GEOPOLITICAL STRUGGLES:
THE CASE OF RUSSO-UKRAINIAN NATURAL GAS TENSIONS

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A Thesis Submitted to The Honors College
In Partial Fulfillment of the Bachelors degree
With Honors in
POLITICAL SCIENCE
THE UNIVERSITY OF ARIZONA
MAY 2010

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Introduction

For well over a millennium, the nations of Russia and Ukraine have intertwined cultural, linguistic, and political paths. Yet after being bound together by the Soviet Union, the two nations are now vying for their place on the world economic stage. Former allies against the West, both countries seek to utilize their clout in the energy transit market to gain favor with Europe as a way to regain financial stability. Political and elite tensions in both nations look toward the exploitation of the energy sector as a quick means to gain profit and keep the upper class rich. Thus, a struggle over the logistics of gas and oil exports is also a metaphor for the political and elite class relations in the post-soviet bloc over the course of the past two decades. Russia and Ukraine are engaged in a hostile zero-sum game, in which both nations utilize their geopolitical clout and strategic positions as natural resource providers to attain greater financial rewards for their respective governmental elites.

This paper explores the ties between business elites and governmental foreign policy, specifically among power players in Russia and Ukraine. These are wealthy individuals in both nations who are privileged based on societal position, connections, gender, and socioeconomic status. The links between private sector interests and public policy are examined through a geopolitical and geo-economic lens. Geopolitics refers to the wielding of political power over a given territory, and this work will refer specifically to the international trade of energy through pipelines and transit nations. Subsequently, geo-economics is used to illuminate the links between political forces within economies and the resources of specific nations. The post-Soviet bloc was, at times, and financial Wild West – the public-private sector relations that arose from this period directly influence the economic climate of Russia and Ukraine today. Relations between the two nations carry risks for energy security in the West and affect economic relations in Europe. Therefore, geopolitical lens will color the
decisions made by the energy export sector business elites and help illuminate their ties to the government decision makers in both countries.

Russia and Ukraine see their foreign and business relations in win/lose terms, wherein each nation either comes out ahead, or falls behind the other. This is known as a zero sum game – in which a participant’s gain or loss is exactly balanced by the losses or gains of the other participant. However, the very notions of independence and sovereignty are new to the both Russia and Ukraine, and the geopolitical and geo-economic choices they make are grounded in seeking domestic prosperity (D’Anieri 44). These Former Soviet Union (FSU) nations see the pie of economic opportunity as only so big, and each country is vying for a larger slice than the other. With Russia asserting itself as fiercely nationalistic and Ukraine aching to join the West, both countries have championed strategies they hope will allow the controlling business and governmental elites to come out ahead. Ukraine is one of Europe’s largest states, and is of a paramount geostrategic and geo-economic importance since over twenty percent of Europe’s gas flows through this single nation (Karatnycky and Motyl 106). Likewise, it is important to note that in its struggle to remain independent from Russia, Ukraine has realized that the geo-economic and private, rather than the political arena is where its sovereignty will take root (D’Anieri 15). Thus, the zero-sum game analogy applies when discussing economic and political tensions – with Russia and Ukraine and fighting over the same piece of the energy export pie.

Background

To fully grasp the convoluted modern relationship between the two members of the Soviet Bloc, one must look at the lengthy history that has transpired in this part of the globe. Since Kievan Rus in the tenth century, Russia and Ukraine have been intertwined politically and culturally (D’Anieri 21). In the tenth century, eastern Slavs were united under a single kingdom - seen as “a the common cradle of the three East Slavic nations... not unlike the
builders of the towel of Babel, the Eastern Slavs originally constituted one Old Rus” until the Mongol invasions the 1300s (Plokhy 1). While this is a simplification of the turbulent era, it is important to note that Russian, Ukrainian, and Belarusian collective consciousness draws it memory from the same nation-state. Therefore, following the November Revolution of 1917 and the subsequent civil war – the Ukrainian Socialist Soviet Republic was founded in 1922 and was legally, economically, socially, and culturally bound to Russia until 1991.

It was anything but smooth sailing for the Soviet Union when it came to incorporating the bread basket known as Ukraine. The fertile black soil of the region, known was “chernozem” allowed many locals to work as farmers and earn a living from their lands – a practice directly conflicting with the Marxist-Leninist ideas of the USSR. Revolution, then Soviet rule led to Ukrainian protests of collectivization, which Stalin battled through the creation of an artificial famine in the 1930’s (D’Anieri 25). This only perpetuated ethic tension between white Russians and Ukrainians, who saw their people and culture being trampled upon by the Soviet elite in Moscow. Russian was the official state language and anything deemed religious or ethnically Ukrainian was seen as working against the USSR and against the Communist Party. In fact the ethnic and political tensions became so great by the 1940s that while some Ukrainians fought with the USSR in WWII, another 220,000 fought with the Germans (D’Anieri 26). Thus it is evident that Ukrainian-Russian relations were not particularly peaceful during the course of the past century. Though it is important to note that both parties actively participated in rebellion against another – and while Russia would later assert that Ukraine should function as its sister nation, there is a clear history of disagreement and hatred between the nations.

The gradual collapse of the Soviet Union in throughout the 1980s allowed for the development of nationalistic tendencies in both Russia and Ukraine as they struggled to rid themselves of a stagnant Socialist system. The groundwork for independence of the fifteen republics was laid during Gorbachev’s “decrees on decentralization in July 1986 and July
These speeches allowed the political elite and government bureaucrats in the republics to begin consolidating power and laying the groundwork for secession from the USSR. Subsequently, Ukraine declared independence on August 24th, 1991 and held a popular vote on December 1st, 1991 – which confirmed the government’s decision by a citizens vote of seventy to thirty in favor of independence (Oleshko). From this point on, Kiev began focusing on democracy and nationalism as the cures against its post-Soviet woes. Following the fall of the USSR, Russia and Ukraine would never again share a close financial and political relationship.

The Orange Revolution in Ukraine dealt another blow to the possibility of reestablishing close economic ties between Russia and its neighbor. In 2004, Ukraine “underwent a popular revolution in defense of democratic principles and embarked on a pro-Western course with the goal of joining the European Union” (Plokhy 1). This Revolution was in actuality a nonviolent popular movement that reversed a fraudulent vote for president and instilled Victor Yushchenko as the nation’s leader (Karatnycky and Motyl 108). Meanwhile, the Russian political machine campaigned against Yushchenko. The Russian oligarch Boris Berezovsky was the only Russian campaigning for Yushchenko, while the rest of the Putin crowd campaigned for his handpicked rival Yanukovych. Russia backed a candidate who leaned toward them and the way things were in the Soviet times, but the public revolted against the fixed election and chose Yushchenko as their leader. This resulted in an embarrassing situation for Putin and his Kremlin team, who threw their full public support in favor of a candidate that the Ukrainian people very clearly did not want. Not aiding Yushchenko was a strategic matter for the Kremlin – as he was very pro-West, and openly stated that he wanted Ukraine to open closer diplomatic ties with the West and even join the European Union. It became clear that “the Orange Revolution of 2004 caused a wave of Euro-enthusiasm with in the Ukrainian political elite” much to the dejection of Russia (Samokhvalov 2.1). Yushchenko traveled to the US after the election, and dove head-first
into political and economic reform that moved his nation in line with Western politics (Pifer 391). He also declared that we wanted his nation to be granted a MAP (Membership Action Plan) to join NATO, to which Russia “expressed opposition in loud, explicit, and strident terms” (Pifer 391). The NATO issue was the end-all-be-all signal to Russia that Ukraine was ready to emerge autonomous and democratic from under their shadow.

During this era, Ukraine was still heavily reliant on the economic benefits that resulted from serving as Russia’s puppet in the European energy transit sphere. Throughout the 1990s and early 2000s, natural gas was provided to the Ukrainian people for below-market prices, which allowed economies of both nations’ economies and industrial sectors to boom. It is also important to note that “while the two states are heavily dependant on their imports [to one another], it is much easier for Russia to find substitutes for Ukrainian grain than for Ukraine to find substitutes for Russian oil” or natural gas (D’Anieri 53). Yet after the Revolution, Ukrainian leaders had to ask themselves: “to what extent does achievement economic efficiently endanger political autonomy?” (D’Anieri 11). As gas prices were rising and both nations saw unprecedented economic sector growth, Yushchenko’s answer to the question involved striving for greater autonomy despite the risk of a possible economic retaliation from Russia. It is this calculated move that puts Ukraine in the geopolitical and geo-economic bind that has prevailed over the course of the past last years.

During the 2000s, Russia’s fledgling economy was buoyed mainly by energy exports, but the Orange Revolution moved Ukraine further away from Russia’s crushing thumb. The rise of Yushchenko and his administration in the early 2000s ruffled the feathers of the Russian business elite, who were focused on “undermining Ukraine’s pro-Western president and maintaining control over Ukraine’s energy pipeline system” (Karatnycky and Motyl 106). Russia applied pressure to bend Ukraine to its will – but inevitably failed to coerce the

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1 It is important to note that both nations were keenly aware of the natural gas supplies located and passing through their territories. Consequently, both sought to maximize profits in the 2000s through trade with the west. A graphical illustration of the current and projected natural gas reserves of the world can be seen in Figure 9.
private and public sectors to caving into its pipeline demands. When gas and exports boomed – tearing away from Russia did not prove the least bit costly for Yushchenko and his government apparatchiks. This allowed both nations to continue playing a zero-sum game without either one being negatively affected. However with energy prices plummeting and the global economic crisis hitting the post-Soviet bloc, both nations find themselves on weak financial footing while still attempting to play a zero-sum game with oil and gas pipelines.

**Post-Soviet Business Elite in Russia and Ukraine**

Elite power relations between Russia and Ukraine have been consistently strained since the fall of the USSR. It became much harder to unite the diverse ethnicities living in the post-Soviet bloc when the promise of communism is no longer fusing the population together. In 1991, Yeltsin “accelerated the decriminalization of private property, business, and entrepreneurship while simultaneously terminating compensatory state purchases, abolishing price, wage, interest and foreign exchange fixing, and pared restrictions on international capital flows. “ (Rosefielde 165). This was all in an attempt to modernize the economy and allow for a smooth transition between a state-planned socialist system and a capitalist one. One major hurdle in this process for all nations in the post-Soviet Bloc was the privatization of state-controlled means of productions. Everything – from airplane factories to bread bakeries – began switching over to private ownership (Freeland 18). However, the Yeltsin-brokered system “allowed executives to divert enterprise revenues for personal use, liquidate variable capital for the same purpose, and spin off lucrative fixed assets to wholly-management owned companies at nominal cost [asset stripping]” (Rosefielde 170). The direct result of this – in both Ukraine and Russia- was the transfer of valuable state-owned property into the hands of a small bureaucratic and educated elite\(^2\). This was known “the Sale of the

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\(^2\) During this period of time, energy exports also became more profitable. This had a two-pronged effect of financially empowering the oligarchs through quick monetary gains, and served to create a severe class
Century”, and created a class of ultra-rich business elite in both nations (Freeland 4). “Had Yeltsin begin his crisis management regime by establishing a benevolent rule of law, managerial malfeasance could have been discouraged, but this wasn’t his intent and in short, order asset control was mostly in the hands of former communist red directors” (Rosefielde 170). These men became known as the Red Barons or Oligarchs – very rich politically connected men that controlled the majority of the post-Soviet financial and business sphere through their use of contacts and extralegal networking (Freeland 340). In both nations, a once classless society has become greatly finically divided within the course of a decade. Due to the post-Soviet financial decisions of a small business cohort, Moscow-Kiev private and public sector relations would never be the same.

A differing weltanschauung divides Russian and Ukrainian elite business interests, and shapes foreign policy in a way that perpetuates a zero sum game between the two factions. For instance, following the turbulent early 1990s, Russian financial elites chose stability – and enjoyed a decade of prosperity under the rule of the Putin and Medvedev administrations. Meanwhile, Ukraine struggled with authoritarian regimes and chose democracy via revolution in 2004 (Oleshko). While the Putin siloviki brought Russia back to a controlled past that was reminiscent of past Soviet leaders, political infighting between the Ukrainian President Victor Yushchenko and Yulia Tymochenko created a stagnant and volatile economic and political climate that stunted Ukraine’s development in the early 2000s.

It is also important to note that the Ukrainian political sphere is unlike that of Russia particularly when it comes to its lack of party unity and overall stability. In contrast to its powerful neighbor, “organized political parties in Ukraine play an insignificant role in the

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3 While both countries are nationalistic, over 17% of Ukraine’s population identifies as ethnically Russian and not Ukrainian (Country Report 19). The social weltanschauung of the Ukraine is therefore not entirely congruent, much like their politics.
political life of the country. The main result [of this] is that there is no majority party in parliament, and consequently no group of deputies that is able to put forward a coherent program and defend it before the opposition” (D’Anieri 182). The current chairman of the Ukrainian parliament, Volodymyr Lytvyn, has maintained power solely through coalition building and a centrist agenda. Any other initiative would divide the nation and create the chaos seen during the January 2010 elections (Country Report 15). There are currently five main political parties in Ukraine – with another fifteen varying sections making up the five coalitions. The country’s political elite – namely Yanukovych, Lytvyn, Yshchenko all lead powerful, but competing, portions of their nation’s public sphere (Country Report 15). However, their competing viewpoints rarely result in election majorities or unified support for policy decisions. This fragmentation sets the groundwork for easy manipulation of the public sphere by a unified front of private actors with a great deal of capital. Likewise, it allows Russian business and political actors who possess the means to affect public opinion, to do so.

In a parallel of their Russian counterparts, Ukrainian elites have utilized the status quo and political instability to maneuver their way into positions of economic gain. National economic elite are not moving on a path of European trajectory, but are rather comfortable with a lack of economic reform (Samokhvalov 3 – Introduction). One reason for this is the plethora of benefits, preferential treatment, and cronyism that runs abundant in the post-Soviet nations. An example of this is Ukrainian businessman Rinat Askhmetov, widely regarded as the richest man in this country, who ran the Donetsk City Bank and now presides over one of the country’s biggest investment firms (Human Face). He utilized his financial clout, and a net worth $9.6 billion to support Victor Yanukovych in the elections preceding the October Revolution (Human Face). Askhmetov and his cohort of wealthy business partners, such as partner Viktor Pinchuk, went out of their way to support the pro-Russia and anti-West candidate in order to maintain the financial status quo. Maneuvering
the private and public sector relations with Russia has been a challenging task for most members of the post-Soviet bloc.

**Hegemony of Elite Cohorts**

Ulterior motives of Russia and Ukraine’s business elites lead to hostile and zero-sum policy decisions on both nations’ behalves. “Russia’s young market economy was rough, wild and unjust, more than a little like the American Wild West. But, like nineteenth century America, Russia seemed to have become a land of opportunity where, with a little luck and elbow grease, anyone could make his fortune” (Freeland 14). However, the ability to accomplish any upward movement was limited to those individuals who had a great deal of education and political connections going into the post-Soviet era. Yeltsin’s privatization of industry and the helter-skelter politics of the 1990s served as an opportunity for an educated and privileged few to gain access to means of production.

Executives who worked in the gas industry in both nations were called *gazoviki* and *neftyanki*, and these powerful men emerged profoundly wealthy from the rubble of the Soviet collapse. Initially seemed unprepared for the “fledgling market economy; they were red directors, crimson-cheeked, heavy-drinking, fist-thumping, prices of the Soviet Union’s nomenklatura” (Freeland 70). However, these men - namely Victor Chermomyrdin and Rem Vyakhirev- took to Yeltsin-era privatization like ducks to water. Gazprom and Yukos oil executives applied basic privatization laws in the same way that factory managers in the Russian “rust belt” distributed ownership in the steel mills. After the fall of the USSR, “fifteen percent of Gazprom was sold to the company’s employees and management at a nominal rate,” while the government retained forty percent and thirty five percent was sold to domestic Siberian investors (Freeland 71). This sale had the effect of transferring ownership of large state-owened natural gas fields into the hands of a small number of Gazprom executives – hereby making them very powerful. With Gazprom controlling thirty percent on
the world’s known natural gas reserves, the natural resources of a nation soon became controlled by a select few⁴.

However, it is important to note that during the 1990s and even early 2000s, Gazprom sold gas to the domestic marketplace for less than a tenth of the world market prices – which caused their profits to seem lower than usual(Freeland 72). However when Chernomyrdin became Yeltsin’s Prime Minister, it became evident that Gazprom enjoyed a large quantity of tax breaks and privileged backdoor deals with the Russian government in exchange for heating Russia at a discount price. Due to Gazprom’s advantaged position with the government, it was “exempt from export tax, some import tariffs, and VAT,” and some even estimated that “Gazprom’s package of tax breaks accounted to billions of collars in lost state revenue every year” (Freeland 72). This financial predicament for the Russian government is exemplary of the post-Soviet lack to attention of the massive theft that was occurring all over the post-Soviet bloc. Likewise, Gazprom is a perfect example of what the cunning ingenuity of elite gazoviki and neftyanki can accomplish.

Blurring lines between the private and public sector is best exemplified with Viktor Chernomyrdin, the first official head of Gazprom. He served as the Russian Prime Minister under Boris Yeltsin in the 1990s before Chernomyrdin was also Yeltsin’s longest-serving prime minister and was a former member of the Soviet siloviki that controlled the public sphere of the USSR (Freeland xii). As a part owner of Gazprom after its massive selloff in the early 1990s, he emerged as a wealthy man with political ambitions. In 1995 he founded the “Our Home- Russia” pro-government political party, aimed to gain liberal, centrist, and pro-Yeltsin seats in the Duma (Freeland). Through further connections, Chernomyrdin attained support from the Association of Russian Banks as well as the formal support of his former gas giant employer Gazprom. Using the financial clout attained in the private sector to help influence the public sector was a new concept in the emerging post-Soviet Russia, but

⁴ See Figure 9 for a comparative map of Russian natural gas reserves versus those of other parts of the world.
Chernomyrdin helped usher in an era of smudging the lines between those two sectors of society.

In the late 2000s, particularly powerful private and public sector elites in both nations control the export and transit of energy. An example of this is the Ukrainian public-private sector firm Naftogaz, which is run by General Director Oleh Dubyna, who has previously served his nation as Prime Minister following the Orange Revolution (Freeland). In this regard, his career has perfectly mirrored his Russian counterpart - Gazprom CEO Aleksei Miller. Both men are exceptionally educated and have carved out names for themselves as both public servants and friends of the other members of the post-Soviet political and economic elite. They possessed the necessary power and connections to accrue wealth for both of their companies. Scholars have noted that “Russian political elite opt for a more mercantilist mode of interaction with the international economy” (Samokhvalov 3).

This has a two-fold effect of normalizing short-term business deals serving as foreign policy initiatives, while simultaneously encouraging corruption at both ends of the Russo-Ukrainian spectrum. Likewise, the decisions made by Naftogaz and Gazprom both directly and indirectly portend the direction of Russian foreign policy in the energy sector.

**Gas Exports and Russian Profits**

Soviet-era nepotism and institutional corruption paved the way for an economic free-for-all after the fall of the USSR. Government bureaucrats and those with high levels of university educations were able to parlay their friendships, influence, and extralegal networks into private ownership many of the means of production that thousands of Soviet citizens had labored to create. In the energy sphere, many wealthy and educated members of the nomenklatura created “offshore companies [that] turned into an enormous source of personal profit for top Russian and Ukrainian political and energy management figures” (Samokhvalov 3.2). This had the effect of not only financially empowering the upper classes,
but also creating a revenue stream for further economic hegemony of Russo-Ukrainian business elites.

As a direct result of the 1990s, “Ukraine has not been able to redirect trade away from Russia,” nor has it been able to weaken it on any geo-economic scale (D’Anieri 9). Russia supplied natural gas to Ukraine in exchange for compliance with its foreign policy and nationalistic rhetoric. The bully was thus weakening Kiev through geo-economic maneuvering and because Ukraine was reliant on Russian gas exports for its own survival. The geopolitical reason for this is that Ukraine exports mostly agricultural products, which are consistently in a surplus in the global marketplace, while Russia exports much-needed oil and gas on which it holds a monopoly in post-Soviet bloc (D’Anieri 53). “The different ability of substitutes make Ukraine’s dependence on Russian oil much more important than Russia’s dependence on Ukrainian grain” or other food exports (D’Anieri 54). Hence, Russia had the geo-economic upper hand in its trade relationship with Ukraine, and utilized this relationship to thwart Ukraine’s Westward political ambitions.

In absence of strong private-sector regulations in both Russia and Ukraine, the 1990s saw a pronounced rise in omnipotent corporations with seemingly unlimited power. Early on, these private firms attained massive capital, and are able to dictate geopolitical foreign policy to this day. A prime example of this is seen in Gazprom, a company that is partially state-run, but also answers to a board of directors and its stockholders. Due to the close ties between the state and its profit-motivated subsidiary, “the Russian government promotes the interests of the largest gas-exporting company, Gazprom, while Gazprom endorses Russia’s foreign policy actions.” The outcome of this policy is cyclical: “as a result, Gazprom policies aimed at purchasing pipelines and gas storage capacities outside the country, become part of Russia’s foreign policy” (Samokhvalov 3.2). As a reaction to this, fearful companies and governments abroad have looked to diversity away from the binding foreign policy implications that Gazprom business deals may portend. For instance, “EU member states have become less
willing to provide Russian state-owned companies with access to the energy infrastructure in Europe” (Samokhvalov 3.2). Likewise, in many EU nations, negotiation for energy exports is led by the governments, who then bargain directory with Gazprom as opposed to the public sector elites running the Russian Federation. Due in part to the tight binds between Russian policy initiatives and Gazprom’s financial maneuvering, many European nations are looking elsewhere for geopolitical stability and energy imports.

Ukraine struggled with how to manage its geo-strategic and economic roles following 1991. Very “limited experience in dealing with market relations” and its size make geopolitical relations with Russia difficult for Ukraine following the collapse (Sokolov 24). However, something that complicated the disintegration of the USSR was control over oil and gas pipelines. “At the time that the Soviet Union dissolved, about ninety percent of Russia’s gas exports traveled through Ukraine” (Victor and Victor 135). This proved a contentious topic for both Moscow and Kiev – Russia sought to retain control of the energy transport system. Yet Ukraine was just beginning to spread its wings and exert autonomy on the international and economic sphere. This is best illustrated when looking at how “Ukraine was willing to surrender its nuclear weapons, the so-called absolute weapon [to Russia after the fall of the Soviet Union], but unwilling to sell its gas pipelines to Russia despite immense pressure.” (D’Anieri 16). This is a prime example of Ukraine’s attempt to take control of its new-found sovereignty and make market decisions that were not entirely in line with the rest of the CIS (Commonwealth of Independent States). Due in part to Ukraine’s actions in the 1990s and to the effects of economic shock therapy on Russia’s financial sector, following the collapse of the Soviet Union, “gas exports to CIS also declined by 31 percent” (Victor and Victor 135). Ukraine’s forays into autonomy over their portion of the energy transit sector had negative repercussions, and thus Russia continued tilt the economic playing field in their favor.

Russian elites understood that it was in their best financial interests to keep Ukraine as an economic pawn and geopolitical buffer between it and Eastern Europe. However,
Ukrainian politicians, most notably the pro-West former Prime Minister Yulia Tymoshenko, have actively sought to break away from Russia’s hold on Ukraine’s economy. Many have observed that the “decision made by Ukraine to opt for quickest integration into the world market through its accession to the WTO and deeper free trade with the EU actually undermines Russia’s geo-economic program and threatens the future of the Post Soviet Space as a single economic unit” (Samokhvalov 3.1).

Endless mudslinging among the Ukrainian political elites caused an election nightmare in January 2010. The nation was scheduled to have its fifth presidential election since declaring independence from the Soviet Union on January 17, 2010, and over fifteen candidates were in the running for the position (Gatehouse). Former Orange Revolution leader and incumbent President Victor Yushchenko received only five percent of the popular vote and it became clear that “Ukrainians had overwhelmingly rejected the man who led the pro-Western protests on Independence Square five years” prior (Gatehouse). Following a politically turbulent decade, the Ukrainian people chose not to cling to a leader whose integrationist strategies has not yielded much progress. Yushchenko’s partner in the Orange Revolution – Yulia Tymochenko – had then been serving as his Prime Minister, but became a fierce opponent during the January 2010 elections (Gatehouse). This signaled a change in popular ties as well as public opinions regarding political leadership and their stance toward the West. The subsequent runoff election that placed Viktor Yanukovich and his Prime Minister Mykola Azarov in power also signaled the people’s desire for stability, even if it comes in a Putin-like authoritarian way (Beat). A new group of public sector elites have recently come to power, but only time will tell how their legacy will shape the elite-mass relations of the private sector.

In recent years, Ukraine has continued to have a fiercely divided government and a great deal of political infighting among its ruling elites. Following the tumultuous 2010 election, it has become clear that “Ukraine is too fractured and too weak to have either a strong
democracy or a strong dictatorship” (Karatnycky and Motyl 110). Experts have noted that “politically and economically, Ukraine will probably continue to muddle through, more or less as it has since 1991. The difference is that whereas muddling through may have been good enough in the 1990’s, it no longer is today” (Karatnycky and Motyl 110).

The current global economic crisis has re-aggravated the tensions between Russia and Ukraine – leading both to cling to nationalism and zero-sum mentality when negotiating issues in the energy export sector. It became easy to ignore the structural and political instability in Ukraine over the course of the past decade – when “personal incomes rose an average of twenty percent per year” and “GDP growth averaged 7.2 percent per year” (Karatnycky and Motyl 109). However, problems became very evident as soon as the current Global Economic Crisis hit Ukraine and Russia, and the “factious political elite” of both nations quarreled about getting their hands on pieces of the quickly-shrinking economic pie (Karatnycky and Motyl 109).

“Russia is at root a flawed, corrupt, and potentially unstable petrostate” (Karatnycky and Motyl 121). This allows future gas transit arrangements to be both opportunities and threats for both nations’ foreign policy goals.

Analysis of the post-Soviet gas export sector is important because “deteriorating Russian-Ukrainian relations could seriously undermine the interests of the European Union and the United States by promoting authoritarianism and ultranationalism in eastern Europe” (Karatnycky and Motyl 107). These issues may prompt harsh reactions from Western-friendly energy transit nations and may have grave consequences on energy security in Europe. Post-Soviet “states such as Georgia, Moldova, and Ukraine or Azerbaijan and Kazakhstan, or even Russia-friendly Belarus, will not just roll over and accept a fiat accompli crafted in Moscow” by public and private sector elites... “more likely they will seek radical solutions to perceived existential threats” (Karatnycky and Motyl 121). The foreign policy and private sector ramifications of energy transit can therefore be extensive.
The Rise of Gazprom and Geopolitical Struggles

The gas transit and energy export market in the entire post-Soviet bloc bears lasting infrastructural effects of the centrally planned economy of the USSR. “1819 saw the first use of gas in Russia – for lamps on an island in St. Petersburg. By the end of the nineteenth century, the major cities of Moscow and St. Petersburg and many others were supplied with gas networks” (Victor and Victor 126). Yet it was clear from the very beginning of the utilization of gas, that the Soviet Union’s gas and oil transit routes were to be built to effectively serve the financial interests of Moscow bureaucrats. Following World War II, the Soviet Union laid long-distance gas pipelines and have been exporting natural gas to Poland since the mid-1940’s (Stern 109). It was not until Khrushchev’s push to gain economic parity with the United States, that oil and gas industries and transit routes began to develop. Up until the 1970’s “international trade was minimal” and “gas remained predominantly for domestic use” (Victor and Victor 130). It has been noted that “gas produced in Ukraine was a key factor in the Soviet Union’s post-war economic expansion” (Pirani 95). However, after the global 1973 gas shortage the Soviet Union realized the economic potential in exporting gas to Europe – which was worried about energy security in the Arab peninsula. Gazprom and their “wholly-owned subsidiary Gazexport” have been formally exporting liquefied natural gas to various parts of Europe since before 1990 (Stern 111). Thus within a span of less than thirty years, Russia established itself as a gas export nation.

From the geopolitical standpoint, the most important development in the rise of Gazprom and its export capacity was the fall of the Soviet Union. During the period of economic shock therapy and in the Wild West days of the early Yelstin administration, “only one-quarter of Gazprom’s customers fully paid their bills” (Victor 141). Yet the educated and enterprising heads of Gazprom were actively engaged in looking for ways to turn a profit. Utilities in Russian homes were formerly state run, but in the 1990s Gazprom actively tried to
make more money from Russian, or internal, customers even as Russians paid “one fifth” of what Gazprom was charging for wholesale gas exports (Victor 141).

Rampant corruption also plagued the early post-Soviet era, with the entirety of Boris Yeltsin’s presidency marred in cronyism and nepotism. The majority of his presidential cabinet and political appointments consisted of like-minded Soviet elite who were very much a part of the nomenkatura elite in the USSR (Sapir). Gazprom, in particular was riddled with corruption allegations ranging from money laundering to embezzling. Yet it was not until Yeltsin resigned and appointed Vladimir Putin as his successor in 1999 that the status quo in the Russian private sector began to change (Sapir). Within his first two years in office, Putin ousted the “long-standing Gazprom head Rem Viakhirev” – a leader long accused of corruption, and replaced him with “Alexei Miller, a close associate of Putin’s” and a member of the St. Petersburg elite cohort from which Putin hails (Sapir). This move drastically shook up the higher echelons of Gazprom’s management and aligned the company more directly with Putin’s policy goals and policy objectives.

Despite the corruption, the energy transit industry benefited greatly from the fall of the Soviet Union. “In the immediate aftermath of independence from the Soviet Union,” Gazprom’s European business allies “were places in an extremely difficult financial situation” because suddenly Gazprom could function as a free member of the capitalist global market (Stern 114). As such, “Gazprom demanded that energy deliveries [to nations not part of the post-Soviet bloc] be paid for in hard currency and at world market prices” (Stern 114). This was a cunning move on the company’s behalf – considering that many European nations had “participated in development co-operation projects” with Gazprom, and led to a fell in gas imports in Europe (Stern 114). Subsequently, the 1990s were a time for gas diversification for the pressured Hungary, Poland, and the Czech Republic, who chose to look for non-Gazprom alternatives for their gas supplies (Stern 115).
The construction of gas pipelines throughout the former Soviet Bloc placed Gazprom at an advantage when it came to the export of gas to many CIS (Commonwealth of Independent States) countries. Due to market forces “the general trend in Russian gas trade with CIS counties during the post-Soviet period has been one of disengagement in the mid to late 1990’s, followed by strong re-engagement in the 2000s, and in particular post-2002” - with the early issues due in part to the CIS nations’ inability to collect revenue to pay Gazprom (Stern 105). As the 2000s progressed, Gazprom took the “CIS gas trade back under its control,” paving the way for large profits and Russian economy surpluses as energy prices climbed higher and higher. Gazprom’s business decisions asserted Russian foreign policy on the Caucasus and Belarus when the company “re-established itself as the sole supplier of gas” to these nations (Stern 105). In turn, this allowed formal policy decisions made at the Kremlin to continue reflecting the hegemony of Russia within the region.

The terms of trade that Russia and Gazprom instituted for Ukraine following the collapse of the USSR in effect chained their sister nation to its pipelines and economically kept the Soviet-era power dynamics intact. Paul D’Anieri notes that

> By selling key commodities at below-market prices (or granting special market access) the cost to the target state of breaking the relationship can be increased, and so can the political concessions required for maintenance of the relationship. This tactic has been more noticeable in the FSU in Russia’s continued willingness to sell oil [and natural gas] as below market prices (54).

This allows Russia, and more specifically Gazprom, to continuously increase their leverage on Ukrainian economics and politics. Pro-West Ukrainian politicians and other elites are hence forced to play by Russia’s rules, and are deprived of full economic sovereignty when it comes to market decisions.

The rise of Gazprom has been intertwined with that of Russian political power following the fall of the Soviet Union. At the expense of other free market competitors, the Russian government continuously promotes the fiscal interests of Gazprom, “while Gazprom endorses Russia’s foreign policy actions” toward Ukraine, the Caucasus, and other members
of the CIS (Samokhvalov 3.2). The results in cyclical cronyism; the government favors Gazprom and in return the company acts as a financially ruthless enforcer of Russian foreign policy. “As a result, Gazprom policies aimed at purchasing pipelines and gas storage capacities outside the country, become part of Russia’s foreign policy” (Samokhvalov 3.2).

“It if often said that Gazprom acts as an agent of Russian foreign policy, and the company’s actions” are clear indicators of Russia’s relations with CIS countries (Stern 104). A prime example of this is when Gazprom cut off as to Belarus in February 2004 – as a warning sign to the country to not seek NATO membership as a reminder that gas would not continue to be subsidized “unless there was a quid pro quo” understanding about the ownership of gas pipelines (Stern 107). While the “transit trade provides Ukraine with its move effective means of counter-pressure against Russia” and “Ukraine can threaten to close [oil and gas] pipelines, injuring both Russian companies and its European consumers,” if Russia does not meet its policy demands (D’Anieri 54). However, it does not do this for fear of endangering its status as a favored Russian transit route and recipient of subsidized natural gas, without which its economy would cease to function. This further shows the disparity between Ukraine’s perceived financial autonomy and the de facto control that Gazprom has over their geo-economic well being.

Today, Russia accounts for 62.7% of European imports through the pipeline corridors of Belarus and Ukraine (Parthasarathy 1). This is another example of how paramount the energy export relationship is within the FSU. Nations financially depend on one other’s physical transit routes to accomplish business transaction. However, as both countries seek to assert themselves in the next decade, it has become clear that Russia aims to be a regional hegemony. Experts have noted that “following the logic of power politics, Russia [has been] trying to preserve the geo-economic unity of the Post Soviet Space” [in its constant desire to keep the Near Abroad close] - (Samokhvalov 3.1). Subsequently, one of Russia’s options following the collapse of the USSR was to “entice or bludgeoning Ukraine into becoming a
more reliable [gas export] partner” (Victor and Victor 158). Moves to increase political stability and unity in the post-Soviet bloc would serve to establish Russia as a stable benevolent neighbor about which European gas import nations would not worry.

Following the Orange Revolution, the pro-West government looked toward Europe and international investment as a way out from underneath Russia’s thumb. Consequently, “a series of political changes within Ukraine created internal conditions needed to Ukraine to settle its debts and become a more ‘normal’ county for investors, which in turn has probably made downstream countries less wary of relying on Ukraine as a transit route provided that the physical infrastructure that Ukraine is adequate to the task” (Victor and Victor 159). The Oxford Institute of Energy Studies also explains this change in Ukraine’s reliability as an energy partner with Europe:

In the late 1990s, Gazprom and the Russian government adopted two significant tactics to manage the Ukrainian trade. First, it encouraged Turkmenistan, the second-largest CIS producer, to sell gas to Ukraine, freeing up Russian volumes for Europe. Second, it used a series of intermediary trading companies to transport, and sometimes to supply, the gas to Ukraine. RUE, which is owned 50 per cent by Gazprom (formerly by Gazprombank), 45 per cent by the Ukrainian businessman Dmitry Firtash and 5 per cent by Ivan Fursin, continued as shipper of gas to Ukraine until the end of 2008. The use of intermediaries was long criticized in European government circles and by corporate governance bodies (where there was concern about their opacity), and by various Ukrainian politicians (Pirani, Stern, and Yafimava).

Ukrainian business elites saw opportunity in the financial situation and became involved in intermediary companies as non-governmental actors. This enhanced overall energy transit security while simultaneously appeasing Gazprom’s Russian leaders.

Today, Russia and Gazprom find themselves in the same boat that the OPEC nations were in during the 1970’s – with Europe uncertain about its energy security. Russia’s business and governmental elites are actively trying to bypass Ukraine and other nations that may stand in the way of their profits. Both western companies and Russian siloviki are trying

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5 Russia still remains the most lucrative of investment frontiers in the energy sector. See Figure 6 for further rankings and information.
to circumvent possible problems and assure wealthy European superpowers that this energy supplies will be consistent and secure. An example of this is the partnership between Italian energy giant Eni and “Gazprom to build the South Stream pipeline, which would carry Russian and Central Asian gas to Europe. Yet South Stream is in competition with rival pipeline project Nabucco, which is planned to sidestep Russia and carry Central Asian gas across Turkey instead. Because Nabucco would run across land, while South Stream would run under the Black Sea, the cost estimates of South Stream are as much as twice the $8 billion or so that Nabucco would cost” (Helman). These are large new developments in a gas transit system that has not changed much since the Soviet Era (Victor and Victor 126). The outdated pipeline system that flows through Russia and other post-Soviet nations through to Europe is not efficient enough to export the levels of gas that Gazprom and Russia would prefer.

The political dealings regarding the South Stream and Nabucco pipelines are paramount because these transit routes will function as de facto linkages between Russia and the European companies who become involved with their creation. Starting in 2008 and continuing until today, “Putin continues to negotiate arrangements with potential partners, most recently Croatia” on behalf of Russian foreign policy relations as well as the interests of Gazprom (Baev). Meanwhile, the Nabucco project does “not have an oil company champion behind it, rather it is backed by European governments and the U.S.--all of which desire to reduce the influence of Russia on Europe’s energy supply” (Helman). The foreign policy and energy concerns of several governments are therefore at odds with the financial incentives that Gazprom and other profit-driven energy giants see in South Stream pipeline. As such, it appears as though the private sector elites in Gazprom – such as Victor Zubkov, Alexei Miller, and Alexander Ananenkov are once again shaping and affecting geopolitical power and diplomacy across Europe through economic decisions based on profit motives.
The proposed pipeline projects, if carried through, would have a complicated effect on the struggling Ukrainian economy. For instance, the South Stream pipeline “would deprive the Ukrainian gas transportation system to Europe of development potential to eventually make it economically redundant” (Beat). This would subsequently cause Ukraine to lose valuable geopolitical leverage with the gas-rich Russians. In order to continue receiving preferential treatment in terms of gas prices, would be in the best interests of the Ukrainian private sector to remain active players in the energy transit game. The current business and public sector “Ukrainian leadership faces a demanding task of persuading the Russian leadership to drop the high-profile plans for the South Stream construction or at least to modify them to meet Ukrainian expectations” (Beat). The financial necessity to stay at Russia’s side is hence a chaining the financial and political interest of Ukraine to those of Gazprom until other energy alternatives are developed.

Another example of Gazprom’s ability of affect foreign policy stems from its ability to make business deals with state-owned energy companies across Europe. For instance, Gaz de France (GDF) Suez have partnered with Gazprom to develop the Nord Stream offshore natural gas pipeline that flows toward Western Europe. “The deal means GDF will acquire a 9% stake in the Nord Stream gas pipeline, and in exchange, Gazprom will provide France with up to an additional 1.5 billion cubic meters of gas annually from 2015” (Cohen and Graham). However, this strategic Gazprom decision is also closely linked to Russian federal interests. It is in their best interest to bypass Ukraine and provide more reliable, and conflict free, paths of energy transit to Europe. Thus, “instead of using and expanding the existing [gas transit] facilities available in the new independent states, in the Baltics, Belarus, and Ukraine in particular, Russia prefers costly investments in construction of new direct outlets for its oil transports through the Baltic Pipeline System” (Laurila 27). This is a prime example of Russia’s foreign policy exerting itself though business alliances.
Subsequently, when making this calculated energy deal, Gazprom is also acting as an extension of the Russian public policy makers – creating partnerships between nations. The men who control Gazprom – namely the former Russian Prime Minister Victor Zubkov – are thus agents on the international arena as representatives of Russia. Critics have noted that this Gazprom deal “follows a close pattern in Russia’s diplomatic playbook: Moscow grants selective access to Russian energy resources as a reward for political cooperation—often in the form of international lobbying on behalf of the Kremlin” (Cohen and Graham). This has the effect of perpetuating the interconnected relationships between the public and private sector in Russia, and paves the way for greater corporate control on the government.

Subsequently, Gazprom’s financially-driven motives do not bode well for the role of the state in terms of future foreign and public policy decisions. By perpetuating corruption, nepotism, and cronyism among the ruling class, Russia is putting its people and its relationship with Ukraine at a disadvantage for the coming decades. If a nation’s government is run by an oligarchy of interconnected businessmen, the room for democratic growth and prosperity of the public sector will be miniscule.

**2009 Russo-Ukrainian Gas Crisis**

Aggravated by the current world economic crisis, both Ukraine and Russia have intensified a zero-sum game with the gas export sectors of their economies. “The economic recovery of Russia and Ukraine in the 2000s made possible some improvement in [their] chaotic relationship, and raised the prospect that post-Soviet politicized horse-trading could be superseded by commercial relationships. But with both Russia and Ukraine integrating into world markets, serious problems now arose with respect to gas import prices” (Pirani, Stern, and Yefimava). Throughout the last part of 2008, Gazprom had formally warned Ukraine and Naftogaz about their gas-related debts. Over the course of the previous several years, Gazprom provided Ukraine gas on credit, one that was maintained by a general
understanding that Naftogaz was to continue exporting liquefied natural gas on Russia’s terms. Likewise, Naftogaz “failed to agree a price for Russian gas supply to Ukraine and a tariff for the transit of Russian gas to Europe before previous agreements expired on 31 December 2008,” which allowed Russian gas elites to go ahead with a planned gas shutoff (Pirani, Stern, and Yefimava). Failed negotiations hereby began a domino effect on the rest of the post-Soviet bloc.

On January 1st 2009, Gazprom acted on its promise. “Russia began reducing gas supplies to Ukraine amidst frigid temperatures: 10 degrees Celsius lower than average” and eventually cut off natural gas flows completely⁶ (Cohen). In less than a week, the Ukrainian people transitioned from normal gas usage for cooking and heating, to no gas at all. As a result, the “Balkans experienced a humanitarian emergency, with parts of the populations unable to heat their homes,” while Hungary and Slovakia were thrust into a state of economic despair (Pirani, Stern, and Yefimava). From the humanitarian and geopolitical perspective, this was a harsh move on Gazprom’s behalf.

By January 7th 2009, The official word from Gazprom was that this shut off was part of an attempt to collect Ukraine’s debt from the previous year’s gas supply. As a result of this shutoff, “European reserves soon dwindled, and with neither Russia nor Ukraine willing to give in, it took intense European pressure to lead both parties to reach a compromise agreement” (Karatnycky and Motyl). Much of the European community began worrying about their own gas security in the coming weeks, and increased the pressure on Ukraine and Russia to work something out.

In a zero-sum game, Russia was the winner and brokered “higher prices for its gas, and Ukraine got a modest price rise in 2009” as well as “favorable terms for gas transit costs,” but it still emerged as the weaker party in the conflict (Karatnycky and Motyl). It was very

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⁶ The number of nations affected by this crisis increased as the January days wore on. For a graphical illustration of the pipelines wherein gas was shut off, see Figure 4.
evident that the timing of “the crisis is about more than gas [due to the fact that] Ukraine is a key energy transit state. Moscow is also signaling the Ukrainians, Europe and the United States that Ukraine should remain within the Russian sphere of influence, and NATO is a no-no” (Cohen). In a June 2009 article in *Foreign Policy*, Adrian Karatnycky and Alexander J Motyl note:

> Although the [2009 Russo-Ukrainian] feud apparently centered on prices, pipelines, and transit fees, it was driven primarily by geopolitics. Moscow cared less about economic disagreements than about undermining Ukraine's pro-Western president, Viktor Yushchenko; gaining control over Ukraine's energy pipeline system in exchange for forgiving Ukraine's mounting gas debts; and building support in the West for Russia's plans to bypass Ukraine's gas pipeline system with a new network by emphasizing that Ukraine was an unreliable transit country.

Through asserting its ability to cut off gas supplies at a particularly dire period of time, Gazprom made a statement to Ukraine and its political and economic elites that Moscow is still more powerful than Kiev. To this day, many argue that the “goal of the price increase was the humiliation of Ukraine” (Samokhvalov 3.2). This move solidified Gazprom’s position as an advocate for the close relationship between it and Ukrainian business interests. Cutting off gas used to heat buildings in the middle of a cold winter was a harsh move that angered many Ukrainians and decidedly turned the popular opinion of its people toward the West.

However, Ukraine still possessed a valuable geopolitical position on the global gas transit marketplace, and it was not willing to be pushed around by Gazprom for too long. Fourteen days after Russia ensured that Ukraine’s “transport system was closed to deliveries of Russian gas, Naftogaz Ukrainy reversed the flow in the system, in order to transport gas from Ukraine’s storage facilities, which are mostly in the west of the country, to major consuming areas in the south and east” (Pirani, Stern, and Yefimava). Such a bold move was decidedly anti-Russian and effective in showing Europe that the nation’s autonomy would not be weakened without a fight. In fact, “this reversal of one of the world’s largest gas transit systems was unprecedented. It seems hard to believe that it could have been

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7 For an diagram of Ukraine’s gas transit (export and import) routes, see Figure 7.
undertaken spontaneously, which suggests that, whichever side precipitated the shutdown, Naftogaz’s engineers had prepared for it,” which makes the situation all the more geo-economically intriguing (Pirani, Stern, and Yefimava). With this retaliation at Russia, Ukraine showed the West and its European gas customers that it maintained several cards up its sleeve. Likewise, the diversion of gas into more-populous parts of the country showed Naftogaz’s commitment to the preservation of well being of its citizens while simultaneously rebelling against Russia’s will.

The agreements reached as a result of the crisis show that Russia was able to force Ukraine to follow its fiscal lead. As the conflict stretched into its second week, “Prime Minister Putin proposed an ‘innovative’ solution in consultation with Paolo Scaroni, CEO of ENI of Italy: a consortium of European utilities would provide a temporary financial solution to the crisis by paying for the necessary [costs that Ukraine would otherwise have to bear, ] in order to restart flows” (Pirani, Stern, and Yefimava). This was the reassurance that Oleh Dubyna and his Naftogaz coworkers needed: the West was supportive of ending this conflict and were offering financial support to help the resolution process. On January 19th, the “two sides finally negotiated two new contracts covering supply and transit which were signed. Gas flows to Europe restarted on the morning of 20 January and two days later were returning to normal levels” (Pirani, Stern, and Yefimava). With two signatures on the morning of January 19th, 2009, the conflict was declared over. Yet the repercussions that this shutoff would have on Russo-Ukrainian relations will be undoubtedly vast.

Although the gas shutoff did provide a meaningful forum in which Russia and Ukraine conduced productive negotiations, the negative long-term results of this crisis have outweighed the positives. The aforementioned agreement signed on January 19th,2009 “ended the practice of barter deals (imported gas for transit services) that had blighted Russo–Ukrainian gas trade since 1991, and thereby paved the way for greater transparency and the use of market mechanisms”(Pirani, Stern, and Yefimava 9). Previous agreements
had “concluded mostly on Moscow’s terms and had a stabilizing effect [only] in the short-term perspective,” and this ten-year multi-faceted deal ensured energy security and gas export profits for both nations in the next decade (Samokhvalov 3.2). Ukraine was hereby able to leverage the geopolitically dire situation in their favor in at least one way. Likewise, business and governmental elites in both nations were offered a world stage to flex their geo-economic muscles. Despite the contract gains produced during negotiations, this crisis only under scored the role of Ukraine a weak and rebellious member of the CIS.

This gas crisis functioned to illuminate the geo-economic linkages and interests among the Russian political elite and Gazprom and its for-profit operations. The Oxford Institute for Energy Studies had noted that: differences between the view of Gazprom and the Russian government” are very much in line with one another. In its analysis of the crisis, the organization noted that:

Since the latter has a controlling interest in the company and, directly or indirectly, appoints and/or approves all major personnel appointments, some believe that Gazprom operates as an economic and political arm of the government. This crisis showed Gazprom and the government working together, with the company taking its strategic direction from Prime Minister Putin, presumably with the tacit agreement of President Medvedev who only sporadically issued statements. Thus while President Putin was in charge of Russian decision making during the January 2006 crisis, Prime Minister Putin was clearly in charge in January 2009 (Pirani, Stern, and Yefimava 9).

This clarifies the power-sharing relationship within the Russian Presidential cabinet, and also explains why Gazprom and Russia possess nearly identical foreign policy initiatives. The Russo-Ukrainian gas shutoff allowed the West and, specifically, European gas consumers to see how Gazprom and Naftogaz function within their respective nations.

The effects that of this January 2009 crisis will be far reaching, as memories of a gas shutoff are unlikely to fade from the minds of Western nations. First and foremost “Russia’s reputation as a supplier to Europe and Ukraine’s reputation as a transit country are seriously damaged. European consumers’ efforts to diversify away from Russian gas, which have previously been discussed, but hardly acted on, may be expected to intensify” (Pirani, Stern,
and Yefimava 7). Subsequently, “projects that diversify transit away from Ukraine, such as the North Stream and South Stream pipelines, are likely to be prioritized” by Western energy consumers and Russian financial elite (Pirani, Stern, and Yefimava). This event is unlikely to fade from the minds of European policy makers as they negotiate further with Gazprom and its subsidiaries. The crisis has far-reaching implications for all involved parties, with the main insinuation being that Russo-Ukrainian relations will continue unchanged as both nations’ elites play zero-sum economic games with energy transit.

**Current Geo-Economic Issues**

Russia and Ukraine’s current relationship is much greater than that of simply maintaining gas transit relations, and the political and economic elites in both nations must agree to see it as such. The ‘win-lose logic’ of the nations’ zero sum game permeate most financial and business institutions, and current global relations cannot move forward if this way of thinking continues (Samokhvalov 6). In addition to intertwined histories and cultural ties, twenty percent of Europe’s gas flows through Ukraine, making it of great geopolitical and geo-economic importance to both Gazprom and European political elites (Karatnycky and Motyl). Some may argue that from a financial standpoint, this country holds little opportunity, because “Ukraine consumes as much energy as Germany, but produces only 10 percent of German GDP” (Cohen). However, it’s strategic and geographical importance trumps pure economic measurements of value.

Ukraine’s political administration in the wake of the contested January 2010 election will continue to manifest itself as a major player and bargaining power as it deals with Gazprom and various other Russian elites. “Viktor Yanukovych, Ukraine’s newly-elected president is keen to normalize relations with Russia, which for him means first of all to re-

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8 Germany is a key partner in the post-Soviet energy transit sector, and would be one of the nations affected if Ukraine were to cut off gas flows through to Europe (Pirani 422). See Figure 8 for a graphical explanation of the amount of gas that Germany utilizes for its energy consumption, and for an illustration how that has changed over the course of the last decade.
negotiate the deal that resolved the gas crisis of January 2009 and secure a significant cut in gas prices, because his budget is in the deficit too deeply” (Baev). Diplomacy and paralleled financial gain would help both nations in the economic crisis, and may have the effect of ameliorating the energy security concerns that Ukraine has harbored since the 2009 gas shut off.

Gazprom’s economic maneuvers with Ukraine and Russia’s foreign policies with their neighbors may soon negatively impact those with the natural resources. Emerging from another cold winter and looking at years ahead, the company “has finally admitted that its position on the pivotal European market is weakening while re-negotiating the long-term deals with its key counterparts, relaxing the “take-or-pay” condition and accepting spot-market prices for a part of the contracted volumes” (Baev). The reason for this is, “despite huge changes in the post-Cold War political and geopolitical landscape, the security aspects of Russian gas exports to Europe continue” to trouble many Western superpowers (Stern 142). Conversations about reliance on Russia “surface in both official discussions, and whenever political problems arise either in Russia or transit countries” such as Ukraine (Stern 142). With continued instability in Kiev and profit-driven deals on Gazprom’s end, European politicians are finding themselves looking to diversity.

The notion of Europe’s “vulnerability” in Russia’s hands is a fear that heavily drives current private and public sector negotiations between the West and the former Soviet bloc. European energy security concerns also manifest themselves “when political problems arise [in transit nations], such as the Ukrainian election crisis [and Orange Revolution] in late 2004,” the international press and western elite began discussing the effects of political instability in Ukraine on “the security of Russian gas supplies to Europe” (Stern 144). In essence, geopolitical and geo-economic disputes worry politician and bureaucrats about the reality that some European nations are dependant on Russian gas and that a disruption in gas flow due to a political of foreign policy decision may put said nations at risk (Stern 144).
With the current global economic crisis affecting energy prices, “it is time to question whether Gazprom, and the Russian government, can afford to jeopardize security of gas supplies to Europe” – as it is evident that Russia’s treatment of Ukraine over the past several years has created many aggravated and threatened Gazprom customers (Stern 145). Thus, the contentious relationship of the two nations will continue to financially impact both economies if the zero sum game played between their private and public sector elites does not cease.

Ulterior and profit-driven motives of Russia and Ukraine’s business elites lead to hostile and zero-sum policy decisions. Bilateral relations between the two nations are stagnant in part due to Moscow’s distrust of Kiev’s the westward-leanings, and the belief that both nations’ decision makers are looking out only for their own financial well being. Likewise, the anti-Russian “ethnic nationalism component of the democratic forces in Ukraine” is not helping either group see eye to eye when it comes to matters of politics, economics, or gas transit (Samokhvalov 6). The current global economic crisis further sheds light on these disagreements and sets the stage for further geo-economic struggles.

Conclusions

The post-Soviet conflict between Ukraine and Russia is not only about the geo-economics of gas pipelines and energy exports, but also about culture and elite relations. Many Russians see Ukrainians as analogous to themselves in terms of weltanschauung, attitudes, and perceptions of the West, but Ukrainians disagree. “This country has developed political and economic elites who identify with Ukrainian statehood, see immense economic benefits in the country’s independence, and define themselves as Ukrainian,” and not a subset of Russia (Karatnycky and Motyl 114). Yet these elite cohorts cannot exist without Russia and the economic opportunities that it provides. Thus, “Ukraine faces a somewhat paradoxical threat between sovereignty and autonomy, where autonomy is the state’s ability
to get what it wants, and sovereignty is simply the ability to make its own decisions” (D’Anieri 11). As Russia struggles with defining its sphere of influence in a post-Orange Revolution world, the choices its government subsidiaries made will matter a great deal.

Today’s global economic crisis is only starting to lessen its grip on Russia and the rest of the post-Soviet bloc. Yet “Russia’s feeble recovery remains so dependent upon the petro-revenues that for Medvedev [and his fellow private sector elites] it is imperative to keep the oil and gas industries under control” (Baev). This situation results in greater pressure on Ukraine and other transit nations to remain in line and not exert autonomy, lest they face another gas shutoff. This is of particularly grave importance in the face of a fledgling economic recovery across the globe, as nations are looking to regain financial stability and revenue from energy exports. Many in the West argue that “the Ukrainian state-owned energy sector remains corrupt, overly politicized, and mismanaged, regardless of who's in power in Kiev” and that bypassing Ukraine and steering clear of Russian gas is the solution (Cohen). However, Europe would be best served by simply finding a reliable and cost-effective method of gas delivery. The heads of business in both nations would thus need make peace with one another’s economic autonomy and allow gas transit to develop and grow.

Ukraine is consistently vulnerable to the brute force of Russian foreign policy, and the reduction of the transit nation’s liabilities would come at a severe financial expense by way of increased natural gas prices. The strained geopolitical relations with both nations resulted from a race toward self-determination by the entire post-Soviet bloc. Thus, the elite cohorts must deviate from the status quo and zero sum games in order to stand a chance at growth without more economic interdependence on one another. It is evident that both nations must move past their grudges and establish strong, mutually beneficial economic relationships with themselves as well as the CIS and other states of the near abroad if they are to bounce back triumphant from the economic slump affecting the globe (Sokolov 34). Through
coalition building and effective financial management, both countries could remain resilient players on the global gas transit arena.

It is important to recognize that the former era of petro-prosperity in both Ukraine and Russia is over. Accordingly, it is unwise for Russian elites to behave and exert the same power on the post-Soviet bloc that they did in early 2000s. Engaging in a zero-sum political game with Ukraine, wherein both nations fight over the same geopolitical clout, is unsustainable and has caused powerful European nations to begin questioning their energy security. Economic interdependence has long been a pervasive facet of the Russia-Ukraine relations, and it is not likely to go away anytime soon. If either nation is to emerge from the current global economic crisis stronger and more stable than before, foreign policy must stop being dictated by the financial elite and move back into the realm of negotiations from a non-business perspective. Both nations ought to focus on diminishing corruption and building bilateral private and public sector relationships aimed to withstand political pressures from the West.
Maps and Related Figures

**Figure 1:** Major Gas Pipelines Currently in Operation Across the Former Soviet Union
Source: East European Gas Analysis, 2010

**Figure 2:** Major Soviet and Russian Gas Export Routes, 2003
**Figure 3:** Russia's Major International Gas Export Lines, 2003


<table>
<thead>
<tr>
<th>Route</th>
<th>Capacity volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 From Russia direct, via the North</td>
<td>20 Bcm/year</td>
</tr>
<tr>
<td>Finland Connector</td>
<td></td>
</tr>
<tr>
<td>2 From Russia via Belarus to Western Europe</td>
<td></td>
</tr>
<tr>
<td>(a) Belarus Connector (&quot;Yamal–Europe&quot;)</td>
<td>33 Bcm/year</td>
</tr>
<tr>
<td>Belarusian section</td>
<td></td>
</tr>
<tr>
<td>Polish section</td>
<td>20 Bcm/year</td>
</tr>
<tr>
<td>3 From Russia via Ukraine to Western Europe</td>
<td></td>
</tr>
<tr>
<td>(b) Brotherhood (Bratsko)</td>
<td>30 Bcm/year</td>
</tr>
<tr>
<td>(c) Orenburg (Sovuz)</td>
<td>30 Bcm/year</td>
</tr>
<tr>
<td>(d) Urengoy Center</td>
<td>40 Bcm/year</td>
</tr>
<tr>
<td>(e) Yamnub (Progress)</td>
<td>30 Bcm/year</td>
</tr>
<tr>
<td>(f) Northern lights (Siyaniye Severa)</td>
<td>25 Bcm/year</td>
</tr>
<tr>
<td>4 From Russia South to Turkey</td>
<td></td>
</tr>
<tr>
<td>(g) Bulgaria, Romania and Turkey</td>
<td>20 Bcm/year</td>
</tr>
<tr>
<td>(h) Blue Stream</td>
<td>16 Bcm/year</td>
</tr>
</tbody>
</table>

*Note:*

*All these routes were constructed prior to 1990 except the BC (a) and Blue Stream (b). Volumes shown are export potential attributed to each project.*

*Source: EIA (2004b).*

**Figure 4:** 2009 Russo-Ukrainian Gas Crisis Pipeline Map

*Source: BBC.com*
**Figure 5:** Russian Earnings from Oil and Gas Exports – 1994-2004


<table>
<thead>
<tr>
<th>Year</th>
<th>Oil and oil products</th>
<th>Natural gas</th>
<th>Total export</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Million US$</td>
<td>% in total export</td>
<td>Million US$</td>
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<tr>
<td>1994</td>
<td>14,615</td>
<td>22</td>
<td>10,591</td>
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<tr>
<td>1995</td>
<td>18,348</td>
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<td>12,122</td>
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<td>19,981</td>
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<td>77,600</td>
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<td>22,400</td>
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*Note:* 2003 data were estimated on the basis of the first nine months.


---

**Figure 6:** Top Holders of World Gas Reserves, Production, and Exports – and Their Attractiveness to Investors


<table>
<thead>
<tr>
<th>Country</th>
<th>Gas reserves and resources (Tcm)</th>
<th>Share of world total (%)</th>
<th>Gas production (Bcm)</th>
<th>Total exports (Bcm)</th>
<th>Export rank</th>
</tr>
</thead>
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<tr>
<td>1 Russia</td>
<td>83.0</td>
<td>24.0</td>
<td>5.5</td>
<td>578.6</td>
<td>131.8</td>
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<tr>
<td>2 Iran</td>
<td>33.6</td>
<td>9.7</td>
<td>5.8</td>
<td>79.0</td>
<td>3.52</td>
</tr>
<tr>
<td>3 Saudi Arabia</td>
<td>32.4</td>
<td>9.4</td>
<td>7.2</td>
<td>61.0</td>
<td>–</td>
</tr>
<tr>
<td>4 United States</td>
<td>30.0</td>
<td>8.7</td>
<td>8.7</td>
<td>549.9</td>
<td>18.46</td>
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<tr>
<td>5 UAE</td>
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<td>4.5</td>
<td>7.5</td>
<td>44.4</td>
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<td>9.2</td>
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<tr>
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<td>8.8</td>
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<tr>
<td>13 Qatar</td>
<td>6.4</td>
<td>1.8</td>
<td>7.5</td>
<td>30.8</td>
<td>19.2</td>
</tr>
<tr>
<td>14 Nigeria</td>
<td>6.3</td>
<td>1.8</td>
<td>2.8</td>
<td>19.2</td>
<td>11.8</td>
</tr>
<tr>
<td>15 Brazil</td>
<td>5.9</td>
<td>1.7</td>
<td>5.5</td>
<td>10.1</td>
<td>–</td>
</tr>
<tr>
<td>Rest of World</td>
<td>73.9</td>
<td>21</td>
<td></td>
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<td>World Total</td>
<td>346.2</td>
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</tbody>
</table>
**Figure 7:** Technical Scheme of Ukrainian Gas Pipelines as of 2009  
Source: Gazprom 2009 and East European Gas Analysis

**Figure 8:** Germany’s Primary Energy Consumption, By Fuel from 1956-2003  

Chart used to illustrate the growth of natural gas consumption in Germany and the effect that a decline of this energy source would cause the nation. With Germany serving as Russia’s foremost ally in the European gas transit game, it is important to note that gas makes up less than a quarter of the energy used in Germany on any given year.
Figure 9: Two Models – Baker Institute World Gas Trade Models of Gas Availability


The Baker Institute World Gas Trade Model

Figure 11.4. Proved natural gas reserves, by region, 2003.

Figure 11.5. Undiscovered natural gas, by region, 2000 estimates.
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