

## ECONOMY AND DEVELOPMENT PROBLEMS

### Development of gas market of Ukraine

UDK 338+351.863(477)

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*The article brings up an issue of further development and reformation of the Ukrainian gas market and the cooperation of the National Joint-Stock Company «Naftogaz of Ukraine» with the international financial institutions and global gas companies.*

**Key words:** Ukrainian gas market, natural gas, reforming of the National Joint-Stock Company «Naftogaz of Ukraine» energy independence, gas companies.

#### **Natural gas market and reformation of the National Joint-Stock Company 'Naftogaz of Ukraine'**

It is known that Ukraine is one of the largest markets of natural gas in Europe consuming about 55-60 bln. m<sup>3</sup> natural gas per year, the import is 65-70%. Taking into consideration the global challenges of the world market of power resources, as well as evaluating appropriately the prospects and the role of in the 'gas triangle' Russia-Ukraine-European Union, our country contributes to development, reformation and liberalization of the Ukrainian gas market. The necessity of legal changes was dictated by the Ukraine's joining to the Treaty establishing the Energy Community requiring adaptation of the law of Ukraine to the EU norms.

Today, the main legal act defining the 'game rules' at the Ukrainian gas market is the Act of Ukraine 'On grounds of functioning the market of natural gas in Ukraine' of June 16, 2011, as continuation of the European directives and was aimed at termination of multi-year monopolist state. It may also ensure the equal access to all the market participants to gas transport systems of Ukraine.

In addition, the industrial consumers got right to select independently the gas supplier since March 1, 2012 (while de facto they have this right since April 2011); governmental organization – since January 1, 2013; heat supply companies (only those which supply heat to household) – since 2014, and household users – since 2015.

On May 7, 2012, amendments to the Act of Ukraine "On Pipeline Transport" came into force to reform the oil and gas industry. And in October of that year there was cancelled the Resolution of the Cabinet of Ministers of Ukraine dated March 5, 2008 "On the realization of imported natural gas in Ukraine", which opened the market for natural gas imports to Ukraine to other businesses. In case of proper compliance with national standards, consumer and environment protection, any company is free to trade natural gas at the domestic market of Ukraine.

Following the amendments to the legislation the fact is evident that these amendments will not be enough without reformation of the National Joint-Stock Company "Naftogaz of Ukraine" – a leading company at the market that is the main importer of natural gas and the main entity of the formation of natural gas resource for the Ukrainian consumers.

Therefore, the Cabinet of Ministers of Ukraine founded the appropriate interagency working group on development the Company reform program. Having reviewed the rules of applicable Ukrainian legislation regulating the activities of the gas industry, on June 13, 2012 the Cabinet of Ministers of Ukraine issued the decree "On the reorganization of subsidiaries of the National Joint-Stock Company "Naftogaz of Ukraine".

According to this resolution there was taken the decision to reorganize the SE "Ukrtransgas" and there was approved the proposal of the Ministry of Energy and Coal Industry of Ukraine on reorganization of subsidiary "Ukrigasvydobuvannya". Due to this resolution the Cabinet of Ministers charges to transform the subsidiaries

“Ukrtransgas” and “Ukrigasvydobuvannya” in public joint-stock companies. Meanwhile, National Joint-Stock Company "Naftogaz of Ukraine" administers the corporate rights of these joint-stock companies by agreement of the Ministry of Energy and Coal Industry of Ukraine under the current law. The state registration of PJSC “Ukrtransgas” and PJSC “Ukrigasvydobuvannya” was completed on December 27, 2012.

The National Joint-Stock Company "Naftogaz of Ukraine" signed the contract with the well-known company ‘Ernst & Young’ for accomplishment of scientific research work ‘Development of program of reformation of the National Joint-Stock Company "Naftogaz of Ukraine"'. The work will result in proposals on the most optimum variants of the Company restructuring in the Company and its subsidiaries main activities (mining, transport, storage, oil and gas realization).

Now, it is under negotiation of the approval of the Terms of Reference on preparation of the Program of the reformation of the National Joint-Stock Company "Naftogaz of Ukraine" within the trust fund of the European Commission. It is expected that the reorganization will be carried out in accordance with the commitments undertaken by Ukraine's joining to the Energy Community Treaty, which will provide independent operator of the gas transportation system with all the powers prescribed by EU legislation.

Besides, on April 26, 2013, the Verkhovna Rada of Ukraine registered the Draft Act of Ukraine "On Amendments to Certain Legislative Acts of Ukraine to reform the National Joint Stock Company "Naftogaz of Ukraine". Passing this bill will help to make a company reform aimed at improving the economic efficiency of oil and gas industry. On the other hand, all items of the new law comply with EU law and will contribute to energy independence of Ukraine.

We would like to emphasize that the improvement of legislation and reform of the National Joint Stock Company "Naftogaz of Ukraine" means a certain part of the work aimed at the liberalization and development of the gas market in Ukraine. The company does not cease to work to achieve the energy independence paying a particular attention to increasing the gas production onshore and offshore, the development of unconventional gas, increased technical equipment production and diversification of energy supplies. And in this regard we rely on the support of the European Union, in particular, the fact that Ukraine will be given the equal compared to other market law (especially, in relation to Slovak direction).

### **Cooperation with international financial organizations and gas companies**

National Joint Stock Company "Naftogaz of Ukraine" pays special attention to cooperation with international leading companies in the gas industry. Undoubtedly, its biggest partner in the gas issues was and remains "Gazprom" - the main supplier of natural gas to Ukraine and the EU.

The relationship between the National Joint Stock Company "Naftogaz of Ukraine" and Gazprom are realized under the terms of the bilateral agreements, existing long-term contracts and significantly affect the balance of power on the gas map of Europe.

Despite the fact that the company has repeatedly declared about unfair and unequal contractual conditions it continues to implement all the commitments. Thus, Ukraine both at the government level and at the level of business entities conducts with Russia talks on changing the conditions of long-term contracts. For two years the National Joint Stock Company "Naftogaz of Ukraine" has been taking all the possible measures to optimize the conditions for long-term contracts with Gazprom. During this time a number of joint consultations and workshops have been conducted, the appropriate statement was repeatedly sent to reduce natural gas prices and annual volume of imported gas, obtain guarantees from the Russian side on supply of natural gas volumes for transit through Ukraine to Europe. Unfortunately, by this time, the desired results have failed to be reached.

Considering the importance and wide range of gas issues, large capacity and complexity of the Ukrainian market, the need for significant investment and application of new technologies, the National Joint Stock Company "Naftogaz of Ukraine" cooperates with other leading gas companies, including Shell, Eni, RVE, Ferrostal, Totale, E ON – Ruhrgas, ExxonMobil, Chevron, Halliburton etc..

### **Conclusion**

Thus, it is evident that the Ukrainian gas market is on the verge of radical changes aimed to bring it closer to the European standards and open to foreign investors. Clearly, the reform way will be long and difficult; it will require considerable efforts and patience from all stakeholders. Certainly, we understand the reforms mean the only way for market liberalization, legislation harmonization to open profitable prospects for Ukrainian gas industry and bring our country closer to energy independence.

It should be emphasized that the National Joint Stock Company "Naftogaz of Ukraine" always fulfils all its obligations before the international and the national partners, as evidenced by its well-deserved reputation as a reliable

company. The company is interested in cooperation in various fields, open to further discussions and negotiations mutually beneficial for dialog participants.

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