Ukraine: Naftogaz Representative

Confidential: for the assigned participant only. Do not share with other participants, including the other members of your delegation. Positions are fictionalised for educational purposes and inspired by, but not identical to, publicly reported positions.

Your delegation: Ukraine (3 members)

You are part of the Ukrainian delegation: the government and the national gas company Naftogaz, playing as one team with three different jobs. Ukraine is Europe's most important gas transit country (roughly 80 % of Russian gas exports to the EU flow through your pipeline system) and it is also a customer that Russia has just cut off.

As of 7 January 2009 Gazprom has stopped all deliveries to Ukraine after the two sides failed to agree a price for 2009, and transit to Europe has stopped too: Moscow says you closed the pipeline; you say Moscow stopped pumping and that you have no "technical gas" to run the compressors. Europe is freezing and looking for someone to blame. Your delegation's collective goal: **restore transit on terms Ukraine can survive (a price and a contract Naftogaz can pay, the intermediary gone, sovereignty over your own pipelines intact) and a Europe that leaves this room seeing Russia as the aggressor.** But the government's politics and Naftogaz's balance sheet do not point to the same number.

Your delegation is smaller than Russia's (3 against 5). You cannot be everywhere. Coordinate tightly and divide tasks clearly.

Key facts (all members):

- Ukraine paid $179.50 per 1,000 m³ in 2008, through the intermediary RosUkrEnergo. Gazprom demanded $250 for 2009 and, since the cut-off, $418 and then $450. Your counter-offers: $201–235.
- Gazprom claims about $2 billion in arrears and penalties. You paid $1.5 billion on 30 December and dispute the remaining ~$600 million in penalties.
- RosUkrEnergo (RUE) is 50 % Gazprom, 50 % Ukrainian private owners. Your prime minister wants it eliminated.
- Your pipeline system needs about 21 million m³ of "technical gas" a day to run its compressor stations. Without it, transit is physically impossible.
- Ukraine has large underground storage, enough for several months of domestic supply without Russian imports. You will not freeze first; Bulgaria will.
- Naftogaz sells gas domestically far below import cost and runs at a chronic loss covered by state subsidies. Ukraine's economy is in deep trouble: the financial crisis has hit hard, steel exports have collapsed, and an IMF programme was agreed in November 2008.
- Russia is developing Nord Stream (to Germany) and South Stream (to Bulgaria and Italy), bypass pipelines that would end your transit role.

Decision rule: the delegation decides by simple majority (two of three). The Government Representative speaks for Ukraine in plenary and announces the delegation's decision at the vote.

Your role

Motivations & constraints: You are Naftogaz's lead negotiator: price, transit fees, debt, technical gas, contract structure. You sit across from Gazprom and work through the numbers. Your concern is the company's survival: it sells gas domestically at a fraction of the import price and absorbs the difference, the IMF programme is conditioned on restructuring, and you need a deal that keeps Naftogaz solvent, and soon. Your aims: the lowest possible 2009 price, ideal $235, private maximum around $280–300 if the structure gives relief (take-or-pay flexibility, deferred payments); a formula for technical gas (at a reduced rate, offset against transit fees, or financed by a third party), fast; a pragmatic debt settlement (you dispute the ~$600 million in penalties and would accept Stockholm arbitration or a discounted settlement to get a deal done); and a long-term contract that protects transit revenue of roughly $2 billion a year, which is essential to Naftogaz's survival.

Red lines: No price above $300: beyond that Naftogaz cannot survive even with restructuring. No free technical gas to Russia: if anyone provides free gas, it flows the other way. No contract shorter than five years. Ukraine must not lose its transit position.

Style: Lead the commercial negotiation with the Gazprom Commercial Director; they are pragmatic too. Start at $201, move slowly, do not reveal your flexibility early. On technical gas, propose offsetting against transit fees: commercially clean, and it avoids the toxic framing of "free gas". On debt, signal willingness to go to arbitration for the disputed part: principled and practical, it removes the debt from tonight's negotiation. Engage the Commission on transit and monitoring and accept any help offered. Manage the Government Representative carefully: if you reach a commercially sound deal above $250, help them sell it; "a base price of $X with a 20 % discount for year one" sounds better than "we accepted $X"; the formula matters as much as the number.

Confidential (for you alone, not for your delegation): You have more price flexibility than the Government Representative admits publicly; and, in a delegation vote, you and the Strategic Adviser can carry the delegation without them. Naftogaz could survive at $270–280 with favourable terms: take-or-pay flexibility (so you do not pay for gas you cannot use in a downturn), a solid transit tariff, some debt restructuring. The problem is political: the government has committed to $250 in public. You are also more pragmatic about RosUkrEnergo than the government: yes, it should go, but eliminating it means Naftogaz inherits its contractual obligations (RUE holds roughly 11 billion m³ in Ukrainian storage that Naftogaz would love to seize, which would trigger legal challenges), so the transition is commercially complex, not just a political clean-up. On arbitration, be honest with yourself: you have something like a 50/50 chance of winning or losing the disputed sum entirely. And you are under IMF pressure: the November programme requires Naftogaz to move toward cost-recovery pricing, which means domestic prices must rise eventually, so a higher import price is less catastrophic in the medium term than the government believes. That is politically explosive and you cannot say it publicly.