

REFUTING THE MEDIA: PUNISHMENT AND THE 2005-06 GAS DISPUTE

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JEFFREY RINGHAUEN: Examining Russian Interests: The Russian-Ukrainian Gas
Dispute of 2005-06 (under the direction of Dr. Robert Jenkins)

This paper disputes the claim that the gas dispute between Russia and the Ukraine in the winter of 2005-06 was a Russia policy of punishment of the Ukraine. Argued within the paper is the idea that the “gas politics” in fact represent a foreign policy tool and economic motivation that Russian foreign policy makers are currently using to pursue traditional Russian foreign policy goals and Russian economic interests.

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Introduction

Has Russian foreign policy towards the Ukraine been motivated by a desire to punish? Recent media accounts claim that the gas dispute was punishment for a westward leaning Ukrainian government. Analyst Mykhailo Pohrebinsky of the Centre for Political and Conflict Studies stated that ““The Kremlin hopes that this crisis will lead to the formation of a pro-Kremlin parliamentary majority which would appoint a new government’ more loyal to the Kremlin”” (Morning Star 2006). Georgian President Mikheil Saakashvili stated in a *Washington Post* editorial on January 9, 2006, that through the gas dispute Russia was punishing the Ukraine for being westward leaning and that the gas dispute of 2005-06 was merely an attempt by Russia to assert more influence over nearby countries. The idea that the gas dispute was a reprisal for the Orange Revolution was repeated again and again in the media. The conventional wisdom became (due to media coverage) that Russia was punishing the Ukraine for its West facing government that was brought into power by the Orange Revolution. It is argued here that the 2005-06 gas dispute is not punishment for the Orange Revolution, it is in fact the result of Russian economic and foreign policy goals being pursued.

Two of the previous three winters had seen important events transpire in the relations between Russia and the Ukraine. From November to December of 2004 the Orange Revolution¹ played out in the streets of Kiev and across the Ukraine (the Orange Revolution was important to Russia since Russia has historical and current interests in the

¹ The Orange Revolution was a peaceful protest that occurred in the Ukraine in November and December of 2004. The protest was in response to alleged vote rigging and election fraud by the incumbent administration in an effort by the Ukrainian president to hand pick his successor.

Ukraine). In December 2005 a dispute erupted over the price of gas that the Ukraine would pay the state run Russian gas monopoly, Gazprom. The gas dispute was widely publicized in both European and North American news sources. The disagreement over the price of gas was an occasion for much media commentary on Russian foreign policy. The media portrayed the gas dispute of 2005-06 as punishment of the Ukraine for the Orange Revolution.

The idea that Yushchenko was a threat to Russian interests was first popularized in the news media, even before the Orange Revolution. That the Kremlin did not like Viktor Yushchenko because he was “pro-American” was reported by the BBC (June 24, 2000) six months before the Ukrainian election was to begin. The media slant that Yushchenko was pro-American carried over into the news/media coverage of the Ukrainian elections in the winter of 2004. Those elections involved a contest between Viktor Yanukovich² and Yushchenko that led to the Orange Revolution. When the next the winter came and a gas-pricing dispute arose between Russia and the Ukraine, the media slant that the Yushchenko administration was pro-western and that Russia was punishing the Ukraine was seen by the media as the *raison d'être* for the gas dispute.

Understanding the motivations for the gas dispute of 2005-06 requires the examination of a number of elements: past Russian foreign policy, Russian and Ukrainian economics, and energy's role in the economics of Russia and the Ukraine. A significant portion of this paper is spent providing the appropriate background information on Russian foreign policy in the post-Socialist era so that an examination of

² Viktor Yanukovich was the Prime Minister of the Ukraine and ran for president against Yushchenko in 2004. His bid for the presidency was defeated amidst widespread claims of vote rigging and fraud. In the 2006 Ukrainian parliamentary elections his party, the Regions Party, did well and as a result he is now the Prime Minister of the Ukraine again.

the media assumption of Russian punishment of the Ukraine can occur. Using two different lines of research (study of Russian foreign policy and a comparison of the 1993-94 gas dispute with the 2005-06 dispute) the paper seeks to evaluate the media assumption that the gas dispute of 2005-06 was punishment for the supposedly pro-Western Yushchenko administration.

To test the previously mentioned media assertion this paper uses two lines of research: an examination of past/current Russian foreign policy and an examination of a previous Russian-Ukrainian gas dispute. Using two different arenas the paper seeks to illustrate how the foreign policy behind the 2005-06 gas dispute was not a policy of punishment for pro-Western leanings. The first line of argument is an examination of the literature on foreign policy and economics of post-Socialist Russia. The second line of argument is a study of the 2005-06 gas dispute and the only other major Russian-Ukrainian gas dispute that has occurred (1993-94). The final section of the paper combines these two lines of argument together to show that Russia punishing the Ukraine for being pro-Western is not the most likely conclusion. The alternative offered by the paper is that the gas dispute is the result of Russian economic and foreign policy interests being pursued in regard to the Ukraine.

The paper begins by briefly outlining some “schools of thought” that have traditionally dominated Russian foreign policy. The paper then moves to briefly discuss the Russian presidency and its role in foreign policy formation. Following that discussion there is an accounting of foreign policy change during the Yeltsin era. The paper transitions from the Yeltsin era to contemporary Russia. Discussion then moves to the current domestic (Russian) economic conditions and their effects on Russian-

Ukrainian economics and relations. After the foreign policy section the paper turns to the winter 2005-06 gas dispute and compares that with the previous gas dispute.

Russian Foreign Policy- Past and Present

In the Russian context there are three main schools of thought (Statist school, Westernizer school, and the Civilizationist school) with different assumptions about international relations vis-à-vis Russia. All three of the schools have their origins in Tsarist Russia (Tsygankov 2006). These three schools all seek to strengthen Russia, but they differ on the means that they use. It is important to note that none of the schools focuses on punishment as a foreign policy tool or even sees an inherent threat in a neighbor's own schools of thought or orientation. One of the main schools of thought in Russian foreign policy is the "Statist" school. The Statist school emphasizes the supremacy of the State, power, stability, and sovereignty (Tsygankov 2006: 4-13). The critical element of the Statist school is that of an external threat to Russia. Statists are not inherently anti-western, but they place a "strong state" above the more liberal notions of Westernizers (Richter 1996).

In the post-Soviet period, "liberal"³ statisticians have favored a market economy and political democracy, but with the aim of making Russia a great power again, not Westernizing. Liberal statisticians believe that a market economy and political democracy will strengthen the state. The two most recent leaders of Russian foreign policy, Putin and Evgenii Primakov,⁴ have both been liberal statisticians (Tsygankov 2006: 4-13).

³ Liberal is used here (and throughout the paper) in a relative sense, not in the sense of expressing liberal ideas.

⁴ Primakov became Russian Prime Minister in 1998 after the dismissal of Chernomyrdin. Prior to that he was Foreign Minister from 1996-98. While Primakov did not last long in the positions of Russian Prime Minister or Foreign Minister, he was influential in that his appointment changed Russian policy from the

Primakov with his emphasis on balancing Eurasian power against the West through alliance with India and China (continued under Putin) and Putin with his focus on consolidating the near abroad and economic relations with Europe (Pavliuk 2005). They differed in their approach to Statism though, with Primakov preferring multilateral agreements and Putin preferring bilateral agreements (Tsygankov 2006: 4-13). These agreements though have all had the same two goals: increased Russian influence in the former Soviet space (like the Ukraine) and establishing Moscow as an alternative to American hegemony.

The second of the three main schools of Russian foreign policy is the “Westernizing,” a group that has placed emphasis on Russia’s similarity with the West (Tsygankov 2006: 4-13). The Westernizing school of thought traces its roots back to at least as far as Peter the Great and his quest for westernizing the Russian military, agriculture, education, and society.⁵ Westernizers have historically sought to place Russia within the European family of monarchies, social movements, and alliances. A subgroup of the Westernizing school is the “liberal Westernizing” school, which supports Western values like political freedom, individuality, and constitutional systems of government (Tsygankov 2006: 4-13). While the liberal Westernizers’ values seem to overlap with the liberal statist, the overlap is in fact superficial. Liberal Westernizers seek things like political democracy and such as ends unto themselves; the liberal statist use such institutional forms only as they are useful to the state. State security is the liberal statist end.

Andrei Kozyrev “Western integrationist” mien to the statist stance that has persisted as the dominant orientation since.

⁵ Both the Westernizers and Statists lay claim to an ideological lineage that includes Peter the Great.

Under Gorbachev and in the post-Soviet period many of the Westernizers have argued that Russia has a natural affinity to associate itself with the West, based on the shared values of market economy, personal liberty, human rights and democracy (Tsygankov 2006; Richter 1996). Westernizing trends were seen in Gorbachev's idea of Russian-European integration based on the principles of social democracy and the Kozyrev/Yeltsin idea of a "strategic partnership" with the West (Tsygankov 2006).

The third school of thought is that of the "Civilizationists"⁶ (Tsygankov 2006: 4-13). They hold that Russia has its own unique values (different from the West's) and that Russia should try to spread those values. The civilizationists are typically more aggressive in their foreign policy to security dilemmas than the status quo oriented Statists (Tsygankov 2006). Civilizationists often advocate for a return to empire and an authoritarian state (Richter 1996). The civilizationists differ from statist in four important ways. The first is that they insist on innate Russian superiority. The second difference is that historically they prefer to exert sovereignty over the near abroad as opposed to mere dominance. The civilizationists are also more likely to use a discourse that defines Russia in terms of hereditary and exclusive characteristics— like ethnicity and race. Lastly the civilizationists perceive an even greater foreign threat than the statist (Richter 1996).

These schools of thought are the frameworks from which Russian leaders have approached foreign policy. These frameworks almost exclusively focus on the conception of Russia and its place in the world and less on orientation of other countries. There is no inherent anti-Western attitude in any of these schools of thought; in fact the

⁶ The Civilizationist school is called different names by different authors. Richter (1996: 82), for example, calls it the "Left-Right" coalition. It has historically also been called the pan-Slavic school.

Statist and the Westernizers both embrace many “Western” ideas as good for Russia. A potential motivation to punish (or policy of punishment) the Ukraine for being Western leaning could not have come out of these schools of thought.

The Russian Presidency and Yeltsin Foreign Policy

Post-Socialist Russian foreign policy is largely formed by the president. The Russian president selects his ministers and they execute his policy. The Russian presidency is a strong institution. Following the 1993 constitutional changes, the presidency became an even stronger institution (White 2000). “The 1993 Yeltsin constitution vests overwhelming – indeed ‘hegemonic’ – power in the federal presidency (Willerton 2005: 19).” Notably the new constitution changed the relationship between the president and the regions and the president and the parliament. The republics were no longer to be “‘sovereign,’ with their own citizenship” (White 2000). The changes made to the presidential-parliamentary relationship were even more empowering to the president. These changes allowed the president to reside over the parliament’s meetings and to summarily dismiss parliament. The 1993 presidential system was at the time characterized as a “superpresidential republic” or “monarchical” (White 2000: 82). After the changes, impeaching a president would be almost impossible due to the requirements of the bureaucratic steps in the process coupled with the time frame in which those steps must be completed (White 2000).

Under Yeltsin Russian foreign policy formation underwent an important shift in approach and orientation. The shift centered on the relations between Russia and the West. In the first years after the fall of the Soviet Union the Yeltsin government had a “honeymoon” with the West (Fawn 2003). These first years involved the turn of the Russian government to the West in what Yeltsin and Kozyrev perceived as a benign

international environment (Pravda 2000). “The argument was that in the contemporary post-Cold War world, Russia should stop worrying about military power and geopolitics and, instead, invest its resources in the creation of a modern economy and political system” (Tsygankov 2006). The ideas of radical economic reform and strategic partnership with the West were linked (Tsygankov 2006). Foreign minister Andrei Kozyrev, in policy statements, declared that the developed Western countries were “Russia’s natural allies” (White 2000). Kozyrev sought to make Russia a member of the “first class of powers of Europe, Asia, and America” (White 2000: 228). Kozyrev even went so far as to argue that the interests of the West and Russia were “substantially the same” (White 2000: 228) and that the West was the “world of civilisation” (Tolz 2001: 282). Alex Pravda characterizes 1992 as the year of “full collaboration” with the West (Pravda 2001). The entire thrust of the pro-Western stance was that “Russia is a part of the West and should integrate with Western economic and political institutions; the main threats to Russia come from nondemocratic states” (Tsygankov 2006).

The Yeltsin administration’s unabashed pro-western stance was not to be long lived. In the spring of 1993 the Yeltsin administration outlined a new draft foreign policy concept that was already showing a subtle drift away from the earlier pro-Western stance. In that draft there were two points that attracted attention. The first was the large emphasis that Russia put on the former Soviet republics and “the open acknowledgment that Russia had a distinctive set of interests that might not always accord with those of West” (White 2000: 228). The conflicts in the Balkans were rising and beginning to create tensions between the West and Russia (White 2000). The December 1994

invasion of Chechnya, with open disregard for human rights, was also a sore point in Western-Russian relations (White 2000).

The Russian domestic economy was not doing well. The IMF recommended “shock therapy” led to tremendous economic hardship for ordinary people (Tsygankov 2006). The economic troubles in Russia led to political trouble for the Yeltsin administration in the Duma elections of December 1993 and again in 1995 (White 2000). Those elections resulted in Communists and nationalists gaining seats in the legislature and they used their position to attack Yeltsin’s and Kozyrev’s policies (White 2000). During this period (due to the attempts at reforming the economy) there was a perceived link between the foreign policy of Russia and the poor domestic economic situation. The perceived foreign policy-economy link resulted in Kozyrev coming under heavy political attack (White 2000). The link was largely the result of Western aid organizations and specialists advocating for market economic reform that caused hardships for the Russian populace.

Kozyrev was dismissed in the wake of the Communist electoral surge of 1995 (White 2006). He was accused of “facilitating the efforts of a West that wanted a ‘weak and degraded Russia’ that was ‘easy prey to overseas companies and banks’” (White 2006: 229). In 1995 Kozyrev was replaced as Foreign Minister by Evgenii Primakov. Primakov turned away from the pro-Western stance of his predecessor. There was wide support for a change in Russian foreign policy, with more emphasis on Russian freedom of independent action, economic protectionism, and a multipolar world.

Primakov was the head of foreign intelligence until he was chosen for the Foreign Minister position. Primakov never made a secret of his mistrust for the West (White

2000). He argued that Russia had not lost the Cold War, but instead shared in its victory and was still a great power (White 2000). Primakov focused attention on countering American hegemony (White 2000). Primakov moved away from the “naive Westernism” of the Kozyrev era (White 2000) and sought alternatives to the Western path (Fawn 2003; White 2000).

From the Russian perspective the support promised by the West had not been sufficient (Fawn 2003). Under the supervision of Western organizations like the IMF, the Russian economic transition, failed to bring anything but hardship (Tsygankov 2006). There were espionage problems surfacing on both sides, as if the Cold War had never ended (White 2000). The Kremlin considered aggressive the NATO expansion into Eastern Europe and NATO talks with the Baltics, about their incorporation into NATO (Fawn 2003). NATO “aggressiveness” in the Balkans throughout the 1990s was causing concern among elite and common Russians alike (Fawn 2003). All of these conditions led Yeltsin to move away from the pro-Western course of early post-Soviet period. These concerns, that eventually ended the pro-Western Yeltsin-Kozyrev era, were highly focused on preserving a traditional Russian sphere of influence in Eastern Europe.

The move away from an unabashed pro-Western stance was related to the increase in tensions between Russia and the West. The tensions were partially the result of economic reforms failing to provide rapid results, NATO expansion, the first Chechen War, differences over Yugoslavia, and high profile espionage cases. During the pro-Western period, Russia had a major gas dispute with the Ukraine. The dispute could not have been motivated by a desire to punish the Ukraine for being pro-Western since the Yeltsin-Kozyrev foreign policy was pro-Western itself (the 1993-94 Russian-Ukrainian

gas dispute will be returned to later in greater depth). The Yeltsin-Kozyrev foreign policy lacked a motivation, policy, or ideology that would dispose it toward punishing countries with pro-Western leanings.

Ideologically⁷ Russian foreign policy has few, but strong precepts since the end of the Socialist era. The first tenet of current Russian foreign policy ideology can be traced to Evgenii Primakov's multipolarity (Fedorov 2005). Multipolarity is the concept/assumption that a world with more than one pole of power better serves Russia's interests than a unipolar world (Giorgadze 2002). Multipolarity seems in part to be an ideology of opposition to American hegemony. Multipolarity (especially under Primakov) advocates closer Russian relations with China, the Middle East, and India. The multipolar ideological foreign policy has continued under Putin.⁸ Multipolarity can be seen in Russian discussion of forming a natural gas cartel with Iran, Russian-Saudi oil production agreements (Bloomberg 2007), and Russian military exercises with China (BBC 2007). Under Putin the multipolarity concept has been provided with another feature – increased economic cooperation with Europe (Fawn 2003).

A second aspect of Russian foreign policy that is ideologically driven is that Russia must have a sphere of influence along its borders (Wallander 1996). A sphere of influence is hardly a policy that is unique to Russia or to the post-Socialist period. However both of these ideological elements play a role in stated Russian foreign policy doctrine (Giorgadze 2002). These two elements, multipolarity and a Russian sphere of influence, are complementary. A multipolar world for Russia really begins with the

⁷ Ideology here is used in the sense of an idea or belief system which is premised on a certain set of assumptions, not necessarily a philosophy like Marxism.

⁸ After running against Putin for the Russian presidency in 2000, Primakov quickly became a political ally and aide to Putin.

consolidation of a Russian sphere of influence. Multipolarity and a Russian sphere of influence were policies begun during the Yeltsin administration (after the Kozyrev period) and have continued through the Putin administration.

The Kremlin seeks to make Moscow another “pole” in a “multipolar” world by consolidating Russian influence within the former Soviet space. By focusing on the Ukraine and consolidating Russian influence within the Ukraine, Russia can serve its ideological interests of multipolarity and maintaining a sphere of influence around its borders while enhancing its domestic economic base. As Pavliuk (2005) states, the Ukraine is the lynchpin of an effective Commonwealth of Independent States.⁹ One can extrapolate that an effective Russian sphere of influence and hence a multipolar world (from the Russian perspective) begins with strong Russian influence in the Ukraine. Russia can concentrate on influence in the Ukraine and advance both of these ideologies. Neither of these foreign policy goals necessitates the adoption of a specific Russian school of thought (Westernizer, Statist, and Civilizationist). All of the schools could use their techniques to obtain a sphere of influence and a multipolar world.

Primakov’s primary emphasis on the CIS as an institutional method of obtaining a Russian sphere of influence and hence multipolarity ended under Putin (Smith 2005). Putin, with the same foreign policy goals, has largely focused on bilateral relationships in his attempts at consolidating a Russian sphere of influence (Smith 2005). As countries change their political leadership, it can often be expected that their foreign policy goals will remain consistent, though the techniques used for obtaining those goals may change. In neither the Kozyrev, Primakov, or Putin eras has punishment for close relations with the West been a motivating factor in Russian foreign policy.

⁹ Commonly abbreviated as CIS.

Putin and Foreign Policy

Putin is able to make foreign policy with fewer checks on his decisions than Yeltsin because he is domestically popular, operates under the 1993 constitution, has revenues/growing economy, has consolidated a vertical of power,¹⁰ no major domestic political opposition, and a united party supporting him (Sakwa 2005). In fact Putin's hold on foreign affairs is "very highly personalized. Almost everything was decided by the President, with the Ministry of Foreign Affairs semi-removed from decision making and the Security Council nowhere to be seen" (White 2006: 35). These domestic elements provide Putin with much more latitude to execute foreign policy than Yeltsin ever had (White 2006). Yeltsin's room to maneuver on foreign policy was hindered by the economic hardships associated with his pro-Western foreign policy. The Duma,¹¹ political rivals, or public sentiment do not check president Putin (White 2006). The vertical of power has allowed Putin to consolidate power in a manner that makes officials responsible to Federal authorities and ultimately to him. Putin exercises considerable power, especially in the foreign policy realm, due to the world context (economic prosperity due to high energy prices) that Putin inherited and the domestic context (a "super presidential" system, popularity and no significant political opposition) that Putin helped to establish.

¹⁰ "Vertical of Power" is a term used by the Putin administration to describe the changes made to the structure of government, primarily after the Beslan terror attack. One important change includes the appointment of regional governors by the President instead of the election of regional governors. Another important change was the suspension of direct parliamentary elections in favor of party list elections.

¹¹ The Duma is the Russian Federal legislative body.

Putin's foreign policy ideology is centered on four principles. The first principle is that Russia has the right to a nuclear first strike "under conditions critical for Russian national security." The second principle is that attempts to establish a unipolar world by other states pose a threat to Russian national security. The third is that it is possible for television, the internet, and mass media to pose a threat to Russian national security. The final principle is that "Russia is the strongest Eurasian power: it will dominate its neighbors and create a belt of friendly states around its borders. Relations with CIS countries will be based on ... readiness of the states to take into consideration interests of the Russian Federation (Giorgadze 2002)."¹² It is noteworthy that these broad foreign policy principles do not address neighboring states' pro-Western foreign policy orientations as a potential threat to Russian interests, nor does punishment factor into these principles. The ideologies of multipolarity and a Russian sphere of influence are directly applicable to current Russian foreign policy toward the Ukraine and are evidenced in the fourth and final foreign policy principle of Putin's.

There are bureaucratic elements in current Russian policy making. Pursiainen (2000) argues that the power of the presidency in Russia has resulted in changes to the way that the bureaucratic politics model functions in Russia. While favoring "stability," Russian foreign policy can be manipulated through the bureaucracy to serve the President's foreign policy ends (Pursiainen 2000). Manipulation of the bureaucracy is done by merely switching the portfolios that certain ministers have (Pursiainen 2000). Manipulation, accomplished through the power of Putin's presidency, holds true to the

¹² Giorgadze has gathered his information from publicly available sources (here is the document directory for the original source <http://www.scrf.gov.ru/documents/documents.shtml>). The document comes from the Council of Security of the Russian Federation (Совета Безопасности Российской Федерации) document archive.

bureaucratic politics model¹³ because the bureaucracy still strives to increase its power and importance relative to other ministries, but does so by shifting various responsibilities to those that share the President's view on a specific issue (Pursiainen 2000). The combination of a super-presidential system, the domestic context of Putin's Russia, and Pursiainen's bureaucratic power model creates a situation where Putin is uniquely able to shape Russian foreign policy by manipulating the bureaucracy and setting up a vertical of power so that all decision making begins with him.

Within the Putin administration there are two potential interest groups – the siloviki¹⁴ and the liberals (Kryshtanovskaya and White 2005). The liberals are largely composed of economists and lawyers from St. Petersburg (Kryshtanovskaya and White 2005), while the upper echelon siloviki are primarily from the security services. The “liberals” are not really liberal since they (like the siloviki) support an authoritarian state (if for different reasons than the siloviki) (Kryshtanovskaya and White 2005). “This simple binary division is modified by a variety of cross-cutting allegiances, and by a constant process of horizontal and vertical mobility in which individuals constantly move between positions” (Kryshtanovskaya and White 2005: 1069). The movement of officials is the center of Purisianien's argument and the reason that Putin is able to avoid significant conflict between these two “subdued” interest groups.

An excellent example of the shifting of portfolios in regard to the Ukraine so that the foreign policy aims of Russia are considered is the appointment of the Ukrainian

¹³ The bureaucratic politics model argues that different bureaucracies within a single government/organization will compete for resources.

¹⁴ The siloviki are people that began their career in the security service, military, law enforcement or other “force ministries” (Kryshtanovskaya and White 2005). The word “siloviki” comes from the Russian word for power.

ambassador. Viktor Chernomyrdin is the Russian ambassador to the Ukraine.

Chernomyrdin was the prime minister under Yeltsin from 1992–98. In 1999 he became a member of the Duma and in 2001 was made Russian ambassador to the Ukraine. Earlier, from 1982–89, he was the head of the Soviet natural gas industry. In 1989 he became the chairman of Gazprom and stayed there until becoming prime minister. His appointment as ambassador clearly illustrates one of the necessary qualifications to be the Putin government's most important representative in the Ukraine– knowledge of the energy industry.

Putin has shifted from a more traditional geopolitical view of relations to a more modern geoeconomic view characterized by pragmatism (Tsygankov 2006; Pavliuk 2005). Ludmilla Selezneva (2003) has called the policy neo-imperialism, but in an economic sense. Putin has consistently sought to engage the West, NATO, EU, and United States, replacing geopolitics with geoeconomics (Selezneva 2003). He has begun a project of increasing Russian foreign policy influence by increasing Russian domestic economic strength (Selezneva 2003). Putin sees Russian domestic economic strength being increased by economic cooperation with the West (Pavliuk 2005). He knows that Russian economic strength is based on extractive industries (especially fossil fuel) and that these industries are highly capital and knowledge intensive (Balzer 2005). Thus it is practical for Russia to seek American and EU cooperation given the challenges that Russia faces economically – its need for knowledge and capital resources to continue to develop its extractive industries. However, economics are only a means to end for liberal statist like Putin. State interests come first. The Russian state's interests are largely

driven by economics under Putin and Yeltsin, not by a desire to punish pro-Western leanings.

Putin's foreign policy can then be characterized as being practical, but flexible at the same time, with broad long term goals in mind. His policy is event driven in many contexts, as is illustrated by his response to the 9/11 attacks and flexibility in giving material aid to the United States in preparation for and during the invasion of Afghanistan.¹⁵ However, the event driven aspects of his foreign policy still operate within the more traditional confines of the Russian ideological precepts of multipolarity and sphere of influence. His policy is focused on the practical, possible, pragmatic, effective, and economic interests¹⁶ (Smith 2005). He appears to embrace a neo-colonial¹⁷ strategy in the near abroad and sees economic power as being the best way of reasserting Russian influence (Selezneva 2003). Punishment of pro-Westernism does not appear to drive Putin's foreign policy.

The power of the president and Putin's domestic popularity provide him with great foreign policy latitude. Putin's foreign policy focuses on economics, multipolarity, and a Russian sphere of influence (not punishment). The vertical of power and the current weakness of the bureaucracy act as prophylactic measures against opposition to Putin's foreign policy goals. There is no evidence of an anti-Western stance in Putin's

¹⁵ Putin's support of the American action against the Taliban is in some ways rather astute and serves Russian interests in the region. By aiding the United States in fighting the Taliban Putin is potentially rewarded by eliminating a source of radical Islamic extremism that could spread into the former Soviet Republics. In addition to eliminating the Taliban, he is able to improve relations with the United States by aiding the US in Central Asia and Afghanistan.

¹⁶ Putin has acted pragmatically in cooperating with the US. He has been effective in cooperating economically with the EU (especially Germany).

¹⁷ Neo-colonialism is the idea a country to perpetuate or gain dominance in an area through political or economic means. In Russian-Ukrainian case the neo-colonialism is economic.

foreign policy (he cooperates on counter-terrorism with the West, a terrorism that itself is anti-Western). In fact he seeks to work closely with a number of the Western states of Europe. There is no evidence of an ideological opposition of Putin's to a Western outlook. There is little ideological or policy evidence to suggest punishment for being pro-Western is a foreign policy consideration of Putin's.

Economics and Foreign Policy

A strong Russian foreign policy that can be advanced is to a large degree premised on the Russian economy. Kobrinskaya (2005: 90) states that “Russian foreign policy in the near abroad is based on five preconditions: 1) Russian economic growth 2) high oil prices 3) Putin’s policy of vertical power 4) terrorism and separatism 5) international development.” The vertical of power allows Putin to direct the gains from high energy prices into a growing economy. It also allows him to exert influence over the semi-nationalized energy companies of Russia (Smith 2004). Kobrinskaya shows that energy prices are the key to assertive Russian foreign policy because of their relation to the Russian economy (2005). High energy prices, in addition to being good for the domestic Russian economy, enhance/strengthen the Russian ability to act in the foreign policy realm by increasing the difference between the market price for energy and the amount that states like the Ukraine can pay. A growing Russian economy also means that Russia does not need to obtain loans, credits, and aid and thus the Russian government is not obliged to consider donor nations’ interests when it conducts its foreign policy. Thus as Russia’s ability to act assertively increases (due to rising energy costs and the improving economy) one can expect that it would act so.

The price of energy began to rise from record lows (adjusted for inflation) in 1998; by early 2000 the price had already risen significantly. The increased price of oil was a tremendous windfall for the Russian government. From 1990 to 1998 the Russian economy experienced contraction (negative growth) every year except 1997 and some

years the negative growth was double digit (Goldman 2005). Marshall Goldman states that “the GDP will increase if oil prices rise to about \$10 per barrel (as they did in 1998). If they go up to \$30-50 per barrel, then you are flush.”(Goldman 2005: 7). Russia enhanced its tax base, secured a source of hard currency, and was well on the path to recovery from the 1998 economic meltdown.¹⁸ The rise in the cost of oil (and energy in general) allowed the Russian government to quickly service its debts (stabilizing its currency) and begin to pay government employees and pensioners with regularity – further strengthening the domestic economy. Russian economic clout and domestic prosperity are currently linked to energy prices. As energy prices have risen, the economic influence of Russia has grown through its ability to manipulate energy prices, and through the growth of its economy/purchasing power vis-à-vis its neighboring states that are not rich in fossil fuels.

Combining Goldman’s and Kobrinskaya’s arguments, it can be concluded that a strong Russian foreign policy is preconditioned on a strong Russian economy, which is preconditioned on high oil prices. A strong Russian economy enables Russia to act assertively. High energy prices though do not increase the Russian ability to act and/or be influential in the foreign policy arena everywhere. Increased Russian clout is only possible in a few places: areas that do not have sufficient domestic energy production and are not sufficiently prosperous to buy their energy at world market prices. The Ukraine is an excellent example of such a place.

¹⁸ The dramatic devaluation of the ruble as a result of the 1998 economic crisis also had the positive effect for Russia of making its industrial sector much more profitable. Imports were suddenly much more expensive. As a result the purchase of domestically produced items rose drastically, which allowed many sectors of the Russian economy to begin to become fully utilized and ended the barter economy and systematic nonpayment within Russian industry (Hanson 2005). “In this way, a policy failure, resulting in a forced devaluation, kick started recovery” (Hanson 2005: 123).

The asymmetrical economic and power relationships (between Russia and the other former Soviet Republics) that were the result of the fall of the Soviet Union are partially the basis for Putin's ability to exert economic influence in former Soviet space. His focus on linking geopolitics, geoeconomics, and foreign policy is important in holding regional power (Isakova 2005). While small compared to western standards, the Russian economy is enormous when compared with the other former Soviet states. The asymmetry of the size of the Russian economy and the trade between the Russian economy and the other states' economies creates great asymmetry in trade and economic relations. Putin's emphasis on enhancing the Russian economy through integration into the world economy¹⁹ has strengthened Russia's position vis-à-vis the other former Soviet states (Wallander 2004). The result is that economically almost every country in the former Soviet Union needs trade with Russia²⁰ and that trade can be manipulated to serve Putin's statist goals. The economics of Russia do not create a need to punish neighboring states. A potentially punitive Russian foreign policy has no basis in economics. In fact the rational economic course is to increase Russian energy profits through increased prices as Russia's customers can afford the increase and the market will bear the new price.

The Ukraine needs to import Russian gas. The Soviet economy operated as a national economy with no distinction between the Republic borders. When the USSR split up in 1991, many industries found that their suppliers or customers were now in another country. The separation of suppliers and customers by the break up of the USSR is essentially part of the Ukraine's energy supply problem – it found that the energy

¹⁹ Albeit in very specific types of industry (primarily the extractive and armament industries).

²⁰ Observe the recent freeze on imports of Georgia wine (ITAR-TASS 2007).

suppliers for its people and industries were now spread across the former Soviet Union and were largely beyond the borders of the Ukraine (D'Anieri 1999). The suppliers of gas to the Ukraine are primarily Russia and Turkmenistan. The gas reaches the Ukraine through a pipeline that runs from Russian and Central Asian gas sources through Western Russia to the Ukraine (and then on to Eastern, Central, and Western Europe). Thus it does not really matter who the source country is (Kazakhstan, Russia or Turkmenistan), the gas must pass through Russia and the Russian owned pipeline. The singularity (that currently the Ukraine can only get gas from Russia) of Ukraine's energy source and inability to acquire other sources is a vulnerability to energy price manipulation.

The nature of the Ukrainian economy further complicates the matter for the Ukraine. The Ukrainian economy was largely constructed during Soviet times and was based, to a large degree, on industrial processes, ferrous metallurgy, chemical and building material construction, and petroleum refining (D'Anieri 1999). All of these industries are energy intensive. In addition, the capital stock of Ukrainian industry is highly inefficient.²¹ Ukrainian (and all Soviet) industry was built around the assumption of cheap and highly subsidized energy (also true of Ukrainian agriculture). Supply chains could be longer in the Soviet Union because transport was cheap. With cheap energy and little capital in the Soviet Union, it did not make sense to invest in energy efficiency (D'Anieri 1999). In 1970 the Ukraine was still producing an energy surplus, but by 1988 it had a 42 percent net energy deficit because all the easily minable Donbas coal (the main indigenous source of energy in the Ukraine) had been exhausted (D'Anieri 1999).

²¹ "In the 1980s, it took 60 percent more energy to produce a ton of steel in the Ukraine than in Japan" (D'Anieri 1999: 72).

Ukraine needs large amounts of energy and it has to import that energy. It is important to note that “the single most important statistic is that Ukraine depends on Russia for 40 percent of its overall energy needs” (D’Anieri 1999: 73). Because Ukrainian industry was built around the presumption of cheap energy, were Russia to raise energy prices or cut supply the accompanying rise in production cost would price Ukrainian products out of international markets. The result would mean furloughs, nonpayment of wages, and severe austerity measures, such as no lights or heat (D’Anieri 1999). In fact it has been estimated by D’Anieri (1999: 73) that “should Russia raise its energy prices to the Ukraine to world levels it would result in the transfer of 30 percent of the Ukraine’s GDP to Russia.” The Ukraine has an inefficient economy, insufficient domestic energy production, and insufficient funds to import energy at world prices.

The previous section discussed Russian foreign policy interests (influence in the near abroad) and the economics section discussed the strengthening of the Russian economy due to increased energy prices and the Ukraine’s dependence on Russia for its energy. The combination of economics and Russian interests (sphere of influence and multipolarity) provides a long standing and more compelling motive for the gas dispute of 2005-06 than a policy of punishment motivated by the Ukraine being pro-Western. Comparing the gas disputes in the next section casts further doubt on punishment being the cause of the 2005-06 gas dispute.

1993-94 Gas Dispute v. 2005-06 Gas Dispute

In 1990, after the various republics declared sovereignty, deals were worked out that allowed for 1990 levels of supply and trade to continue through 1991 (D'Anieri 1999). However, by January 1992 Russian energy supplies to the Ukraine were beginning to fall short and the Ukraine was unable to pay even for those supplies which it did receive. As part of domestic reforms, Russia began raising its energy prices in its domestic market and passed on these price hikes to its now international markets. Rising Russian energy prices further squeezed the Ukrainian economy, but did not appear to have been an attempt to undermine Ukrainian independence (D'Anieri 1999). By early 1993 the situation had changed and energy supply and price appeared to have explicitly political motivations for the Russian government. At the Massandra Summit in the Crimea in September 1993, the Russian delegation, for the first time, linked energy and politics.²² Apparently Ukrainian President, Leonid Kravchuk,²³ agreed to an energy deal; but after facing uproar in Parliament, he backpedaled and Ukrainian resolve to face down Russia over the price of energy stiffened.

The 1993-94 gas dispute between Russia and the Ukraine began in late 1993. In November of 1993 there was already great concern in Ukraine and Russia about the debt that Ukraine owed Gazprom (Financial Time November 12, 1993).²⁴ On November 20,

²² They offered to cancel Ukrainian energy debts in return for the whole of the Black Sea Fleet and the surrender of Soviet nuclear warheads.

²³ Leonid Kravchuk was the first Ukrainian president after the fall of the Soviet Union (1991-94). He lost to Leonid Kuchma in a 1994 presidential election.

²⁴ In late 1993 Russian consumer debt to Gazprom was greater than Ukrainian debt to Gazprom.

1993, Yevhen Sukhin²⁵ delivered a report to the Ukrainian Supreme Council that cited shortages of gas and oil deliveries to the Ukraine (BBC November 20, 1993). Sukhin stated that Ukrainian debt to Russia was astronomical– the Ukraine required 20 million dollars per day to pay for oil and gas; unfortunately the Ukraine did not earn enough hard currency in a week to pay for the energy it normally consumed every day (BBC November 20, 1993).²⁶

By early December the Ukraine “was in the grip of an acute energy crisis compounded by an unusually severe winter” (Strozhitskaya and Kharchenko December 3, 1993).²⁷ Telegrams were sent to local administrators recommending that metallurgical enterprises receive only 25 percent of their normal levels of gas and chemical enterprises should only receive only 33 percent of their normal levels (BBC December 8, 1993). These austerity measures had a profoundly negative effect on Ukrainian economic activity.

In late January 1994 a senior Gazprom official and the acting Ukrainian premier, Yukhym Zvyahilky, agreed to a deal whereby the Ukraine could pay for some of its gas by building housing and infrastructure in Russia and selling housing in the Ukraine to Gazprom (BBC January 21, 1994). The “housing for gas” deal did not settle the issue of Ukrainian gas debt. The gas debt was revisited in early February when Gazprom reduced the flow it provided to the Ukraine since the Ukraine had not sufficiently addressed the debt issue (BBC February 11, 1994). The Ukraine was not deprived of all of its flow by

²⁵ Yevhen Sukhin was the Ukrainian deputy Chairman of the State Committee for Oil and Gas.

²⁶ Yevhen Sukhin’s report stated that only 23 percent of Ukrainian energy use can be paid for through transit fees to Russia (BBC November 20, 1993).

²⁷ Power consumption in the Ukraine was reduced by 60 percent compared with the previous December (Strozhitskaya and Kharchenko December 3, 1993).

this reduction (BBC February 11, 1994). On February 18, 1994, the situation was complicated by claims of Ukrainian “energy ‘piracy’” in “misappropriating” Russian gas destined for export to Western Europe (Nekrasova 1994). On February 21, 1994, Turkmenistan announced that if the Ukraine had not serviced its debt to Turkmenistan by the following day then it would cut gas supplies to the Ukraine (Glazovskaya February 21, 1994). The Turkmen threat was carried out and gas supply stopped the next day (Belyaev 1994).

On March 2, 1994, Gazprom warned the Ukraine that failure to address the debt issue would result in a complete cut of gas supply on March 3 (Belyaev 1994). On March 3 the deadline was extended, giving the Ukrainians three more days before gas supply would be reduced to levels that supplied only Western Europe (Chekalov 1994). The reduction of gas supply to the Ukraine never reached complete shut off. On March 9, 1994, the Ukraine paid Gazprom 7 million of the approximately 1 billion dollars it owed (Ivantsov 1994). On March 10, 1994, a deal was reached where the Ukraine would pay half of its debt in rubles and the remainder in industrial goods (United Press International March 10, 1994). The deal of March 10, 1994, also included Gazprom increasing its supply level to Ukraine beyond the level that the Ukraine received from Russia before the dispute began – to make up for the lost Turkmen supply (United Press International 1994; Agence France Presse March 10, 1994).

The deal of March 10, 1994, did not end the gas dispute. The Ukraine was warned by the Russian Prime Minister, Viktor Chernomyrdin, that should the debt issue not have been resolved by April, the Ukraine could face another cut in supply (Ivanov

and Mostovets March 12, 1994).²⁸ By early 1994 Ukrainian energy debt was mounting and Gazprom was shifting tactics.²⁹ Gazprom now wanted to gain control of the storage, processing, and pipeline facilities that were in the Ukraine in return for debt cancellation. The trading of energy infrastructure for debt forgiveness was stopped by parliamentary outcry and modest stop-gap debt servicing by the Ukraine (D'Anieri 1999). Lack of revenue for Gazprom and dire Russian economic circumstances led in the 1993-94 dispute to Gazprom and the Russian government being highly motivated to recoup some of the debt owed by the Ukraine.³⁰

The gas dispute of 1993-94 was the last major Russian-Ukrainian gas dispute until the gas dispute of 2005-06. One of the first mentions of the 2005-06 dispute was a brief news report by ITAR-TASS on November 10, 2005. The article outlined the beginning of the gas dispute. Gazprom was set to raise the price that the Ukraine paid for gas from 50 dollars to 160 dollars per 1000 cubic meters. Soon the Western media was reporting on the gas dispute. Reuters detailed some of the key reasons why the 2005-06 dispute had the gravity that it did. Reuters reported that "Ukraine needs huge amounts of gas for key chemical and steel industries, a factor behind economic growth, and depends heavily on Russian supplies" (Reuters November 25, 2005). The same Reuters article, from November 25, cited the Russian position as "Kremlin leader Vladimir Putin said Russia needed to diversify its export routes to minimize political risks and to stop Moscow's neighbours from the 'temptation to be parasites.'"

²⁸ In November of 1995 the Ukrainian Parliament (Verkhovna Rada) passed a law prohibiting the privatization of oil and gas storage, processing, and transportation facilities (D'Anieri 1999).

²⁹ Should debt climb to levels where repayment is beyond realistic it loses some of its usefulness to the Russian government to leverage concessions from the Ukrainian government (D'Anieri 1999).

³⁰ The dispute was eventually resolved when the US and the IMF aided the Ukraine in paying for its energy and energy debt (D'Anieri 1999).

In the first week of December 2005 the Ukrainian Fuel and Energy Minister Ivan Plachkov announced that a meeting with Russian Prime Minister, Mikhail Fradkov, was “postponed” (Bloomberg, Dec. 7, 2005). It turned out that Mikhail Fradkov was preparing to attend a ceremony celebrating the beginning of construction of the North European Gas Pipeline, which will run under the Baltic Sea directly to Germany, by passing countries like Poland, Belarus, the Baltic States and the Ukraine (Deutsche Presse-Agentur, Dec. 9, 2005).

The next day *The Globe and Mail* of Canada reported that the Ukraine was considering raising the leasing payments that Russia makes to the Ukraine for the rental of its Black Sea facilities from 100 million dollars to 2 billion dollars – a more market driven price for the touristy seaside Black Sea area (Dec. 10, 2005). On December 13, 2005, the Deutsche Presse-Agentur reported that no new developments had occurred, but that talks continued. That report cited Gazprom spokesman, Sergei Kuprianov as saying that “Gazprom will halt all natural gas deliveries to Ukraine as of January, if no agreement is reached by the end of this year” (Deutsche Presse-Agentur December 13, 2005). That speech by Kuprianov was the first time that the threat of gas cut-off was mentioned in the gas dispute. Gazprom’s position hardened further the next day when Aleksandr Medvedev³¹ declared that Gazprom would no longer be satisfied with the previously suggested price increase of 50 to 160 dollars per 1000 cubic meters, but wanted the Ukraine to pay between 220 and 230 dollars per 1000 cubic meters (Deutsche Presse-Agentur Dec. 14, 2005).

³¹ Aleksandr Ivanovich Medvedev is the Deputy Chairman of Gazprom’s Management Committee”(<http://www.gazprom.com/eng/articles/article8849.shtml> March 24, 2007).

The next day, December 15, the Ukrainian Fuel and Energy Minister, Ivan Plachov “at a Kiev press conference said that the ‘Ukraine guarantees the transportation of gas that is delivered to our pipeline system (by Russia for Europe).’ He then made clear his country might take some of the gas earmarked by Russia for European markets, if Kiev and Moscow were unable to reach an agreement in negotiations on natural gas deliveries to Ukraine” (Deutsche Presse-Agentur Dec. 15, 2005). Plachov’s statement was another escalation in the growing gas dispute between the two countries. That escalation was followed on the 19th of December with the Prime Minister of the Ukraine, Yuri Yekhanurov, meeting with Mikhail Fradkov, the Russian Prime Minister, in Moscow (Deutsche Presse-Agentur December 19, 2005).

The meeting of the Prime Ministers had become deadlocked by December 22, 2005 (Mortished 2005). The Mortished report by the BBC illustrated that the dispute, which had moved to the Prime Ministerial level, was still unresolved. On December 24, 2005, Gazprom made an overture to the Ukraine that the Ukraine could pay for next year’s gas with cash and by ceding ownership of the gas pipeline to Gazprom (Prince and Gismatullin 2005). That same day Gazprom did a rehearsal of the procedures required to turn off the gas flow to the Ukraine (Reuters December 24, 2005). On December 27, 2005, the offer to part with its gas pipeline in exchange for next year’s gas was rejected by the Ukraine (Krasnolutska and Clark 2005). Talks continued with a constant shuttle of Ukrainian officials going from Kiev to Moscow. Both sides were calling the situation unacceptable and insisting that a resolution must be made.

By December 30, with the impasse continuing, both the Russian and Ukrainian governments prepared for a gas cut-off (Deutsche Presse-Agentur December 30, 2005).

On December 31, Viktor Yushchenko made a plea that the current price be frozen for ten days to allow for more negotiation, but his plea was turned down (Zinets December 31, 2005). At 7:00 a.m. on January 1, 2006 Gazprom reduced the pressure in its pipeline to levels that would only supply its customers in Europe (Deutsche Presse-Agentur January 1, 2006).

On January 2, 2006, Gazprom accused the Ukrainian government of theft for siphoning off gas from the pipeline (Deutsche Presse-Agentur January 2, 2006). At the same time there were gas supply shortfalls across much of Central Europe, including Austria, Serbia, Bosnia, Slovakia, Slovenia, France, and Germany (Deutsche Presse-Agentur January 2, 2006). However by January 4, 2006 a deal had been reached where the Ukraine agreed to pay approximately 95 dollars per 1000 cubic meters of gas (Deutsche Presse-Agentur January 4, 2006).

Comparative Analysis of the Two Gas Disputes

The economics of the 2005-06 dispute involve three key elements– the pipeline system, Russian gas exports, and the Russian and Ukrainian economies. The pipeline system dates back to the Soviet era.³² There is only one major gas pipeline, the Yamal-Europe pipeline, which does not run through the Ukraine. The Yamal-Europe pipeline runs through Belarus, but only supplies about ten percent of the gas that goes to Western Europe. The remaining ninety percent of the gas that Russia exports to Western Europe primarily runs through the Brotherhood and Soyuz pipelines, which transit the Ukraine (Dept. of Energy; <http://www.gazprom.com/eng/articles/article20157.shtml>). The fact that the majority of the most profitable gas that Russia sells must transit the Ukraine means that Russia cannot sustain gas shut off for extended periods of time without risking government revenue shortfall (given its economy's dependence on profitable energy sales).³³

Russia annually exports approximately 156.1 billion cubic meters of gas to Western Europe– valued at approximately 35 billion dollars.³⁴ Russia annually exports 37.6 billion cubic meters of gas to the Ukraine, valued at approximately 1.88 billion dollars before the gas dispute and about 3.4 billion dollars after the gas dispute. The new price difference increases Ukraine's trade deficit to Russia by 1.52 billion dollars. The

³² Average pipeline age is twenty-two years.

³³ Russia has yet to develop LNG (liquid natural gas) technology on a large scale. Until it does, Russia must work within the rubric of pipelines for exporting its natural gas.

³⁴ The value was created by dividing 1000 cubic meters into 156.1 billion cubic meters and then multiplying by 225 dollars, which equals 35,122,500,000 dollars. 225 dollars for 1000 cubic meters is approximately the market rate for natural gas in Western Europe.

price hike represents an increase of Russian pressure on the Ukrainian economy and a shot in the arm for Gazprom and the Russian Treasury.

Though Gazprom is nominally a private entity, the Russian government owns outright 38.3 percent of Gazprom shares (<http://www.gazprom.ru/>). In addition there is a Gazprom subsidiary, Gazfond,³⁵ which owns 3.2 percent of Gazprom. A third company, Rosneftgaz³⁶ (which owns Rosneft³⁷), owns 10.3 percent of Gazprom stock. Gazprom is owned outright, by the Russian government. In addition to the ownership structure there is overlap between Kremlin officials and Gazprom officials. For example Gazprom's Chairman of the Board of Directors, Dmitri Anatolievich Medvedev, is also the First Deputy Prime Minister of Russia.³⁸ Gazprom's primary purposes are to provide revenues to the state and energy to Russia (Smith 2004).

The actors involved in the economics of the gas dispute are primarily Gazprom officials and Russian and Ukrainian government officials. The overlap between

³⁵ Gazfond is non-governmental pension fund that provides pensions for gas workers. The pension fund is owned by Gazprom (<http://www.gazfond.ru/about/> March 24, 2005).

³⁶ Rosneftgaz was 99.9 percent owned by the Federal Property Management Agency as an open joint stock company. The situation changed modestly in 2006 when Rosneft (a subsidiary of Rosneftgaz) had a modest IPO, offering 13 percent of its stock. The current ownership structure is summarized, "in order for Rosneft to be listed as an A class company on the Russian Trading System, its ownership structure must be diversified. To meet RTS criteria the government may transfer a 50% stake in Rosneft to the Federal property management Agency or split Rosneftgaz into two companies, dividing the stake in Rosneft between them. (source: Vedomosti). Prior to the IPO, 99.999% of Rosneft shares were owned by Rosneftgaz, which was in turn 100% owned and controlled by the Federal Property Management Agency, which also retained 1 Rosneft share." (<http://www.russiaprofile.org/resources/business/russiancompanies/rosneft.wbp> March 24, 2007; <http://www.rosneft.com/about/history/> March 24, 2007).

³⁷ Rosneft's Chairman of the Board of Directors is Igor Sechin who is also Deputy Chief of Staff of the Presidential Executive Office and Aide to the President of Russia. Rosneft's Board of Directors also boasts the Deputy Minister of Economic Development and Trade, Deputy Prime Minister-Chief of Staff, the head of the Russian Agency for the Management of Federal Property, and the Deputy Minister of Industry and Energy.

³⁸ In addition to D.A. Medvedev, German Oscarovick Gref (also a Board member at Gazprom) is the Russian Federal Minister for Economic Trade and Development, Viktor Borisovich Khristenko (Gazprom Board member) is the Russian Minister for Industry and Energy, and Igor Khanokovich Yusufov is a Russian Ambassador at Large.

ministerial level Russian officials and the Gazprom board of directors is astounding.³⁹ These ministerial government officials are Putin appointees within the superpresidential presidency of Russia (Willerton 2005). Gazprom officials appear to have to contend with both economic and state interests. However, the apparent conflict of interest is not really an issue considering the connection between the profitability of the energy industry, the Russian economy, and Russian state security. By raising prices in the Ukraine, Gazprom increases its profits (and tax revenue to Russia), its influence in the Ukraine, and pressure on the Ukraine. Gazprom does not risk Ukraine losing its dependency on Russia for gas supply and, by keeping the economic pressure on the Ukraine, Russia limits the amount of funding that the Ukraine can put toward developing alternatives to Russian energy. The economic rational and statist approach to gas sales in the Ukraine are highly compatible. The only constraint on the compatibility of simultaneously advancing both a statist and economic position is that energy prices to the Ukraine must be sufficiently subsidized to maintain Ukrainian dependency.

In what ways does the 1993-94 gas dispute differ from the gas dispute of the winter of 2005-06?

Variable/Conditions	1993-94	2005-06
Russian Economy	Contracting	Growing
Ukrainian Economy	Contracting	Growing
Ukrainian Supply Dependency	High	High
Russian Transit Dependency	High	High
World Energy Prices	Low	High
Russian Foreign Policy Orientation	Western	Statist

³⁹Of the eleven Board Members for Gazprom four currently hold positions in the government and four formerly held government positions.

The 1993-94 gas dispute shows clearly that Russia and the Ukraine have known that each country perceives energy subsidization of the Ukraine as a political tool. It shows that the Ukrainian government fears the subsidization but has in the past been willing to stand up for what it wants and accept the economic consequences of short term reduced gas supply. Ukrainian supply dependency on Russia is constant in both disputes. The previous gas dispute also illustrates the double-edged nature of a gas cut-off. Russia did not completely cut off gas in the 1993-94 dispute. A gas cut-off would have meant interrupting its supply to the lucrative Western European markets at a time (early 1990s) when it urgently needed revenue. The Ukraine knew then and knows now that transit is an important issue for Russia and uses it to its advantage. Russian transit dependency on the Ukraine is constant in both disputes. The Ukraine is heavily dependent on Russian energy, but Russia is heavily dependent on the Ukraine for its pipeline transit routes. Gas transit is a tool that the Ukraine can use to extract benefit from Russia and gas supply is a tool that Russia can use to obtain benefit from the Ukraine.

In 1993-94 both the Russian and Ukrainian economies were contracting and in 2005-06 the economies were growing. The main differences between the two eras are the Russian foreign policy orientation and the price of energy. It can be concluded that the 1993-94 gas dispute was not punishment for being pro-Western since at the time the Yeltsin-Kozyrev foreign policy was pro-Western too. It seems much more likely that the 1993-94 dispute centered on Russia obtaining increased revenue for its economy and the

application of pressure on the Ukraine over some of the unresolved issues regarding the breakup of the Soviet Union.⁴⁰

How has the situation changed from 1993-94 to 2005-06? Primarily the context in which Russia conducts its foreign policy is different. The price of energy is much higher today. The world price increase for energy affects both parties, but is primarily to the disadvantage of the Ukraine. Higher energy prices mean that Russia receives even more of a premium for the energy it sells in Western Europe. Higher prices also mean that the subsidy that the Ukraine receives from Russia for its energy is increasingly out of the norm vis-à-vis world energy prices. Paradoxically, as the Russian economy improves, the importance of profitability in the Ukrainian market decreases.

The increased energy prices mean that, should the Ukraine raise transit rates, the increased cost takes a smaller portion of the profits from gas sales in the West. Therefore the Ukrainian tool of transit rate manipulation is less effective. The difference (higher energy prices) makes the Ukraine's position relatively weaker in 2005-06 than it was 1993-94. The Ukraine's position is also further weakened by its inability to acquire energy anywhere at the prices that are the world norm. While the Ukraine was unable to buy energy at market prices in 1993-94, the disparity between the price the Ukraine could pay and the world price was not as great.⁴¹ The result is that Ukrainian dependence on Russian energy is further entrenched.

⁴⁰ The main Russian-Ukrainian disputes over the breakup of the Soviet Union were the status of the Crimea, the Black Sea Fleet and facilities, Russian-Ukrainian border, and the Ukraine's share of the Soviet Union's hard currency reserves.

⁴¹ Nuclear power is not really a feasible alternative at the moment for the Ukraine. It cannot build more Soviet type reactors due to the Chernobyl accident and it cannot afford to have a Western company construct reactors for the Ukraine (Smith 2004).

In 2005-06 the Ukrainian economy was much stronger than it was 1993-94. Paradoxically the improved economy makes the Ukrainian position weaker in 2005 than in 1993. Paul D'Anieri states that "as Ukraine's economy improves, the situation could get worse ... as the economy strengthens Ukraine will have much more to lose. Any Ukrainian government intent on remaining in office will also be vulnerable" economic hardship caused by Russian price increases for energy (1999).⁴² There were serious concerns about the viability of Ukrainian independence in the immediate post-break up era. In 1993 the Ukrainian government was willing to implement austerity measures to preserve any semblance of Ukrainian independence from Moscow (D'Anieri 1999). Today Ukrainian independence is not as shaky as it was in 1993. Austerity measures that affect the economy and populace would be much less tolerable to the populace and hence the political leadership of the Ukraine. Thus the Ukrainian position was again weaker in 2005 due to the relatively stronger economy.

In the 2005-06 gas dispute the initial demand for increased payment by the Russians was followed about two weeks later (in mid December) by a statement from a Gazprom official that, should increased payments fail to materialize, the supply of gas to the Ukraine would be cut off. That statement was followed almost immediately by Gazprom saying it wanted the Ukraine to pay the same prices that Western Europe did (about 220 dollars per 1000 cubic meters). That demand of a 220 dollar price was followed immediately by the "speculation" of a Ukrainian minister that maybe the Black Sea Fleet leases with Russia should be reexamined. These three events signify a re-entrenchment of both sides in the negotiation over price. Both sides acted as strong

⁴² In 1994 Kravchuk called for early elections due to the crisis in the Ukraine, partly aggravated by the gas dispute. The result of those elections was a much more pro-Russian parliament and the election of Leonid Kuchma as president. Kuchma campaigned for an economic union with Russia (D'Anieri 1999).

negotiators— possible cut off, further threats of gas cost increases and increases in price of the leases for Black Sea Fleet. It would appear here that both sides were testing the resolve of the other. The negotiation tools – the tool that Russia has over the Ukraine (gas supply) and the tool that the Ukraine has over Russia (gas transit) were tested. Both sides were willing to risk further escalation of the gas dispute— Russia for its economic and statist goals and the Ukraine in the hope that a threat to the transit of gas to Europe would stave off a crippling Russian gas price increase. The negotiation as described above did not resemble punishment, it more closely resembled classic negotiation (offer-counter offer), with both parties bartering as equals.

The idea the Ukraine was testing the strength of a potential threat to transit is further supported by the next claim that came out of Kiev – that should gas supply to the Ukraine cease, then it is likely that the Ukraine would simply siphon off gas destined for Western Europe. By threatening to siphon gas the Ukraine was testing how strong its position (and the gas transit lever) for negotiation was in the matter (Deutsche Presse-Agentur December 19, 2005). The dispute then went up to the ministerial level and remained deadlocked for two weeks as both sides apparently waited to see if the other would concede at the last minute. Good to its word, Gazprom shut off the gas on January 1. It would appear that both sides were willing to take the dispute past the brink – to actually stop energy flow.

The first possible outcome, unconditional agreement, has two sub-variants. The first sub variant is that the Ukrainian government would have begrudgingly accepted the price increase to 160 dollars. The 160 dollar asking price appears to be a level though that they cannot afford, a more than a tripling in gas cost. With a GDP growth rate in

2005 of only 2.6 percent (World Bank), such a price increase would likely have pushed the Ukrainian economy closer towards stagnation or recession, given the amounts of energy that it requires. In the second sub-variant Gazprom could have backed down completely and decided not to change its gas prices at all. Neither of these variants seems particularly likely due to the fact that the Ukraine cannot afford gas at the 160 dollar level, and Gazprom has no motivation to back down from wanting increased levels of payment for the gas it supplies the Ukraine. In addition, Gazprom's backing down does not advance Russian economic or sphere of influence goals in the Ukraine.

In the second possible outcome, the Ukrainian and Russian governments could have held the impasse. The result would have been the reduction of gas flow to Europe as the Ukrainians siphoned off some of what they required. The Russian response would likely have been to stop all flow in the pipelines, initiating what would essentially have been an energy embargo of the Ukraine. Cessation of energy flow would have been catastrophic for the Ukrainian economy and extremely bad for Gazprom's profits, which supply a large portion of Russian tax revenue. Energy embargo seems to be a lose-lose situation and as such was avoided.

The final possible outcome is compromise. Compromise did come to pass – after quite a game of brinkmanship. Gazprom received less than their initial asking price but significantly more than Ukraine was paying at the start of the gas dispute. The effects of compromising on 90 dollars were more moderate than the previously mentioned course. The Ukraine will not suffer catastrophic economic damage but was instead put under moderate economic pressure. Russia receives less than its original asking price, but did not lose its energy transit lines to the West. The compromise variant advanced economic

and sphere of influence goals simultaneously. The behavior of Russia and Ukraine more closely mirrored classic negotiation than unilateral punishment.

Combining the Arguments: Foreign Policy and the Gas Disputes

How do these gas disputes and the compromise outcome fit within our understanding of Putin's statist foreign policy and traditional Russian foreign policy toward the Ukraine? These events fit well with the geoeconomic framework with which many scholars have come to understand Putin's foreign policy. Putin can increase Gazprom's profits, Russia's tax revenue, influence, economic/political pressure, and Ukrainian dependence on Russia by applying pressure to the Ukraine's inability to supply its own energy or pay market prices for its energy.⁴³ The result is that Russia is closer to its goals of a sphere of influence along its borders and a more multipolar world in which Russia is one of the poles. Increased energy prices equate to enhanced Russian economic leverage vis-à-vis the Ukraine.

Combining understandings of past Russian foreign policy motivations (an enhanced Russian economy through cooperation with the West) with current motivations (multipolarity and sphere of influence, begun under Primakov and continued under Putin) cast doubt on the media's "punishment" assumption. Considering the 1993-94 gas dispute, where punishment for pro-Western leanings could not have played a role, and the Russian economy's dependence on energy profits to grow, it becomes increasingly unlikely that punishment was a motivating factor in Russian foreign policy for either dispute. The 1993-94 dispute was largely motivated by Russian interest in stabilizing the Russian domestic economy and possibly developing some influence in the Ukraine. The

⁴³Ukrainian dependence on Russian energy is well documented (D'Anieri 1999). However the squeeze that Russia can put on the Ukrainian economy through increased energy prices can only make Ukrainian industry less competitive in the general marketplace.

2005-06 dispute seems to be the result of the economic-energy situation between Russia and the Ukraine and Putin's foreign policy of surrounding Russia with friendly states willing to look after Russia's interests. Putin's foreign policy of establishing a sphere of influence and an economic rationale are inseparable as regards the Ukraine and provide much more likely motivations for the gas dispute than punishment for pro-Western leanings.

A brief examination of the relationship between Russia and Belarus also casts doubt on the media's punishment theory in explaining Russian-Ukrainian relations. Since the fall of the Soviet Union Belarus and Russia have had a much friendlier relationship than Russia and the Ukraine, even going so far as to consider a reunification of Russia and Belarus (Kobrinakaya 2005; Solychanyk 2001). Belarusian foreign policy has been characterized as "primitively pro-Russian, integrationist, and anti-western footing" (Solchanyk 2001: 104). Belarus, under President Aleksandr Lukashenka,⁴⁴ has been increasingly anti-Western and an ardent supporter of Russia in the international arena (Kobrinakaya 2005; Solychanyk 2001). Belarusian international behavior and foreign policy are radically different than that of Ukraine. However their positions, vis-à-vis the Russian economy, are rather similar. Both countries have a huge dependency on Russia for energy and trade (D'Anieri 1999). Both Belarus and the Ukraine control transit of Russian energy to the lucrative Western European markets.

If punishment for Western leanings caused gas disputes, then it could be assumed that Belarus would not have to deal with gas disputes, since it does not have a Western tilt for which it can be punished. Yet in December 2006, a gas dispute erupted between

⁴⁴ Lukashenka has been the president of Belarus since 1994 and had the constitutional limit on the number of terms a president can serve repealed so he can remain in office.

Russia and Belarus (Reuters December 26, 2006). The gas dispute was settled a week later when Belarus agreed to pay a little more than 100 dollars per 1000 cubic meters⁴⁵ (Bloomberg January 3, 2007). The Belarusian gas dispute could not be caused by Belarus' Western leaning; the better explanation focuses on Russian foreign policy and political interests. Russia strengthening its influence in the near abroad and increasing revenue through energy manipulation fits Russian behavior in the Belarusian-Russian gas dispute better than an explanation relying on Russian punishment for Western leanings. A Russian sphere of influence conveniently encompasses a large portion of the former Soviet infrastructure that allows Russia to supply energy to the near abroad and Western Europe.

In the Belarus-Russia gas dispute Belarus eventually settled the payment issue by forfeiting a 50 percent stake in its transit company Beltranzgas (Xinhua News Agency, 2006). Russian ownership of transit lines through other countries is a clear Russian attempt to limit its exposure to potential transit fee manipulation. By raising prices to Belarus to levels that it cannot afford to pay, Russia forces Belarus to trade infrastructure for energy. By acquiring energy infrastructure abroad the Russian government is able to consolidate its energy monopoly, its sphere of influence, decrease the cost of transporting gas to Western Europe (thereby increasing profit), and entrench dependency on Russian energy (The Economist, January 13, 2007). All of these results further Putin's stated foreign policy of attaining a Russian sphere of influence, a multipolar world, and increasing domestic Russian economic strength. Both Belarus and the Ukraine border Russia and are vital to Russia in developing a sphere of influence and a multipolar world.

⁴⁵ The reader should note that the price of gas for Belarus (100 dollars per 1000 cubic meters) is more than the price for the Ukraine (95 dollars per 1000 cubic meters).

The dispute between Russia and Belarus illustrates that even countries without pro-Western leanings could have gas disputes with Russia. With the pro-Western variable removed and gas disputes still occurring the punishment hypothesis does not appear viable.

Conclusion

The 2005-06 gas dispute did not represent a new Russian foreign policy toward the Ukraine of punishment for pro-Western leanings as stated in the media. Alternatively the gas dispute is the result of the economic and foreign policy aims of the Putin administration. Putin has expressly stated that he thinks Russia should dominate its neighbors. Domination is not necessarily related to military power, but includes economic factors as well. Putin seeks to maintain the Ukraine within Russia's sphere of influence. He perceives that the best way to obtain an enhanced sphere of influence that extends into the Ukraine is to acquire a position of economic dominance over the Ukraine. By the 2005-06 gas dispute energy dependency is a well known foreign policy tool (it made its first appearance in the political dealings at the Massandra Summit in 1993). The acquisition of dominance will be through economic means – primarily the Ukraine's reliance on Russia to subsidize its energy needs. The gas dependency and the rising price of energy create a situation where Russia can apply economic pressure to the Ukraine. The economic pressure advances both Russian economic and foreign policy goals. The gas dispute of 2005-06 fits well with a statist foreign policy conducted by Putin. The political motivations (sphere of influence and multipolarity) and the economic motivation (increased revenue through increased energy prices to the Ukraine) are intertwined in both gas disputes. Economic and political ends make a stronger impetus for the gas dispute than the media's claims of punishment. Additionally the behavior of both parties in each dispute did not resemble punishment, but negotiation.

The 1993-94 gas dispute appears to have been more motivated by fixing the domestic Russian economy than by a desire to execute a specific foreign policy, but it is clear that it was not punishment for a pro-Western Ukrainian leaning. An examination of post-Socialist Russian foreign policy, the 1993-94 gas dispute, and the 2005-06 dispute yields the result that neither of these disputes were motivated by punishment for pro-Western leanings. The cursory review of events made by the media made it appear to the media that the Yushchenko victory caused the gas dispute, and hence Russia was punishing the Ukraine for a perceived pro-West outlook. However, an in-depth examination of the events cast great doubt on the punishment theory and provides a much more viable alternative (Russian economic and foreign policy goals).

Rather than punishment for Westward orientation the gas dispute was an attempt by Russia to exercise control over the former Soviet Republics. Yeltsin's foreign policy was largely constrained by his need to constantly obtain funds by fostering the Russian-Euro/Atlantic relationship. The funds were used as a stop-gap measure against an economy that had been contracting since the Gorbachev years (Wallander 2004). The context in which Yeltsin conducted Russian foreign policy was markedly different from the environment in which Putin operates. The strong 2005-06 Russian economy left a situation where Russia could act more assertively in regard to Ukrainian energy subsidization than it had in the past. The fact that the cut-off came following the ouster of Kuchma/Yanukovich for Yushchenko does not represent a policy of punishment or mean that the ouster precipitated the dispute. The economic and foreign policy

motivations of Putin are supported by history and stated policy, the punishment hypothesis is based largely an argument of *post hoc ergo propter hoc*.⁴⁶

The Ukraine has largely been dominated by Moscow since 1709⁴⁷ and maintaining influence and control in the Ukraine has been in the interest of anyone within the Kremlin. The ability of the Kremlin to exert influence within the Ukraine is largely influenced by the world economic conditions and Russian domestic contexts. From 1991-98, under Yeltsin, the Kremlin's ability to act and be influential was on the wane. The Russian economy was in shambles, debt spiraling, and solutions to these problems few (Wallander 2004). However, the economic rebound following the 1998 financial crisis, coupled with the renewed vigor and focus brought by Putin's assumption of the presidency in 1999 began to change and eventually reverse the wane of Russian influence. Russia's emphasizing its economic well-being as a key to enhanced ability to act in the international arena is important for understanding the changes in the context in which Russian foreign policy is conducted toward the Ukraine (Wallander 2004). As events (e.g. a concerted Russian foreign policy, rising energy prices, and improved Russian economy) aligned themselves early in the Putin administration in such a way as to strengthen Russia's ability to exert influence in the international arena it could be expected that it would act more assertively, especially considering that these events increase Russian economic leverage relative to the Ukraine.

⁴⁶*Post hoc ergo propter hoc* commonly translated as "after this, therefore because of this" is a logical fallacy related to causation. The fallacy argues that Y came before Z, thus Y caused Z.

⁴⁷ In 1709 Peter the Great defeated Charles XXII of Sweden at the Battle of Poltava in the Ukraine, beginning the Russian assertion of control over lands that had largely been under the control of the Lithuania and Poland after the dissolution of Kievan Rus(Hoskings 2003).

The gas dispute of 2005-06 was taken further than any previous dispute between Russia and the Ukraine. The actual cut-off of gas was a first in the relationship. The fact that the cut-off roughly coincided with a change in Ukrainian government was noted by many and subsequently misperceived by the media as the causative factor for the dispute. Attributing the gas dispute of 2005-06 as punishment for the Orange Revolution grossly misrepresents the situation and ignores the history, historical foreign policy aims, current foreign policy aims, Russian-Ukrainian economic relations, and the geography and economics of the pipelines that have created Ukrainian dependence on Russian energy.

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