Message from the President of Russia to the leaders of several European countries

April 10, 2014, 23:00

Vladimir Putin addressed a letter to the leaders of several European countries, to which Russian natural gas is supplied via Ukraine's territory.

The message reads:
Ukraine's economy in the past several months has been plummeting. Its industrial and construction sectors have also been declining sharply. Its budget deficit is mounting. The condition of its currency system is becoming more and more deplorable. The negative trade balance is accompanied by the flight of capital from the country. Ukraine's economy is steadfastly heading towards a default, a halt in production and skyrocketing unemployment.

Russia and the EU member states are Ukraine's major trading partners. Proceeding from this, at the Russia-EU Summit at the end of January, we came to an agreement with our European partners to hold consultations on the subject of developing Ukraine's economy, bearing in mind the interests of Ukraine and our countries while forming integration alliances with Ukraine's participation. However, all attempts on Russia's part to begin real consultations failed to produce any results.

Instead of consultations, we hear appeals to lower contractual prices on Russian natural gas – prices which are allegedly of a "political" nature. One gets the impression that the European partners want to unilaterally blame Russia for the consequences of Ukraine's economic crisis.

Right from day one of Ukraine's existence as an independent state, Russia has supported the stability of the Ukrainian economy by supplying it with natural gas at cut-rate prices. In January 2009, with the participation of the then-premier Yulia Tymoshenko, a purchase-and-sale contract on supplying natural gas for the period of 2009-2019 was signed. That contract regulated questions concerning the delivery of and payment for the product, and it also provided guarantees for its uninterrupted transit through the territory of Ukraine. What is more, Russia has been fulfilling the contract according to the letter and spirit of the document. Incidentally, Ukrainian Minister of Fuel and Energy at that time was Yury Prodan, who today holds a similar post in Kiev's government.

The total volume of natural gas delivered to Ukraine as was stipulated in that contract during the period of 2009-2014 (first quarter) stands at 147.2 billion cubic meters. Here, I would like to emphasize that the price formula that had been set down in the contract had NOT been altered since that moment. And Ukraine, right up till August 2013, made regular payments for the natural gas in accordance with that formula.

However, the fact that after signing that contract, Russia granted Ukraine a whole string of unprecedented privileges and discounts on the price of natural gas is quite another matter. This applies to the discount stemming from the 2010 Kharkov Agreement, which was provided as advance payment for the future lease payments for the presence of the [Russian] Black Sea Fleet after 2017. This also refers to discounts on the prices for natural gas purchased by Ukraine's chemical companies. This also concerns the discount granted in December 2013 for the duration of three months due to the critical state of Ukraine's economy. Beginning with 2009, the total sum of these discounts stands at 17 billion US dollars. To this, we should add another 18.4 billion US dollars incurred by the Ukrainian side as a minimal take-or-pay fine.

In this manner, during the past four years Russia has been subsidizing Ukraine's economy by offering slashed natural gas prices worth 35.4 billion US dollars. In addition, in December 2013, Russia granted Ukraine a loan of 3 billion US dollars. These very significant sums were directed towards maintaining the stability and creditability of the Ukrainian economy and preservation of jobs. No other country provided such support except Russia.

What about the European partners? Instead of offering Ukraine real support, there is talk about a declaration of intent. There are only promises that are not backed up by any real actions. The European Union is using Ukraine's economy as a source of raw foodstuffs, metal and mineral resources, and at the same time, as a market for selling its highly-processed ready-made commodities (machine engineering and chemicals), thereby creating a deficit in Ukraine's trade balance amounting to more than 10 billion US dollars. This comes to almost two-thirds of Ukraine's overall deficit for 2013.

To a large extent, the crisis in Ukraine's economy has been precipitated by the unbalanced trade with the EU member states, and this, in turn has had a sharply negative impact on Ukraine's fulfillment of its contractual obligations to pay for deliveries of natural gas supplied by Russia. Gazprom has no intentions except for those stipulated in the 2009 contract, nor does it plan to set any additional conditions. This also concerns the contractual price for natural gas, which is calculated in strict accordance with the agreed formula. However, Russia cannot and should not unilaterally bear the burden of supporting Ukraine's economy by way of providing discounts and forgiving debts, and in fact, using these subsidies to cover Ukraine's deficit in its trade with the EU member states.

The debt of NAK Naftogaz Ukraine for delivered gas has been growing monthly this year. In November-December 2013 this debt stood at 1.451,5 billion US dollars; in February 2014 it increased by a further 260.3 million and in March by another 526.1 million US dollars. Here I would like to draw your attention to the fact that in March there was still a discount price applied, i.e., 268.5 US dollars per 1,000 cubic meters of gas. And even at that price, Ukraine did not pay a single dollar.

In such conditions, in accordance with Articles 5.15, 5.8 and 5.3 of the contract, Gazprom is compelled to switch over to advance payment for gas deliveries, and in the event of further violation of the conditions of payment, will completely or partially cease gas deliveries. In other words, only the volume of natural gas will be delivered to Ukraine as was paid for one month in advance of delivery.

Undoubtedly, this is an extreme measure. We fully realize that this increases the risk of siphoning off natural gas passing through Ukraine's territory and heading to European consumers. We also realize that this may make it difficult for Ukraine to accumulate sufficient gas reserves for use in the autumn and winter period. In order to guarantee uninterrupted transit, it will be necessary, in the nearest future, to supply 11.5 billion cubic meters of gas that will be pumped into Ukraine's underground storage facilities, and this will require a payment of about 5 billion US dollars.

However, the fact that our European partners have unilaterally withdrawn from the concerted efforts to resolve the Ukrainian crisis, and even from holding consultations with the Russian side, leaves Russia no alternative.

There can be only one way out of the situation that has developed. We believe it is vital to hold, without delay, consultations at the level of ministers of economics, finances and energy in order to work out concerted actions to stabilize Ukraine's economy and to ensure delivery and transit of Russian natural gas in accordance with the terms and conditions set down in the contract. We must lose no time in beginning to coordinate concrete steps. It is towards this end that we appeal to our European partners.

It goes without saying that Russia is prepared to participate in the effort to stabilize and restore Ukraine's economy. However, not in a unilateral way, but on equal conditions with our European partners. It is also essential to take into account the actual investments, contributions and expenditures that Russia has shouldered by itself alone for such a long time in supporting Ukraine. As we see it, only such an approach would be fair and balanced, and only such an approach can lead to success.

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