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Russian Gas: the Most Efficient Instrument of Russian Foreign Policy towards Ukraine?

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Abstract

This thesis is aimed at exploring the Russian foreign policy tendencies towards Ukraine after the collapse of USSR. It investigates the influence of Russian gas on the Russia - Ukraine relationship. It is argued that Russia uses its gas 'weapon' as the main foreign policy instrument in towards Ukraine. In this sense, Russia puts pressure on Ukraine to adopt those positions that would facilitate and promote Russia's national interests in Ukraine. It is argued that post communist Russia had two main periods in the development of its foreign policy. First was during Yeltsin's presidency, when Russia adopted a liberal approach in defining its foreign policy strategies and instruments. It was a phase when Russia being a weak and an inefficient state subsidized the economies of CIS countries, for keeping them in its sphere of influence. Second period started in 2000, when Putin came to power in Russia. During Putin's presidency Russia made a switch towards neoclassical realism approach in defining its foreign policy instruments and strategies. This period is characterized by a strengthening of Russian state and adoption of a pragmatic foreign policy towards CIS countries. Furthermore, Putin's Russia started to use efficiently the 'gas weapon' for keeping its influence in such a strategic CIS country, as is Ukraine. It is argued that Russia focused mostly on the usage of 'gas weapon' because it represents the most effective and successful instrument for pressure and blackmail Ukrainian leadership. Because Russia has a monopolist position on Ukrainian energy market, Russian gas proved to be the best way to determine Ukraine to be loyal to Russia. Therefore, in the future Russia will make use of its 'gas weapon' every time when Ukraine will make any attempts to adopt an unpleasant (from Russian point of view) position towards Russia.

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Introduction

"It cannot be stressed strongly enough that without Ukraine, Russia ceases to be an empire, but with Ukraine suborned and then subordinated, Russia automatically becomes an empire."

Zbigniew Brzezinski¹

After the collapse of USSR, Russia had to start a new relationship with former USSR countries. In this sense, the creation of Commonwealth of Independent States (CIS) was a framework for future Russian influence of its former territories. Putin characterized CIS as “an instrument for a civilized USSR divorce”². It was a divorce, where the former head of the family wanted to keep its previous influence. It was a time when Russia had to solve its own political, economic and social problems in order to become a democratic state. As a result, Russia lacked the necessary potential to impose efficiently its foreign policy interests in the CIS space.

After 1999, when the prices for energy resources started to increase, and the political elite in Moscow changed, Russia became more powerful and active in CIS countries. At the same time, countries which imported energy resources from Russia became more vulnerable and reliant on Russia. At the end of the day, Russia was picking up the benefices of increased prices, because this permitted Russia to get bigger revenues and to improve its economical situation. In this context, Russia realized that energy weapon could become a very efficient instrument in promoting Russian foreign policy abroad. Referring to Russian ‘energy weapon’, it should be mentioned that Russia had used it even before 1999, but after Putin

¹ Zbigniew Brzezinski, *"The Premature Partnership"*, Foreign Affairs, March/April 1994, p. 80

² “*Putin otkril dlja cevo bil nujen SNG: dlea tsivilizovanovo razvoda*” [*Putin opened for what was needed CIS: for a civilized divorce*], Nakanune.ru, March 25, 2005. On: http://www.nakanune.ru/news/2005/03/25/putin_otkryl_dlja_chego_byl_nuzhen

came to power the impact of the gas tool become more efficient and aggressive for CIS countries. Also we should not forget that this energy weapon is in the hands of a country which possess the second biggest raw materials reserves.³ In this context, in January 2009 *The Times* wrote that “Gazprom itself is neither good nor bad. It is like a Kalashnikov or a Colt that can be used either to intimidate or in defense. Its moral value depends on the intention of the person whose finger is on the trigger”.⁴ After Putin came to power, the ‘gas weapon’ is not underestimated by anyone. Putin started to use gas as an instrument to determine CIS countries to cooperate and not to neglect Russian national interests.

In this sense the present thesis is an attempt to analyze Russian behavior after the end of Cold war. Furthermore, the main objective of this research is to investigate Russia foreign policy in the CIS region, mainly focusing on Russia – Ukraine gas relationship. In the present paper I will use two essential assumptions. The first is that Russia has a well defined foreign policy concept, where energy resources represent a vital tool in promoting state foreign policy.⁵ The second assumption is that Russian foreign policy used energy weapon for implementing its goals in the ‘near abroad’ region. Ukraine in this case, represents the classic example on how Russia used Gazprom ‘gas weapon’ on the ground. Moreover, in the following research, particular attention will be given to the matters regarding the second assumption. As a method of research I will use the comparison of Russian foreign policy during Yeltsin’s and Putin’s presidencies towards CIS countries, with a special focus on Ukraine. Moreover, this thesis aims to contribute with a comparative study of liberal and realist assumptions which describe the Russian foreign policies during Yeltsin and Putin era, however with a focus on gas issue.

³ James Boxell and Doug Cameron, “Lubricating Russia’s Oil Wheels”, *Financial Times*, October 4, 2004, p. 19

⁴ Roger Boyes, “Comment: Gazprom is not a market player, its apolitical weapon”, *The Times*, January 7, 2009. On: <http://www.timesonline.co.uk/tol/news/world/europe/article5458245.ece>

⁵ See “Energeticheskaya Strategiya Rossii na period do 2020 goda”[“The Energy Strategy of Russia for the Period of up to 2020”], approved by the Decree No.1234-p, from August 28, 2003

In order to understand why Russia uses its gas as the most important tool of influence in Ukraine, I intend to look at Russia – Ukraine gas relationship after 1991. I have chosen the Ukrainian case as a reference point since it is the second largest country from the former USSR⁶ and where Russia has a vital interest for decades. Moreover, Ukraine was the single country from CIS where Russia used such massively its ‘gas weapon’ and where already two ‘gas wars’ occurred during the last four years. Hence, this thesis seeks to understand what threats or assets determined Russia to use gas as its main foreign policy instrument towards Ukraine.

I claim that one of the major factors that drove Russian foreign policy to use gas as the main tool of influence towards Ukraine is the fact that later is almost fully dependent on Russian gas⁷. Consequently, Russian gas is an effective instrument because Ukraine does not have any serious additional sources of gas and in this sense is obliged to use Russian gas as the unique source. Hence, the hypothesis to be tested is: “the usage of gas as the most efficient Russian foreign policy instrument was determined by the monopolistic position of Russia in the gas sphere. This position gives Russia an important position in negotiating its interests in Ukraine”.

This research is carried out with a consultation of primary sources which include the signed gas agreements between Russia and Ukraine. The secondary sources applied for this research include analysis and articles in the field of foreign policy studies and energy policies. I shall use liberal and realist theories to show the Russian foreign policy directions during Yeltsin’s and Putin’s presidencies towards Ukraine.

The first Chapter of this thesis refers to the theoretical approaches of Russian foreign policy after the end of Cold War, with a focus on the liberal and realist

⁶ R. Puglisi, “Clashing Agendas? Economic Interests, Elite Coalitions and Prospects for Co-operation between Russia and Ukraine”, *Europe-Asia Studies*, 2003, Vol. 55, No. 6, p. 832

⁷ See Gazprom website, “Razvitie sotrudnichestvo v gazovoi sfere so stranami bivshego SSSR” [“The development of cooperation in the energy sector with former USSR countries”], June 7, 2007. On: www.gazprom.ru

approaches of Russia's foreign policy. The second Chapter relates the gas relationship of both countries. Moreover, I shall look at the history of the 2006 and 2009 Russia – Ukraine 'gas wars'. The Third Chapter will analyze the impact of the Russian foreign policy instruments towards Ukraine. I will analyze the impact of Russian gas 'weapon' on Ukraine, together with an evaluation of other Russian foreign policy tools used in Ukraine. The fourth Chapter will evaluate the outcomes of Russia – Ukraine "gas wars" and will look at the future gas relationship between Russia and Ukraine.

Chapter 1 Theoretical Framework for the Study of Russian Foreign Policy after the collapse of USSR

In this chapter I will analyze Russian foreign policy towards CIS countries, and it will explain the Russian switch in foreign policy which happened with the inauguration of Vladimir Putin in 2000. I will use two main IR theories, liberalism and realism, in order to explain the Russian foreign policy vis-à-vis CIS countries.

During Yeltsin's presidency, Russia had a liberal approach in defining its foreign policy. I will use the Economic Interdependence theory of the liberal approach. Because it explains the best Russian foreign directions during Yeltsin mandate. The main hypothesis of this theory is that "economic interdependence in an increasingly integrated world economy reduces the expected utility for relying on military force to resolve international disputes."⁸ In other words, the economic interdependence between two states decreases the probability of conflict between them because the costs of damaging economic relations are much higher than the benefits of a war. The main assumption of this theory is that as a state becomes more democratic and integrates into the global market; its foreign policy will be more cooperative and less aggressive towards its economic partners. For this reason, during Yeltsin presidency, Russia started to implement market economy principles and adopted a foreign policy based on cooperation between states and support of CIS countries.

Regarding the Putin foreign policy, I will demonstrate that it is a foreign policy based on realist theory. More precisely I will refer to neo-classical realist school. Neo-realists say that states are not seeking security but to a certain extent they seek to shape and control the countries from their spheres of influence.⁹ Also neo-classical realists

⁸ Robert Powell, "Absolute and Relative Gains in International Relations Theory" in David Baldwin "Neorealism and Neoliberalism: the Contemporary Debate", Ed. New York: Columbia University Press, 1993, p. 211

⁹ Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy", World Politics 5:1, 1998, p. 150

analyze the internal processes from a state in order to establish how states took decisions when “pressures and opportunities in their external environment are present”.¹⁰ Also for neo-realists it’s important the strength of state bureaucracy and its relation with the society. Neo-realists refer to the leader ability to mobilize the whole society against security threats.¹¹ This school of thought states that foreign policy of the state is driven mainly by the state’s “place in the international system and specifically by relative material power capabilities”.¹² This suggests that, Putin’s Russia started to strengthen the internal power vertical, together with the instauration of an authoritarian regime controlled by Putin. In the case of CIS countries, Putin adopted a pragmatic position, where the main aim was to maintain and secure Russian interests abroad. Besides that, Putin started the process of Russian come back as an important player on the International arena. It might be concluded from this, that contemporary Russia suffered a great change at the beginning of 2000. It wasn’t just a change of the political elite; it was also a change of the Russian foreign policy direction for at least eight years of Putin’s presidency.

1.1 The Liberal Approach of Russian Foreign Policy

After USSR finally collapsed, Russia made great efforts in order to integrate itself in the international system and to accommodate to the new realities. In this sense Russia was not a superpower anymore, as it was before. Russia lost the Cold War and its new position in the world was reduced to a regional power. Taking into account these realities, Yeltsin presidency Russia adopted a totally liberal orientation and started the democratization process of Russian state and society. If we refer to liberalist school of

¹⁰ Randall L. Schweller, “*The Progressiveness of Neoclassical Realism*”, in Colin Elman and Miriam Fendius Elman, “*Progress in International Relations Theory: Appraising the Field*”, eds. Cambridge: Belfer Center for Science and International Affairs, 2003, p. 334

¹¹ Gideon Rose, op.cit. 1998, p. 161

¹² Ibidem, p. 146

thinking, then we should mention that liberalists look at the world as an international anarchy, where there is no institution which will standardize states' behavior. At the same time, this anarchy does not lead to conflicts between states. In this sense liberals see as the unique solution for the states to collaborate and interact economically with each other. As a result, states will be linked with each other and will not fight between each other, because they will suffer huge economical losses.¹³

During Yeltsin's era, the main message of Russian political elite was that "Russia's identity should be defined as a civic state in the boundaries of the Russian Federation"¹⁴. In this sense Russian liberalism promoters were totally against the idea of Russian uniqueness and the concept of Russia as a *grand nation*. Russian liberals were militating for building "a normal state, with no overarching mission, whose future was to be a modern, liberal state coexisting in a benign international environment"¹⁵. Russian liberals were in favor of a peaceful Russia, which would be able to cooperate with the West and especially with the USA. As a consequence, Yeltsin started to build a real partnership with USA and the Western countries, in order to increase the number of Western economic transactions and investments in weak Russian economy. As a demonstration of its openness towards west, Yeltsin held a very impressive speech in front of USA Congress on 17 of June 1992. In this speech Yeltsin said that "Russia does not aspire to remake the world in its own image. It is the fundamental principle of the new Russia to ... share experience, moral values, and emotional warmth, rather than to impose and curse".¹⁶ This was a very conciliating and liberal message addressed to the international community.

¹³ C.W. Kegeley Jr., "Controversies in International Relations Theory. Realism and the Neoliberal Challenge", New York, 1995, p. 110

¹⁴ Ibidem, p. 34.

¹⁵ A. Kozyrev, "Vneshnyaya Politika Rossi [Russian Foreign Policy]", Rossiiskaya Gazeta, December 13, 1992, p. 2

¹⁶ Suzanne Crow, "Russia Debates Its National Interests", RFE/RL Research Report, Vol. 1, No. 28, 10 July 1992, p. 43

In the literature there are different classifications of Liberal paradigm. Robert Keohane and Joseph Nye classify liberalism in three distinct categories: institutional liberalism, republican liberalism and economic liberalism.¹⁷ Mark W. Zacher and Richard.A. Matthew make a distinction between interdependence liberalism, republican liberalism, cognitive liberalism, sociological liberalism and also institutional liberalism.¹⁸ I will use the delimitation made by J. Baylis and S. Smith, who analyzed liberalism from the chronological view, because it fits the best the case of Russia during the Yeltsin presidency, and it also analyzes the evolution of liberal theory. First, Baylis and Smith delimited republican realism, with its main promoter I. Kant. Second, they identified the inter-war liberalism represented by W.Wilson. And finally they analyzed liberal institutionalism and its promoters: R. Keohane and J.Nye.¹⁹ Liberal institutionalists perceive cooperation between states as the main way of maintaining the international relations viable. In the case of Russia, Yeltsin was trying to show that Russia already abandoned its former expansionist foreign policy and it was ready to cooperate with liberal democracies. Moreover, Russian Foreign Minister, Andrey Kozyrev stated that “the developed countries of the West are Russia’s natural allies.”²⁰ This meant that Russia no longer considered Western countries as its foes but as its closest friends and allies. This was a radical change in the Russian foreign policy, which had as the main aim to establish a new bridge with the West and to democratize Russian society. In the same

¹⁷ R.O. Keohane and J.S. Nye Jr., “Neorealism and Neoliberalism”, *World Politics*, 1988, no. 2, p. 246

¹⁸ M.W. Zacher and R. A. Matthew, “*Liberal International Theory: Common Threats, Divergent Strands*” in C.W. Kegeley Jr., “*Controversies in International Relations Theory. Realism and the Neoliberal Challenge*”, New York, 1995, p. 110

¹⁹ J. Baylis and S. Smith, “*The Globalization of World Politics*”, Oxford, 2001, p. 164–171

²⁰ Joseph L. Noguee and R. Judson Mitchell, “*Russian Politics- the Struggle for a New Order*”, Boston: Allyn & Bacon, 1997, p.156

context Kozyrev was saying that Russia” must simply learn to live as independent states and to look on one another as equal partners”.²¹

Liberal institutionalism also puts economic and social problems on the top of the state agenda, paying less attention to military and security issues. Moreover states are considered to be dependent on each other, and in this sense the welfare of one state is directly dependent on the welfare of other states.²² In our case, it meant that Russia will no longer behave like a big brother in its „near abroad” sphere of influence but will help neighboring CIS countries to solve their problems. All these actions made by Russian leadership had the main objective to determine Western countries to help Russia in its tendency towards the building of a new, liberal, and democratic society.

Some authors claim that Russian liberal approach regarding foreign policy vector of the future relations had two main directions: Atlantists and Europeanists.²³ Atlantists were for a deeper relation between Russia and United States, mainly because U.S and Russia during the Cold War were the two superpowers of the world. In this sense Russia perceived itself as a super power, even if USSR ceased to exist and Russia lost its super power status. Russian Atlantists thought that it is easier to negotiate with USA than with European countries. This position was explained because of the past USSR – USA dialog and because European countries were reluctant to negotiate and accept a New Russia. Also Atlantists were the promoters of Russia – NATO institutionalized dialog. Finally this operation body was established in 1997 as a consultation framework on mutual security and partnership issues. This Russia – NATO partnership gave Russia the feeling that it is still an important actor of international arena and that USA still treats Russia as an equal partner.

²¹ Alvin Z. Rubinstein, “*The Transformation of Russian Foreign Policy*” in Karen Dawisha, “*The International Dimension of Post-Communist Transition in Russia and the New States of Eurasia*”, ed. New York: M.E Sharpe, 1997, p. 34

²² A. Hasenclever, P. Mayer and V. Rittberger, “*Theories of International Relations*”, Cambridge, 1997, p. 137

²³ A. Rahr, “*Atlantists vs. Europeanists in Russian Foreign Policy*”, RFE/RL Research Reports, 18 May 1992

Referring to the Europeanist approach in Foreign policy debate during Yeltsin period, we can emphasize that Russian Europeanists saw Russia as a part of Europe. They were promoting the idea that Russian – European Union dialog should be improved and deepened, in order to make this partnership benefic for both parts. Such a position was explained by the fact that European Union countries are the largest economic partners of Russia and also Europeans were looking at Russia as a new market for their exports. During Yeltsin presidency Russia was accepted in the G7 club as recognition of its power and capacities. Also Russia managed to build good relations with important international organizations like European Union (EU), Organization for Economic Co-Operation and Development (OECD), Asia - Pacific Economic Cooperation (APCE), Organization for Security and Cooperation in Europe (OSCE), International Monetary Fund (IMF), and other important institutions, which helped Russia to develop and to escape international isolation.

A particular example of a liberal vision was the Russian foreign policy towards CIS countries. Starting with 1991, all CIS countries launched economic and political reforms. These reforms were characterized by general liberalization of the prices and of external economic activity. During this period a general tendency toward the convertibility of national currencies, the privatization of the state property and other important measures was maintained in all CIS countries. At the same time, the liberalization of prices caused the ineffectiveness of many economic activities, and the liberalization of external economic activity revealed the lack of competitiveness of the CIS economies. Also it is necessary to mention that Russia remains for the majority of the CIS countries a strategic partner. This fact is explained mainly by the dependence of CIS countries from Russian energy resources, raw materials, and Russian market. At the same time, one of the sharpest problems of the economic development of the CIS

countries is the paying off of their foreign debts to Russia. The approximate sum of the CIS foreign debts to Russia in 2000 was \$158.4 billion, from which \$103.6 billion are the debts remaining from the USSR period and \$54.8 billion are accumulated from Russian independence in 1991. Ukraine, for example, is one of the 30 countries which have a foreign debt more than \$12 billion.²⁴ Despite the fact that a part of debts were redrafted into technical credits, the debts for energy resources deliveries are constantly growing and are qualified by Russia as hopeless debts. Only for the energy resources deliveries the CIS countries owe Russia more than \$2.5 billion, from which only Ukraine had \$1.4 billion. At the same time, Russia during 1990's was selling gas to the western countries with \$110/tcm, and for Ukraine - only \$50/tcm, Armenia \$53/tcm and Georgia with \$50/tcm.²⁵ During 1994-2000, Russia invested into the CIS countries economies approximately \$1.5 billion.²⁶ At the same time, Russian investments in the majority of the CIS countries are frequently considered as a threat to the national sovereignty and dependence on Russia.

In conclusion, it can be stated that Yeltsin adopted a liberal approach in defining Russian foreign policy mainly because of the poor financial situation of Russia at that time. Also he was looking for Western institutional support in order to pass the transit period from communism to democratic society. However, this liberal orientation was totally abandoned by Russia in 2000 because of the change of Russian political elite.

²⁴ Stroeve E. S., Bliashman L.S. and Krotov M.I., "*Ekonomika Sodruzhestva Nezavisimih Gosudarstv nakanune tretievo tiseciletia*" [*The economics of CIS at the beginning of the 3-rd millennium*"], Jurnal Nauka, 1998, p. 31. On: <http://instituciones.com/general/47-2008-06-12-09-05-27.html>

²⁵ Ibidem

²⁶ Ibidem

1.2 The Realist Approach of Russian Foreign Policy

From 2000, Russia switched towards a pragmatic neo-classical realist orientation that works even today. In Putin's presidential address in 2000, he emphasized the fact that Russia is "the strongest Eurasian power", whose influence was limited by other countries attempts to create a unipolar world.²⁷ Such statements demonstrate that Putin considers that Russian national interests can be protected only by promoting and expanding the Russian *great nation* status. For this reason, the most suitable IR theory which will define Russian foreign policy during Putin's presidency is realism. Similarly to Putin, realists consider power as the main argument in order to maintain a state influence in the international system²⁸. A very useful classification of realist theory is defined in Gideon Rose's article *Neoclassical Realism and Theories of Foreign Policy*. He defines the existence of three types of political realism theory. These are: offensive realism, defensive realism and neoclassical realism.²⁹ I will use the neoclassical approach in analyzing the Russian foreign policy vector adopted by Putin, because it incorporates most the features of Russian way of conducting its foreign policy after 2000. Rose, wrote that neoclassical realism "*incorporates both external and internal variables, updating and systematizing certain insights drawn from classical realist thought. Its adherents argue that the scope and ambition of a country's foreign policy is driven first and foremost by its place in the international system and specifically by its material capabilities. This is why they are realists*".³⁰

One of the most important postulations of neoclassical realism is based on the fact that by its nature every state tends to extend its influence as much as it can. In this sense

²⁷Richard F. Staar, "Russia Reenters World Politics", Mediterranean Quarterly, Fall 2000, p. 27

²⁸Robert G. Gilpin, "The Richness of the Tradition of Political Realism", International Organization, 38, 1984, p. 287-304

²⁹Gideon Rose, op. cit., p. 147

³⁰Gideon Rose, op. cit., p. 146

states adopt an “influence-maximizing behavior”, which means that the stronger a state becomes, more it expands its influence on its external environment.³¹ Also because of the anarchic structure of the international system, states tend to compete with each other and to expand their influence in order to survive.³² Neoclassical realists consider that states are those who are responsible for the anarchy of the international system. As Wendt wrote “Anarchy is what states make of it”.³³ States are responding to international system insecurity and anarchy by expanding their control and influence over neighbor states and regions. Expanding their influence abroad, states think that they are secured in the international system, and they will extend this influence as much they can. Neoclassical realists argue that with the increasing of relative material power of the state, this will make the state adopt a stronger and more expansionist foreign policy. The same works the way around, if a state loses its relative material power in a short period, it will have to restrict its foreign policy and to concentrate more on domestic affairs issues.³⁴ In the long term, countries make a evaluation of their available power resources and from this fact they build up their foreign policy and define their zone of interests. As Sean M. Lynn – Jones write in his essay “power is a means, whereas influence is the end”³⁵.

In the case of Russia, starting with 1999, its economy and political situation started to stabilize. The economic recovery was to a great extent due to the increasing of the prices of energy resources on the world market. Russia, being the world’s larger producer of gas and oil, has benefited the most from the increase of the prices on these strategic products. Also, Russia managed to pay back all its foreign debts and increased its economical potential. This recovery was also due to the change of political elite that

³¹ Fareed Zakaria, “Realism and Domestic Politics – A Review Essay”, *International Security* 17:1, 1992, p.194

³² Ibidem

³³ Alexander Wendt, “Anarchy is what States Make of it: The Social Construction of Power Politics”, *International Organization* 46, p. 394 -395

³⁴ Gideon Rose, op. cit., p. 167

³⁵ Sean M. Lynn – Jones, “Review: Realism and America’s Rise: A Review Essay”, *International Security* 23:2, 1998, p.169

occurred when Vladimir Putin emerged on Russian political Olympus. From 2000, however the situation in Russia started to change dramatically. It was a coming back of strong Russia in the domestic and foreign affairs. In domestic affairs Putin managed to strengthen the so called Russian vertical of power and brought back Chechen Republic under Russian jurisdiction. He started the anti-terroristic campaign against Chechen terrorists and finally he succeeded to eliminate, at least partially, terrorist organizations from Chechnya.

At the same time, neo-classical realists focus the attention on the leader's perception of the external world. They argue that foreign policy in the last instance is made by human beings and in the end humans are the deciding factors of the future of the country.³⁶ A famous neo-classical realist, Randall Schweller says that the leader's ideas and perceptions are changing quicker than the state capabilities, in this sense the rapid shift in foreign policy is due to the leader ability to react to the new challenges that appear³⁷.

In this sense, Putin's crucial goal was Russia's returning to the international scene. At the same time, Putin put in practice the will of Russian people to be called again the *grand nation*. It wasn't an easy task, but Putin managed to increase the Russian influence on the international arena in a quite short period of time. This was done mainly through three main directions: creation of EurAsEC community, active involvement in global affairs and the usage of energy diplomacy.

Referring to the first dimension of Russian '*come back*' on international scene, we should mention the fact that with the creation of EurAsEC community Russia gave a serious signal that it will continue to dominate the „near abroad” countries. At the same

³⁶ Gideon Rose, op. cit., p. 147

³⁷ Randall L. Schweller, "*The Progressiveness of Neoclassical Realism*", in Colin Elman and Miriam Fendius Elman, "*Progress in International Relations Theory: Appraising the Field*", eds. Cambridge: Belfer Center for Science and International Affairs, 2003, p. 334

time, Russia showed that now it can create its own regional organizations, which could become an alternative to Western organizations. Also EurAsEC, alongside with other economic organizations created by Russia, was aiming to promote first of all Russian national interests in the member countries. This was done in order to increase the economic dependence of these countries towards Russia. It was a new geostrategic instrument of influence that Russia started to use instead of army invasions or other hard diplomacy instruments.

The second direction was the Russian involvement in all global affairs, including active dialog with organizations like UN, NATO, EU, OSCE, and others. At the same time Russia was showing openly its tough position regarding some international problems that affected Russian national interests. An example could be the USA plans to deploy a Ballistic Missile Defense radar system in the Czech Republic and 10 BMD interceptor missiles in Poland to counter a possible emerging threat from Iran.³⁸ As a reaction to this fact and also because some NATO countries not fulfill the Conventional Forces in Europe Treaty (CFE) provisions, Russia declared a moratorium on the CFE. This decision was showing to the USA and to the world that Russia will no longer tolerate that its national interests are neglected. This example show that Russia could not be ignored as it was till 2000. USA and Western countries had to listen and took into account Russian position and arguments. It was a sign of reemerging of Russia in the club of most powerful countries of the world.

The third, most efficient direction of Russian foreign policy was the use of energy diplomacy instruments in its relations with neighbor countries, in other words, the use of gas and oil as a tool of promoting Russian national interests in its „near abroad” area. As an example for this, could be Putin’s foreign policy approach towards CIS countries.

³⁸ Richard Weitz, “A Bush –Putin Discussion on the Radar”, Hudson Institute website, June 20, 2007. On: http://www.hudson.org/index.cfm?fuseaction=publication_details&id=4977

Here Putin abandoned the liberalist approach and started to put in practice the neoclassical realist approaches. Vladimir Putin started to use Gazprom as an instrument of punishing those countries which were refusing to cooperate and accept Russian 'friendship'. Mainly, Putin punished countries which changed their foreign policy vector towards the West. In this sense we can mention Georgia, Ukraine, and Moldova. At the same time Russia also increased the gas prices for those countries which were not against Russia, like Belarus, Armenia.(See Appendix Table A.) This was made, in order to show that the prices were increased for all and also to show all CIS countries that they depend on Russia energy resources. This means that beginning with 2000, Russia would not subsidize anymore the CIS countries economies, as it did before. With the above mentioned statement Putin emphasized the fact that is time to put in practice a new, realist approach towards CIS and in this sense to make a revision inside CIS. A revision which will show which states are to be considered as Russian friends and which are Russian foes. After the delimitation in these two categories was made, Russia started to apply the sticks and carrots tactic. This was mainly done with energy 'weapon' and of course other instruments of Russian foreign policy.

During Putin presidency Russia was striving first to regain and later to keep its control in the „near abroad” countries and to dominate the whole region. The main objective although is to restore its former power and influence in the world affairs. Russia couldn't exist being a country like others, it tends to become a leader in the region and an important international player and other big powers will take into account its positions and opinions.

Chapter 2 Historical Perspective of Russian – Ukrainian Gas Relationship in the Post-Communist Period

After Russia and Ukraine declared their independence, a new phase in their gas relationship began. It was not the previous relation between the center and the Soviet republics, but already a relation based on partnership between two independent states. The Russia – Ukraine gas relationship from the beginning of 1990's was determined by Ukrainian incapability to pay for Russian gas deliveries and also the illicit stealing of gas from transit pipeline. As a response Russia was putting pressure on Ukrainian leadership in order to get back its money for the delivered gas and to stop Ukraine from stealing transit gas.³⁹

During 1990's Russia delivered Ukraine gas for \$50/tcm, but despite to this low price Ukraine accumulated huge debt towards Russia.⁴⁰ In 1998 a new gas agreement between Russia and Ukraine was signed. This agreement set up the interdependence between the price of Russian gas and the transit fee. At the same time Gazprom managed to separate the issue of transit gas for Europe and the gas for Ukrainian users. In the end, the 1998 agreement did not solve all the problems between Gazprom and Ukrainian companies. It was just a short term solution for both countries. At the end of 1998 the Ukrainian debts before Russia reached \$1.6billion.⁴¹ At the same time Gazprom accused Ukraine that it theft 4 billion cubic meters of Russian gas.⁴² In this sense, the gas relationship between Russia and Ukraine at the beginning of Putin's presidency were much tensioned and unstable.

³⁹ Jonathan Stern, "The Russian Natural Gas 'Bubble': Consequences for European Gas Markets", London RIIA, 1995, p. 60–61

⁴⁰ See the web - portal of Ukrainian Government, "Ukraine - Russia: Gas. If Ukraine raises gas transportation charges Russia's move to increase price for natural gas, supplied to Ukraine, will be unrewarding", December 22, 2005. On: http://www.kmu.gov.ua/control/publish/article?art_id=26278842

⁴¹ See "Interfax Petroleum Report", January 14-20, 2000, p.14

⁴² Ibidem

In 2002 Russia and Ukraine agreed to sign an agreement regarding the creation of an “international consortium” in order to renovate and improve the Ukrainian transit pipelines. The total cost of Ukrainian transit pipelines improvement constituted \$17.5 billion.⁴³ The above mention consortium helped Ukraine to improve its national gas pipeline systems and at the same time allowed Russia to use a better transit pipeline in the future.

In 2004 a new agreement was signed between Gazprom and NaftoGaz Ukraine. This agreement stated that Ukraine will pay Gazprom got its debts of \$1.62 billion⁴⁴. In the same order of thoughts, I would like to mention another important factor in Russian – Ukrainian relations – the gas issue. Getting control over the former USSR transit pipelines across Ukraine, new leadership from Kyiv alongside with local oligarchs started to make fortunes on this profitable business. We should mention that at the beginning of 90’s, Ukraine was buying merely 18.3 billion cubic meters of gas from Turkmenistan and the rest of 52.9 from Russia.⁴⁵ In 1997 because of debts Turkmenistan cut off its gas supplies to Ukraine. As a result Russian Gazprom increased the gas volume to Ukraine in order to cover the gap made by Turkmenistan decision.⁴⁶ In this period Gazprom made an attempt to transform the Ukrainian gas importers debt into Ukrainian state debt. In this way Gazprom was trying to force Ukraine to sell its gas pipeline for the current gas debts to Russia.⁴⁷ In the same agreement it was written that Gazprom will pay in advance \$1.25 billion to Naftogaz Ukraine for the transit of 19.2 Bcm of gas during 2005-2009. Also both parties agreed to determine the price of \$1.09/tcm/100km of gas transit during 2005-

⁴³ See “*Ukrainian president requests gas consortium agreement*”, Interfax Petroleum Report, June 21-27, 2002, p.4

⁴⁴ See: “*Settlement of Ukraine’s debt for natural gas deliveries between 1997 and 2000*”, Gazprom Press Release, August 11, 2004

⁴⁵ “*Natural Gas Information 2000*”, International Energy Agency, On: www.iea.org

⁴⁶ See: Sygna, OSW, 31, July 1, 1997

⁴⁷ See: Arkadiusz Sarna, CES Analysis, Warsaw, 1999

2009.⁴⁸ (See Appendix Table D.) On one hand, Gazprom helped Ukraine by paying in advance its transit fees. On the other hand, Gazprom secured that Ukraine will not increase the transit tariffs for Russian gas till 2009. In reality the above mentioned agreement as previous ones, just temporary settled the actual problems between Russia and Ukraine in the gas sphere. In the long run they did not manage to build a real partnership between two parties.

At the end of 2004, after the so called “orange revolution” took place in Ukraine, new political elite come to power in Kyiv. The Yushchenko administration expressed its pro western vision and was very reticent towards Russia. This fact directly affected the Russia – Ukraine gas relations. Russia did not like Yushchenko and the way he won the presidential election. In this sense, Putin declared in Sochi that “if the West wants to support the Orange movement, let them pay for it. Do you think we are idiots?”⁴⁹ This clearly meant that Russia understands and the pro Western tendencies of the new leadership and will use its instruments in order to keep its strong positions in Ukraine. In March 2005 Ukraine initiated the idea of switching to market relations in the gas sphere with Russia, after proposing Moscow to pay for the transit of Russian gas on the territory of the Ukraine with money, but not with gas as it was before.⁵⁰ After this declaration, Russia considered that Ukraine was ready to switch to European market prices for Russian gas. During this period, the oil and gas prices on the world market were increasing rapidly. In this sense, CIS countries which paid \$50/tcm were four times lower than European prices. Gazprom considered this situation unfair and started to raise the

⁴⁸ See: “Settlement of Ukraine’s debt for natural gas deliveries between 1997 and 2000”, Gazprom Press Release, August 11, 2004

⁴⁹ Michael Binyon, “Drop your silly Atlantic solidarity and support us, Putin tells West”, September 15, 2007. On: <http://www.timesonline.co.uk/tol/news/world/europe/article2436902.ece>

⁵⁰ RFE/RL Belarus, Ukraine, and Moldova Report Vol. 7, No. 42, 16 December 2005. On: <http://www.infoukes.com/rfe-ukraine/2005/1216.html>

prices for all CIS countries, including Ukraine. At the end of November 2005 Gazprom announced that Kyiv will have to pay \$230/tcm.⁵¹ (See Appendix Table A.)

The first 'gas war'- 2006

Ukraine did not agree with Russian offer and on January 1, 2006 Russia limited the gas deliveries to Ukraine.⁵² From that moment Gazprom specialists began to track the integrity of the gas volume passing through Ukraine. Already on January 1, Gazprom accused Ukraine of unsanctioned gas tapping.⁵³ On January 2, Ukrainian President Victor Yushchenko stated that Russia no longer pays Ukraine with gas for its gas transit to Europe.⁵⁴ Gazprom announced that during first two days of January 2006, Ukraine stole 104.8 million cubic meters of Russian gas, which costs more than \$25 millions.⁵⁵ Also Gazprom announced that it directs additionally for European consumers 95 million cubic meters of gas in a 24 hour period as a compensation for the unsanctioned gas theft made by Ukraine. The deputy chairman of the Gazprom administration, Alexander Medvedev confirmed that "Gazprom toward the evening of 3 January will restore the full gas supply for Europe in accordance with the signed contracts."⁵⁶

On January 4, Gazprom and Naftogaz Ukraine reached an agreement, which solved the Russian - Ukrainian gas crisis. The signed contract is valid for the next five years. The price of Russian gas will be \$230/tcm.⁵⁷ From first of January Gazprom accepted to supply gas for Ukrainian users through RosUkrEnergo. Transit rate will be of

⁵¹ RFE/RL Belarus, Ukraine, and Moldova Report Vol. 7, No. 42, 16 December 2005. On:

<http://www.infoukes.com/rfe-ukraine/2005/1216.html>

⁵² See Gazprom website. On: <http://www.gazprom.ru/eng/articles/article31044.shtml>

⁵³ See BBC website, "Ukraine stealing Europe's gas", January 2, 2006. On:

<http://news.bbc.co.uk/2/hi/europe/4574630.stm>

⁵⁴ According to Yushchenko, till this time, Russia paid for Ukrainian transit services 60/tcm per day.

See Kommersant website, "Yuscenko zayavliaet o neuplate za transit gaza" ["Yuscenko declares about the gas nonpayment"], Kommersant, January 2, 2006. On:

<http://www.kommersant.ua/index-news.html?ext=news&id=93369>

⁵⁵ Ibidem

⁵⁶ "Gazprom: Ukraine za pervii deni 2006 goda ukrala 100 mln.kubometrov gaza" ["Gazprom: Ukraine theft for the first day of 2006 year 100 million cubic meters of gas"], Polit.ru website, January 2, 2006. On:

<http://www.polit.ru/news/2006/01/02/gzzay.html>

⁵⁷ See Gazprom website. On: <http://www.gazprom.ru/eng/articles/article31044.shtml>

\$1.60/tcm/100km. An intermediary company, RosUkrEnergo will buy Russian gas and then sell it to Ukraine. The payment for transit will be made only with money, and it will not be connected with the price of the gas supplied to Ukraine. The high price of Russian gas for RosUkrEnergo (a joint enterprise of Gazprom Bank and Raifaissen Bank) will be compensated by the lower cost of gas from Central Asia. RosUkrEnergo will buy Russian gas with \$230/tcm, after which, this gas will be mixed with the gas from the Central-Asian region, and as a result RosUkrEnergo will supply in the Ukraine gas which will cost in the first stage \$95/tcm.⁵⁸

This agreement solved the crisis itself, but not the Russia-Ukraine relations. It lacked a solution for the future Russia – Ukraine gas relationship, because it did not stated clearly what will be the price of Russian gas for the next years. Russia deliberately, signed the contract without stating the future price for Russian gas, because it was looking for securing its national interests in Ukraine. Gas was the best instrument to keep Ukrainian political and financial elite in a stressful situation. Russia was looking for future political and economic instability in Ukraine. At the same time it was the first sign of a new Russian Policy based on energy diplomacy. Russia showed its power and capacities to impose its interests in the „near abroad” region. It was a short preview of a great show that happened two years later, in January 2009.

The second ‘gas war’- 2009

At the end of 2007, Gazprom agreed to export its gas to RosUkrEnergo at \$179.5/tcm for the 2008. The transit fee for Russian gas was set at \$1.7/tcm/100km.⁵⁹ In October 2008, Russian and Ukraine Prime Ministers signed a memorandum regarding gas

⁵⁸ See Newsru.com website, “Gazprom i Naftogaz soglasovali tsenu za gaz, peresmotrev shemu postavok” [“Gazprom and Naftogaz negotiated the price for the gas, redefining the delivery scheme”], newsru.com, January 5, 2006. On: <http://www.newsru.com/finance/04jan2006/gas.html>

⁵⁹ See Javno.com website, “Russia and Ukraine aim to sign gas deal on Monday”, January 19, 2009. On: http://www.javno.com/en-economy/russia-and-ukraine-aim-to-sign-gas-deal-on-monday_225599

partnership. It stated that from January 1, Naftogaz Ukraine will be the exclusive importer of Russian gas. The prices for gas and for transit services will increase, and in three years will be equal to European prices. In the same memorandum Naftogaz Ukraine guaranteed uninterrupted transit of Russian gas thru Ukrainian territory. Russia stated that this memorandum will be put in practice after Ukraine will pay all its debts for Russian gas deliveries.⁶⁰ In December 2008, Ukraine was not able to pay its debt of \$2.19 billion for Russian gas. Ukraine promised only to pay \$800 million and later to pay the rest of the sum.⁶¹ As a response, Gazprom threatened Ukraine that if it fails to pay all its debts in 2008 than in 2009 Ukraine will have to pay \$400/tcm.⁶² Finally, on December 30, 2008 Ukraine paid \$1.52 billion to Gazprom, but it was not enough. Gazprom claimed another \$614 million for the penalties. These claims were refused by Ukrainian side categorically.⁶³

On January 1, 2009, in the absence of a contract and financial guarantee, Russia ceases the deliveries of gas to the Ukraine, but continues to deliver gas for Europe on the basis of the existing transit contract with Ukraine. On January 5, Gazprom begins to reduce the gas supplies to Europe, since this gas does not reach the European users fully.⁶⁴ On the next day, the deliveries of Russian gas into Europe are reduced seven times. Gazprom deputy CEO, Alexander Medvedev declares about the readiness of Gazprom to renew the gas deliveries to Europe, if Ukraine returns the stolen gas. European Union called the reduction of the deliveries of Russian gas “completely unacceptable” and it insisted on the immediate renewal of the Russian gas deliveries to

⁶⁰ Alla Eremenko, “Novii god pod Gazpromom otmeniaetsa?” [“The New Year under Gazprom is canceled?”], Zerkalo Nedeli, October 18, 2008. On: www.zn.ua/1000/1550/64418/

⁶¹ See Naftogaz press release, “Ukraina ne raschitalasi v polnom obime za postavki gaza v sentiabre” [“Ukraine had not paid all its debts for the gas delivered in September”], December 2, 2008. On: www.interfax.ru

⁶² See Interfax.com website, November 20–26, 2008, p. 6

⁶³ Press release of the Ukrainian Presidential Administration, “Ukraina polnostiu rasschitalasi” [“Ukraine had fully paid its debts”], December 30, 2008

⁶⁴ “Gazprom reduces the volume of gas supply to the Ukrainian gas transportation system”, Ukraine facts, January 5, 2009

European countries, calling sides to solve conflict via negotiations.⁶⁵ Russia and Ukraine were differently interpreting the reduction of gas deliveries to Europe. Moscow declared that Ukraine blocked all transit pipelines,⁶⁶ while Kyiv assured that Russian transit gas does not reach Ukraine completely.⁶⁷ On January 8, European Commission called Gazprom to ensure the gas deliveries to EU countries despite the gas dispute with Ukraine. Gazprom and Naftogaz leadership met in Brussels in order to explain their views on the conflict. Ukrainian delegation at the hearings in the Commission for the International Affairs of the European Parliament confirmed its guarantees of Russian gas transit fully. European Union reported that it was prepared to send observers for monitoring the gas transit on Ukrainian territory.⁶⁸ On January 11, Ukraine signs the protocol regarding the creation of an international team which will monitor the transportation of Russian gas thru Ukraine.⁶⁹ As a result, international experts and representatives of the European Commission start working at Ukrainian gas stations.⁷⁰ On January 13, Gazprom started the trial transit of gas thru Ukrainian territory. For the next four days Russian gas did not passed Ukrainian territory because Ukraine blocked Russian gas at the entrance into its gas pipeline.⁷¹

On January 16, Russian Prime Minister, Vladimir Putin proposed to European countries to create a consortium, which will purchase technological gas from Gazprom for Ukraine, in order to renew transit thru Ukrainian territory. The biggest European gas companies supported this proposal.⁷² On January 17, Ukrainian Prime Minister, Yulia

⁶⁵ "Gazprom" v chetyre raza ot planovykh obiemov sokratil postavki ["Gazprom four times from planned volumes has reduced the gas deliveries"], Naftogaz Ukraine press release, January 6, 2009

⁶⁶ "Eto nado delati publichno" ["This should be made public"], January 7, 2009. On: www.interfax.ru

⁶⁷ "Ukraine closed last transit pipeline to Europe", Ukraine facts, January 7, 2009

⁶⁸ "Terms of reference for the monitoring of the transit of natural gas through Ukraine". On: www.gazprom.com/eng/news/2009/01/33576.shtml

⁶⁹ Andrei Nesterov, "Russia – Ukraine "gas war" damages both economies", published in worldpress.org, February 20, 2009. On: <http://www.worldpress.org/Europe/3307.cfm#down>

⁷⁰ "EU bid to revive Russia gas deal", BBC News, 12 January 2009

⁷¹ Andrei Nesterov, op. cit., February 20, 2009. On: <http://www.worldpress.org/Europe/3307.cfm#down>

⁷² "Innovative solution to allow gas transit to resume", Ukraine facts, 15 January 2009

Timoshenko arrived with a working visit to Moscow. After Putin – Timoshenko negotiations, Ukraine promised to restore Russian gas transit for European users very soon. On January 19, in accordance with the agreements achieved by Russian and Ukrainian Prime Ministers, Gazprom and Naftogaz Ukraine signed a new contract, regarding the gas delivery and transit fees for the next 10 years. According to this document, Ukraine will be offered a 20% reduction for gas in 2009.⁷³ At the same time, from 2010 Ukraine will have to pay at the ‘European price’⁷⁴ level for Russian gas deliveries. The same agreement stated that the transit fee for Russian gas will remain at the 2008 level. Moreover, Russia and Ukraine will exclude any intermediary company in their gas partnership. Also Russia and Ukraine agreed not to present claims regarding the 2008 gas deliveries.⁷⁵

Three weeks of battles were finished by the short statement of Vladimir Putin and Julia Timoshenko stating that the gas question was finally settled. As a result, Ukraine will have to buy gas at ‘European prices’, which is a very problematic issue for Ukrainian Government. In 2009 Ukrainian economy is highly affected by the world economic crisis, the industrial production is reduced and the export revenues are less than in previous years. An in depth analysis of the future development of Russia – Ukraine gas partnership will be made in the fourth chapter.

⁷³ This means approximately \$360/tcm for the first quarter

⁷⁴ It means \$450/tcm, which is the price paid by Germany

⁷⁵ See Monitor.co.ug website, “Russia and Ukraine sign 10 years gas supply deal”, January 20, 2009. On: http://www.monitor.co.ug/artman/publish/europe/Russia_and_Ukraine_sign_10-yr_gas_supply_deal_78525.shtml

Chapter 3 The Impact of Russian Foreign Policy Instruments towards Ukraine

In the present chapter I intend to look at the Russian policy instruments applied towards Ukraine after the dissolution of USSR. Hence, I plan to analyze the impact of the Russia's foreign policy tools in the case of Ukraine. In the first subchapter I will examine the gas 'weapon' which represents the most vital and effective instrument of Russian foreign towards Ukraine. I will show how Russia used its gas 'weapon' to determine Ukraine to cede important industrial companies to Russia. Moreover I would investigate what other instruments are used by Russia towards Ukraine and how effective they proved to be.

3.1 Russian 'Gas Weapon'

After the collapse of USSR, Russia realized that it was not able to export directly its energy resources to European countries. This was mainly because gas and oil pipelines were the property of newly independent countries: Ukraine, Belarus and Moldova (see Table 1). In this sense, Russia had to find a compromise with CIS countries regarding its energy resources transit. If we look at Table 1, we can see that Ukraine represents a strategic country, because 80% of Russian gas is transited to European users thru Ukraine.⁷⁶

⁷⁶“*Razvitie sotrudnichestvo v gazovoi sfere so stranami bivshevo SSSR*”[“*The development of cooperation in the energy sector with former USSR countries*”], June 7, 2007. On: www.gazprom.ru

Table 1 Russian gas transit during 2001 - 2004 Bcm⁷⁷

	2001	2002	2003	2004
Belarus	24.1	27.4	33.1	35.3
Moldova	18.5	21	22.1	20.4
Ukraine	122.7	119.7	122	126.3

Russian gas was extensively applied as a Russian foreign policy instrument after Putin came to power in 2000. This was mainly due to the fact that Russia being one of the biggest countries in the world, which possess more than 1700 trillions of cubic feet of gas⁷⁸, can afford such a tough foreign policy. In this sense, Russia as a monopolist exporter in the CIS region enlarged the use of its energy weapon after the prices for gas and oil began to increase. The increasing of prices on the world market was easily used by Russia as an instrument to keep the CIS countries in the Russian sphere of influence. Countries from the CIS region were forced to accept Russian gas and oil deals, just not to bother Russia and not to be punished by political, economic, military and other sorts of Russian foreign policy instruments. Those countries which declared their pro Western views and refused to accept Russian monopoly were punished by energy ‘weapon’ - Gazprom. This was the case of Russia-Ukraine ‘gas wars’ from 2006 and 2009, when Russia stopped the gas deliveries to Ukraine and Europe. Also Georgia and Moldova⁷⁹ were punished by Russia’s gas ‘weapon’ because of their their pro Western tendencies. Russia increased the prices for these countries mainly because the elections were won by anti Russian political forces. In Georgia, for example, where after ‘tulip revolution’

⁷⁷ “Razvitie sotrudnichestvo v gazovoi sfere so stranami bivshevo SSSR” [“The development of cooperation in the energy sector with former USSR countries”], June 7, 2007. On: www.gazprom.ru

⁷⁸ B. Gelb, “Russian Oil and Gas challenges”, CRS Report for Congress, USA: The Congress Library, January 3, 2006

⁷⁹ Moldova will pay in 2009 \$250-\$253/tcm, See more on: <http://economie.moldova.org/news/moldova-will-pay-us250253-per-1000-cubic-meters-of-gas-133573-eng.html>

Saakashvili came to power Russia drastically increased the gas prices. Moreover, even with the increased prices Moscow attempts to get them higher and higher. Namely, even if Georgia paid \$260/tcm in 2008, after the August 2008 war Russia threatened that Georgia will have to pay \$500/tcm⁸⁰. It is a typical use of Russian energy instrument to punish CIS countries that are against Russian influence. In this sense, Russian foreign policy is promoting economy as the main instrument of influence and dominance in the „near abroad” region.

It is true that in order to maintain the promoted values, a state has to use different instruments in its foreign policy towards other states. In this sense, Vukadinovic, mentions that in the 21-st century, the economic instruments will play a great role in the foreign policy of the biggest states.⁸¹ He writes that “in today’s World, economic tools, owing to economic interdependence, gains on their importance, because their usage is easier and faster, comparing to old political tools of foreign policy”. Nowadays, in our global world when states are more and more dependent on each other, economic instruments are becoming more and more efficient for promoting state interests.

Moreover, it should be mentioned the fact that some scholars have already analyzed the foreign policy economic instruments. Baldwin for example divides economic instruments in two categories; positive and negative (see Table 2).⁸²

⁸⁰ See Stratfor.com website, “*Russia, Georgia: preparing for uncomfortable energy talks*”, November 19, 2008. On: http://www.stratfor.com/analysis/20081119_russia_georgia_preparing_uncomfortable_energy_talks?ip_auth_redirect=1

⁸¹ D. A. Baldwin, “*Economic Statecraft*”, Princeton: Princeton University Press, 1985, p. 41-42

⁸² D. A. Baldwin, op. cit., 1985, p. 41-42

Table 2: Positive and negative instruments of the economic statecraft

Positive instruments		Negative instruments	
<i>Trade & services</i>	<i>Capital flows</i>	<i>Trade & services</i>	<i>Capital flows</i>
Positive trade discrimination	Providing aid (ODA)	Embargo, Boycott	Freezing assets
Most-favorite nations clause (MFN)	Investments guarantees	Tariff increase	Controls on import/export
Tariff reduction	Encouragement of private capital exports or imports	Tariff discrimination	Aid suspension
Direct purchase	Taxation (favorable)	Withdrawal of the MFN	Expropriation
Export and/or import subsidies	Promises of the above	Blacklist, Quotas	Taxation (unfavorable)
Granting licenses		License denial, Dumping	Threats of the above
Promise of the above		Preclusive buying	
		Threat of the above	

In Baldwin's table we can see that important countries use two economic instruments, (so called sticks and carrots) in order to promote their national interests in their sphere of influence. In the case of Russia, it can be seen clearly how these two instruments were used in different times and their effects were quite significant. For example, after the collapse of USSR, newly independent states were receiving quite big support from Russia. These states were benefiting of *most favorite nation clause*, promoted by Russia in its 'near abroad', in order to keep its allies closer. CIS states were receiving natural resources, subventions and other kind of support from Russia as a way of maintaining the ties with former republics. At that time, Russia had a kind of moral obligation to help its neighbor countries because a lot of Russian speaking population still lived in the former USSR countries. Moreover, during Yeltsin presidency Russia was lacking a clear view on how to use these economic instruments in order to promote Russian interests abroad. It was an amorphous and chaotic foreign policy promoted by Russia, which stimulated CIS friendly countries to use the benefices for their own sake

and not to really care about Russian interests. This confusing Russian foreign policy finished in 2003 when CIS states showed their real intention to turn their geopolitical vision towards West and to abandon Russia. The most serious events in this context served the colored revolutions from the CIS states.⁸³ These revolutions had as the main slogan to overthrow the current pro Russian elite and to bring to power a new pro Western leadership. When the last obtained the power, they started to speak about the integration in the EU and NATO structures. In this way they made provoked Russia to adopt more aggressive foreign policy instruments towards CIS countries. In this sense, Russia started to apply 'negative instruments' towards all CIS countries, including Georgia, Ukraine, Kyrgyzstan and Moldova.

Also Russia applied its 'negative instruments' as a prophylactic measure, in order to show to the leadership of CIS countries that they are still extensively dependent on Russia. In other words, Russia's message was that if a CIS country will try to repeat the 'failures' of Ukraine and Georgia it will have to pay a high price for this. In this sense, starting with 2003, Russia began to renegotiate and to raise the energy prices for all CIS countries. Officially Russia motivated its decision with the fact that Russia would no longer subvention other economies, it was time to start to work on market prices.⁸⁴

In the case of Ukraine, energy represents the most efficient instrument used by Russia in its relation towards Ukraine. Russia uses this instrument, mainly because Ukraine is almost fully dependent on Russian energy resources imports. In 2005, Ukraine imported 54 billion cubic meters of gas and 14.6 million tons of crude oil from Russia. This represents 74% and respectively 85 % from all Ukrainian energy imports.⁸⁵

⁸³ Georgian 'rose revolution' from 2003, followed by Ukrainian 'orange revolution' from 2004 and Kyrgyzstan revolution in 2005

⁸⁴ Andrew E. Kramer, "*Putin presses Ukraine to pay market price for natural gas*", The New York Times, December 9, 2005. On: http://www.nytimes.com/2005/12/09/business/worldbusiness/09gas.html?_r=2&oref=slogin

⁸⁵ See "*Quantifying Energy. BP Statistical Review of World Energy*", British Petroleum, London, June 2006, p. 24 - 27

Furthermore, Ukraine is the largest gas importer in the world.⁸⁶ Furthermore, Ukraine is dependent on the prices dictated by Russian monopolist companies and it does not have any alternative, than to buy Russian gas. This energy monopoly was used by Russia as an instrument of pressure on Ukrainian leadership to take decisions which will please Russia. Here I refer to the pressure exercised by Russia when Ukraine hesitated to integrate in CIS, the Russian Black Sea Fleet and the nuclear issues.⁸⁷

In addition, after Putin come to power, Russia started to buy important companies from CIS countries. Ukraine in this sense was not an exception. Being economically weak, Ukrainian leadership was not able to pay all its debts to Russia and was obliged to sell Russia its corporations and state companies. In this way, Russia received an important number of shares in four out of six large Ukrainian refineries.⁸⁸ Moreover, in 1995 Russia asked Ukraine to cede 15 important metallurgical factories and industrial companies together with 30%-50 % of Ukrainian gas transportation system as a partial reimbursement for the Ukrainian debt of \$1.5 billion to Russia.⁸⁹

Still, even if Russian companies took quite important shares in Ukrainian corporations, the Ukrainian state was the biggest share holder and de facto controlled the situation. Moreover, the biggest aim of Putin's Russia, to buy Ukrainian gas transportation infrastructure could not be achieved and the biggest share of gas transportation system remained in the Ukrainian hands.⁹⁰ This was made because nowadays Russia is also dependent on Ukraine, because thru Ukraine Russia exports 80%

⁸⁶ M. M. Balmaceda, "Gas, oil and the linkages between domestic and foreign policies: The case of Ukraine", *Europe-Asia Studies* 50 (2), 2008, p.258

⁸⁷ R. Puglisi, op. cit., 2003, p. 832

⁸⁸ Lukoil took control over the refinery in Odessa (9.7% of the processing potential of Ukrainian oil sector), TNK took the refinery in Lysychansk—(36.2%), Alians group acquired a 28% stake in the Cherson refinery (14%), and Tatneft—18% (present share: 8.6%) in the refinery in Kremenchuk (40.8%). Data after "Ukraine: Energy and Electricity Background", EIU IndustryWire—Background, November 10, 2005. On: www.securities.com

⁸⁹ R. Puglisi, op. cit., 2003, p. 832

⁹⁰ R. Puglisi, op. cit., 2003, p. 832

of its exports gas to Europe.⁹¹ This dependence frustrates Russia because its leadership cannot totally dictate the prices for Ukrainian gas, because as a response Ukraine will increase its tariff for transit of Russian gas thru Ukraine. Thus, after Russia - Ukraine 'gas wars', Gazprom searches to diversify its transit pipelines and to escape the dependence on Ukrainian pipelines. In this context, the most probable project is South Stream pipeline, which would run under the Black Sea and link directly Russia to Bulgaria.⁹² In this way Russia would manage to bypass Ukrainian territory and would escape Ukrainian transit monopoly. If Gazprom manages to build all projected alternative pipelines than, in few years Ukraine could lose its monopolistic statute as the biggest gas transit pipeline to Europe. In this case Russia will manage to take over the last argument of Ukrainian leadership and will dictate alone its conditions regarding gas deliveries to Ukraine.

The steps taken by Russia in the last nine years confirm one more time the neoclassical realist theory, according to which Russia was reaffirming its position and its influence in the „near abroad” region. The economic instruments were the best democratic tools that allowed Russia to prove that CIS countries are highly dependent on Russia. As a result, every radical change in their policy against Russia will create CIS countries a lot of trouble. As Putin said on 27 June 2006 “ to be honest, not everyone was ready to see Russia begin to restore its economic health and its position on the international stage so rapidly”⁹³. This is a very clear and open appreciation that Russia will become more powerful and active on the international scene in the future. In this sense, Russia managed to show to CIS countries and international community that Russia

⁹¹ See Gazprom website, “*Razvitie sotrudnichestvo v gazovoi sfere so stranami bivshevo SSSR*” [“*The development of cooperation in the energy sector with former USSR countries*”], June 7, 2007. On: www.gazprom.ru

⁹² James Kanter, “Gazprom seeks a gas pipeline to bypass Ukraine”, April 23, 2009. On: <http://www.nytimes.com/2009/04/24/business/global/24gazprom.html>

⁹³ V. Putin, “*Speech at Meeting with the Ambassadors and Permanent Representatives of the Russian Federation*”, June 27, 2006. On: http://www.kremlin.ru/eng/speeches/2006/06/27/2040_type82912type82913type84779_107818.shtml

is not a weak country anymore and in 2009 it is back again as a power that shouldn't be neglected.

3.2 Other Russian Tools of Influence towards Ukraine

After the disintegration of USSR, both Russia and Ukraine had to build a new relationship between them. A relationship based on the promotion of each country's national interests. Moreover, they had to cooperate due to the fact that both countries are closely interconnected because of their economic, political, security and cultural ties. For these reasons, ideally, both countries have to collaborate and respect each other in order to benefit the most from this interdependence. Although in reality, on one hand Russia promotes a neorealist foreign policy towards CIS countries and Ukraine especially. On the other hand, Ukraine has to promote its own national interest, even if sometimes these interests do not correspond with Russian interests. In the following subchapter I will make an analysis of the other tools (besides energy tool) of Russian influence towards Ukraine.

Political Influence

After the collapse of USSR, the newly independent states were more or less at the same level of political and economic development. In this sense, Ukraine and Russia were not exceptions. Both countries had a strong presidential center with some elements of past communist regime. Moreover, both presidents, Yeltsin and Kravchuk were the exponents of former USSR communist party. In such a way a very informal and close cooperation was established between Russia and Ukraine. Everything was more or less predictable before the 2004 presidential election took place in Ukraine. During the election campaign Russia openly supported a pro Russian candidate, Victor Yanukovich, because of his loyal position towards Russia. Western countries were supporting a pro

Western candidate, Victor Yushchenko, because his liberal opinions and pro EU and NATO direction. After long debates and ‘orange’ manifestations Yushchenko finally become president. After this event, Russia understood that it did not count on the right candidate. From this point Russia radically changed its positions towards Ukraine. Russia started to use the pro Russian, oligarchic groups from Ukraine as an instrument of political influence. These were the richest people who controlled the biggest Ukrainian companies and industrial corporations. Among them were the energy companies and companies from industrial sector. These oligarchs were mostly from the Ukrainian pro Russian regions, Donetsk, Dnepropetrovsk and Donbas. They supported pro Russian presidential candidate Yanukovych and his “Party of Regions”. They were militating for closer ties with Russia and were against Ukraine’s accession to NATO and EU. After ‘orange revolution’ Russia continued to influence political life in Ukraine, however it didn’t openly supported any candidate or party.

Economic Influence

During soviet time Ukraine was a part of a single country, governed by certain unified rules across the whole USSR. In this sense, Ukraine had direct and close ties with central government, being totally dependent on Moscow. This dependency remained even after the collapse of USSR, due to the fact that newly independent countries, like Ukraine were not ready to accommodate to the new market economy principles and to find new economic partners. Ukrainian economy is consuming a lot of energy resources, most of them came from Russia. In 2005, Ukraine imported from Russia, goods of \$13.8 billion and exported to Russia goods of total value of \$8.6 billion.⁹⁴ This means that Ukraine cannot run its national economy without Russian energy resources. Moreover, Russia is also an important investor in the Ukrainian economy. The total amount of Russian direct

⁹⁴ See State Committee of Statistics of Ukraine. On: www.ukrstat.gov.ua

investments in Ukrainian economy in 2006 was of \$799.7 million, whereas Ukraine invested only \$102.5 million in Russian economy.⁹⁵ Even if the above mentioned numbers are stating that Russia holds an important position regarding Ukrainian economy, this is not a dominant position. The European Union in this regard holds the leader position. In 2006 European Union invested \$11.7 billion in Ukraine.⁹⁶ This is a sign that Russia is not alone in Ukraine.

Putin said in January 2007 that "we [Russia] have subsidized the Ukrainian economy with low gas prices for a decade and we intend to end this practice".⁹⁷ This meant that Russia was no longer helping countries that were proclaiming their pro-western aspirations and were opposing Russian interests in their countries. Moreover, Putin also stated that "from the time when Russia proclaimed its independence only through the price of the natural gas Russia subsidized Ukraine with \$3.5 billion every year".⁹⁸ Russia was claiming that the economic basis of the Ukrainian independence is not its good relations with the West, but Russian people and the budget which sacrifices its interests for the incomprehensible foreign policy prospects. Despite this aggressive rhetoric, Russia still wishes to keep its control and influence in the CIS region. Ukrainian economic dependence on Russia has a negative impact on the future development of Ukraine's economy. Russia makes attempts to infiltrate in Ukrainian economy in order to impose its national foreign policy interests. It strives to exercise more influence in the Ukrainian economic life. At the moment Russia managed to dominate the Ukraine's energy resources market but not the whole economy.

⁹⁵ See State Committee of Statistics of Ukraine. On: www.ukrstat.gov.ua

⁹⁶ Ibidem

⁹⁷ "Russia: Gazprom's hones its strategy on Ukraine", Huliq website, 2006. On: <http://www.huliq.com/23153/russia-gazproms-hones-its-strategy-on-ukraine>

⁹⁸ See Nakanune.ru website, "Putin: Rossia ne iz nosa vikovarivala tsenu na gaz dlya Ukraini" ["Russia hadn't got from the nose the price for Ukrainian gas"], January 31, 2006. On: http://pda.nakanune.ru/news.php?year=2006&month=1&day=31&tag=putin_rossija_ne_iz_nosa_vykovyryala

Russian Black Sea Fleet

After 1991, Russian Black Sea Fleet remained on the Ukrainian territory, but exclusively under Russian jurisdiction. This Fleet was very important for Russia, because it represented an instrument of maintaining Russian interests in the region. Also Black Sea Fleet underlined the fact that Ukraine remains in the Russian sphere of influence. Moreover, Russian Fleet was protecting the Russian speaking population from the pro Russian region Crimea. The presence of Russian Fleet was officially approved by Ukraine in 1997. This agreement stated that Russian Fleet will stay in Ukraine till 2017. At the same time the above mentioned agreement does not explicitly state if Russia will have to evacuate it's Fleet or can remain in Ukraine. In this way, Russia uses the presence of its Fleet as a tool of holding the Ukrainian leadership not to become a member of NATO. Moreover Russia could use its military base for destabilizing the internal situation in Ukraine. In this sense Ukraine could not integrate in European Union and NATO when a foreign military base is located on its territory. It might be concluded from this that in case if Ukraine will make attempts to join European Union or NATO, Russia will not hesitate to use its military base as a threat.

Cultural instruments

Russia and Ukraine have historical, cultural and language ties that are making people from two countries very close to each other. The Russians that live in Ukraine are about 17.3% of the total population⁹⁹. In this sense, Russian minority represents a very useful tool of influence in the post soviet states. Russia uses the motivation of protecting its people from being discriminated, in order to interfere in the internal affairs of CIS countries. Crimea is probably the best example of Russian interference in order to

⁹⁹ According to 2004 data collected by the Kyiv International Institute of Sociology, Ukrainians represent 75.8–78% of the total population, while Russians 17.7–19.9%. On: www.kiis.com.ua

destabilize the internal situation of Ukraine. In 1954 Crimea was given by Russia under the jurisdiction of Ukrainian Soviet Socialist Republic and remained with Ukraine after the collapse of USSR. At the same time in 1991, 54.19% of Crimean population voted for independence and for inclusion in the territory of Russia.¹⁰⁰ Russia used Crimea as a bargaining coin for its strategic positions, mainly for the presence of its Black Sea Fleet. Now Crimea is an autonomous republic under the jurisdiction of Ukraine. At the same time, we could not say that the Crimea problem was solved, the problems still exist, and they became very acute during the crisis periods. For sure, Crimea and Russian Black Sea Fleet will play a major role in keeping Russian influence over Ukraine in the future. In this sense, for Ukraine it will be very difficult to promote an independent policy having such a serious presence of Russian interests and instrument in the country.

In the same context, another vital component of cultural influence used by Russia in Ukraine is the status of Russian language in the country. In Ukraine more than 29% of the population considers Russian language as their mother tongue. Moreover, 71% of the population from Crimea and Donetsk regions considers Russian language as their first language.¹⁰¹ In this sense Russian language issue is largely used by the Ukrainian politicians. Especially, during the election campaign, pro Russian parties were militating for granting the Russian language the status of second official language in Ukraine, whereas pro western parties were against it. In the end, the whole country and the population was divided in two parts according to their position towards Russia and Russian language issue. This is a very risky situation for the future internal stability and development of Ukrainian society. Till nowadays the status of Russian language was recognized by some regions as regional language but officially Russian language is just a language of interethnic communication. At the same time, Russia promotes its influence

¹⁰⁰ R. Solchanyk, *"The Politics of State Building: Centre-Periphery Relations in Post-Soviet Ukraine"* Europe-Asia Studies, no. 1, 1994, p. 48

¹⁰¹ See www.ukrcensus.gov.ua

in Ukraine thru promotion of Russian mass media in Ukraine. In this sense, Russia aims to control the Ukrainian informational stream and tries to model the Ukrainian public opinion.

The above mentioned tools of Russian influence aim to keep Ukraine in the Russian sphere of influence. Moreover Russia, strives against the presence of Western influence in Ukraine, because it perceives Ukraine as their natural sphere of dominance. These tools are also maintained in order to preserve the confusion and chaos amongst Ukrainian political elite and the Ukrainian society. This confusion gives Russia the chance to use its influence and foreign policy instruments for the future installment of pro Russian political elite in Ukraine. Russia wants to impose Ukraine its national interests and to determine Ukraine to be more cooperative and loyal to Russia.

Chapter 4 The Outcomes of ‘Gas Wars’ and the Future Prospects of Russia-Ukraine Gas Relationship

In this chapter I shall attempt to elucidate what were the outcomes of Russia – Ukraine ‘gas wars’. I investigate the benefits and the losses of the involved actors together with the impact of the ‘war’ on the European countries. Moreover I analyze the future implications of the ‘gas wars’ in Russia – Ukraine relationship and what we can expect in the future. I argue that because of the Ukrainian political and economic instability it will be very hard to face the pressures of Russia in the future. Moreover, today when the world economic crisis has affected every single country in the world, and Ukraine most of all, it will be a really challenge for Ukraine to maintain a stable situation in the country. Russia in contrast, presses Ukraine to pay all the debts for the gas in time and does not lose any chance to show the instability of leadership. Here I refer to the contradictions between Ukrainian Prime Minister Yulia Tymoshchenko and President Vyctor Yushchenko. Referring to the possibility for a future ‘gas war’ between Russia and Ukraine, I argue that this fact is not excluded, because of the above mentioned reasons.

4.1 Who Won the Russia-Ukraine ‘Gas War’?

In every conflict, at the end there is a winner and a loser. As to the winners and losers of the Russia - Ukraine ‘gas wars’, I would mention that besides Ukraine and Russia, a third party was involved in the conflict, i.e. the European countries. In this context, all parties involved in the conflict obtained to a greater or lesser extent both some benefits and some losses and in this sense the Russia – Ukraine ‘gas war’ was a ‘war’ with no winner or losers. I will analyze all three parties, involved directly (Russia and Ukraine) or indirectly (European countries), in the Russia - Ukraine ‘gas wars’. I will

start with the directly involved parties: Russia and Ukraine and then I will analyze the European countries' situation after the 'war'.

Russia, as the main actor of the war, during the 2009 'gas war', decided to demonstrate its integrity and based its arguments on the previous Russia – Ukraine gas contracts. On the one hand, Gazprom was demonstrating that it acted in accordance with the business ethics standards and in accordance with commercial law, which stipulates that the parties which signed an agreement have to respect its clauses. On the other hand, if we look at the Russian leadership speeches and actions we can see that the situation was far from being as simple as Gazprom claimed. A very colorful example in this sense could be Putin's new course of *Russian energy development for the future*, proclaimed in December 2005. He declared that Russia must become "a global energetic leader" and also a "guarantee of energy safety of Europe and North America". He also declared that "starting with 2005, Russia must count on the development of fuel-energy complex and to orientate to the export of raw materials, crude oil, and natural gas".¹⁰² Thus, for the first time during post-Soviet Russia, its leadership declared officially, directly and unequivocally about the end of the previous soviet - imperial doctrine of country development. Today Russia bases its foreign policy on the use of energy diplomacy instruments. In this sense, Gazprom represents a good example of the energy weapon used for achievement of Russian foreign policy aims. Gazprom represents an energetic giant which comprises practically the entire Russian gas industry. According to The Account Chamber of the Russia, in 2004 Gazprom had an 80 % share in national gas production. (See Appendix Table B.) Also it controlled 74.4 % of total Russian gas distribution pipelines.¹⁰³ Nowadays Gazprom is the biggest gas-extraction company of

¹⁰² Victor Yasmann, "Russia: Moscow intensifies its energy diplomacy", RFERL, March 7, 2006. On: <http://www.rferl.org/content/article/1066439.html>

¹⁰³ See Gazprom website: <http://www.gazprom.ru>

the world.¹⁰⁴ Gazprom gas reserves are 15.5 % from the total world gas reserves.¹⁰⁵ The main element of Gazprom strategy is based on active external expansion. Export is considered by Gazprom as the main source of its revenues.

At the same time, Gazprom is not a simple participant of world market, but represents a strategic player on European gas market. The share of Russian gas on European market is growing, and by 2007 it already exceeded 60% of the total volume.¹⁰⁶ Gazprom possesses big shares in foreign gas transporting and distributing companies.¹⁰⁷ To illustrate this fact, I can bring just some examples of joint Gazprom and European companies as: “Vingaz” (with German company Wintershall)¹⁰⁸, Prometheus- Gas (with Greek company Copelouzos Group)¹⁰⁹, or Panrusgaz (with the Hungarian MOL).¹¹⁰ As a result, because of its power, Gazprom has a crucial role in the implementing of Russian foreign policy. Moreover, the Head of Gazprom almost all times accompanies the Russian President and Prime Minister in their important foreign visits. This shows that gas and foreign policy go hand in hand in Russia. Russian ‘gas diplomacy’ remains to be one of the most important elements of Russian foreign policy in CIS countries. In these countries Gazprom plays a very important role. A particular example is the relation between Gazprom and Ukraine. One of the reasons why Gazprom could not build a partnership relation with Ukraine was the fact that after 1991, it was very difficult for Gazprom to collect its debts from Ukraine for the gas deliveries. Also Gazprom was very unhappy with Ukraine’s attempts to raise the prices for the Russian gas transit, in order to

¹⁰⁴ See Gazprom website: <http://www.gazprom.ru>

¹⁰⁵ Ibidem

¹⁰⁶ Ibidem

¹⁰⁷ For example, Gazprom has a 25% share in the joint Gazprom and Scandinavian concern Neste. See Gazprom website. On: <http://www.gazprom.ru>

¹⁰⁸ See Charter97.org website, “Germany trusts Russia as energy supplier”, January 22, 2007. On: <http://www.charter97.org/eng/news/2007/01/22/energy>

¹⁰⁹ See Prometheus Gas website: <http://www.prometheusgas.gr/content.asp?sid=1&lang=1>

¹¹⁰ See Neurop.eu website, “MOL to dumps 50% of Panrusgaz”, August 15, 2004. On: http://www.neurope.eu/view_news.php?id=22793

get more money from Gazprom. The last problematic issue was the Ukrainian gas theft from transit pipeline meant for European users.¹¹¹

Referring to the 2006 ‘gas war’, Russia and Gazprom have declared that the purposes of the ‘gas war’ were economic motivations and nothing more. Gazprom stated that it was moving towards ‘European prices’ for all CIS countries and Ukraine was not an exception.¹¹² As it was mentioned in the second chapter, as a result of the 2006 ‘gas war’, Ukraine was buying Russian gas at \$95/tcm of gas. At the same time Moldova, Armenia and Georgia were buying gas at \$110/tcm of gas.¹¹³ Generally speaking, at the end of ‘gas wars’, Russia achieved its basic goals, namely:

- The Russian and Gazprom’s commercial interests in the short term period were increased.
- Russia succeeded in humbling the Ukrainian ‘orange’ leadership because of their pro western foreign policy and respectively the promotion of an anti Russian foreign policy in the last years. At the same time, Russia presented Ukraine as an unstable and precarious transit country.

At the same time, Russia suffered some important losses as a result of Russia-Ukraine ‘gas wars’. First, Russia lost its international reputation as a serious supplier, because officially no one except Russia recognized Ukraine as being guilty of the gas deliveries disruption. Second, Russia was not able to take under its control the Ukrainian pipeline system. Russia was looking to extend Gazprom control and its affiliated structures above the gas transport infrastructure of the former USSR countries. In such a

¹¹¹ Jonathan Stern, op.cit. 1995, p. 60–61

¹¹² See BBC website, “*Russia cuts Ukrainegaz supplies*”, January 1, 2006. On: <http://news.bbc.co.uk/2/hi/europe/4572712.stm>

¹¹³ At the same time Moldova, Armenia and Georgia were buying gas at \$110/tcm of gas. See Mina Muradova and Rufat Abbasov, “*Azerbaijan eyes Iran as Baku seeks to diversify energy imports*”, May 1, 2006. On: <http://www.eurasianet.org/departments/business/articles/eav010506.shtml>

way Russia would not be dependent on national companies and would have the whole monopoly of the gas distribution in the CIS space. As a result Russia would make these countries 100 % dependent on Russia and in this sense Russia would be able to influence the policies and decisions from that country. In Moldova, Gazprom succeeded in increasing its shareholdings in the Moldavian gas transportation system, but it could not even start the negotiations about Gazprom participation in the Ukrainian gas transport system. Third, Russia failed in its demarches regarding the formation of an international consortium and the convocation of Moscow summit. In this sense, I can say that Russia overestimated its capacities and the future development of the crisis. The situation became very complicated and Russia was obliged put an end to the crisis as soon as possible, because of the European Union pressure on Russia.

Financially, Gazprom lost as a result of temporary cutting of gas transit in 2009 about \$1.2 billion.¹¹⁴ Gazprom intended to get this money from Ukraine as a of a judicial process. At the same time, judging by the poor situation of Ukrainian economy and Naftogaz, these intentions seem to be uncertain and almost impossible. Also it is possible that in the near future Gazprom, which is directly responsible for the disruption of the gas deliveries to Europe, (Naftogaz in the contracts is just a subcontractor), will have to stand before the International Arbitrary Court because of its gas blockade to European countries. This means that Gazprom could face some big troubles. At the same time the question regarding the theft of the technical gas by Kyiv remained unsolved and it seems that both parts have forgotten about it. So overall for Russia, “gas wars” had a negative impact and great repercussions in the long term relations with Ukraine and european countries.

Referring to the second party of the ‘gas war’, Ukraine, we should mention that it also managed to get some benefits and to suffer some loses. As for the benefits, it

¹¹⁴ See Gazprom website: www.gazprom.ru

should be mentioned that the final conditions on the deliveries and the transit of Russian gas can be considered as a success of Timoshenko in a hopeless situation. In this sense, first benefit would be the fact that after the 2009 ‘gas war, Ukraine got a 20% cutback from European prices for one year. The Russian 20% cutback, according to Ukrainian Prime Minister estimations, will save Ukrainian budget approximately \$5 billion.¹¹⁵ Second, Russia helped Ukraine eliminate all previous gas mediators between Russia and Ukraine. In this way the level of corruption in the Ukrainian gas sector was considerably decrease. Third, Russia ‘forgot’ the previous gas theft made by Ukraine in 2008. In the 2009 gas agreement parties accepted not to touch this topic in the future.

As for the future strategy of Ukraine’s government, it should be mentioned that this strategy was mainly based on the assumption and hope that the prices for Russian gas will fall, and the transit rate will grow starting with 2009. Ukrainian leadership built its strategy on the usual practice of Gazprom blackmail. This was the case when buyer (Ukraine) itself assigned the price of the purchase (of gas). During the Russia-Ukraine “gas wars”, Ukraine used its strongest argument: the basic transit of Russian gas (up to 80%) goes precisely through the Ukrainian territory.¹¹⁶ The Ukrainian leaders always considered that the disruption of such deliveries was fraught for Moscow with serious political complications.

As for the losses, firstly it should be mentioned that Ukraine found itself involved in a PR war with Russia during the ‘gas wars’. As a result, in the eyes of the world community Ukraine was perceived differently. On one hand Ukraine managed to spread the idea that it is a victim of expansionist Russian foreign policy. In this sense it was

¹¹⁵ See Rian.ru website, “*Ukraina siekonomit blagodarea skidke na gaz 5 miliardov - Timoshenko*”[“Ukraine will save \$5 billion due to the cutback - Tymoshenko”], January 19, 2009. On: http://www.rian.ru/gas_news/20090119/159631537.html

¹¹⁶ See Gazprom website, “*Razvitie sotrudnichestvo v gazovoi sfere so stranami bivshevo SSSR*”[“The development of cooperation in the energy sector with former USSR countries”], June 7, 2007. On: www.gazprom.ru

perceived by the Western countries and USA as a country which suffers from an aggressive Russian energy policy. On the other hand some countries were blaming both Russia and Ukraine for the gas disruption. Even today there is no a unified position regarding the role of Ukraine in the gas wars. Secondly, Ukraine lacked a unified position of its political elite towards the Russia – Ukraine ‘gas wars’. During the ‘war’, Ukrainian politicians started to accuse each other of the disruption of negotiation process with Russia. Thirdly, Ukrainian economy, which is far from being in the best ‘shape’, carried a very serious damage from the disruption of Russian gas deliveries. It is very hard to estimate the concrete sums, but it is clear that these losses will prove to be more significant than bargained cutback from Gazprom. As a whole, the position of the Ukraine after the ‘gas war’ appears to be worse than before it.

If to refer to European countries gains and losses, it should be mentioned that even if the situation was very complicated, European countries and European Union especially managed to get some benefits from the ‘gas wars’. They finally got their contracted gas and also a lot of tactical prospects regarding future of the European energy security. The European Union finally understood that it needs rapidly to diversify its energy supplies if it wants to remain a viable and independent actor. To depend on a country ambition is a very hazardous policy and the Russia-Ukraine ‘gas wars’ demonstrated this fact very clearly. Therefore, Russia-Ukraine ‘gas wars’ gave a powerful impulse for the diversification of the energy resources and also the diversification of the transportation system which will attempt to bypass the Russian territory.

If to refer to the European countries losses, some countries like Serbia, Bulgaria, Bosnia-Herzegovina, Croatia, Greece, Romania and Moldova suffered a lot because of Russian-Ukraine ‘gas war’. Balkan countries faced a situation which was closely to

becoming a humanitarian catastrophe.¹¹⁷ It was a very risky situation, where simple people were suffering from the Russia – Ukraine disputes. This suggests that European countries were directly affected by Russia-Ukraine ‘gas war’. Moreover European countries could not influence to a great extent the both parties. Maximum what it could do (and it did) was to put pressure on Russia and Ukraine to find a compromise and to start the deliveries as soon as possible. It was an unpleasant and dangerous situation that could have greater repercussions if the solution ceased to be found.

It might be concluded that the Russia-Ukraine ‘gas wars’ proved that in the 21-st century the countries could not act as they wanted, because their actions directly affected other countries from the international arena. Because of Russia-Ukraine ‘war’, totally guiltless countries were cut off from gas pipeline and left alone to resolve the consequences of the gas blockade. Moreover, I think that despite the fact that for the short term perspective it increased its gas prices, in the long term Gazprom’s position deteriorated badly. In the next ten years European countries will be obliged to take serious measures in order to secure their users from future deliveries disruption. Europe will look to build new pipelines that will bypass Russia, because of the fear that such dangerous ‘wars’ could repeat in the future.

4.2 Is a New ‘Gas War’ Possible between Russia and Ukraine in the Future?

Referring to the prospects for a new ‘gas war’ between Russia and Ukraine, we should understand that the Gazprom - Naftogaz agreement signed in January 2009 seems to be more like a short-time ceasefire agreement, but not a long-term ‘peace’ agreement. Until January 2009, a lot of agreements were signed, but this fact did not stop Russia and

¹¹⁷ Aleksandar Kovacevic, *The Impact of the Russia–Ukraine Gas Crisis in South Eastern Europe*, OIES, forthcoming 2009

Ukraine from ignoring the assumed obligations and to do what they consider better. The 2009 gas agreement solved mainly two problems of the Russia-Ukraine gas relationship: it established the transit fee for Russian gas and the 2009 Russian gas price for Ukraine. The main problem of the new Russia - Ukraine agreement is that Moscow and Kyiv did not agree about the long-term price for Russian gas to Ukraine. Neither the Russian nor the Ukrainian side had reported about the price of Russian gas for Ukraine starting with January 1, 2010. After Putin - Timoshenko negotiations, both Prime Ministers “agreed that as of January 1, 2010 we will switch entirely on European standards of pricing and pumping tariffs without any exemptions and discounts either for transit or for the gas price”.¹¹⁸ The parties did not expressly state in the agreement what will be the price for Russian gas to Ukraine. This kind of uncertainty maintained by Russia in its relation with Ukraine makes Kyiv dependent on Russia’s strategic interests. Also, this unsure situation gives room for future speculation and to the escalation of the gas relationship between Russia and Ukraine.

At the same time, important news of 2009 Russian- Ukrainian ‘gas war’ consists in the fact that Moscow established significant changes regarding its energy policy towards Kyiv. In 2009 it happened for the first time when Russia ceased the delivery of gas completely. The gas was stopped both for Ukraine and for European countries. This was the first time when Russia did so. Before 2009 Russia had not made such radical steps.¹¹⁹ In my opinion, Russia made a great step from the declarations that it could stop gas deliveries, to the realization of its statements. Moscow’s decision to switch from threatening to the valuable application of the energy possibilities, or in other words, crossing ‘line’ is a serious precedent. This means that even if Putin and Timoshenko signed the gas agreements, Russia will not abandon its foreign policy interest in Ukraine.

¹¹⁸ Vladimir Putin declaration, January 18, 2009. On: <http://premier.gov.ru/eng/points/101/>

¹¹⁹ If in 2006, Moscow reduced the gas volumes only to Ukraine for several days, then in 2009 the delivery of gas was completely ended for Ukraine and for European countries.

Consequently, the reasons for future ‘gas wars’ are not to be ignored. Even if both sides refined the rules of the game for 2009, for the long-term outlook a new ‘gas war’ could take place. The situation becomes more difficult because of the world economic crisis and its repercussions on the Ukrainian economy. Nowadays Ukraine tries to survive, but it lacks the necessary financial resources to manage the crisis. Kyiv, at the moment does not have enough money to pay for the current Russian gas deliveries. Moreover, according to January 2009 agreements, in the second quarter of 2009 Kyiv must pay \$270/tcm for Russian gas.¹²⁰ In the previous months, Kyiv was able to pay for Russian gas, because Gazprom paid Ukraine in advance for the future transit services for the whole 2009 year.¹²¹ In May 2009, Ukraine proposed Russia to pay for the transit services for five years in advance. In this way, Ukraine will use this money (about \$5 billion) to buy Russian gas for the whole 2009 year.

As a response, Russian Prime Minister Vladimir Putin called the Ukrainian proposal as being “too risky for Russia”.¹²² Also Putin said that “this is our common problem ...and everyone must accept its part of responsibility. No one should pretend that this does not affect him”.¹²³ This meant that Russia alone does not want to help Ukraine. He was suggesting that European Union and other interested countries should also help Ukraine to pay its current debts for gas and in this sense not to interrupt the gas transit to Europe. In addition, Putin said that “Russia is ready to bring its part of help in

¹²⁰ See Monitor.co.ug website, “*Russia and Ukraine sign 10 years gas supply deal*”, January 20, 2009. On: http://www.monitor.co.ug/artman/publish/europe/Russia_and_Ukraine_sign_10-yr_gas_supply_deal_78525.shtml

¹²¹ See Bfm.ru website, “*Rossia jdet novii gazovii conflict s Ukrainoi*” [“*Russia is awaiting for a new conflict with Ukraine*”], May 24, 2009. On: <http://www.bfm.ru/news/2009/05/24/rossiju-zhdet-novyy-gazovyy-konflikt-s-ukrainoj.html>

¹²² Ibidem

¹²³ See Newsru.com website, “*Putin soglasen dati deneg na gaz Ukraine, no vidvigaet uslovie*” [“*Putin is ready to give Ukraine money for the gas, but conditionally*”], May 22, 2009. On: <http://www.newsru.com/finance/22may2009/peregovory.html>

solving this question, but only a part, and how much will be this part - we [Russia and Ukraine] must decide during the negotiation process”¹²⁴.

The situation is becoming even trickier because during the summer Ukraine has to load its underground gas deposits with 15/bcm of Russian gas. This gas will cost Ukraine approximately \$4.8 billion.¹²⁵ If this load is not done during summer, in the autumn - winter season Ukraine will face serious problems with Russian gas supplies to Ukrainian national gas users. Now, Ukraine can either accumulate the necessary sums from internal sources, or to try to obtain financial aid from the international financial institutions. The Ukrainian Prime Minister Yulia Tymoshenko hopes that the problem concerning gas pumping will be successfully solved. “I think, the gas will be pumped”, she said.¹²⁶ At the same time, Ukrainian President Yushchenko considers the present form of cooperation between Russia and Ukraine, regarding gas deliveries “unacceptable and illegal”.¹²⁷ Yushchenko is confident that January 2009 gas agreement be sooner or later reviewed. In this context, he declared that:

“The agreements signed by [Ukrainian] Prime Minister in January 2009 with Russia are loss-making. They are stuffed by political calculations. I have no doubts that both sides will revise these documents. For Ukraine it will be more and more difficult to fulfill the assumed obligations with each passing month”.¹²⁸

As a response, Putin said that:

“The situation became more complicated, unfortunately, because we have heard recently that Ukrainian President, Victor Yushchenko issued a statement, calling

¹²⁴ See Newsru.com website, “*Putin soglasen dati deneg na gaz Ukraine, no vidvigaet uslovie*” [“*Putin is ready to give Ukraine money for the gas, but conditionally*”], May 22, 2009. On:

<http://www.newsru.com/finance/22may2009/peregovory.html>

¹²⁵ See Unian.net website, “*Putin asks Ukraine and Russia to pay attention to Yushchenko’s statement*”, May 22, 2009. On: <http://unian.net/eng/news/news-317074.html>

¹²⁶ Ibidem

¹²⁷ See newsru.com website, “*Yuschenko: Gazovoe soglasenie s Rosiei budet rano ili pozdno peresmotreno*” [“*Yushchenko: the gas contracts with Russia will be revised sooner or later*”], May 19, 2009. On: <http://www.newsru.com/finance/19may2009/yuschenko.html>

¹²⁸ Ibidem

such a form of payment unacceptable and hardly legal. I ask our countries to pay attention to this fact. We will hardly be able to solve problems with such big risks and under such conditions”.¹²⁹

As we can see, a totally unacceptable situation occurred when Ukrainian Prime Minister, Yulia Tymoshenko considered the signed gas agreement with Russia as a victory; while Ukrainian President, Vyctor Yushchenko saw it as a loss for Ukraine.¹³⁰ Additionally, Yushchenko opposed the signed agreement very critically. He said that he

“can agree with the fact that Ukraine lost the guarantees of Russian gas transit. But why then Ukraine took the obligation to purchase 40 billion metric cubes of Russian gas per year? I do not exclude, that on December 31 [2009] Ukraine will face a debt, which it should be paid in several hours. The sum of this debt will comprise not less than \$2-\$2,2 billion. This is a explosive placed because of the lack of professionalism”.¹³¹

Contrary to this statement, in April 2009, Tymoshenko paid a visit to Moscow, where she agreed with Gazprom, that Ukraine will consume as much gas, as it will be necessary. Russia will not apply any sanctions for the shortage of natural gas during the whole 2009 year.¹³² It can be said that because of the lack of political unity and team spirit, Ukrainian leadership faces a very difficult period. The situation when an important Russia – Ukraine gas agreement is seen by the two leaders from totally opposed positions weakens the Ukrainian chances to face Russian pressure.

In conclusion, this dualist position of the Ukrainian leadership gives Russia a great opportunity to speculate and discredit Ukrainian political elite. Moreover, Russia

¹²⁹ See newsru.com website, “*Yuscenko: Gazovoe soglashenie s Rosiei budet rano ili pozdno peresmotreno*” [“Yushchenko: the gas contracts with Russia will be revised sooner or later”], May 19, 2009. On: <http://www.newsru.com/finance/19may2009/yuschenko.html>

¹³⁰ Ibidem

¹³¹ Ibidem

¹³² See Tymoshenko.com.ua website, “*Yulia Tymoshenko: Russia will not fine Ukraine in 2009 for reduced gas consumption*”, April 30, 2009. On: <http://www.tymoshenko.com.ua/eng/news/first/7536/>

uses the Ukrainian political instability to exercise bigger pressure for determining Ukrainian political elite to make concessions regarding the Russian interests in the country. This is related with Russian military base from Sevastopol, the status of the Russian language in the Ukraine or the Russian acquisition of Ukrainian gas pipelines. If Ukraine stands towards a very rigid and firm position in order to protect its national strategic interests then it will have to face Russian pressure to a greater extent than in January 2009. If this instability persist in Ukraine then a new gas war is very probable to happen towards the end of autumn, the beginning of winter 2009.

Conclusion

This thesis aims to bring a contribution to the study of Russian foreign policy towards CIS countries, with a special focus on Russia – Ukraine gas relationship. To this end I have carried out a comparative analysis of Russian foreign policy towards CIS and especially Ukraine during Yeltsin's and Putin's presidencies. As a theoretical background of this thesis, I used liberal and realist theories because they demonstrate the best Russian foreign policy during Yeltsin and the change of Russian foreign policy during Putin's mandate.

The major claim of this thesis was that Russia decided to use gas as its main foreign policy tool because Ukraine depends almost fully on Russian gas deliveries. As a result Ukraine does not have any alternative sources of getting gas on its territory and as a consequence it has to play on Russian rules.

The main findings of this thesis are as follows. By cutting of the gas supplies, Russia demonstrated its capacity to use energy 'weapon' against the states which are opposing the promotion of Russian national interests. Moreover, one of the most serious finding is the fact that Russia did not stop even before European Union consumers. It cut of the gas supplies for Ukraine, because it considered that its national interests were violated. Today, no one is able to determine Russia not to use its energy weapon. Furthermore, Russia will put more pressure on Ukraine because of political instability and serious economic crisis that is faced by Ukraine these days.

To conclude, the research carried out has showed that my argument that the Russian foreign policy uses 'gas weapon' because it's high efficiency is confirmed by the empirical studies. Moreover the hypothesis stating that "the usage of gas as the most efficient Russian foreign policy instrument was determined by the monopolistic position

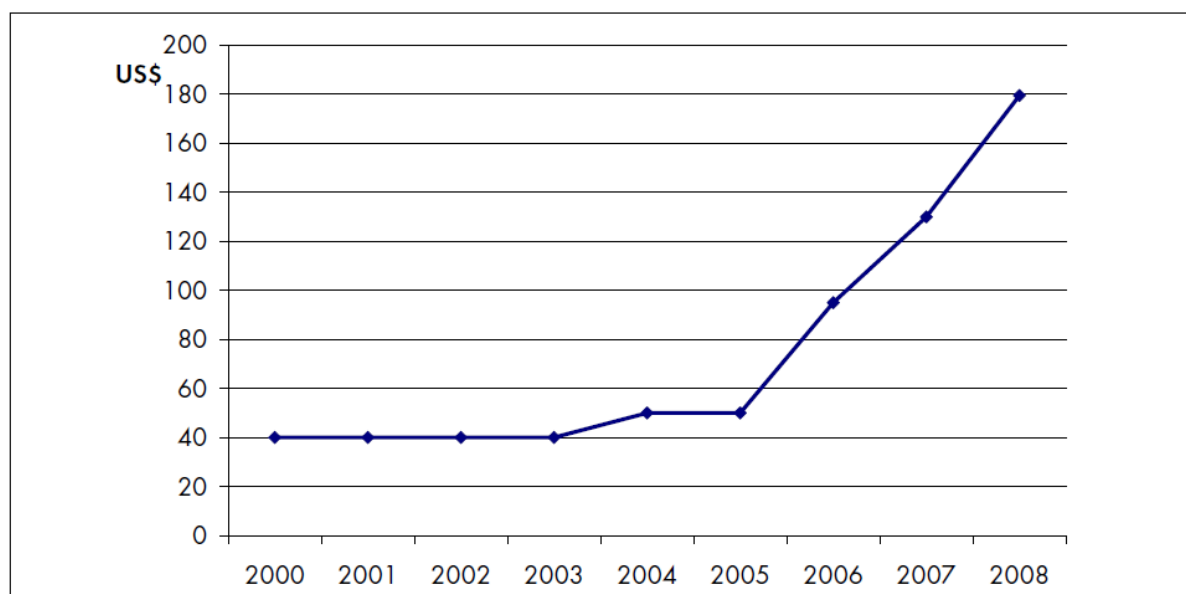
of Russia in the gas sphere. This position gives Russia an important position in negotiating its interests in Ukraine” has been proven right.

As a result of this policy, Russia managed in the short term to raise its gas prices for all CIS and European countries. Also in the long term, Russia managed to make more heavily dependent CIS countries and Ukraine on Russian gas.

As a conclusion we can say that Putin’s Russia could not control the energy sectors of CIS countries yet. At the same time we cannot deny the fact that Russia has a dominant position in their future development. Russia in the future will make them even more dependent and vulnerable if CIS countries will not diversify their energy resources.

Appendix

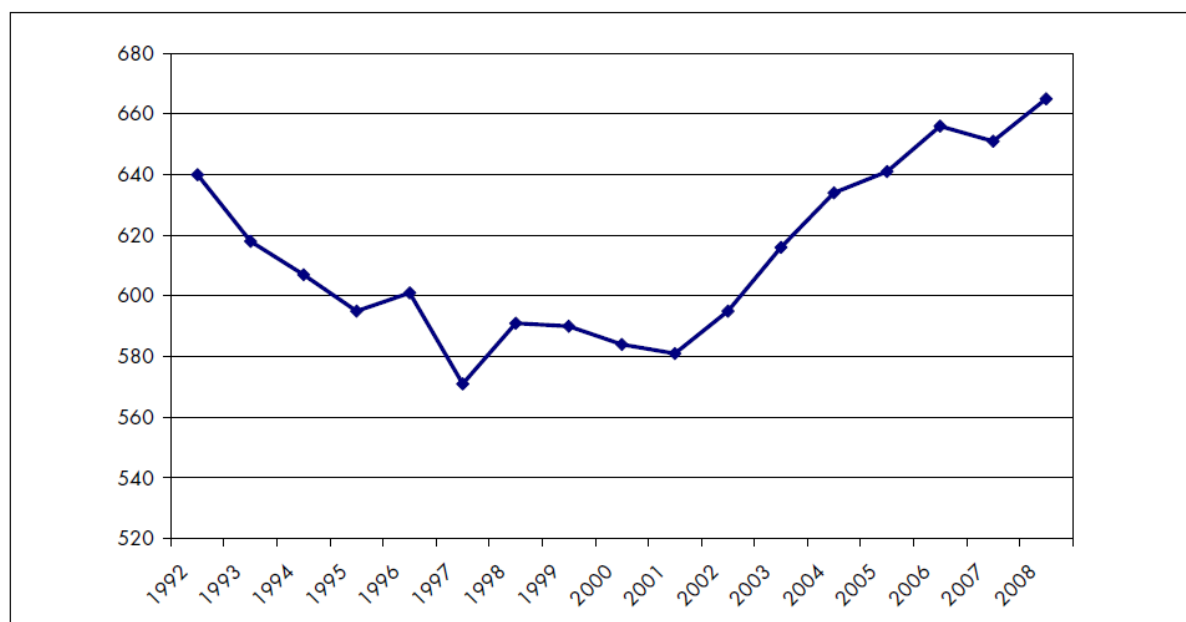
Table A Ukrainian Import Prices for Natural Gas 2000–2008 (US \$/mcm)



Source: Institute for Economic Research and Policy Consulting, Kyiv. On:

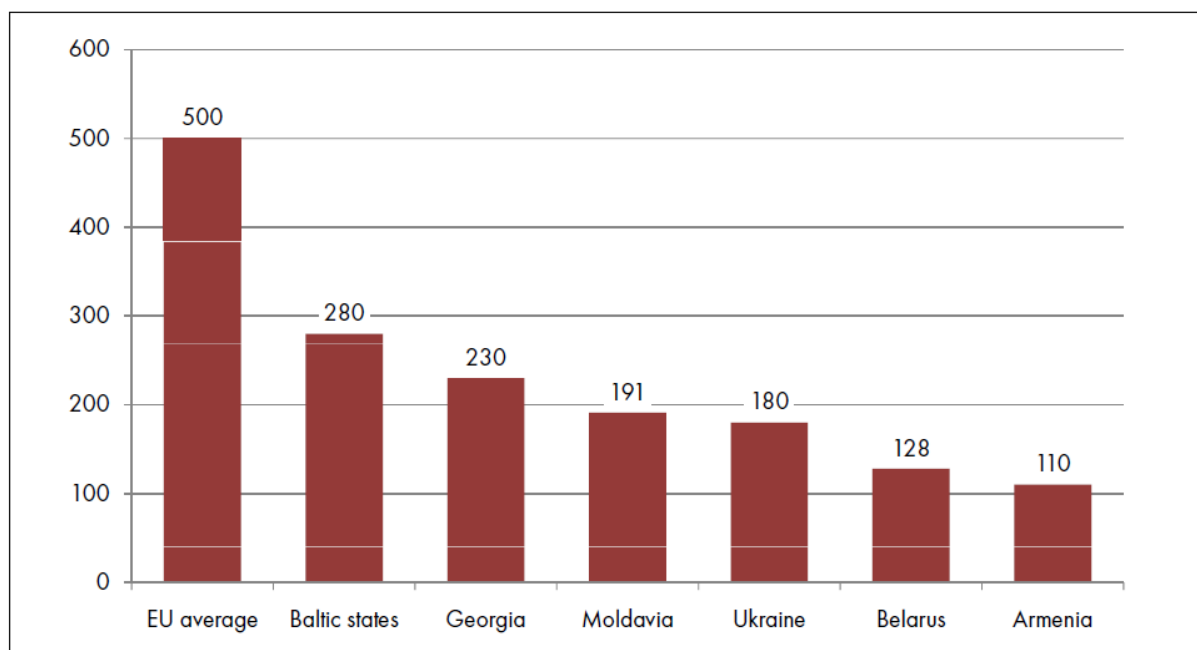
http://ier.org.ua/papers_en/v12_en.pdf

Table B Russia's Natural Gas Production 1992 – 2008 (bn cubic meters)



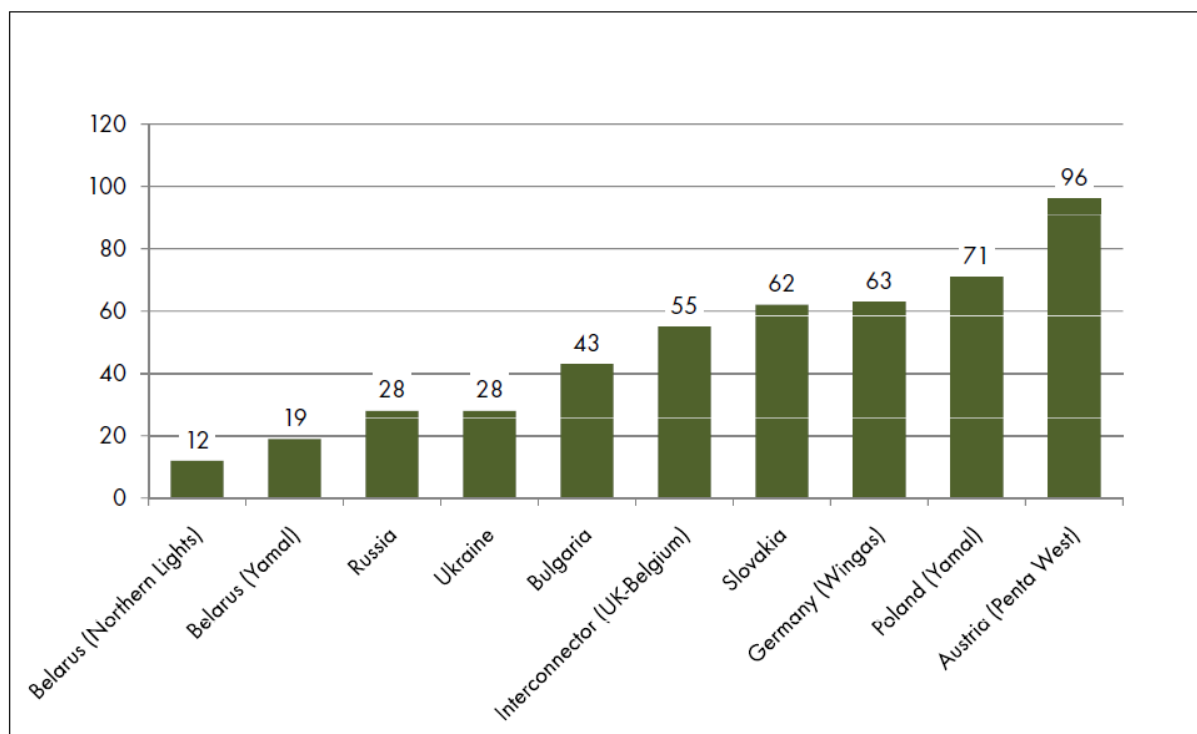
Source: Russian Federal Service for Statistics. On: <http://www.gks.ru/dbscripts/Cbsd/DBInet.cgi>

Table C Gazprom's Export Prices (US \$/mcm, 2008)



Source: Energy Information Administration. On: <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>

Table D Gas Transit Tariffs in International Comparison (2006, €/m³/350km/h/y)



Source: Energy Charter Secretariat: Gas Transit Tariffs in Selected ECT Countries (2006), Brussels 2006, p.65. On: <http://www.encharter.org/index.php?id=127>

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