Russia, Ukraine and Gas: Six Questions for Gazprom

An open letter, 8th January 2009

Mr Alexey Miller
Chief Executive
OAO Gazprom

Dear Mr Miller,

Global Witness is a non-profit organisation that works for greater openness in the world's natural resource industries. You may know our April 2006 report: It's a Gas: Funny Business in the Turkmen-Ukraine Gas Trade.

We realise that this is a busy time for Gazprom. But we are writing this open letter because the gas dispute between Russia and Ukraine is causing deep concern throughout the European Union. After all, we are in the depths of winter and rather nervous about our gas supplies.

We are writing to you in particular because Gazprom is by far the most important player in the gas trade that connects the former Soviet Union with the European Union. We have used this open letter format so as to focus the minds of other concerned parties, including Ukraine, the European Union and international institutions, on the issues that we raise below.

Global Witness does not take a view on what price Ukraine should pay Gazprom for gas, or on whether or not the parties to the gas trade have met their contractual obligations. We are more concerned with the third party to the dispute, the intermediary company RosUkrEnergo.

As you of course know, RosUkrEnergo buys gas from Gazprom to sell to Ukraine and other countries, and is itself 50 per cent owned by Gazprom. It is now public knowledge that the rest of the shares of RosUkrEnergo are owned by two Ukrainian businessmen, Dmytro Firtash (45 per cent) and Ivan Fursin (five per cent) via their company Centragas Holding AG.¹

Our concern, and the reason we are asking you these questions, is that RosUkrEnergo appears to make substantial profits from its central role in the gas trade, which it has occupied for more than four years, but we struggle to understand why its involvement in the trade is necessary.

Our questions are:
1. In February 2008, then-President Putin of Russia and President Yushchenko of Ukraine reached an agreement on the gas trade. The Financial Times reported at the time that: "Alexei Miller, Gazprom’s chief executive, said last night that a deal had been clinched to axe RosUkrEnergo and replace it with a joint venture owned directly by Gazprom and Ukraine’s energy monopoly, Naftogaz Ukrainy."  

This was nearly a year ago. Why has RosUkrEnergo not been removed from the gas trade?

2. RosUkrEnergo says on its website that its function is to "play the role of a mediator of interests between Russia and Ukraine with regard to collaboration in natural gas issues. On the one hand, it acts as a guarantor for natural gas deliveries to Ukraine at prices that are tolerable for the economy of that country and, on the other hand, RosUkrEnergo is [the] financial guarantor for Gazprom, to which it makes the appropriate payments for natural gas supplied to Ukraine."  

We note that RosUkrEnergo is a small private company which does not report any significant assets or income other than those deriving from its role in the gas trade, and which has not reported to date that it owns any gas pipelines or reserves. We also note that Gazprom is one of the world's largest energy companies, and that Ukraine is a sovereign state.

Our question: what do these guarantees to Gazprom and Ukraine consist of, and what action is RosUkrEnergo required to take in order to implement them?

3. If RosUkrEnergo's task is to be the "mediator of interests" between Russia and Ukraine on gas matters, then it does not appear to have particularly successful as, for the second time in three years, Russia and Ukraine are locked in a dispute which is unnerving the entire continent.

Our question: how does RosUkrEnergo perform this mediating role between Russia and Ukraine and why does it appear to have failed, in the sense that deep disputes have re-emerged?

4. What skills or knowledge does RosUkrEnergo provide to the gas trade through Ukraine that could not be provided by Gazprom, which is able to draw on decades of experience in shipping and marketing gas and negotiating gas agreements?

5. For almost the first two years of its existence, RosUkrEnergo was so secretive that the identities of its Ukrainian investors, Mr Firtash and Mr Fursin, were not revealed to the public until after Global Witness had drawn attention to Mr Firtash in It's a Gas in April 2006.

RosUkrEnergo does publish some financial data, and other information about its activities, on its website. However, we note that the company has only published a balance sheet for one period, from July 2004 to the end of 2005. For 2006 and 2007, RosUkrEnergo has published brief statements of its total assets and income, but no balance sheet. Accountants tell us that, in their opinion, this financial information is too limited to be used for meaningful analysis.

Our question: Why does RosUkrEnergo publish such limited financial data and why has it not published a balance sheet for any year since 2005?
6. Gazprombank reported in its 2006 accounts that Gazprom received US$367.8 million in dividends from RosUkrEnergo. Since Mr Firtash and Mr Fursin's share in RosUkrEnergo is equal to Gazprom's, we assume that they must also have received US$367.8 million in dividends. We are unable to tell whether or not other dividends have been paid to shareholders since 2004.

The share capital of RosUkrEnergo was US$77,940 at the end of 2005, according to its website. Thus it appears that Mr Firtash and Mr Fursin have been in a position to make a very large profit, in the form of dividends, in return for a very small financial investment in the company.

Our question is: What services or expertise do Mr Firtash and Mr Fursin provide to RosUkrEnergo and the gas trade, in return for this income, which cannot be provided by Gazprom itself, or by the Ukrainian state gas company, Naftohaz Ukrainy?

We would like to end by noting that we are non-partisan in this matter. We also have concerns about transparency on the Ukrainian side of the gas trade which we have raised in the past, notably in It's a Gas, and will continue to raise in the future.

Thank you for your attention.

Yours sincerely,

[Signature]

Simon Taylor
Director, Global Witness

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