell natural gas to this intermediary at the price it had demanded from Ukraine, \$230 per 1,000 cubic meters, while Ukraine will buy gas from that company for \$95. Ukraine has been paying \$50 per 1,000 cubic meters. The company will balance out the price at \$95 by selling Ukraine less of the expensive Russian natural gas and a greater volume of lower priced gas from Central Asia.

At the center of the deal is an energy trading company that for a decade, under various names, has shipped natural gas to Ukraine from Central Asia, exploiting the price differentials in former Soviet markets and making billions of dollars in profits for its unnamed owners.

Exactly who will benefit financially from the new arrangement is obscured by the mysterious nature of RosUkrEnergo, despite vague promises by Ukrainian officials that the company will be reformed in the months ahead to fulfill its new role.

"We have reached an agreement that is mutually beneficial and therefore mutually acceptable," Oleksiy Ivchenko, the director of Ukraine's natural gas company, Naftogaz, said in Moscow after signing the agreement.

The deal, Mr. Ivchenko said, will guarantee Ukraine's domestic supply as well as the transshipment of Russian gas to other European countries, which along with world energy markets were jittery when their supply was put in doubt by the Russian-Ukrainian dispute.

Crude oil prices dipped slightly on the latest news. The companies also agreed on a 47 percent increase, to \$1.60 per 1,000 cubic meters, in the price Ukraine charges Russia for shipping gas across its territory to Europe.

Whatever extra revenue Gazprom might earn through the deal may be offset in the long term by a huge dose of skepticism over its expansion plans in Western Europe created by the failed Russian gas embargo. Western European countries, Moscow's primary natural gas customers, hailed the settlement but said Wednesday that they would seek to diversify their sources of energy.

The disruption in the flow of natural gas from fields in the Siberia and Central Asia was the first in the four decades since the Soviet Union began exporting natural gas to Western Europe, according to Martin Bartenstein, the economy minister of Austria, which holds the rotating presidency of the European Union.

Russian gas will remain "the backbone of European energy supplies, but certainly we will have to learn the lesson of what has happened in the last few days," Mr. Bartenstein was quoted by Reuters as saying.

Mr. Yekhanurov, the Ukrainian prime minister, said the higher prices would impel industry in his country to become more energy efficient, perhaps heightening the pace of modernization at Soviet-era factories. But he added that the immediate consequence of the price rise could be bankruptcies at some chemical and metallurgical plants. Those two energy-intensive industries form the core of Ukraine's exports.

"I will not say who won or who lost," Mr. Yekhanurov said. "The people of Ukraine and Russia won. Europe won because it will calmly receive gas. Common sense won."

Yet critics have darkly commented on the murky past of the company at the center of the deal. In the '90's it snatched the most lucrative bits of Ukraine's gas market for itself and won exclusive, and profitable, rights to transship gas over Gazprom's domestic pipeline system.

Operating under various names, it was one of many subsidiaries, daughter companies and joint ventures that tapped into the then poorly audited revenue flows of Gazprom, analysts who follow the company say. When Mr. Putin brought new management to Gazprom, many of the schemes dried up. But the Ukrainian middlemen stayed in business.

Ukraine's national security service investigated RosUkrEnergo last summer for allegations of ties to organized crime. The security agency's former director, Oleksandr Turchinov, has told the Ukrainian news media that he pressed President Viktor A. Yushchenko to prosecute but instead was removed from his job.

Former executives at Gazprom and Naftogaz have held interests in RosUkrEnergo, according to Jérôme Guillet, a Paris-based banker and authority on Gazprom's business practices. "The names change every

year, but it's always been the same mechanism," he said in a telephone interview. "You have a huge trade with hundreds of millions of dollars being captured by a small number of people."

Ukraine's national security adviser, Anatoly K. Kinakh, said in an interview that Naftogaz would assume a 50 percent ownership of RosUkrEnergo as part of the agreement.

Some Ukrainian officials appeared almost giddy after staring down Russia in the dispute, but Grigory Nemyrya, an adviser to former Prime Minister Yulia V. Tymoshenko, said the deal failed to address widespread corruption in the natural gas business in the former Soviet republics.

C. J. Chivers contributed reporting from Moscow for this article.

The New York Times
nytimes.com

January 7, 2006

Ex-Premier of Ukraine Attacks Gas-Price Deal

By ANDREW E. KRAMER

MOSCOW, Jan. 6 - Ukraine's former prime minister, Yulia V. Tymoshenko, who was a driving force behind last winter's Orange Revolution, is emerging as a leading critic of the intricate commercial deal that ended the gas dispute between Ukraine and Russia.

Though Ukraine was widely seen as a winner in the dispute after forcing Russia to about-face on its natural gas embargo after one day, and then negotiating a price lower than most other former Soviet states pay, Ms. Tymoshenko said she would work to scuttle the deal because it transfers control of energy imports to a company she calls corrupt.

She also said she hoped to use the deal, negotiated by aides to President Viktor A. Yushchenko, to discredit his bloc in parliamentary elections in March. In place of the new deal, she said, Ukraine should insist that Russia uphold a 2004 agreement that fixed gas prices through 2009 at \$50 per 1,000 cubic meters.

Her opposition adds another layer of uncertainty to the settlement, a multibillion-dollar contract signed by Gazprom, the Russian natural gas company that is the world's largest. Ms. Tymoshenko, who worked closely with natural gas policy in government, is a powerful figure in Ukraine. She and Mr. Yushchenko were allies in the Orange Revolution, the popular uprising that overturned an election and changed the political course of the nation, but fell out last fall during a corruption scandal.

Ms. Tymoshenko said the settlement left in place an energy-trading scheme run by RosUkrEnerg, a company that has been criticized for ties to organized crime.

"It is a front company, an artificially created company, so that gas coming to Ukraine comes through a filter that will catch a significant amount of money," Ms. Tymoshenko said in a telephone interview.

On Friday, she filed suit in Ukrainian court to annul the contract, and a copy of the ostensibly secret deal among Gazprom, Ukraine's national gas utility and RosUkrEnerg was posted on her Web site.

The contract posted on her site - uncontested by a Gazprom spokesman - disclosed that as part of the arrangement, Ukraine also agreed to open half of its domestic natural gas market to a joint venture 50 percent owned by RosUkrEnerg. By extension, that gives Russia more direct access to Ukraine's internal energy market, as Gazprom is a 50 percent owner of RosUkrEnerg.

Even as details trickled out from Wednesday's deal, investors in Moscow were still uncertain how Gazprom would emerge financially.

"It's a very bizarre arrangement, and returns us to that very rich mother lode of questions about these gas middlemen," Bernard Sucher, the chief executive of Alfa Capital, a private equity group, said in a

telephone interview. "I'm hoping that as this plays out, we'll hear about these companies."

The New York Times
nytimes.com

January 4, 2006

Ukraine Concedes It Took Gas From Pipeline but Says It Had the Contractual Right

By ANDREW E. KRAMER

KIEV, Ukraine, Jan. 3 - Ukraine conceded Tuesday that it had withdrawn natural gas from its pipeline system that Russia said was intended for export to Europe, but said it had a contractual right to the fuel under an agreement with the Central Asian nation of Turkmenistan.

Both Russia and Turkmenistan export natural gas through Russian pipelines to Ukraine, which customarily takes some for its own use and ships the rest on to other European countries. But Russia cut the flow through the pipeline on Sunday, ostensibly in a dispute with Ukraine over pricing and transit fees. That set off alarm bells throughout Europe during the winter heating season and shook world energy markets' confidence in Russia.

Russia placed blame for the shortages on Ukraine, saying it stole gas intended for export, but under pressure from European governments, Russia restored full flow to the pipeline on Monday. Despite the bickering, the two countries resumed negotiations on gas prices on Tuesday.

Nevertheless, the price of crude oil leapt by more than \$2 a barrel on Tuesday in afternoon trading on the New York Mercantile Exchange, fed by concerns over Russia's reliability. Crude oil prices rose to a two-month high of \$63.80 a barrel at midday before pulling back slightly.

While admitting that they took their usual allotment of gas on Tuesday, Ukrainian officials dismissed Russian claims that the gas had been stolen. Mikola Goncharuk, a member of the board of Ukraine's natural gas company, Naftogaz, said at a news conference in Kiev that his company had indeed drawn down gas from the pipeline system, but under a contract with Turkmenistan. Russian export gas, he said, was untouched.

"We are demanding the full volume of gas from Turkmenistan today," Mr. Goncharuk said. "For now we can get by without Russian gas."

Gazprom, Russia's government-owned gas company, insists that the pipeline carries only Russian gas for export to Europe.

Meanwhile, the political fallout continued from Russia's brief gas embargo, which was widely regarded in Europe as punishment of Ukraine for its rejection of Moscow in elections last year and its continued turn to the West and away from the Russian orbit.

In Washington, the State Department spokesman criticized Russia's use of energy as a foreign policy tool, while Austria and other Central and Eastern European countries agreed to make the diversification of energy supplies a priority, though they did not say how they would achieve it.

The European Union's top energy official said Tuesday that the pricing dispute could fester for weeks to come, jeopardizing one of the Continent's primary sources of energy. Andris Piebalgs, the energy commissioner, said the agreement by the two sides to resume talks on the issue was "just a temporary calmdown," according to the Bloomberg news agency.

Each side in the dispute has plausibly blamed the other because the pipeline system, a great achievement of the Soviet Union's postwar industrial expansion, was built as a unified web. After the Soviet Union broke up, the successor states divided the gas flow through treaties and commercial agreements that grew more complex each year.

Companies subsidized others, shrewd businessmen made millions or billions exploiting price discrepancies, gas utilities became government slush funds and corruption blossomed.

The gas is sometimes mingled in the web of pipes. In the argument on Tuesday, Ukraine said some of the gas entering its pipeline system had been bought from Turkmenistan and shipped by an intermediary company. Mr. Goncharuk said his company paid last Friday for 126 million cubic meters a day of gas from Turkmenistan, for an unspecified period.

He said that Ukraine therefore had a right to withdraw that volume of gas from its pipelines, but that it had chosen to take only 90 million cubic meters out of concern for the security of natural gas flows to Europe during the winter.

The Russian minister of industry and energy, Viktor Khristenko, said Tuesday that Gazprom had contracted the entire export capacity of Turkmenistan for the first quarter of 2006, the Dow Jones news service reported.

In statements carried in the Russian news media, Turkmenistan's mercurial and authoritarian leader, Saparmurat Niyazov, who presides over a closed nation deep in Central Asia, shed little light on the dispute. He has confirmed sales to Ukraine without elaborating on the discrepancy with Gazprom's statements. Gazprom controls the pipeline leading north from his country.

Mr. Goncharuk also asserted that Ukraine had a right to withdraw additional gas from the pipelines in lieu of transit fees from Russia under a barter agreement reached in 2004 and in force in 2005.

Volodymyr R. Sidenko, chief economist at the Institute of Economic Forecasting in the Ukrainian Academy of Sciences, said: "Ukraine considers if we have not arrived at any agreement, the old one is in effect. The Russian side rejects these arguments."

Meanwhile, the gas dispute has already dented Ukraine's energy-intensive economy. Chemical and metallurgical industries slowed production to reduce demand by 15 to 20 percent, according to a statement by the Ukrainian government.

While Kiev scored points for withstanding what European nations almost universally regarded as Russia's intimidation tactics, its energy troubles are far from over.

Natural gas-guzzling steel mills and chemical plants earn much of Ukraine's export revenues. Outdated and inefficient, many have scraped by since the collapse of the Soviet Union only because of cheap energy from Russia. Market-rate energy prices, which Ukrainian officials acknowledge they must pay eventually, could plunge Ukraine back into recession, officials here have said.

On average, metallurgical plants would become unprofitable at natural gas prices above \$105 per 1,000 cubic meters, according to estimates by Mr. Sidenko. The chemical industry would be unprofitable at prices above \$85, he said.

Under the 2005 contract, negotiated before the Orange Revolution, Ukraine pays \$50 per 1,000 cubic meters. Gazprom is asking for \$220 to \$230 now, about double what most other former Soviet states pay.