



TRANSFORMATION OF DYNAMICS OF KREMLIN'S GAS POLICIES TOWARDS UKRAINE DURING PUTIN'S THREE TERMS.

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ABSTRACT

The aim of the research is to outline how the dynamics of Russian Federation's gas policies have been differently applied in Ukraine with respect to the internal decisions. It will be taken into consideration the three Putin's presidencies terms and also his Prime Minister's term, since his influence on Russian Foreign Policy's direction has been relevant meanwhile he was not President. The four terms will be examined in comparison with the most relevant Ukrainian internal decisions in domestic and foreign policy, as the NATO's talks in 2005 or European Union's Association Agreements in 2013. Moreover, the research will also evaluate the changes of the Concept of Russian Foreign Policy and the National Security Concept of Russian Federation as the most relevant and useful documents to this research. In particular, it will be analyzed at how they have been applied to Western countries and CIS countries and how more aggressive Russian Federation became during all the time taken into consideration.

The result of all this analysis will be the confirmation that the gas sales price strictly depends on Ukraine's regimes and that this relation creates fluctuations and also shows how the Russian influence on its neighborhood countries is still strong. This connection between years, Kiev's decisions and prices will be clearer using the *Figure 1*¹ that has been created to make the analysis of the linkages between Russian natural gas sales prices and Ukrainian political events as clearer as possible. Instead, the *Figure 2* will help a more general and simple final understanding of the relations between Ukrainian regimes and the gas prices.

Personal conclusions will be provided at the end of the paper.

KEYWORDS

Putin, presidential terms, gas sales prices, Russian foreign policy, Ukraine, energy security.

¹ Pirani, S.; Henderson, J.; Honoré, A.; Rogers, H. and Yafimava, K. (2014) "What the Ukraine Crisis Means for Gas Markets", The Oxford Institute for Energy Studies; University of Oxford.

INTRODUCTION

During the last decades, the energy issue increased its relevance assuming a new important aspect in the international relations, that is the security one. The topic of energy has been “securitized” by the States in order to ensure their own energetic safety and their own energy supplies. However, it is only in the last ten years that the use of energy has been implemented as a coercive tool and it has been especially throughout the twenty-first century that the energy policy became even more part of the foreign policy. The lead country of this strategy is the Russian Federation which, rich of raw materials especially oil and gas, used its capabilities to influence many countries’ policies, especially the Ukrainian ones.

The paper will analyze the relationship between Russian Federation and Ukraine, especially the deep political connection between the Russian President Vladimir Putin and the Ukrainian Presidents throughout the three Putin’s mandates, included the Prime Minister term. In the first chapter, a brief introduction on Putin’s character will be given, considering the changes of the Russian foreign policy improved by the president. The further chapters will deeply analyze the changes on the gas sales prices for Ukraine related to the internal political events and the contrasts with the Kremlin, showing how the fluctuations of the prices strictly depend on the direction of Ukrainian policies. In fact, the research will help to better understand the “natural” path of the Russian strategy in the Ukrainian crises: unappreciated Ukraine’s policies, increased gas sales prices, stop gas supply, new welcome Ukrainian policy, new stabilized gas sales prices.

In the end, a further analysis will be given, looking at what could be the reasons for Russia to use energy as a political tool of pressure towards a such important country as Ukraine.

The Figure 1 will implement the assessment of the research showing the dynamics of the Kremlin’s gas policies towards Ukraine from 2000 to 2014, policies based on continuous peaks and relaxations of the prices. In the meanwhile, the Figure 2 will summarize the main ideas of the research showing the fluctuations of the gas sales prices related to different Ukraine’s regimes (Presidencies and Governments).

Furthermore, in the end it will be clear as Russian Federation improved its energy strategy introducing in it some “military” aspects: the Ukrainian case of 2014 is the most significant one to explain these “military” features in the use of energy that start with the surrounding of the countries through an energy suspension and then controlling them with the decisions on prices.

The original speeches and documents of Putin’s administration have been fundamental for the first part of the research, in order to give a more specific framework of the international climate and of the changes for the Russian foreign policy. While for the history of the events which took place in

Ukraine and the related gas sales prices' fluctuations have been used articles from the most important international newspapers and from the most respected center of studies on energy security, assuring in this way as much objectiveness as possible.

1. VLADIMIR PUTIN AND NEW RUSSIAN FOREIGN POLICY

The election of Vladimir Putin in 2000 as president of Russia represented the inevitable change for the entire society, embodying the figure of the homo novus in politics, even though his past was strictly linked to the old nomenklatura as a KGB officer ² (KGB, in fact, was the hearth and the pillar on which nomenklatura established and enforced itself) . However, the change has been significant not only for the internal polity but especially for the foreign one. Putin, in fact, made new and clear transformations to the Russian Foreign Policy taking unpopular decisions on international issues and strong stands towards Western superpowers.

As a matter of fact, at the beginning of his presidential term he suddenly promoted a renewal of the National Security Concept of the Russian Federation, redefining in this way the Russia's role in the international community, the Russia's national interests and the most relevant threats to the Federation.

1.1 New directions for Russian Foreign Policy: National Security Concept 2000

The National Security Concept document was implemented by the Foreign Policy Conception of Russian Federation which amongst the various provisions given, the "Regional Priorities" one is really significant for this analysis. In fact, the chapter is focalized on relevant topics as the relationships between Russia and Commonwealth of Independent States (CIS), Caspian and Black Sea countries, EU, NATO and USA, and it makes possible a much broader comprehension of the context of the 21st century's Russia. According to the document, it is a duty for Russian Federation "to ensure the suitability of multilateral and bilateral cooperation with the member states of the Commonwealth of Independent States (CIS) for the country's national security tasks" ³. In the text, the idea of a major cooperation and collaboration between Russian and other countries is outlined as well as the necessity to do it for the Russian national security and interest.

² See: <http://eng.putin.kremlin.ru/bio>

³ "Foreign Policy Conception of the Russian Federation" (2000).

1.2 Enforcing a sharper Foreign Policy: Much Speech in 2007 and Concept of Foreign Policy in 2013

President Putin continued to enforce the Russian Foreign Policy by more aggressive and critical words, especially against the Western “pole” and its plans and actions in some area of the world. These two documents will be prophetic for the whole International Community, considering the events occurred one year after every speech.

These two helpful statements for the understanding of the new Russian approach in Foreign Policy are the Putin’s Speech at the Munich Conference in 2007 and the new Concept of the Foreign Policy of the Russian Federation of February 2013.

Putin’s Speech in Munich is more ideological and at various times alarming, especially about the way Russian Federation started to run; moreover, the president used very interesting and relevant sentences and words to show how the biggest certainties of the 1990s and of the beginning of the 20th century had to be put under discussion. To stress in particular this last topic, Putin argued that “the unipolar world that had been proposed after the Cold War did not take place either” and that “no one feels safe because no one can feel that international law is like a stone wall that will protect them”⁴: very forecasting sentences. Furthermore, another relevant topic debated in the document is the NATO activity. According to the president “NATO expansion does not have any relation with the modernization of the Alliance itself or with ensuring security in Europe. On the contrary, it represents a serious provocation that reduces the level of mutual trust.”⁵

The document of February 2013 represents the new direction of Russian Foreign Policy. The “Regional Priorities” paragraph is focalized on the partnerships launched by the Kremlin, in particular the Eurasian Customs Union, with a reference to Ukraine which is defined “as a priority partner within the CIS” and that Russia has “to contribute to its participation in extended integration process”⁶. In this framework, it is easy to understand that Putin’s neighborhood policies were different from the previous ones, in particular because they seemed potentially to be mutual relationships based on the equality of the states, therefore a real and effective brotherhood. This was the idea Russia gave at the beginning of the new millennium, until the former “young brothers” started to acquire too much independence from the “old brother”. In fact, new revolutions started to break out (Tulips’ Revolution, Roses’ Revolution, Orange Revolution etc.) and to become so consistent threats for the Russian power that had to be stopped.

⁴ “Vladimir Putin: Speech and the Following Discussion at the Munich Conference on Security Policy”; February 10, 2007.

⁵ *Ibidem*.

⁶ “Concept of the Foreign Policy of the Russian Federation”, February 12, 2013.

1.3 Putin's ability to connect Foreign Policy to Energy Policy

In the same time of tension between Russia and West, new technologies and new oil and gas fields were discovered and Russian Federation acquired even more importance in the global energy market. With the complete opening to the international market, which should mean to be globally accepted as political and economic super-power, Russia faced with a new historical opportunity: to consolidate its own economy developing the entire State and society and to create a global interdependence through the energy sales. Furthermore, Putin understood that it was the time to place side by side the energy policy to the military intervention in order to have a stronger control on the neighbor countries. In fact, he was able to grasp that increasing political and economic interdependence with these states meant controlling them in every decision. Its interest went in particular toward those states which had a significant energy capability, as the Central Asian republics or toward those countries without their own energy capacity, but with a significant geopolitical assets as the Baltic States and the Black Sea countries, as Ukraine (with the access to Black Sea). With the formers, during his first term Putin has been able to create a sort of real political and economic addiction with the Kremlin's decisions, while with the latter more difficulties have been established. Furthermore, some of these countries played a significant role already in the Soviet Union's era as transit countries for the many pipelines that linked the USSR to the Western Europe, especially gas pipelines (the "Brotherhood" was one of the biggest gas pipeline passing through Ukraine). Among the various heritages of the Soviet Union, Russian Federation found also the big fortune of using and controlling these structures. The main gas pipelines towards Western Europe passed and pass through Ukraine and over the time it has become the most important transit-country for the European Union's energy and energy security, and namely also the most problematic one. Whatever Ukrainian crisis, especially if it breaks out with the Russian Federation, it means huge problems for the majority of the states of the European Union.

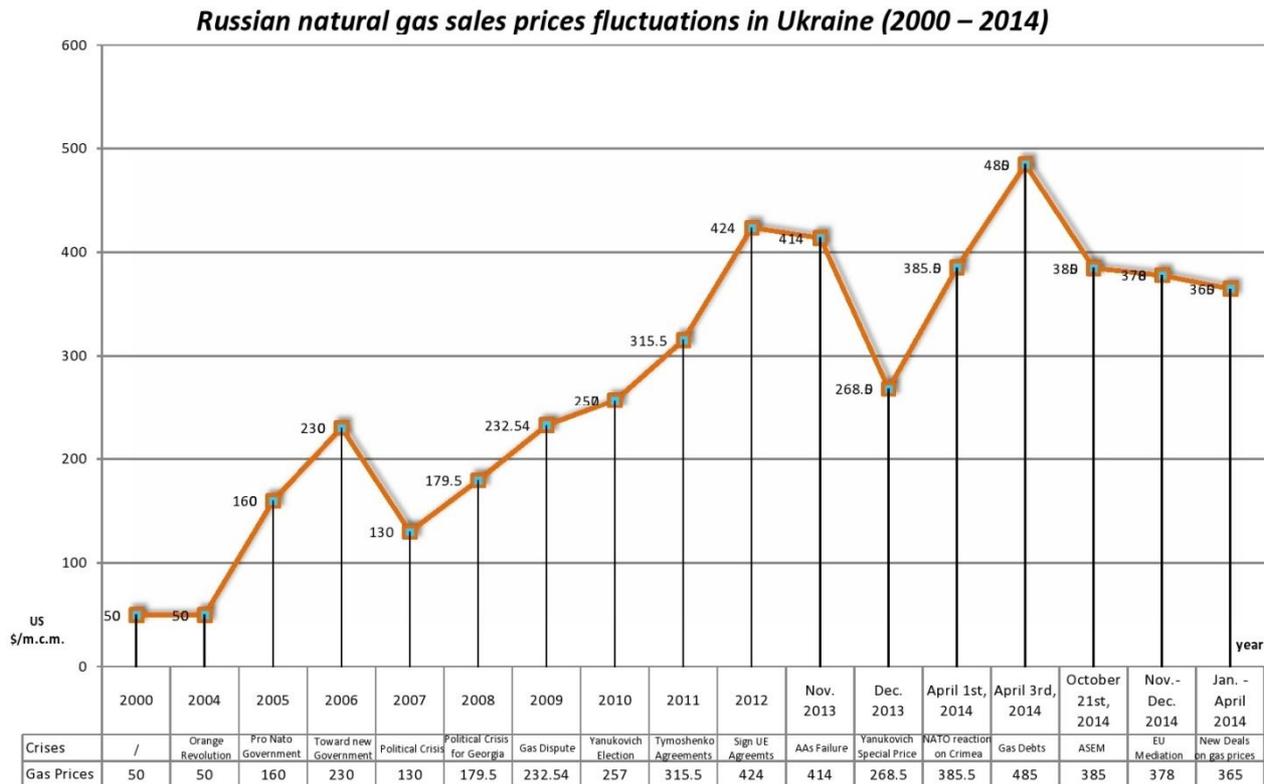
Although the numerous agreements signed and ratified about the Ukrainian status and conditions since the collapse of the USSR, in particular the Budapest Memorandum of 1994 and the Partition Treaty of 1997 that have to be mentioned, Ukraine has always represented the main problematic country for the European Union, the United States of America and the Russian Federation.

However, one of the most relevant Putin's *political revolutions* has been the ability to transform so significantly the energy power in the most important foreign policy tool that Putin gained the nickname of "petro-macho"⁷. It has become even more evident how the energy supply is able to

⁷ Alexander Etkind: he defines as "petromachism" the particular Russian cultural type of nowadays created to execute control over the citizens. References: <http://soukup.blog.ihned.cz/c1-59964660-na-lidech-v-roponych-statech-nezalezi>

influence political and economic decision, or how it is often used as a leverage, menace or gift, especially with the *good and bad guys*.

In the following pages of the research, these phenomena will be increasingly clear, in particular with the help of *Figure 1*, making a comparison between the Russian natural gas sales price expressed in “m.c.m.”, thousands per cubic meters, and the year taken into considerations, from 2000 to 2014.



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The *Figure 1* has to be clear during the analysis in order to empirically link the gas sales prices levels to the most significant political events in the controversial Ukraine. It is important to bear in mind that the research will study the natural gas sales prices which are constantly agreed between the country taken into consideration and the energy company, in this specific case Gazprom. Gazprom is a private company since 1993, which aims to maximize its profits, and with former politicians or personalities as head officers as for instance the president or the general manager, in order to be able to influence and to decide the direction of the main market policies.

In sum:

- New Russian Foreign Policy: ensuring relations and cooperation with the CIS's member states;
- Much Speech in 2007 and Concept of Foreign Policy in 2013 created a more aggressive foreign policy
- Energy policy became a tool for enforcing the Russian foreign policy

2. THE FIRST PUTIN'S MANDATE AND THE BEGINNING OF ENERGY POWER AS FOREIGN POLICY TOOL: 2000 – 2004

During the first four years of the 2000s, the Russian natural gas sales price in Ukraine was stable to 50 US dollars⁸ per m.c.m. and it was one of the lowest prices in the global energy market. The reason for this “friendly” price was basically the consequence of the Partition Treaty on the Status and Conditions of the Black Sea Fleet of 1997 that, in addition to the partition of the Black Sea fleet between Ukraine and Russian Federation, established the renewal of the presence of Russian fleets in many Ukrainian naval bases included Sevastopol as long as the Kremlin would have paid Ukraine a rent, in the specific case through gas sales “friendly” price. The Black Sea fleet represented and still represents one of the most important part of the Russian military forces both for its prominence and for its geostrategic role: in fact, through the bases in the Crimean peninsula, it could be possible for the Kremlin to maintain an active role in the management of the Black Sea which represents the most direct access to the European continent.

However, as it is clear from the Figure 1, the price remained stable until the 2004, the year of the Ukrainian presidential elections which saw in the autumn the prime minister Viktor Janukovič facing with the former prime minister and head of the opposition Viktor Juščenko, leader of the coalition “Наша Україна” (“Our Ukraine”) .

The results of the elections established the victory of Janukovič but the opposition party, supported by the international observers and institutions denounced electoral frauds and protests began in Kyiv starting the so called “Orange Revolution”. Therefore, the opposition party, sustained by the Western countries, made a strong propaganda about what the civil rights and civil law were, grounding its political program on liberal and European slogans and hence calling for repeating elections.

⁸ Pirani, S.; Stern, J. and Yafimava, K. (2009) “The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment”, The Oxford Institute for Energy Studies; University of Oxford.

Therefore, new elections took place and Viktor Juščenko resulted as winner thus becoming the new President of Ukraine. Exactly in this context, while Ukraine was going through an economic upswing thanks to the economic reforms taken by the government, the first peak of gas sales price took place and it shifted from the 50 dollars of 2004 to 160 dollars in 2005, when the new presidency was officially declared. The Russian dissatisfaction was probably given by the continuous references of Juščenko to the European values and by the early idea to get Ukraine closer to the European Union's institutions and to the European economy.

However, it is possible to mark the 2005 with the election of president Juščenko as the first indirect reprisal on gas sales price during the whole Putin era as response to unsatisfying Ukraine's decisions both as nation and as people.

In sum:

- During the first Putin's mandate the gas sales prices remained stable to \$ 50 m.c.m..
- Many revolutions took place in the former Soviet space: Ukraine faced with the "Orange Revolution.
- In 2004, new elections took place and Viktor Juščenko was the new president of the country.

3. THE SECOND PUTIN'S TERM, 2004 - 2008: UKRAINE AND CHANGE OF RUSSIAN FOREIGN POLICY

The 2005 is the period of the strong use of soft power by the West, especially by NATO and European Union which started debates about the possible future integration of Ukraine in them, and of the policies enacted by the new Ukrainian government and president as signals to those discussions, making increasingly tenses the relationships with the Russian Federation. Thus, all the political decisions taken allowed Ukraine to obtain the status of market economy by the European Union and the international community; taking advantage of this, Gazprom was now able to fix new prices higher than the previous ones since the new economic status of the country.

3.1 *The two crises of 2006 and 2007: new prices for Ukraine*

Initially, the new gas sales price amounted to 160 dollars m.c.m.⁹ and when in 2006 a serious political and economic crisis exploded the Russian gas company fixed the new price at 23010

⁹ Pirani, S.; Stern, J. and Yafimava, K. (2009) "The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment", The Oxford Institute for Energy Studies; University of Oxford.

¹⁰ *ibidem*

dollars. Ukraine refused to pay that quote and as consequence Gazprom started to reduce the gas flow towards Ukraine as debt's payment. The main reasons were basically two: the first was that the Ukrainian government and the energy company (Naftogaz) collected a huge amount of debt unpaid forcing Gazprom (that is a private company which has to maximize its own profit, as said above) to make deductions on the gas flow; the second was that in this way the Kremlin was able to make pressures among the citizens for asking changes in policies and for exacerbating the crisis. Obviously, the interruption of gas flows had consequences also on the other main Russian customer which is the European Union, triggering one of the most serious energy and diplomatic crisis in the European contemporary history. It will be only with the political crisis of 2007 and with the worsening of the economic situation in the country that Gazprom will decrease the gas sales price, leading it to 130 dollars m.c.m.¹¹

3.2 Georgian war and consequences for Ukraine

In the meanwhile, the international climate was not so relaxed since internal political problems were been reopened in Georgia. The debate between the central government of Tbilisi and the Abkhazia and South Ossetia regions exploded once again and the political atmosphere was increasingly exacerbated. In the meanwhile, Georgia started talks with NATO for the opening of a partnership between the country and the organization, provoking in this way the Kremlin that could not allow itself to lose one of the most important country in the geopolitical chessboard. This worrying was publicly presented in 2007 when one of the most relevant speech of the third millennium was made, namely the Putin's Munich speech¹². It represents one of the greatest and significant speech in which the president of Russian Federation assumes a stronger position and moves stronger critics to the Western international political system, introducing the growth of the Russia's role in the international community and starting to change the Russian foreign policy, turning it in to a more aggressive one. The energy topic is one of the most emphasized point by the president who underlines its power and its importance especially for what concerns the Western Europe zone. While in the speech Putin pledges for a quasi-complete withdrawal of Russian army from Georgia territory, in 2008 the Georgian war broke out. At the international level, oil and gas sales prices suddenly peaked . Once again, a particular phenomenon took place in Ukraine. The president Viktor Juščenko found himself in a strong contrast with the prime minister Julia Timoshenko about the Georgian episode: while the former was strongly condemning the Russian action, the latter was assuming a neutral position. In this uncertain political crisis, as Figure 1 shows, in Ukraine the gas

¹¹ Pirani, S.; Stern, J. and Yafimava, K. (2009) "The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment", The Oxford Institute for Energy Studies; University of Oxford.

¹² "Vladimir Putin: Speech and the Following Discussion at the Munich Conference on Security Policy"; February 10, 2007.

sales price started to peak amounting to 179.5 US dollars m.c.m.¹³, another sign that can help the scholars to outline a significant connection between gas sales prices in Ukraine and Russian foreign policy decisions.

3.3 Putin's Term as Prime Minister of Russian Federation: 2008-2012

In 2008 the second Putin's term ended and Dmitry Medvedev became the new president of Russia, while Vladimir Putin held the position of prime minister. It is impossible to bypass the importance of Putin's influence in the Russian foreign policy direction only because he was prime minister: how significant was the influence of Putin's figure on Medvedev and consequently on Medvedev's decisions it is well known.

In 2008 the price was 179.5 US dollars m.c.m. and in the 2009 passes to 232.54¹⁴. From the last public sources it has been possible to know that there had been some meeting between the Ukrainian former prime minister Julia Timoshenko and some officials of Gazprom company: according to the documents, during these meetings the former prime minister accepted briberies to agree in a constant increase of gas sales price for the next 2 years, namely until 2011. This is the most likely reason, because it would be unexplainable how the gas sales price continued to augment although in 2010 the presidential elections in Ukraine were won by Viktor Janukovič, publicly pro-Russian. Precisely in this year, the gas sales price amounted to 250¹⁵ US dollars m.c.m. and in 2011 the price peaked to 315.5¹⁶. The empirical evidence doubtless leads the analysis to consider the high level of inflation in Ukraine and the high crisis reached politically and economically.

However, in 2011 the president Janukovič started serious talks with the European Union aimed to start an embryonic form of European integration and in particular about the free market and the free movement of peoples, the so called Association Agreements and Eastern Partnership, both part of the Common Foreign and Security Policy of the European Union. To try to fulfill the requests of the *acquis communautaire*, president Janukovič asked for significant reform to Ukrainian parliament, in particular for what concerned the civic freedoms, the judiciary system and the decreasing of corruption's level. In this context, extremely important is the implication of this starting process for the population and the support that the latter gave to government: the AAs meant a greatest opportunity for the renewal of the Ukrainian economy and of the judicial system. More freedoms

¹³ Pirani, S.; Stern, J. and Yafimava, K. (2009) "The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment", The Oxford Institute for Energy Studies; University of Oxford.

¹⁴ Pirani, S.; Stern, J. and Yafimava, K. (2009) "The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment", The Oxford Institute for Energy Studies; University of Oxford.

¹⁵ Pirani, S.; Henderson, J.; Honoré, A.; Rogers, H. and Yafimava, K. (2014) "What the Ukraine Crisis Means for Gas Markets", The Oxford Institute for Energy Studies; University of Oxford.

¹⁶ Pirani, S.; Henderson, J.; Honoré, A.; Rogers, H. and Yafimava, K. (2014) "What the Ukraine Crisis Means for Gas Markets", The Oxford Institute for Energy Studies; University of Oxford.

would have been provided for the population and especially a judiciary reform would have changed the situation of impunity characterizing all the post-socialist countries.

In sum:

- 2004: Putin started his second term as president of Russian Federation.
- Ukraine started to debate about possible partnerships with NATO and European Union.
- 2006 and 2007: serious political crises between Russia and Ukraine; new gas sales price established firstly to \$ 160 m.c.m., then to \$ 230 m.c.m..
- 2008: the Russian-Georgian war broke out; contrasts between the president Juščenko and the prime minister Timoshenko about the position to hold. The gas sales price, decreased after Gazprom-Kyiv agreements to \$130 m.c.m., increased again to \$ 179.5 m.c.m..
- 2008: Putin became Prime Minister of Russian Federation.
- 2010: Janukovič new Ukraine's president and gas sales price amounted to \$250 m.c.m..
- 2011: Official talks about Association Agreements and Eastern Partnership for Ukraine and the gas' price peaked to \$315.5 m.c.m..

4. THE THIRD PUTIN'S TERM, 2012 – 2016: CRISIS SPREAD OUT AND ENERGY TOOL'S EFFICACY

The continuation of the negotiations continued and in 2012 Putin has been reelected as president of the Russian Federation. In this framework, the most significant date is the 30 March 2012 when the chief negotiators of the European Union and Ukraine initialed the text of the EU-Ukraine Association Agreement. For the European Union this represented the success of the European Neighborhood Policy and the even more integration of one of the most relevant, but problematic, eastern countries. Looking at the *Figure 1*, the Russian reaction is quite clear: the natural gas sales price reached the 424 US dollars m.c.m.¹⁷, the highest peak since the beginning of the third millennium. For Russian Federation, the situation became more complex and difficult to manage and it probably was necessary to give a significant signal to Ukraine and to the international community, especially to contrast the “hard” soft power of the European Union. The Kremlin showed a complete new alternative to the soft or simply hard power that can be summed up with the power of the energy supply and sources: the capability of Russian gas fields allows to Russia to

¹⁷ Pirani, S.; Henderson, J.; Honoré, A.; Rogers, H. and Yafimava, K. (2014) “What the Ukraine Crisis Means for Gas Markets”, The Oxford Institute for Energy Studies; University of Oxford.

obtain its requests through the game of the “turn on – turn off” the natural gas supplies, not only towards Ukraine, but also towards European Union, and this skill has been already applied in 2006. The threat is never publicly proposed under the real reason and quite often the high amount of debts is the indisputable cause of the interruption of gas flows, and the international community can simply look at this situation helplessly.

4.1 Vilnius Summit failure and Ukrainian crisis of 2013

The stalemate caused by Kiev-Brussels negotiations was prolonged until the 2013, in particular in the month of November. In 28th and 29th of November the Vilnius Summit had to take place to sign definitively the Associations Agreements between the countries involved, among these Ukraine too. The whole international community and public opinion and overall the Ukrainian population looked at this meeting with big attention, thus representing for the former the most important success of liberalism principles, and for the latter a fresh start for the country. However, after harsh debates and particular requests from Kiev, Janukovič did not sign those Agreements and suddenly a big protest exploded in the capital city together with a minimum reduction of gas sales price, amounting in November to 414¹⁸ US dollars m.c.m. . The main and public reason for the rejection of the AAs was the enormous loan Putin gave to Kiev, mounting to 17 billion dollars, an amount able to save the state from bankrupt.

The Vilnius Summit signed the 2013 and the contemporary history of international relations because have started a spiral of terrible events, firstly between population and the police, lately between the Russian Federation and Ukraine about Crimea. One month later the summit, the protests continued and, in December 2013, looking for some carrots to give the population after the stick he already gave, Janukovič obtained from Gazprom a significant reduction of gas sales price, leading it from 414 to 268.5 US dollars m.c.m.¹⁹, probably as loyalty prize.

4.2 Crimea's militarization, high debts and consequences for gas supplies

Nonetheless, with the new year, the 2014, the socio-political situation of Ukraine degenerated leading to the escape of president Janukovič, a provisional government and an ever more involvement of the Kremlin in the Kiev's internal affairs, obviously balanced by the USA and European Union. However, the event which gave to the internal crisis an international nature occurred in the 21st of March of the same year, when the Kremlin decided to intervene militarizing a Ukrainian region, Crimea, to protect its minority from possible ethnic riots. This move led the

¹⁸Pirani, S.; Henderson, J.; Honoré, A.; Rogers, H. and Yafimava, K. (2014) “What the Ukraine Crisis Means for Gas Markets”, The Oxford Institute for Energy Studies; University of Oxford.

¹⁹ *Ibidem*

tensions to a highest peak of crisis, not more just national but also international in which the two main world superpowers (USA and Russia) found themselves once again involved in a harsh debate, in which European Union played the role of the mediator. The international community responded condemning the Russian action as a violation of international treaties, referring in particular to the Budapest Memorandum of 1994 in which Russia, UK and USA made by guarantors of Ukraine inviolability of territory and borders in exchange of the Soviet nuclear arsenal. In 21st of March, Crimean people, for the majority Russophiles and pro-Russians, called for a referendum to be officially annexed to Russian Federation as 84th region²⁰. The result of the referendum was doubtless positive, and Putin suddenly provided for a presidential decree regulating the request of Crimean peoples and voting it in the Duma. The same day Russian parliament voted, Putin had a speech really shocking for the whole international community, in which he claimed for the international violations of the Western States, for the decline of the Western culture and, overall he argued the legality and legitimation of his intervention. In fact, according to the president the Russian move has not been an invasion or a violation of Ukrainian borders and territorial integrity, because the Russian army was present in Crimea since the 20th century, renewed with the Partition Treaty on the Status and Conditions of the Black Sea Fleet of 1997 and prolonged until 2042 and thus recognized by Ukrainian government. This has been the hardest caveat to accept for the whole Western countries, and the only means to use as response against Russian behavior were the diplomatic ones. USA and European Union started with sanctions against the most important oligarchs and companies, with the freezing of Russian seat at the G8 conference and, in the first days of April NATO suspended the NATO-Russian Council (NRC), already suspended in 2008 for the Georgian-Russian war. Thus Kremlin responded to these critics and actions coming from the Western Societies and the European Union countries with a “massive retaliation” on the gas sales prices, exploiting the huge debt that Ukraine had accumulated in the last two years: the 1st of April the price peaked from 268.5 to 385.8 US dollars m.c.m.²¹ and two days later, the 3rd of April the price reached the amount of 485 US dollars m.c.m.²², the highest price in the history of Ukraine (more than nine times on the 2000 price).

The situation does not seem to be relaxed and, on the contrary the 16th of June Gazprom launched an ultimatum to Kiev for the payment of the 4,8 billion dollars of debts, otherwise the morning of the 17th the gas flow towards Ukraine would have been interrupted. At the state of the matters, the 17th of June the new Ukrainian president Petro Poroshenko in an official speech communicated that

²⁰ www.bbc.com/news/world-europe-26624789.

²¹ www.bbc.com/news/business-26831678.

²² www.bbc.com/news/business-26902522.

“ from the 6:00 a.m. of today, Ukraine does not receive any more gas supply from Russian company Gazprom”, and that the gas reserves will last until December of 2014.

4.3 October 2014: Asia-Europe Summit and New Agreements on Gas

Since the cut off of Russian supplies in June 2014, Ukraine found itself with a huge debt with Gazprom company and without sufficient energy storage for the winter months.

To change the direction to this extremely harsh dispute it has been the Asia-Europe summit (ASEM) in Milan, in the October 2014. In fact, the 16th October all the European and Asian leaders met to discuss the most important issues for their economic and political cooperation, and Vladimir Putin and Petro Poroshenko have been the main characters of the meeting. During the summit, many progresses have been reached by Western leaders on Russia-Ukraine crisis, but one of the most significant has been the deal on gas supplies reached by the two presidents after a one-on-one meeting²³. Vladimir Putin assured that the gas supply is guaranteed to Ukraine at least for the winter, under the acceptance and the respect of all the parameters agreed on the deal, and the Russian President has also told European leaders are expected to help Ukraine in settling its energy debts, amounting to \$4.5 billion.

The final deal reached on the 21st of October officially stated that the new gas sales price for Ukraine was of \$385 per m.c.m.²⁴, still higher than the price for the European companies but of course lower than the previous one.

In sum:

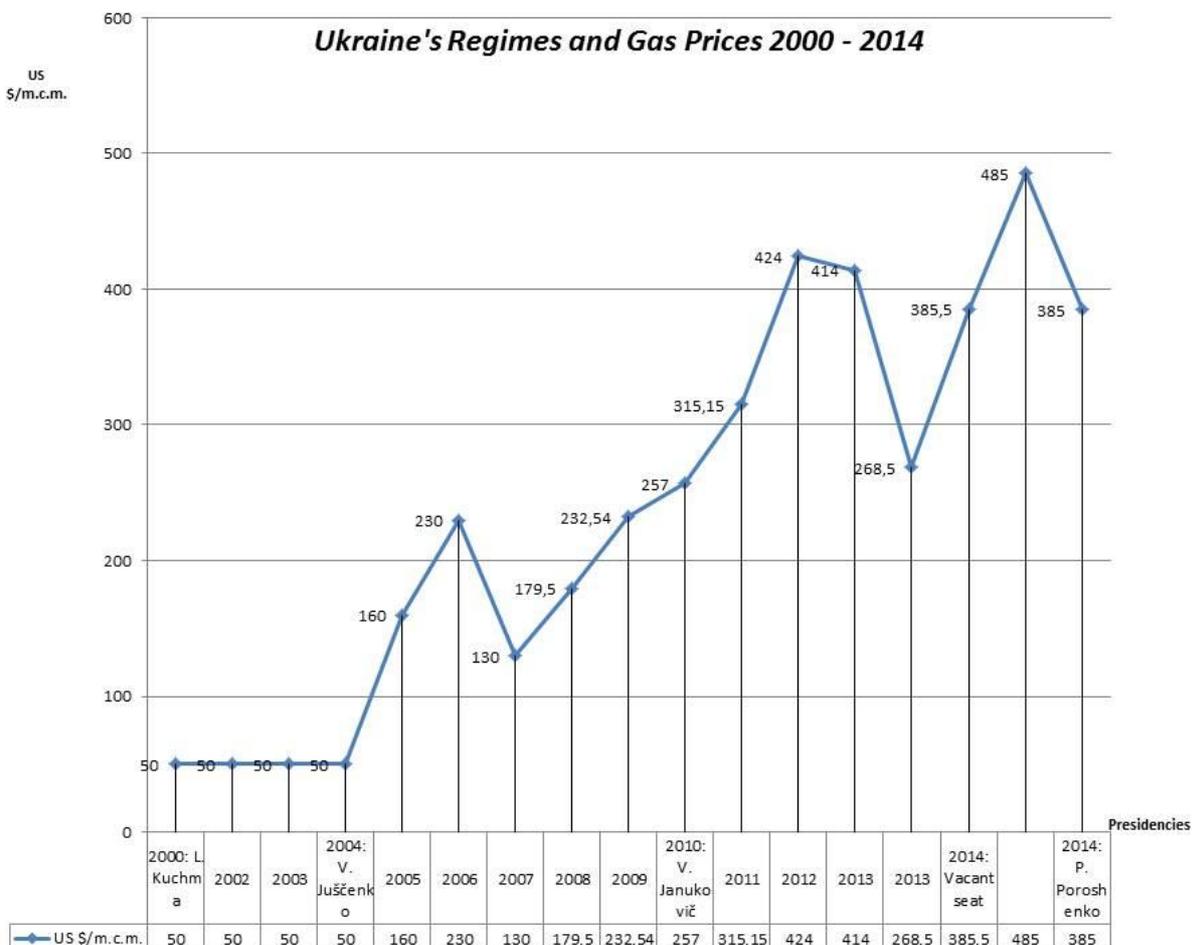
- 2012: Putin started the third mandate as president of Russia.
- In the 30th of March 2012, EU and Ukraine initiated the draft of the Association Agreements and the gas sales prices reached to \$424 m.c.m. , one of the highest prices.
- November 2013: Vilnius Summit for the official sign of the Association Agreements, but president Janukovič refused to do it. Clashes started in Kyiv.
- December 2013: Putin loaned to Ukraine 17 billion dollars to avoid the Ukraine’s bankrupt and the gas sales price decreased to \$268.5 m.c.m. , but the clashes in the capital city were more and more violent.
- In January 2014, president Janukovič escaped from Ukraine and, since the situation in Ukraine escalated, the Kremlin decided to enter in Crimea and in the Eastern part of the country to protect Russian minorities.

²³ <http://www.reuters.com/article/2014/10/17/us-ukraine-crisis-meeting-idUSKCN0I52YO20141017>

²⁴ <http://www.reuters.com/article/2014/10/21/us-ukraine-crisis-gas-idUSKCN0IA17920141021>

- In March 21st, a referendum in the peninsula took place voting for the annexation to Russian Federation becoming one of its region.
- In April, given the huge debts of Ukraine towards Gazprom, the gas price increased first to \$385.8 and two days later to \$485 m.c.m..
- The last relevant change in Ukraine’s gas price took place with the Asia-Europe summit in October 2014 where Putin and Poroshenko found an agreement on price leading it to \$385 m.c.m. thus assuring the heating for the winter months.

In order to give a more complete understanding of the whole research, the table below shows the correlation between Ukrainian regimes and the gas sales prices’ fluctuations. In this way, the analysis and the demonstration of the dependence of gas sales price on different presidents results clearer, showing the Russian “preferences” on some politicians and dissents on others.



CONCLUSIONS: RUSSIA'S PARANOIA OR MOTIVATED REACTIONS

There is no doubt about the close connection between the Russian natural gas sales price and the political crisis and decisions taken by Kiev, although at the Munich Conference in 2007 Putin said that energy prices must be determined by the market instead of being the subject of political speculation, economic pressure or blackmail²⁵. From the *Figure 1* the correlation among energy prices, political speculation and blackmail results clear and impressive because it makes possible to define the gas sales price of Russian gas as the “mirror of Ukrainian policies”: for every internal political or economic crisis there is a peak of the gas sales prices and for every stabilization of the internal situation the prices relax. This conclusion is very significant for two main reason: on the one hand, it shows how much Ukraine is still important for Russian Federation politically, economically and overall geopolitically; on the other hand it helps to outline the Russia's strategy on the manipulation of prices to make political pressures and blackmails. In fact, in this context the Putin's ability has been to use Russian energy for both political and geopolitical aims, gaining a superiority in this sense on the Western countries. Furthermore, it is necessary to bear in mind that Ukraine represents the last border which divides European Union and NATO from Russia and Asia (the so called “vital sphere”), and it is precisely for this reason that the Concept of the Foreign Policy of the Russian Federation of 2013 defines Ukraine as “ a priority partner” which needs to be included in the “extended integration process”²⁶. And it is exactly for this reason that Putin in his speech in Munich used very aggressive words against the NATO enlargement policy which is, according to the president, a serious provocation that reduces the level of mutual trust²⁷. Furthermore, the strategy used in Ukraine seems to sum up perfectly the path of the steps used by the Kremlin to influence and to condition the political decision of one country. Small further gas sales prices fluctuations in one of the states under Russian “interest” could be an early warning to the likely beginning of Kremlin's strategy against it that probably will follow the same path of Ukraine. Undoubtedly, Putin has been able to “militarize” the energy usage by which he can indirectly act against the whole European continent mostly energetically dependent on Russian Federation.

Doubtless Russia's reactions to international events and overall to its neighborhood events are exaggerated, but it cannot be assumed that this behavior is given only by Russia's paranoia. In fact, taking the world map and looking at it from the north pole, it is possible to note clearly that Russian Federation is completely surrounded, in the north, in the west and in the south from NATO, in the

²⁵ “Vladimir Putin: Speech and the Following Discussion at the Munich Conference on Security Policy”; February 10, 2007.

²⁶ “Concept of the Foreign Policy of the Russian Federation”, February 12, 2013.

²⁷ “Vladimir Putin: Speech and the Following Discussion at the Munich Conference on Security Policy”; February 10, 2007.

north and in the west from EU, in the north-east from USA (Alaska), in the east from Japan (NATO partner) and in the south-east from the SEATO Alliance. Obviously all the enlargement policies of these alliances has led Russia (which looks at the International Relations through a realist approach) to feel insecure. As Putin said, “no one feels safe. Because no one can feel that international law is like a stone wall that will protect them. Of course such a policy stimulates an arm race. [...] I am convinced that we have reached that decisive moment when we must seriously think about the architecture of global security”²⁸.

As a matter of fact, through a deep analysis the Russia’s behavior in Georgia and in Ukraine (Crimea) could have been foreseen since the 2000 with the new National Security Concept of the Russian Federation, with the Foreign Policy Conception of the Russian Foreign Policy and with the Putin’s Speech at the Munich Conference on Security Policy. In fact, the message launched by Russia was clear: there was a new Russian Federation, more integrated, more active in the international arena but also more aggressive if necessary. Aggressive behavior does not mean only a military intervention: for instance, a smart usage of gas pipelines can help to surround and blocking a whole country, such as Ukraine. Now, Kiev finds itself exactly in this trap, surrounded by natural gas which is not able to buy and Crimea controlled by the Russian army.

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