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# Russia's Energy Strategy and Gas Disputes

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Today, Russia's transition from a state-controlled economy to a mixed economy posed existential questions to the new state and its fragile economy. Fortunately, Russia is a resource-rich country, specifically gas and oil, and was able to rise from the economic stagnation and enter the golden decade of economic growth and rapid development. Russia's recovery from the collapse of the Soviet Union was cushioned by the oil and gas exports. In fact, Russia has a greater scope and range of natural resources, greater than that of the U.S and, is the second-largest producer and exporter of oil after Saudi Arabia. It also is the world's largest exporter of natural gas. Russia's reserve of oil and gas has helped its growth, reversing the budgetary starvation of its army and a further increase in oil prices in 1998, allowing Russia to boost its military spending and revenue allocations (Gidadhubli, 2003). In this context, energy resources for Russia have been a boon, helping its economy riddled with corruption, mismanagement and unemployment, giving it an impetus for growth. While energy resources have helped its economy, oil and gas have also helped Russia to maintain its influence and power. Energy diplomacy or Russian gas pipelines have hence become an important aspect of its soft power (Tynkkynen, 2016).

The economic turnaround in 1999 helped boost Russia out of its crisis into recovery. A multitude of reasons has been associated with the golden decade, starting from 1998 to 2008, reforms in infrastructure and institutions, and proper utilization of labour and capital. With the financial crash of 1998, it ushered change within the Russian enterprise, clearing out stagnant enterprises through mass bankruptcy, this also allowed Russia to be fiscally responsible and enact economic reforms and improve its legal structure. But the rise in crude oil prices from the low price of \$10 a barrel in 1998 to \$33 a barrel in September 2000 was the driving force of Russia's economic growth (Wolf, & Lang, 2006). At the end of 2001, Russia's oil production had increased dramatically from 3.86 million barrels a day in 1996 to 7 million barrels per day. The oil sector further flourished with investment and building of new infrastructure which included the newly commissioned Baltic Pipeline System which reached full capacity in 2006. Construction of Tuapse Oil terminal in 2003, completion in 2005, also increased its export capacity to 71 million barrels per annum (Pirog, 2007). From 2004 onwards the increase in global oil prices helped Russia's economy, increase Putin's appeal with domestic politics and also transform Russia's position in international perception, reversing its image as a stagnant economy (Ivanenko, 2008).

## Oil and Foreign Policy

Oil and gas as a tool for foreign policy have been utilized in the past in the form of an embargo. Natural resources, specifically energy resources, are vital for industrialization and energy deficit nations who do not have their resources have to depend on exporters for the majority of their energy needs. In the past, oil embargoes such as Arab nations' embargo on oil exports to Israel were enforced as a means of foreign policy towards antagonistic states and vice versa, as in the case of the U.S, where it stopped importing oil from Iran (Crane et al., 2009). Energy resources, analysts argue, can be employed to either deprive nations or reward those who align with the state's interests. Energy resources and global politics are intertwined and in the new globalized structure of international relations, energy is an important facet of nation-building (Herman, 2020, p. 294). Energy resources are the foundation of industrialization, communication and are integrated within all aspects of human society. Hence, energy is integral and nations allocate energy an important place within their priorities, with the ubiquitous nature of energy consumption, affordability and availability of energy resources is a necessity for states. Moreover, the growth and development of states is also dependent on energy availability and becomes a necessary condition for a nation's growth and

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development. Energy resources are also not equitable, that is, it is not evenly distributed across the world, while some nations have energy reserves, others do not. Under these circumstances of globalization and technological advancements that rely on energy resources, energy-rich countries naturally have an upper-hand, as energy-poor countries' insecurities of energy deprivation can be used for significant foreign policy goals or as a tool within global politics (Wilson, 2020, p. 156).

During the Soviet period, key industries in Ukraine were powered through energy resources coming from Russia, which made it increasingly reliant on Russian gas and oil as well as a heavy user of such resources. The issue of resource reliance on Russia has been the case for many erstwhile Soviet states such as Poland, Latvia, Georgia and Ukraine etc. This has created an environment for Russia to keep control of its Near Abroad, keeping these states dependent on it as well as gain influence in Europe through these states. Pipeline politics is not a new concept to Russian politics, in 1990 during the insurgent independence movement in the Baltic states, energy supplies were cut off in attempts to disrupt the movements.

The area of concern in energy resources and exporter states is the inequality in the relationship between the exporter and importer state. The importer state, if their energy resources are not diversified, can be heavily dependent on energy resources from one source. The imbalance in the relationship between exporter and importer states can be utilized and exploited, to coerce importer states (Herman, 2020, p. 297). As reported by a study by European Parliament's Committee on Foreign Affairs in 2018, energy resource-rich states rarely ever use the upper-hand as an exporter nation for offensive purposes, energy-rich nations use their status only for the purpose of coercion or defense. For defensive purposes, it can utilize energy resources to prevent nations from doing something and greater stronger relations or use energy resources as a punitive action. This is categorized as energy "carrot and sticks" (Herman, 2020, p. 298).

In the case of Russia, as an energy-rich nation, it can undertake both defensive and offensive purposes with its foreign policy tool, as I will elaborate further in the chapter. For Russia, oil and gas are intrinsically connected to its Soviet history. Within the structure of the Soviet Union and its republics, the centre of decision-making, allocation and the Kremlin itself was in the Russian Soviet Federative Socialist Republic (Pirog, 2007). The Soviet republics were dependent on Russia, and this dependency continued post disintegration of the USSR. In Russia's bid to protect its interests in its former areas of influence, it has used oil and gas as a defensive measure, to keep its allies closer and use it as an offensive purpose, to reprimand nations that do not cooperate with Russian needs.

Energy resources have since become an important mainstay of Russia's foreign policy, it has become an important tool of power projection and its stance in international politics, using oil and gas to further bilateral relations, which are beneficial for both economic and political influence (Hill, 2006). While the economic relevance of Russian energy resource export cannot be underestimated, as it makes up an important share of the Russian government's revenue, its political importance is also salient. Developing soft power projection for Russia since the end of the Cold War has been important, the concept of soft power itself is new to the Russian policy of power projection (Rutland, & Kazantsev, 2016). With the Soviet Union, culture as a tool for soft power was utilized, yet it was of no match to the rock music and blue jeans of the U.S. Oil was important for the Soviet Union as well, in the 1970s and 1980s it was the largest producer of crude oil and the USSR also utilized its energy resources in a time of nuclear competition, as a measure to ensure its power on East Germany. Though oil was an important factor in the foreign policy and power projection of the erstwhile USSR as well, it was only to ensure the status quo of its regime, to keep its allies close.

The longest pipeline in the world, Druzhba or friendship, built-in 1964, transported oil at discounted rates to its communist blocs Poland, East Germany and Hungary. So, though oil played an important role in Russian history, during the Soviet period it was more a tool to ensure the maintenance of relations rather than creations. After the disintegration of the USSR, under the tutelage of President Putin in the 2000s, was when soft power, other than military showmanship, was considered to play an important role in foreign policy and it wasn't until 2013, it was introduced in the foreign policy concept of the country (Rutland, & Kazantsev, 2016). After 1991, the power of Russia as a regional player was weak as well, as it underwent shock therapy of its economy and its influence in the region weakened as pro-Russian sentiments and affinity to the language itself became a highly politicized bone of contention for the erstwhile USSR republics (Hill, 2006). While Russia inherited the military of the USSR, its hard

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power partially insured and as it secured its permanent seat in the UNSC and nuclear arsenal, its soft power fell considerably, and the economic crisis added to its list of problems. For this reason, energy has played a crucial role in increasing Russia's significance in international politics and restoring its eminence in global politics, being a major energy exporter and energy power (Tsygankov, 2006).

Russia has utilised energy for soft and hard power as discussed earlier. The symbiotic relationship between the energy sector and politics in Russia has made it increasingly viable for the Russian government to implement it as a foreign policy tool (Tsygankov, 2006).

Russia has benefitted from international energy insecurities since the gradual fall-out of relations between Western and Arab nations, specifically Saudi Arabia. Russia's growth as an energy power can be attributed to the Western condemnation of the Arab nation after the terrorist attacks on 9th September 2001 (Ivanenko, 2008). Post the economic growth in 1998 and the attack on the U.S in 2001, West attempts to diversify its oil supply helped Russia become a new power broker in energy markets. But the growth of the Russian economy after years of stagnancy, flawed voucher privatization and underutilization of industries, was also the rise of prices of crude oil. The high oil prices gave impetus and recovery to the Russian oil industry, which suffered considerably under low prices for production. Russia's energy relations have been beneficial in applying different intensity of pressure and building relations.

## *Russia's Energy Strategy*

The document by the Ministry of Energy of the Russian Federation on "Energy Strategy of Russia for the period up to 2030", categorically states the objectives of Russia with its energy policy. Within the introduction of the document itself, there are mentions of "effectively using natural energy resources for the promotions and strengthening of foreign economic positions" (Gromov, & Kurichev, 2014).

Within Russia's Foreign Policy Concept of 2013, it addresses strengthening its strategic partnership with consumer countries as well as transit nations, through which its security of energy supplies is guaranteed and ensures stable energy demand. The 2013 Concept also mentions Russia's interest in increasing partnership and cooperation with the European Union, emphasising the point of mutually beneficial energy cooperation. The document continues to highlight the importance of "strict adherence" to existing bilateral relations and multilateral obligations alike. But the point within the 2013 Concept which stresses the importance of Russia's energy strategy and its stance as an energy resource exporter is the 12th point under the subsection of "Foreign Policy of the Russian Federation and the Modern World" (The Ministry of Foreign Affairs of the Russian Federation, 2013). Under this section, it mentions that a state's energy insecurities and want to diversify in a volatile and unstable commodity market such as oil and gas is important for a nation's interests. Yet there is evident "imposition" of unjustified restrictions on such diversification, these restrictions do not allow nations the freedom to pursue their energy interests (The Ministry of Foreign Affairs of the Russian Federation, 2013). This highlights Russia's concerns that its energy power and access to European markets can be objected to, as it did in 2006 when Poland objected to the Nord Stream pipelines.

Hence, for Russia, oil and gas exports are both economic and political mainstay and have significant importance for its domestic and international image. For starters, the Russian government has made considerable efforts to consolidate previously privatized oil industries under the Russian government's wing (West, 2005). A notable event to highlight the Russian government's interest in the oil and gas sector was the arrest of Yukos CEO Mikhail Khodorkovsky who in 2003 was charged with fraud and economic crimes, allegedly acquiring illegal stakes (Glasser, & Baker, 2003). But the works of state control of energy corporations had begun in 2000, when the newly inaugurated President Putin, had fired the then Chairman and CEO of Gazprom and instead replaced them with Putin's close associates, Dmitry Medvedev and Alexei Miller (Glasser, & Baker, 2003). With Yukos, a private-sector company's assets absorbed into state-controlled Rosneft, the Russian state took over the control of its resources from the oligarchs. Yet, the politically orchestrated arrest of Khodorkovsky on fraud charges, the validity of which many have questioned, indicates Putin's strained relations with oligarchs. In 2004, Putin backed the renationalisation of oil, calling renationalisation a legal market process where the state protects its interests (Downes, 2004). In 2018, during Putin's annual phone-in interview, he stated that the creation of "new billionaires" was a wrong step and the

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“return” to the government’s control of Gazprom and other leading oil companies was necessitated to reverse the creation of oligarchs (“Key quotes from Russian President”, 2018). Putin also referred to the fact that the processing of resources within the territory of the country also has to work within the boundaries of the law.

It’s evident that for Putin, state control over resources is an important factor of nation-building and perception, as it is the resources of the country and the business it is involved in, that creates a state’s image. For Putin, state control over energy resources is primary and through the gradual and partial renationalization of this key industry, he has been able to gain control over Russia’s dealings with nations (Mankoff, 2011, p. 47). The nationalization or at least greater state control of energy industries such as Gazprom has made it a politicized tool that has allowed it to act through the industries, and by this, Russia has been able to dictate its political relations with countries (Tynkkynen, 2016). Two processes have worked in tandem within Russian domestic politics, while there was a push for greater integration of Russia into global markets, at the same time state intervention increased over time in Russia. After Putin’s first term as President, many within his inner circle of influence have taken over private-industries and the Russian government has actively worked towards creating “national champions”, where the state controls 50% or more stake in a company (Chernykh, 2011). The sole purpose of creating national champions is to serve the national interests, not only domestically but also internationally. For Putin, national champions play an important role in Russian image.

Gazprom currently holds the world’s largest natural gas reserve, and in Russia, it controls 71% of Russia’s natural gas reserves. The symbiotic relationship between Russia and Gazprom is evident, while Gazprom has access to Russia’s natural resources, it can accordingly pursue its foreign policy (Mankoff, 2009). The current position of Chairman of Gazprom is held by Viktor Zubkov who served both as Putin’s Prime Minister in 2007 and Deputy Prime Minister during Medvedev’s presidency. Other than Gazprom, 50% of Rosneft is owned by Rosneftegaz or the Russian government through the Federal Agency for State Property and Management. The current CEO of Rosneft is Igor Sechin who is a close ally of Putin and also part of the Siloviki (KGB or FSB faction of politicians) (Rutland, 2016). Russian energy policy is under the closest allies of Putin and added to the fact that many of the chairman or CEO of energy industries are politicians who come from similar national policies resounded by Putin, it seems that the lack of transparency and Western investors in Russian energy policy is not an accidental but deliberate political move by Putin government. Through the nationalization of energy industries, Russia can carry out its diplomacy through energy dealings. The politicization of Gazprom reflects Putin’s view of energy resources being foreign policy tools (Pirog, 2007).

In the new international order where hard power such as the military has limited scope outside of conflict, for Russia to reassert its influence and goals, the closest to gaining control and increasing its presence and power, oil and gas is its best bet. For better control over this key industry, the state has created opportunities to seize considerable decision-making power. To enforce its will, Russia has utilized energy resources and energy insecurities to its advantage, imposing economic punishments such as price hikes and embargos on recalcitrant states such as Ukraine and incentives to compliant ones i.e Belarus.

## Russia-Ukraine Gas Disputes

As discussed in the previous chapter, Russia’s attempts to keep Ukraine in its orbit resulted in the annexation of Crimea. The stronghold, Russia is unable to give up due to rising concerns of Western encroachment to its area of strategic interests. Since its independence, Ukraine has been dependent on Russian oil and gas, as it had been as a republic under the USSR (Balmaceda, 2013). Post-independence in 1991, the same pattern of dependency continued, for a multitude of reasons. The domestic politics of Ukraine was unproductive with inadequate government measures in its initial years as an independent state, lacking economic reforms and rife with corruption, limiting the state’s capacity to diversify (Balmaceda, 2013). Ukrainian industries had always been heavily dependent on Soviet oil along with Belarus and this continued into sovereign Ukraine. Ukraine’s heavy-energy consuming industries along with its weak economy was dependent on the discounted and cheap gas prices of Russia. But for Ukrainian sovereignty, it raised questions about at what cost is cheap Russian oil imported? For Russia, Ukraine is also strategic and plays a major role in allowing its integration into the European market for oil and gas. As Ukraine is a major corridor for the transit of Russian gas to Europe, losing a monopoly on Ukrainian gas transit capacities also

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means losing out a vital European market for oil and gas (Yafimava, 2011).

## *2006 Dispute*

After the colour revolution of 2004 in Ukraine, Russia adopted a new foreign policy towards Ukraine, to ensure greater cooperation. The new policy measure included economic pressure on Ukraine to make it comply with Russian interests. The unbalanced trade between Russia and Ukraine is in favour of Russia along with Ukrainian energy insecurities and economic conditions. Ukraine is largely dependent on Russia, in 2006, Ukraine's exports to Russia accounted for 22.5% of its total trading, while imports were 30.6%. Russia's export to Ukraine was 5% of its total trading, while imports were 6.7% (Szeptycki, 2008). In this scenario, Russia had a clear upper hand in its dealings with Ukraine. Before the colour revolution, Ukraine enjoyed special discounts such as energy subsidies and relaxation of payment deadlines. This allowed Russia to continue its influence in Ukraine and give little reasons to Ukraine to diversify its energy needs (Newnham, 2011). The 2004 revolution removed a pro-Russia government after fresh elections were held wherein Viktor Yushchenko became the new President. The removal of Viktor Yanukovich to Russia was indicative of the changing trends in Ukrainian domestic politics and according to the changes in Ukraine, Russia changed its approach as well. After 2004, Russian energy industries, primarily Gazprom, relinquished earlier policy of price subsidies and the energy industries demanded new higher prices from Ukraine. The new prices were not economically reasonable, according to analysts. The hike was four times the price that was charged in 2005, from \$50 per 1,000 cubic meters to \$230 per 1,000 cubic meters (Praffit, 2005). Russian generosity was replaced with punishment. From 2004 onwards, gas disputes increased, reaching the height in 2006 where Gazprom shut off Ukraine's energy supplies. Though many analysts argued in the latter part of the 1990s that a situation wherein Russia would shut off the gas supply to Ukraine would not arise as Ukraine also has an upper hand as a transit country, the reality was way off the assumption (Pirani, 2012). Gazprom, of which the Russian state has a 50% stake, cutting off gas to Ukraine created the domestic political environment Russia wanted to create. For Russia, to ensure Ukraine remains within its sphere of influence and concerned by the pro-Western sentiments with the election of a new government, cutting off gas supplies would help concretize its position in negotiations as well as create domestic discontent for the Yushchenko government (Perwita, & Pakpahan, 2016). The gas supplies were cut off in the middle of Ukrainian winters, which necessitates higher consumption of gas, the natural discontent within domestic politics and parliament were sure to discredit the Yushchenko government. Gazprom's decision to cut off gas had implications for the domestic politics of Ukraine. Moreover, Gazprom's chief spokesperson Sergey Kupriyanov on Russian television also stated that Gazprom was willing to come to a consensus with the Ukrainian government and restart gas supplies during the crucial winter period, yet it was the Ukrainian government that had turned down its proposal ("Russia cuts off gas supply, 2006). By creating a narrative that the Ukrainian government had been insensitive to the energy needs of its citizens, Russia was aiming to create domestic discontent, perhaps to portray Ukraine as unreliable and reckless. Russian envoy to European Union, Sergei Yastrzhembsky, claimed that Ukraine was "blackmailing" the European Union and essentially, holding the EU and its consumer's hostage (Aslund, & Karatnycky, 2005).

Though the price hike can be understood as an economic decision by Russia, it still is politically charged and the background of events cannot be taken in isolation. As long as Russia had the assurance of the Ukrainian government that it is receptive to Russian interests, it was willing to reward it. But the pull-back after the 2004 revolution and the increase in pro-Western sentiments, Russia could only maintain control by tightening its grip and accordingly, try to discredit the Ukrainian government. Russia used its position as an energy supplier as a tool to assert its control and influence in the region. If economic concerns were the prerogative for Russian energy industries, the price hike would be unilateral, as for the closest Baltic countries such as Armenia which continued to pay lower prices. Notably, in 2006, Belarus was still paying \$47 per 1,000 cubic meters ("Russia, Belarus sign last-minute, 2007). The three-month grace period, which was offered to Ukraine after which it could start paying higher prices in 2006, was suggested by Putin. The 2006 gas dispute ended with a five-year contract between Russia and Ukraine. The contract stipulated that Russia's gas would not be sold directly to Naftogaz but instead through an intermediary, RosUkrEnergO (RUE).

## *2009 Dispute*

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A similar dispute, as the one in 2006, resurfaced in 2009 but the intensity of the dispute was far greater. The 2006 dispute brought considerable change in the Russian-Ukrainian gas relation. Market mechanisms were in greater application than before with the end of the barter deal. The conclusion of the barter deal meant that the transit fee would no longer be accepted in kind but cash (Dempsey, 2005). Ukrainian supply and transit gas were now separated, that is, the contracts no longer merged the two supplies, Ukrainian supply and European supply was differentiated, and no longer would there be an overlap but the agreement of 2006, argued by analysts was short-sighted and left a lot of unresolved issues creating gaps within the agreement which only interpretation could fill (Stern et al., 2009).

The supply and transit contract has been argued to be one of the main causes of the 2009 dispute, analysts believe that 1) there were separate supply and transit contracts and 2) the annulment of a supply contract in 2006, meant transit provision continued to be valid (Pirani, 2012). Moreover, there were discrepancies in agreements leading up to the dispute as well, whereas in the Putin and then Prime Minister Timoshenko memorandum of 2008 stated transit fee would continue to be dictated by market forces, the agreement signed by Gazprom and Naftogaz executives did not mention market-forces as a determinant for transit fee (Stern et al., 2009).

The crisis began in January 2009, when Gazprom alleged that gas had been stolen from the transit lines, while Ukraine in defense, stated that due to the lack of separate supply and transit contract, the "missing" gas was utilized as technical gas or fuel gas. Following this, gas was shut off and by 6th January, Europe was feeling the consequences of the bilateral dispute, wherein its gas delivered reduced by a significant number and by 7th January was cut off completely ("Gas crisis between Russia and Ukraine, 2009).

What followed was 10 days of back and forth accusations, Russian side claimed that it had not cut off gas, as Gazprom CEO Alexie Miller claimed that Gazprom had stopped its gas deliveries only because Ukraine had closed down the system (Stern et al., 2009). On the other hand, Naftogaz claimed it had turned off the system because Gazprom had stopped its deliveries.

Unlike the 2006 dispute, the 2009 dispute aggravated to the extent that gas supplies were cut off for 10 days, affecting European nations and countries that were dependent on Russian gas, and faced severe conditions in the middle of peak wintertime. Due to the severity of the situation and lack of consensus between Ukraine and Russia, the EU had to intervene and monitor the situation ("Deal to resume Russian gas", 2009). Another stark difference in the 2006 and 2009 conflict was the lack of restraint on Russia's side. Though in 2006, gas supplies were cut off, they were cut off for a day and there was only a significant reduction in supplies, though still an inconvenience for consumer countries it did not result in a humanitarian crisis. In 2009, Russia did not hold back in its decision to cut off gas deliveries, the duration was also noteworthy. In the middle of January wintertime, Gazprom cut off gas deliveries for 10 days until negotiations were in deadlock ("Deal to resume Russian gas", 2009).

There are several explanations as to why Russia showed no restraint in 2009 yet none of them is entirely clear-cut, it seems Russia's lack of restraint and use of gas deliveries more as an offensive tactic was due to the build-up of strains and annoyance of the relationship. One of the explanations for the Russian offensive was the Georgian conflict. After the Russo-Georgian war broke out in 2008, Ukraine stated its support for Georgian sovereignty and territorial integrity. ("Ukraine threatens to bar", 2008). Ukraine's reaction to the Russo-Georgian war reaffirmed Russian anxieties that its spheres of influence are ceding away. Additionally, in December 2008, U.S-Ukraine signed a charter on strategic partnership, it stated modernizing Ukraine's gas transit infrastructure and diversifying its nuclear fuel-making capacities as well as ensuring less dependency on foreign sources of nuclear fuel ("U.S. Ukraine Charter on Strategic Partnership, 2008). Russia is one of the main exporters of Ukrainian nuclear fuel as Ukraine's 70% of nuclear fuel imports are from Russia. Ukraine had been entirely dependent on Russian imports of nuclear fuel to power its remaining nuclear power plants. The increasing closeness of the West and Ukraine is not a reality that Russia is keen on, for Russia its Near Abroad and sphere of influence is important to keep a buffer zone between Russia and the West. In 2008, Ukraine also applied for its NATO Membership Action Plan (MAP), which also alarmed Russia (Rumer, & Menon, 2015, p. 65).

Perhaps, the biggest takeaway from the 2009 dispute and commercial and international risk Russia put itself

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through, was to create the image of Ukraine as an unreliable partner for transiting gas. Gazprom lost \$1 billion in sales due to the cessation of gas deliveries, while Ukraine lost \$100 million in transit fee (Lough, 2011). Gazprom and Russia have more to lose in their dispute with Ukraine, as cutting off gas placed new insecurities regarding energy within its European consumers. For Russia, gas export is important for its economic revenue so it would not willingly sabotage its relations with its European countries, which leads one to believe that for Russia the motive in the 2009 gas dispute was to corner Ukraine and default it as unpredictable (Perwita, & Pakpahan, 2016). A negative perception of Ukraine as a transit nation could potentially help Russia build greater integration with the European market without relying exclusively on Ukrainian transit pipelines, creating an opportunity for it to abandon Ukraine as a middle-man for exporting its gas to the EU nations. This could also be a response to the increasing insecurity for Russia with its sphere of influence, wanting to expand beyond its Near Abroad, circumventing Ukraine for deeper ties with the EU.

So, it can be argued that the objective of 2009 was not to produce immediate results but Russia willingly escalated the situation wherein gas supplies were cut off longer than the 2006 dispute to create a negative image of Ukraine. Additionally, Vladimir Milov, former deputy energy minister in an interview stated that it was highly likely that the gas cut off was strategized and politically motivated, a continuation of Georgia and Russian intervention in the area (Pacer, 2015, p. 71). Regardless of whether the 2009 dispute was sparked off due to a one-off event or acculturation of events, Russia was willing to use energy supplies as a punitive action against Ukraine. The Russian rhetoric was clear, that Ukraine has been irresponsible and unwilling to budge, even at the cost of its civilians' welfare and other nations' energy needs. European gas supplies were hit as well, as according to the EU's contract with Gazprom stated that the gas had to be supplied through the Ukrainian western border (Jirušek, & Kuchyřková, 2018). European consumers of Russian gas were hit, according to Naftogaz, Ukrainian nation gas and oil industry, as it had diverted gas intended for transit to European countries for Ukrainian domestic use.

According to Herman (2020), Russia's capacity to use nuclear weapons is close to nil, the U.S will retaliate with the same intensity as Russia. A war to keep the U.S away from its sphere of influence is also not a viable solution for Russia, in terms of military power, Russia cannot compare to the U.S. For Russia the safest bet to ensure to exert its influence is resorting to blackmail and withholding essential gas resources (Herman, 2020). As for Ukraine and its weak economy, Russia is aware of the fact that the weak economy can not afford to diversify its gas supplies when Russia offers cheaper alternatives and lack of infrastructure and updated systems also makes imports from other sources less likely. Russia was okay with losing out \$100 million per day in gas revenues in the case of the 2009 dispute, the European countries could not last long without gas supplies. (Umbach, 2014). This is where the position of Russia as an energy power is evident.

The beginning of the Ukrainian crisis, analysts argue, began with Russian gas itself as in December 2013. The then-President Yanukovich abandoned talks for greater integration with the EU and signed an agreement with Russia to half the gas prices supplied to Ukraine from \$400 to \$268.5 cubic meters in exchange of Russia buying \$1 billion worth of Ukrainian bonds ("Russia promises Ukraine cheap gas", 2013). This move was perceived as Russia's increasing presence in the Ukrainian government and its politics, as critics of the deals argued that the agreement would give up sectors of the country's economy to Russia. Though the agreement was proposed, Russia did not go forward with its purchase of the Ukrainian bonds and further, cancelled the natural gas discount after Yanukovich's government was ousted in 2014. After the end of the discount price, Ukraine paid the highest price in all of Russian gas importing countries, \$485 per 1,000 cubic meter ("Russia halts gas supplies", 2014). The situation in 2006, 2009 and 2014 were all similar, a government that Russia found unfavorable to its interests was punished through gas prices.

## Case of Belarus

Though gas disputes have also been the case with Belarus, an authoritarian country under the leadership of Alexander Lukashenko, who is a close ally of Russia, these disputes rarely ever escalated unlike in the case of Ukraine. The reason for this is that firstly, Belarus transits 20% of European gas needs and hence, does not wield considerable bargaining power with Russia. Belarus also imports 99% of its gas from Russia, it does not have the power to threaten Russia to cut off its systems for gas supplies and therefore, in this relationship Belarus as an

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energy-importer state is severely restricted in its ability to bargain (Yafimava, 2011). A good example of this is the 2007 dispute between Belarus and Russia. Russia increased prices of gas export by two times and in retaliation, Belarus increased its transit duties accordingly. Russia instead of ceding into Belarus' demand, halted gas supplies to Belarus refineries, and when Belarus started siphoning gas from the Druzhba gas pipeline meant for European consumption, Russia halted gas deliveries through Druzhba as well (Zhandkov, 2019). Although Russia did eventually cut off gas deliveries in the region, Belarus conceded to Russian pressure. So, even though economic revenues and growth is an important factor in blackmailing its gas transit capacities, the overall intensity of the price hike was not all-pervasive. While prices were hiked for both Belarus and Ukraine by 2007, in Belarus the price hike was \$110 in 2007 and for Ukraine, \$130 and in 2008, prices for Belarus increased to \$125 trillion cubic meters and \$160 for Ukraine (Newnham, 2011). A clear indication of a direct relationship between energy prices and antagonistic states towards Russia is Georgia, whereas in 2006 the prices were \$110 trillion cubic meters and in 2008, during the Russo-Georgian war, shot up to \$235 (Newnham, 2011). For Russia, it is less about keeping Belarus close to Russia as Lukashenko has reaffirmed his support for Russia with close to no ties to the West or aspirations to join either the EU or NATO. The domestic instability in Belarus itself serves more for Lukashenko to hold onto Russian ties to reaffirm his authority in Belarus. Russian aspiration in Belarus is beyond Belarus and its support to the Russian government.

With Lukashenko's support more or less affirmed, the gas transit infrastructure in Belarus was of strategic importance for Russia and control over it would be highly beneficial. The gas disputes with Belarus can be viewed through geopolitical importance for Russia and after a few rounds of disputes over siphoning off of the gas, debt accumulation and market prices for gas, Belarus under pressure sold 50% of its national oil and gas company in the years between 2007 and 2011, named Beltransgaz ("Beltransgaz returns to Gazprom", 2012). Finally, in November 2011, in an agreement between Russia and Belarus, Gazprom purchased the remaining 50% stake in Beltransgaz. The acquisition of Beltransgaz was completed with full ownership of Gazprom and in 2013, it was renamed Gazprom Transgaz Belarus ("Beltransgaz to be renamed", 2013). The acquisition gave Gazprom full control over Belarus gas networks and transit infrastructure, raising questions about Belarus' sovereignty. Gazprom has utilized debt-for-assets to take a share of ownership for pipelines and similar infrastructure, just like in the case of Belarus (Pirani, & Bowden, 2009, p. 174). The mounting debt of Belarus was cancelled when Gazprom took a per cent of the share of ownership.

Belarus continues to have closer relations with Russia as compared to the West. After recent protests against the reelection of Lukashenko, an election considered to be rigged, Moscow gave Belarus a \$1.5 billion loan in September 2020. Lukashenko also thanked Russia for its assistance and that its assistance "would not be a waste" ("Lukashenko 'grateful' for Russian aid", 2021).

## Nord Stream 2

Nord Stream project's construction, the original pipeline, began in 1997 with the collaboration of Gazprom and Neste, a Finnish oil company. The Nord Stream would allow the construction and operation of a gas pipeline from Russia to Northern Germany, through the Baltic Sea. The Nord Stream was a momentous project as it would provide a direct link between Russia and European countries (Umbach, 2018). According to Gazprom, the Nord Stream would allow "high reliability" of gas deliveries from Russia to Europe ("Nord stream", n.d.). According to opponents of the gas pipeline, the Nord Stream is not only a commercial venture for economic development and revenue generation seeking closer integration with European countries but a divisive tool for Russia to play out its role as an energy power without faltering its image as a gas exporter. The new pipeline, Nord Stream 2 which Gazprom in 2015 announced its construction, would be 1,200 kilometres long and double the capacity of the original Nord Stream (Baxter, 2015).

Nord Stream 2 is beneficial for Western European countries, and proponents of Nord Stream 2 argue that natural gas is a cleaner alternative to coal and hence is beneficial for the EU's efforts against climate change (Munteanu, & Sarno, 2016). The German government also stated that the pipeline would ensure supply security of the European Union, which would further ensure the functioning of its energy markets. Nevertheless, the project does benefit Germany economically, competitively priced gas and lower gas prices due to lower decarbonisation prices. But



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critics argue that the pipeline does have considerable economic strengths and a case can be made for it from a purely economic basis, the political and geopolitical aspect of the pipeline will create newer insecurities for the Eastern European countries and maybe in the future, for Western European countries as well (Riley, 2018).

The example of the latter can be seen with the divisive split between those for the new pipeline and those who are against it. Denmark has been opposed to the Nord Stream 2 project, within the Danish Parliament opposition parties have argued that large infrastructure projects such as Nord Stream 2 should not be allowed to cross its territorial waters, creating security concerns (Silk, 2020). Poland has been another country with the EU to oppose the construction of new pipelines due to concerns of Gazprom taking over the national market and being the dominant player in its market ("Poland fines Gazprom billions", 2020). The split in the opinion regarding Nord Stream 2 could lead to concerns regarding the EU's energy rules and, cooperation and consensus on these topics may become strained, a concern voiced by a report by European Parliament's Committee on Foreign Affairs (European Parliament, 2018). This may not be a direct concern as of now for the EU countries but increased Russian presence in the region may evolve to create such conflicts.

The most immediate concern originating from the construction of Nord Stream 2 and as mentioned earlier, is the use of the newly built pipeline to influence Russia's sphere of influence. With the Nord Stream 2 conveniently circumventing its usual transit nations (Ukraine, Belarus etc.) and Russia being able to directly supply gas to European consumers, it creates concerns for Eastern European nations that now lose their bargaining power in the relationship. To illustrate this point, I will take the example of Ukraine. With the construction of new pipelines, Russia's gas deliveries through Ukrainian gas transit capacities have reduced. In a report by Ukraine's Gas TSO, it transported 38% less gas compared to 2019 in 2020 ("Gas TSO of Ukraine reduced", 2021). The construction of new gas pipelines has allowed Russia to rely less on Ukraine for its gas transit and do the same directly, a reduced dependency on Ukraine for transporting its oil supplies will allow Russia to use energy as blackmail without having to worry about cutting off gas to Ukraine and reduce Ukraine's counter-threat of shutting down its gas system. Even in a situation where Ukraine does threaten to shut off its gas systems, cutting off the gas supply to European countries, it will not have the same effect as 2009 where the gas supplies would fall dramatically. There will be a significant reduction but not much to affect Russia's position as an energy exporter. Hence, the construction and operation of the new gas pipeline create serious concerns for countries such as Ukraine that have, in the past, dealt with Russia's use of gas as punitive action against its domestic policies and national interests. In 2011, Nord Stream's transit capacity was 0.66 billion cubic meters while Ukrtransgaz (Ukraine's gas transmission system) was at 104.19 ("How the unfinished Nord Stream 2", 2019). By 2018, Nord Stream was at 58.8 bcm while Ukrtransgaz, 86.8 billion cubic meters (Naumenko, 2018). With the construction of Nord Stream 2, the added capacity of both pipelines are approximately 120 bcm and along with the capacity of the Turkish Stream, a natural gas pipeline that runs across Russia to Turkey, of 31.5 billion cubic meters ("TurkStream gas pipeline, 2020). Ukraine's gas transmission systems can be completely abandoned eventually.

The other area of concern is the effect on the Ukrainian economy itself. The loss of transit fees could cost Ukraine \$3 billion, according to estimates released by Ukraine's Finance Ministry, or 2.5-3% of its GDP ("Ukraine to lose", 2018). An economically weak Ukraine can be exploited by Russia, where the crisis in Donbas and Crimea continues to bleed the country.

## *Implications for the West*

The increasing dependency on Russian oil and gas exports and concerns regarding it has created concerns for the West. Russia is the main supplier of gas to Europe and specifically, NATO members such as Hungary, Bulgaria and Czech, etc. Concerns for the U.S remain as Russia continues to be a dominant player in gas and oil imports for the EU. Moreover, an alternative to Russia, a cheap supplier, is hard to conceive and it offers no incentive for member-states to diversify their energy resources. Specifically, nations with high buying power and relative upper hand can obtain discounts from Russia on imports (Richman, & Ayyilmaz, 2019). With a lack of incentive to diversify, cheap supply and increasing Russian energy influence on the EU, it poses a question for the energy security of EU nation-states and whether it is sustainable.

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Russian energy resources to Europe is another concern for the U.S and has come under considerable scrutiny of sanctions by the U.S Senate, notably the Nord Stream 2 pipeline. Many European countries are dependent on Russia for energy resources in different degrees, in 2019 and 2020 Russia will be the largest supplier of natural gas to the EU. In 2019, Russia's share was 44.7% of all-natural gas imports from trading patterns to the EU while in 2020, it was 39.3% (Eurostat, 2018). To understand better the EU dependence on Russian's petroleum oils and natural gas, four member-states of the EU, Hungary, Finland, Estonia and Slovakia, had more than 75% of petroleum oil imports come from Russia. Additionally, six member states, Bulgaria, Latvia Czechia, Romania, Austria and Slovenia reported 75% of natural gas imports from Russia (Eurostat, 2018). It is also important to note that these member-states also enjoy relative physical proximity to Russia. It was also reported in the Eurostat report on EU energy imports, that physical proximity is a determinant in the % of gas or oil that is imported, the closer the member-states the higher their share of import %. Comparatively, Italy, Netherlands, Germany and Spain were also the largest importers of petroleum gas, Spain's national import falling less than 25%, while Italy and France were between 25% (Eurostat, 2018). Of this, 50% of national imports, higher than the rest of Western Europe was Germany and the Netherlands. Similarly, for natural gas, the largest importers were Italy, Germany, France and Netherlands but while the import share of Spain remained the same as oil, Netherlands and France were between 25%, Italy at 50% while for Germany, 75% (Eurostat, 2018).

Though the increasing Russian dependency has created concerns within the EU, the economic benefits of the new pipeline outweigh the political repercussions of the same. While the U.S has imposed economic sanctions on Nord Stream 2, the European countries are less than likely to cooperate with the U.S in their efforts to stop the operation of the pipelines. In January 2021, the Trump administration threatened European companies of the impending sanctions if they continued to participate in the construction of the pipeline ("U.S tells European companies", 2021). Though construction of the pipeline was halted in December 2019, it restarted in 2020 and is now 90% complete, pipe laying continues as of March 2021 ("Construction of disputed pipeline", 2020). The economic sanctions from the U.S have not worked to halt activities completely, due to the EU countries unwillingness to do the same. For the EU countries, reliance on coal and nuclear energy as an environmental concern and the cheap prices of the gas together is too good of a deal to shrug away. While for the U.S, the concern of Russian energy power using its kompromat or blackmail on its Western allies exists, it also has economic interests. Russia's gas supplies to Europe could potentially affect the U.S liquified natural gas (LNG) which the U.S has offered as an alternative to Russian gas. Again, the U.S LNG can not compete with Russian gas which is 20% cheaper than that of U.S gas (Richman, & Ayyilmaz, 2019)

It is unclear how Russia's greater integration with Western Europe could impact foreign policy and affairs, German Chancellor Angela Merkel has consistently defended the construction of new pipelines against U.S sanctions. The domestic situation in Russia and poisoning of key opposition Alexei Navalny created concerns in Germany and many members of the parliament wanted reconsideration of the pipeline, but Merkel has reaffirmed the importance of Nord Stream 2's completion for Germany ("Germany's Merkel stands by Russia pipeline", 2021). It can be argued that Russian energy power expansion and further integration to Europe are undertaken purely for its economic considerations and revenues, it is hard to ignore the various gas disputes and Russia's actions towards its special zones of interests such as Ukraine and Belarus. The new pipelines can serve either one or both objectives or Russia, 1) circumvent Ukraine as a transit country, allowing it to use its kompromat techniques to ensure developments in Ukraine and its Near Abroad are aligning with its interests or 2) use the integration with Western European countries and its dependency to deploy similar methods of 'carrot and sticks'. Though it can be argued that the EU countries such as Spain and Italy are not completely dependent on Russian gas and hence, Russia's ability to coerce or use its energy power status is limited drastically, Russia's lack of restraint as illustrated in the case of Ukraine makes one question how Russia truly will conduct its foreign policy. As in the 2009 dispute and cutting off gas supplies to Europe was a risky move, both economically and politically as its status as a gas exporter, it is hard to discern whether a similar pattern could evolve later.

## Conclusion

Though coercive policies are not new to international politics and Russia is not the sole perpetrator of coercive diplomacy, the lack of transparency within Russian oil and gas industries that are in control of Russian intelligence

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officers and politicians is a concern for the U.S, specifically Russian assertion of political will may do to its relation with its NATO allies (Smith, 2010). While Russia views U.S sanctions as threats against its economic interests, the U.S views Russia's greater energy cooperation with Europe as a threat to its strategic interests. While the U.S could help Ukraine with its economy and hold up the fort longer with financial assistance, Russian adventurism in the region will not cease as for Russia, Ukraine is a vital determinant for its national interest. In 2015, Biden the then Vice President declared the Nord Stream 2 project as a "bad deal" for Europe, and continues to hold the same policy (Schmitt, 2021). Germany was willing to bargain with the U.S to allow the continuation of the construction of the pipeline by committing EUR 1 billion for building Germany's LNG infrastructure, it is clear that Germany is willing to cut a deal with the U.S but halting construction is not on the table ("Germany offered U.S 'dirty deal'", 2021). The continued pressure on Germany by the U.S might also strain the relations between the two countries. While Nord Stream 2 has come under constant opposition, the TurkStream has faced less flak (Geropoulos, 2021).

The objective of the two gas pipelines is the same, to supply gas to Europe while avoiding Eastern European transit nations but it seems that the opposition to the Nord Stream 2 is less about Russian gas to Europe and more about Germany and the U.S, leading the belief that for the U.S, losing Germany to Russia would cause concerns for it. If the objective of economic sanctions would have been to dissuade direct Russian gas supplies to Europe, the TurkStream would have come under similar pressure. Yet, the U.S has not been consistent in this case. The U.S opposition has come too late and as Nord Stream 2 pushes closer to completion, the U.S has to divert its attention to dealing with increased Russian presence with the same inventiveness as Russia employs its coercive actions, as economic sanctions have failed to create pressure. The U.S continues to monitor the Nord Stream 2 developments but has relatively ignored growing Russia and Turkish relations. It is also important to make the case that the pipeline to connect Russia and Germany can be considered as the continuation of its policy of economic diversification and the creation of bilateral relations. Domestic stability is important for Russia and adventurism in global politics may have effects on its economy as well as it did in 2009 when it lost gas revenues that totaled to \$1 billion. The domestic situation in 2021 is far different from 2008-2009, increased protests and opposition to Putin's government may alter how Russia utilises its coercive power.

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