

EURASIA DAILY MONITOR
Volume 2, Issue 163 (August 19, 2005)

**TANGLED RUSSIAN-UKRAINIAN GAS DEALS PROVIDE OPPORTUNITIES FOR
CORRUPTION, INFLUENCE**

By [Taras Kuzio](#)

Russia plans to triple gas prices ahead of Ukraine's parliamentary election and only months before winter begins (International Herald and Tribune, August 1). A recent commentary in *Ukrayinska pravda* (August 8) accused the regimes of former president Leonid Kuchma and Russia's President Vladimir Putin of being closely tied in energy corruption. "And the entire criminal character of these ties is being fully used to apply pressure on the Ukrainian state." Russia tried the same tactics in Moldova's 2005 parliamentary election.

The increase would raise the prices Russia charges Ukraine to world-market levels. Currently Russia charges Ukraine \$80 for 1,000 cubic meters of gas, nearly three times what Moscow charges Belarus. If gas prices do rise this dramatically, "Ukraine will suffer major economic disruptions" (IntelliNews, July 4).

These planned gas price increases could have a negative impact on Ukraine's economic growth, which has already declined from 12% last year to 4% in the first half of this year. Higher gas prices will increase inflation and hurt metallurgical plants, which are the largest consumers of gas.

Russia's stranglehold over the supply of gas to Ukraine is to some degree counter-balanced by Ukraine's control over export outlets for Russia. Some 90% of Russian gas is exported to Europe through Ukraine, and Kyiv has threatened to compensate for any increase by raising transit charges.

High levels of corruption remain a major problem in the gas industry. The presidential campaign of Viktor Yanukovich, Kuchma's heir apparent, tapped into hundreds of million of dollars through corruption in Russian-Ukrainian energy consortiums. Russia has ignored this problem by focusing on Ukraine's alleged "unreliability" as a gas transit country. The Yushchenko administration is keen to renegotiate the terms of the Russian-Ukrainian-German agreement of 2003-2004 that would have led to de facto Russian control over Ukraine's transit system (see EDM, July 9).

Corruption has been especially prevalent in two Russian-Ukrainian consortiums (Eural TransGas and RosUkrEnergo) created to facilitate the delivery of Turkmen gas to Ukraine and Europe. Ukraine annually obtains 36 billion cubic meters of gas from Turkmenistan and 24 billion from Russia. The Financial Times (July 27) reported that the Ukrainian authorities were concerned that these two consortiums were not only linked to Putin and Kuchma, but also to organized crime.

Ukrainian Security Service (SBU) chairman Oleksandr Turchynov has openly expressed his fear that international mafia boss Semyon Mogilevich had a business stake in RosUkrEnergo or used it to launder money. Mogilevich is wanted by the FBI and Interpol for money laundering. Like many former Kuchma officials, he is living openly in Moscow and the Russian authorities refuse to extradite him (*Ukrayinska pravda*, August 3).

Former Naftohaz Ukrainy CEO Ihor Bakay has also been hiding in Russia since December 2004. He was given Russian internal and external passports earlier this year when he took up Russian citizenship. Ukraine, unlike Russia, does not recognize dual citizenship. Bakay was released from Naftohaz Ukrainy in 2001 after corruption scandals but was brought back in 2003-2004 by Kuchma to head the Directorate on State Affairs. Bakay is charged with abuse of office leading to the loss of \$1 billion. The new Naftohaz Ukrainy CEO, Olexiy Ivchenko, a Yushchenko loyalist, has nearly tripled revenues to the state.

Fearing criminal charges, outgoing Naftohaz Ukrainy CEO Yuriy Boyko "purchased" the marginal Republican Party of Ukraine (RPU) as a protective political roof. The RPU has no ratings and is not currently being courted as an ally by any well-known political party for the 2006 election. Outgoing Foreign Minister Konstantin Hryshchenko agreed to become the RPU's foreign affairs spokesman, and on a recent visit to Washington he unsuccessfully attempted to convince policymakers that the RPU is a Ukrainian equivalent of the U.S. Republican Party (Washington Times, June 11).

RosUkrEnergo was created in summer 2004 to replace Eural TransGas. Its aim is to act as an intermediary between Gazprom and Naftohaz Ukrainy to transit Turkmen gas through Russia into Ukraine. Eural TransGas managers moved over to RosUkrEnergo. Gazprom, through its Swiss-registered ARosgas Holding A.G., owns 50% of RosUkrEnergo. The remaining half is owned by Centragas Holding, an Austrian-registered company 100% owned by Raiffeisen Investment A.G.

Centragas CEO Wolfgang Putschek has denied that RosUkrEnergo has any links to Mogilevich (Financial Times, July 27). In a letter to President Yushchenko, Raiffeisen director and Centragas CEO Putschek denied categorically that Mogilevich or any other organized crime boss had ties to RosUkrEnergo. Mogilevich has himself denied he has any links to RosUkrEnergo or was using it to launder funds (Ukrayinska pravda, August 1).

Accusations of high-level corruption by the Putin and Kuchma administrations and links to organized crime have led to calls by Prime Minister Yulia Tymoshenko to end the use of intermediaries to bring Turkmen gas to Ukraine. "I am consistently working so that there will be no intermediary between Ukraine and Turkmenistan," she revealed (Ukrayinska pravda, July 2).

Tymoshenko has also refused to countenance working with RosUkrEnergo, because it was established, she believes, with numerous legal infringements. Trade in Turkmen gas should be undertaken directly by Naftohaz Ukrainy with Russia and Turkmenistan, she believes, but without the use of an intermediary (Ukrayinska pravda, July 13). This, however, may be easier said than done.