

## **Review - Energy Dependency and Corruption in the Former Soviet Union**

Written by Stephen Fortescue

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STEPHEN FORTESCUE, MAR 25 2013

**Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarchs' Profits and Ukraine's Missing Energy Policy, 1995-2006**

By Margarita M. Balmaceda

London: Routledge, 2012.

The source under review is a paperback edition of a book originally published in 2009, and analysing events up until 2006, when Viktor Yushchenko was still president of Ukraine and just after Viktor Yanukovich had been appointed prime minister. Since then Yanukovich has been elected president and has consolidated his domestic power through various means. What that means for the argument of the book under review will be considered later.

The most basic thesis of the book, as it examines Ukrainian energy politics from 1995 to 2006, is that energy is the

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fundamental shaper of political and policy behaviour in Ukraine, and that the fundamental feature of energy in Ukraine is very heavy dependence on Russia for supplies of the gas required for the needs of the population as well as a heavily energy-intensive industrial sector. That dependence does not, however, produce the relatively straightforward story of a dependent Ukraine struggling to free itself from the clutches of an aggressive Russian user of its energy weapon for neo-imperialist reasons. And that is not only because the Ukrainian electorate and political elite are very divided in their attitudes to Russia, with a strong pro-Russian element in both. Indeed even the pro-Russian elements in both electorate and elite are ambivalent in their attitudes towards their northern neighbour.

The real reason that the story is not a straightforward one of a dependent state struggling to free itself of the control of a hegemonic state is that the benefits of energy dependency do not flow only to the hegemonic side. The author's key point is that there are massive rents to be obtained from within a state of dependency. A monopolistically provided product with highly inelastic demand remains extremely valuable even after it has entered the dependent market, as long as control of its distribution is maintained. We know a lot about the resource curse, the somewhat counterintuitive negative implications for a state's economic and political development of an abundance of natural resources. It is far more intuitive that a lack of natural resources can be bad for you (although there are of course the Asian-based arguments that it can actually be good for you). What this book tells us so well is that the reason it is bad for you is not just or so much the intuitive fact that it makes you dependent on energy suppliers, but that there is so much rent to be earned – in a variety of ways – by the domestic elites which seize control of those rents (often requiring unholy alliances with elite groups from the energy provider). It is those rents which are counterintuitive.

And so it is control of the distribution of gas which is the key to Ukrainian politics, and is the focus of Balmaceda's story. It is a complicated one, involving state, privatized state (that is, formally state institutions and officials working for private interests), and private interests on both the Russian and Ukrainian sides of the border. All political and economic actors are sucked into the struggle, with ever shifting alliances, betrayals, and renegotiation of arrangements. The arrangements form across national borders, with any sense of a Russian vs Ukrainian line-up of forces regularly breaking down. Since policy and politics are all about gaining control of distribution, there is no strong incentive anywhere in the system to alleviate the dependency that makes the control of distribution so lucrative.

The account is entirely plausible and convincingly presented. It is nevertheless clear from the account in the book that it is not entirely true that everyone at all times is sucked into the struggle for control of the rents from energy distribution, and that therefore it is always in the interests of those competing for the rents to maintain the dependency on which they are based. There are moments when politicians pursue the 'national interest' by seeking to reduce the dependency, and economic actors who calculate that they can make better returns by seeking alternative energy sources. Why and when this might be so is not entirely clear, but it is an important issue in considering events since the book was completed.

The supposedly pro-Russian Yanukovich, elected president since the original edition of the book was completed, puts the supposedly pro-western Tymoshenko in prison for a gas deal too generous to Russia, and rebuffs Russian efforts for closer integration. He pushes hard for lower gas prices, seeks supplies elsewhere, refuses to pay Gazprom for gas that is surplus to requirements, and has pushed out the pro-Russian oligarchic gas lobby. The latter development is particularly telling for Balmaceda's story, since a strong part of her account is that all elite groups, including all the various oligarch groups, are participants in the gas rent game, and that part of the president's role is to be a balancer between the groups. The indications are that Yanukovich has given up the balancer role, and at the same time as apparently trying – although perhaps only half-heartedly – to reduce Ukraine's energy dependency is also monopolizing rents that flow from the dependency through his 'family' group (like Yeltsin in Russia in the 1990s, the 'family' is part literally family members, part metaphorically so). The indications are that the Yanukovich presidency has features that do not precisely fit Balmaceda's model, although that is by no means to render her account irrelevant, since current developments surely derive directly from the phenomena that she describes. Given Balmaceda's claim that, in order to understand energy in Ukraine and therefore to understand Ukraine at all you have to understand domestic politics, one might have hoped for more detail on the domestic policy process. The author writes (p.141.9):

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“This multiplicity of often hard-to-track actors, and the murky distinctions between state and private interests presents important challenges to scholars seeking to understand the nature of interest representation in the post-Soviet world. It also calls for a new approach to policy-making, that is, one less fixed on official policy-making institutions and more attentive to policy-making wherever it may take place.”

One cannot disagree with that statement. However, one wonders whether the author has not taken it too far, in that there is essentially no account of the official, formal policy process at all. In the case of Russia, with which country the author is more familiar, there is a complex formal policy process, including on energy issues, which combines personal and technocratic interests and processes. It is a matter of debate how significant the formal process in Russia is. This reviewer believes that not only can the formal process provide clues as to what is going on behind the scenes, but that one also needs to at least consider the possibility that the formal process and the institutions that operate within it, through their very existence, shape to some extent the way things work. I would have liked more account of the formal institutionalised policy process in the book, even if only to demonstrate conclusively that ultimately it is irrelevant to our understanding.

The absence of that account should not however be taken in any way as a qualification of my whole-hearted recommendation of what is a fascinating and valuable study.

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