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## Russian Energy as a tool in Foreign Affairs

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## Abstract

This paper will start out by giving the reader an in depth understanding of how Russia became a regional energy power by channeling power from the state owned company Gazprom into the state apparatus. Hereafter the paper will focus on Ukraine and the crisis the country is undergoing. This insight will later be used to analyze how the crisis in Ukraine is tightly connected to Russian energy politics and western expansionism. Armed with this knowledge, the reader will have sufficient understanding of the tensions of the region caused by the underlying dynamics between Russia as one whose economy is reliant on energy exports and Ukraine as a dependent on the Russian gas, and the EU as an important power expanding towards the western borders of Russia. This knowledge will be crucial in the later decryption and analysis of Russia's future abilities to use its power as an energy exporter in foreign policy issues. Moreover, developments in the energy market will be reviewed to assess capacity of Russia to maneuver vis-a-vis the EU.

In the analysis the paper's focus will be on understanding how states interact when trying to look after their own interests even if those interests might require intervention or meddling in another state. Here the paper will use realism to understand the thought process behind Russia's actions against Ukraine and why it has chosen exactly this course of actions. This will pave the road for a discussion of how successful Russia's interventions through economic means have been and how successful (or failed) proceeding with these kinds of tactics was in the past with the help of an example. The reason behind discussing this is that this will illuminate some aspects of how and when energy can be used as a foreign policy tool in conflicts.

## Introduction

The recent crisis in Ukraine has generated considerable attention throughout the world. The Ukraine crisis has shown just how powerful countries attempts to influence lesser powerful ones by using various means of power. Such attempts can be seen from especially Russia, but the EU has tried to influence, as well. The EU has, since the collapse of the Soviet Union, pursued a strategy of incorporating former eastern bloc countries into the EU. This strategy has been achieved by promises of democracy, rule of law and economic prosperity. This enlargement of the EU has affected Ukraine and forced the country into some difficult choices. Russia has on the other hand, tried to influence Ukraine by supplying cheaper energy resources, and hereby created a way to coerce Ukraine, since it has become highly dependent on Russian energy in order to run its energy intensive industries. Energy is in general one of the major factors, in the crisis between Russia and Ukraine and affects both country's economic growth and prosperity, because Russia is more dependent on international trade than it was just 10 years ago. Half of Russia's foreign trade is with Europe (BBC, 2014 B). Here Russia needs European imports to fill its stores in order to sustain the standards of living, which the Russian populations have grown accustomed to. This evolution of the Russian domestic market is also a product of the energy exports, or more specific; its revenues. Another thing that is paramount to comprehend is how exporting energy affects Russia's ability to influence the importers of Russian energy, even on domestic issues. These are just some of the reasons that pull the attention of the authors of this paper to scrutinize to what extent energy plays a role in the Russian foreign policy and capability of the Putin administration to use energy as soft power.

## Previous research

In order to understand the Ukrainian conflict, and the role of energy as a factor in the conflict, several academic works, done by experts of their respective fields, have been reviewed. This section will provide a brief insight into stances,

perspectives, and inferences of scholars, in concern to Russia's stance on, and interaction with, Ukraine.

One aspect of the conflict, there have been plenty of research on, is the relationship between Ukraine and Russia, most of this research though, is centered on how political parties either have ties to the Kremlin administration or how ethnicity has split the population into either Pro-Russian or pro independent camps (McMahon, 2014) There have also been numerous studies on how larger countries influences another country through cultural, economic, and political means; however, the authors of these papers felt short in describing how different kinds of economic power, beyond the above mentioned, such as energy can be used as a political tool. One scholar who has tried to examine energy in politics is Stefan Hedlund. Hedlund, a Swedish scholar, on Russia and Eastern Europe, does not believe that using energy, as a weapon will bring positive outcomes as it is perceived. He gives the 1973 oil crisis as an example in which

*"...the oil producers themselves was the risk of a massive shift towards conservation and the promotion of renewable energy, which would leave OPEC with much oil and little money" (Hedlund, 2011).*

Long term contracts and pipeline infrastructures of gas trade at a price may depict as *"a case of consumers being at the mercy of their suppliers"*, but as in the case of recent Russian-Ukrainian gas crises in 2006 and 2009, the consumer countries may tend to be in search of alternatives, so one must consider who loses the most when gas flowing through the pipeline is stopped. Looking at Russia specifically, energy exports were helpful to restore economy and political prestige to the country, but does it really bear fruit for power? If the notion of power is capability to make others do things, otherwise they would not, then, it is questionable that energy resources as means of power alone will be useable (Hedlund, 2011).

One scholar who opposes this belief is Marshall Goldman. This American cognoscente on Russia sees it all from the opposite perspective. According to

him, the Putin administration has employed Gazprom to influence other countries politically. Russia still continues gas subsidies for both domestic consumers and some other countries which were once used to be part of the Soviet Union (e.g. Belarus and Armenia), meaning that they receive gas with cost below the market price which the European customers of Gazprom pay. Goldman argues that after the so called Orange Revolution, Gazprom started demanding a price increase for the exported gas to Ukraine, he even notes Putin's argument:

*“Yushchenko was welcome to seek a closer alliance with the West and turn his back on Russia, but he should understand that if he did so, Russia was under no obligation to continue to subsidize its energy exports to Ukraine” (Goldman, 2008).*

In addition to the above, it's worth to note that in 2012, Russia offered discounts for gas prices to Ukraine in exchange of joining the Customs Union which Putin has envisioned to counter the EU by combining Russia, Kazakhstan, and Belarus, and later Kirgizstan and Armenia. Besides that, Goldman states that Russia has taken political steps in order to secure Gazprom revenues. He claims that by destabilizing Georgia, Putin was able to shake the position of Georgia as a reliable transit country for the alternative pipeline projects, which were intended to bypass Russia in the near future (Goldman, 2008).

### **How Gazprom became Russia's tool in foreign politics**

*If one is to understand how Russia controls gas-sales both domestic and for foreign exports, one has to have an understanding of Gazprom. Gazprom is currently Russia's largest energy company with an estimated value of 160 billion dollars, plus ownership of an unaccounted amount of large subsidiaries in the energy sector. Furthermore it owns several television stations in Russia. These television channels and the large impact Gazprom has directly through institutions, and indirectly through governmental connections, has made Gazprom a giant in Russian economic, cultural and political matters. But how did Gazprom become this*

*Russian energy super weapon and economic giant, which constitutes about 10 percent of the country's GDP? (Mehdi, 2012)*

Gazprom emerged as a company in 1989 from the remains of the Soviet Ministry of Oil and Gas. The creation of Gazprom signaled the Privatization phase of Russia that saw large part of natural wealth leaving the state and instead going into the hands of a few oligarchs. This development lasted throughout the 90's, but in the beginning of the 21th century great changes ripped through Russia. Here a change of government, from oligarch friendly Yeltsin to the more centralizing oriented Putin, altered the course of Gazprom dramatically. Putin had, years before entering the presidential office, laid out plans on how to turn Central Asia's natural resources into a political tool that would secure Russia's return as a major player on the international stage.

Putin's first move was to put his right hand man Dmitri Medvedev as chairman of Gazprom's board of directors and later change out almost the entire leadership of Gazprom with his own loyal henchmen, hereby securing tight control of the state owned firm. After the seizure of Gazprom's leadership, Putin used his political power to give the company exclusive rights to export gas from Russia. With Gazprom's monopoly on gas exports and Russian pipelines the stage was set for a massive return for state owned energy production. From 2003 to 2010 Gazprom, thanks to massive tax cuts, became one of the largest natural gas suppliers and a major factor in the revival of the Russian economy.

With the complete control of Gazprom, Putin started to secure gas flows to the customers beyond the Russian borders especially towards Europe, which is the final destination of 76 percent of the exported gas (EIA, Russia, 2014). In regards to establishing control of these areas two strategies were developed:

- *Control existing transit routes or minimization of the role of foreign governments that may be on the route.*
- *Diversification of the transit routes.*

In opposition to these two strategies stands the countries on the route, which are dependent on the Russian gas. They have regarded the transit pipelines as independence from Russia and used them as a bargaining tool for importation of gas from Russia. This is also very much what has happened in the case of Ukraine. Ukraine hosts the transit pipelines that transfer 80% of the Russian gas exported to Europe therefore political and economic condition in the country is crucial for smooth transfer of gas. The single unified pipeline network inherited from the Soviet Union in the former soviet country, made it hard for Russia to sort out gas imported for domestic consumption and gas for transit. Therefore Russia priced Ukraine's gas at a fixed rate, which was much cheaper than European customers. However when Ukraine tried to escape the Russian orbit of influence, this also affected the way of doing business (Hafner, 2012).

### The Ukraine Crises

*Now that there has been an brief understanding of Gazprom the following section will give an overview of the most important issues leading up to the 2009 gas cut-off in Ukraine and in broad terms describe the political aftermath hereof.*

The Orange Revolution in Ukraine spurred the first cut-off in natural-gas supply. The revolution was a pro-Europe revolution and was seen by Russia as a turn towards Europe and the west and thereby away from Russia. The Ukrainian presidential candidate Victor Yanukovich, whom Vladimir Putin wanted as president, was turned down and instead the pro-European candidate Victor Yushchenko was elected president of Ukraine. It is this presidential election, which initially sparked the increased tension that would later lead to the conflict between Russia and Ukraine. Russia's first hostile move towards Ukraine happened in 2005-2006 when Russia canceled subsidies on gas exports to Ukraine (50\$ pr. 1000 cubic meters). When Russian subsidies ceased to exist and the gas price increased to that of the market price (230\$ pr. 1000 cubic meters) (Parfitt, 2006). Ukraine could do nothing but to object. This disagreement in price negotiations resulted in Gazprom reducing the gas flow to Ukraine and the rest of Europe. Furthermore accusations of theft were voiced against Ukraine



from western European gas importers. Ukrainian officials denied these accusations, but later on admitted that they had great gas needs for domestic usage in the period. The gas dispute reached its height on Jan. 1 2006 when the gas supply was shutdown entirely, even though shortly restored after a preliminary agreement between the nations (Kramer, 2006).

The dispute with Russia has had extensive consequences for Ukraine since it is so depended on both the income earned from transition costs, from the pipelines going through Ukraine, and the gas for its own production and population. Ukraine gets more than 60% of its total gas consumption from Russia (Meyer & Krasnolutska, 2011) and the Ukrainian turn towards the West, has resulted in yearly hikes of the gas price (BBC, 2009). These price hikes and yearly negotiations over gas prices culminated with Russia cutting of gas to Ukraine in the midst of winter in January 2009 (Bilefsky, 2009). This meant that not only were people in Ukraine freezing and dying from the cold but the industry also had to shut down due to the lack of gas. This was a catastrophe for the Ukrainian economy, since it had already taken a bad toll during the 2008 international financial crises. Due to the vast amount of pipelines going from Russia to Europe, the cut-off had effects not only in Ukraine, but also in most of Europe. The countries which were affected the most were the old Soviet states that had not been integrated firmly enough into the rest of the European energy grid and which were almost solely reliant on Russian gas. Especially Bulgaria suffered during this period, the Minister of Economy said that industry was losing at least 5.8 million dollars a day during the 2009 cut-off (Bilefsky, 2009). This cut-off was more than Ukraine could handle on its own, and with no help from the European Union Kiev had to turn back towards Moscow and Putin. Putin had his way, and the pro-European Victor Yushcheko was replaced during the election in 2010 with Victor Yanukovych. This meant a turn back towards Russia as Victor Yanukovych promised a closer bond with Russia during his election campaign sponsored by Russia (McMahon, 2014). After Victor Yanukovych was elected he continued on the path towards getting closer ties with the European Union and possibly a NATO membership even though he had promised the voters otherwise. But due to his allegiance towards Moscow, Victor Yanukovych

abandoned these negotiations in late 2013. This led the country into the worst demonstrations that it had seen for decades and after three months of demonstrations, Victor Yanukovich was replaced by the pro-western Petro Poroshenko (McMahon, 2014).

The rejection of EU's economic agreement on the 21st of November 2013 started a chain reaction in Ukraine, yielding demonstrations in the country resulting in Yanukovich retreating from Ukraine and into Russia. Afterwards the Russian occupation started in Crimea with military power, which ended with a referendum to join Russia. The voting in Crimea was boycotted by the western world, but it did not stop Russia, which legislated the vote. The takeover of Crimea started the first round of sanctions from EU, creating tensions between EU and Russia (BBC, 2014). Ukraine itself became divided into different pro-Russian and pro-EU regions, creating a dilemma for Ukrainians to choose sides (Mearsheimer, 2014). One of the major problems for Ukraine is that they are dependent on Russian energy and at the same time act as a provider for the European Union as a distributor therefore making it hard to choose sides, hence the economic dependency on both sides.

### **The deal struck between Gazprom and Ukraine.**

After the coup de'état in Kiev in the early spring of 2014, and the following annexation of Crimea by Russia, tensions seem to have reached an almost warlike level. The initial political tensions created economic spill-overs which resulted in a standoff over gas deliverance to Ukraine. This time Russia's reason for the shutdown was that; Ukraine needed to pay its debt to Russian energy giant Gazprom before gas deliverance could be resumed. Even though paying might seem like the straightforward solution to this issue, the exact amount needed to be paid and the future deliverance of gas couldn't seem to be agreed upon (Johnson, 2014). Ukraine where prepared to pay the Russians what they owed them, but needed reassurances that Russia would supply gas for the winter, before doing so. As the chairman of Naftogaz puts it:

*“We believe the price is not actually fair. But the biggest obstacle is that Gazprom has refused to sign the deal proposed by the EU. We are prepared to pay, we are prepared to be constructive, but what we need from the Russian side are guarantees of the supply of gas this winter. We need to sign a paper that will oblige Gazprom to supply a certain amount of gas on a certain schedule at a certain price for the next six months.” (Johnson, 2014)*

But even though the obstacles seemed impossible to overcome Gazprom and Naftagaz reached an agreement on the 21<sup>st</sup> of October 2014. This tentative deal was a large step forward for both parties that have been slamming each other in public. The deal will see Ukraine getting 5 billion cubic meters of gas, enough to get the country through this winter, and Russia will receive 2 – 3 billion dollars of the 5 billion dollars it says Ukraine owes it. A third part that will likely be happy about the deal as well is the European Union, who no longer has to fear that its Russian gas will be stolen or taken hostage in another Ukrainian shut down (Francis, 2014) & (Gloystein, 2014).

## Problem formulation

In order to comprehend the interplay between Russian energy and the countries might in foreign policy issues; the problem formulation is going to focus on Russia's actions in Ukraine. This knowledge will later be held against the obstacles Russia faces both in Ukraine and globally to enable a discussion of Russian energy and its usability in foreign policy. In order to achieve this, the paper has chosen the following problem formulation and sub questions.

“How well does Russia's energy export serve them as a foreign political tool? And how efficient will this tool be in Russia's future dealings with Ukraine?”

## Sub questions

- *How strong is Russian Energy as a Foreign Policy Tool in regards to the situation in Ukraine?*
- *What has the increased influence of the EU in Ukraine meant for Russian power in the country?*
- *How do major changes in the global energy market affect Russia's ability to use its energy as a political tool in Ukraine?*

## Methodology

*This section will give an understanding of the methodological considerations that this paper has undergone, in order to reach its final conclusions. With the usage of the case study, this paper will try to focus on; how energy politics have impacted the situation in Ukraine. Afterwards, this section will focus on how the empirical data have been gathered in order for this paper to use them. In the end of this section there will be a brief explanation of the reliability and repeatability to produce a supportive analysis. Finally, the methodological section will finish by explaining how this accumulated knowledge will increase and assure a good validity in this paper.*

## Research Design

The reason this paper is choosing to work with the case study as research design is to illuminate the problem formulation. The unique element, in the case study-model is its capacity to explain complex dynamics within the framework of the case. The case study can be used to explain both simple individual cases and complex overlapping cases. Furthermore the case study can handle qualitative and quantitative empirical material and thereby giving the analysis the strength of understanding both the unique- and generalizing phenomenon (Bryman, 2012, pp. 66-68). The paper, is working with a simple case design focusing on understanding Russia's possibilities to wield power in Ukraine. It is important in a case study to be able to pick a case, which can be understood using the methodological tools explicitly belonging to the case study. The Ukraine crisis has been chosen as the case for this paper, since it is the best case there is to currently understand how Russia is using its energy exports in foreign policy issues. In the choice of case the vital parts is to pick a case that includes all the essential aspects of the phenomenon one is to encapsulate, and hereby secure both a reliable, repeatable and a valid research.

### Empirical Material

The paper will depend on the usage of mainly qualitative data to answer the problem formulation. Therefore it is critical for this paper to have a vast collection of empirical material to strengthen the validity of this inquiry. This paper is working with the basic understanding that the usage of sub questions, will secure a framework that will insure a more dimensional conclusion to the analysis, since the discussion of the paper will be able to include; a state-to-state dimension, a regional and a global dimension.

With the research design in place, it is now important to understand how the paper will handle the area of subject and try to answer the problem formulation. This section will give an overview of the qualitative method, which this paper will build most of its foundation on, by using the document analysis. Here the qualitative method has both strengths and weaknesses in its explanatory power. The strength of this methodological approach is mainly based on its ability to managing language, whereas its weakness lies in the lack of explanatory power without incorporating any numbers. (Bryman, 2012, pp. 380).

This paper will be using document analysis as the methodological approach to collect data from the qualitative material needed for a later analysis. Document analysis primarily operates with source materials such as official documents or newspapers. The only true important criteria for the document, being analyzed, are its relevance to the research it is being applied unto later. (Bryman, 2012, pp. 543). The usage of document analysis to extract information from the empirical material is essential to be able to answer the sub questions chosen in this inquiry. When using document analysis to extract information from the empirical material, focus will be on three different aspects. The first aspect is the authenticity, the second is credibility and the last is the meaning (Duedahl & Jacobsen, 2010, pp. 53-67). First of all, the authenticity of the above chosen empirical material is considered high, due to their praised expertise in the field of international relations. However a more authentic material could have been used in the form of governmental documents, which could contain information about Russia's actions and explain the real purpose towards Ukraine, which is

unfortunately hard to obtain. The credibility is another important aspect, since it will verify if the materials found is usable for the analysis. The writers behind the selected magazines are mostly recognized scholars from all around the world. The different cultural and academic backgrounds of these scholars and their diversified stances on the situation create highly credible source materials. Even though there is good credibility of the used empirical material it can still be easily misunderstood, since it is hard to figure out the transparency of the scholars' work of their methodological and theoretical choices in their research. The preponderance of Western sources can yield a certain loss of credibility by not having an in-depth understanding of the Russian perspective. However with the language barrier it will be difficult to accumulate the proper data.

The empiric material in this topic varies from news articles to scientific articles. The largest amount of the empiric material has been derived from Internet sources such as, Foreign Affairs & Foreign Policy, which are highly recognized information sources. These sources are the foundation on which this paper tries to approach the topic and comprehend the different sides and arguments and to give a good insight in the global market by examining the tendency on how energy exportations are developing. The sources chosen for this paper have credible weight, since highly recognized international scholars have written them. The reason this paper is using these websites is also due to the up-to-date scientific information about the crises happening in Ukraine. Other news media like BBC, NYT and The Guardian, has been used to get a more basic understanding of how the crises is evolving and to get hard data on the development of the situations.

The quantitative method is used to manage numbers in an inquiry. The main literature of this inquiry is based on qualitative, but there will still be used some amount of quantitative data in the analysis of this inquiry. This paper will be using quantitative data, to compare how Russian and Ukraine are trading with each other, and to understand how the oil and gas import and export have developed in the past decade to give an understanding of the economic

situations and hereby drawing understanding of the economic situation in the time limit of this inquiry.

### **Reliability and Repeatability**

Reliability is essential in relation to the quality of the paper because it is focusing on the consistency of assumptions made in the inquiry. This could for instance be, if the chosen empirical material has been well picked towards answering the problem formulation (Bryman, 2012, pp. 46-49). In this paper there is a small weakness in the reliability concerning Russian display of energy as Power. The perspective of time operated in this paper is defined by a temporal time context, which only gives a few occasions in 2006, 2009 and 2014 when there can be observed a Russian display of the power of Energy, hereby lowering the reliability on behalf that there is only a limited amount of events, which can be used to observe the Russian power display. Therefore the framework of this paper has been limited to the period of 2004-2014 to insure as much reliability for this paper. The reliability of this paper could increase favorably if there was a possibility to gather more complex information through either interview of highly influenced political persons in Russian government or quantitative data, which could be used to give a more general understanding of how Russia uses energy as a political tool. Unfortunately it is extremely difficult to almost impossible to get such empirical material.

Repeatability is another concern in the methodological perspective of this paper. Here dealing with how likely another inquiry is to reach a similar conclusion in the regards to the area of subject. In the work of international relations the limitations is based on time, because there can only be source material about the past and the present. Therefore it is very complex and difficult to tell if the information found today will result in same interpretation in the future (Bryman, 2012, pp. 46-49). The repeatability concerning the present is on the contrary better suitable with the usage of the theory of realism to answer the question asked in this paper, creating a good and simple framework of others scholars to repeat this work from the same theoretical perspective. On the other hand it is



important to keep in mind that with a different theoretical approach the construction will change and therefore often result in producing a different conclusion to the problem formulation, which this inquiry wish to answer. However it is good to know that the repeatability in international relations is not the main concern, since the research will get more invalid with time, and new research will be made on the premises of new empirical material found in the future (Bryman, 2012, pp. 47).

### Validity

Validity is the most important criteria of a paper. If the papers research is not valid it will be invalid and therefor cannot be used as a scientific empirical material for further research. Validity is measured in different ways, and it is therefore important for a paper to fulfill all the criteria in order to be validated as researches. The way to measure validity, or to tell in other words if the paper is actually answering the problem formulation, is based on determining whether the chosen sub questions really answer the main question of the paper. In this research there can be speculated whether the following sub questions is covering the paper's problem formulation.

- *How strong is Russian Energy as a Foreign Policy Tool in regards to the situation in Ukraine?*
- *What has the increased Western influence in Ukraine meant for Russian power in the region?*
- *How do major changes in the global energy market affect Russia ' s ability to use its energy as a political tool in Ukraine?*

As mentioned before these sub questions are the key elements in the descriptive case study and therefore this is also an active selection process, which this paper has made to answer the problem formulation.

“How well does Russia’s energy export serve them as a foreign political tool? And how efficient will this tool be in Russia’s future dealings with Ukraine?”

To answer whether the measurement of validity is fulfilled, it is important to use the principle of Internal and External validity. Internal validity, tells us the causality that exist between the examining variables. The internal validity is a tool for making sure that the variables being examined are the main factors or reasons for what is happening (de Vaus, 2011, pp. 247). Since this paper are working with the case study with a very narrow perspective on how Russian government is using energy as a tool towards Ukraine. This paper will examine whether the dependent variable "Russian Energy" is affecting the independent variable, Ukraine, to secure high internal validity for this inquiry. In addition, the external validity focuses on how the result of the study can be generalized outside the specific area of subject (Bryman, 2012, pp. 47). Since this paper is creating an understanding on how economic power can influence international politics, there is a great opportunity for using the same model of analysis to understand whether other industrial sectors can be used as a tool in foreign policy. This gives the paper an outstanding external validity to generalize the understanding on how economic power can be used in the international arena.

### Delimitation

*This section will explain this paper's active and passive delimitations. In investigating the interplay, between Russian energy politics and the crises in Ukraine, a certain delamination has to be drawn. In its essence, the purpose of the delimitation in this paper is to help construct a silver lining throughout the paper by maintaining a steady empirical focus. Furthermore, the delimitations will secure that the later conclusions will not be too broad and thereby irrelevant.*

The passive delimitation, in the paper does mainly occur in the choices of the empirical material. Here the paper has chosen a more western approach to the subject. This is due to language barriers and a wish to keep a certain level of reliability. The choice of this particular empirical data creates a passive delimitation, since other empirical material is being left out. The active delimitation occurs mainly due to the use of selected theories and the scope of

the inquiry. Here, an important aspect is the usage of realism combined with the concept of economic power as our primary explanatory power. By using this theoretical framework a lot of different understandings, of both power and relations between states, is lost. Another major delimitation stems from the choice of using Ukraine and its crisis as our case. Hereby, a lot of other nations that Russia also has intimate energy relations with are deselected. Furthermore, by choosing this case a time constraint appears. Here the paper actively chooses to look upon the Russia and Ukraine's strife in after the Orange Revolution. Another important delimitation is the choice of gas as the energy resource this paper focuses on. Even though oil is a significant element in Russia's energy exports, the extent of having to deal with more than one piece of Russia's energy sector would be too comprehensive for the paper, so in order to get a more thorough insight the paper have selected just one. This also means that progress of renewable energy will not be taking into account. The last major variable that this paper has chosen to delaminate is the feature of the international monetary- and banking system. The delamination of these aspects does mean that the paper will not try to analyze, or in other way comprehend, how sanctions put forward by the west have affected Russia's economic power. Not looking at the monetary aspect of the economic sanctions and the Ukraine crises, does limit the papers final understanding of Russia's economic power, but it is an active choice needed in order to stay on point and not get caught up in larger economic speculations.

By having this narrow perspective the paper will form a more in-depth understanding of how Russia has used and can use energy as a foreign policy tool towards Ukraine. Furthermore, the above-mentioned delimitations do give the paper a more stringent and structured research question. The narrowing in the theoretical approach and the passive delimitation from empirical material could hurt the explanation power, if these restrictions are not implemented thoroughly throughout the paper

## The Developments in the Global Energy Market

*In this section the paper is going to describe the different tendencies in the global energy market and their relevance for Russia will be accounted for. The reason for this explanation is to create a framework for understanding how Russia's economic power, which is closely linked to energy, is affected by global energy market changes. Achieving a comprehensive understanding of the relationship between the Russian economy and the global energy market will provide a different power of explanation, than the theoretical approach, and hereby try to accommodate for eventual shortcomings in focusing too much on the regional and local aspects of the interplay between Ukraine and Russia.*

### The Developing Gas Market

In the last couple of years exporting gas, have become less of a goldmine for Russia. Here Russian energy giant Gazprom have been experiencing steady decline in its revenue, this development cannot be isolated to the company, since Gazprom makes up to 10 percent of Russia's export profits and the loss of revenue does lead to a reduction in Russia's net growth (Marson & Parkinson, 2013). The decline is grounded in the very model upon which Russian gas adventure was initially build; being able to buy cheap natural gas in the Caspian region and reselling it to Europe. As an outside observer, one might be surprised to learn that Gazprom's earnings have declined almost 15 percent in 2012 but seen in the light of the changes on the global energy market and Gazprom's negotiation methods one can suddenly start to comprehend why Gazprom is losing its profits (Marson & Parkinson, 2013). There have recently been changes in global gas market because of several factors. Firstly, gas supplies have proved to be an abundant resource, which obstructed price increase, consequently, it has relieved demanding countries. Discoveries of conventional gas in east Africa and the eastern offshore of the Mediterranean Sea and developments in extraction of unconventional gas (shale gas) in the US are just some of the reasons behind the gas abundance. The shale Gas revolution in the U.S have also

meant a cheapening of coal and hereby given the EU an alternative to Russian Gas.

### Oil market

It is important to look at the oil market since the main consumer of the Russian gas is Europe where price of gas is linked to the price of oil. Thus, either increase or decrease of the oil price leads to surplus or deficit in the budget of Russia. After constant price around \$110 for three years, the oil price has gone down to \$60s, because of profusion oil in the market. This oil glut is caused mainly by two factors. The first is the boom in production of shale oil along with shale gas in the US. The other factor is a slowdown of demand especially in rapid growing Asian markets after the 2008 financial crisis. After the last meeting of OPEC in November, the member countries took decision to maintain the same level of production, and member countries like Iraq and Iran stated to increase production (Bayern Gas Norge, 2014), as a consequence, the pessimistic actors of the sector are saying about \$35 when the countries run out of oil storage capacity for already produced oil (Bayern Gas Norge, 2014.).

### Pipelines in Central Asia

The developing energy market in the world and the increasing demand is allowing new actors to play a role in the import and export of energy. Central Asia is slipping out of Russia's grasp with countries such as Azerbaijan, Turkmenistan, Uzbekistan and Kazakhstan offering independent gas deliverances to Europe and Asia. The shift has mainly occurred due to U.S backed pipelines from the Caspian region through Turkey and directly into Europe and China's entrance into the region. Here the Chinese energy company CNCP (China National Petroleum Corporation) have constructed pipelines to all central Asian countries and hereby undermine Russia's ability to use its "divide and conquer" tactic. China is becoming major investor on energy resources. During the Soviet time, gas of Kazakhstan, Turkmenistan and Uzbekistan was shipped to the pipelines in Russia by the Central Asia – Center (CAC) network of the pipelines (Chow & Hendrix, 2010). Rapid growing economy of Chinese market creates demand to find

efficient and secure energy and raw materials, thus, China has started to show an interest in Central Asian energy resources. After having acquired a concession of onshore gas field in Turkmenistan in 2006, Chinese state energy company China National Petroleum Company (CNPC) began to build pipelines through Uzbekistan and Kazakhstan with capacity of 40 bcm (Chow & Hendrix, 2010), which reduced dependency of the Central Asia countries on Russia. Additionally Gazprom has not built the required infrastructure yet to connect to the Chinese market (Petersen, 2013). Since the Russian gas is traded through pipelines, it flows mostly to Europe, and North America and other far energy consuming countries is a remote destination for the Russian gas to flow. The fact that Russia is not the sole gas supplier of Europe, and the West is building pressure on Russia, has pushed the Russians to search for alternative markets; however construction of necessary infrastructure costs a lot which the Russian side may not bear. Although newly signed the \$400 billion agreement with China may seem to relieve Russia, the new pipelines, perhaps LNG plants too, to eastern border of Russia has to be built in order to carry its gas to the Asian market (Hornby & Anderlini, 2014). The only problem is the time, since every year this project is ongoing the Chinese market will find other alternative until Russian gas arrives.

## Theory

*In this section of the paper, the paper will try to give the reader an insight into its theoretical background and some of the major concepts. The main theoretical background in the paper is realism. This theoretical approach will be introduced and be accounted for in order to give a comprehension of how the paper understands states and the system they interact in. Furthermore, a definition of exactly how certain theoretical concepts is structured and understood will be given. The two main concepts of the paper are "power" and "expansionism". Having accounted for the main concepts of the paper, deselected theories will be introduced with an argumentation of why other relevant theories were not used.*

## Realism

Realism is an old theory and because it is an old theory there are lots of different types of realisms. The first appearance was more than two and a half century ago with Thucydides the Peloponnesian war. Since then, there have been a lot of different views and different elements added and discussed in relation to realism. The report does not have the pages to cover the entire field of realism so only the essential elements of realism will be presented and explained in the following paragraph.

To the Realist the state is crucial and the single most important actor in the international system. Realism is a state-centric theory and some refer to this notion as statism (Baylis, 2011, pp. 87) The realist takes the definition of a state from Max Weber:

*"Today, however, we have to say that a state is a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory" (2009, Gereth & Mills, pp. 78).*

To a realist the state is sovereign and there is no higher authority than that of the state. On the individual plan, statism means that individuals inside the state must

trust the state with their security and therefore trade away some of their own liberty for security (Baylis, 2011, pp. 93). This is true to the realist because all of the values and beliefs that different individuals possess are guarded by the sovereign state. This means that to the realist nothing that goes on inside a state is possible if the state cannot ensure its own survival so number one priority for the realist is the survival of the state and this is something that all states has in common.

The way that a realist sees the international system is simple because they claim that the order that exists domestically only do so because of the sovereign state. There is no super-national government with sovereignty in the international system and because of that the international system is one of anarchy (Baylis, 2011, pp. 87). This is like the billiard ball example of Hobbes, where man do not live alone in a state of nature, but instead living in an interactive world clashing like billiard balls on the billiard table, which represent the anarchy system (Yurdusev, 2006, pp. 318). To the realist the opposite of anarchy is not chaos but hierarchy. Inside the state there is order because the state has the ability to enforce the laws on its population. The absence of a hierarchical structure in the international system coupled with the realists emphasis on survival, creates an anarchical system where states strife for power (Baylis, 2011, pp. 94-95). To the realist, power is a relation between, at least, two actors. And it is seen as a zero-sum game (Baylis, 2011, pp. 94). If one actor in the international system becomes more powerful, another has to lose some of their power. This leaves the states in a system where every actor is trying to maximize their own power. It is therefore obvious that small countries do not stand a chance in direct competition with bigger states. Therefore, small states have to use what realist call balancing of power. The idea in this realist approach is that smaller states can join forces in order to balance out a more powerful state (Baylis, 2011, pp. 88). Another dimension to the constant struggle for power in order to attain security is defined by realists as “the security dilemma”. Here, a dilemma arises when one state arms itself, for defensive reasons, another state sees this as a threat and as an offensive move and are therefore forced into arming itself, which again will result in the first state arming itself even further. The security dilemma is not



restricted to arms alone. The security dilemma encapsulates the paradox; that aggression is both the states solution and the problem (Baylis, 2011, pp. 95).

In the realist world of power maximization a crucial term is “self-help”. The problem of self-help ascends as a consequential effect of powerful states increasing their own power by testing or invading the sovereignty of a smaller state. If the state is unable to use the balance of power or in other ways unable to defend itself there is no higher authority, because of the anarchic system, there is no help to seek. A pronounced realist John Mearsheimer calls it the 911 problem (Mearsheimer, 2006). He argues that if a state is in trouble and calls 911 there is nobody at the end to answer.

### Power

Power as a concept has always played a major role in the realist discussions and analysis of interactions among nations. The scholars of International Relations have generated various definitions of power, thus, there is no consensus on a clear-cut frame of the concept of power. Robert Gilpin refers to power as “one of the troublesome” concepts in the field and states that lacking a single definition of power should be “... embarrassment to political scientists” (Baldwin, 2013). However, there is a common ground in these various definitions which is; power appears when A can cause B to do something which B would not do otherwise.

Nations are traditionally assumed by political scientists to place high value on maintaining their independence and to rely on their military forces. Therefore, the concept of power has often been associated with a nation’s military capacity. A nation’s territory and population is used to measure the power, which produce wealth, and army and navy, which protect the formers (Morgenthau, 1948). On the other hand, the ability of causing B to do something may not necessarily require only military power, which is often referred to as hard power. Davis A. Baldwin, below, categorizes various means of power to influence others (Baldwin, 2013).

- *Symbolic means – provision of information. A might cause B to do something by reminding B of, e.g., open market system of economy is better for economic growth.*
- *Military means – usage of military force.*
- *Diplomatic means – negotiations.*
- *Economic means – e.g. reduction of trade of a specific good which is essential for B.*

Since globalization is irreversible, “the conquest of markets” are much more crucial than conquering a territory, hence, economic means of power is vital for a state to possess. Economic growth and other economic indicators are becoming more important than geography and population in assessment of international power. The intangible aspect of economic power is essential, since true economic power cannot be measured simply by only on resources. Economic power can be exercised when there is relative dependency among countries. Outcomes of economic power depend on bargaining and ability to convert it into effect (Nye, 1990). For instance, A and B are dependent on each other, but A is less than B, this asymmetry is a source of economic power, because A is less vulnerable than B if the relations deteriorate, and A can use B’s vulnerability as threat which is therefore a source of economic power. Another consideration about economic power is related to the cost of military conflicts. Application of military to solve a conflict is much more costly than previous centuries, hence the cost of developing new military equipment and the cost by using them. Especially, today’s anarchic character of international system, lacking a single hegemon, has forced states to search for other means, like economic ones, to maximize their positions, instead of direct military conflicts (Nye, 1990). Some scholars see economic power as a source of hegemonic control. Here, two groups of scholars distinguish economic power differently. One considers hegemonic economic power as a product of control over natural resources, meaning that a hegemon has control over raw materials, sources of capital, markets, and production of goods. The other group defines hegemonic economic power as capacity of a state that is able to set rules and arrangements for the global economy (Nye, 1990).

### Expansionism

Expansionism is a concept, which is found in John Mearsheimers offensive realism, which belongs to the neorealist school of thought. In this theoretical approach expansionism is the act of great powers being revisionists and power-maximizing in regards to the international system. What really separates offensive realism from defensive realism by Waltzer is the underlying mechanism of expansionism. Here defensive realists consider great powers as status-quo seeking, only trying to maximize their power to survive in the international system, while offensive realists rather believes that these actors using it for revisionist and aggressive tendencies.

Offensive realism's reasoning, behind states expansionism is to be found in their understanding of the international system. Here the characteristics of anarchy creates a frame where states can be aggressors without any hegemon being able to punish them, and states will therefore seek to strike first against competitors, in order to defend themselves (Mearsheimer, B, 2014, pp. 32-33) As Mearsheimer puts it:

*"They look for opportunities to alter the balance of power by acquiring additional increments of power at the expense of potential rivals (...) Only a misguided state would pass up an opportunity to be the hegemon in the system because it thought it already had sufficient power to survive."* (Mearsheimer, B, 2014, pp. 34-35).

The last aspect of expansionism is the states wish to become a regional hegemon. Since global hegemony is impossible due to problems of power projections, in accordance to offensive realism, great powers will strife to become the hegemon in their own region. This strife will in fact lead to endless conflicts between growing and declining powers, because if you are not seeking power and influence, you are in fact loosing this power to your rivals (Mearsheimer, 1994, pp. 12).

### Deselecting theories

*This section will give an overview of the theories, which could have been used in the analysis, but with the amount of time and limited scope of the paper, certain delimitations has to be made.*

The theory of interdependency could have given a more in-depth understanding and categorization of the dynamics between states. Interdependency theory describes and examines the relationship between two countries that are mutually depended on each other for survival. In contrast to interdependence theory stands the concept of Independence theory, which concerns itself with states that solely rely on another state for survival. In this papers context, interdepends theory could have been used to give an insight to how Russian energy sales actually is crucial for both Russia and Ukraine. An example of this is Russia's dependency on Ukrainian pipelines and Ukraine's dependency on Russian gas, from the same pipelines. The reason for not applying interdepends theory, is due to the fact that this paper needs to understand both the relationship between Russia and Ukraine, but also their relationship with the west. Furthermore, an interdependent theoretical approach could force a certain framework, for understanding interactions between Russia and Ukraine, which could be misleading and forcing a certain worldview onto the paper.

Another aspect, this paper could have examined further is the theory of hard, soft and smart power. This theory puts emphasis on the two primary forms of power. Here soft power relies on culture, values and influence while hard power mainly relies on military force. Smart power is the concept of the best combination of both powers to achieve a certain goal. The ideal goal for a country is to gain an optimal outcome, which happens to be easiest to achieve through a combination of these two power concepts (Aydin, 2013). By using the theory of smart power it would have been possible to understand how states approach the international arena when trying to achieve the best outcome. Moreover, Smart Power would illuminate the interplay between economic capability, military power, alliances and partnerships through institutions. The reason for not applying this theory is found in the scope of this paper. Here the

paper tries to limit itself to a strict economic approach. Therefore the Smart Power theory would reap some benefits in its ability to comprehend power and international interplay between states, but it would demand a too broad scope.

Liberalism is another theory which could have been used in this paper. The theory of liberalism is about institutionalization of international politics, therefore it emphasizes strongly on cooperation among states through a superior organization like The EU, NATO, and the Eurasian Customs Union, to which states show their adherence **Invalid source specified**. The theory could have contributed to understanding the relationship between Russia, Ukraine and the west from a different perspective, since the Putin administration holds a strong desire for Ukraine to join the Eurasian Customs Union while protesters in the EuraMaidan wanted their country to build strong relations with the EU. However, due to the paper's primary focus, Russian foreign policy, liberalism may not give honest insight since neither Russia nor Ukraine is that tightly anchored into the international system and therefore would not be suppressed by any superior governance. Moreover, the paper scrutinizes Russia as an independent actor in international relations, not an actor implementing policies within the framework of a specific international organization.

## Analysis

### Part one

*This first part of the analysis will establish just how strong Russia's economic power over Ukraine is. For this purpose the paper is going to use the predefined term of economic power. Here, the emphasis is on establishing Russia's ability to affect the decision making in Ukraine. In relation to this, the analysis will initially determine whether Ukraine or Russia has the upper-hand in trade relations. To accomplish this, the paper will look at the relationship between Russia and Ukraine in a vacuum and analyze how Russia has achieved earlier trade agreements and tried to use energy as a tool.*

As defined earlier, the most important thing for a state, in realist theory, is survival; this is why states seek a possession of power and maximization of power. Economic power is the main focus in this part of the paper. Economic power can be exercised only in cases where countries interact with each other through economic relations. Therefore, in order to assess how much of Russia's power stems from its energy resources one has to look at the energy trade between Russia and Ukraine and the dependency, if any, on Russia's energy resources.

In 2013 Ukraine imported around 63 percent of its gas for consumption from Russia (EIA, Ukraine, 2014). The exact amount imported was around 27 billion cubic meters of gas from Russia. For this they paid 11 billion dollars (Charap, 2014). This arguably makes Ukraine depended on Russia because this energy supply cannot be altered on a short-term basis because of the infrastructural premises that using gas demands. Much of the energy consumption of Ukraine is provided by natural gas which makes up 40% of the energy consumption of Ukraine (EIA, Ukraine, 2014), almost half of which (46,5%) is consumed by industrial enterprises (Kyiv, 2012). Therefore, Russian gas export plays a significant role in Ukraine's economy, especially, for its energy-intensive metal industries. It is therefore reasonable to conclude that there is no short term

alternative for Ukraine, which gives Russia economic power over Ukraine. This is true because it provides Russia with what realists would see as a one-way-tool-of-persuasion. This is a zero-sum game where Russia wins and Ukraine loses. Furthermore, the transit income that Ukraine earned from having the pipelines going through its territory summed up to around 3 billion dollars in 2013 (Charap, 2014). This amount is around 2 percent of the country's total GDP in 2013 (Worldbank). This highlights that Russia plays a significant role in the Ukrainian economy. On the other hand, Russia's dependency on Ukraine is growing because a large part of the income that Gazprom, and hereby Russia, has, is from its exports of the gas that is going through Ukraine.

Another important facet of the trade relationship between Russia and Ukraine is that Ukraine exports roughly one third of its total export to Russia and one third to Europe. Here, the exports to Russia are what are known as "value-added" products, whereas the export to Europe is mainly agricultural and raw material especially metals (Charap, 2014). Value-added products tend to yield more income and also higher salaries for workers than production of raw materials and farming. This further gives Russia the economic power over Ukraine because they have the ability to shut down more than two-fifth of the total energy supply to Ukraine. Now having stated that Russia has the upper hand in trade-relations the focus will be on how Russia has used this power. Here the negotiations over gas prices between Gazprom and Ukraine, in the aftermath of the Orange Revolution, will be used as an example of this. The Orange Revolution is used because it was a turning point, not only in the price that Ukraine paid for the import of gas but also a turn away from Russia.

The dispute between Russia and Ukraine started with the Orange Revolution in 2004, and the later election of Victor Yushcheko, who opted for more trade with the west. Before the Orange Revolution Ukraine was receiving subsidized gas from Russia and was paying as little as \$50 per 1000 cubic meter. This was one third of the price that the European countries were paying. The increase in the gas price and the timing for the increase suggests that Russia wanted to use the price of gas as an economic mean to maximize its influence over Ukraine. An

example of this is the 2010 election where Victor Yushchenko was replaced by Victor Yanukovich. Russian leaders made it clear prior to the election that Russia would only be able to work together with Victor Yanukovich (Keating, 2010) and thereby implying that only if Yanukovich returned, would Russia and Ukraine be able to once again work together.

The argument made here is that Russia coerced the Ukrainian population into selecting the leader that Russia wanted. By cutting off supplies of gas several times between 2005 and 2010, Russia showed Ukraine, that Russia had the economic power over Ukraine. Russia was able, and willing, to cut off two-fifth of the energy exports and hereby paralyze the production in Ukraine, showing Ukraine that it had no alternative to Russia. This dilemma of either isolation and destruction or following command does spring from the theoretical problem of self-help. Here Ukraine has no higher authority to turn to, when Russia bullies it, and therefore just have to submit.

## Part two

*In this part of the analysis the paper examines what Western influence over Ukraine has meant for Russia's ability to interfere in the countries doings. The main objective in this section will be to show what the European Union's expansionism in the eastern part of Europe has meant for Russia's ability to influence Ukraine's political- and economic decisions.*

### European Enlargement as an obstacle for Russia

The expansion of the EU has been ongoing for some time. It has increased its territorial space towards east and has lastly reached Ukraine. The European Union uses many forms of attraction to show Ukraine that it is an appealing alternative to Russia. These efforts weren't in vain and in the Ukraine pro-Western movements sprang up, starting both the Orange Revolution and later the actual Ukrainian Crises. To directly answer what the increased influence of the EU in Ukraine has meant for Russian power in the country, the paper will now implement the realist concepts of expansionism, regional hegemony and survival of the state. The realist point of view will be used to understand how enlarging the European Union creates tension among the international actors.



Here, the principal of the security dilemma comes into play. Because the steps that Russia takes toward economic security, the European Union sees as an economic threat and vice versa. Again because the total economy is a figure the realists see this as a fixed sum and therefore it is a zero-sum game. To further understand how European enlargement is working, it is important to understand the beginning of it.

After the Second World War, the European Union occurred with the beginning of steel and coal treaty. Through successfully achieving economical advantage, it became a tool for foreign policy by attracting neighboring countries. By doing so the European Union had in time build an ideological and economical front line against the Soviet Union. When the soviet empire collapsed, the economically weakened Russian federation lost most of its direct influence. Most of the post-soviet bloc countries would soon look for the EU to fill this power vacuum. This expansionism is a natural effect from a realist point of view, because by expanding the EU increases their economic power and their influence over neighboring countries. One of those neighboring countries is Ukraine. One of the reasons Ukraine has become a pawn in the geopolitical play between Russia and the EU is to be found in the concept of regional hegemony. Ukraine represents not only a large market but it also serves as a buffer state between two opponents. Russia sees the enlargement of the European Union as a threat not only because if Russia loses the ability to be a puppeteer of Ukraine, it also loses economic power over its regional adversary. Russia and the European Union are both competing to become the regional hegemon, since this is the only way they can secure their own survival. This means that every step forward for Russia is seen as a step backwards for the European Union and vice-a-versa. Therefore it is a natural reaction for Russia to answer the European economical expansionism with Russian economic power. By showing that Russia is able to cut off the gas supply after the Orange Revolution the Russian government showed dissatisfaction towards the choice Ukraine had made. Russian government is using energy as a tool, because they are afraid that Ukraine will go further into an economic cooperation with the European Union. Russia has a lot to lose if the Ukrainian government enters an economical partnership with the

European Union. Ukraine has been caught in the line of crossfire of the clash between the old rivals, which creates a dilemma for Ukraine. It must choose a side: either the European Union or the Russian Federation. Ukraine has no other choice than to be at the mercy of the two goliaths, since they do not possess the power to be an influential actor on the international arena. Therefore they are forced to use the balance of power and commit to a partnership. If Ukraine decides to follow the European Union it will suppress Russian interest and create a larger gap in the power-distribution between the European Union and Russia. Therefore it is in Russia's interest to prevent Ukraine getting engulfed by the European Union, hereby continue to apply pressure onto Ukraine.

In the following paragraph the paper will give two examples of what can go wrong when applying economic power as a mean. An example of a worst-case scenario for Russia is the Bulgarian case which had one of the closest relations with Moscow throughout history. During the soviet time, children were taught at school that the Russians had liberated the country twice, once from the Ottomans, and the other is from the Nazis. However, Russia has lost its prestige as a "historical friend" with the gas cut-off in 2009. Bulgaria was suddenly one of the European countries that suffered the most from the gas shortage and was still not well connected to the European gas grid, therefore they were predominantly dependent on Russian gas. Because of the 2009 Gas Crisis, most of the Bulgarians lost their loyalty to Russia. Alexander Bozhkov, a former deputy prime minister of Bulgaria, underlines cost of the gas cut to Russia itself:

*"Because of our history we have many reasons to like the Russians, but this crisis will make a lot of people rethink this. We are the biggest victims of this crisis, and it is a huge embarrassment. Russia thinks it can get Bulgaria and the western Balkans back into its orbit anytime, but they may have miscalculated the fallout from forcing people to shiver through the cold." (Bilefsky, 2009).*

The tendency, of course, led more cooperation with Brussels, and intensified integration process to the EU. Now that Bulgaria is less dependent on Russia and more dependent on the European Union, this has changed the way Gazprom can

negotiate the deals with the Eastern European countries. Gazprom cannot impose its terms to the Eastern European countries anymore, because European courts started questioning the legality of Gazprom's negotiation methods. This led to strong Eastern European countries, along with Bulgaria, to now have more fair contracts with Gazprom (Marson & Parkinson, 2013).

Because of the instability in the Russian gas market during the Gas Crisis in 2006 and 2009, the reliability of the Russian gas giant has fallen dramatically and created growing hostility between Russia and Europe. As a result, this has led to a decline in the market shares and hereby shrinking the potential gas market in the European Union, and forcing the European Union to be less dependent on the Russian gas for survival and looking for alternative energy sources other than gas in the future. The situation was depicted in a different way from the Russian side. According to the Russian side, it was merely Ukraine's accumulated debts and Gazprom was demanding what Ukraine owed it. However, the gas-cutoff could only be related to the Orange Revolution, since Gazprom simultaneously eased the payment terms for Belarus which had a similar debt problem.

The second example concerns the gas-cutoff just after the removal of pro-Russian Viktor Yanukovich from presidency. In 2014 the official reason, given by Russia, for cutting gas supplies to Ukraine were the growing debt the Ukrainian government owed to Gazprom. But the timing of the cut-off seems to point at the change of Ukrainian government as the actual reason, which makes this encounter another example of how Russia tries to bully Ukraine, but at this encounter a major shift had occurred in the political landscape. The EU was suddenly backing Ukraine, which led to a shift in the countries dependency on Russia. EU's interference in the negotiations meant that Russia could no longer threaten Ukraine and in a realist theoretical context this can be seen as Ukraine and the EU balancing power. Here the power of Ukraine and EU meant that Gazprom after a set of long and hard negotiations, finally struck a deal with Ukraine. Russia agreed to secure the deliverance of gas until the first quarter of 2015 and the Ukrainian government agreed on paying around two thirds of their debt to Gazprom. The payment of debt to Russia would ordinarily not have been

enough to force Russia into agreeing, since the rest of Ukraine's economy easily could have been pressured in order to make Ukraine defaulting on their payment to Russia. It is in this respect the EU helped out by promising to guarantee the payment, thus, committing their economic power in order to shift the power of dependency. This was an important deal for the European Union too because their gas deliverances were now secured. The guarantee given by the European Union sealed the deal and made sure that there was no longer any doubt that Ukraine could pay what it owed. This meant that the same economic power that gave Russia, and Putin, to force the Ukrainian government earlier was now working in favor of Ukraine. Russia no longer had any good reason for cutting off the gas supply to Ukraine at least until the end of the first quarter of 2015. But even after the first quarter in 2015 the economic power of Russia will be significantly decreased due to Ukraine's debt, shrinking two thirds.

## Discussion

*This discussion will be separated into three levels. The first level is concerned about the plain relationship between Russia and Ukraine. Here the analytical findings of Ukraine's dependency on Russia will make up the first step towards getting a deeper and more refined view of Russia's economic power over Ukraine. Hereafter the discussion will move onto a regional level, where the conclusions about Russia's power in the region, drawn from scrutinizing Ukraine's relationship with the EU, will be presented. Equipped with this knowledge this discussion section will look upon global energy trends and shortly account for these trends impact on Russia's economic power and ability to react in the global energy market. The findings from these three levels will hereafter be discussed and held up against each other in order to determine the capability of Russia's real economic power over the Ukraine.*

The Ukraine is heavily dependent on Russia which has led to close cooperation between the two countries and a framework of operation under Russia's superiority. The paper earlier concluded that in line with the concept of economic power, Russia can use Ukraine's dependency to its advantage. Even though Ukraine does benefit from its economic ties with Russia, the price for the

economic collaboration is political oppression. Here, the political oppression only surfaces if one takes a closer look at the link between gas prices and major political decisions. Such oppression can for instance be seen in Ukraine's early swing towards the EU. As analyzed earlier, a lack of help from a higher authority, and the use of Russia's economic power, stifled the Orange revolution and saw the Russian favored candidate Viktor Yanukovich take power. This line of events does almost encompass the wisdom of traditional definition of economic power:

*"A and B are dependent on each other, but A is less than B, this asymmetry is a source of economic power, because A is less vulnerable than B if the relations deteriorate, and A can use B's vulnerability as threat which is therefore a source of economic power."* (Baldwin, 2013).

So armed with this knowledge of Russian- and Ukrainian dependency one can now start to understand how the political and economic dynamics between Russia and the Ukraine functions. Here it is safe to conclude that in an isolated microcosms only consisting of Russia and the Ukraine, Russia would be able to use its economic power to dictate both foreign and domestic politics in Ukraine.

In a more regional approach to the situation of Ukraine other factors have to be brought in to fully understand how Russian economic power can be applied and how efficient it would be. In such a regional approach the EU has to be taken into consideration, since the EU has become a major player in Eastern Europe due to expansionism. In a regional approach to Russia's power in Ukraine, one has to start by looking at European enlargement in Eastern Europe. Here the EU has used its founding principles of free economic cooperation between the member states to entice former eastern bloc countries and even former soviet member states. In offensive realism, expansionism is seen as a natural part of surviving in the anarchic system and even challenging the status quo is considered to be a natural cause of this struggle for survival. In the former analysis the paper concluded that on a regional basis the EU and Russia both struggle to become the regional hegemon. The conflict between Russia and the EU, in Ukraine, is mainly an economical conflict and seen in the theoretical view of statism, the paper

concludes that both Russia and the EU try to wield their respective economic power in order to maximize their power and hereby survive in the anarchic system. Here, especially Russia is in great need of control over Ukraine, since essential parts of Russia's pipeline network is located in the country, and much of Russia's export goes directly to Ukraine. This dependency explains why Russia is intervening in Ukrainian politics. In a zero-sum game Russia has to secure that the region stays under its control, since every European advance would be a loss of power, and it is such a loss of power that the paper concludes has already occurred.

Russia's loss of power over Ukraine can actually be seen in another, once highly Russia-dependent country, Bulgaria. Here the paper deduced, with the help of the principle of balance of power, the main reason Russia lost its economic power over Bulgaria was due to the EU using its own economic power to balance out Bulgaria's dependency on Russia. As Bulgaria's Finance Minister Simeon Djankov puts it: *"They can't bully us in the way they could before, and their weakness in the negotiations showed that"* (Marson & Parkinson). And not only did Russia lose its political power over Bulgaria, the country actually started to use alternative power sources provided by the EU, in order to make the country less dependent on Russia's energy. This example shows a worst-case scenario for Russia, in regards to Ukraine. A Ukraine that would become a part of the EU would not only be much stronger in trade negotiations but would also be able to use its own economic power, control of Russia's pipelines, to pressure Russia into submitting in regional disputes. In order to analyze if something like this might be underway the report uses the example of the newly signed gas contract between the Ukraine and Russia. In the negotiation of this contract it is evident that the guarantee of payment the EU signed helped tip the scale of dependence between Russia and Ukraine. Furthermore, just like Bulgaria changed its energy sources to become less dependent on Russia, so has Ukraine lessened its total debt to Russia and hereby become less dependent. This development goes to show that Russia, in a regional context, does seem to be losing economic power to the EU.

One has to wonder, if Russia's regional decline is strictly a regional matter and if the EU is the true force behind Russia's evanescent of political and economic control over Ukraine? In order to discuss this properly one has to know how Russia is affected by global trends on the global energy market. Here, the paper has tried to account for some of the greater global developments on the energy market in order to assess what these might mean and have meant for Russia's economic power. The paper will now try to discuss, what three large tendencies in the global energy market have meant for Russia's economic power and furthermore if there are any correlation between these global tendencies and the conflict in Ukraine.

**The first tendency** is the changes in the gas market. In recent years major changes have occurred on the global gas market because of several factors. One of the major factors that have driven down the price of gas is that gas, as a fuel, has been proved to be a somewhat abundant resource, mainly because it does not have as much application potential as other energy types. This abundance have further harmed gas producers, since it has given existing gas importing countries an upper-hand in negotiations, by being able to play out different suppliers against each other, and possibility threaten to shift to another energy type altogether. Coupled up with discoveries of conventional gas in east Africa, offshore findings in the Mediterranean Sea, and the development in extraction of unconventional gas (shale gas) in the US have resulted in even further abundance on the market.

In regards to Russia, whose economy is highly dependent on gas exports, this is definitely not good news. Russia's early entrance onto the gas market have meant that Russia has already exploited most of its easy accessible gas and will therefore have a tuff time in trying to compete with alternative new gas exporters. On top of this, Russia has already been forced to prop up gas prices on its own domestic market to make up for its declining profits on exports. Higher domestic gas-prices, coupled with lower growth rates, western sanctions and a failing currency, could send Russia economy into recession or stagnation.

**The second tendency** is related to changes in the global oil market. After years of constant oil prices, around \$110 a barrel, the oil price has plummeted down to around \$60 a barrel. The reason behind this shift is to be found in a slowdown of demand, both in the Asian markets and in America. Furthermore, oil exporting countries are not trying to limit the supply of oil. Actually OPEC decided to maintain the same level of production in order to keep its market shares in a market dominated by an oil glut. One thing that is necessary to understand is that gas and oil prices are completely inseparably. Therefore increases or decreases of the oil price leads to either surplus or deficit in Russia's budget. Falling oil prices will furthermore not only hurt Russia's income from gas sales, but also create a great danger of Russia losing its market shares to oil exporters, since oil is a better fuel source than gas. The only thing protecting Russia from oil exporting countries entering the Russian market is that oil-consumption functions on another production basis than gas and countries with this sort of infrastructure will be less inclined to shift to oil since the transition cost will be great.

**The third tendency** is based on changes in both infrastructure and energy exports in central Asia. The remarkable growth of China can also be felt in Asia and in order to provide energy for this growth China has turned towards the states in central Asia. Here countries such as Azerbaijan, Turkmenistan, Uzbekistan and Kazakhstan have started offering independent gas deliverances to both Europe and Asia. These countries used to be a part of Russia's sphere of influence and the foundation for Russian gas exports. The region's change towards autonomy has undermined Russia's ability to buy cheap energy in Central Asia and sell it in the much more lucrative European market. The cause of this newfound autonomy is to be located in a small pipeline revolution in the region. As previously stated, most of the former soviet bloc and union where all connected by the same pipeline network, which made them very dependent on Russia for energy sales. Thanks to newly constructed American and Chinese pipelines, central Asia is now interconnected to the global energy market.



This is all bad news for Russia, because Russia has not only lost some of its exporting capacity, it has also gotten a competitor in relation to exporting energy to China. The European shift away from Russian gas and the mounting pressure on Russian economy have forced Moscow to focus its attention towards the Chinese market. In this market, Russia will have to compete with its former energy-allies, and with China on the brink of its own shale gas revolution, Russia will be hard pressured in order to provide worthwhile offers for China.

### **How do these global trends put Europe's power into perspective?**

Having acquired more knowledge of how global trends have affected Russia's economy and options in the global energy market, this discussion will try to debate whether these global tendencies will affect the conclusions achieved by applying the theoretical framework onto the state and regional level.

The first point in this discussion will focus on the "state to state" level and what the previous mentioned global tendencies have meant for Ukraine's dependency on Russia. In this aspect Ukraine should on paper be much less dependent on Russia due to the abundance of gas and oil, but Ukraine's infrastructure prohibits this. Ukraine's pipeline network only connects the country to Russia and its production infrastructure is all based on gas, so a shift to another gas provider is not an option, hence, new independent gas exporting countries will not be able to supply Ukraine unless new pipelines are build. The oil glut is not going to help any more than falling oil prices. Even though oil prices are at a historic low, Ukraine has built its industry and much of its domestic market around gas consumption and this, at least in the short term perspective, is not going to allow for a shift towards oil or other alternatives as primary fuel source. Ukraine is therefore still dependent on Russia and Russia's economic power over the Ukraine should not be altered much due to global changes, at least on a "state to state" basis.

On the regional basis the paper previously concluded that the EU, by balancing Russia, diminished Russia's economic power over Ukraine. This claim becomes a bit more nuanced if one takes Russia's position on the global market into

consideration. The three prior mentioned changes on the global energy market have all sent energy exporting countries on the defense. One short-term problem, for the exporting countries, is the lost revenue but a lot more serious problem is the loss of market shares in a market dominated by an oil glut. If an exporting country loses its market shares, it would become incredibly hard to regain such, in a low demand market, which is also one of the reasons OPEC will not try to restrain their supply. Russia is forced into the same dilemma as other energy exporters and this could very well explain why Russia has chosen to cut a deal with Ukraine. European gas importers reluctance towards Russia, coupled with China's entrance onto the central Asian market, has meant that Russia is now more dependent, on its Eastern European buyers, than ever. In a realist perspective this reliance on Eastern Europe could spell the end for any potential regional hegemonic dream that Russia might have harbored. Economic dependency to a Ukraine influenced by the EU would not only result in stopping Russian interference and influence in the country but actually force Russia into thinking in terms of submission in order to secure cooperation with Ukraine. Cooperation is vital for Russia's survival if the oil glut continues and prices remain as low as the currently are, since the same elements that make Ukraine dependent on Russia, on the "state to state" level, make Russia dependent on Ukraine. Russia is dependent on Ukraine's pipelines since they connect Russia to its European market. On top of this, Russia is looking at a market where profits on energy sales are scarce, so the extra income from countries that can't shift to an alternative supplier will help boost Russia's income in a vital period of time.

## Conclusion

Looking at Russia's economic power over the Ukraine in a regional perspective the paper concludes that the influence of the EU definitely have created a short term breathing space for Ukraine by balancing Russia's power. The global perspective does nuance this conclusion a bit, because it concludes that Russia had to sign the deal with Ukraine, since the changes on the global market have shifted the momentum of economic dependency towards the equilibrium. It's beyond this paper's scope to begin to comprehend to what extent it is the EU or the global market forces that are the main source behind the decline of Russia's economic power over the Ukraine. One thing is certain though, Russia will have to look at the Ukraine as a sovereign power, backed to some extent by an expansionist EU, resulting in a loss of political control. Russia's loss of economic power over Ukraine can be argued to be a temporary loss of control due to global events, out of Russia's own control, but they can also be argued to be a symptom of a much larger problem for Russia. Based on the findings in this discussion, the sudden decrease in Russian economic power over Ukraine could symbolize the beginning of Russia's decline. A decline started by a mixture of a failed economic foundation, based solely on energy exportation, and the rise of EU in Eastern Europe.

## Perspective

*The purpose of this section is to demonstrate how another possible approach, could have been examined without changing the area of subject. The theoretical background, which this section is based on, is to be found in the prior deselected theory chapter.*

The annexation of Crimea was initially seen by some political analysts as a stroke of pure genius, since it resulted in a large conquest for Russia, and the international consequences were limited to western outrage and a few real political initiatives. But the ongoing crisis in Ukraine has since resulted in increased international political and economic pressure, and western sanctions might not have hurt the hearth of Russia's economy but they have shown just how vulnerable Russia really is. The western sanctions mainly targeting Russian banks came at just the wrong time for Russia. The western restriction to foreign currency coupled with the sudden fall of oil prices showed that Russia is just, if not more, dependent on the EU, as the EU is on Russian energy.

Russia's answer to this dependency has been to diversify its consumer base by signing multi-billion dollar deals with China. The Chinese market is a lucrative one, due to China already being one of the most energy consuming countries in the world, and further having a great growth potential, which would secure Russia a stable income for a foreseeable future. Moscow's plan is to connect to already existing gas infrastructure into the Chinese energy grid, allowing Russia to shift its sales of energy between the west and the east, hereby enabling Russia to adjust to price fluctuations on the global market.

*"This will give us big advantages in rechanneling gas flows, depending on the world market situation," – Vladimir Putin (Johnson, 2014 B).*

By applying the theory of interdependence it would be possible to understand how a Russia connected to both the Chinese and the European market could benefit all three parties. The argument made for this case is based on the fact

that Russia would become an independent energy supplier on the global market. Russia would benefit from this role since China in a future scenario, could import more than two thirds of what the European Union is currently importing (Johnson, 2014 B). Furthermore, Russia's independent role would create a framework for energy sales where consumers would not be able to pressure or use Russia as a piece in their own geopolitical game. Russia would act as a kind of institution where different actors would be able to meet on equal terms and discuss prices, infrastructure and so forth, without anyone having to fear a potential conflict. Such cooperation would make all three countries interdependent of each other, by the means of gas and shared infrastructure.

A joint energy venture build on mutual interdependence between Russia, the EU and China does sound like a good idea, but interdependence could also result in a more dystopian future. Interdependence theory underlines that creating economic integration is one of the best ways to avoid potential military engagement and full scale wars. The only problem with this premise is that situation such as the one in Ukraine shows that even tightly economic integrated countries can get involved in military skirmishes. In fact, some conflicts such as WWI can arguably be said to have started due to economic integration. Another aspect is that in the global market great interdependence can escalate economic conflicts instead of solving them, because it is hard to punish and impose sanctions on interdependent countries due to anxiety of economical backlashes, hereby creating a larger scope of tolerance (Gottlieb & Lorber, 2014).

In conclusion to these pros and cons in regard to interdependence it can be said that interdependence might be able to reduce the amount of actual wars to a certain amount, but at the same time limit state's ability to intervene in conflicts since economic sanctions would not be an option due to backlashes. On the other hand economic sanctions would not even be an option if trade relations or another kind of economic relationship existed between actors in the international system.

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