

DETERMINATION OF LONG TERM BENCHMARKS IN THE CONTEXT OF ENERGY RESOURCE PRICES SHOCKS

General context

The raised prices for natural gas for Ukraine produced shock effects on the economy. It was obviously followed by the stormy public responses. Mass media dwell far and wide upon the scapegoats of the shock and try hard to predict the consequences of the dramatic rise of prices for natural gas. As the events take place before the Parliament elections certain political forces try to provoke mass-scale hysteria using uncertain situation in regard of natural gas perspective of Ukraine.

Economic background

Unprecedented rise of prices for natural gas triggered off the negative expectations

Macroeconomic consequences triggered off by the rise of prices for natural gas are practically impossible to estimate quantitatively because the whole history of Ukraine has not seen any changes for natural gas prices, so analytically it is out of reach to pinpoint all the interrelated effects which may be revealed by the given rise of prices. In other words we do not have statistical data which would enable to carry out the required analysis. Such a situation creates a real threat in provoking the negative expectations of business agents in regard of economic development perspectives (escalated mass hysteria enhances the threat). All this indecision in regard of natural gas perspectives of Ukraine may produce ill-effects (in addition to extra costs of energy resources) comparable in its negative impact with **re-privatization policy consequences** which adversely hit the economy only by negative expectations.

Setting up of expectations

Absence of clear middle-term strategy in domestic pricing ill-effects the microeconomic environment and signals about indecision

In its character the current shock of prices for natural gas is transitive and is perceived by many, maybe even by the majority of economic agents as “possibly avoidable”. This perception shapes up the behaviour of economic agents – they try to return to the former economic conditions, compensate the expected economic losses at the budget expense. So under this situation it is a task of top priority to start shaping up the **long-term expectations** of the economic agents and, having stepped aside from international relations between the countries, to look soberly at the permanent domestic shock effects produced by the rise of price for natural gas. By all means the costs of natural energy resources will continue to rise so it would be economically wise to raise gradually domestic prices for natural gas and eventually switch to world prices.

Irrespective of international negotiations it is the top priority to increase the domestic price for natural gas and gradually switch to the world prices

Strategy of price increases should be long-term, transparent and non-discriminating. All business agents should become aware of gradual and uniform increase of energy resources prices with public announcement at regular stages and dates. This will enable the business agents to adequately plan their production actions, gradually make up for the unavoidable investments to modernise production. The irreversible character of this process will urge to switch to energy saving technologies.

It should be emphasized that gradual rising of domestic natural gas prices should be implemented irrespective to situation with prices for natural gas supplied by international providers. Even beneficial international negotiations with fixed pricing for energy resources at the current level should not cancel these efforts.

Equal rights for business agents

Discriminating prices for natural gas will provide incentives for corruption scheming

It is unacceptable to set up discriminating schemes of pricing for some groups of enterprises as it will automatically provide with the incentive for corruption. Besides, it serves as a precedent for favouritism in natural gas sales what will push lobbying new and new favours (once again we end up with corruption schemes)

In fact, under given circumstances we may choose between three variants of pricing policies: a) to balance pricing depending on the external supplies' talks results b) to installing all kinds of differentiation approaches (one of the drafts was already suggested by the Ministry of economy) c) by gradual, in stages and without any favouritism, increase of the domestic prices to the world levels.

A) *Balancing prices with reference to suppliers' prices.* The basic negative factor of such a policy will be indecision and even more escalated politicization of the issue. This approach perpetuates the threat of "unexpected price shocks" for the future.

b) *Differentiation of prices.* The differentiation principles have to be determined and executed by the government officials, therefore, demand additional expenses for control over the government agencies in regard of fair treatment of all market agents. Диференційна ціна посилює стимули для одних й послаблює для інших фактично створюючи нерівні умови роботи для підприємств. Дас підстави лобіювати зміни принципів диференціювання. Differentiation in energy resource pricing provides for incentives for some business agents and works against the others by setting up inequality in business functioning of the companies.

в) *gradual increase of domestic prices to the world level without any differentiation in pricing. It set up the equal conditions for business functioning of all the companies.* It stimulates the introduction of energy saving technologies. It checks any claims to get any privileges for certain companies. It serves to the purpose of creating the stable working environment for both the government officials and business agents.

Realistic implementation

The staged increase of the domestic prices for natural gas in a effort to switch to world prices is a **realistic** assignment as its execution directly depends on the policy of pricing by NSK "Naftogas Ukraine", which is not geared to the political situation in middle-term perspective (The Board Chairman is appointed by the President and does not depend on the Parliament elections results).

Coordination of high officials' actions and declarations

Contradicting declarations of high officials in regard of natural gas perspectives of Ukraine confuse the business agents (effect produced is similar to re-privatization discussions)

Creating public expectations is closely related to clear and consistent declaration by all officials in Ukraine of well-balanced Ukrainian perspective in energy resources supplies and their pricing. The striking examples of negative effects after irresponsible but "eloquent" announcements by the government officials are readily found in the recent events of re-privatization process. Even the President and Prime-Minister were contradicting each other confusing the business agents in regard of the economic perspectives of the government policies. Contradicting declarations about the domestic pricing policies for energy resources and any delays to produce the clear government position in this regard will have pronounced adverse effects on the entire economy.