

Ukraine Opposition Hurts Energy Independence

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The failed Viktor Yushchenko presidency should warn us about the danger of continuing to use labels such as "pro-Western" and "pro-Russian" in Ukrainian politics. Yushchenko had the full backing of the administration of former U.S. President George W. Bush to move to NATO membership, but he believed that fighting his erstwhile ally, Yulia Tymoshenko, was more important.

We also need to be cautious about labeling President Viktor Yanukovych. Although accused by domestic and international critics of rolling back democracy in Ukraine, he has not been keen on joining the Russian-led Customs Union. The Yanukovych administration is also the first to seriously begin the process of seeking Ukraine's energy independence from Russia, in which U.S energy companies are playing a strategic role.

Shale gas has an important place in Ukraine's goal of seeking energy independence. It is therefore one of the idiosyncrasies of Ukrainian politics that the normally pro-Russian and pro-Yanukovych Communist Party of Ukraine and two out of three opposition parties,

Svoboda and Batkivshchyna, are opposing the production of shale gas. Prime Minister Nikolai Azarov said to U.S. Under Secretary of State Wendy Sherman in Kiev on March 19: "Let them explain to you whose interests they protect. On the one hand, they say they are against Russia; on the other hand, they are the agents of the Russian Federation."

The Communist Party and the fiercely anti-Communist opposition are unusual bed partners, and therefore their common stance against shale gas production looks unusual at first glance. Boxing champion Vitaly Klychko's Ukrainian Democratic Alliance for Reforms, or UDAR, has not supported the anti-shale gas protests, and during a recent BBC "Hard Talk" interview supported its development. UDAR parliamentary deputy Rostyslav Pavlenko, deputy head of the party's executive committee, said: "Shale gas is a vital element of Ukrainian energy and economic security. That is why UDAR supports its excavation in Ukraine, provided, of course, that all the environmental standards are met and dialogue with local communities is held — that is, in the same manner as Western energy companies have behaved in the U.S. and the EU."

Ukraine reportedly has the third-largest reserves of shale gas in Europe. In May 2012, Shell and Chevron won tenders for the development of shale gas at the Yuzovka and Olesko fields, respectively. In August 2012, ExxonMobil, the main operator, Shell, Romania's OMV Petron and state-owned Nadra Ukrainy won the tender for production of shale gas on the Skifska oil and gas field on the Black Sea shelf. Shell and ExxonMobil are exploring the development of shale gas reserves in the Lviv and Donetsk basins.

Shale gas production would reduce the opaque profits long received by the "gas lobby" in Ukraine, who have always been dominated by western Ukrainians. In the 1960s and 1970s, Ukraine was the largest gas producer in the Soviet Union, and much of this infrastructure of pipelines, underground storage and expertise remains in western Ukraine. The best Soviet university on oil and gas was in the Galician city of Ivano-Frankivsk. Gas tycoon Dmytro Firtash was born in the village of Synkiv in the Ternopil region and grew up in Chernivtsi. He is the only billionaire from western Ukraine. Firtash broke into the gas business in the late 1990s with a "food for gas" barter scheme between Ukraine and Turkmenistan.

Other western Ukrainians in the "gas lobby" include Ihor Bakay, who is well known for saying that most Ukrainian billionaires made their initial capital from the resale of Russian energy in the 1990s. They financially supported the 2000-01 parliamentary coalition behind the Yushchenko government. In December 2004, Bakay fled to Moscow just before he was accused of stealing \$1 million in state funds from a state institution that he had headed from 2003 to 2004.

Oleksy Ivchenko is leader of the Organization of Ukrainian Nationalists, which is linked to the Congress of Ukrainian Nationalists, which is humorously described as the Committee to manage Naftohaz Ukrayiny, the state oil and gas company. Naftohaz Ukrayiny has been headed by western Ukrainian members of Our Ukraine, such as Ihor Vasyunyk, and Congress of Ukrainian Nationalists leaders Ivchenko and Andriy Lopushansky. A monument to nationalist leader Stepan Bandera was unveiled by Naftohaz Ukrayiny's first deputy chairperson and Congress of Ukrainian Nationalists candidate Lopushansky in his election district to boost his popularity in the 2012 elections.

In Ukraine's virtual political world, it is not incompatible to be both a follower of the anti-Russian nationalist leader Bandera and at the same time pursue energy policies that closely bind Ukraine to Russia. In 2005-06, Ivchenko headed Naftohaz Ukrainy and was a member of Yushchenko's Our Ukraine bloc in the 2002 and 2006 elections. Firtash donated millions of dollars to the Lviv-based Ukrainian Catholic University, which has received Ukrainian diaspora support, and the Ukrainian Catholic hierarchy attended the opening of greenhouses in his home village last fall.

Ukraine's gas lobby, which dominated the first Azarov government, is no longer as powerful today since it failed to secure a revision of the high gas price Ukraine pays with the 2009 gas contract. Although Serhy Levochkin remains head of the presidential administration, the current Azarov government demoted Yury Boyko and Konstyantyn Hryshchenko while Valeriy Khoroshkovsky was forced to sell his Inter television channel and flee into exile.

Although dominated by western Ukrainians who are traditionally anti-Russian, Ukraine's gas lobby does not seek energy independence from Russia because this would end their source of massive corrupt rents. Using environmental concerns is a fig leaf for the lobby to derail plans to reduce Ukraine's energy ties to Russia. The 1986 Chernobyl nuclear accident led to the emergence of the popular Green World civic movement, but Ukraine's green movement was hijacked by oligarchic interests in the 1998 elections. Since then, there has not been a genuine environmental lobby.

Firtash has secured discounted gas prices in Russia independently of Naftohaz Ukrainy through OstChem, which has replaced the opaque RosUkrEnergo gas intermediary that was removed according to the terms of the 2009 gas contract. OstChem trading company will import 8.1 billion cubic meters of gas this year, up from 6 billion cubic meters last year. OstChem is planning to increase its gas imports to 12 billion cubic meters.

Shale gas will play a strategic role in permitting Ukraine to conduct an independent foreign policy by making the country independent from Russia's energy sources. Opposition parties Svoboda and Batkivshchina should move away from the virtual double-speak of saying they support Ukraine's energy independence while blocking shale gas. They could start by following Klychko's example of putting the country's national interests above scoring election points against Yanukovych and the Party of Regions.

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