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### Double-Edged Sword: Russia's Use of Energy as Leverage in the Near Abroad

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# **DOUBLE-EDGED SWORD**

Russia's Use of Energy as Leverage in the Near Abroad

ALEXANDER VISOTZKY

2009

## Acknowledgments

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## Introduction

World leaders settled into their seats at the opening ceremonies of the 2008 Olympic Games in Beijing. All eyes were on China; the Olympics were their opportunity to showcase themselves as a superpower. China hoped it would be an opportunity to finally be treated as a responsible equal. While the world watched one rising power execute the logistical nightmare of the Olympics seamlessly, another power, Russia, began pouring tanks and shells over their southern border, creating their own nightmare in Georgia.

While China was praised in August 2008, international media outlets and governments around the world exploded in an uproar as the Russian military swarmed into northern Georgia and decimated Georgian positions from the northern border to Poti. Russian troops stopped their columns just short of Tbilisi, the capital. Russia eventually withdrew to its earlier positions, but not before obliterating the Georgian military—their point was made. Russia didn't seem too perturbed by the international outcry, especially as details later began to emerge that cast the Georgian military and their president, Mikhail Saakashvili, as provoking the war.

As winter approached, so did the specter of Gazprom's annual contract bickering with Ukraine. January 1<sup>st</sup>, 2009, arrived, and the two sides didn't reach an agreement. Gazprom, Russia's state-owned gas giant, reached for the gas valve and shut off supplies, not only freezing Ukraine, but many European countries who depend on Ukraine to transport gas. Bulgaria, Italy and Serbia were among those hard hit. The dispute lasted nearly three weeks—not only were millions in transit revenues lost by Ukraine, but

untold damage was done to both countries already fragile reputations as Europe began scrambling for alternatives.

Some intriguing questions are: why did the Russian military invade Georgia in the summer of 2008, while military engagement was never an option against Ukraine? What accounts for the variations in treatment of similar countries? One could argue that Georgia's provocation and use of force in South Ossetia opened the door for a violent response while Ukraine's standoffs with Russia are of a more diplomatic and different nature. Georgia, however, has engaged in violent skirmishes with Ossetians and Abkhazians intermittently throughout its first two decades of independence. Military reprisals from Russia were the remotest of possible responses, with Russia usually using soft power and energy leverage to respond. Why did Russia invade Georgia this time, and not on previous occasions?

Ukraine's disagreements with Russia have been less than benign; in the early 1990's, Ukraine and Russia disputed issues such as territory on the Crimea, partition of the Black Sea Navy and the handling of Soviet-era nuclear weapons. These were all possible flashpoints for a military standoff. Why then, has military conflict seemed virtually inevitable between Russia and Georgia since 2007 (and ultimately realized in 2008), whereas with Russia and Ukraine war seems all but impossible?

Ukraine and Georgia seem similar. Each is a divided country where large nationalist portions want to extricate themselves from Russian influence and another portion seek to retain stronger ties with Russia (though admittedly the proportion of nationalists to pro-Russians is significantly larger in Georgia). Each seesawed between policies that reflected Western sympathies and policies that reflected Russian sympathies.

Each continues to struggle with corruption while establishing the foundations of a functioning democracy. Each has, at one time or another, been extremely dependent on Russia for energy supplies. Yet the outcomes are radically different. An extremely instructive point is found in how Russia uses its energy leverage over Georgia and Ukraine in two different ways.

A helpful episode to explain this quandary is one of Russia's previous energy rows with its neighbors. When Russia turned the gas off to Ukraine in January 2009, journalists and analysts immediately began comparing the dispute to January 2006, when Russia shut off the gas to Ukraine for three days, prompting the EU to denounce Russia's use of energy as a weapon. Another contract dispute with Georgia occurred simultaneously and incurred far less attention. The main gas pipeline to Georgia mysteriously exploded, and the main electric power line to Georgia shut down entirely. Russia claimed that violent Chechen saboteurs blew up the pipeline amidst varying accusations from Georgian leadership. The story, for all the glamour of explosions and terrorism, was secondary to Ukraine's gas shutoff, which sent ripples through Europe (and forced Italy into a temporary energy emergency). One cannot help but notice that gas pipeline explosions happen far more often near the Georgian and Ukrainian borders even as the number of such incidents is declining overall (see Figures 2 and 3).

The simultaneous energy cutoffs to Ukraine and Georgia were indicative of Russia's strategies towards the near abroad. Towards Georgia, Russia was straightforwardly adversarial with its energy leverage, which led Georgia to eventually dramatically alter its energy arrangements. Towards Ukraine, however, Russia was and continues to be handcuffed by commitments to Europe, leading to a much more moderate

approach. While the energy cutoffs with Ukraine in 2006 and 2009 represented dramatic conflict and the height of tensions between the neighbors, cutoffs with Georgia were the norm. The response to Ukraine's 2006 shutoff showed that Russia continually treads much more carefully with Kiev than with Tbilisi.

These cleavages in strategy are extremely significant. Had Russia employed a more moderate approach to Georgia and not lost its upper hand in the energy sphere, they would have possessed another tool of leverage and potentially avoided having to use

Figure 2. Gazprom Pipeline Ruptures (courtesy of East European Gas Analysis)

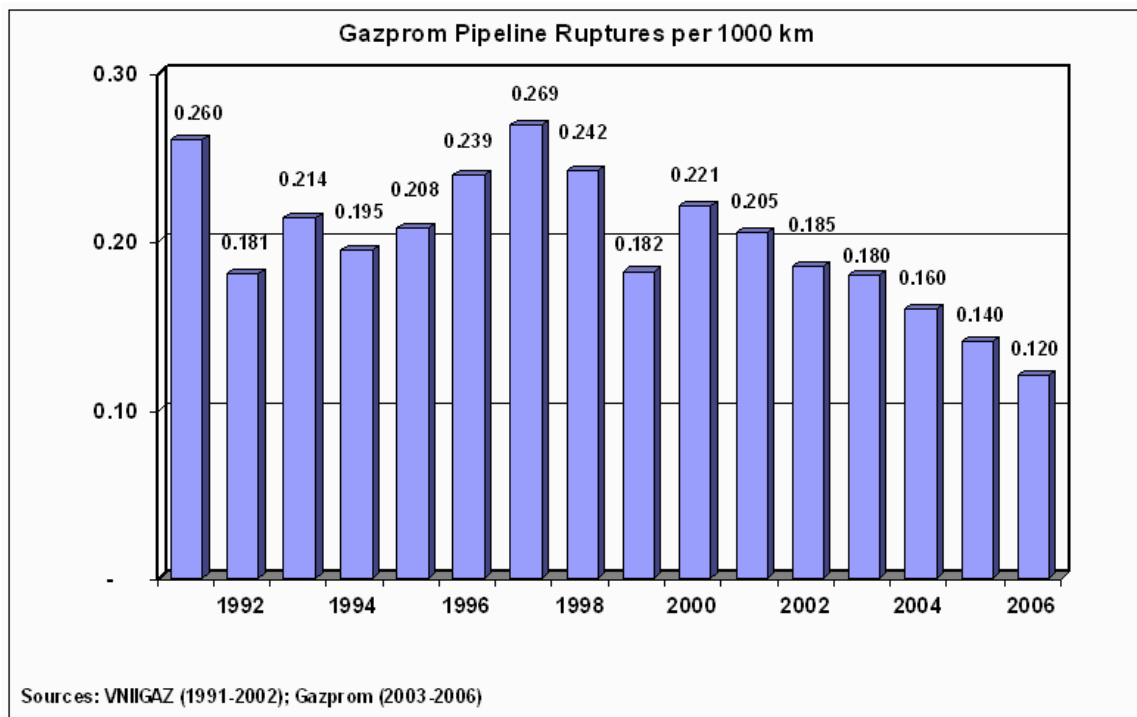
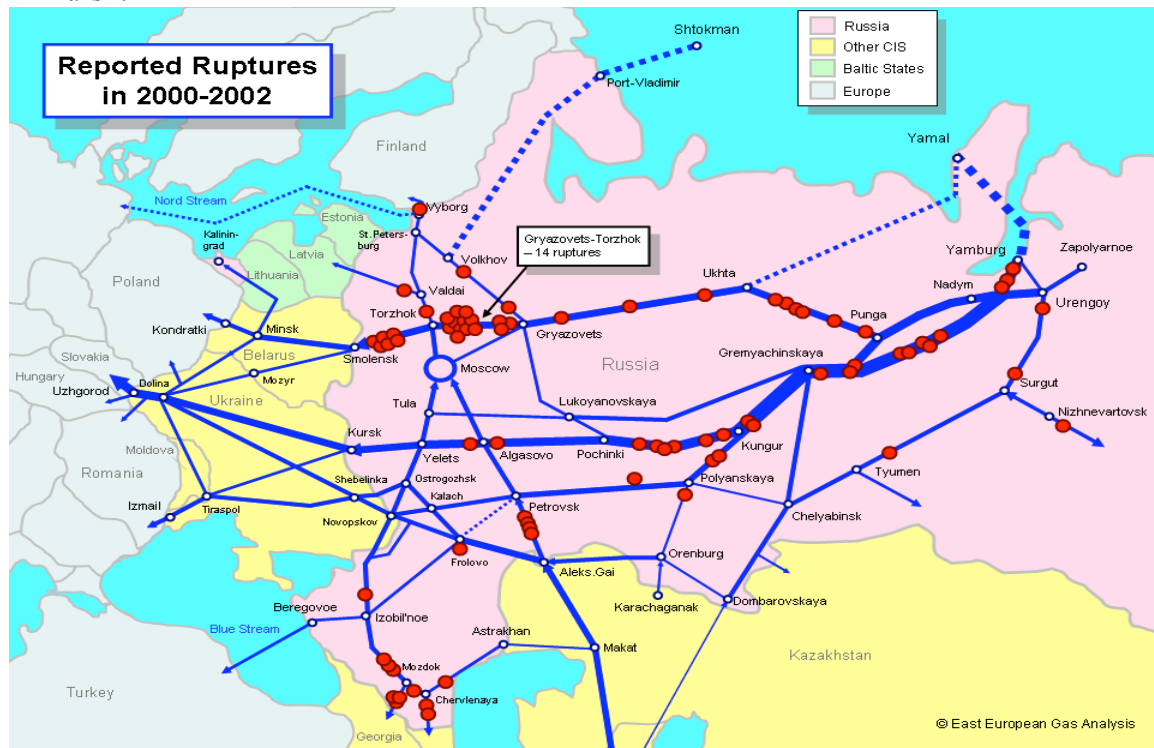


Figure 3. Pipeline Breaks by Location, 2000-2002. The period covered is arbitrary, but shows a trend of more breaks closer to Georgia. Kiev, it should be noted, is in line with both the pipeline showing breaks leading into Belarus, and the pipeline entering Ukraine in Kursk.



military force in August 2008. Their less confrontational approach towards Ukraine, however, has sustained a Ukrainian faction advocating closer economic and political ties with Russia. This contributes to the quarreling in Ukraine and prevents Kiev from decisive action away from Russian interests and towards European ones. Greater bargaining power for Kiev (most Russian gas must pass through Ukraine) also increases the likelihood the two countries will stay involved with each other; there's a tangible quid-pro-quo between Kiev and Moscow. Tbilisi has little to offer Moscow and therefore no bargaining power.

The success of using energy as a leverage in Russia presents a paradox. In one case, Russia had all the geopolitical advantages. In the other example, Russia continues to



possess advantages to work with, but contends with a country that has plenty of strategies at its disposal. Their use of leverage, however, was and continues to be successful in the Ukrainian case, whereas with the Georgia case Russia boorishly threw those advantages away.

While Russia virtually guaranteed the continuing autonomy of Abkhazia and South Ossetia and achieved a decisive military victory over Georgia, the political outcome is nowhere near a success. With Georgia, Russia can be seen as having failed immensely—by squandering all prior levers over Georgia, the Kremlin was left with no means of pressuring Georgia into adopting policies that benefit Russia.

Where Ukraine is concerned, Russia must be seen as successfully using their energy leverage. Russia continues to utilize its monopoly over Ukraine's energy supply and penetrates Ukrainian industry by buying both majority and minority stakes in various Ukrainian companies. Russia's access to the Ukrainian political sphere contributes immensely to the wrangling for power between the Ukrainian Presidency and the Verkhovna Rada (Parliament) that has hampered change and reform since the Orange Revolution of 2004.

It is of course necessary to define how the term 'leverage' is being used in the following pages. Leverage here can be manifested as both carrot and stick. Russia's leverage is its vast energy supplies (whereas its neighbors are resource poor). Russia can then incentivize certain political decisions in neighboring countries while discouraging others. Leverage, for the purposes of Russia, means linking energy policy to ordinarily unrelated areas. Where business rationale would normally dictate decisions, political

considerations come into play and make energy policy far more than a matter of dollars and cents.

The two cases also provide examples of two different routes that smaller, less powerful states take when striving for autonomy and power when a regional hegemon aims to restrict that autonomy, and the possible consequences. Smaller states can take combative stances that risk destructive conflict and divorce friendly ties between the two, which thereby makes autonomy and independent development easier. The other path for states attempting to ease away from a regional power is to be moderate and conciliatory. A compromising approach is much more stable but risks allowing the hegemon opportunities for their interests to penetrate the smaller state and retain a higher level of influence in the weaker state. Likewise these different routes present themselves to the hegemon.

The implications of these cases go well beyond the realm of energy politics. The different strategies of energy leverage have larger implications for independence, democracy building and transparency. Energy relations are representative of bigger processes and the more general relationships of newly independent countries or weak states whose interests are vulnerable to more powerful, undemocratic regimes.

The differing outcomes also present a new set of criteria from which to see Post-Soviet states. Other theories go a long way towards explaining the trajectories of post-Soviet or former Communist bloc countries closer towards the West, such as the Baltics, Balkans and Central Europe. Other theories also do a good job of explaining the relatively uniformity of repressive governments of Central Asia. Most theories, however, tend to group together those countries that fit neither category. Ukraine, Georgia, Belarus,

Azerbaijan and Moldova are often lumped together, when in actuality their outcomes are extremely varied. The differing energy leverage strategies argument helps explain the different situations; it also may help explain differences between the Central Asian countries.

### *Methodology and Evidence*

To conduct an operational study of one aspect (energy) of Russian foreign policy, it is not sufficient to simply examine the statements of officials. I carefully examined any kind of energy interactions, be they highly publicized or not, and looked for their implication. To do so, I conducted searches on both LexisNexis and Factiva. Search terms were ‘Russia’, ‘Ukraine’ and ‘Energy’, when looking for Ukrainian energy interactions with Russia and ‘Russia’, ‘Georgia’ and ‘Energy’ when looking for Georgian interactions with Russia. Various other searches such as ‘Ukraine’ and ‘Pipelines’ or ‘Georgia’ and ‘Itera’ were used to pare down results relating to specific topics. The results were thousands of newspaper articles used to establish trends and weave together a narrative of Russia’s energy interactions with each country.

To effectively determine the interplay of energy, leverage, Russian policy and outcomes in near-abroad countries, I decided to use two focused case studies. Each case study provides a chronology of major political events and their relations to incidents of Russia’s use of energy as leverage. While it would be preferable to have data and an understanding of the use of energy as leverage across all post-Soviet republics, such an approach has its own shortcomings. In-depth case studies, on the other hand, allow the

reader a deeper understanding of the actors and tactics used. Important players such as third-party trading companies would not be visible and their effects nullified, though such companies and their effects are an important facet of the use of energy as leverage in the Russian near abroad. My approach allows the reader to identify more of the actors shaping outcomes.<sup>1</sup>

## Outline of the Thesis

The rest of the work is as follows: a theoretical chapter that surveys the literature on Russian foreign policy and the pursuit of empire as a motivation. This chapter attempts to depict different currents of thought on Russian foreign policy, discussing their strengths in explaining motivations and their weaknesses in explaining outcomes. It also examines some of the literature on Russian use of energy. I then argue that the examination of variations across Russian use of energy as leverage is necessary for understanding different outcomes.

Following the theoretical chapter are two case studies. The first case examined is Georgia, where a confrontational approach led to Russia's loss of energy as leverage and eventually military conflict between the two. The second case examined is Ukraine, where diffusion of conflict led to greater ties between Russian and Ukrainian interests and continued Russian influence. Following the case studies is a conclusion that summarizes findings and questions the implications for future developments.

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<sup>1</sup> George, Alexander and Bennett, Andrew, *Case Studies and Theory Development in Social Sciences*, MIT Press, 2005

## Theoretical Considerations

Russia does not treat her neighbors the same way. In large part, this has to do with the degree of democratic reform in the neighboring country—Russia's relations are frosty and resentful with those who instituted democratic reform immediately after the fall of the Soviet Union and turned West, such as Eastern Europe and the Baltics, while relations are fraternal with those who have not reformed much, such as Central Asia and Belarus. This work, however, concerns a third group—those nations that are somewhere in between, seeking democratic reform and warmer relations with the West a whole decade after the collapse of the Soviet Union. In this third group, however, there is enormous variation in their relations with the Kremlin. Russia and Georgia have experienced violent conflict, yet no such conflict seems likely with Ukraine, though the issues at stake are similar.

Both Ukraine and Georgia have sought democratic reform and NATO membership around the same time period. Both have divided electorates and have had territorial disputes with Russia (Ukraine over the Crimea and Georgia over Ossetia and Abkhazia). Both countries have attempted to avoid regional groupings like the CIS, seeing them as purveyors of Russian domination. Neither country has significant resource wealth. Why do these seemingly similar cases have such different outcomes?

The following work will argue that the answer has a lot to do with energy. In both the cases examined, Georgia and Ukraine, Russia has attempted to use energy as leverage to dictate policy and relations. Were Russian strategies of using energy as leverage uniform, the outcomes would be uniform. That, however, is not the case. In the case of Georgia, Russia unsuccessfully used a strategy of escalation, where energy was used

extensively as leverage with cutoffs, raising prices and calling in debts; these uses of leverage increase significantly when important political decisions and moves were at hand in Georgia. In the case of Ukraine, however, Russia continues to successfully use a strategy of moderation, resorting more to forgiving energy debts, discounting prices and pushing for greater business integration; the frequency of these events stays constant and does not significantly rise around the time of important political events. These differences in energy tactics are important, as they appear to play a role in determining these dramatically different outcomes.

This chapter explores the theoretical debate on Russia's pursuit of empire in the near abroad. Whether or not Russia continues to be an empire, the idea still holds weight; citizens and policymakers of both Russia and its neighboring countries are cognizant of the idea of Russian empire. It is essential for understanding interactions between Russia and the newly independent countries that surround it.

My argument examines the reasons that similar circumstances produce different outcomes amongst the late reformers in Russia's near abroad, but the underpinnings of both the Russian actions and their neighbor's reactions are predicated on Russian pursuit of empire. This chapter will introduce the main currents of thought in the debate on empire, and also introduce ideas the debate seems to overlook, namely the different uses of energy leverage and different outcomes amongst late reformers. The debate on empire is important for understanding the context of Russian motivations and outcomes, but it fails to explain the key differences between Georgian and Ukrainian outcomes.

## *Categorizing the Newly Independent States*

The end of the Soviet Union was a large laboratory experiment for the field of comparative politics. From one monolith and its not-so-far-flung satellites throughout Eastern and Southern Europe 27 newly independent countries were born. All of them had different geographic, social and economic variables to distinguish them, but they all had a common past and similar baggage. Each country held on tight for a period of turbulent transition away from Communist, one-party rule and planned, stagnant economies towards multiparty, democratic rule and market economies.

The post-Soviet countries progressed in many different directions. Some adopted successful market economies and solid liberal democracies. Others traded in Communist rule for authoritarian rule, but successfully adopted market economies. A good deal of countries, however, stalled somewhere in between. Democrats seesawed with hard-liners and authoritarians in the power balance—cabinets reshuffled, parliaments were purged and general uncertainty persisted.<sup>2</sup>

A handful of countries, mostly those of Eastern Europe, such as Hungary, Slovenia, Croatia, Poland and the Czech Republic lead the way in creating a norm of successful democracies from the non-republic former satellites. Even the Baltic States of Latvia, Lithuania and Estonia, former Soviet Socialist Republics, succeeded. Large amount of comparative work has focused on these successful (though by no means

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<sup>2</sup> Valerie Bunce gives an excellent survey of the variation of post-Soviet countries in her 1999 article “*The Political Economy of Postsocialism*” *Slavic Review*, Vol. 58, No. 4, Winter 1999, 756-793. The cases given special attention in this work, Ukraine and Georgia, have shifted considerably since the writing of that article, however. They represent a third group, late reformers, discussed above.

painless) transitions to democracy. They are not, however, the norm.<sup>3</sup> Most countries, as Charles King writes, are ‘laggards’ and have actually taken steps backward instead of forward. “Is Azerbaijan really struggling towards democracy...” he asks, “rather than rushing back toward authoritarianism?”<sup>4</sup>

The momentum of democratization and adoption of Western-friendly governments is not inevitable and should not be viewed as such. It is easy to adopt the habit of viewing the successful democratizers as leading a slow but inescapable procession towards democracy, while the Lukashenkas, Karimovs and Aliyevs of post-Soviet space are the irrational and eccentric exceptions. Increasing work must be done on Central Asia and the Caucasus, which, as King notes, are largely ignored, but their experience is by and large the dominant one of the post-Soviet republics.

Very little attention, moreover, is given to those countries that were slow to take drastic measures of reform or democratization. While the most successful democratizers and market reformers were those that adopted measures in the early 1990’s, there are plenty of cases of countries that experienced little reform or democratization in the 1990’s but launched these processes after the year 2000. The Rose, Orange, Velvet and Bulldozer revolutions are the clearest examples. Their path, however, has been much less distinct than that of the earlier democratizers. The late democratizers are stuck in between the traditional groupings. They have gotten little attention as their own group—late reformers, whose obstacles and chances for success are emerging as distinct from the reformers of the 1990’s and the retrenchers. This study focuses on this group, examining two cases: Ukraine and Georgia. Scholars such as Sakwa argued that Ukraine had

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<sup>3</sup> King, Charles, *Post-Postcommunism: Transition, Comparison and the End of ‘Eastern Europe’*, World Politics, Vol. 53, No. 1, October 2000

<sup>4</sup> Ibid (152)



become part of Eastern Europe in the late 1990s.<sup>5</sup> Since then, however, Eastern Europe made considerable strides while Ukraine stalled and fell back into this gray area.

One of the deciding factors behind the trajectories of these late reforming countries is their interaction with Russia. As the regional hegemonic power, newly independent nations cannot help but heed policies and behavior radiating from the Kremlin. Absolute disregard or challenging of Russian interests can lead to economic sanctions, or in the cases of Moldova and Georgia, military intervention. Thus, to understand the behavior of states in the post-Soviet space, it is essential to try and understand the effect of Russian foreign policy on the near abroad. For states like Ukraine and Georgia, their trajectories are shaped by Russian politics and policy.

There is no shortage of explanations and descriptions of Russian foreign policy towards their neighbors. The debate encompasses a wide array of theories regarding Russian attitudes, intentions and overall success. Ultimately, however, all theories in some form or another attribute Russian foreign policy behavior to a key idea influencing and directing policy towards the near abroad: great power status and empire. Whether seeing Russian imperial aspirations as malevolent, benign or somewhere in between, the debate on Russian foreign policy is in consensus that the Kremlin is trying to refresh its influence in the near abroad. In short, scholars and policymakers alike agree that Moscow's influence on its neighbors waned at the end of the Soviet Union, but Yeltsin and Putin worked to restore that influence.

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<sup>5</sup> Sakwa, Richard, *Postcommunism*, Open University Press, Buckingham, London, 1999 (63)

## *Defining Empire*

The definition of empire is important; it may not explain why outcomes occur as they do, but it points us towards an explanation of the motivations behind Russian foreign policy. I will use a definition in line with Robert Gilpin's description of mercantilism, which states that politics directs economics, or that financial power is used to achieve political goals. Russia's political goal is influencing events in the region. The Russian motivation is not one of building stability or harmonious relations, but keeping their influence intact. The debate on Russian empire, however, fails to see this point and consequently fails to explain outcomes. Geopolitical viewpoints presuppose regional stability as a goal; as we will see, stability is not necessarily the motivation of Russian foreign policy; therefore we cannot expect Russia's pursuit of empire to produce stable outcomes. Rather, Russian pursuit of empire may upset stability in otherwise stable countries. In accordance, energy is not used as a tool to promote stability, but as a tool for maintaining influence. The following section will explore the definitions of empire and their relative deficiencies connecting motivations with tumultuous outcomes.

The term great power and empire have very different meanings, often depending on the scholar or policymaker using the term. According to Mark Beissinger's cultural explanation, proclaiming oneself a 'great power' gives a form of legitimacy. A great power's actions can be perceived as falling within a reasonable realm of pursuing the greater national interest. The term 'Empire', however, isn't accompanied by legitimacy.<sup>6</sup> On the other hand, Michael Doyle, in his structural approach to empires, defines an

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<sup>6</sup> *The Persisting Ambiguity of Empire*, Beissinger, Mark, *Post-Soviet Affairs*, vol. 11, no. 2, 1995 149-184 (167)

imperial relationship as ‘people subject to unequal rule.’<sup>7</sup> The use of the word also has connotations that may not be intended by writers, especially regarding Russia and the Soviet Union. Dominic Lieven astutely observes,

“Especially given the Marxist-Leninist simplicities in which most Russians have been educated, to define the Soviet Union as an empire is to condemn it outright, in the process dispatching much of the lives of Russia’s older generation to the rubbish bin, or even damning them as morally tainted. If the Soviet Union was an empire then not merely was it illegitimate, it was also fated to disappear in a modern world in which empire is taken to be redundant.”<sup>8</sup>

The term empire carries with it many problems for Russia. It tenuously sits opposed to Soviet ideology, since empire implies capitalist encroachment and expansion.<sup>9</sup> It also implies inevitable demise.<sup>10</sup> Lieven notes, however, that the idea of empire seems to persist in Russia, carrying over from the Tsarist period into the Soviet period and now in the post-Soviet period as a relatively continuous idea, uninterrupted by the disintegration of the states that actually executed imperial policy.<sup>11</sup> While the Soviet Union did indeed crumble, the Russian Federation is very much intact and this work does not wish to imply that the Russian Federation faces impending doom. Nor does this work wish to comment much on the moral legitimacy of Russian power. Such discussions, while important, lie outside the scope of this work, but it is still necessary, however, to notate them to avoid misunderstanding.

This work will not pursue the idea of empire in the same vein as Beissinger’s cultural or Doyle’s structural definition. It will heed their definitions and at times borrow

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<sup>7</sup> Doyle, Michael, *Empires*, Cornell University Press, 1986 (36)

<sup>8</sup> Lieven, Dominic, *Empire*, Yale University Press, New Haven, 2000 (5)

<sup>9</sup> Ibid (22)

<sup>10</sup> *Ambiguous Categories: States, Empires and Nations*, Suny, Ronald Grigor, Post Soviet Affairs, vol. 11, no. 2, 1995, 185-196

<sup>11</sup> Lieven, This points to Lieven’s approach wading into cultural arguments.

from their ideas. For the purposes of this study, Russian foreign policy and use of the concept of empire is akin to Robert Gilpin's description and definition of mercantilism. Gilpin, one of the fathers of realist theory, lays out three perspectives on political economy: liberalism, Marxism and mercantilism. The main actors in mercantilism, according to Gilpin, are nation-states, as opposed to economic classes in a Marxist perspective or firms and households in a liberal perspective. The major point, however, in relation to this work and energy politics, is what determines and guides policy. In a liberal perspective, economics should determine politics. In a Marxist perspective, economics does determine politics. With a mercantilist viewpoint, however, political concerns determine economics. Resources are mobilized not on the grounds of rational economic action, but on the grounds of maximizing the national interest.<sup>12</sup>

In our case studies, we will see that Russia often sells gas below market prices, forgives debts or undertakes expensive, economically irrational projects to further their political interests. Pursuing empire, as the cases show, is not motivated by goals of harmonious, lucrative economic relations. Nor is empire motivated by a desire to promulgate some sort of ideology or set of values. Empire, to Russian interests, entails marshaling economic resources to achieve political goals. These political goals are to create an atmosphere in the near abroad that is receptive and responsive to Russian interests and concerns. The near abroad, Russia believes, should be a malleable venue for Russian influence.

Similarly, this definition it can help us to understand what tactics and operational aspects are being used. If Gilpin's description of mercantilism is applied to Russia, we

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<sup>12</sup> Gilpin, Robert, *US Power and the Multinational Corporation*, HarperCollins, 1975. In particular, these ideas are drawn from the chapter *The Relation of Politics and Economics*.

see that economic outcomes are not essential to Russia in their pursuit of empire. Instead political outcomes are of the utmost importance. In addition, it isn't specific political outcomes that interest Russia, but more maintaining influence over these political outcomes. Energy, therefore, is not meant to promote harmonious or profitable economic relations or energy security to region; it is meant to propagate Russian influence.

Some, as described below, write that Russia wants to keep a role as a guarantor of stability. It is more important to Russia, however, to influence events than to consolidate stability. Russian tactics, therefore, are intended to increase influence, not necessarily short-term stability. Aims such as satisfying domestic desire to see Russian hegemony in the near abroad and stabilizing the region do not explain Russia's often economically unprofitable tactics, since economic stability and raising a standard of living would presumably best achieve these goals. The mercantilist approach, however, highlights the reasoning behind seemingly counterproductive and economically foolhardy ventures; they are an effort to garner influence at any cost. As we will see, there are different ways that Russia goes about achieving these aims.

Two main identifiable trends in the literature on Russian foreign policy and its pursuit of influence in the near abroad emerge. The first trend, fairly obvious given the debate's focus on the 'near abroad', is the continued importance of geopolitics. The second trend, more complex, is the interplay of domestic attitudes, policy shortcomings and resulting expansionism. Gail Lapidus perhaps words it most concisely as Russia being 'between assertiveness and insecurity.'<sup>13</sup> The two trends are of course connected.

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<sup>13</sup> *Between Assertiveness and Insecurity: Russian Elite Attitudes and the Russia-Georgia Crisis*, Lapidus, Gail, *Post-Soviet Affairs*, vol. 23, no. 2, April-June 2007, 138-155

Their separation does not intend to divorce them but rather recognize that they consist of different ideas.

*Explaining Empire in the Post-Soviet Space: Studies Addressing Empire But Not Energy*

*Geopolitical Motivations and Explanations*

The first trend to be noted is the emphasis on geopolitics, the idea that geography should determine a country's alliances, orientation and behavior. The geopolitical school assumes regional stability is an aim of Russian foreign policy; the case studies that follow, however, indicate otherwise. Russian use of energy as leverage shows that stability is not always a primary goal, therefore we cannot expect the stable outcomes that geopolitical theorists anticipate.

Many scholars insist Russia renewed the importance of geopolitics, and is being assertive in the near abroad once again. In fact Russia has never stopped pursuing geopolitical aims; they have simply become more powerful and more successful at it. According to the field in general, once Russia became developed in the post-Cold War world, geopolitics were fated to disappear. It was believed that developed countries do not pursue geopolitical aims, but rather economic ones that depend on practical, not spatial considerations. As Bobo Lo writes, this is not the case in Russian foreign policy, as geopolitics still takes center stage though it should be an 'anachronism'.<sup>14</sup> A country

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<sup>14</sup> Lo, Bobo, *Russian Foreign Policy in the Post-Soviet Era*, Palgrave Macmillan, New York, 2002 (98)

with Russia's wealth, he believes, should not be pursuing foreign policy according to geographic considerations but according to economic concerns in an increasingly globalized world. Accordingly, countries like Ukraine and Georgia, recently glancing westward for support, worry Russia, stuck in a geopolitical mindset. They do not want NATO allies on their borders, even if NATO does little to disrupt the regional economic order. Russia uses resources to prevent this, even if such actions are discordant with economic aims. Here the debate seems to effectively note aspects of the mercantilist approach.

The calculations of geopolitics have not shifted in the slightest, argues Janusz Bugajski. Russia withdrew from the rest of the former Soviet Union not because of an ideological shift, he writes, but because the 'burden of empire had become too onerous.'<sup>15</sup> Only financial difficulty caused Russia to pull out of the former Soviet republics, Bugajski argues, though his account is one of the more extreme of Russian imperial aims. If Bugajski's account is valid, however, then a recovering economy will lead to Russia's resurgence and increased activity in the near abroad. The energy revenues of 2003-2008 certainly provide that boost, and consequently Russia is more active towards Ukraine and Georgia. Bugajski's account, however, would lead readers to believe that Russian foreign policy scaled back its imperial ambitions in the 1990s when harsh inflation plagued the country. As the reader will see below, however, Russia still pursued imperial policies in the 1990s, contrary to what Bugajski may suggest. Even in the 1990s, politics remained more important than economics.

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<sup>15</sup> Bugajski, Janusz, *Cold Peace*, Praeger Publishers, Westport, 2004(5)

Russia is also viewed as a regional ‘guarantor of stability’ filling what it sees as a power vacuum in the near abroad. If Russia does not fill the void, Russians believe, some other power will.<sup>16</sup> Even Russian official documents do not shy away from emphasizing geopolitics, though they avoid the word itself. Igor Ivanov, the Russian Minister of Foreign Affairs from 1998-2004, repeatedly stressed a negative view of NATO’s geographic expansion, a heavily geopolitical concern for Russia as its neighbors consider NATO membership.<sup>17</sup> Ivanov also characterizes Russian priorities as “keeping the internal borders porous by focusing on the external security of the CIS borders,” or viewing the region as one geopolitical block.<sup>18</sup> The CIS, which Deyermond later posits as a means of replicating Soviet models of sovereignty,<sup>19</sup> can only be effective if the larger, more powerful newly-independent states take an active role in promoting it as a vital regional organization. Ukraine is one of these especially prominent states in the post-Soviet space, leading Russia to urge their participation in the CIS, as we will see in the Ukraine case.

Dmitri Trenin argues that the driving issue in Russian foreign policy in the near abroad is borders. There is a Russian obsession with borders that seems to supersede all else.<sup>20</sup> Trenin writes that Russia’s intrigue with border issues stems from age-old insecurities, which links to the second trend in the conversation on Russia’s pursuit of great power status in the near abroad. Russia dabbles in exacerbating Georgia’s own

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<sup>16</sup> *Russia and Its Western Neighbors in the ‘Near Abroad’*, Kanet, Roger and Kozhemiakin, Alexander, printed in *The Foreign Policy of the Russian Federation*, ed. Kanet and Kozhemiakin, St. Martin’s Press, New York, 1997 (31)

<sup>17</sup> Ivanov, Igor, *The New Russian Diplomacy*, The Brookings Institution, Washington, 2002 (178)

<sup>18</sup> *Ibid* (82)

<sup>19</sup> Deyermond, Ruth, *Security and Sovereignty in the Former Soviet Union*, Lynne Rienner, Boulder, 2008

<sup>20</sup> Trenin, Dmitri, *The End of Eurasia*, The Carnegie Endowment for International Peace, Washington, 2002



border problems with Abkhazia, Adjara and South Ossetia, and Ukraine's with their dispute over the Crimea. Russia's interest in their own borders perhaps leads the Kremlin to believe that toying with the stability of their neighbor's borders is an effective weapon.

These lines of argument, however, fail to explain the different outcomes of Georgia and Ukraine. Under the geopolitical argument, Russia should want stability in both countries, and therefore work to preserve the integrity of Georgia's borders and the consolidation of power of Ukraine's leadership. Rather, Russia disturbs Georgia's borders and drills fissures into Ukraine's political scene. Moreover, Bugajski's geopolitical account has readers believe that Russia would stop pursuing aims of empire during hard times, which did not occur; Russia was simply less effective at pursuing these aims.

Furthermore, if Russia were punishing countries for their aspirations to join NATO, why has the punishment been so much harsher on Georgia? Were Russia trying to entice countries like Ukraine and Georgia into joining organizations like the CIS and catering to Russian interests, one would think they would offer discount energy prices to all their neighbors, instead of employing different strategies. This argument does not explain the different considerations Russia makes when calculating policy, namely, the different energy linkages each country has with Western Europe. The line of argument does not explain variations across countries nor does it explain differing patterns of leverage. If this fails to explain variation, what can?

*Russian Insecurity, Nationalism and Domestic Politics as Motivation*

The second trend picked up in the discussion on Russian foreign policy is Russian expansionism in response to failures at home and nationalist sentiment. Russian foreign policy, according to these theorists, measures domestic attitudes and makes bellicose moves partly as a response to these attitudes. This explanation of Russian foreign policy, however, similarly mishandles issues of variation. Variation is measured across time, but not across space. Examinations of energy leverage show little variation across time, whereas methods vary from place to place. Similarly, variations are explained partly on account of Russian leaders, such as Putin, and not the foreign leaders such as Saakashvili or Yushenko. Moreover, this line of argument focuses on politician's statements without regarding outcomes. Listening to these statements is important, but only when coupled with an examination of actual policy and practice.

The domestic sphere plays a significant role, writes Roger E. Kanet and William E. Ferry. The dire economic conditions of the 1990's, they believe, stoked the nationalism that many see as the motor of Russian foreign policy today.<sup>21</sup> Bobo Lo seconds this opinion, writing that people living in the post-Soviet world want 'stability in at least one sphere of life', and don't see why Russia cannot preserve 'the good parts of the *ancien regime*,' meaning enjoying regional hegemony and influence.<sup>22</sup>

To some in the field this is a reflection of the weakness of the Russian state, though that's usually dependent on the time of their writing. Beissinger, discussing

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<sup>21</sup> *Towards the Future: Emerging Trends in Russian Foreign Policy*, Kanet, Roger and Ferry, William

<sup>22</sup> Lo, Bobo, 2002 (4)

Russia's approach to Chechnya, writes that the attitude of 'if we let Chechnya go, the whole federation will come tumbling down' reflects the 'softness' of the Russian state.<sup>23</sup> Lo characterizes this as the 'Potemkinization' of Russian foreign policy; extravagant foreign policy concepts and statements function to create an illusion of Russia as a great power.<sup>24</sup> Lapidus discusses this aspect within the context of Putin's reign. She writes that Russian assertiveness with countries like Georgia is really just a response to insecurity over globalization, openness and the color revolutions.<sup>25</sup>

The problem with this approach is that Russia is indeed a legitimate power; whether or not Russia was powerful in the 1990s is debatable, but if that power ever waned, it is back. It becomes difficult, therefore, to argue that Russia is insecure. Tsygankov, however, gives a thoughtful response to this quandary. He writes a combination of local conditions and the behavior of Europe and the West leads to Russia's foreign policy. Initial democratization combined with Western support led to attempts at integration. When economic conditions turned sour and NATO began expanding, Russia began 'Great Power Balancing', projecting itself as a great power while playing other powers off each other. Renewed support from the West, combined with economic recovery and local security threats led to Russia's current state, which Tsygankov describes as 'Great Power Pragmatism'.<sup>26</sup>

This line of argument seems to overemphasize variation of Russian foreign policy over time. As we will see in the following case studies, drastic shifts in Russian foreign policy are rare and do not necessarily coincide with the arrival of Vladimir Putin; rather

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<sup>23</sup> Beissinger, 1995 (178)

<sup>24</sup> Lo, 2002

<sup>25</sup> Lapidus, 2007 (139)

<sup>26</sup> Tsygankov, Andrei, *Russian Foreign Policy: Change and Continuity in National Identity*, Rowman and Littlefield Publishers, Lanham, 2006 (20)

they seem more in line with the arrivals of Mikhail Saakashvili and Viktor Yuschenko. This line of argument also fails to address variation across seemingly similar countries. Russian policy does vary over time, but it also varies across space.

In sum, the literature goes to great lengths to discuss the motivations and philosophies behind Russian foreign policy. We are presented with two main schools explaining Russian foreign policy and a pursuit of empire: one which poses geopolitical stability and ensuring a positive space for Russian interests in the near abroad, and a second which derives Russia's domestic instability and insecurity as the root of foreign policy.

A much smaller literature, however, is a discussion of how Russia executes a particular course. The above authors focus mainly on the question of why Russian foreign policy is what it is, but few focus on how this is carried out and to what degree the Russian foreign policy is effective in achieving its goals. With the exception of Bugajski and Deyermond, the theorizing surrounding Russian pursuit of empire in its foreign policy stops short of answering two questions: how does Russia conduct its foreign policy? What effects does Russian foreign policy have on recipient states?

Many of the scholars noted above, while thorough in their methodological rigor, base their arguments off 'Foreign Policy Concepts'<sup>27</sup> and public statements of government officials. These are important to note and follow closely, but they often do not reflect Russian foreign policy in practice. Russian officials are often just posturing and offering public relations chatter; it is far more indicative to look at a single aspect of Russian policy and how it has developed over time. This way an analysis of Russian

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<sup>27</sup> *The Foreign Policy Concept of the Russian Federation*, printed in Ivanov, 2002

policy in action, not just in theory, can be developed. The work on Russian foreign policy is drastically lacking in this respect. Very few scholars reflect on how policy is carried out, a striking and essential part of connecting politicians statements with actual outcomes. If scholars cannot connect statements with outcomes by examining actual actions and methods of carrying out policy, then politician's words provide little guidance to understanding policy impacts.

The following work will closely follow an operational aspect of Russian foreign policy: use of energy as leverage in the near abroad. I will argue that not only is the use of energy as leverage important, but how that energy is used is equally important. Different strategies of energy leverage may not be the main causes of different outcomes, but they contribute to different outcomes. The factors leading to these outcomes will be examined by careful study of a tangible strategy of carrying out foreign policy. The specific cases this work examines are Georgia and Ukraine.

### *Explaining Energy in the Post-Soviet Space*

All of these modes of explanation attribute some of Russia's successes and failures in accomplishing foreign policy goals to its use of energy. It is a rather inescapable fact given the sharp rise in energy prices between 2003 and July 2008 and the economic boom that coincided. Most of these scholars, however, simply note the importance of energy as a side factor, a tool in Russia's arsenal of exerting influence and leverage on neighboring countries. The debate has ignored Russian energy as something to be examined in its own right. Oil and gas are the primary levers of Russian diplomacy

and are capable of stirring up enormous controversy and results (both positive and negative) each time they are utilized. Major energy supply cuts and interruptions receive enormous media coverage.

Yet, little detailed study of Russia's energy maneuverings with neighbors have actually been conducted. It is beneficial, therefore to take a much closer look at Russian energy policies, which can lead to supply cuts that shake Europe or threats of gas shortages that raise hairs in the Caucasus. A closer look at energy interactions between Russia and its neighbors reveals that these events are culminations of ongoing wrangling and merely symbolic of greater processes and conflicts at work. Dramatic supply cuts do not happen all of the sudden; rather they are predictable ends.

Goldman's *Petrostate*, for example, calls Russia an 'energy superpower.'<sup>28</sup> Focusing more on the synergy between the Kremlin and Gazprom, he addresses Russia's use of energy as leverage in its foreign policy. However, he only discusses the tactic of cutoffs. More importantly, Goldman discusses Russia's use of energy in foreign policy uniformly. He poses Russian strategy as a general one without cross-country variation. Goldman lays out different events in the energy sphere but doesn't theorize as to the differences and variations in outcomes and tactics. Different outcomes across the post-Soviet space go largely unaddressed.

Janusz Bugajski, on the other hand, is very thorough in his discussion of different uses of energy as leverage and different strategies. Not only does he mention energy cutoffs, he explores other strategies,

'The energy industry became awash in cash during the last decade and could use these resources to purchase infrastructure and other assets. The easiest targets for Russian

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<sup>28</sup> Goldman, Marshall, *Petrostate*, Oxford University Press, Oxford/New York, 2008

investors are ‘debt-ridden, badly-run companies in poor, politically weak countries.’<sup>29</sup> Once Russian energy giants gain a foothold in a country they endeavor to increase their share of ownership in local companies either directly or working through nominally independent subsidiaries.’<sup>30</sup>

Bugajski pays ample attention to this oft-ignored Russian use of energy leverage qualitatively. Bugajski, however, similarly discusses the Russian strategy in the near abroad as a uniform one across space. He only assesses variation within strategy by recognizing four targeted subzones: the Baltic region, Central Europe, Southeastern Europe and the European CIS.<sup>31</sup> Moreover, he excludes Georgia and the Caucasus entirely. Like other scholars, Bugajski, even when dealing with energy, continue to group the CIS together, though there are large discrepancies between them in their relationships with Russia.

#### *The Cases: Why Ukraine and Georgia?*

I chose Ukraine and Georgia as my cases for several reasons: 1. Both are former Soviet republics. 2. Both are subject to Russian pressures. 3. Both experienced democratic, political revolutions in last several years. 4. Both are increasingly open to new influence from the United States and Western Europe. Why, then, are their outcomes so different? Georgia has reformed economically and politically fairly effectively, but was invaded by Russia in August 2008. Ukraine has failed to effectively reform even after the Orange Revolution, but is not subject to the threat of violent intervention from Russia.

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<sup>29</sup> “Comrade Capitalist,” *The Economist* (London), 2/15/01

<sup>30</sup> Bugajski, 2004 (37)

<sup>31</sup> *Ibid* (29)

### *The Argument*

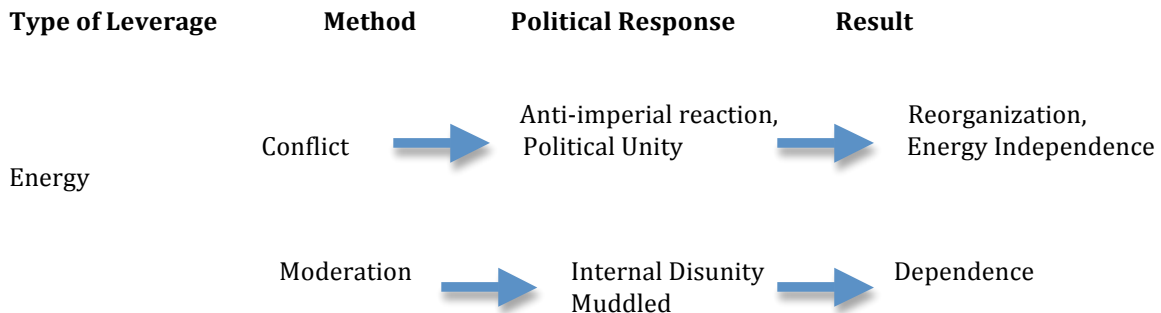
By engaging in more conflict-ridden, animosity-filled relations with Georgia, Russian energy leverage was eventually cut-off, forcing Russia to resort to other measures of coaxing desired outcomes from Georgian policymakers. Conflict-ridden relations led Georgia to purge Russian interests from their economy and reorient their energy dependence away from Russia. This removed a large impediment to violent conflict, since Russia no longer had its most effective tool of leverage at its disposal and forced the Russians to employ other methods of coercion. Clearing these hurdles helped pave the way for the Russian invasion of Georgia in August 2008.

Energy leverage towards Ukraine, however, is more diffuse, contributing to less openly discordant relations between Russia and Ukraine and greater political infighting. Russian capital continues to play a meaningful role in Ukrainian politics. Russia's moderate approach keeps their countries economic and energy interests intertwined. Furthermore, Russian uses of energy as leverage against Ukraine affect Europe. Violent conflict, therefore, isn't a likely scenario between Ukraine and Russia. The Kremlin, however, through its capital and energy interests, continues to stoke bickering and political infighting between Ukrainian politicians, thus stalling reform and the embrace of NATO in a subtler and probably more effective manner. The relationships of Ukraine and Georgia with Russia are further clarified by the following diagram (Figure 2.1). When using energy as leverage, Russia has two different routes. One is moderation and the other is conflict. Conflict leads to reorganization of energy policy and end of dependence



as an anti-imperial reaction, whereas moderation leads to internal political divisions and a muddled response to Russia's exertions of empire. The first route leads to energy independence, whereas the second leads to continued energy dependence:

Figure 2.1



What sets the two countries apart? Why does Russia employ different energy strategies with Georgia and Ukraine? How do these strategies contribute to our understanding of Russia's ability to achieve imperial ambitions? Two factors dictate different approaches from the Russian side. The first issue is one of demography and cultural relations. Ukraine's Eastern half has many ethnic Russians and continues to support moves towards re-integrating with Russia, whereas Georgia does not remotely approach Ukraine's level of pro-Russian sentiment. The second factor separating the two countries is one of transit revenues. The bulk of Russian gas and oil sold to Western Europe goes through Ukrainian pipelines. This creates an enormous linkage between Ukraine and Europe; major maneuvers against Ukraine can be seen as strikes against Europe, as evidenced by January's gas dispute between Ukraine and Russia.

Levitsky and Way argue that reform and democratization depends on two factors: firstly, the more linkages a country has with the West, the greater the likelihood there will

be reform. Second, the more leverage a post-Soviet country has over Western countries, the less likely it is to cede to Western pressures and democratize. In their article “Linkage, Leverage, and the Post-Communist Divide”, Lucan Way and Steven Levitsky argue that these two factors, more than any, determine outcomes.<sup>32</sup> My work argues that indeed, linkage and leverage are very important, but not quite in the same manner as Levitsky and Way depict. Rather, linkage and leverage work in the opposite fashion in the cases of Ukraine and Georgia, where fewer linkages with the West and less leverage over Russia make a country more likely to reform. Greater linkages with the West and more leverage over Russia make a country less likely to reform.

In their treatment of linkage, Levitsky and Way identify six types of linkages that nations have with each other: economic, intergovernmental, social, information, civil society and geographic linkages. Linkages can be trade, educational exchanges, cultural interaction or just the give-and-take that proximity engenders. Whatever they are, the authors determine that more linkages between a country and the West breed a more successful consolidation of democracy.<sup>33</sup>

The other factor Levitsky and Way see as determining outcomes is leverage with Western nations. The greater the leverage the post-Soviet country has over the west, the less likely they are to enact democratic reforms and consolidate democracy since the west will be unable or unwilling to apply pressure. The less leverage the country has over the west, the less likely authoritarianism is to persist, since they will be more susceptible to

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<sup>32</sup> Levitsky and Way do not use the term ‘leverage’ in the same way I’ve been using it throughout this work. Levitsky and Way are referring to leverage in regards to newly-independent post-Soviet state’s ability to resist Western influence on account of resource wealth or geographic positioning that leaves them less exposed to Western pressures. I am using leverage to discuss Russian influence and ability to exert that influence.

<sup>33</sup> Way, Lucan and Levitsky, Steven, *Linkage, Leverage, and the Post-Communist Divide*, Eastern European Politics and Societies, 2007, 21, 48-67

western pressures. These two factors, the authors argue, account for the democracies of East Central Europe and Southeastern Europe as opposed to the fifteen former Soviet republics that continue to lean towards autocracy and Russian authority. Ukraine, however, is singled out as the sole exception among post-Soviet republics as a successful democracy, though it seems premature given the fragility of Ukrainian democracy.

Levitsky and Way's argument should be inverted if we are to apply it to energy relations in the Russian near abroad. On account of Ukraine's linkages with Western Europe and resulting leverage over Russia, Russia uses a much more moderate approach. This approach, in the long run, leads to Ukrainian reform being stalled and parliamentary infighting. Georgia, on the other hand, lacks linkages with the West and lacks leverage over Russia. Georgia only transfers energy to Armenia, and not European countries. Therefore, Georgia has less leverage over Russia as an energy transporter, and lacks the same linkages that Ukraine has. Yet Georgia emerged as a successful reformer, whereas Ukraine stalled. Linkage and leverage matter, but in the opposite way Levitsky and Way illustrate. This work argues that the effects of linkage and leverage vary across issue areas and even across specific resources.

In the case of energy, fewer linkages and less leverage allowed Russia to employ a more belligerent approach, which in turn forced Georgia to realign their energy interests and take steps to end dependence. Ukraine, however, has linkages with the West and consequently leverage over Russia. This led to Ukraine continually bargaining with Russia and a more moderate approach from Russia, leading to little action in Ukraine to wean Ukrainians off Russian dependence.

Levitsky and Way's argument, moreover, does not explain the variations within the post-Soviet republics. If Ukraine is a successful outcome (which is still in question, though it is performing better than the rest of the FSU), then it is not on account of linkage and leverage. Ukraine seems to have significantly fewer linkages than the democracies of Eastern and Central Europe. In addition, Ukraine possesses greater leverage over the west in terms of gas transit routes, which was put on display for a good part of January 2009. Nor is Georgia's situation explained by this argument. Georgia's civil society and democracy has made leaps and bounds since Saakashvili took office. Western leverage over Georgia does exist in the form of the benefits of NATO membership, but that leverage was shown to be a flaccid one during the August 2008 war. Russian leverage is far greater as Georgia's once dominant energy supplier; the western-backed Baku-Ceyhan pipeline that passes through Tbilisi is, if anything, leverage for Georgia over the west rather than vice-versa. There are information and economic linkages increasing between Georgia and the west, but one would be hard-pressed to pin Georgia's move towards the west solely on these.

As I argued above, studies on empire and energy need to take points of variation across issues, across resources, and across states more seriously. Hence the linkages relationship sometimes works in exact opposition to Levitsky and Way's model, particularly in the framework of energy leverage in Georgia and Ukraine.

The cases to follow will show how important this variation is and why it must be considered. Russia's different strategies of energy as leverage are not the sole reasons for different outcomes in Ukraine and Georgia. Indeed, their outcomes are a composite of many factors. Yet energy cannot be avoided. Russia took two different approaches to the

two countries: towards Ukraine, Russia uses a strategy of moderation. Towards Georgia, Russia uses a belligerent strategy of escalation. Accordingly, the results and success of Russian policy were varied. With Ukraine, Russia has successfully used leverage and continues to be irreversibly intertwined with Ukrainian interests and can therefore continue to exert influence. With Georgia, Russia lost leverage and was forced to resort to other measures of leverage to steer Georgian politics, like military force. These differences are not trifles; people in the post-Soviet space live and die by them.

## The Georgian Case

On August 7<sup>th</sup>, 2008, in response to shelling from secessionist fighters, Georgian military forces attacked civilian areas in Tskinali, the capital of South Ossetia, a breakaway province of northern Georgia bordering Russia. Mikhail Saakashvili, Georgia's president, never hid his desire to reintegrate Georgia's breakaway provinces: the Georgian military had already made attempts to regain control of South Ossetia, most recently in 2004, but were repelled by South Ossetian fighters. Georgia also successfully incorporated the breakaway province of Ajaria in May 2004.<sup>34</sup> This time however, after a handful of Russian peacekeeping troops were killed in the retaliatory assaults on South Ossetia, Russia launched its own offensive on August 8<sup>th</sup>, invading northern Georgia. With air support and artillery, Russia pummeled Georgian military positions and drove the Georgian military back swiftly. Five days and enormous amounts of international condemnation later, hostilities quieted down.<sup>35</sup>

What changed? Why did Russia resort to use of force in 2008, when they had used energy and economic leverage in the past? There were many reasons for the Russian invasion of Georgia, but why had it not happened earlier? Fighting between Georgia and the breakaway provinces of Abkhazia and South Ossetia was a fairly regular occurrence, but the August fighting led to a Russian invasion. Russian soldiers died, but the Russian military appeared already prepared to invade

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<sup>34</sup> *Georgian Premier Crosses into Ajaria for Talks*, RIA News Agency, 5/5/04 reported in BBC Worldwide Monitoring

<sup>35</sup><sup>35</sup> King, Charles, *The Five-Day War*, Foreign Affairs, November/December 2008, Vol. 87 No. 6

regardless of those soldiers deaths—tensions and the possibility of war were increasingly apparent after an unmanned Georgian spy plane was shot down by a Russian fighter in April and two more unmanned Georgian planes were shot down by Abkhaz fighters on May 4<sup>th</sup>,<sup>36</sup> but rhetoric pointed towards the possibility of violence and the use of force after far earlier, after four Russian officers were arrested in September 2006 on charges of spying.<sup>37</sup>

This chapter shows that part of the explanation hearkens back to early 2006. It demonstrates that after explosions on two gas lines and a vital electricity cable in southern Russia supplying Georgia, the government in Tbilisi set to work making extensive moves away from their previous reliance on Russian energy. Georgia drastically increased imports from Azerbaijan and began importing more Iranian energy. These moves eroded Russia's ability to use energy as leverage in their disputes with Georgia. This leverage resulted in extensive Russian interests within the Georgian energy sphere that were subsequently cast out after the pipeline sabotage<sup>38</sup> of 2006. Russia's control over Georgian energy was not only a source of leverage, but also an impediment to Russian use of force. After Georgia's drastic shift, Russia was forced to depend on other types of leverage, from economic blockade to eventual military force.

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<sup>36</sup> *Georgia/Russia:US, EU Urge Restraint Amid Abkhazia Tension*, RFE/RL, 5/5/08

<sup>37</sup> *Furious Moscow Orders 'Shoot to Kill' as Georgia Crisis Escalates*, Manville, Michael, *The Guardian*, 10/2/06, 17

<sup>38</sup> Whether or not Russia directly or indirectly sabotaged the gas and power lines leading in to Georgia is still in question and probably will never be resolved. The timing and geography of the incident, however, are extremely suspicious, especially considering the infrequency of pipeline explosions, even in Russia's volatile southern republics. As shown later in the chapter, the timing of the explosions suggest that Russian actors were attempting to cow Georgia following their courting of NATO and a price and debt dispute only two weeks earlier in January 2006.

Russia's use of energy as an instrument of leverage toward Georgia has differed from their use of leverage toward other countries in the near abroad. Russian and Georgian energy spats are characterized by crests and troughs. The number of incidents of leverage escalates leading up to key political events, such as the Rose Revolution, Georgian negotiations with Chechen leaders, and the finalizing of the Baku-Ceyhan pipeline. Following these confrontations are lulls in conflict in which Russia uses the leverage gained. The Georgian case is one of escalation, as opposed to Ukraine or some of the Central Asian countries, where use of energy leverage remains moderate and consistent throughout the last seventeen years, minimizing Russia's reliance on military force as a means of leverage.

The differences between leverage toward Georgia and leverage toward Ukraine are a result of differences between the countries themselves. There are structural differences and also geographic differences. The structural factors separating the two are different economic structures and different resource bases. Ukraine still relies on heavy industry and steel production while doing little to court investment. Georgia, however, sustains itself with tourism, citrus fruits and wine. A burgeoning service sector and liberal reform have spurred growth. The World Bank actually named Georgia the top reformer in 2006, helping it court investment.<sup>39</sup> In 2007, foreign direct investment accounted for 51% of Georgian GDP as opposed to 27% in Ukraine.<sup>40</sup>

Equally important are different geopolitical situations. Both Georgia and Ukraine lack ocean coastline but have access to the Black Sea, but Georgia's

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<sup>39</sup> *Doing Business*, The World Bank, 2006

<sup>40</sup> UNCTAD, World Investment Report 2008



neighbors, Azerbaijan and Turkey, are on the Caspian and Mediterranean Seas, respectively. Georgia, like Ukraine, has a large stretch of coastline on the Black Sea. Ukraine, however, borders European countries and is located amidst some of Russia's most important energy export routes.

Since the violent overthrow of Zviad Gamsakhurdia in early 1992, Georgia has been led by two men. These two have taken very different tacks towards Russia's use of energy. Eduard Shevardnadze, the former foreign minister of the Soviet Union, followed a route of accommodation, allowing Russian companies to buy into Georgia's energy interests while carefully and slowly cultivating alternatives. Mikhail Saakashvili, with alternatives to Russian gas and electricity already eroding Russia's advantages, responded aggressively to Russia's tactics, eliminating reliance through conflict-ridden relations. During both the Shevardnadze and the Saakashvili periods, however, Russia employed the escalation approach. Periods of calm were followed by periods of conflict with both leaders. Over the remainder of this chapter, I will track Russia's use of leverage in four distinct phases.

Uses of energy leverage in interactions between Russia and Georgia are not uniform and do not progress at a constant or geometric rate--at least three turning points mark significant changes in behavior of both countries. These changes would have immense repercussions for Georgia's development and Russia's tactics. The first period, from the beginning of independence until the winter of 2001/2002, is characterized by Georgia courting both Russia and the West. Small spats over debts, Georgian treatment of the separatist regions of Abkhazia and South, participation in

the CIS and relations with Chechen rebels led to occasional gas cutoffs and Russian attempts to buy into Georgian industries. Shevardnadze usually acceded to Moscow's demands, letting Russia acquire small chunks of Georgian energy companies and industrial facilities, but quietly courted Western alternatives simultaneously (in particular the construction of the Baku-Tbilisi-Ceyhan pipeline.

The second period, from the winter 2001/2002 until the 'Rose Revolution' of November 2003, saw Shevardnadze accede to most Russian demands and offer little resistance as Gazprom and United Energy Systems (Russia's national electricity company) bought vital stakes in Georgian companies--Shevardnadze then blamed selling Georgian assets for a song on David Mirtskhulava, the Energy Minister. Pressure from Shevardnadze's parliamentary faction forced Mirtskhulava to resign for allowing UES a large stake in Georgia<sup>41</sup> (even though Mirtskhulava refused Russia important gas pipeline rights that Shevardnadze wasn't as keen on protecting).<sup>42</sup> Russia's cutoffs were sparser, as construction on BTC began--tactics shifted towards controlling Georgian companies with third-party trading companies like Itera and Sakgazi<sup>43</sup>

Following a lull in activity after Saakashvili assumed the Presidency (perhaps in the hope that he would be accommodating to Russian interests if Russia assisted with the Georgian energy crisis instead of perpetuate it), the third and most dramatic turning point occurred in January 2006. Amidst tougher talk from Russia during the autumn, a gas pipeline to Georgia exploded right after the New Year

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<sup>41</sup> Rustavi-2 TV, 8/13/03 reported in BBC Worldwide Monitoring

<sup>42</sup> *Gazprom Not to Privatize Georgian Gas Trunk Pipeline*, Mekhulza, Eka, TASS, 10/31/03

<sup>43</sup> Gas Supply Cut in Major Cities due to Outstanding Bills, Georgian TV, 6/27/02 reported in BBC Worldwide Monitoring

(which is when gas cutoffs normally occur). Georgian officials immediately accused Russia of sabotage, which Russia dismissed as 'hysteria'.<sup>44</sup> No one was arrested or directly implicated in the incident, but it appeared Russia sabotaged the pipeline to emphasize to Tbilisi how badly they needed Russia. Georgia rushed to raise awareness and outrage among Western countries that were growing more attuned to Russia's use of energy. Georgia arranged more gas imports from Azerbaijan and Iran.<sup>45</sup> Whether or not Russian officials were behind the explosion, the global perception implicated them. Assuming this perception is near the truth, Russia egregiously overplayed their hand. Instead of making Georgia realize their reliance on Russia and shift accordingly, they forced Georgia to diversify supplies--Russia's energy leverage was thereby squandered.

Over the next two and a half years, Russia resorted to bans on imports of Georgian wine and fruits as leverage.<sup>46</sup> Without energy as an option to pressure Georgia, Russia resorted to other tactics culminating in the Russian invasion of Georgia in August 2008. Whereas Georgian incursions and violence in South Ossetia and Abkhazia resulted in Russia punishing Georgia via energy prior to 2006, that leverage no longer existed--it's likely that had Russia retained their use of energy as leverage, the August 2008 war might not have occurred. Russia used their energy leverage over Georgia aggressively in prior instances. This made it clear to Tbilisi that diversifying energy supplies was the only way to counter this weapon that

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<sup>44</sup> Prosecutors Call Blasts on Russian Pipelines Sabotage, Ingram, Judith, AP, 1/22/06

<sup>45</sup> Georgia Signs Deal with Iran to Buy Natural Gas, Chivers, C.J., The New York Times, p. 6, 1/28/06

<sup>46</sup> Georgian President Accuses Russia of Waging Economic Blockade with Wine Ban, AP Worldstream, 4/3/06

Russia coarsely used again and again. When Georgia did respond, the Russians were without their most effective instrument of soft power and thus had to find others.

*Russia's Instrument of Leverage: Third-Party Trading Companies*

One of Russia's primary tools for manipulating the energy situation are third-party trading companies, registered as private entities outside of Russia but serving the interests of Gazprom and the Russian government. These companies create debt for Georgian enterprises and force them to privatize companies siphoning off assets and paving the way for Russian interests to take control. Trading companies are also an instrument for corrupting foreign officials without directly implicating the Russian government.

Third party trading companies such as Itera and EuralTransGas play an extremely important role. Registered outside of Russia in places like Turkmenistan, Hungary, or in Itera's case, Jacksonville, Florida, these companies do not purport to represent Russian interests when they accumulate debt and shut off gas. It is clear, however, that they act as subsidiaries of Gazprom and represent Russian interests. Itera, owned by Igor Makarov, a former Olympic cyclist from Turkmenistan, is the fourth largest gas trader in the world, receiving billions of dollars worth of contracts before the company had significant credibility; born in 1992, Itera's first major transaction was transporting a shipment of sugar to Turlmenistan in 1994. The next year, they were handling transit of Turkmen gas to Ukraine.<sup>47</sup> Itera was initially

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<sup>47</sup> Itera website, accessed 4/6/09

sustained by at least \$300 million in loans from Gazprom, showing that it is really a creation of Gazprom. More recently, a Duma audit investigation revealed Itera owed Gazprom \$477 million,<sup>48</sup> yet Gazprom spoon-fed Itera by selling them Rospan, a Siberian gas firm valued at \$50 million in 1995 for only \$300 in 2001.<sup>49</sup>

Itera fervently attempted to penetrate Georgian politics and serve as a Russian lever. In December 1999, Georgia made a deal to assume responsibility for the debt of multiple private companies that Itera had an interest in, presumably so Itera could take control of these companies in a debt swap. As gas bills mounted for Georgia, one of their stratagems was to hand over ownership stakes in exchange for debt rescheduling or debt cancellation. After Georgia refused to cede Tbilgazi, a Georgian gas distribution company, to Itera, Russia halted gas deliveries. However, Itera did not halt gas deliveries to several strategic industrial enterprises, and the debt of these enterprises piled up. While Georgia vitally needed gas in other places, Itera wouldn't provide it on account of inability to pay. The enterprises they wanted to take over, however, had all the gas (and consequently high bills) they wanted. This coincided with Georgia announcing their willingness to sell off these industrial enterprises to settle debts.<sup>50</sup> Itera, essentially, forced Georgia into selling particularly appetizing enterprises in exchange for their debt.

Itera used a Georgian-registered company, Sakgazi, to gain practical control of companies and pressure Georgia into giving up Tbilgaz—Sakgazi bought gas from Itera and sold it at a 60% profit in Georgia, but would eventually be bought by Itera

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<sup>48</sup> *Audit: Itera-Gazprom Ties Not Illegal*, Raff, Anna, The Moscow Times, 7/11/01

<sup>49</sup> *Itera Paid \$300 for Gazprom Gas Firm*, Raff, Anna, The Moscow Times, 4/3/01

<sup>50</sup> *Russian Gas Exporter Said Colluding with Georgia's Ruling Clan*, Rustavi-2 TV website, 12/12/99, reported in BBC Worldwide

at a bargain price.<sup>51</sup> Itera likely created Sakgazi simply to have a company in Georgia to funnel profits elsewhere. Sakgazi had the aim of co-opting politicians while moving one more step away from implicating Russian authorities. In August 2002 the head of Georgia's tax agency accused Saakashvili, then head of the Tbilisi City Council, of lobbying extensively for Sakgazi while he was Justice Minister.<sup>52</sup> This came just before revelations that Sakgazi took control of six profitable industrial enterprises, which immediately started losing money after the transfer.<sup>53</sup> Essentially, Itera's name was already suspect in Georgia, so they tried to create other small trading companies to funnel money in and out of key enterprises they hoped to control or politician's pockets in the hope of gaining a stronger foothold in Georgia.

The accusations of corruption leveled at Saakashvili, however, may have been misdirection from Shevardnadze, whose dealings with Itera and Sakgazi were far more questionable. Itera purchased Georgia's Azoti chemical engineering plant for only \$500,000 after running up huge debts of over \$100 million—Georgia was planning on refusing to sell Azoti, but did so at the encouragement of US Senator Curt Weldon (R-PA).<sup>54</sup> It should be noted that Weldon took trips to Turkmenistan and New York City paid for by Itera. His daughter, Karen Weldon, started a consulting firm called Solutions, North America. Their first client, Itera, paid her

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<sup>51</sup> *Russian Company Gains 100% of Share in Georgia's Gas Distribution*, Prime News Agency, 9/29/01

<sup>52</sup> *Georgian Audit Chief Accuses Opposition Leader of Graft*, Prime-News Agency, 8/21/02

<sup>53</sup> Rustavi-2 TV, 9/1/02, reported in BBC Worldwide

<sup>54</sup> *Russian Energy Firm Takes Over Georgian Chemical Plant*, Kavkasia-Press News Agency, 12/3/02 reported in BBC Worldwide Monitorng

\$170,000 upfront with promise of annual payments.<sup>55</sup> Presumably Itera felt it was worthwhile to have an American politician lobbying for their cause, and it certainly paid off in the case of the Azoti chemical plant. Senator Weldon masked his efforts as assistance to Georgia against bullying from Itera. He supposedly put ‘pressure’ on Itera to continue gas deliveries,<sup>56</sup> when really he was urging the Georgian government to keep the debt cycle rolling.

According to a Georgian television station, Azoti sold their main product, ammonium nitrate, to Sakgazi for lower than the cost of production. Sakgazi, Itera’s subsidiary but legally a Georgian company, sold the ammonium nitrate in Europe for large profits. In exchange, once Azoti was to be sold off, the buyer would be Magti Energy, an intermediary between Itera and Azoti between 1995 and 2002. Magti’s owner, Gia Jokhtaberidze, is Eduard Shevardnadze’s son-in-law.<sup>57</sup>

In September Itera sought to take control of Tbilgaz, a Georgian gas distributor and the only thing standing in the way of Itera and Sakgazi’s complete control over the Georgian energy market. Shevardnadze criticized those who sought to hinder the creation of a joint venture between Itera and Tbilgaz, and urged a speedy conclusion.<sup>58</sup> Shevardnadze, it seemed, was giving Itera favorable conditions at his country’s expense, perhaps to line his own pockets.

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<sup>55</sup> *Lucrative Deals for a Daughter of Politics*, Silverstein, Ken, Neubauer, Chuck, Copper, Richard, The Los Angeles Times, 2/20/04

<sup>56</sup> *US Senators Demand Uninterrupted Gas Supply in Georgia*, Prime-News Agency, 12/2/02 reported in BBC Worldwide Monitoring

<sup>57</sup> Rustavi-2 TV, 9/1/02, reported in BBC Worldwide Monitoring, 9/2/02

<sup>58</sup> Prime-News Agency, 9/4/02 reported in BBC Worldwide Monitoring

In the middle of December, with their contract expiring at the end of the month, Sakgazi agreed to a two-month extension of their contract with Georgia.<sup>59</sup> In the beginning of January, however, Georgia signed a contract to move Sakgazi out of the picture and get gas for 33% cheaper, backdating the agreement and prices—it's unclear what happened to the difference between the money Georgia paid Sakgazi and the new price agreed on with Itera.<sup>60</sup> Why Georgia agreed to deal with these shady trading companies at all is unclear—they could have refused to do so, but instead Shevardnadze and Saakashvili, among other lawmakers, battled over the rights of Sakgazi, Itera and Tbilgaz in Georgia. What exactly transpired remains somewhat mysterious, but one might hypothesize that Itera and Sakgazi were an instrument of paying off Georgian politicians in exchange for access and controlling stakes in key enterprises without implicating Gazprom directly. Shevardnadze was taking increasing criticism for his involvement with Sakgazi and Itera—the cheaper gas and phasing out of Sakgazi was probably also a way to diffuse some of it.

When gas cutoffs occurred, it was usually Itera officials giving the orders to stop gas as opposed to Gazprom or Russian government officials. The timing, however, of these incidents adds to the conclusion that Itera was not acting as a neutral trading company, but broadly acts in concert with Russian foreign policy interests. The Russian government and Gazprom were vainly hoping to appear aloof and uninvolved from these cutoffs, but it's doubtful they were fooling anybody.

### *Period 1: 1992-2001—Give and Take*

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<sup>59</sup> Rustavi-2 TV, 12/26/02, reported in BBC Monitoring

<sup>60</sup> Georgian Television, 1/13/03, reported in BBC Monitoring



As the Soviet Union crumbled, Georgians found themselves in a dire situation. Suddenly they needed to pay another sovereign country for the gas to heat their homes and cook their food. They needed to pay for the oil in their cars. Their agriculture and fruit industry, though one of the prizes of the USSR, was plagued by typical Soviet mismanagement and inefficiency and suddenly had ballooning energy costs. They no longer had the easy transit links to export their products. Georgia was facing independence and brutal transition in a position of complete vulnerability. People went without heat, shivering in their homes. Schools were closed on a regular basis, unable to generate electricity or heat.

Similarly, their leaders were vulnerable. Gamsakhurdia, the first post-Soviet Georgian leader, was besieged by militias and died with a bullet in his head (though no one is sure who put that bullet there; suspects include Gamsakhurdia himself). It was essential, therefore, for the next Georgian President to secure a little more material wellbeing, lest he meet a similar fate.

When the Soviet Union collapsed, Georgia found itself in a more tenuous energy situation than most other former Soviet republics. Unlike neighbors Azerbaijan or Kazakhstan, Georgia has next to no oil. While Turkmenistan and Uzbekistan have gas, Georgia has none. Ukraine and Belarus have vital pipelines supplying Russian gas to Western Europe, but the pipelines running through Georgia supply only tiny Armenia. Without any sort of leverage over Russia, Georgia needed to tread extremely carefully in their policy so as to keep Russian oil, gas and electricity supplies flowing.

The task of keeping good relations with Russia during the years following the fall of the Soviet Union, however, was extremely difficult. Two Georgian territories that border Russia, South Ossetia and Abkhazia, attempted to secede and fought small wars with Tbilisi in 1992 and 1993, respectively. South Ossetia is also ethnically and linguistically linked with North Ossetia, a republic of Russia, just North of the Russian border with Georgia—Akhsarbek Galazov, the Chairman of the North Ossetian Parliament, continually advocated for Russia’s intervention in South Ossetia.<sup>61</sup> Galazov and the North Ossetian Parliament even took matters into their own hands, shutting off the gas pipeline from North Ossetia to Georgia at the height of the conflict in May 1992.<sup>62</sup> Moscow, while not openly supporting the North Ossetian Parliament’s actions, cut off gas to Azerbaijan that would have been supplied to Georgia as an alternate source.<sup>63</sup>

During the conflict with Abkhazia, it was clear that Russia was using energy as a bargaining chip in dissuading Georgia from continuing the violence. When a delegation of Russian officials visited Georgia in September 1994 to discuss Abkhazia, Shevardnadze made it clear that energy would be a tool in the hands of Russian negotiators. “Senior representatives of Russian economic structures are to visit Georgia later this week,” he said in a radio interview. “So, I think many problems relating to the winter will be solved.”<sup>64</sup> In 1997 Russia cut and restored gas to Georgia in conjunction with Abkhazian peace talks.<sup>65</sup> When tensions flared

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<sup>61</sup> ITAR-TASS, 5/27/92

<sup>62</sup> Interfax, 5/25/92

<sup>63</sup> Ibid.

<sup>64</sup> Interview with Eduard Shevardnadze, Georgian Radio, 9/12/94, reported in BBC Summary, 12/14/94

<sup>65</sup> Interview with Eduard Shevardnadze, Georgian Radio, 11/24/97, reported in BBC Summary

up again briefly in 1998, Shevardnadze announced that Russian energy giant UES would build a power system for Georgia if they reached a settlement with Abkhazia.<sup>66</sup> After South Ossetia and Abkhazia beat back the Georgian army and became ‘frozen conflicts’, energy maneuvering regarding the republics subsided, though plenty of other issues became mediums for energy leverage.

Control of the Black Sea was another issue where Russia used energy to squeeze Georgia into acceding to their interests, although scrapes between Georgian and Russia over the Black Sea are minor compared to disputes between Ukraine and Russia over the partition of the Black Sea naval fleet. The most notable incident on the Black Sea was Boris Yeltsin signing a decree to raise oil prices only a couple days after a Georgian gunboat fired at a Russian hydrofoil carrying both vacationers and refugees.<sup>67</sup> It is difficult to necessarily connect this incident—Russia’s decisions to raise prices in the 1990’s are always tainted and unclear. Russia was, after all, floundering economically and starved for cash.

Persuading Georgia to join the CIS was another end to which Russia made use of energy. While Russian foreign policymakers and their neighbors in the near abroad’s complex views of the CIS are beyond the scope of this work, Russia generally views the CIS as a means to exert Soviet-era control over the general trajectory of its neighboring states. Whether or not this perception is true, it is a widely held one in countries like Georgia, Ukraine, and Moldova, whose legislators opposed inclusion in the CIS for this reason.<sup>68</sup>

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<sup>66</sup> Georgia Ready to Start Talks with Abkhazia, Interfax, 9/28/98

<sup>67</sup> The Financial Post (Toronto, Canada), 9/18/92

<sup>68</sup> Deyermond, Ruth, *Security and Sovereignty in the Former Soviet Union*

Russia and Georgia agreed in late 1993 that once Georgia joined the CIS, Russian power companies would begin supplying Georgia with several million kilowatts of electricity daily.<sup>69</sup> This came on the heels of a scandal that implicated Eduard Shevardnadze catering to Russian energy companies and their thirst to gain stakes in the Georgian power grid. Premier Tengiz Sigua accused Shevardnadze of hiding an IMF offer to grant Georgia a stabilization loan in the hope that without the loan, Georgian legislators would feel too feeble to resist joining the CIS.<sup>70</sup> Georgia joined the CIS on December 3<sup>rd</sup>, 1993, though they announced their withdrawal from the CIS amidst the August 2008 war.<sup>71</sup>

Russia continued to take control of large portions of the Georgian power grid, using Georgian debt, in addition to sending Russian workers to Georgia to modernize energy facilities in exchange for ownership stakes.<sup>72</sup> This would allow Russia greater control over the Georgian power network, allowing them more influence over Georgia to be used with regard to the CIS. Russia cut power to Georgia in 1998 only three days before a CIS summit,<sup>73</sup> and again in 2000 only a couple days before a CIS summit at which visas and relations with Abkhazia were to be major topics.<sup>74</sup>

Another important issue causing Russia to use energy in a conciliatory manner in the first period was the development of the Baku-Tbilisi-Ceyhan (BTC) pipeline. BTC is the first major oil pipeline that skirts Russia, taking oil from

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<sup>69</sup> Georgian Radio, 12/21/93, reported in BBC Summary, 12/23/93

<sup>70</sup> Interview with Eduard Shevardnadze on Georgian Radio, 12/20/93, reported in BBC Summary, 12/22/93

<sup>71</sup> Statement of the Ministry of Foreign Affairs of Georgia on Georgia's withdrawal from CIS, 8/18/08

<sup>72</sup> Iberia News Agency, 9/14/94, reported in BBC Summary, 9/23/94

<sup>73</sup> ITAR-TAS, 4/27/98

<sup>74</sup> Russia to Resume Electricity Supply to Georgia in Next Few Hours, ITAR-TASS, 12/2/00

Azerbaijan and Kazakhstan through Georgia to be shipped from Turkey. Russia took different tacks towards each country involved, as they all had different stakes and geopolitical circumstances. Their manner towards Georgia was both carrot and stick in the hope Georgians would oppose the project, like Russia-aligned Armenia, and therefore destroy all viability of BTC.

When negotiations among the countries involved started in earnest in 1995, Russia cancelled \$150 million worth of Georgian debt.<sup>75</sup> When negotiations did not slow, Prime Minister Chernomyrdin warned Georgia to ‘look for your own oil rather than ship it from other countries.’<sup>76</sup> Chernomyrdin’s harsh words came, however, while he was in Georgia signing an agreement to maintain two of Russia’s military bases in Georgia,<sup>77</sup> only four days after Russia secured Shevardnadze’s approval with a shipment of electricity and aluminum.<sup>78</sup> As the BTC became more inevitable, Itera (for our purposes a subsidiary of Gazprom) cut gas shortly after the signing of a major accord between Georgia, Azerbaijan and Turkey in December 1999<sup>79</sup> and only a day before the signing of another major BTC accord in 2000.<sup>80</sup>

The first period was marked by an unclear strategy of both sides—Russian punishment and placation, with Shevardnadze making both concessions to Russia and overtures to the West simultaneously. Several factors clouded policy early on, such as greater activity by Itera and a merry-go-round of officials and attitudes in

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<sup>75</sup> Russia Agrees to Reschedule Georgian Debt, Iprinda News Agency, 6/16/95, reported in BBC Summary

<sup>76</sup> Visit in ‘Context of Georgia’s Territorial Integrity’, Kobaladze, Georgy, Koretsky, Alexander, Kommersant, 9/16/95, reported in Russian Press Digest

<sup>77</sup> Russian Premier Arrives In Georgia, AFP, 9/15/95

<sup>78</sup> Georgia Restores Energy Transmission Lines, Pachkoria, Tengiz, TASS, 9/11/95

<sup>79</sup> Rustavi-2 TV, 12/12/99 reported in BBC Summary

<sup>80</sup> TASS, 4/24/00

the Russian government contributed to the confusion. Several factors contributed to the shift into the second phase—increasing suspicion of Itera, Putin’s arrival and Shevardnadze’s intriguing move towards assisting Russian energy companies. Whether the last factor is a result of Shevardnadze’s certainty over the construction of an alternative in the BTC or his possible collusion with these energy companies is not entirely clear.

*Second Period: December 2001-November 2003--Accommodation*

Points of contention during this second period were a return of conflict over the Abkhaz statelet and Georgian moves towards NATO membership, a goal Ukraine would later begin to pursue as well. Tactics here were gas cuts in addition to incentivizing Shevardnadze’s cooperation with regard to Abkhazia. Russian companies also spent freely on Georgian infrastructure, investing heavily and acquiring sizable stakes. These issues were at the forefront of Georgian policy debate, leading to the dismissal of David Mirstkulhava, Georgia’s energy minister.

In December 2001, Shevardnadze raised the possibility of Georgia waving its transit rights on gas pipelines in exchange for cut-rate gas.<sup>81</sup> These pipeline rights, which Saakashvili would later defend vociferously, are key to Georgia retaining some measure of control over their energy supply. Their privatization, advocated by Russia and a handful of Georgian officials, would consolidate Russian control over Georgian energy. A month later, Shevardnadze, while not directly connecting the

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<sup>81</sup> Interview with Eduard Shevardnadze, Georgian Radio, 12/17/01

two issues, simultaneously promoted both the establishment of a unified energy zone with Russia (which would make electricity cheaper and more available but grant Russia greater control) and the presence of Russian peacekeeping troops in Abkhazia.<sup>82</sup> In effect, he had conceded Georgian sovereignty in Abkhazia in exchange for cheaper electricity.

There were more disputes, however, even amidst Shevardnadze's accommodations. After making overtures to NATO and visiting Brussels<sup>83</sup>, Russia made a last-ditch effort to torpedo the BTC project. After giving the impression that LUKoil, an oil company headquartered in Moscow, would be allowed to invest in the pipeline, Russia retracted. The Kremlin barred LUKoil's investment in the project in the hopes this would deprive BTC of enough capital to abandon construction (though this may have been directed less specifically at Georgia and more at the Caspian region in general).<sup>84</sup> Construction on BTC was launched regardless in September 2002.<sup>85</sup> Increased cooperation continued between Russia and Georgia, however, especially in regard to Abkhazia. When a Georgian delegation visited Moscow to discuss terms of a possible settlement, Russia sweetened the deal by doubling electricity supplies to Georgia.<sup>86</sup> In March, Georgia announced their desire to have Russia play a 'leading role' in Abkhaz peace talks.<sup>87</sup> Shortly following, Gazprom and Georgia's Fuel and Energy Ministry agreed to form a joint pipeline

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<sup>82</sup> Interview with Eduard Shevardnadze, Georgian Radio, 1/14/02

<sup>83</sup> *Shevardnadze Attaches 'Great Importance' to Brussels Visit*, TASS, 3/11/02

<sup>84</sup> *Russia: LUKoil Withdraws From Deal On Baku-Ceyhan Oil Pipeline*, Lelyveld, Michael, RFE/RL, 5/1/02

<sup>85</sup> *Construction Launched on Multi-Billion Dollar Caspian Oil Pipeline*, Lowe, Christian, Agence France Presse, 9/18/02

<sup>86</sup> *Shevardnadze Says Russia Understands Georgia's Energy Problems*, Pachkoria, Tengiz, TASS, 1/20/03

<sup>87</sup> RIA Novosti, 3/12/03

distribution network,<sup>88</sup> which would grant Georgia better terms but cede more control.

With Shevardnadze discussing expanding cooperation with Gazprom more and more,<sup>89</sup> Energy Minister David Mirtskhulava refused to give up the rights to the main gas pipeline, even as he faced threats of impeachment.<sup>90</sup> Georgian Parliament erupted in disagreement in August—Irina Sarishvili, the spokeswoman for the Shevardnadze-loyal block of Parliament, expressed outrage at US ambassador Richard Miles, Mirtskhulava and the leader of the opposition, Mikhail Saakashvili.<sup>91</sup> David Mirtskhulava was forced to resign for allowing UES, the Russian electricity company managed by Anatoly Chubais, access to the Georgian market.<sup>92</sup> Shevardnadze was one of the catalysts of UES's access to Georgia, but as elections approached he needed to shift blame elsewhere. The incident showed the havoc Russian energy companies were capable of creating in Georgia; Tbilisi, though, resisted the integration of Russia by expelling the minister who opened the door to Russia. Though Mirskhulava was probably not the one who assisted Chubais and UES, the symbolic placation was significant in itself. As we see in Ukraine, ministers such as Boris Tarasyuk were ousted for doing precisely the opposite of what Mirtskhulava was accused of.

Elections were scheduled for November 2<sup>nd</sup>, and just four days prior, October 30<sup>th</sup>, Russia announced the rescheduling of Georgian debt to a later date.<sup>93</sup> This was

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<sup>88</sup> *Gazprom, Georgia to Form Joint Working Group*, TASS, 4/25/03

<sup>89</sup> Interfax, 6/9/03

<sup>90</sup> *Gazprom not to Privatize Georgian Gas Trunk Pipeline*, Mekhulza, Eka, TASS, 7/25/03

<sup>91</sup> Rustavi-2 TV, 8/12/03 reported in BBC Worldwide

<sup>92</sup> Rustavi-2 TV, 8/13/03 reported in BBC Worldwide

<sup>93</sup> *Russia Grants Deferment to Georgia for Energy Debts*, Mekhulza, Eka, TASS, 10/31/03



probably done in hope of boosting Shevardnadze and his parliamentary block's standing in elections. He had over the past two years become extremely sympathetic to Russia's business and energy interests—keeping him in power would be advantageous.

*Third Period—November 2003-January 2006—Crisis, Calm and Conflict*

Elections held on November 2<sup>nd</sup>, 2003 in which 235 parliament seats were at stake, were denounced as rigged and illegitimate by opposition parties and international election observers. As the days passed and Shevardnadze refused to give ground, protestors poured into the Tbilisi streets. Urged on by Saakashvili, protests gained ground in cities throughout Georgia. When Shevardnadze attempted to convene the new session of Parliament on November 22<sup>nd</sup>, marginalized opposition leaders burst into the Parliament and interrupted Shevardnadze, who escaped with the help of his bodyguards. The next evening Shevardnadze met with Saakashvili and opposition leader Zurab Zhvania and arranged his resignation. Georgia The shift in power drastically altered the orientation of Georgia. Saakashvili took it from a country merely resisting Russian attempts at domination to a country actively fighting that domination. Georgia had been a country considering better relations with the West; Saakashvili ended the deliberation, turning west and proceeding full speed ahead.<sup>94</sup>

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<sup>94</sup> *Georgia's New Leader Baffles US and Russia Alike*, Chivers, CJ, The New York Times, 8/17/04

The period immediately following the ascension of Mikhail Saakashvili saw little interactions between Russian energy interests and Georgia, although maneuverings may have been occurring behind the scenes. As an opposition leader Saakashvili had no qualms about his western orientation. Educated at Columbia Law School, Saakashvili regularly denounced Russian foreign policy as imperialist. Initially, Russia proceeded generously, attempting to double oil and gas deliveries while power was handed over.<sup>95</sup>

Throughout 2004, Russia and Georgia made numerous conciliatory statements. Diplomatic posturing and niceties replaced maneuvering in the energy sphere—statements from officials regarding compromise and cooperation were not backed by action. Saakashvili went so far as to suggest that gas trunk pipelines in Georgia might be sold to Russia, contrary to his previous defense of pipeline rights (and contrary to US interests).<sup>96</sup> He was probably trying to mollify Russian concerns that the new Georgian administration would aggressively adopt an anti-Russian stance to bide some time.

Eventually Saakashvili's western colors would show. His Prime Minister, Zurab Noghaideli continued to stress Georgia's NATO bid in April 2005.<sup>97</sup> After a meeting with US officials a month later, Georgia dismissed any plans to privatize their gas trunk pipeline and therefore make it vulnerable to Russian interests, showing the increasing influence of the US.<sup>98</sup> These events marked the beginning of

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<sup>95</sup> *Russia May Reschedule Georgian Gas Debt, Double Suble Supply*, Zlodoryov, Dmitry, TASS, 11/28/03

<sup>96</sup> *US Against Selling Georgian Pipeline to Gazprom*, Interfax, 2/24/05

<sup>97</sup> Interfax, 4/25/05

<sup>98</sup> *Georgia Shelves Plans to Privatize Gas Trunk Pipeline*, Kavkasia News Agency, 5/9/05 reported in BBC Worldwide

what was inevitable once Saakashvili took power: growing tension between Russia and a defiantly nationalist Georgia. When reports emerged that Georgia received weapons shipments from Czech Republic, a NATO member, in August,<sup>99</sup> Russia was furious and responded by threatening to charge Georgia market prices for natural gas.<sup>100</sup> In December Russia acted on threats by shutting off gas pipelines to Georgia, one of the first times Russia cut off gas to Georgia during cold months in several years.<sup>101</sup> Saakashvili, instead of bowing to Russian pressure, proceeded even more steadfastly with his overtures to NATO and the West and became increasingly defiant in his rhetoric towards Russia. Aggression was only breeding aggression in response.

The last straw for Georgia came on January 22<sup>nd</sup>. Two gas pipelines and an electricity cable link in southern Russia exploded, severing all gas flows and one quarter of electricity throughout Georgia.<sup>102</sup> The simultaneous nature of the explosions precluded the possibility of an accident, but no group claimed responsibility.

The culprit of the gas pipelines explosions is unknown, and may not have been the work of the Russian agents. International and Georgian reactions, however, turned the explosions into a thunderous burst of criticism and action against Russia. Vladimir Putin ordered speedy repairs and dismissed allegations of foul play as

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<sup>99</sup> *Russia Expresses Alarm Over Alleged NATO Rearming of Georgia*, Ingram, Judith, Associated Press, 9/13/05

<sup>100</sup> *Russia to Supply Gas to Georgia at Market Prices from 2006*,

<sup>101</sup> *The Path to Energy Security*, Saakashvili, Mikhail, The Washington Post, 1/9/06

<sup>102</sup> Pipeline Blasts Cut Georgia Gas Supply; Tblisi's Leader Blames Russians, *Chivers, C.J.*, The International Herald Tribune, 1/23/06

Georgian 'hysteria'.<sup>103</sup> Georgian officials accused Russia of sabotaging gas lines in the hopes of forcing Georgia to privatize their gas trunk pipeline. Whether or not they orchestrated the incident, Russia made their intention to manipulate it apparent. After saying gas would be routed through Azerbaijan while repairs were conducted, Russia cut gas supplies to Azerbaijan, thereby continuing the energy siege on Georgia.<sup>104</sup>

### *Russia's Loss of Leverage*

Instead of acceding to Russia's wishes, Georgia took dramatic measures to remove all dependence on Russian energy. Georgia immediately signed a deal to receive gas from Iran<sup>105</sup> and moved to drastically increase gas imports from Azerbaijan to 1/3<sup>rd</sup> of all gas imports.<sup>106</sup> Russia repaired the pipelines and resumed the flow of gas the day after the deal with Iran,<sup>107</sup> but irreversible damage was done. The explosions came shortly after a gas cutoff to Ukraine at the beginning of January that affected Western Europe. Leaders worldwide began condemning Russia for their irresponsible use of energy, buoying Saakashvili's confidence to the extent that he renewed his push to join NATO.<sup>108</sup>

In April, after Georgia announced plans to oppose Russia's accession to the WTO, Russia responded by banning Georgian wine, fruits and vegetables, telling

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<sup>103</sup> *Putin Orders Fast Repair of Sabotaged Energy Links to Georgia*, Deutshce-Presser Agentur, 1/23/06

<sup>104</sup> *Russia Cuts Gas Supplies to Azerbaijan*, Turan News Agency, 1/24/06, reported in BBC Worldwide

<sup>105</sup> *Georgia Signs Deal with Iran to Buy Natural Gas*, Chivers, C.J., The New York Times, 1.28.06

<sup>106</sup> *Russia & CIS Oil and Gas Weekly*, 2/1/07

<sup>107</sup> *Russia Gas Supply Resumes to Georgia*, AFP, 1/29/06

<sup>108</sup> *Georgia Seeks NATO Entry, Vows Can Secure Energy for West*, Deutsche-Presser Agentur, 2/3/06

media they were protecting consumers from ‘poor-quality wine.’<sup>109</sup> Russia would later claim the blockade was on account of Georgian plans to retake South Ossetia and Abkhazia.<sup>110</sup> Russia clearly lost a great deal of leverage when their policies moved away from energy maneuvering towards banning Georgian produce through a series of measures in March and April (though Georgian wine exports account for 14% of Georgia’s GDP). Saakashvili recognized the new situation and reaffirmed Georgia’s commitment not to privatize the gas trunk pipeline in June.<sup>111</sup> He then unabashedly attended the opening of the BTC pipeline in July.<sup>112</sup> Most audaciously, Georgian authorities arrested and accused a Russian officer of spying in Georgia in September.<sup>113</sup> Georgia was making significant moves against Russian interests. Russia’s couldn’t respond with energy gambits, and their economic blockade was proving flaccid. Saakashvili was openly defying the Kremlin, and it appeared there was nothing Russia could do about it.

Putin, after breaking off diplomatic relations in response to the detainment of a Russian officer,<sup>114</sup> made one last attempt to use energy as leverage, announcing Russia would double the price of gas to Georgia only days before the NATO summit in Riga.<sup>115</sup> Georgia’s responses to Russia’s last-ditch attempt to use energy were to increase purchases of cheaper Azerbaijani gas and to announce that Georgia would

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<sup>109</sup> *Georgian President Accuses Russia of Waging Economic Blockade with Wine Ban*, Associated Press Worldstream, 4/3/06

<sup>110</sup> *Russia to Double Price of Gas to Georgia*, Ingram, Judith, Associated Press, 11/2/06

<sup>111</sup> Kavkasia Press Agency, 6/20/06, reported in BBC Worldwide

<sup>112</sup> *Strategic BTC Pipeline Ready for Inauguration*, AFP, 7/9/06

<sup>113</sup> BBC Worldwide Monitoring, 10/1/06

<sup>114</sup> *Russia Backs Down in Spat with Georgia*, Blomfield, Adrian, The Daily Telegraph, 1/20/07

<sup>115</sup> *Russia to Double Price of Gas for Georgia*, Ingram, Judith, AP, 11/2/06

increase Azerbaijan's gas from 1/3 to 80% of gas supplies.<sup>116</sup> While Azerbaijan imports some gas from Russia, they possess significant gas reserves and are of late exporting gas to Russia<sup>117</sup> and exploring possibilities for their significant reserves, which BP estimates at 48 trillion cubic feet.<sup>118</sup>

Georgia's detainment of Russian officers appears to be the point at which the threat of force became a tangible one. After the arrests, Putin denounced Georgia's actions as 'state terrorism.' Putin put all Russian troops, 4,000 in Georgia proper and 2,500 more in Abkhazia and South Ossetia, on high alert and granted them the right to 'shoot to kill' if necessary while defending their bases. "These people think that under the roof of their foreign sponsors they can feel comfortable . . . is it really so?" Putin threateningly said. Members of the Russian parliament called for a military response and Moscow recalled their ambassador to Georgia.<sup>119</sup> Tensions would cool down, but the change in Russia's responses to Georgia was there to stay.

Henceforth, Russia's disagreements with Georgia spawned military reprisals instead of energy ones. When an unmanned Georgian spy drone flew into Abkhaz airspace in April 2008, a Russian fighter plane shot it down.<sup>120</sup> The culmination of events came in early August when war broke out between Russia and Georgia. Accounts still vary, but the most accepted one is that Georgia attacked South Ossetia and settlements in and around Tskinali in response to shelling. Several Russian

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<sup>116</sup> Russia & CIS Oil & Gas Weekly, 2/1/07

<sup>117</sup> RFE/RL, 3.31.09

<sup>118</sup> Energy Information Agency website, accessed 4/7/09

<sup>119</sup> *Furious Moscow Orders 'Shoot to Kill' as Georgia Crisis Escalates*, Mainville, Michael, The Guardian, 10/2/06, 17

<sup>120</sup> *Georgia Accuses Russia of Downing Drone Over Breakaway Region*, Chivers, C.J., The New York Times, 4/22/08

'peacekeeping' troops were killed in the assault leading to Russia's invasion. This was far from the first incidence of violence between Georgia and the breakaway regions, but the first time Russia responded with such force. Perhaps Russia would have invaded regardless of their position in the energy market, but Saakashvili's refusal to privatize the trunk pipeline and the greater importance of Azerbaijani gas after the explosions of January 2006 meant Russia had far less to risk with military intervention. Energy was certainly a lever to change policy prior to 2006—without it new methods needed to be adopted.

## The Ukrainian Case

New Years Day is always a testy time when it comes to natural gas—the weather is cold, contract periods come to an end and debts are owed. It was especially tense in 2009 as Ukraine and Russia failed to reach an agreement on the 2009 price of gas and Ukraine's \$600 million debt before New Years. Russia turned off their gas on January 1<sup>st</sup>, prodding the Ukrainian government to accept their terms, a fairly normal course of events in an Eastern European January.

On January 7<sup>th</sup>, however, gas pressures began falling all across Europe, perking concerns amongst EU countries. Bulgaria, Italy and Serbia all started complaining they were only received 2/3 of their gas pressure. Accusations flew back and forth: Ukraine claimed that Gazprom turned off all gas and the Kremlin accused Ukraine of stealing gas intended for Europe. The EU scrambled to find a course of action, and what was normally a bilateral scuffle saw the entry of another player.

Over the past few years, the EU became increasingly wary of Russian use of energy as leverage. In this dispute, however, their suspicion was aroused about the other player: Ukraine. Most January gas shutoffs in the past lasted only a couple of days, but this one was dragging into its second week. Many already accused Ukraine's Prime Minister, Yulia Tymoshenko, of being hardheaded and unrealistic (especially regarding energy disputes). On January 10<sup>th</sup>, the EU agreed to send monitors to Ukraine's eastern and western borders to watch for siphoning, as per the Kremlin's request. The gas didn't start flowing, though, and Ukraine and Russia continued to swap allegations.

On January 15<sup>th</sup>, Dmitri Medvedev invited Tymoshenko and EU leaders to Moscow to settle the dispute, hoping to appear as a conciliator as Russian credibility was



faltering. A deal was finally reached on January 19<sup>th</sup>—Ukraine would pay \$150 per 1000 cubic meters, according to Tymoshenka. This was far less than the \$179 that Ukraine paid in 2008 and nowhere near the nearly \$400 most European countries paid. The issue of the outstanding debt was not clearly resolved.<sup>121</sup>

Nominally, Ukraine emerged out the dispute as the victor. The gas price was lowered, the debt issue put off, and their rival Gazprom lost over \$1 billion in revenue during the nearly three week cutoff. Strategically, however, Ukraine lost mightily. One of their only remaining gambits to counter Moscow's advantage was their European allies. The whole dispute made Ukraine's reliability as an ally questionable—would Ukraine be willing to make compromises and realistic deals in the future as it vies for NATO and eventually EU membership? Was Ukraine's economic base so dire that it refused to pay even half what Europe pays for gas? Was Ukraine no better than Russia, playing with Europe's energy security? Perhaps even worse for Ukraine, Russia emerged from the dispute looking like the reasonable partner, sacrificing business interests to serve European interests as a whole.

The culmination of the gas cutoff was really a microcosm of Russia's successful use of energy as leverage with Ukraine. Russian business ties in Ukraine, combined with Ukraine's use of Europe as a bargaining chip with Russia left Kiev fractured and unable to make reasonable concessions. Though Russia lost that particular dispute economically, they continued to use energy to alienate Ukraine from potential allies and divide the pro-Western government.

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<sup>1</sup>*Russia, Ukraine Settle Bitter Gas Dispute*, Rodova, Nadia, Platt's Oilgram News, 1/20/09, p. 1

Ukrainian relations with Russia are characterized by the Kremlin using its resources and supply as an enormous lever over Ukraine. Manifestations of leverage, however, often consist of Russia making concessions. Moscow's threats are usually to halt concessions, frequently regarding relief of Ukraine's perpetual debts to their eastern neighbor. Outright cutoffs are much less prevalent because Ukraine holds its own leverage over Russia. By controlling Russia's main pipeline routes to Western Europe, Ukraine possesses two advantages. Ukraine controls the flow of the bulk of Russian supply, and by bordering Western Europe, gains a considerable ally to deter Russian use of energy as leverage (as an impetus not to sever supply). Russia, however, in its concessions, still manages to capture large sections of Ukrainian industry and business. By trading energy debts for stakes in particular industries and companies, Russia increases its share of ownership in Ukrainian business. Ukraine is still a divided country where half the population is sympathetic to Russia (namely the Eastern half). The results of Russia's different tack with Ukraine are consequently less openly conflict-ridden than with Georgia, and Russia's moderate approach, coupled with the divided nature of Ukrainian politics, led to Russian leverage enduring amidst political infighting in Kiev between a Yulia Tymoshenko-led Parliament and a Yushchenko-led Presidential cabinet.

The Ukrainian case suggests that geographic positioning along export routes is almost as important as having the resources themselves, as long as the transit country does not extensively abuse their advantage. The cases of energy-rich Central Asian countries, for example, suggest that Russia, their main viable export route, is still able to control a great deal in their political realms. Likewise Ukraine has immense leverage over Russia with their pipeline network leading to Europe. Russia, though, is developing

alternative routes that weaken Ukraine's still vulnerable position. Ukraine imported 90% of their gas from Russia in the years immediately following the breakup of the USSR<sup>122</sup>—for all the pressures Kiev can exert over Russia, the Kremlin still has the last word, even more so since the ascension of Vladimir Putin.

Russia though, does not always use leverage directly. As with Georgia, Russia uses third-party companies, which do not have direct ties with the Kremlin, to exert pressure. Companies like Itera and Nafokhaz Ukrainiy do not directly implicate Russian meddling, but push Ukraine towards pandering to Russian interests by means of injecting Russian interests in the Ukrainian economy.

#### *Ukraine's Third Party Trading Companies*

Russian third-party trading companies operated in Ukraine throughout the period after the fall of the Soviet Union, but only became the central topics of dispute in Yuschenko's Presidency. They were given freer rein during Kuchma's years, handing billions of dollars of contracts with almost no questioning of their origins or intentions. EuralTransGas is one example of a shady partner of Ukraine's that should have been scrutinized by legislatures before being given immense power and control. The trading company was registered to three Romanians with no business background and an Israeli with ties to a Ukrainian mobster. The company, registered to a small Hungarian village, stood to gain over \$1 billion in profits. EuralTransGas gained prominence when Alexi

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<sup>122</sup> *Fuel Short Ukraine Caught in Wintry Vise*, The New York Times, A10,11/23/93

Miller, having sworn to disband the embattled Itera, handed its contracts for Turkmen gas to Ukraine over to EuralTransGas before the company was even fully formed.<sup>123</sup>

Yuri Boyko, the man who succeeded Vitaly Hayduk as the Fuel and Energy Minister, was head of Naftokhaz Ukrainiy when the company provided EuralTG with their contracts—it is clear both in his advocating of the Nord Stream project and his support for EuralTG, sustained by \$300 million of loans from Gazprom, that Naftokhaz was not pursuing Ukrainian interests but those of the Ukrainian political elite. While EuralTransGas funneled money out of Gazprom for various uses, Naftokhaz did the same for the Ukrainians. When Oleksiy Ivchenko resigned as head of Naftokhaz, the company had already taken out \$6 billion in loans and handed over many trading rights to RozUkrEnergo.<sup>124</sup>

The spring of 2008 saw another debt dispute as Russia and Ukraine argued over what the actual prices of gas were—the actual amounts of money, being ferried through various trading companies, became convoluted and thus always a subject for debate. Gazprom accused Naftokhaz of not paying pack debt in February 2008,<sup>125</sup> and cut gas supplies on March 3<sup>rd</sup>.<sup>126</sup> This led Yulia Tymoshenko to argue that contracts with RozUkrEnergo should be abolished and gas bought directly from Naftokhaz.<sup>127</sup> Tymoshenko was simply trying to gain greater control of Ukrainian gas, since RozUkrEnergo was charging a lower price than Naftokhaz would have—many reckoned

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<sup>123</sup> *Mobster Casts Shadow on Gazprom Partner*, Belton, Catherine, The St. Petersburg Times, 12/2/03

<sup>124</sup> *Embattled Naftogaz Chief Resigns*, Belton, Catherine, The Moscow Times, 5/12/06

<sup>125</sup> *Confusion Over Ukraine Gas Debt Payments*, Rodova, Nadia, Platt's Oilgram News, 1/30/08, 6

<sup>126</sup> *Ukraine's Gas Supply Reduced*, Korenovska, Svitlana, The Washington Times, 3/4/08. A11

<sup>127</sup> *Problems on the Ukrainian Pipeline*, Dryden, Alex, The Daily Telegraph, 7/29/09, 7

RozUkrEergo was doing this precisely as an incentive for Ukraine not to push for NATO membership.<sup>128</sup>

*Period 1: The Fall of the Soviet Union: Russia and Ukraine Grasp for the Spoils*

Immediately following the fall of the Soviet Union, Russia and Ukraine were saddled with debates on the division of some of the Soviet Union's most important assets. As in Georgia, energy leverage played a key role in dictating some of these early issues. Three stand out in particular. First, the breakup of the union led to the creation of four newly independent nuclear states overnight. Russia, Belarus, Ukraine and Kazakhstan all possessed nuclear weapons, viewed as a great hazard by both Russia, viewing itself as the regional stabilizer, and the West. The West (especially the US) and Russia sought to rein in Kazakhstan, Ukraine and Belarus and force them to give up their nuclear weapons capabilities, hoping to whittle four nuclear states down to one. Second, Russia and Ukraine also both laid claim to the large Black Sea naval fleet. The third major issue was the terms of inclusion in the newly-formed Coalition of Independent States (CIS). All these would be topics that incurred Russia's use of energy as leverage in the first three years of independence. A fourth issue, more publicized but less an arena for energy leverage, was ownership of the Crimea.

Ukraine's government quickly agreed to dismantle its nuclear weapons, though sections of Ukrainian Parliament hectored President Leonid Kravchuk not to, viewing them as an effective gambit against Russia. Kravchuk, however, correctly calculated that Ukraine would gain legitimacy and respect by not toying with an issue grave as nuclear

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<sup>128</sup> Argumenty i Fakty, 8/3/06

weapons. The debate, however, was about oversight for the dismantling. At a CIS summit in March 1992, Kravchuk demanded ‘international supervision’ for the removal of nuclear weapons.<sup>129</sup> Russia, however, gained the upper hand in negotiating the weapons by using Ukrainian debt and energy shortages. In exchange for cancelling a portion of debt,<sup>130</sup> Russia took control of 176 missiles and 1,800 warheads. A portion of the uranium extracted from the warheads was then returned to Ukraine for processing as fuel.<sup>131</sup>

The division of the Black Sea Fleet was more of a tug-of-war and not completely resolved until 1997 (and still unresolved in respect to the status of sailors in Sevastopol). In January 1994 Russia agreed to cancel Ukraine’s gas debts in exchange for handing over the Ukrainian portion of the Black Sea Fleet and cementing the nuclear weapons agreement.<sup>132</sup> By possessing a large portion of the Fleet which was not handed over immediately, Ukraine held its own leverage over Russia, which Kravchuk made ample use of. When Russia cut gas supplies in March 1994 after Ukraine accrued more debt, Kravchuk threatened to pull out of the deal if Russia did not immediately resume delivery.<sup>133</sup> Russia turned on gas supplies a couple days later, but started pressuring Ukraine for a share in their pipeline network and their underground storage facilities, a trend to continue for years to come.<sup>134</sup>

Russian and Ukrainian energy maneuverings in March 1994 were also related to the CIS and the two countries differing views on what the function of the CIS should be.

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<sup>129</sup> *Ukraine, Russia Link on Verge of Collapse*, Handelman, Stephen, The Toronto Star, A1, 3/21/92

<sup>130</sup> *Kiev Fallout on a Nuclear Deal*, Campbell, Matthew, Sunday Times of London, 9/5/93

<sup>131</sup> *Ukraine Agrees to Allow Russians to Buy Fleet and Destroy Arsenal*, Bohlen, Celestine, The New York Times, A4, 9/4/93

<sup>132</sup> *Arms Deal Tops Agenda in Moscow*, Snieder, Daniel, Christian Science Monitor, 6, 1/13/94

<sup>133</sup> *Ukraine Rejects Black Sea Fleet Deal in Gas Row*, Lloyd, John and Barshay, Jill, Financial Times, 3, 3/7/94

<sup>134</sup> *Ukrainian Official Discusses Gas Debt in Moscow*, Killen, Brian, Reuters, 4/7/94

Russia inevitably regarded itself in the 1990's as the successor to the Soviet state, and viewed the CIS as a means of replicating the sovereignty model of the Soviet Union.<sup>135</sup> The Soviet model of sovereignty, in regards to Soviet satellites and republics, was a dual model, in which states possess their own independent sovereignty, but also must adhere to the sovereignty of the socialist vanguard (Moscow). If the two clashed, the Soviet republic or satellite must defer to the union as a whole. This second sovereignty helped Moscow defend against 'imperialist encroachment.'<sup>136</sup> "The time has come," Yeltsin said in March 1993, "for the appropriate international organizations to grant Russia special powers as the guarantor of peace and stability on the territory of the former union."<sup>137</sup>

Russia viewed the CIS precisely through this lens, and therefore sought to use the CIS as a vehicle to keep their former influence intact in the face of NATO expansion or other possible threats to their sphere of influence. Ukraine, however, rejected this conception of dual sovereignties and sought to adopt a more Western model of sovereignty,<sup>138</sup> one that roughly views the concept of sovereignty as a guarantor of equality between countries. Ukraine therefore understandably spent March 1994 lobbying against a Russian proposal to attain observer status at the UN for the CIS<sup>139</sup>—observer status would grant the CIS the right to use peacekeeping troops, which could be a threat to Ukraine's independence and control over the Crimea, which Nikita Khrushchev gave to Ukraine in 1954.

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<sup>135</sup> Deyermond, Ruth, *Security and Sovereignty in the Former Soviet Union*, Lynne Rienner, Boulder, Colorado, 2008 (37)

<sup>136</sup> *Ibid.*, (28)

<sup>137</sup> *Izvestia*, 3/4/93

<sup>138</sup> *Ibid.*, (38)

<sup>139</sup> *Izvestia*, 3/26/94

Amidst pressure to give up pipeline rights and the threat of the CIS acting as an instrument of Russian power, Kuchma cleverly parlayed the first Chechen conflict to Ukraine's advantage. The Kremlin attempted to persuade Ukraine by rescheduling debt in exchange for pipeline ownership rights—Kuchma responded by saying it would be illegal to surrender such rights, but also expressed his support for Russia against Chechen separatists. His rationale for supporting the Kremlin against Chechen separatists was that territorial integrity was of the utmost importance—a roundabout way of saying they'd keep the disputed Crimea.<sup>140</sup> Kuchma was in part, however, responding to his own government. Vice-Premier Vasily Yevtukhov extensively lobbied for the creation of joint ventures between Gazprom and the Ukrainian government, but was rebuffed by Ukrainian Parliament.<sup>141</sup>

Throughout this first period, energy prices were considerably lower than their later levels. It was, however, still an important mechanism as both countries scrambled for resources and money during the early painful stages of shock therapy. Russia successfully used energy as leverage regarding the nuclear issue (though many other factors came in to play). Kravchuk and Kuchma, however, both put their leverage over Russia to work in this period. Both had similar economic situations at the time and energy prices were low. Those factors, compounded by the lingering euphoria of independence in Ukraine, made the two countries fairly equal players.

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<sup>140</sup> *Not All Presidents Keep Step*, Selyaninov, Grigory and Levin, Konstantin, Kommersant, 3, 1/25/93

<sup>141</sup> *Ukraine Puts Off Signing Gas Joint Venture With Russia*, Melnik, Mikhail and Stetsyura, Raisa, TASS, 12/22/95



*Period 2: 1996-2000: Ukraine Seeks Alternative, Squanders Advantages*

In early 1996, disputes began to revolve less around specific political issues and more in regard to Ukraine's general orientation and independence in making decisions affecting Russia's export pipelines. Without consulting Moscow, Ukraine raised transit fees 10% on the Druzhba pipeline in January. Russia's oil companies protested raising the transit fees, which would inevitably move some profits out of their hands and into the Ukrainian pipeline operator's coffers. Ukraine, however, turned the tables by shutting off pipelines to Europe, which at the time exported 57 million tons of Russian oil to Western Europe annually. The Russian oil companies quickly accepted the rate increase.<sup>142</sup> This event represents the strong influence that Ukraine exerted over Russia and emphasizes the rationale behind Russia's efforts to gain stakes in Ukrainian pipelines. Georgia lacks similar leverage, since their pipelines from Russia only supply tiny Armenia. Without their neighbors' pipes, Russia cannot do much in the way of exporting. Russia struck back, however, cutting off supplies to Ukraine while Leonid Kuchma was in Washington in February,<sup>143</sup> a gentle reminder that Ukraine wasn't freed from angst yet. Turning off the gas to Europe would of course disappear as a viable tool for Ukraine after the Orange Revolution as they sought closer ties with NATO. Ukraine still wanted to tread somewhat carefully, as certain economic boons were constantly at risk: Russia sold Ukraine gas at a large discount, and Ukraine reaps large transit revenues from Russian gas, two factors that continue to buoy their feeble economy.

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<sup>142</sup> *Ukraine Exploits Its Energy Pipeline Monopoly*, Kaminski, Matthew, *The Financial Times*, 57, 3/26/96

<sup>143</sup> *Washington Should be Wary of Russia's Oil Monopoly*, Halper, Stefan, *Christian Science Monitor*, 5/31/96

Ukraine's boldness in manipulating its pipelines in February 1996 also led Russia to start seeking alternatives to the Druzhba export route. Russia began seeking a pipeline to circumvent Ukraine and scatter Kiev's advantage.<sup>144</sup> Russia also began making efforts to ramp up debt to Ukrainian enterprises in an effort to eventually seize control of them. Russia created arrears for the Azovstal and Ilyich steel companies—their debts to Gazprom amounted to \$58 million in 1996. Gazprom was previously importing steel from the two plants at discount prices, but was planning on attempting to take over the two companies once the government completed plans for privatization.<sup>145</sup> Ukrainian officials, however, got wind of Gazprom's intentions and sold off shares as quickly as possible to joint stock companies insulated from Gazprom's interests.<sup>146</sup> Gazprom attempted to stop importing Ukrainian steel and switched to Russian steel in response to the perceived backsliding.<sup>147</sup>

Though Russia was unsuccessful at acquiring the Ukrainian steel-makers, the event marked the beginning of a Russian strategy to use their third-party trading companies, such as Itera, to acquire Ukrainian assets and disrupt Ukrainian politics. In early spring of 1997, Itera cut off gas deliveries from Turkmenistan to Ukraine in anticipation of a Ukrainian delegation visiting the United States to discuss alternatives to Russian energy.<sup>148</sup> When gas was cut, Turkmen President Saparmurat Niyazov bluntly blamed Itera. "This is not so much Kiev's fault," he said, "as that of the intermediary

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<sup>144</sup> Deutsche Presse-Agentur, 3/6/96

<sup>145</sup> *Gazprom is Hoping to End its Reliance on Ukrainian Pipes*, Gotova, Natalya, RusData Dialine, BizEkon News, 7/13/96

<sup>146</sup> *Ukraine: Government Moves to Speed Up Share Sales*, Interfax, 7/2/96, printed in BBC Summary of World Broadcasts, 7/12/96

<sup>147</sup> See note 18

<sup>148</sup> *Ukraine Seeks Foreign Help to Escape Russian Shackles*, Abraham, Kurt, World Oil, Vol. 218, No. 5, 5/1/97

firms that supply gas from Turkmenistan to Ukraine.”<sup>149</sup> Niyazov’s frankness was an embarrassing incident for Itera in their efforts to gain viability. Days later Yulia Tymoshenka visited the US—Tymoshenka was at the time both a lawmaker and President of UESU, a gas distribution company.<sup>150</sup> This doesn’t discredit Tymoshenka since there is extraordinary synergy between energy companies and government in the former Soviet Union, but it certainly casts a suspicious shadow over her lobbying for greater control of Ukrainian energy policy and greater autonomy from Russia. Given the low salaries of Ukrainian officials, business motivations might play a greater role than the national interest. After announcing she’d cut her salary in half in March 2009 to help cope with the financial crisis, Tymoshenka only stands to make around \$16,000 annually as Prime Minister.<sup>151</sup>

Turkmenistan would later cancel Leonid Kuchma’s planned visit to Ashgabat, citing the debts run up by Itera—at the time, Itera was responsible for \$205 million, which they blamed on Ukrainian consumers.<sup>152</sup> This provided an example of Russia’s use of Itera to subdue Ukraine. With Itera creating debt disputes, Russia no longer needed to use direct leverage against Ukraine—instead they could use third-party companies to create disputes between their neighbors and push Ukraine’s indebted enterprises towards privatization (and potential takeover by Russians). The Kremlin could claim blamelessness for energy problems and exert leverage over Ukraine indirectly so as to skirt condemnation, but still continue to elbow its way in on ownership stakes. These are undoubtedly important, since they are a cunning attempt at exerting Russian influence

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<sup>149</sup> *Turkmenistan Cuts Off Gas to Ukraine and Caucasus*, Interfax, 3/28/97

<sup>150</sup> See note 21

<sup>151</sup> *Tymoshenko Slashes Her Salary By Half*, Associated Press, 3/18/09

<sup>152</sup> *Kuchma Postpones Official Visit to Turkmenistan*, Interfax, 5/4/97

that often goes unreported, or is often characterized as an individual firm's tiff with Ukraine as opposed to the Kremlin's hand.

In late 1997, Russia and Ukraine both furthered development of alternatives, both in response to and in anticipation of Ukraine further shifting its orientation westward. In late August, Ukraine allowed NATO to conduct naval exercises on the Black Sea, and conducted a joint humanitarian mission with troops from the US, Turkey, Georgia, Romania and Bulgaria.<sup>153</sup> The same day, Shell announced its plans to ship gas to Ukraine from Uzbekistan and Turkmenistan bypassing Russia via Iran and Turkey.<sup>154</sup> Ukraine, it seemed, was bracing for a Russian response to their warm treatment of NATO and Black Sea neighbors. Only days later Ukraine would decline investment offers from LUKOil in large Ukrainian refineries (LUKOil, it should be noted, operates far more freely from the Kremlin's interest and is much more akin to Western oil companies than Gazprom or TNK).<sup>155</sup> Later in the fall, Russia would respond to Ukraine's development of alternatives with their own alternatives. Rem Vyakhirev, chairman of Gazprom, confirmed rumors that Russia would build a gas pipeline under the Black Sea to Turkey. The pipeline, he explained, would bypass Bulgaria, Romania and Ukraine in case of 'political instability'.<sup>156</sup>

Ukraine, however, was making a large mistake by disentangling itself from Russia in such a fashion. In their mutual dependence, Ukraine had a great deal more to lose than Russia, and in trying to move away from Russian energy imports simply to assert independence Ukraine may have lost sight of the bigger picture. The prospect of

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<sup>153</sup> *Ukraine and NATO: Closer Partnership*, Kozyrev, Mikhail, Moscow News, 9/11/97

<sup>154</sup> *Ukraine's Gas Deal*, Vlasov, Pyotr, Ekspert, 8/25/97

<sup>155</sup> Ibid.

<sup>156</sup> *Bulgaria Fights Russian Gas Project as Relations with Moscow Falter*, Sergueva, Vessela, Agence France Presse, 11/5/97

Ukraine completely weaning itself off of Russian gas is little more than fantasy, especially since Russia sells Ukraine gas at a discount price. Russia, however, can and has been constructing pipelines to circumvent Ukraine, both south through the Black Sea and north through the Baltic Sea to Germany. Ukraine stood to lose transit tariffs and a monopoly on Russia's resources amidst economic crisis, whereas Russia stood to lose one consumer and pipeline route amidst what became a burgeoning economy. Ukraine wasn't prudent in daring Russia to invest in alternatives and erode their only leverage over Moscow.

The winter and spring of 1998 were characterized by very little decisive action, perhaps in response to a global financial downturn that hit the former Soviet Union especially hard. Both sides were probably more interested in laying back and examining the developments of each other's alternatives. Kuchma also appeared to be taking a less combative stance towards Russia as both of their economies plunged into hyperinflation in 1998. There were important developments, however, regarding third-party companies. Russia was capable of punishing Ukraine indirectly throughout 1998 as they feuded with Turkmenistan over gas prices and Itera's involvement in Turkmen gas sales. When Turkmenistan tried to charge a higher price for gas (which was to be shipped through Russia to Ukraine) and terminated Itera's contracts, Russia blocked their gas exports to Ukraine in January 1998.<sup>157</sup> Gazprom insisted that they would not resume shipments unless Turkmenistan included Itera in any new contracts.<sup>158</sup> The move was intended to cow Turkmenistan into submission, but backfired and caused their President, Saparmurat

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<sup>157</sup> *Ukraine, Turkmenistan Appeal to Yeltsin Over Gas Transit Issue*, Interfax, 1/29/98, printed in BBC Worldwide Monitoring

<sup>158</sup> *Multinationals Aims, Ties Cloudy in Race for Caspian Reserves*, Ottaway, David and Morgan, Dan, The Washington Post, 5/31/98, 14

Niyazov, to embrace alternatives. It did, however, make Ukraine more dependent on Russian gas, and the two countries continued to work around Ukraine's \$1.2 billion debt to Russia.<sup>159</sup>

In agreeing to restructure some of Ukraine's debt, however, Russia insisted on the formation of Naftokhaz Ukrainiy, which would consist of several state-owned companies but 'invite private investment on a selective basis.'<sup>160</sup> This was perhaps the most important act to come out of the largely quiet spring of 1998. While Ukraine refused to include Ukgazprom, the owner of the pipeline network, in the deal, Naftokhaz Ukrainiy helped set the stage for third-party trading companies to further their pro-Russian activities in Ukraine. Naftokhaz Ukrainiy was created by a combination of Russian and Ukrainian interests—it vacillated between serving each of those interests but served as a vital access point for Russians throughout.

Energy interactions resumed their political tone in the fall of 1998. In October, Ukraine demanded the right to send troops along with Russia to the Transdnestr region of Moldova (which borders Ukraine).<sup>161</sup> Russia responded to Ukraine's request by resuming construction on the pipeline through Belarus, which avoided Ukraine and presented an alternate route.<sup>162</sup>

Ukrainians were constantly facing accusation of siphoning off gas and oil intended for Western Europe and using it themselves for free. This was the key issue concerning use of energy leverage throughout 1999, leading to Russian threats of collecting Ukraine's debt, but little change in the fundamental issues. Russia did cut off

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<sup>159</sup> *Russia Seeking Ukraine Gas Pipelines*, Lelyveld, Michael, *The Journal of Commerce*, 3/12/98

<sup>160</sup> *Reducing Dependence on Mother Russia*, *Petroleum Economist*, 5/31/98, 5

<sup>161</sup> *Kuchma Pressures Moscow on 14<sup>th</sup> Army*, Warner, Tom, *Kyiv Post*, 10/27/98

<sup>162</sup> *Interfax*, 11/18/98

oil in early January to punish possible siphoning and threatened not to restructure the growing \$2.2 billion debt.<sup>163</sup>

*Period 3: Fall 2000-Fall 2004: The Successful Use of Russian Leverage*

The fall of 2000 marked a dramatic turning point. Leonid Kuchma, while never combative towards Russia, began acceding more towards Russian demands. Kuchma's turn eastward in the dwindling years of his Presidency are remarkably similar to the end of Shevardnadze's Presidency in Georgia when he began allowing Russian companies access to Georgia. Kuchma's increasing concessions to Russia may have been the result of Russia's alternatives to Ukraine's pipeline network gaining viability. He may also have been shook by the rising prices of gas and oil, hoping Russia would be the easiest route to price discounts. Another possibility is that Vladimir Putin appeared readier to use energy as a weapon than his predecessor, forcing Kuchma to choose between Russia and the West. Either way, it was becoming clearer in dealings between the two that Ukraine's advantages over Russia were dissolving.

As Russia signed a deal with Slovakia and Poland to build another pipeline bypassing Ukraine and further eroding Kiev's dwindling advantages,<sup>164</sup> Kuchma broke down that same week and offered a 10% stake in Ukraine's pipeline network if Russia would agree to assist in modernizing the network.<sup>165</sup> Only days later, Kuchma fired his foreign minister, Boris Tarasyuk, who was ardently pro-West, just in time to reach a deal with Vladimir Putin to provide Ukraine with energy supplies through the winter (This

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<sup>163</sup> *Ukraine Wants Gas Debt to Russia Restructured for 10 Years*, UNIAN News Agency, 1/12/00

<sup>164</sup> Interfax, 10/18/00

<sup>165</sup> Izvestia, 10/18/00

event stands in stark opposition to the dismissal of David Mirskhulava in Georgia).<sup>166</sup> Here Russia clearly parlayed its multitude of options into getting what it wanted. Russia's prize was always a stake in Ukrainian pipelines, something Kiev desperately defended, but as new options came to the fore in the form of another pipeline, Ukraine was forced to concede. Russia's control of energy leverage (and consequently Ukraine's revenue stream) convinced Ukraine to start doing the one thing they claimed they would never do—surrender the pipeline.

Putin made Kuchma's choice of orientation even easier during the winter. After Ukrainian journalist Georgy Gongadze, a prominent critic of the government, was murdered, recordings surfaced linking Kuchma to the murder. The IMF, suspicious of Kuchma's involvement, froze a \$2.6 billion loan. Putin immediately seized the opportunity, comforting Ukraine with statements that they would surely be able to settle debt disputes,<sup>167</sup> and initiating shipments of cheap electricity and reconnecting severed power grids in exchange for coal shipments.<sup>168</sup> The rest of 2001 was little more than a series of conciliatory statements coming from both sides. With Ukraine placated temporarily, Russia announced the opening of the Sukhodolnaya-Rodionovskaya pipeline bypassing Ukraine and further cementing Russia's advantage.<sup>169</sup>

Kuchma faced a major foreign policy choice, and the health of the sputtering Ukrainian economy depended on it in both in the short and long-term. He could begin enacting western reforms and embrace European and American-style institutions, moving his orientation completely away from Russia, as Ukraine was swiftly losing its bargaining

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<sup>166</sup> *Plenty of Plots, Not Much Reform*, The Economist, 10/21/00

<sup>167</sup> *Diplomatic Tug-of-War Has Ukraine Playing Both Sides*, Peterson, Scott, Christian Science Monitor, 7/11/01

<sup>168</sup> *Putin Woos Troubled Kiev*, Whittell, Giles, The London Times, 2/13/01, 21

<sup>169</sup> Interfax, 9/25/01, reported in BBC Worldwide Monitoring, 9/26/01



chips with Russia. The other option was to cozy back up to Russia and hope their eastern neighbor was capable and willing to forget their past transgressions. To carry out the necessary reforms and effectively cut off Russian influence in Ukraine would have required a dramatic reimagining of Ukrainian politics; Kuchma's Herculean checklist would have included purging corruption from a chronically corrupt political elite already extensively tangled in Russian interests, along with placating half of Ukraine's citizens, who were not eager to leave Moscow's bosom. Thirdly, he would have had to find a way to solve the Ukrainian energy crisis without Russia, and yet ensure that gas and oil continued to reach Western Europe. These labors proved insurmountable, leading Kuchma to choose the easier solution and look to the east.

Both Saakashvili and Shevardnadze were faced with the same choice when it came to dealing with Russia, but a number of factors made it easier for Georgia to spurn Russia and turn westward. Georgia had less to lose in terms of influence and leverage from transit and business ties, and Georgia lacked a similarly pro-Russian half of the electorate. Furthermore, though Russian business interests meddled in Georgia, they were far less openly intertwined with Russian business. Their arrangements were both shadier and fewer in number and value than those between Ukraine and Russia, making them easier to cast aside. Ukraine turning westward, therefore, would have been much riskier than the equivalent move from Georgia.

Consequently, the last three years of Kuchma's Presidency were marked by moves to curry favor with Russia. Naftokhaz Ukrainiy, in October 2002, formed a consortium with Russia and German companies to transport gas via the Nord-Stream pipeline through the Baltic Sea. Ukraine's endorsement of the project was puzzling, since

it was providing Germany a means of obtaining Russian gas without using Ukrainian territory. Yulia Tymoshenko furiously denounced the decision, saying the development of the project would surely cost Ukraine more than half of the \$2 billion annually collected from transit fees.<sup>170</sup> This may have been the apex of Russian energy leverage, as they got Ukraine to participate in a project that directly contradicted their own economic interests. Naftokhaz Ukrainiy, a medium of interaction between Russians and Ukrainians, only made the deal seem murkier. The Ukrainian members of Naftokhaz, it seemed, sold out Ukraine's interests.<sup>171</sup> This incident, in particular, showed how business partnerships and involvement didn't help Ukraine, but gave Russia greater leverage and terms with Ukraine. Utilizing an instrument that the two countries created together, Russia served its interests at Ukraine's expense. Diffusion of conflict, handshakes and signed contracts only fed Ukrainian dependence.

Just over a year later, Ukrainian Minister of Fuel and Energy Vitaly Hayduk announced that Ukraine would withdraw from the consortium with Russia and Germany. He also announced that Russia would not buy into the Ukrainian power grid, and downplayed suggestions that severing the Ukrainian power grid from the CIS grid (Russian-controlled) would be problematic. These announcements came one day after Kuchma met with Anatoly Chubais, the head of UES, the Russian electricity provider. The day after Hayduk's press conference, Kuchma fired him for the mutinous

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<sup>170</sup> *Moscow, Kiev Sign Plan to Ship Gas*, Raff, Anna, *The Moscow Times*, 10/8/02

<sup>171</sup> The deal would end up as a personal disgrace for Gerhard Schroeder—after finishing his term as German Chancellor, media reported his intention to assume a seat on the board of the company handling construction of the Nord-Stream pipeline. Germans felt Schroeder betrayed national interests by making Germany more beholden to Russia, simply so he could line his pockets and land a cushy job for his life after politics.

comments.<sup>172</sup> Kuchma replaced Hayduk with Yuri Boyko, the former head of Naftokhaz Ukrainiy, which, as mentioned earlier, was formed in conjunction with Russian interests and was handling the financing and feasibility studies of the consortium with Germany.<sup>173</sup> The maneuvering highlighted the fractures developing in Ukrainian politics between those faithful to an increasingly accommodating Leonid Kuchma and the staunchly anti-Russian block of Yushenko and Tymoshenka (which would later disintegrate as well).

Presidential elections were scheduled for the next fall, with the main candidates being Viktor Yanukovich, supported by the pro-Russian elements, and Viktor Yushchenko, supported by the pro-Western elements. Kuchma endorsed Yanukovich and gave him the benefit of the government's advertising and propaganda.<sup>174</sup> Putin also gave Yanukovich his backing, but avoided using energy as leverage in the fall of 2004; cutting gas supplies to affect election results would be too blatant and extensively damage Gazprom's international reputation, analysts argued.<sup>175</sup> Russia was, in a way, exercising leverage by keeping the gas on and making Yanukovich seem like a guarantor of stability. Effective in its own right, in addition, was Russia's increased attention paid to the Blue Stream oil pipeline, another pipeline avoiding Ukraine, right around election time.<sup>176</sup>

The election that followed was bitterly contested. After the first round of elections on October 31<sup>st</sup>, Yushenko received the greatest number of votes despite reports of

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<sup>172</sup> Prime-TASS, 12/9/03. Like the firing of Boris Tarasyuk, this event stands in opposition to the dismissal of David Mirskhulava.

<sup>173</sup> Interfax, 12/5/03

<sup>174</sup> *Election Protests Grow in Ukraine; Deeply Split Nation Comes to a Standstill*, Chivers, C.J., The New York Times, 11/24/04

<sup>175</sup> *Energy Needs Forge Ukraine's Link to Russia*, Dempsey, Judy, The International Herald Tribune, 12/27/04

<sup>176</sup> *Russian Gazprom, Turkish BOTAS Sign Cooperation Agreement*, ITAR-TASS, 12/6/04

falsifications. Yanukovich finished close behind. The second round of elections were held on November 21<sup>st</sup>, and the Central Election Commission crowned Yanukovich the winner of the Presidency despite charges of election fraud. Yushchenko supporters poured into the streets of Kiev protesting the results. While Yushchenko's legal team appealed the decision in the Ukrainian Supreme Court, Yushchenko went into the streets to rally his supporters. Protestor's energy waned, but a fiery speech from Yulia Tymoshenka revitalized their spirits and cemented her as a leader to be reckoned with. On December 3<sup>rd</sup>, the court nullified the November election and set a new runoff date for December 26<sup>th</sup>. Yushchenko won the repeat runoff by a margin of 7%.<sup>177</sup>

Tymoshenka and Yushchenko, both vehemently anti-Russian, ascended to power on a wave of mobilization that dramatically shifted the orientation and attitude of the Ukrainian government. For a time it appeared Ukraine would head in a remarkably new direction. The Orange Revolution, however radical, failed to change anything regarding Russia's energy leverage over Ukraine or regain much of Ukraine's leverage over Russia. Events changed quickly, but the realities of Ukraine's uncomfortable position remained the same. Ukraine wasn't about to swing around all that fast.

*Period 4: After the Orange Revolution: The Return of Successful Russian Energy Leverage*

While the incoming regime was far more oriented towards opening Ukrainian society towards the West and enacting democratic reforms, the difficulties that led Kuchma to renew his friendship with Russia remained. Gerhard Schroeder and Russia

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<sup>177</sup> Congressional Research Service Report RL32845, *Ukraine's Orange Revolution and US Policy*, 4/1/05

finalized the details of the Nord-Stream pipeline in September 2005, strengthening Russia's hand just in time for the fall and winter, when Ukraine would need their help the most.<sup>178</sup> Putin fully intended on using this leverage to harass Ukraine over the shift of the Orange Revolution. Since they had aid from Western institutions pouring in, he remarked, Ukraine should be able to pay Western prices for gas, which at the time were \$160 per 1000 cubic meters.<sup>179</sup> Ukraine was at the time paying \$50.

December launched a series of price disputes which characterized Ukrainian relations with Russia over the coming winters. Gazprom CEO Alexei Miller threatened that if Ukraine did not agree to the new price, Gazprom would cut supplies.<sup>180</sup> Ukrainian energy minister Ivan Plachkow said Ukraine was willing to pay \$80<sup>181</sup>—to which deputy chairman of Gazprom Alexander Medvedev responded that if Ukraine did not stop 'dragging their feet' on paying \$160, the price would leap to \$230. The dispute clearly had political implications. Vladimir Polokhalo, head of the Center of Political Thought in Kiev, surmised that Russia was finally getting its payback for the Orange Revolution a year earlier, and in turn warning other republics not to step out of line.<sup>182</sup>

On New Year's Day, just as Georgia erupted in anger over the explosions on their pipelines, Russia cut gas to Ukraine as Naftokhaz Ukrainiy claimed they would pay \$95, and the rate would stay for the next five years.<sup>183</sup> As parliamentary elections approached in March, it appeared that Russia was politicizing the gas price dispute. Ukraine, however, responded in kind by politicizing the gas dispute within their election

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<sup>178</sup> *Gazprom Seals New Export Route to Europe*, Pronina, Lyuba, The Moscow Times, 9/9/05

<sup>179</sup> *Putin Tells Ukraine to Pay Market Rate for Gas*, Kramer, Andrew, The International Herald Tribune, 12/9/05

<sup>180</sup> *Russian Energy Giant Aims at US Market*, Dempsey, Judy, The International Herald Tribune, 12/15/05

<sup>181</sup> *Gazprom Wins Belarus Victory*, Dempsey, Judy, The International Herald Tribune, 12/29/05

<sup>182</sup> *Russia, Ukraine, Quarrel over Gas*, Finn, Peter, The Washington Post, 12/17/05, A19

<sup>183</sup> *Gazprom on the March in Ukraine*, Belton, Catherine, The Moscow Times, 2/7/06

campaigns. Konstantin Kosachev, chairman of the Duma's international affairs committee, commented that Ukrainian elections play "a huge role in this situation... They have to think about March all the time, about how a solution to this problem and good or bad relations with Russia may affect their election ratings... Final strategic accords are more realistically to be achieved after the election campaign in Ukraine closes."<sup>184</sup>

Kosachev's sentiment expresses one of the great problems in electoral politics: candidates must focus on their images and voter perception instead of realistic solutions. Certain pragmatic courses cannot be pursued if they will be seen as conciliatory to Russia and defeatist by a politician's constituency. A great deal of politics becomes showmanship and trying to appear the most Ukrainian, most nationalist candidate instead of the candidate that best solves problems. Bickering, though an obstacle to real solutions, is a campaign strategy in divided Ukraine.

Furthermore, many politicians in Ukraine represented their own energy interests and still had deep ties with Russia, so there was no way to separate politics from the price dispute. There was little chance of a unified approach towards the energy crisis as different solutions had different implications for different politicians. The ties between Ukrainian politicians and energy companies led to political infighting and maneuvering rather than political solutions, especially around elections. Some politicians were vouching for RozUkrEnergo, and some for Naftokhaz Ukrainiy, a debate which, over the next two years, would emphasize how Russian-related energy companies clouded Ukraine's political atmosphere.

The Ukrainian parliament highlighted the political infighting when they voted to oust the entire cabinet of Prime Minister Yuri Yekhanurov, just a week after reaching a

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<sup>184</sup> BBC Worldwide Monitoring, 12/30/05

new contract with Russia to solve the price dispute and continue supplies.<sup>185</sup> Yekhanurov, after 100 days in office after replacing Tymoshenka's cabinet, was fiercely critical of the Tymoshenka-led Parliament in the days before his dismissal. He went especially after Tymoshenka. She "could do a good job trading gas," he said. "It is better to find some other job for Yulia."<sup>186</sup> After the Parliament voted out the Yuschenko-aligned Yekhanurov, the Premier refused to leave office, but withdrew his signature from a memorandum of understanding with Party of Regions leader Yanukovich.<sup>187</sup> Yuschenko, who also withdrew his signature, declared the vote unconstitutional, allowing Yekhanurov to stay on. In return Yekhanurov alluded to pulling out of the contract and renegotiating the terms, though the price has stayed at \$179.50.<sup>188</sup> Yekhanurov viewed Tymoshenka as unrealistic and uncompromising in her attitude towards Russia. He believed that she didn't grasp Ukraine's lack of bargaining power and was suspicious of her connections within the industry. Tymoshenka, however, believed Yekhanurov was too accommodating and a poor negotiator. Her stubbornness and faith in herself as negotiator, however, would be disastrous for Ukraine later on in the dispute in January 2009.

The Parliament vote and Yuschenko's refusal to fire his cabinet fractured the forces behind the Orange Revolution. Russia's pressure on Ukraine regarding gas prices sufficiently polarized the reformers that they ran as competing parties in the March parliamentary elections, allowing the Russian-leaning Party of Regions to gain a majority. Yanukovich would regain power after the Parliament approved his accession to

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<sup>185</sup> *Ukraine Government Ousted on Russia Deal*, Roberts, John, Platt's Oilgram News, 1/10/06, 1

<sup>186</sup> *Ukrainian PM Criticizes Political Reform, Calls Previous Cabinet Unprofessional*, BBC Monitoring Kiev Unit, 1/10/06

<sup>187</sup> Interfax, 1/12/06

<sup>188</sup> TV 5 Kanal, Text available from BBC Kiev Monitoring Unit, 2/8/06

the Premiership in August, though he would be succeeded by Tymoshenko months later.<sup>189</sup> The splintering of the West-leaning reformers and Yanukovich's return to prominence can be attributed to one factor: Russian energy leverage and advocating trading companies that represented Russian interests.

Russia has used its energy as leverage over Ukraine very successfully since the fall of the Soviet Union, but has done so through ranging methods. Under Kuchma, leverage was through co-opting the executive office. Under Yushchenko, it has resorted to fostering political infighting both within the legislative and between the legislative and executive branches. Russia's moderate uses of energy leverage, such as making concessions and lowering prices with only a handful of cutoffs as opposed to frequent ones in other countries led to the diffusion of conflict and more internal disputes within Ukraine. Had Russia been more bellicose in their attitude towards Ukraine, they would have lost their Ukrainian sympathizers. Instead Russia sought to nurse those ties with their energy companies in an effort to sway Ukraine. This was partly a result of Ukraine's leverages over Russia (that are quickly disappearing due to competing projects), but also the internal conflict they could stoke in Ukraine. Energy became increasingly politicized in Ukraine, and so Russia's concessions and punishments towards Ukraine did not set off conflict against a belligerent Russia, but rather sparked rows within the Ukrainian political elite. Third-party trading companies helped to complicate the debate and fracture the Orange Revolutionaries. If anything, Russia's use of energy leverage has shown

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<sup>189</sup> *Loser in Ukraine's Orange Revolution Returns as Premier*, Kulikov, Yuri, The Washington Post, 8/5/06, A14



Ukraine to still be divided and lacking the institutions necessary for effective monitoring of transparency or conflict of interests and maintaining a stable, functioning government.

## Conclusion

Scholars have done plenty of work predicting outcomes in Eastern Europe and retrenching regimes in Central Asia; that much is abundantly clear. With countries in between, however, such as Georgia and Ukraine, there is little work examining the reasons for their varying outcomes. Instead, readers are left to examine the motivations and explanations for Russian foreign policy. Examinations of Russian foreign policy in general are the only real tools to determine the trajectories of this group of states.

General examinations of Russian foreign policy and its pursuit of empire in the near abroad, however, are laced with shortcomings. Explanations do not account for different policies and outcomes in Georgia and Ukraine; the debate would have readers believe outcomes will be the same in countries that border Russia. There is variation and it warrants a careful explanation.

This work attempts to provide part of that explanation. Using an operational aspect of Russian foreign policy, I established that Russia employs distinct strategies of foreign relations in the near abroad. These distinct strategies point readers towards a better understanding of variations in seemingly similar cases. Since the main tool in Russia's foreign policy arsenal seems to be using energy as leverage, I chose energy interactions as the operational aspect of this study.

Two distinct strategies were identified in the near abroad. One is a strategy of moderation, at work in Ukraine. The other is a strategy of conflict, at work in Georgia. The impacts of varying strategies are not subtle. In the case of Georgia, an aggressive strategy created a reactionary aggression in Georgia. This led Tbilisi to resist Russian influence and alter their energy arrangements so as to remove Russia's main lever of

control. Russia still wanted to exert influence in Georgia, but was forced to resort to other measures, such as economic sanctions and eventual military force.

In Ukraine, Russia continues to employ a strategy of moderation and consolation. Instead of aggressive cutoffs and demanding Ukraine pay their debt, Russia offers Ukraine lower prices, forgives debt at key times, and tries to garner influence within Ukrainian industries and government. Russia continues to succeed on this front, keeping Ukrainian politicians divided and unable to assert their independence from Russia.

The differences in strategy raise another important question: Why has Russia applied different strategies to its seemingly similar neighbors? The answer relates to linkages and leverage, but in a different manner than scholars have previously presented it. Georgia lacked any linkages with the West or leverage over Russia, which consequently dictated the Kremlin's truculent approach. Ukraine, on the other hand, has many linkages with the West and in turn considerable leverage over Russia, leading to Russia's cautious approach.

Further work is required; there must be more examinations of variation in Russia's near abroad, with careful study of other operational aspects. Other countries lying in this ambiguous category of former Soviet states, such as Kyrgyzstan and Moldova, should be closely examined to further refine theory on variations in Russia's near abroad.

This work suggests that power relations in the Russian near abroad and countries reliance on Russia are not likely to change any time soon. Countries with linkages and leverage over Russia, such as Ukraine, have failed to leave Russia's bosom even when they try, suggesting that Central Asian countries that may follow suit will probably face

similar difficulty. Perhaps the most important factor is Russia's need to maintain influence at all costs in the region. The Kremlin continues to reject all attempts to cede authority in the region to other bodies. The Russian mindset towards the near abroad is an old one, and probably will not shift, no matter how liberal Russia's president may be in the future.