

# **Balancing and Complex Interdependence: Ukraine between Russia and the EU**

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## **Abstract**

The purpose of this thesis is to explain Ukraine's foreign policy towards the EU and Russia in 1991-2009 periods. Such an explanation is needed because policy seems to be controversial. Through the analysis of difference in distribution of power between the EU and Russia as international actors, this thesis explores also other factors that determinate Ukraine's foreign policy towards the EU and Russia, such as national identity and interests of business groups. Using the method of agreement this thesis examines Russian and the EU foreign policy towards Ukraine. The longitudinal analysis provides explanation of Ukrainian foreign policy towards Russia and the EU. The main argument is that Ukraine's only way to remain its sovereignty and sustain its economy is in constantly making compromises in its foreign policy seen through the balancing between the EU and Russia.

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## Introduction

The dissolution of the Soviet superpower brought challenge for further social and economic development to all former republics: Russia was the political center of the former Union, territorially the biggest, the richest in natural and energy resources and with the most developed industry and economy. Hence, other former Soviet republics were dependent on Russia – even if to different extent - mainly on its energy. The question of energy dependence brought an uneasy choice to the newly independent states geographically situated in Europe: to make an attempt to integrate with the enlarging European Union (EU), or to reunify with Russia.

In general, this choice created two clear categories of the states. The first category comprises the Baltic States, which in order to overcome economic dependence on Russia, reoriented their economies away from Russia, searching for the integration to the Western structures, such as the EU and NATO. The most significant example of second category is Belarus, which sought economic dependence on Russia as the reason to reintegrate with former Soviet republic through the Commonwealth of Independent States. This choice was determined mainly by the sense of national identity, consisting of language, traditions and history<sup>1</sup>.

Territorially the largest country within the Western CIS and second largest in Europe after Russia, Ukraine does not fit either of two categories in question, however, it has certain elements in common with both.<sup>2</sup> Ukraine, along with Russia and Belarus is the cofounder of the CIS<sup>3</sup>. However, technically it is only an associated member that joins free trade and free visa zone within the CIS. Although when it gained independence in 1991, Ukraine's authorities claimed integration with

<sup>1</sup> Rawi Abdelal, "Nationalism and International Political Economy in Eurasia" in Eric Helleiner and Andreas Pickel *Economic Nationalism in Globalizing World*, Ithaca, Cornell University Press, 2005, pp. 118-138

<sup>2</sup> Moldova is also Western Commonwealth of Independent States (CIS) country, but opposite to Baltic States, Belarus and Ukraine, Moldova does not have common border with Russia and second, there is an issue of frozen conflict in the industrially the most developed region of the country, Transnistria. Thus, Moldova represents separate category which is, therefore, excluded from this research.

<sup>3</sup> Edwin Bacon, Matthew Wyman, "Contemporary Russia", Palgrave Macmillan, New York, 2006, Chapter 8

Western economic and security structures, they undertook neither appropriate economic nor political reforms.

Existing literature on Ukraine offers a number of explanations of Ukraine's behavior in international and economic affairs. However, as Rawi Abdelal points out it does not find the explanation either through realist or through liberal approaches, which are summarized in his study of economic nationalism in Eurasia.<sup>4</sup> Many scholars focus on the issue of Ukraine's fragmented national identity in explanation of Ukrainian foreign policy.<sup>5</sup> For instance, while Abdelal focuses on fragmented national identity as the reason for pro-Western and pro-Russian shifts in Ukrainian economic nationalism after the dissolution of USSR, Bohdan Nahaylo examines political reasons of regional fragmentation of Ukraine's national identity during the periods of glasnost, perestroika, and early years of Ukrainian independence. At the same time, Solchanyk examines relations between Ukraine and Russia after the dissolution of Soviet Union growing his explanation of overlapping Russian and Ukrainian national identities on history. In attempts to explain Ukrainian international behavior other authors such as Margarita Balmaceda and Bertil Nygren propose economic and personal interests of Ukrainian business and political elites as the main factor in creating Ukraine's foreign policy in period of transition. Taras Kuzio, Paul D'Anieri and Marc Nordberg also offer in their works the throughout analyses of Ukraine's political system through explanation of political and state-building institutions and policies.

These valuable studies recognize the fact of, generally speaking, Ukraine's internal and international balancing between Eurasian and European politico-economic integrations in order to make a compromise with both. At the same time, they neglect the fact of balancing as theoretical explanation of its foreign policy. Ukraine exhibits path dependence on Russia, but it did not seek

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<sup>4</sup> Abdelal, pp.118-138

<sup>5</sup> Abdelal: 2005, Eichler: 2005, Nahaylo: 1999, Solchanyk: 2001

any kind of reunification and even rejected full membership in the CIS. This makes Ukraine's behavior interesting from both – theoretical and practical perspectives: political and economic situation in Ukraine depends on relations between the EU as economic power and Russia as energy and military power, as well as relations between these two regional powers and other countries situated between them. To be precise, balancing in this thesis is seen as the way to find compromise between pro-Russian and pro-Western Ukrainian foreign policy.

Theoretical prospective of Ukrainian economic cooperation with Russia and the EU, and more particularly the economic benefits which Ukraine has from the cooperation with both of its great neighbours are the focal points of this thesis. Considering the fact that Russia is the main energy supplier to Ukraine and the EU, and that eighty per cent of these supplies go through the Ukraine as the main transit and the largest country between Russia and the enlarged EU, Ukraine's contradictory foreign policy toward both Russia and the EU is an intriguing matter. Therefore, this thesis investigates the roots and reasons for Ukraine's international behavior in order to answer why this behavior is contradictory and what the economic benefits of it are. Economic benefits can be defined in different ways. However, keeping in mind that energy is the most important sector of Ukrainian economy and also the most significant indicator of relations between Russia, the EU and Ukraine for the purpose of this thesis my main focus is on Ukraine's energy sector and the EU and Russian influence on it. The answer to the research question I grow on existing literature and official documents such as Partnership of Co-operation Agreement, which establish official relations between Ukraine and the EU, as well as EU-Ukraine Action Plan, and agreements between Ukraine and Russia, both bilateral and multilateral - in the framework of the CIS. In this thesis, therefore, I show how economic relations between the EU and Russia reflect on Ukraine as the most significant country in between. Analyzing the European Union and Russia as regional powers, Ukraine's geopolitical and historical place between them and comparing European and Russian investments to

Ukraine's energy sector, including the influence of interest groups, my main hypothesis is that only balance between international and domestic factors brings economic benefits to Ukraine.

In order to test this hypothesis, first of all I use the method of agreement, comparing the EU and Russia as the two different powers in the relation to Ukraine. Testing the theory I analyze the five main shifts in Ukrainian foreign policy and discourses of Ukrainian leaders in longitudinal analysis. Hence, the first chapter of this thesis analyzes the existing literature and proposes the theoretical framework. The second chapter explores importance of the EU and Russia as political actors and their relations with Ukraine as the dependent variable. The third chapter is devoted to analysis of the evidence of Ukraine's balancing as the economically beneficial and state sustainable foreign policy in longitudinal analysis. Finally, conclusion and summary is provided.



## Chapter 1 – A Framework for Discussion

In his work “Ukraine: A Four-Pronged Transition”, Taras Kuzio argued that “there are no ready-made theories [...] applied to all postcommunist states to guide them in their transition process”.<sup>6</sup> In particular, about Ukraine he wrote that it was neither professionally, nor psychologically ready for independence in the end of 1991, and that “it inherited a quasi state, no united nation, few experts, and no international strategy”.<sup>7</sup> By now the post-Soviet experts have offered the number of explanations of Ukraine’s foreign and economic policy. Proposing the analysis of existing literature in the first section, I attempt to identify the theoretical gap. In second section of this chapter I offer the theoretical framework for the explanation of Ukraine’s foreign and economic policy.

### **1.1 Explanations by the existing literature**

The most of existing academic literature explains Ukrainian foreign and economic policies through the lenses of constructivism and institutionalism. The adjectives ‘incompatible’ and ‘multivectoral’ are the most frequently used in characterization of Ukraine’s international behavior. This mainly refers to the pro-Western and pro-Eastern shifts in Ukrainian foreign policy since the period of early independence in 1991 to the present. Rawi Abdelal and Maya Eichler explore these shifts through the prism of economic nationalism. Taking the assumption that the foreign policy of any country is dictated mostly by its domestic affairs, Abdelal and Eichler explain Ukrainian foreign policy, stressing the question of Ukrainian national identity.<sup>8</sup> As through history, the territory of today’s Ukraine is influenced by two major players - European (mainly Polish) to the west and center of Ukraine and Russian to the east and south, Abdelal argues that there is no distinct and exclusive Ukrainian national identity: especially in Eastern and Southern Ukraine national identity is rather

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<sup>6</sup> Taras Kuzio, “Ukraine: A Four-Pronged Transition” in *Dynamics of Post-Soviet Transformation. Contemporary Ukraine*, edited by Taras Kuzio, M.E. Sharpe, Inc, New York, 1998, p.165

<sup>7</sup> Ibid, p.167

<sup>8</sup> Abdelal, pp. 21-43

“multiple and overlapping between Pan-Slavic, Soviet and regional.”<sup>9</sup> Therefore, this internal division in perception of national identity, Abdelal claims, is the obstacle to Ukraine choosing either purely pro-European or pro-Russian foreign policy. Both Abdelal and Eichler connect the issue of national identity with political economy in explanation of foreign policy decision making, particularly in relation to Russia and economic path dependence on it. Eichler argues that, despite initial claims of Ukraine’s leadership for sovereignty from Russia and European political choice, during the period of strong economic decline in Ukraine in the first years of independence, economic interest prevailed and Ukrainian authorities agreed on associate membership in the CIS.<sup>10</sup> Similarly to Abdelal and Eichler, Roman Solchanyk’s explanation of the relations between Ukraine and Russia in the post-Soviet transition is based on the question of national identity within Ukraine, and it emphasizes the role of common history, but provides different views on it from Ukrainian and Russian perspectives.<sup>11</sup> Important place in his analysis is given to the argument that the question of misunderstandings in relations between Russia and Ukraine can be solved if Russia and Ukraine choose a common direction of their international orientation – membership in the EU.<sup>12</sup> The fact of Ukraine’s internal balancing is evident in all aforementioned studies. Furthermore, in Alexander Motyl’s work “State, Nation and Elites in Independent Ukraine” the central place is given to the question of state-building. Motyl also observes Ukrainian national identity as the reason for “middle-of-the-road-policies” of former Ukrainian presidents, Leonid Kravchuk and Leonid Kuchma.<sup>13</sup> In his study, the fact of internal balancing between regions can be recognized through the explanation that both the first and second Ukrainian presidents in their attempts of nation-building

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<sup>9</sup> Ibid, p.38

<sup>10</sup> Maya Eichler, “Explaining Postcommunist Transformation. Economic Nationalism in Ukraine and Russia”, in Helleiner’s and Pickel’s *Economic Nationalism in a Globalizing World*, Cornell University Press, 2005, pp. 69-87

<sup>11</sup> Roman Solchanyk, “Ukraine and Russia. The Post-Soviet Transition”, Rowman and Littlefield Publishers, Inc, 2001

<sup>12</sup> Ibid, p. 211

<sup>13</sup> Alexander Motyl, “State, Nation and Elites in Independent Ukraine” in *Dynamics of Post-Soviet Transformation. Contemporary Ukraine*, edited by Taras Kuzio, M.E. Sharpe, Inc, New York, 1998, p.6

emphasized “civic and territorial loyalty downplaying ethnic allegiance”.<sup>14</sup> In contrast to Marc Nordberg, who argued that Ukraine by constitution remained unitary state, but it “has done little to prevent regionalism from growing”<sup>15</sup> concerning the struggle for power on regional and local levels, Motyl saw the interest of elites and relations within them as the factor that paradoxically “made state building possible”.<sup>16</sup> This is another proof that there is the balancing within the country’s regional elites, unnoticed by the authors. Along with them, Paul D’Anieri takes into account both – fragmented national identity and interests of elites examining the weakness of Ukrainian political system before and after Orange Revolution. He claims that, although this system is made according to Western democratic model, these factors made democracy in Ukraine very weak and argues that “the fundamental imbalance in raw political power has been the underlying source of the more immediate problems in Ukrainian government, such as weak parties, selective law enforcement, and a fragmented parliament.”<sup>17</sup> Similar explanations are presented in the works of Margarita Balmaceda and Bertil Nygren. They examine incompatibility in Ukraine’s foreign policy illustrating the interests of Ukrainian political and economic elites. For instance, Balmaceda appoints throughout analysis of Ukraine’s public policy through the context of two important trends on post-Soviet space: opportunities for enrichment created by transition and the way that Russian Federation uses structural and new dependences to reset its hegemony in the CIS.<sup>18</sup> Balmaceda’s main focus is on Ukraine’s energy sector and effects of political system on energy situation management in Ukraine. As exactly this sector is central for Ukraine’s economy, she argues that the lack of transparency and corruption that started in this sector spread to the other sectors of Ukraine’s economy.<sup>19</sup> Balmaceda

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<sup>14</sup> Ibid, p.7

<sup>15</sup> Marc Nordberg, “State and Institution Building in Ukraine” in *Dynamics of Post-Soviet Transformation. Contemporary Ukraine*, edited by Taras Kuzio, M.E. Sharpe, Inc, New York, 1998, p.45

<sup>16</sup> Motyl, p.9

<sup>17</sup> Paul D’Anieri, “Understanding Ukrainian Politics”, M.E. Sharpe, Inc., New York, 2007, p.12

<sup>18</sup> Margarita M. Balmaceda, “Energy Dependency, Politics and Corruption in the Former Soviet Union. Russia’s power, oligarchs’ profits and Ukraine’s missing energy policy 1995-2006”, Routledge Taylor and Francis Group, London and New York, 2007, pp. 139 - 145

<sup>19</sup> Ibid, p. 139

explains that money from energy rents, contribution from Russian energy companies and corruption have played significant role in Ukrainian national elections since 1994.<sup>20</sup> Furthermore, personal interests of the political elites as the reason for the shift in the Ukrainian foreign policy are also emphasized in Bertil Nygren's analysis of Russian-Ukrainian relations after the dissolution of the Soviet Union.<sup>21</sup> According to Nygren, the important factor in Ukrainian-Russian relations was the good personal relations between Kuchma and Putin in the early period of Putin's first presidential term when the trade and economic ties between two countries improved. At the same time, the 'Kuchmagate' scandal<sup>22</sup> of 2000 worsened Ukrainian relations with the West in general, and USA in particular. This was the reason why Kuchma "turned to Russia for comfort, even offering for a time a 180 degree turn in security relations away from NATO".<sup>23</sup> The last variable – shift in foreign policy on behalf of personal interest of political elites - serves as the fact of Ukraine's balancing between Western structures of integration and Russia as their counterbalance. The authors' contributions to the study of Ukraine have disregarded balancing as the theoretical explanation of Ukraine's foreign and internal policy.

Otherwise, some authors mentioned Ukraine's "hard balancing"<sup>24</sup> between the EU and Russia, however they were more focused on political relations between the EU and Russia and their clashing interests in Ukraine with the striking example of Orange Revolution in 2004. In the light of the last Taras Kuzio argues that:

"Ukraine's divergent path away from Russia had come into conflict with attempts of Ukraine's elites to move the country toward a Russian-style managed democracy that would provide a safe haven for its oligarchs in the post-

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<sup>20</sup> Ibid.

<sup>21</sup> Bertil Nygren, "The Rebuilding of Greater Russia. Putin's foreign policy towards the CIS countries", Routledge Taylor and Francis Group, London and New York, 2007, pp.49-65

<sup>22</sup> 'Kuchmagate' refers to the 2000 Kuchma's involvement in disappearance of the investigative journalist Heorhiy Gongadze and followed anti-Kuchma demonstrations in Ukraine.

<sup>23</sup> Ibid, p. 52

<sup>24</sup> Caizer: 2006, Dragneva and Dimitrova: 2006

Kuchma world. Of these two conflicting trends of divergence away from Russia and moves towards Russia, the election of Yushchenko will reinforce divergence rather than convergence.”<sup>25</sup>

Hence, other authors are dealing with aspects of balancing, but their emphasis is not focused on the act of balancing as the single ‘most important’ phenomenon of Ukrainian foreign policy as it is done in this study. I argue that it deserves attention in the terms of theory. Therefore, in the next section I attempt to connect two theories in order to set up theoretical framework and background for better understanding of Ukraine’s international behavior.

## **1.2 Theoretical framework**

Having identified a gap in the theoretical explanation offered for the reasons of Ukrainian incompatible international behavior, I suggest that this inclination can be best explained by synthesis of balance of power and theory of complex interdependence. Namely, I argue that balance of power best explains Ukraine’s attempts to survive as newly independent state: cooperating with the EU, Ukraine endeavors to counterbalance Russia’s hegemony within the CIS. At the same time, I argue that complex interdependence theory proposes the explanation of relations between Russia, Ukraine and the EU regarding their economic interdependence and difference in their systems of governance, as well as Ukraine’s economic balancing between its regions and different interest groups.

In general, neo-realism suggests that behavior of the states is constrained by the distribution of capabilities within the international system.<sup>26</sup> According to Kenneth Waltz, foreign policy can be seen as “guided ultimately by national survival, the related objective of exploiting opportunities that enhance state capabilities and a general predisposition against anything but expedient forms of cooperation with other states”.<sup>27</sup> Waltz also emphasizes the difference between theory of international politics and theory of foreign policy. In his view, the first is based on assumptions that

<sup>25</sup> Taras Kuzio, “Russian Policy toward Ukraine during Elections”, *Demokratizatsiya* 13, 4 (Fall 2005), p.516

<sup>26</sup> Mark Weber and Michael Smith, “Foreign Policy in Transformed World”, Harlow, Prentice Hall, 2002, p.21

<sup>27</sup> Ibid: p.21

the states are unitary actors with single motive – the wish to survive; therefore it explains “how variations in conditions external to states push or pull them in various directions”, while second is governmental product.<sup>28</sup> Studying the meaning of balance of power in international politics, Emerson Niou, Peter Ordeshook and Gregory Rose refer to Waltz’s (1979) characterization of balance of power as a ‘self-help system’. They argue that important feature of the balance of power is that

“it is not merely the equating of one of combination of resources against another combination. Rather, the balance of power necessarily embodies, implicitly or explicitly, a nexus of “mutual security” relationships among states, enforced by the understanding that hegemonic dominance threatens more than a single state”.<sup>29</sup>

Summarizing the meaning of balance of power, Niou, Ordeshook and Rose refer to Hedley Bull (1977) who argued that

“First, the general balance of power serves to prevent the system of states from being transformed by conquest into a universal empire... Second, local balances of power – where they exist – serve to protect the independence of states in particular area from absorption or domination by a locally preponderant power... Third, both the general balance of power, and such a local balances as exist at present, help to provide the conditions in which other institutions on which international order depends are able to operate”.<sup>30</sup>

The second point in Bull’s summary of balance of power is probably the most applicable in explanation of Ukraine’s relations with the EU and Russia; however other definitions are equally valuable. As such, for Evan Luard the concept of balance of power is even more fluid. He argues that it can describe situation, policy or process. Through history balance was in some cases created essentially for self-interests of particular states, in other as community objection in interests of

<sup>28</sup> Kenneth Waltz, “International Politics is Not Foreign Policy”, *Security Studies* 6, 1996, p.54

<sup>29</sup> Emerson Niou, Peter Ordeshook and Gregory Rose, “The balance of power. Stability in international systems”, Cambridge University Press, Cambridge, 1989, p.82

<sup>30</sup> *Ibid*, p.82

society as a whole, but it was also used as the mean of securing peace.<sup>31</sup> According to Luard, the most frequently used means of the balance was the prevention of domination of the certain states. In the case of Ukraine, its balance against Russian domination in post-Soviet space is obvious. Being an associated member of the Russia's dominated CIS, Ukraine is also the founder and leader of the organizations that counterbalance Russia's hegemony within the CIS: GUAM<sup>32</sup> since 1997 and Community of Democratic Choice established in 2005.<sup>33</sup> Also Ukraine's balancing can be seen through the lenses of the state's self-interest: simultaneously, Ukraine along with Russia, Kazakhstan and Belarus is the member of clearly pro-Russian integration oriented economic organization within the CIS – the Single Economic Space.

The third form of Ukraine's balancing is aforementioned community objective – the interest of regionally divided and fragmented Ukrainian society on pro-Russian East and South and pro-European Center and West. These are clear indicators of Ukraine's balancing: first – regional counterbalance to Russia, second – membership in pro-Russian regional organizations on behalf of state's self-interest, and third - internal balancing between regions, which have generally different views on Ukraine's foreign policy. However, all of mentioned above forms of balance of power are able to explain merely certain aspects of Ukrainian relations with the EU and Russia. Therefore, I introduce the complex interdependence theory developed by Robert Keohane and Joseph Nye in the 1970's as the synthesis of realist and liberal thought that refers to the complex transnational connections between states and societies. It considers that world politics is seen from two opposite perspectives.<sup>34</sup> The first is the modernist approach focused on the importance of the increasing economic and social transactions and claims the decline of military force. The second is realists'

<sup>31</sup> Evan Luard, "The Balance of Power", Macmillan Academic and Professional LTD, Hong Kong, 1992, p. 21

<sup>32</sup> Georgia, Ukraine, Azerbaijan, Moldova

<sup>33</sup> Mikhail M. Molchanov, "Regional Promises in State Social Identity Construction: The Rhetoric of a Single Economic Space", Prepared for 6<sup>th</sup> Pan-European International Relations Conference, Torino, Italy, 12-15 September 2007; material used with the author's permission (Accessed from [http://archive.sgir.eu/uploads/Molchanov-regional\\_promise\\_in\\_id\\_cons-turin.pdf](http://archive.sgir.eu/uploads/Molchanov-regional_promise_in_id_cons-turin.pdf), May 6 2009), p. 12

<sup>34</sup> Robert Keohane and Joseph Nye, "Power and Interdependence", Longman, New York, 2001, p.3

approach with the assumptions that, first, states considered as coherent units are the main actors on the international level; second, the force is the most effective instrument of foreign policy; and third, high politics dominates international relations.<sup>35</sup> Keohane and Nye recognize the modernists' underestimation of the importance of military power, as well as realists' undervaluation of the changes that take place in the world politics.<sup>36</sup> Connecting the values of two approaches and bridging the gap between them, Keohane and Nye formulate the concept of interdependence.

Mark Weber and Michael Smith also emphasize the importance of changes in international system and make a link between "the changing nature of foreign policy and political processes on three separate grounds": first – the increased complexity of the international events needs continuous process of adaptation of the traditional foreign policy institutions; second, complexity increased the importance of domestic politics in foreign policy, especially link of economic issues with foreign policy; and third – the formulations of foreign policy is influenced by the actors from outside domestic political structures.<sup>37</sup> According to Weber and Smith, Keohane and Nye defined the last influences as "multiple channels of contacts among societies" and divided them into "intergovernmental organizations" such as NATO or ESDP, "transgovernmental relations" with an example of Russian-American space cooperation, and "transnational relations" such as "non-governmental central bankers [...] seek to shape the foreign policies of EU states".<sup>38</sup> In addition, Keohane and Nye argue that interdependence exists when there is mutual dependence between the international actors, or when the actors are mutually exposed to costly effects. Namely, in a relation between two international actors any change provoked by one of the actors or a third actor, may have a costly effects on both of actors. Keohane's and Nye's general point about these consequences

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<sup>35</sup> Ibid, pp. 23-24

<sup>36</sup> Ibid, p.4

<sup>37</sup> Ibid: p.63

<sup>38</sup> Ibid: pp.64-65, with references to Robert Putnam (1988) and Keohane and Nye (1989)



is that “people care about them”.<sup>39</sup> Therefore, according to the authors, confrontation of interests in complex interdependence still exists and power continues to play an important role in the relations. In addition to these definitions, James Rosenau (1980) contributed to the debate over complex interdependence examining different perceptions of states as powers. He argues that power of state can be viewed differently - through military, economy or energy; however, in his view, the most important is not the source of power itself, but the way how it is directed and responded to by other actors. Rosenau states that “nations influence each other; they exercise control over each other; they alter, maintain, subvert, enhance, deter, or otherwise affect each other, but they do not ‘powerize’ each other”.<sup>40</sup>

In accordance to this view, economic interdependence on the axis Russia – Ukraine - the EU as well as the economic interdependence between Ukraine’s regions is significant not only for the country’s prosperity, but also for its survival as the state. Therefore, as I have argued, synthesis of the balance of power theory and complex interdependence, or symbolically balancing in complex interdependence, determines an appropriate theoretical framework for the explanation of Ukraine’s foreign and economic policy.

Thus, in order to test this theory, in the next chapter I compare the power of the EU and Russia as the regional actors and the impact of their relations on Ukraine as the country in between.

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<sup>39</sup> Keohane and Nye, p.236

<sup>40</sup> James Rosenau, “Capabilities and Control in an Interdependent World” in *The Study of Global Interdependence: Essays on the Transnationalisation of World Affairs*, Frances Pinter (Publishers) Limited, London, 1980, p. 37; In order to avoid conceptual confusion, Rosenau suggests replacing the word ‘power’ with ‘concept of capabilities’ when it references to attribute or possessed resources, and with ‘control’ or ‘influence’ when “the relational dimension of ‘power’ is subjected to analysis”.<sup>40</sup> For accuracy with definitions in this thesis I accept his suggestion.

## Chapter 2 – Political and economic importance of Ukraine for the EU and Russia

### 2.1 The EU and Russian Federation as different kinds of international actors

For a clear understanding of Ukraine's position and its importance for the EU and Russia, but also for the explanation of its international behavior, which is the puzzle of this thesis, it is crucial to define the EU and the Russian Federation as international actors. As Rosenau argued, it is also important to analyze their mutual perception and interaction. This thesis focuses on political and economic relations between them.

First and foremost Russia is the sovereign state, while the EU is political and economic organization. Hence, the most significant difference between them as international actors is in the systems of governance. As Dov Lynch points out, the EU has supranational element with semiannual rotating presidency between member states. The strong supranational institutions and cooperation within them is non-hierarchical and bottom-up policy-making environment, with a focus on regulatory policies of low political salience.<sup>41</sup> At the same time, “[i]t has divided institutions, unclear sovereignty, a weak sense of common interests, and few institutions in the political area that are able independently to achieve the EU's declared ends”.<sup>42</sup> Despite its usefulness, the dialogue rarely helps in bringing together states, which are still defensive about their territoriality and sovereignty: as the sovereignty in the EU is pooled and territoriality is diluted, the EU is “as much a union of interests as a community of shared values”.<sup>43</sup> Thus, from the Lynch's analysis it can be assumed that supranational element of the EU occurs simultaneously as its strength and weakness in international arena. In contrast, the Russian Federation is presidential

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<sup>41</sup> Holger Moroff, “Russia and CIS and the EU: Secondary Integration by Association?” in K. Malfliet, L. Verpoest and E. Vinokurov's *The CIS, the EU and Russia. Challenges of Integration*, Palgrave Macmillan, 2006, p.96

<sup>42</sup> Dov Lynch, “Russia's Strategic Partnership with Europe”, *The Washington Quarterly*, Spring 2004, pp.112-113

<sup>43</sup> Ibid, p.112

republic by its constitution and sovereign state that has solidified political, economic and military system. Leadership is devoted to improvement of the interests of the state, while institutions serve to coordinate methods of reaching desired goals.<sup>44</sup> This arrangement of governing undoubtedly strengthens Russia as an international actor.

Second, the EU and Russian Federation have different tools of might.<sup>45</sup> The EU is economic giant and, as the current Ambassador-at-large for European energy security, Vaclav Bartuska characterized it, “the richest part of the world”<sup>46</sup> due to its production capabilities. Unlike the EU, Russia is energy giant. Its economy is based mainly on the natural resources, in particular on gas and oil exports.<sup>47</sup> Therefore, the EU and Russia recognize each other as important international actors.

In addition, these different tools of political power make the EU and Russia economically interdependent: European economy relies on Russian oil and gas, while Russian economy is built mainly on energy exports to the EU. According to Lynch, Russia is dependent on Europe not only in terms of trade, but also because the EU provides essential expertise and assistance for the economic reforms in Russia.<sup>48</sup> For Russia the EU is the most important trade partner: more than sixty per cent of Russian exports are with the EU. For the EU Russia is the third biggest trade partner after USA and China. Therefore, Holger Moroff reasonably characterized “the EU as an economic giant but political dwarf and Russia as an economic dwarf but a politically unified actor and strategic giant”.<sup>49</sup>

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<sup>44</sup> Ibid, p.112

<sup>45</sup> Ibid, p.113

<sup>46</sup> Ivan Stulajter, Lubos Jancik, “Bartuska: Kradnu vel’a a rychlo”, *Ekonomika.sme.sk*, News Website, <http://ekonomika.sme.sk/c/4378205/bartuska-kradnu-vela-a-rychlo.html> (accessed on April 6 2009)

<sup>47</sup> Edwin Bacon, Matthew Wyman, “Contemporary Russia”, Palgrave Macmillan, New York, 2006, p.107

<sup>48</sup> Lynch, pp.112-113

<sup>49</sup> Moroff, p.97

In this constellation, the Eastern enlargement of the EU in 2004 differently reflected on Russia than on other countries, which became the new EU neighbours.<sup>50</sup> While the EU relations with majority of its neighbours are regulated through the European Neighbourhood Policy (ENP), the EU relations with Russian Federation are instead developed through a Strategic Partnership covering four common spaces: Common Economic Space; Freedom, Security & Justice; External Security; and Research and Education, including cultural aspects.<sup>51</sup> The Strategy Paper that grants to Russian Federation a status of the ‘key partner of the EU’<sup>52</sup> recognizes that “Russia and the enlarged EU form part of each other’s neighbourhood”.<sup>53</sup> This considers that Russia and the EU acknowledge the equivalence of both, which is the evidence of their mutual dependence.

However, considering all differences between the EU and Russia as important international actors, a complex nature of their relations is not surprising and it often produces certain misunderstandings. As Marius Vahl argues, between the EU and Russia there is the problem of the “lack of common values”, considering the image of Russia as “de-democratizing state” that reflecting realist geopolitical zero-sum game perception of international relations, while the European Union regards itself as an incoherent ‘post-modern’ idealist soft power.<sup>54</sup> According to Vahl, the European Union is not able to develop relations only in the field of economy, if it is not simultaneous with the integration in the domains of home affairs and justice and foreign and security policies. The EU also considers participation in the international organizations and regimes as the premise of integration. The difference between Russian and the EU’s visions of strategic partnership entails also in the

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<sup>50</sup> Before the EU Eastern enlargement only Finland was Russian EU neighbour. Since 2004 the length of the EU-Russia border is about 2000km. Vincent Piket, “EU Enlargement and Neighbourhood Policy”, *The International Institute for Strategic Studies (IISS) Website*, <http://www.iiss.org/programmes/russia-and-eurasia/copyof-russian-regional-perspectives-journal/rp-volume-1-issue-3/eu-enlargement-and-and-neighbourhood-policy/> (Accessed on 31 May 2009)

<sup>51</sup> [www.europe.eu http://ec.europa.eu/world/enp/policy\\_en.htm](http://ec.europa.eu/world/enp/policy_en.htm) (Accessed on April 23 2009)

<sup>52</sup> Tom Caizer, “The Clash of Integration Processes? The Shadow Effect of the Enlarged EU on its Eastern Neighbours” in K. Malfliet, L. Verpoest and E. Vinokurov’s *The CIS, the EU and Russia. Challenges of Integration*, Palgrave Macmillan, 2006, p.78

<sup>53</sup> Ibid.

<sup>54</sup> Marius Vahl, “EU – Russia Relations in EU Neighbourhood Policies” in K. Malfliet, L. Verpoest and E. Vinokurov’s *The CIS, the EU and Russia. Challenges of Integration*, Palgrave Macmillan, 2006, Chapter 3

Russian perception of international cooperation in the traditional modes based on Westphalian state system. Concerning the European Security and Defense Policy (ESDP) as well as the Common Foreign and Security Policy (CFSP), the European Union has “limited competences and discretionary power”.<sup>55</sup> The idea of the policy division towards Russia within the European Union, as Vahl points out, causes the “sympathy” of larger states’ leaders to Russian perception of the strategic partnership. He also argues that further partnership is dependent on Russian domestic development policy. At the same time, priority for the European Union is in its own integration, decision making without threats from the outside, and in “fair balance” of obligations and rights. Practically, for the Common Economic Space (CES) building, the European Union expects Russia to align its domestic laws and policies to standards of the EU, but one of the main conditions also remains Russia’s joining the World Trade Organization (WTO).<sup>56</sup> On the other hand, in the EU policy and rhetoric, Russian Federation sees mixed interests and values which interfere in Russian affairs. This was the most significant in two cases: the EU statements about the Russian policy in the conflict in Chechnya and declarations about the application of law in the Yukos affair. The EU’s ability to interact strategically with Moscow is influenced by dispersion of the power of decision-making among different institutions. This results in projection of internal EU governing onto the EU relationship with Russia. Thus, in many issues the EU and Russia “simply talk past each other”.<sup>57</sup>

The most important for the purpose of this thesis, which is to find the explanation for Ukraine’s international behavior, is the parallel to the EU integration process that takes place in Europe. It is political organization, the Commonwealth of Independent States, which is dominated by Russia as the territorially largest and strongest in terms of the military, economy and governance member state. Analyzing the relations between the EU and Russia as the main political players on the

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<sup>55</sup> Ibid: p.137

<sup>56</sup> Ibid.

<sup>57</sup> Lynch, p.113

European continent and considering Russian hegemony within the CIS, it is important to emphasize that the European Union is not ready to support the development of the CIS integration process, but rather to cooperate with the post-Soviet countries on the one by one basis.<sup>58</sup> In this sense, the role of Eastern Neighbourhood Policy of the EU is important with its possibilities of partial granting and passive participation rights in the EU common market and programmes of financing as the tool to overcome the hegemony of Russia in common neighbour states. This generates a situation in which countries that are geographically and recently ideologically and culturally situated between the EU and Russia - Ukraine, Belarus and Moldova, the Caucasus states of the Former Soviet Union Georgia, Armenia and Azerbaijan have to decide between two integration processes – the CIS and the EU. The Eastern enlargement of the EU created two paradoxes: an external border of the EU shifted to the East and “strongly secured borders were established” between the CIS countries and the EU.<sup>59</sup> On the other hand, European Neighbourhood Policy has the task of creating stability with the Western CIS countries. In this light, three developments are of crucial importance: effect of overlapping neighborhood on Russian foreign policy and conflict interests in countries in between; outcome of the ENP in the Eastern Europe; and finally – the success of the strategic partnership between the EU and Russia considering their clashing interests in the Western CIS.<sup>60</sup> The most striking example of the last was the Orange Revolution in Ukraine which along with the analysis of the EU and Russian policies toward Ukraine will be throughout discussed further.

## ***2.2 The EU's and Russia's policies toward Ukraine***

Concerning the fact that currently the EU is Russia's the most important western neighbour and that Russia is the most important neighbour for the EU on east, Ukraine appears the second important neighbour in common EU-Russian neighbourhood for both the EU and Russia as the largest country

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<sup>58</sup> Morroff, Chapter 2

<sup>59</sup> Casier, p.90

<sup>60</sup> Ibid, p.91

between two powers. This is exactly the situation, explained as the complex interdependence by Keohane and Nye, who argued that in a relation between two international actors any change provoked by one of the actors or a third actor, may have a costly effects on both of actors.<sup>61</sup> The next subsection identifies the EU's attitude towards Ukraine with the focus on economic sphere.

### **2.2.1 The EU view on Ukraine**

Since the European Eastern Enlargement in 2004, Ukraine has become one of the largest neighbour countries for the EU. At the same time the EU's relations with Ukraine have become an increasingly divisive question within the organization. There are two interrelated problems for the EU. First is the dispute as to the extent and the means with which it ought to enhance its relationship with Ukraine. The second is the disagreement as to whether the EU should accept Ukraine as a potential Member State.

On each of these issues two broad positions can be seen. On the one hand, mainly Northern and Eastern members of the EU, the so-called EU-11,<sup>62</sup> support a pro-active EU policy of the engagement with Ukraine. On the other hand, the Southern and broadly Western EU member states are against the engagement. Indeed, these disagreements reflect broader divisions within the EU over the EU's foreign policy. In particular, these divisions on Ukraine have been closely connected to the EU policy towards Russia. Simultaneously, this influenced multi-vector direction of Ukrainian foreign policy. In other words, the absence of consensus within the EU towards Ukraine's membership is one of important factors, which puts Ukrainian foreign policy into balancing stage between the EU and Russia.

In light of the aforementioned internal divisions, the unity that EU Member States have shown towards the Orange Revolution was remarkable. In particular, the two things stand out. First, the EU

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<sup>61</sup> Keohane and Nye, p. 236

<sup>62</sup> Scandinavia, Baltic States, Visegrad States and Austria

rejected the official results after the second round of the presidential elections, the results of which were considered as falsified according to the Supreme Court of Ukraine. Second, the EU statement that Dutch presidency prepared was published very early during the revolution. The significance of these points lies in the fact that the EU Member States had been concerned both individually and collectively that the Orange Revolution demonstrated fundamental European values: “a belief in democracy, a willingness to adhere to the rule of law and a desire for freedom from state oppression which they were willing to support”.<sup>63</sup> In turn, the Orange Revolution presented the EU with an opportunity to act as a strong political player and Brussels grasped this opportunity.<sup>64</sup> Within the European Neighbourhood Policy Ukraine gained the status of priority partner. Based on the Partnership and Co-operation Agreement (PCA), which is in force since 1998, EU-Ukraine Action Plan was ratified in February 2005.<sup>65</sup> It provides thorough framework for the articulation between the EU and Ukraine in key areas of Ukraine’s reform.

Furthermore, official EU sources claim that the EU is interested in “close relationship with Ukraine, going beyond co-operation, to gradual economic integration and a deepening of political co-operation”.<sup>66</sup> The evidence to this is the Association Agreement, which serves to replace PCA. The agreement covers four areas of activity: political dialogue and foreign and security policy; justice, freedom and security issues; economic and sectoral cooperation and the establishment of a deep and comprehensive Free Trade Area. Since the beginning of negotiations in 2007, nine negotiating rounds have been conducted. Provisional agreement has been reached on all the first two areas and on the majority of issues concerning economic and sectoral cooperation. Talks on a Free Trade Area will continue during this year as negotiations only began once a decision had been taken for Ukraine

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<sup>63</sup> Grzegorz Gromadski, Oleksandr Sushko, Marius Vahl, Kataryna Wolczuk, Roman Wolczuk, “Will the Orange Revolution bear fruit? EU-Ukraine relations in 2005 and the beginning of 2006”, Stefan Batory Foundation, Warsaw, May 2005, Chapter 2, p.15

<sup>64</sup> Ibid.

<sup>65</sup> [www.europe.eu](http://ec.europa.eu/external_relations/ukraine/index_en.htm) Website [http://ec.europa.eu/external\\_relations/ukraine/index\\_en.htm](http://ec.europa.eu/external_relations/ukraine/index_en.htm) (Accessed on 3May 2009)

<sup>66</sup> Ibid.



to join the World Trade Organization in May 2008.<sup>67</sup> The last serves as the evidence that the trade relations with Ukraine are very important for the EU. For the EU Ukraine is its 16<sup>th</sup> largest trading partner and 13<sup>th</sup> largest export market.<sup>68</sup> The EU's official sources show that the EU is Ukraine's largest trade partner and largest foreign investor in the recent years. The trade between the EU and Ukraine reached over €34 billion in 2007<sup>69</sup>, while according to Ukraine's State Statistics Committee, investments originating from EU member states account for approximately 75% of all FDI into Ukraine.<sup>70</sup> However, global economic crisis hits Ukraine severely and its exports declined by 16 percent during the last quarter of 2008 and by 38 percent in 2009.<sup>71</sup> Furthermore, energy is the main sector of Ukrainian economy. Ukraine is a key strategic country for the transit of (mostly Russian) oil and gas to the EU. It wishes to strengthen this transit position and to enhance its energy network connections with the Union. The EU offers support to the reform of the gas sector, including transit, through the TACIS programme<sup>72</sup>. The signature, under the auspices of the EU, of an Agreement with Poland on the development of the Odessa-Brody-Poland oil pipeline and the connection, since July 2002, of the "Burshtyn Island" to Western European interconnected UCTE electricity networks, fit into this policy.<sup>73</sup> However, by July 2004 Ukraine's government accepted Russia's proposal for the reversal of the Odessa-Brody-Poland pipeline and to transit Russian oil from Brody in the North to Odessa in the South (to be shipped further West by tanker), that is, in the opposite direction from

<sup>67</sup> [www.europe.eu](http://www.europe.eu) Website <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/556> (Accessed on 3 May 2009)

<sup>68</sup> [www.europe.eu](http://www.europe.eu) Website, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/556> (Accessed 3 May 2009)

<sup>69</sup> Ibid.

<sup>70</sup> Andrew Mac, "Foreign Direct Investment Drives Growth in Ukraine", Magisters – Leading CIS based Law Firm, [www.magisters.com](http://www.magisters.com), <http://www.magisters.com/insight/2008-1/fdi-drives-growth-in-ukraine/> (Accessed 3 May 2009)

<sup>71</sup> "Ukraine, Dealing with the Financial Crisis", Kennan Institute, [http://www.wilsoncenter.org/index.cfm?topic\\_id=1424&fuseaction=topics.event\\_summary&event\\_id=516156](http://www.wilsoncenter.org/index.cfm?topic_id=1424&fuseaction=topics.event_summary&event_id=516156) (Accessed 1 June 2009)

<sup>72</sup> The EU Technical Assistance to Commonwealth of Independent States (TACIS)

<sup>73</sup> [www.europe.eu](http://www.europe.eu), [http://ec.europa.eu/world/enp/pdf/country/ukraine\\_enp\\_country\\_report\\_2004\\_en.pdf](http://ec.europa.eu/world/enp/pdf/country/ukraine_enp_country_report_2004_en.pdf) p.22 (Accessed 3 May 2009)

the one originally intended.<sup>74</sup> This fact is in line of the argument that there is still sufficient evidence of Russian economic influence on Ukraine. Therefore, the next subsection is devoted to Ukraine's place in Russian foreign policy.

### 2.2.2 Russia's view on Ukraine

Ukraine's economy has a strong path dependence on Russia especially in terms of energy supplies. Wojciech Kononczuk argued that Ukraine for Russia is the most important former Soviet state.<sup>75</sup> At present, there are three reasons behind this argument: Russian minority in Ukraine, Sevastopol as the Russian Black sea navy port (which together with the Crimean peninsula became the part of Ukraine in 1954), and – economically the most important – Ukraine is the transit country for 80 percent of Russian gas exports to the EU. There are also a number of historical reasons, but it is enough to mention two of them to illustrate Ukraine's importance for Russia. First, both Ukrainians and Russians claim Kyivan Rus as the origin of their own statehood and national identity, and second, the name Ukraine in Russian has the meaning of “borderland”. This determines to a large extent Russian attitude towards Ukraine. In addition, historical overlapping of Russian and Ukrainian national identities and statehood influences most Russians and many Ukrainians to consider Ukraine as ‘abroad’.<sup>76</sup> After the dissolution of USSR, along with Russia and Belarus, Ukraine was the founder of the CIS.<sup>77</sup>

Despite the fact that in the early period of independence, Ukraine had the similar problems as the Russian economy, economic dependence has largely been unidirectional in the relationship; in the

<sup>74</sup> Balmaceda, p.73; the issue of Odessa-Brodypipeline will be throughout analyzed in the third chapter.

<sup>75</sup> Wojciech Kononczuk, “Difficult ‘Ally’. Belarus in Russia's Foreign Policy”, *Białorus w Polityce Rosji*, Center for Eastern Studies, Warsaw 2008, p.33

<sup>76</sup> Roman Solchanyk, “Ukraine and Russia. The Post-Soviet Transition”, Rowman and Littlefield Publishers, Inc, Oxford, 2001, pp. 1-7

<sup>77</sup> Bertil Nygren, “The Rebuilding of Greater Russia. Putin's foreign policy towards the CIS countries”, Routledge Taylor and Francis Group, New York, 2007, Part II, Chapter 3

privatization scramble in Ukraine Russian capital has been active only since 1999.<sup>78</sup> The exports from Russia to Ukraine in 1997-2007 decade increased from eight to sixty billion USD, while imports incremented from four to twelve billion USD.<sup>79</sup> In terms of foreign direct investments for the period of 1999-2003 Russia officially invested 377.6m in the Ukrainian economy. At the same time, some experts argue that most of UK and Cypriot investments are Russian and Ukrainian capital going through Cypriot and British offshore centers.<sup>80</sup> This assumption also deals with the question of balancing between the EU and Russia in Ukraine's foreign policy.

Generally speaking, there were three shifts in Ukraine's foreign policy since the dissolution of the Soviet Union. These shifts had the significant impact on Russo-Ukrainian relations. The first one came with independence in early 1990's when nationalist political stream came to power with Leonid Kravchuk as a leader. Eichler argues that Kravchuk attempted to reject all ties with Russia and claimed Ukraine's integration to the West.<sup>81</sup> However, as Abdelal points out, nationalist ideas were not widespread among all Ukrainians: the reason for this is strong fragmentation and contestation of Ukrainian national identity.<sup>82</sup> Kravchuk's attempt to define Russia as the most significant 'other' to Ukraine was defined in his central idea of state-building: the "Russian threat to Ukrainian independence".<sup>83</sup> Looking for the autonomy from Russia, Kravchuk attempted to create the national currency, reduce trade with Russia, increase exports to other newly independent states of Soviet Union and set up customs control.<sup>84</sup> However, independence in the first stage brought to Ukraine strong economic decline along with regional division. Ukraine's strong reliance on Russian oil and gas supplies compelled Kravchuk to reconsider ties with Russia and Ukraine became

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<sup>78</sup> Ibid, p.51

<sup>79</sup> [www.russiaexport.net](http://www.russiaexport.net), Russia Export/Import Website, <http://www.users.globalnet.co.uk/~chegeo/> (Accessed 3 May 2008)

<sup>80</sup> "Russian investments in Ukraine top \$ 377.6m", Gateway to Russia Website, [http://www.gateway2russia.com/st/art\\_214895.php](http://www.gateway2russia.com/st/art_214895.php) (Accessed 3 May 2008)

<sup>81</sup> Eichler, p.81

<sup>82</sup> Abdelal, p. 31

<sup>83</sup> Eichler, p.81

<sup>84</sup> Ibid.

associated member of the CIS in 1993. Eichler argues that relation to Russia was the main topic of 1994 Presidential elections in Ukraine.<sup>85</sup> Leonid Kuchma's balanced program of relationship with Russia brought him the support of the key economic associations from the eastern regions and he won the elections. Kravchuk's anti-Russian claim of Ukrainian national identity and foreign and economic policies was replaced by Kuchma's understanding of Ukraine's Eurasian identity and security threat more "by country's dismal economic situation than by Russia".<sup>86</sup> This was the second shift in Ukrainian foreign policy – the one that was completely acceptable for Russia's policies and plans towards the CIS. Therefore, during the Ukrainian presidential elections in 2004 Russian authorities attempted to interfere on the side of pro-Russian candidate Viktor Yanukovich. For these purposes, according to Kuzio, Russian political technologists used three ways: the first was known as pamphlets "temnyky" – censorship instructions for mass media, opening Russian Club in Kyiv, and poisoning pro-Western candidate Viktor Yushchenko.<sup>87</sup> Nevertheless, Russian 'soft power' failed in Ukrainian elections of 2004 and new pro-Western shift in Ukrainian foreign policy occurred. Russia recognized the results of elections, but still 'punishes' Ukraine by increasing the prices for gas. However, Russian strive to influence political situation in Ukraine can be identified as defense of Russia's state interests, rather than as the consequence of post-imperial 'trauma'. Ukrainian leadership in "openly anti-Russian GUAM alliance" within the CIS and Organization for Democracy and Economic Development (ODED) - organizations established "with the U.S. nudging" serve to counterbalance Russian influence in the region.<sup>88</sup> What is seen as the biggest threat to Russian state interests are attempts of GUAM group to build gas and oil pipelines in order

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<sup>85</sup> Ibid.

<sup>86</sup> Ibid.

<sup>87</sup> Taras Kuzio, "Russian Policy toward Ukraine during Elections", *Demokratizatsiya* 13, Fall 2005, pp. 491-517

<sup>88</sup> Mikhail M. Molchanov, "Regional Promises in State Social Identity Construction: The Rhetoric of a Single Economic Space", Prepared for 6<sup>th</sup> Pan-European International Relations Conference, Torino, Italy, 12-15 September 2007; material used with the author's permission (Accessed from [http://archive.sgir.eu/uploads/Molchanov-regional\\_promise\\_in\\_id\\_cons-turin.pdf](http://archive.sgir.eu/uploads/Molchanov-regional_promise_in_id_cons-turin.pdf), May 6 2009), p.8

to bypass Russian territory.<sup>89</sup> Therefore, Russia makes attempts to decrease its dependence on Ukraine as a transit country by constructing the gas pipeline South Stream on the Black Sea bottom to the Balkans and South and East Europe, which will bypass Ukraine. This project, which was announced in April 2007 and planned to be finished till 2016, will considerably lessen meaning of Ukraine as energy transit country.

Otherwise, according to Vahl, as Ukraine attempts to adopt EU business standards, Russian business in Ukraine will be forced to become 'EU compatible', which will create a growing Russian constituency in favour of the EU harmonization. This may have consequences for Russia to adopt EU rules and standards. Since Ukraine receives most of its energy from Russia, Ukrainian EU membership would also make the EU even more dependent on Russian energy supplies, although its eventual inclusion into the EU's internal energy market would enhance security of transit of Russian energy to European markets.<sup>90</sup>

To sum up, geopolitical position between the EU and Russia and their mutual dependence makes Ukraine dependent on its both great neighbours. As Mikhail Molchanov points out,

"Redefinition of identity in Ukraine has passed full circle from Russia to Europe to Russia and to the European Union once again. [...] Looking at Ukraine's previous experience with both Russia and the EU, it is safe to argue that the circle is far from being over".<sup>91</sup>

In addition, Ukraine's circles from Russia to the EU and the other way around are not only its internal balancing between different perceptions of national identity within its regions. Balancing between two is even more significant in Ukraine's foreign policy in order to remain its sovereignty in international arena and adjust its economic benefits. Consequently, next chapter presents the

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<sup>89</sup> Andrei Kazantsev, "Russian Policy in Central Asia and the Caspian Sea Region", *Europe-Asia Studies*. 60, 6, Routledge, Taylor and Francis Group, August 2008, pp.1073-1088

<sup>90</sup> Vahl, p.135

<sup>91</sup> Mikhail M. Molchanov, "Regional Promises in State Social Identity Construction: The Rhetoric of a Single Economic Space", Prepared for 6<sup>th</sup> Pan-European International Relations Conference, Torino, Italy, 12-15 September 2007; material used with the author's permission (Accessed from [http://archive.sgir.eu/uploads/Molchanov-regional\\_promise\\_in\\_id\\_cons-turin.pdf](http://archive.sgir.eu/uploads/Molchanov-regional_promise_in_id_cons-turin.pdf), May 6 2009), p. 12

evidence of balancing in longitudinal analysis of five main events that shaped Ukraine's foreign policy in the periods between the early independence and current moment.

### Chapter 3 – The evidence of balancing

Lord Palmerstone's famous dictum that "Nations do not have permanent friends, only permanent interest"<sup>92</sup> largely explains the essence of the present chapter. As Marta Dyczok points out, for Ukraine one of the main reasons for declaring independence was the fact that its economy "looked bleak if it remained part of the USSR and subject of decisions made outside its borders".<sup>93</sup> However, in early years of independence, the Ukrainian economy declined rapidly. This along with "global trends towards regionalism"<sup>94</sup> brought up the question for Ukraine whether to go back to zone dominated by Russia, participating in the CIS, or to try to become the member of the EU. Keeping in mind both Ukraine's internal division and complex interdependence between it, the EU and Russia explained in previous chapters, I argue here that Ukraine succeed to sustain its economy balancing between Russia and the EU. In this chapter I explore the phenomenon of Ukraine's international balancing through the five significant events that indicated Ukraine's foreign policy: two main aforementioned shifts during the presidency of Kravchuk and Kuchma and their reasons and consequences for Ukrainian energy sector; impact of Orange Revolution on Ukraine's relations with Russia and the EU, and two gas disputes between Russia and Ukraine - one that occurred in 2006 and second in January 2009. In my analysis I use variables such as the issue of national identity in Ukraine, interests of Ukrainian business and political elites and interests of Russia and the EU.

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<sup>92</sup> Lee Byong-chul, "Alliance and National Interest", *The Korea Times*, 4 June 2008, [http://www.koreatimes.co.kr/www/news/opinion/2009/05/198\\_21999.html](http://www.koreatimes.co.kr/www/news/opinion/2009/05/198_21999.html) (Accessed 20 May 2009)

<sup>93</sup> Marta Dyczok, "Ukraine. Movement without change and change without movement", Overseas Publisher Association, Amsterdam, 2000, Chapter 4, p.67

<sup>94</sup> Ibid.

### 3.1. *Balancing during Kravchuk's presidency*

As Kuzio points out, President Kravchuk's main focus was on the state and nation-building.<sup>95</sup> He attempted to achieve these goals claiming Russia the most significant 'other' to Ukraine first of all in terms of national and cultural identity and Ukraine's European orientation.<sup>96</sup> As Eichler argued, the main guidance for state-building efforts was the idea of the "Russian threat to Ukrainian independence and sovereignty".<sup>97</sup> In this light, Kravchuk proposed a program of economic reforms which included reducing trade with Russia, the creation of national currency, reorienting exports to other post-Soviet states and to Europe, and setting up customs control.<sup>98</sup> These reforms corresponded to the interests of Ukrainian political and economic elite – oligarchic groups, that emerged in early 1992 and were formed after the end of communist regime, "though several leading figures had been youth communist (Komsomol) officials or state enterprise managers"<sup>99</sup>: they allowed elite to consolidate its power locally. Moreover, the energy prices for Ukraine remained low in the early years after the dissolution of USSR, therefore so-called red directors

"carried with them Soviet-era ways of looking at the question of energy independence, in the sense of looking at a Soviet-wide energy balance, not a specifically Ukrainian one, and, thus, of seeing energy inputs as basically unlimited and only a soft constraint on their production cycle."<sup>100</sup>

Coal has always been important source of energy for Ukraine: as Bohdan Harasymiw argued, country possesses between 200 and 250 years' worth reserves. Nevertheless, since 1970's coal production had declined significantly.<sup>101</sup> Therefore, important support for Ukrainian independence

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<sup>95</sup> Taras Kuzio, "Ukraine: A Four-Pronged Transition" in *Dynamics of Post-Soviet Transformation. Contemporary Ukraine* edited by Taras Kuzio, M.E. Sharpe, New York, 1998, p. 170

<sup>96</sup> Eichler, p.81

<sup>97</sup> Ibid.

<sup>98</sup> Ibid: p.82

<sup>99</sup> Andres Aslund, "The Ancien Regime: Kuchma and Oligarchs" in Anders Aslund's and Michael McFaul's *Revolution in Orange*, Carnegie Endowment for International Peace, Washington D.C., 2006, p.10

<sup>100</sup> Balmaceda, p.46

<sup>101</sup> Bohdan Harasymiw, "Post Communist Ukraine", Canadian Institute of Ukrainian Studies Press, Toronto, 2002, Chapter 9, p.373



also came from miners' movement from Donbas, who hoped that national state would be able to improve working conditions and bring more subsidies and investments directly from Kyiv.<sup>102</sup>

However, Harasymiw argued that "energy is Achilles heel of the Ukrainian economy", therefore strong dependence on Russia drastically compels economic policy options, "creates a permanent crisis situation and opens Ukraine to political manipulation in foreign policy".<sup>103</sup> In addition, rapid economic decline resulted in Kravchuk's lost support among workers and industrial managers from the industrially most developed regions of Ukraine, in particular coal miners from Donbas, which staged waves of strikes. As coal was the only really domestic source of Ukrainian energy, the unrest of coal miners influenced Kravchuk's economic policy decisions.<sup>104</sup> Moreover, Russia has been the main supplier of needed equipment for coal mining.

Therefore, these three factors: first, reliance on Russian oil and gas supplies connected to the interests of new Ukrainian economic elites; second, economic decline, and finally widespread unrest in the coal industry workers - compelled Kravchuk to reconsider the strategy for economic autonomy from Russia, changing also foreign policy to less anti-Russian. Reestablishing economic ties with Russia resulted in Ukraine's membership in the CIS free-trade zone in 1993. However, in an attempt to keep a counterbalance to Russia in the CIS, Kravchuk agreed not on full, but associated membership only.<sup>105</sup> This allowed Ukraine to achieve short-term goals, namely to maintain its trade relations with other former Soviet republics, with retaining simultaneously control over economic processes on its territory. This can serve as a clear evidence of Waltz's idea of using the balance of power for the state's survival.<sup>106</sup> At the same time, Kravchuk failed in implementation of economic reforms. Kuzio argues that Kravchuk neglected the economy during his presidency, while Ukrainian citizens also were not willing to accept the reality that Kravchuk proposed a year

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<sup>102</sup> Eichler, p.82

<sup>103</sup> Harasymiw with reference to Paul D'Anieri's "Economic Interdependence in Ukrainian-Russian Relations", p.373

<sup>104</sup> Ibid.

<sup>105</sup> Eichler, p.83

<sup>106</sup> Weber and Smith, p.21

after his resignation: “In another five years, believe me, we will still be far from accomplishing everything. And in ten years we won’t [accomplish everything].”<sup>107</sup>

### **3.2. Balancing during Kuchma’s presidency**

According to Nygren, Kuchma continued initiated by Kravchuk West-oriented foreign policy.<sup>108</sup> However, it might be more accurate to say that Kuchma pursued the foreign policy balancing strategy: while Kuchma sought closed ties with Europe, he attempted to normalize relations with Russia. Ukraine’s second president succeeded in implementing economic reforms in cooperation with the International Monetary Fund (IMF) in order to gain financial support from the West. These reforms resulted in liberalization of prices and monetary stabilization through the introduction of new national currency.<sup>109</sup> As I have argued in the previous chapter, simultaneously with cooperation with Western organizations (such as IMF and World Bank), Kuchma claimed Ukrainian Eurasian national identity and argued that Russia is a necessary strategic partner.<sup>110</sup>

By the time of his election as president however, the influence of Ukrainian oligarchs on the state had increased. Aslund argues that “in 1990’s Ukrainian oligarchs focused on and made most of their money in commodity trading”, which first and foremost includes gas, then steel exports, oil trade, coal subsidies, and agricultural and chemical exports.<sup>111</sup> Moreover, the gas trade became a specific business. According to Aslund, “each year, a handful of Ukrainian businessmen were given regional trade monopolies, and each made hundreds of millions of dollars through small trading companies”.<sup>112</sup> During the first year of his presidency Kuchma followed the energy market reforms and in attempts to decrease corruption inherited from previous regimes, he prosecuted two post-

<sup>107</sup> Kuzio, p.171 with reference to *Chas* 22 August 1995

<sup>108</sup> Nygren, p.50

<sup>109</sup> Eichler, p.84

<sup>110</sup> Eichler, p.85

<sup>111</sup> Aslund, p.10

<sup>112</sup> Ibid, p.11

independency period oligarchs. First was Yukhum Zviahliksiy, the Prime Minister during the second half of Kravchuk's presidency. Second was the media oligarch Vadim Rabinovich. However, when already established business elites improved relations with the new president, Kuchma's regime became corrupt. In 1995 a new group of oligarch emerged in Dnipropetrovsk: the governor Pavlo Lazarenko and his business partner Yulia Tymoshenko headed the private company Unified Energy System of Ukraine which mostly traded with gas.<sup>113</sup> In order to take control over country's energy sector, but also to increase his influence on country's economy in general, Kuchma pitted different oligarch groups against one another. To a large extent this strategy helped him to be reelected in 1999: maneuvering between oligarchs, Kuchma eliminated Viktor Yuschenko and other centrists as candidates and reduced the choice to himself and the leader of the Communist party Petro Symonenko.<sup>114</sup>

In his second presidential term Kuchma faced new challenges in foreign policy: Russia's financial crash of 1998 still negatively influenced the Ukrainian economy regarding interdependence between two former Soviet states on the one hand, and new Russian President Vladimir Putin's clearly defined policy towards closer ties with Ukraine and strengthening strategic partnership on the other.<sup>115</sup> Furthermore, in the 2000 the Kuchmagate scandal over disappearance of investigative journalist Heorhiy Gongadze, Kuchma finally lost his support from the West.<sup>116</sup> This event provoked anti-Kuchma demonstrations across the country calling for his impeachment. Though the opposition was not consolidated as the prime-minister of the time Viktor Yuschenko "had adopted

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<sup>113</sup> Ibid, p.12

<sup>114</sup> Ibid, p.13

<sup>115</sup> Nygren, p.51

<sup>116</sup> Adrian Karatnycky, "The Fall and Rise of Ukraine's Political Opposition: From Kuchmagate to the Orange Revolution" in *Revolution in Orange. The Origins of Ukraine's Democratic Breakthrough* edited by Anders Aslund, Carnegie Endowment for International Peace, Washington, 2006, Chapter 2, p.33: "The journalist's disappearance became an international cause célèbre, but it would have lead nowhere if not for the defection of Major Mykola Melnychenko and the revelation that he and some cohorts had recorded more than one thousand hours of President Kuchma's private conversations... [in which he] demanded Gongadze's abduction..."

the stance of neutrality”<sup>117</sup>, protests proved unsuccessful. At the same time, these events influenced a new shift towards Russia in Ukrainian foreign policy. During the first year of Putin’s presidency alone, Kuchma and Putin met eight times and trade between Ukraine and Russia increased to twenty percent. Moreover, the 2001 September 11 terrorist attacks, Russian anti-terrorist alliance with USA and the 2002 accord with NATO put Ukraine and Russia on the same side, positively influencing their relations. During a meeting with Putin in May 2002 Kuchma declared that “there are no clouds over us, the air is clean and transparent, and the temperature is appropriate – not too warm, nor too cold, just normal”.<sup>118</sup> Kuchma’s statement showed readiness to counterbalance Russian influence on Ukraine although in very soft form: Ukraine’s relations with Russia were balanced and Kuchma hoped to keep them at that level. In spite of that fact, in November 2001, Ukraine signed treaty for a “free economic zone” with Russia. As the result, by 2002 about fifty percent of Ukrainian industry was in Russian hands. In the same year the EU refused to grant to Ukraine status of market economy, which also was one of the reasons why Ukrainian authorities redirected foreign policy closer to Russia. In 2003 at the EU-Ukraine summit, Kuchma accused the EU of forcing Ukraine to integrate into the CIS.<sup>119</sup> Although the flow of Russian capital to Ukrainian industry created new Ukrainian dependence on Russia and is mostly interpreted by scholars such as Kuzio, Aslund and Nygren as threat of increasing Russian influence on Ukraine, at the same time it can be considered simply only as Russian investment in the Ukrainian economy. Moreover, in a view of Ukraine’s increased gas debt to Russia’s state owned company Gazprom, good personal relations between Kuchma and Putin and normalization of relations between two countries helped Kuchma in 2000 to gain eight-year delay paying debt for gas deliveries. Nevertheless, energy remained the main issue of economic relations between two Slavic neighbour countries.<sup>120</sup> It was related mainly to numerous

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<sup>117</sup> Ibid.

<sup>118</sup> Nygren, p.52 with reference to *RFE/RL Newslines* 20 May 2002

<sup>119</sup> Nygren, p. 58

<sup>120</sup> Ibid, p.60

allegations that Ukraine had been stealing gas from Gazprom in gas transit to the EU, but also to the issue of Odessa-Brody oil pipeline that initially was built to pump Caspian oil to the EU and, therefore, had symbolic value for the Ukrainian “return to Europe”.<sup>121</sup> Margarita Balmaceda argues that when this project was completed in 2002, as an official version the government proposed that

“...no sellers of Caspian oil were available to supply oil to the pipeline at an economically viable price, and no buyers (refineries in Central and Western Europe) were ready to sign import contracts committing themselves to buy the oil to be supplied through the pipeline.”<sup>122</sup>

Therefore, in summer 2004 Ukrainian government accepted a Russian proposal for the reversal of the Odessa-Brody pipeline which resulted in transiting Russian oil to opposite direction, from north to south, i.e. from Brody to Odessa and shipping it by tankers further to Europe. In terms of Ukraine’s foreign policy balancing, contrary to all previous decisions of the Kuchma’s government, this one can be explained as counterbalancing to the EU in order to emphasize the importance of Ukraine as a state for European energy security. However, it created Ukrainian new dependence on Russian energy. Hence, the main goal of the Ukraine’s post-Kuchma government was to neutralize Russian newly recovered dominance over Ukraine’s economy by enforcing the process of integration to European economic and security structures.

### ***3.3. Yushenko’s balancing between Russia and the EU***

The Ukrainian 2004 presidential elections and the subsequent Orange Revolution showed practically the clash of Russian and Western interests in Ukraine. As was explained in previous chapter, both Russia and the EU (mainly Poland as the biggest new member state), but as many scholars argued, also the West in general through the participation of different NGO’s, interfered in these elections

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<sup>121</sup> Ibid.

<sup>122</sup> Balmaceda, Chapter 4, p.73

by supporting different political and at the same time geographical streams in Ukraine.<sup>123</sup> Russia supported the candidate from traditionally pro-Russian region of Donetsk, Viktor Yanukovich, while one of prime ministers of Kuchma's era and the main reformist of Ukrainian economy, Viktor Yushchenko was the western favorite and won the elections.

Domestically the expectations of Orange Revolution were great: the revolution promised to bring fundamentally democratic changes to the country. However, as Paul D'Anieri points out,

“...corruption prosecutions against the previous leaders were delayed. The review of illegally privatized companies bogged down. Trade legislation needed for Ukraine to join the World Trade Organization was defeated. Several of Yushchenko's cabinet ministers did not give up their seats in parliament, as required by law. Yushchenko's own twenty-year-old son was seen driving about Kyiv in a BMW worth over \$100,000. And Yushchenko split bitterly with his partner in revolution, the charismatic Yulia Tymoshenko.”<sup>124</sup>

Therefore, the aftermath of revolution largely disappointed Ukrainian citizens. According to Andrew Wilson, at the same time the Orange Revolution undoubtedly had a profound impact on international environment.<sup>125</sup> First, Yushchenko rejected Kuchma's term ‘multi-vector’ characterization of Ukrainian foreign policy and claimed it uni-directional, i.e. with the goal of integration to the West.<sup>126</sup> However, his first presidential trip abroad was to Moscow, where, during a meeting with Putin, he proclaimed Russia as Ukraine's eternal strategic partner and promised that relations between two countries “would become ‘better, easy and transparent’”.<sup>127</sup> The same year in the European Parliament, Yushchenko claimed that Ukraine would not “‘go European’ alone, but wanted Russia to be part of the drive for Europe”.<sup>128</sup> This diplomatic gesture of the third Ukrainian president

<sup>123</sup> Wilson: 2005, Aslund: 2006, Kuzio: 2005.

<sup>124</sup> D'Anieri, p.3

<sup>125</sup> Andrew Wilson, “Ukraine's Orange Revolution”, St Edmundsbury Press Ltd, Bury St Edmunds, North Yorkshire, 2005, Chapter 9

<sup>126</sup> Ibid, p. 190

<sup>127</sup> Nygren, p. 53

<sup>128</sup> Ibid, with reference to *RFE/RL Newline* 24 February 2005

indicated - in terms of complex interdependence – the Ukraine’s inevitable continuation of balancing between Russia and the EU.

Second, the Orange Revolution and its outcomes forced Russia to reconsider its role in the international arena. Although Yushchenko’s western orientation could not make Ukraine and Russia polar opposites, considering Russian historical fluctuation between emulating and rejecting West, the Orange Revolution influenced the change in balance of power in the post-Soviet space giving to Ukraine more active leadership role.<sup>129</sup> Third, the Orange Revolution, as was explained in second chapter, also changed the balance of power within the EU itself, shifting it from old to new member states. While Poland and Lithuania supported the perspective of Ukrainian full membership in the EU, the Spanish Socialist and President of the European Parliament of the time, Josep Borrell Fontelles, attacked privately Polish and Lithuanian interference for acting “under influence of the United States”.<sup>130</sup> Obviously the Orange Revolution in general brought new positive international image to Ukraine. Nevertheless, during the Kuchma’s presidency Ukraine’s economic interdependence with Russia increased through the interests of business groups. Therefore, after the Orange Revolution Ukrainian internal division strengthened and uni-directional foreign policy claimed by Yushchenko created new challenges for Ukrainian statehood. The most significant for all actors in question were gas disputes between Ukraine and Russia. Hence, in the two next subsections show the evidence of Ukraine’s balancing during the gas disputes with Russia in the 2006 and 2009.

### **3.3.1. The Ukrainian-Russian Gas Dispute in 2006**

Partially as a consequence of the development of economic reform in Russia, but obviously more as a reaction to the Orange Revolution, in 2005 Russia and more particularly Gazprom announced the

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<sup>129</sup> Wilson, Chapter 9

<sup>130</sup> Ibid, p.190

introduction of market rules in the gas trade with former Soviet states. According to Gawdat Bahgat, in Ukraine new Gazprom's policy has been understood as "punishment" for Yushenko's pro-western foreign policy.<sup>131</sup> When the Ukrainian authorities refused to accept the \$180 instead of the previous \$50 price per thousand cubic meters of gas, Gazprom reduced supplies to Ukraine.<sup>132</sup> Simultaneously gas supplies were reduced between 25 and 40 percent in France, Italy, Austria, Poland and Slovakia.<sup>133</sup> After long negotiations Gazprom reached a difficult compromise agreement: Ukraine buys gas from 50 percent owned by Gazprom Swiss-based company Rosukrenergo. Gazprom sells Russian gas to Rosukrenergo for \$230 for 1000 cubic meters from January 2006, but company also supplies Ukraine with much cheaper gas from Turkmenistan. Hence, the overall price that Ukraine pays is \$95 for 1000 cubic meters. At the same time, Ukraine increased the price to 47 percent for transporting Russian gas to the EU.<sup>134</sup> This agreement quickly ended the "gas war" between Ukraine and Russia and already on 4 January 2006 Russian gas supplies to the EU were normalized. However, this raised the EU's doubts about Russia as the main gas supplier for European market, but also about Russia's tendency to use energy for its political goals.<sup>135</sup> Consequently, the EU issued a Green Paper for security and diversification of energy supplies.<sup>136</sup> The Ministers of Energy of several EU-member states (Austria, Hungary, Romania and Bulgaria) and Turkey also signed a statement for prioritizing the project for building the Nabucco pipeline with aim to transit gas from Caspian region to Europe.<sup>137</sup>

<sup>131</sup> Gawdat Bahgat, "Europe's Energy Security: Challenges and Opportunities", *International Affairs* 82: 5, 2006, p.961

<sup>132</sup> Olena Viter, "Gas: manipulation and conflict" in Olena Viter's, Rostyslav Pavlenko's and Mykhaylo Honchar's *Ukraine: Post-Revolution Energy Policy and Relations with Russia*, GMB Publishing Ltd, London, 2006 pp.21-22

<sup>133</sup> "Russia Wows to End Gas Shortage", January 2, 2006, *BBC News Website*, <http://news.bbc.co.uk/1/hi/world/europe/4575726.stm> (Accessed 29 May 2009)

<sup>134</sup> "Ukraine and Russia reach gas deal", 4 January 2006, *BBC News Website*, <http://news.bbc.co.uk/2/hi/europe/4579648.stm> (Accessed 1 June 2009)

<sup>135</sup> Eneko Landaburu, Keynote speech "Europe's External Energy Relations: present and future challenges", Public hearing "Towards Common European Foreign Policy on Energy", European Parliament Committee on Foreign Affairs, Brussels, February 2007, p.4

<sup>136</sup> See Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", COM 2006, p.105

<sup>137</sup> Ministerial Statement on Nabucco pipeline project, Vienna, 26 June 2006, [www.euractiv.com](http://www.euractiv.com)



However, Ukrainian domestic criticism about gas price deal was strong and it continued through the summer 2006, but Yushenko did not change his view on the new gas price. The same year, in parliamentary elections Viktor Yanukovich's Party of Regions (PRU) gained the majority of seats in Ukrainian parliament, which by Ukrainian Constitution elects Prime Minister. Consequently, Yanukovich was elected Prime Minister of Ukraine and vowed to prioritize relations with Russia.<sup>138</sup> This small but significant shift in balance of power within the country simultaneously was the sign of Yushenko's era foreign policy balancing closer towards Russia, which brought Ukraine certain economic benefits. The clear evidence of this is the fact that, when in August Yanukovich went to Moscow to discuss gas issues, an agreement for the rest of 2006 and 2007 on "gas parameters" was reached.<sup>139</sup> A month later, gas volumes for the period of 2007-2009 also were agreed. Further, Ukrainian authorities planned to buy all gas from Central Asian states<sup>140</sup> from 2007 for the price of \$130. These agreements and decisions temporally solved issue of gas supplies for Ukraine. Nevertheless, in the light of Gazprom's firm intention to prevent further possible obstructions for gas supplies to the EU, Russia seeks the ways of transport that would bypass Ukraine.<sup>141</sup> Two projects have been already undertaken: the North-European gas pipeline constructed on the Baltic Sea bottom that would connect directly Russia and Germany, and South Stream that through the Black Sea bottom connects Russia with Bulgaria. These alternative pipelines threaten to diminish the role of Ukraine as the gas transit country, hence, its energy importance for both Russia and the EU. Hence, the next subsection I devote to the most recent gas dispute between Russia and Ukraine and its consequences on Ukrainian economy and foreign policy.

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<sup>138</sup> Nygren, p.53

<sup>139</sup> Ibid, p.62

<sup>140</sup> Turkmenistan, Kazakhstan and Uzbekistan

<sup>141</sup> Rostyslav Pavlenko, "Ukraine, Turkmenistan and Russia: peculiarities of the triangle" in Olena Viter's, Rostyslav Pavlenko's and Mykhaylo Honchar's *Ukraine: Post-Revolution Energy Policy and Relations with Russia*, GMB Publishing Ltd, London, 2006, p.29

### 3.3.2. The Ukrainian-Russian Gas Dispute in 2009

The gas disputes between Ukraine and Russia that started in early aftermath of the Orange Revolution ‘de facto’ continued with changeable intensity during the presidency of Viktor Yushchenko. While Viktor Yanukovich was Prime Minister, tensions over gas price and debts were somewhat eased. At the same time, the political struggle did not cease between the president and prime minister. However, immediately after Ukrainian parliamentary elections in September 2007, when Yanukovich’s PRU lost 130,000 votes and 11 parliamentary seats<sup>142</sup> and he was replaced by Yulia Tymoshenko, Gazprom threatened to cut gas supplies to Ukraine because of \$1.3 billion unpaid debts.<sup>143</sup> This dispute was resolved with the agreement between Presidents Yushchenko and Putin: that new gas price of \$179.5 for Ukraine will remain the same in the year 2008.<sup>144</sup> Furthermore, Ukraine’s membership in NATO was the topic of the heated debates between member states during NATO summit in Bucharest in April 2008<sup>145</sup>, which so to speak added new oil on the flames over the gas price and debts between Ukraine and Russia. The disputes reached a new peak in the eve of 2009. Gazprom proposed to double the new gas price and this again was refused by Ukraine. Moreover, Ukraine’s debt for consumed gas by the time had reached \$2.4 billion and Gazprom refused to sign a new contract before the repayment.<sup>146</sup> In late December 2008 Ukraine paid \$1.5 billion, however parties could not reach an agreement over the price for 2009.<sup>147</sup>

As Russian news agency RIANovosti reported on 1 January 2009, at the beginning of January Gazprom cut 90 cubic meters of gas supplies to Ukraine, but transit deliveries of 300 cubic meters to

<sup>142</sup> Tetyana Nikolayenko, “Yanukovich Loses 300,000 while Tymoshenko Receives 1,5 Additional Million”, *Ukrayinska Pravda*, 8 October 2007, <http://www2.pravda.com.ua/en/news/2007/10/9/9151.htm> (Accessed 28 May 2009)

<sup>143</sup> “Ukraine settles Russian gas row”, *BBC News Website*, 8 October 2007, <http://news.bbc.co.uk/2/hi/business/7034849.stm> (Accessed 28 May 2009)

<sup>144</sup> “Ukraine, Russia settle gas debt dispute (Update)” *UNIAN News Agency*, 12 February 2008, <http://www.unian.net/eng/news/news-235920.html> (Accessed 28 May 2009)

<sup>145</sup> Stephen Erlanger and Stephen Lee Myers, “NATO Allies Oppose Bush on Georgia and Ukraine”, *The New York Times*, 3 April 2008, [http://www.nytimes.com/2008/04/03/world/europe/03nato.html?\\_r=1](http://www.nytimes.com/2008/04/03/world/europe/03nato.html?_r=1) (Accessed 29 May 2009)

<sup>146</sup> “Gazprom Naftogaz signed new long-term cooperation deal”, *UNIAN News Agency*, 20 November 2008, <http://www.unian.net/eng/news/news-280400.html> (Accessed 29 May 2009)

<sup>147</sup> Dmitry Zhdannikov, “Ukraine says repaid gas debt, Russia says not yet”. *Reuters*, 30 December 2008, <http://uk.reuters.com/article/governmentFilingsNews/idUKLU15776220081230?sp=true>. (Accessed 29 May 2009)

the EU were continued.<sup>148</sup> However, most countries of Eastern Europe such as Hungary, Romania, Poland and Bulgaria reported a drop of pressure in their pipelines. The worst affected were Slovakia, Moldova and Bulgaria, which were left practically without gas for more than a week.<sup>149</sup>

Instructed by Russian current Prime Minister Vladimir Putin, the head of Gazprom, Alexei Miller, reduced supplies to the EU via Ukraine by the amount of gas that Ukraine had taken since delivers end on 1 January 2009. This resulted in the total halt of gas supplies to Ukraine and mutual accusations between Russia and Ukraine.<sup>150</sup> President Yushenko proposed the involvement of the EU in the settlement of the dispute, sending a letter to the President of the European Commission Jose Manuel Barroso.<sup>151</sup> Russia, Ukraine and the EU held an international gas conference on 17 January in Moscow.<sup>152</sup> This summit, however, did not find the solution to the crisis and negotiations continued between Russian and Ukrainian Prime Ministers, Putin and Tymoshenko.<sup>153</sup> This time Tymoshenko's action slightly swung the Ukrainian balancing barometer towards Russia: she agreed that Ukraine would pay European prices for natural gas with a 20 percent discount for 2009 and the full European market price starting from 2010.<sup>154</sup> In return for the discount Tymoshenko agreed to Ukraine's keeping the transit fee for Russian gas unchanged in this year. The parties also assented not to use intermediary companies.<sup>155</sup> Consequently, on 19 January the heads of Gazprom and Naftogaz, Alexei Miller and Oleh Dubyna, signed the ten-year agreement on natural gas supplies to

<sup>148</sup> "Russia fully cuts the gas to Ukraine, ups supplies to Europe", RIANovosti News Agency, 1 January 2009, <http://en.rian.ru/world/20090101/119302144.html> (Accessed 29 May 2009)

<sup>149</sup> "FACTBOX – 18 countries affected by Russia-Ukraine gas row", Reuters, 7 January 2009, <http://www.reuters.com/article/topNews/idUKTRE5062Q520090107?sp=true> (Accessed 29 May 2009)

<sup>150</sup> "Kremlin wants Ukraine to stop diverting Russian gas, reopen transit", Interfax Ukraina, 7 January 2009, <http://www.interfax.com.ua/eng/main/4433/> (Accessed 29 May 2009)

<sup>151</sup> "Ukraine asks EU to take part in settlement of Ukrainian-Russian gas dispute". Interfax Ukraine, 1 January 2009, <http://www.interfax.com.ua/eng/main/4213/> (Accessed 29 May 2009)

<sup>152</sup> "EU to attend gas summit in Moscow", BBC News Website, 15 January 2009, <http://news.bbc.co.uk/2/hi/europe/7830517.stm> (Accessed 29 May 2009)

<sup>153</sup> "'Gas to flow' after Moscow deal", BBC News Website, 18 January 2009, <http://news.bbc.co.uk/2/hi/europe/7834796.stm> (Accessed 29 May 2009)

<sup>154</sup> "Russia and Ukraine aim to sign gas deal on Monday", Reuters, 18 January 2009, <http://www.reuters.com/article/newsOne/idUSTRE5062Q520090118?pageNumber=1&virtualBrandChannel=0> (Accessed 29 May 2009)

<sup>155</sup> Ibid.

Ukraine for the period of 2009-2019.<sup>156</sup> Finally, gas supplies from Russia to Ukraine restarted on 20 January 2009, which solved the crisis.

In general, for both countries the crisis had negative economic consequences and at the same time, it created the image of Ukraine and Russia as unreliable partners for the EU.<sup>157</sup> For instance, European Commission President Jose Manuel Barroso said at a press conference in Prague held on 7 January that if Ukraine wants to be closer to the EU “it should not create any problems for gas to come to the EU”.<sup>158</sup> Nevertheless, the fact remains that the last Ukraine’s attempt to benefit economically counterbalancing Russia had small gain - 20 percent discount on gas supplies for 2009, however, generally it was unsuccessful and brought no winner.

To sum up, in the light of the most recent energy dialogue between Russia and Ukraine, namely Naftogaz’s financial inability to pay to Gazprom for the gas supplies for May 2009, it seems likely that new energy crisis is on the European horizon.<sup>159</sup> Considering also the coming presidential elections in Ukraine, this crisis could significantly influence the outcome of elections, and consequently create a new shift in Ukrainian foreign policy.

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<sup>156</sup> "Ukraine, Russia Agree On Gas Supplies To Ukraine For 2009-2019", Ukrainian News Agency, 19 January 2009, <http://www.ukranews.com/eng/article/174732.html> (Accessed 29 May 2009)

<sup>157</sup> “A Russian gas riches Europe again”, Reuters, 21 January 2009, <http://uk.reuters.com/article/topNews/idUKTRE5091KI20090121?sp=true> (Accessed 29 May 2009)

<sup>158</sup> Philippa Runner, “EU-Ukraine relations at risk over gas”, EUobserver.com News Website, <http://euobserver.com/9/27358> (Accessed 30 May 2009)

<sup>159</sup> “Ukraine za gaz ne rasschitat’ sya”, Vesti News Website, <http://www.vesti.ru/doc.html?id=287993> (Accessed 29 May 2009)

## Conclusion

The main purpose of this thesis was to explain Ukraine's foreign policy towards Russia and the EU in the 1991-2009 periods. As I argued, such an explanation is needed because policy seems to be controversial. On the one hand, since Ukraine has become an independent state, its leadership claimed integration to the European and Western structures such as the EU and NATO. On the other hand, Ukraine continues to consider Russia as its most important strategic partner, keeping close economic ties with it. The difference in distribution of power between the EU and Russia as the international actors as shown in second chapter, makes Ukrainian foreign policy complex, in Roman Solchanyk's words "looking west, watching east".<sup>160</sup>

This thesis has argued that several factors, which influence conundrum in Ukrainian foreign policy. The first is regionally divided Ukrainian national identity between pro-Russian East and South and pro-European Center and West. The second factor is the interests of Ukrainian business and political elites which increased the Ukraine's economic dependence on Russia. The third is economic interdependence with Russia and the EU seen mainly through Russian gas supplies to Ukraine and the EU. Finally, as the evidence showed the factor of the division in attitude towards Ukraine within the EU plays also important role in Ukrainian policy towards the EU. While Baltic, Visegrad Scandinavian states and Austria support Ukrainian membership in the EU, older member states look on it suspiciously. Considering the interaction of these factors, I argue that Ukraine's only way to keep its sovereignty and sustain its economy is in constantly making compromises in its foreign policy seen through the balancing between the EU and Russia. This balancing was explained through the synthesis of the two theories: Waltz's balance of power and complex interdependence formulated by Keohane and Nye. The first theory provides the explanation of Ukraine's attempt to lessen Russian influence in the region. Ukraine tries to achieve this goal in the two ways: first,

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<sup>160</sup> Solchanyk, p.89

through the cooperation with the EU, and second through the creation of alliances within the CIS, which counterbalance Russian hegemony in this organization. The complex interdependence theory proposes a better understanding of the interaction between the EU, Russia and Ukraine as international actors.

The thesis will contribute to the better understanding of Ukraine's foreign policy and its relations with Russia and the EU. Moreover, it provides a basis for the further research of the Western CIS and the relations between the EU and Russia. Finally, it would be interesting and useful for an even better understanding of Ukrainian foreign policy if it was examined in relation to other important international actors, such as the United States of America.

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