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## Incoming Ukrainian President must act to clean up country's gas industry

The winner of this Sunday's runoff vote for the Ukrainian presidency between Yulia Tymoshenko and Viktor Yanukovich must take immediate steps to clean up Ukraine's notoriously mismanaged gas sector, said Global Witness today.

The poor governance of Ukraine's state gas company (Naftohaz Ukrainy) and use of shadowy intermediaries contributed to a dispute with Russia over gas prices and debts which in turn led to cuts in supplies to some European countries in 2006, and again in 2009, raising deep concerns about the security of European energy supplies from the former Soviet Union.

"Whoever wins the Ukraine election must launch a wide-ranging clean up of the gas sector," said Tom Mayne of Global Witness, the anti-corruption watchdog. "Ukraine's citizens have a right to know exactly how this vital sector is being managed and where its profits are going. Many people in the EU are rightly nervous that more governance problems could lead to yet more energy supply cuts in future."

The next president should make good on Ukraine's pledge to join the Extractive Industries Transparency Initiative, an international association with more than 30 member countries, and launch wider reforms to open up the Ukrainian energy sector to full public scrutiny.

The Orange Revolution of 2004 brought thousands of protesters on the street, calling for a more open and accountable system of governance in Ukraine, whose economy depends heavily on gas. Although Ukraine signed an agreement with the EU in March 2009 to reform its gas sector, progress has been slow, and the industry is little more transparent than it was before the revolution.

The history of Naftohaz Ukrainy is one of opacity and bad governance. As Global Witness documented in its 2006 report, [It's a Gas](#), the company has been plagued by allegations of mismanagement and shadowy dealings. Most controversially, it used a mysterious private Swiss company, RosUkrEnergo (RUE), to arrange gas deliveries which the state company could have done itself.

RUE made a profit of more than US\$2 billion in four years, yet neither Russia nor Ukraine ever clearly explained why this private company was needed. RUE was finally removed from the gas trade in early 2009 after yet another gas dispute between the two countries. Though the removal of RUE has been a positive step towards transparency, Ukrainian citizens are still unable to get full and timely information regarding Naftohaz Ukrainy. For example, the company has not published its accounts to international standards for 2004, 2006 and 2008.

"Naftohaz's massive debts led in part to the two Russian gas cut-offs. Therefore it is vital for the new president to conduct a comprehensive audit on the company, not only for 2008, but for all years retrospectively back to 2001," said Mayne.

Ukraine agreed to implement the Extractive Industries Transparency Initiative (EITI) in September 2009. This voluntary initiative, launched in the UK in 2002, requires signatory governments to publish the amounts of revenues they receive for exports of oil and gas, or, in Ukraine's case, the transit revenues. Global Witness welcomes Ukrainian accession to the EITI, but believes the country needs to go further. Ukraine should also ensure full transparency over the ownership of gas companies working in the country.

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