

RUSSIAN FAIRY TALES



LESSONS FOR EUROPE FROM UKRAINE'S HISTORY



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his story started a long time before the armed conflict of 2014 and the gas crisis of 2009. By the time the European Union began to take its energy security policy more seriously, developing and adopting the Third Energy Package, gas had already been a key political component in relations between Ukraine and Russia for years. Still, without reading this history in context, it's impossible to understand what's behind the events taking place today in the Ukraine-EU-Russia trilateral relations.

Right after the collapse of the Soviet Union, gas relations between Ukraine and Russia were mainly built on trust and personal connections more than on commercial considerations. Many Ukrainian scientists and engineers worked in Russia to develop new deposits and to operate the gas transmission system (GTS).

However, within a few years, the Russian energy team took a number of steps to bring these relations to a completely different plane. Russia began to use gas as an instrument to achieve its political objectives in Ukraine.

This story has no good guys and bad guys. The situation that led to gas disputes was set up over many years by many people, both in Russia and in Ukraine: people interested in enriching themselves, in holding on to power, or in following an ideological line. People like this can be found everywhere and in every country: it's largely a matter of how well the political system can prevent them from making policy or influencing outcomes.

It's also important that "just business" which is used as an argument of some politicians and large business entities not become a cover-up for goals that will cause a country's people to suffer, along with its economic prospects and national security.

This paper is intended to show just how Russia used natural gas to reach its political goals in Ukraine: how it was used to bribe some officials and blackmail others, to influence decision-making and basically twist arms. The idea of a "Russian fairytale" offers the most common method used: reassuring partners and lulling them into a false sense of security with verbal promises, while leaving them in impossibly hopeless positions at the very last moment. This is what happened during the 2009 gas crisis, this is how gas was cut off in 2014, and the same happened in March 2018.

We want our European partners to have the option to learn from the mistakes that Ukraine has made. The EU societies should understand that the entire European community could end up paying dearly for specific decisions by individual politicians, even if they are couched in arguments ostensibly supported by commercial prospects.

FIVE TRAPS IN RUSSIAN FAIRYTALES

LESSONS FOR EUROPE FROM UKRAINE'S HISTORY

 What can Ukraine's post-Soviet history teach EU countries? For starters, to understand the risks that Russian policy sometimes brings to the energy arena. You won't read about them in recent policy papers, they aren't discussed by analysts and business people, and they can't be taken into account using standard methods of business risk analysis.


Some might think this kind of approach a bit exaggerated, if not actually paranoid. It seemed equally so in Ukraine prior to 2014: some politicians and journalists could not believe in Moscow's real intentions even as Russians were parachuting in "little green men" in Crimea.

The cost of doubt turned out to be enormous.

And so – "Calculate the worst case of various scenarios" is our advice to EU partners, basing premises and assumptions on recent history. Luckily, the EU has Ukraine's experience through which to understand these different possibilities and anticipate negative outcomes. If Russia is carrying out a Soviet-style plan for destabilization in Europe on the basis of Ukraine, it suggests that there's little that is new in these methods.

We've decided to call these various methods "traps," because these are threats that Russia might hide behind her public stories and promises.

THE FIRST TRAP: "WE'LL TAKE CARE OF YOU" BUT DIVERSIFICATION OF SUPPLIERS MATTERS

hen a country's business is critically dependent on resources from Russian state monopolist which is under no obligation to follow standard European rules, things can get downright unpleasant. As the story of Ukraine shows, Russian side likes to stick a country's leadership with a difficult choice at the worst possible moment: either you go against your own industries or you compromise politically in order for your economy not to suffer. In the end, the government becomes hostage to supposedly "convenient" terms for private business and, in order to save it, has to agree to policies that are dangerous for long-term security. At various times, Ukraine was forced in this very way to shelve plans to join NATO and the Association Agreement with the EU.

Today, Europe, including Central and Eastern Europe, depends on Russian gas. The building of Nord Stream 2 does nothing to diversify gas supplies for half of Europe. It means that even more Russian gas will be delivered to Austrian and German hubs, where CEE countries buy most of their natural gas. There will be no diversification for Germany's – it's dependence on Russian gas is already 40% today¹. With the completion of Nord Stream 2, it could jump to 60%², which is close to the level Ukraine was at in the 2000s, when President Putin began to increase pressure on the country with demand to get control over gas transportation system.

Ukrainian politicians have confirmed that, just before the 2006 and 2009 gas crises, Gazprom negotiators kept reassuring them, that a solution was going to be found and that everything would be "just fine." Unfortunately, the Ukrainian side never had a Plan B in case Gazprom did not come through on its part of the deal. In 2009, Ukraine was completely taken by surprise when the supply of gas was cut in the dead of winter. Ukraine not only put its best engineers and technicians to work resolving the problem, but it also became a good lessons for all EU countries.

¹ In the last 10 years, Germany's dependence on gas imports from Russia amounted to an average of 38%, see the data of Federal Office of Economics and Export Control (Entwicklung des deutschen Gasmärktes (monatliche Bilanz 1998 - 2017, Einfuhr seit 1960). http://www.bafa.de/SharedDocs/Downloads/DE/Energie/egas_entwicklung_1991.html) and Bros, Aurélie; Mitrova, Tatiana; and Westphal, Kirsten. German-Russian Gas Relations: A Special Relationship in Troubled Waters. German Institute for International and Security Affairs, Research Paper 13 (December 2017). https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2017RP13_wep_EtAl.pdf. In 2017, the dependence ratio is estimated at 39.3%, see: Eckert, Vera. Germany's 2017 gas imports up 15 pct, cost up 27 pct. Reuters. Last modified February 23, 2018. <https://af.reuters.com/article/commoditiesNews/idAFL8N1QD53G>.


² Delcker, Janosch. Germany blocks out allies' walls over Russian pipeline love. Politico. Last modified May 17, 2016. <https://www.politico.eu/article/germany-shrugs-over-nord-stream-fuss/>

Some EU countries might state that even with heavy dependence on Russian gas, it is possible to have stable and reliable relations with Gazprom – if all agreements are in place and are managed properly. But the case with Ukraine in March 2018 showed that Gazprom might violate not only signed contracts, but also the decision of the Stockholm arbitration. Despite the advance payment for Russian gas from Naftogaz's side, in accordance with the arbitration decision, the Russian company refused to supply in a few hours before the agreed date and time³. The disruption of gas supplies in March 2018⁴ is not the only case – Russia ignored international law when it took over the territory of a sovereign country.

³ Gazprom refusal to supply gas violates Stockholm Tribunal ruling. Naftogaz press release. Last modified March 1, 2018. <http://www.naftogaz.com/www/3/nakweben.nsf/0/72AFCEDE314F365EC225824300465063?OpenDocument&year=2018&month=03&nt=News&>

⁴ Alert: Russia-Ukraine gas dispute. DIXI Group. Last modified March 5, 2018. <http://dixigroup.org/storage/files/2018-03-05/eng.pdf>

THE SECOND TRAP: “JUST SIGN OVER A FEW LITTLE THINGS” BUT THE EU RULES AND POLICIES MATTER

 European legislation requires diversification of sources of supplies and supply routes. The building of Nord Stream 2 is in violation of these principles. In terms of infrastructure, Russia is currently a gas supplier through Ukraine’s pipelines while Ukraine is its main transporter. With Nord Stream 2, Russian Gazprom will be both the supplier and the transmission system operator.

Once it owns a series of pipelines, Russia might be in a position to manipulate supplies to member countries. Moscow will determine what volumes of gas go where. With this kind of approach, it will become very easy to manipulate countries that are competing for the right and the money to buy gas.

It is also important to keep in mind, that Gazprom is also not just a company, but rather an instrument to realize Russian state energy policy. Unlike many other international state companies with independent Supervisory Boards and management policy, Gazprom is heavily dependent on decisions made by Russian politicians. As an example – building South Stream pipeline, which was stopped 2014 by decision of Russian President Vladimir Putin⁵. Also, just recently, a relative to President Putin, Mikhail Putin, was appointed as Deputy Head of Board of Gazprom⁶.

One more example of the fact that building of Nord Stream is controversial from the EU legislation perspective is a recent dispute between the European Commission and the European Council’s legal service, over amendments to the Directive 2009/73/EU concerning common rules for the internal market in natural gas. The purpose of the revisions is to bring all the main gas pipelines entering EU territory from third countries—including Nord Stream 2—in line with EU rules on transparency and access to other suppliers⁷.

Nord Stream 2 could also have a negative impact on other strategic and even security issues around Europe. It may have influence on the environment near the Danish island of Bornholm, because the planned route for the 139-kilometer pipeline crosses Danish territorial waters⁸. The main aspect of Nord Stream 2 that

⁵ Vasilyeva, Yelena and Mokrousova, Irina. Gas “lightning rod”: why is South Stream running out? Forbes Russia. Last modified December 5, 2014. <http://www.forbes.ru/kompanii/resursy/274791-gazootvod-pochemu-issyak-yuzhnyi-potok>

⁶ Putin’s nephew appointed deputy chairman of Gazprom’s board. Delovoi Peterburg [Business Petersburg]. Last modified March 23, 2018. https://www.dp.ru/a/2018/03/23/Plemjannik_Putina_naznachen

⁷ Energy Union: Commission takes steps to extend common EU gas rules to import pipelines. European Commission press release. Last modified November 8, 2017. http://europa.eu/rapid/press-release_IP-17-4401_en.htm

⁸ Jung, Eva and Kruse, Simon. Rusland er klar med gasrute, som Danmark ikke kan sige nej til. Berlingske. Last modified October 10, 2017. <https://www.b.dk/globalt/rusland-er-klar-med-gasrute-som-danmark-ikke-kan-sige-nej-til>

worries Swedes is the possible handing over of Swedish ports under lease to carry out construction work and the security risks that this implies⁹.

A separate issue is Russia's ongoing policy of capturing Ukraine and the Baltic states. Allowing Russia to monopolize the delivery of gas to the EU could lead to dangerous consequences in Eastern Europe, given that relations between Russia and Ukraine, Poland and the Baltics have been extremely tense for the last few years. Permission to build Nord Stream 2 could be seen by Moscow as a positive signal and untie its hands even further.

Russian energy projects are one of the main sources for excessive profits for oligarchs in Russia. Earlier, it was thought that this money was super profits that the elite were going to be spend on lavish lifestyles in the prestigious parts of London and New York. But in 2014, it dawned on them where the money would really have to be spent: in Ukraine. Russia began financing a proxy war in the south and east of the country. By 2015, it became clear that these methods would no longer be limited to the post-Soviet arena. Unaccounted money earned from state procurements began to finance troll farms and cybercrimes that influenced both the UK referendum, and presidential elections in France and the US¹⁰. This unaccounted money also went to supply private armed groups that operated, not just in Ukraine but in Syria, too.

⁹ Swedish government can't stop Russian rental of ports: Foreign Minister. The Local. Last modified December 14, 2016. <https://www.thelocal.se/20161214/swedish-government-cant-stop-russian-rental-of-ports-foreign-minister>

¹⁰ See: Kirkpatrick, David. Signs of Russian Meddling in Brexit Referendum. The New York Times. Last modified November 15, 2017. <https://www.nytimes.com/2017/11/15/world/europe/russia-brexit-twitter-facebook.html>; Pernik, Piret. Hacking for Influence – Foreign Influence Activities and Cyber-attacks. International Centre for Defence and Security. February 2018. https://www.icds.ee/fileadmin/media/IMG/2018/Publications/ICDS_Analysis_Hacking_for_Influence_Piret_Pernik_February_2018.pdf. For general impression also see: Significant Cyber Incidents Since 2006. Center for Strategic and International Studies. Last modified March 2018. https://csis-prod.s3.amazonaws.com/s3fs-public/180308_Significant_Cyber_Events_List.pdf

THE THIRD TRAP: “WE WOULD NEVER TAKE ADVANTAGE OF YOU” BUT PRICES FOR GAS MATTER

The price for gas is the simplest and most effective way to manipulate businesses that are in a position to pressure their governments. In the case of Europe, as in the case of Ukraine, entire industries are sometimes dependent on Russian natural gas. And if they are considered “too big to fail,” they can exercise critical influence over their countries’ policies.

When Viktor Yanukovich won the election in early 2010, prices were used for the minor concession of extending the lease on the Black Sea Fleet base in Crimea for another 26 years (2017-2042)¹¹. Over 2012-2013, pressure was put on him not to sign the Association Agreement with the EU. In 2014, new government of Arseniy Yatseniuk and newly-elected President Petro Poroshenko were pressured as well – by interruption of gas supply to Ukraine.

Russia has been working to maintain its role in the European balance of energy by proposing minimal prices. Right now, Russian gas is actually slightly cheaper than LNG from the US, as it should be given the logistics¹². At the same time, this should not become the main factor for Europe for rejecting other suppliers and increasing its dependence on Gazprom.

A hidden threat is the question of how long Gazprom will be able to compete with American gas. Realistically, its prospects for drilling offshore and hard-to-reach deposits in Russia are poor to nil for now, because of lack of access to cutting-edge Western technology. As long as Russia remains under sanctions, Western companies aren’t willing to get involved in joint ventures and others are even leaving projects¹³. This all means that the development of new deposits and thus the volume of gas that Russia can supply will tend to go down.

In some countries, the arguments in favor of Nord Stream 2 are strictly economic. Still, the economic benefits are dubious in the longer run: spending on the additional infrastructure is going to cost German taxpayers an additional 2.7 billion EUR¹⁴.

¹¹ On the Russian gas-and-fleet deal see: Treaty between Ukraine and the Russian Federation on the issues of the Black Sea Fleet of the Russian Federation stay on the territory of Ukraine. Legislation of Ukraine. Last modified April 27, 2010. http://zakon0.rada.gov.ua/laws/show/643_359

¹² Quarterly Report on European Gas Markets. European Commission. Volume 10, issue 4. https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q4_2017_final_20180323.pdf

¹³ Exxon quits some Russian joint ventures, citing sanctions. CNBC. Last modified March 1, 2018. <https://www.cnbc.com/2018/03/01/exxon-quits-some-russian-joint-ventures-citing-sanctions.html>

¹⁴ Schultz, Stefan. Putins Pipeline könnte deutsche Verbraucher belasten. Spiegel Online. Last modified February 23, 2018. <http://www.spiegel.de/wirtschaft/soziales/nord-stream-2-deutsche-gaskunden-zahlen-2-7-milliarden-euro-drauf-a-1195091.html>

THE FOURTH TRAP: “LET’S YOU AND HIM FIGHT” INDEPENDENCE OF DECISION MAKING MATTERS

Without any doubt, post-Soviet countries that were once part of a single administration are far more highly intertwined with Russian interests in their official structures. But this same mechanism can work just as well in key partner countries or even in European government agencies where Russia has strategic interests. The examples of Silvio Berlusconi and Gerhard Schroeder show that there are plenty of individuals who are more than happy to work in Russia’s interests, some of them even quite sincerely¹⁵.


One of the ways of taking advantage of “friendly” relations with a country is the practice of appointing individuals to upper and middle management who are dependent on the Russian Federation in one way or another. This was widespread practice in Ukraine’s energy sector, both in the legislature and in the executive branch. When necessary, the system of planting PEPs allowed Russia to then get approval for policies that favored it, at all levels of government.

Throughout the history of Russia’s relations with Ukraine, it continuously maintained direct links with various political and business elites, supporting their ambitions for commercial or political advantage within the country. Its people were beside the president, beside the prime minister and in various government agencies. The process of lustration that began after the Revolution of Dignity revealed just how many people connected to Russia’s security service were working in Ukraine’s security agencies, its defense ministry and its energy sector. When necessary, this network could use an entire system for spreading disinformation and rumors to sow distrust among those who just yesterday were their political allies.

The European Union today is at a point that it needs to work very attentively with the political elites of various member countries. For a number of reasons, some countries now have right-wing parties in their legislatures, pro-Russian leaders, and even completely radical governments. Of course, not every such case is evidence of Russia’s work, but the number of weak points both in the EU member states and in Brussels itself could grow considerably, which Russia might use when the time comes.

¹⁵ In particular, see: Polyakova, Alina; Laruelle, Marlene; Meister, Stefan; and Barnett, Neil. *The Kremlin’s Trojan Horses: Russian Influence in France, Germany, and the United Kingdom*. Atlantic Council Dinu Patriciu Eurasia Center. November 2016. http://www.atlanticcouncil.org/images/publications/The_Kremlins_Trojan_Horses_web_0228_third_edition.pdf; Polyakova, Alina et al. *The Kremlin’s Trojan Horses 2.0: Russian Influence in Greece, Italy, and Spain*. Atlantic Council Dinu Patriciu Eurasia Center. November 2017. http://www.atlanticcouncil.org/images/The_Kremlins_Trojan_Horses_2_web_1121.pdf

THE FIFTH TRAP: "LET'S DO THIS JUST BETWEEN THE TWO OF US" COMMON VOICE MATTERS

ne of the long traditions of Russian diplomacy at all levels has been to break up alliances and cut "extraneous" partners out of negotiations. Precisely for this reason, Russia is very unhappy about the idea of a common voice in EU energy policy.

Divide and conquer is a time-honored principle that Russia has been applying in the EU for a long time now. When it stopped supplying gas to Ukraine in 2014, President Putin wrote a letter to individual EU leaders, not to the European Commission¹⁶. Indeed, Russia emphasizes dialog and the priority of "our" countries, Italy and Germany, over "not-our" countries, like Scandinavia.

From the very start, it was clear that Nord Stream 2 would split EU members into those who supported the project and were ready to make money on it, and those who opposed it and would likely find themselves "hooked" on Russia. Among the latter are Poland, Slovakia, Hungary and the Baltic countries. Nor is doubling the capacity of Nord Stream in line with EU policy to increase energy independence.

The US has been supporting Ukraine very decisively in the energy arena in recent years¹⁷. Over all the previous years, Russia not only kept Ukrainian politicians on a hook, it also openly talked with western partners about it. Their message was simple: "There's no one to talk to in Ukraine. Leave it to us." This line will no doubt continue to be used, but the appearance of support from the US from both Democrat and Republican presidents proves that they now see the matter of gas relations as a security issue, first and foremost.

That's why, with Nord Stream 2, everything is being done to keep the US out of any discussions. The position of pro-Russian forces is that the US "should not interfere in EU energy affairs" by sanctioning companies that support Nord Stream 2.

The situation with Ukraine in March 2018 was yet another attempt to exclude an outside partner. Unsurprisingly, the European Commission's recent efforts to arrange trilateral talks after Gazprom suddenly

¹⁶ Anishchuk, Alexei. Putin's letter to European leaders on Ukraine's gas debt. Reuters. Last modified April 10, 2014. <https://www.reuters.com/article/us-ukraine-crisis-russia-gas-letter/putins-letter-to-european-leaders-on-ukraines-gas-debt-idUSBREA391DB20140410>

¹⁷ H.R.3364 - Countering America's Adversaries Through Sanctions Act. Section 257-259. US Congress. Last modified August 2, 2017. <https://www.congress.gov/bill/115th-congress/house-bill/3364>

reduced the pressure of gas shipments to the EU via Ukraine¹⁸ ended in nothing, at list there were no trilateral meetings announced publicly. Russia desperately wants things to return to where they were in 2009, when it was able to isolate Ukraine. Any time now, there should be a massive propaganda campaign aimed at causing a rift between Ukraine and the EU.

For all these reasons, it's very important to do everything to shore up the strategy of an Energy Union, which, from the very start, will lead to greater integration among EU members for the sake of supply security. Ever since this strategy was approved in 2015, it has become more and more important. In April 2017, a decision was passed to establish a mechanism for exchanging information on intergovernmental agreements in the field of energy¹⁹. The European Commission's monitoring mechanism encompasses both current and new agreements related to the purchase, trade, sale, transit, storage, and supply of energy, and the construction or exploitation of energy infrastructure. On November 1, 2017, a new EU Regulation on gas supply security²⁰ came into effect that requires EU members to work within regional groups and agree joint actions to prevent crises. Based on the principle of solidarity, they are supposed to also assist neighboring countries with gas supplies for vulnerable consumers.



¹⁸ In 2018 Gazprom failed to fulfill its obligations under the gas transit contract. Ukrtransgaz press release. Last modified March 1, 2018. <http://utg.ua/en/utg/media/news/2018/in-2018-gazprom-failed-to-fulfill-its-obligations-under-the-gas-transit-contract.html>

¹⁹ Decision (EU) 2017/684 of the European Parliament and of the Council of 5 April 2017 on establishing an information exchange mechanism with regard to intergovernmental agreements and non-binding instruments between Member States and third countries in the field of energy, and repealing Decision No 994/2012/EU. Official Journal of the European Union. <http://eur-lex.europa.eu/eli/dec/2017/684/oj>

²⁰ Regulation (EU) 2017/1938 of the European Parliament and of the Council of 25 October 2017 concerning measures to safeguard the security of gas supply and repealing Regulation (EU) No 994/2010. Official Journal of the European Union. <http://eur-lex.europa.eu/eli/reg/2017/1938/oj>

GAS RELATIONS BETWEEN UKRAINE AND RUSSIA OR HOW TO GO FROM BROTHERHOOD TO BLACKMAIL

1990 – 1993 BIG BROTHER – THE HOLDING COMPANY: THE BIRTH OF GAZPROM

The collapse of the USSR and the establishment of independent states was a shock not just for Europe, the US and NATO, but also for most of the ruling elites in the USSR itself. The single chain-of-command that had been built up during Soviet times shattered into separate elements and in each country, this element was supposed to include an independent and fully-functioning gas system management.

Ukraine had a long tradition of training energy specialists, precisely because of the early discovery of hydrocarbons' deposits. The country established good post-secondary institutions, such as Ivano-Frankivsk's National Technical University of Oil and Gas, National Technical University "Kharkiv Polytechnic Institute", and Poltava's National Technical University, as well as gas production and transmission research centers, such as Transgaz, Ukgazproekt and PivdenNDIDiprogaz. However, the best graduates often moved to Moscow and, when production went into full swing, to Siberia, to join new projects. Ukrainian drilling and engineering specialists from Ukgazprom in Krasnohrad and Poltava were among the first to start drilling deposits in Western Siberia and, according to some estimates, carried out as much as 70% of the drilling in the region.²¹ When the Soviet Union fell apart, many Ukrainians stayed where they were, working in Russia's energy sector.

Initially, the gas sector was managed by the USSR Ministry of the Gas Industry as a strictly top-down chain-of-command. In 1989, at the initiative of then-Minister Viktor Chernomyrdin, this bureaucratic apparatus was turned into Gazprom, a state-owned company.²² In the words of the founder of the Russian gas monopolist, "We were setting up an idiot-proof gas system, as I called it, so that even if a total fool was put in charge, they

²¹ A Deep Drilling Country. How Ukrainians produced gas for the USSR, Istorychna Pravda [Historical Truth]. Last modified February 2, 2012. <http://www.istpravda.com.ua/articles/2012/02/16/73445/>

²² Pusenkova N.N., Russia's Gazprom in a Gazprom's Russia. Istoryiya Novoj Rossii [History of New Russia]. Last modified 2010. <http://www.ru-90.ru/node/1320>

would not be able to destroy anything.”²³ From August 1989, Gazprom became an independent commercial production complex, a legal entity with its own books, while the Ministry of Oil and Gas Industry was left with only strategic and regulatory functions.²⁴

This timely transition to a more flexible model for managing the sector based on the practices of Western companies made it possible for Russia to adapt more quickly to changing conditions and gave it a significant advantage in executing its energy policy compared to its post-soviet neighbors. This advantage was later used to try to take back the infrastructure of the newly independent states, infrastructure that Russian experts already refer to as “lost,” hinting at it’s possible “return.”

The career paths of energy specialists in Russia demonstrated just how strong the management school in this sector was. After setting up Gazprom, Chernomyrdin became Prime Minister in 1992 and the company was handed over to Rem Viakhiriev to run. This duo largely did not see the development of Russia’s gas sector as a priority, which was a good indication of how Russia’s government worked during this first period.

By the beginning of 1992, the Russian government and Gazprom began looking for foreign investors to capitalize the company’s further growth. By contrast, Ukraine continued to produce gas actively, but its gas sector remained closed to major investors although gas because its decision-makers did not include enough experienced managers who could propose new approaches to Western companies. Demand for the technological know-how and skills of Ukrainian gas specialists remains to this day, and you can find Ukrainians working on drilling sites in Urengoy and Tyumen.²⁵ But the lack of managerial experience and effective administrative structures, the decision-making process was one of the reasons for the weak position of the Ukrainian government in negotiating with Gazprom prior to 2014.

What Ukraine and Russia had in common was that, for a long time, the energy industry remained the one sector that was capable of keeping the economy afloat. What’s more, this was being done through manual management, similarly to the way it had been under the Soviet planned economy. Later on, this practice was also common for carrying out objectives beyond just the economy.

Yegor Gaidar would just call up Viakhiriev and say, “Rem Ivanovich, we need to support the ruble,” and Gazprom would use its hard currency cashflow to prop it up. Or another example. “One time Yuriy Luzhkov was trying to get money out of Chernomyrdin for Moscow,” recalls former Economy Minister Yevgheni Yasin. “I shouted that no way was he going to get any freebies. So Chernomyrdin just picked up the phone and called Viakhiriev and said ‘Rem Ivanovich, give Luzhkov a quota for gas export.’”²⁶

²³ Starozhytska, Maria. Gazprom’s doyen, Ukrainiyskiy Tyzhden [Ukrainian Week]. Last modified April 4, 2008. <http://m.tyzhden.ua/publication/2752>

²⁴ Donin A. and Nikolaev A. Gazprom: From state ministry to state-owned gas concern. Bulletin of the Saratov State Social and Economic University, issue 2 (61), pp. 66-70. <https://cyberleninka.ru/article/v/gazprom-ot-ministerstva-k-gosudarstvennomu-gazovomu-kontsernu>

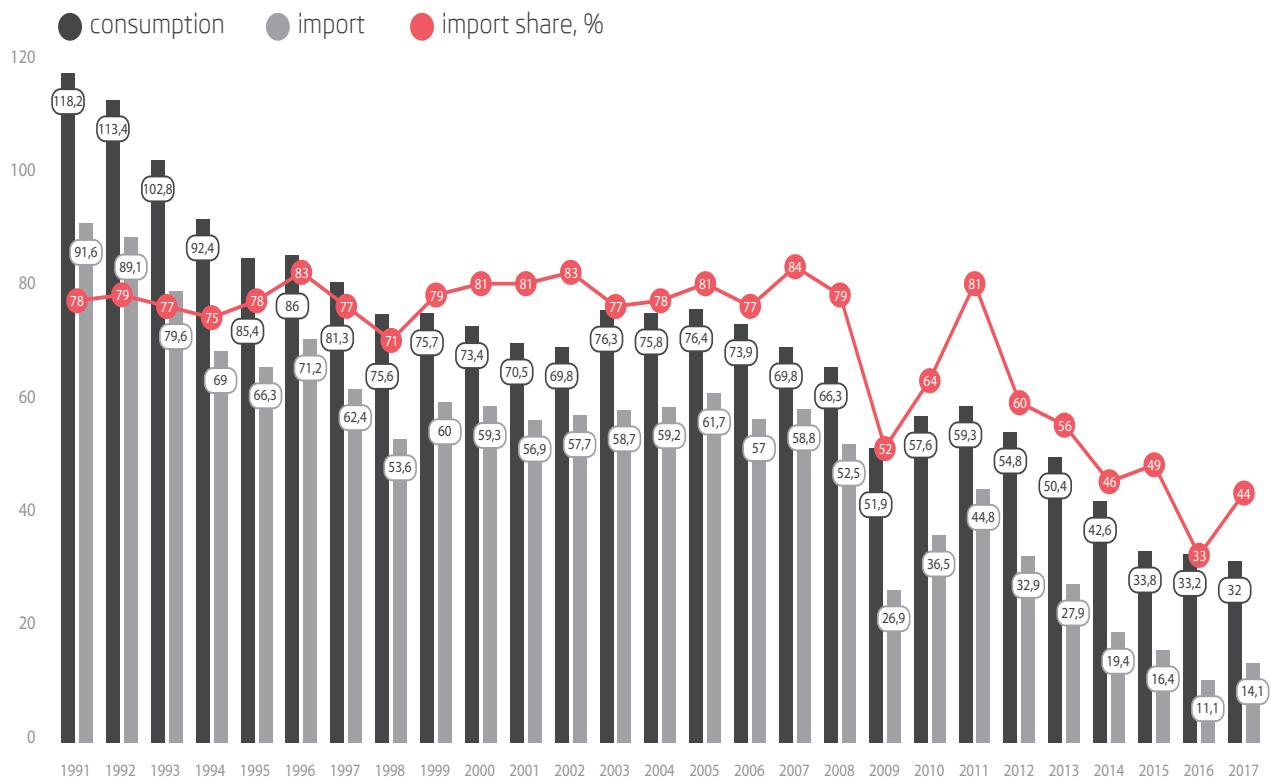
²⁵ Silayeva, Anna. How do Ukrainians extract oil in Siberia? A Siberian trilogy, Part 1: The Drillers. Mediaport. Last modified September 10, 2009. http://www.mediaport.ua/news/society/65973/kak_ukraintsi_v_sibiri_neft_dobyivayut_sibirskaya_trilogiya_chast_pervaya_burilshchiki

²⁶ Malkova, Irina and Igumenov, Valeriy. The history of Gazprom’s «father»: from unlimited power to oblivion in retirement. Forbes Russia. Last modified September 10, 2012. <http://www.forbes.ru/sobytiya/lyudi/116519-istoriya-ottsa-gazproma-rem-vyahireva-ot-bezgranichnoi-vlasti-do-zabveniya-na>

1993 – 1999. THE RUMPELSTILTSKIN EFFECT: GAS FOR CONCESSIONS

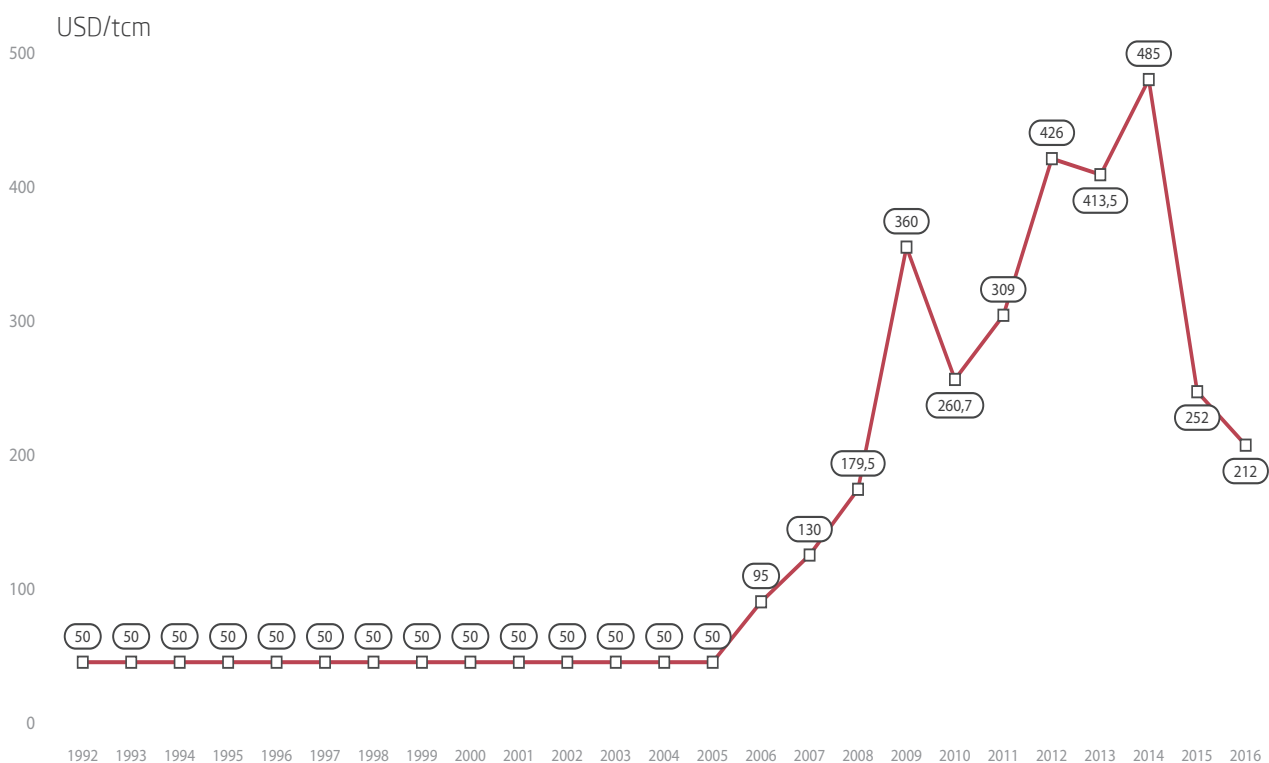
In the early 1990s, Ukraine consumed over 116 bcm of gas annually. Having extracted gas for itself and other Soviet republics for many years, Ukraine seemed unconcerned about its inefficient use of natural gas and the need to reduce the volumes it was consuming. This was a huge mistake that Russia later exploited for its political ends.

Natural Gas Consumption and Import in Ukraine, 1991-2017²⁷



²⁷ Natural Gas Consumption and Import in Ukraine, 1991-2017. Naftogaz Europe. Last modified February 9, 2018. <http://www.naftogaz-europe.com/article/en/naturalgasconsumptionandimportinukraine19912017eng>

Dynamics of Russian gas price for Ukraine²⁸



For a long time, Ukraine was a leader in gas production in the USSR. Unlike their Russian peers, however, independent Ukraine's leaders failed to quickly reorient the sector and attract foreign investment to expand extraction. According to some experts and politicians, the biggest mistake made then was that the Soviet managers known as "red directors" and the new country's young liberal economists spent too much time debating about the best model for the economy. They failed to agree to a path to development, and so time and opportunities were lost.

Meanwhile, Ukraine's consumption of natural gas, including Russian gas, remained high while debts for the gas used by households and industries continued to mount. In 1998, the Cabinet Resolution No.790,

²⁸ How has the price of Russian gas for Ukraine changed over the course of 24 years? Slovo i Dilo [Word and Deed]. Last modified February 12, 2016. <https://ru.slovovidilo.ua/2016/02/12/infografika/jekonomika/kak-menyalas-cena-rossijskogo-gaza-dlya-ukrainy-na-protjazhenii-24-let>

stated that only "47.9% of gas supplied by Ukgazprom to industrial enterprises had been paid for... As a result, AT Ukgazprom owes Gazprom, a Russian joint stock company, nearly 470 million USD for Russian gas consumed."²⁹

At the same time as Ukraine's debt to Russia grew, the presence of Russian capital in Ukraine increased, too. Russians bought into the oil refinery business, and at different times, four of the country's six refineries were controlled by Russian companies.³⁰ Today, most of Ukraine's oil refineries are no longer active. TNK-BP signed a contract to pump oil in the reverse direction through the Odesa-Brody pipeline, a strategic one at that time. After 2004, however, it had failed pump 9mn t annually, as agreed. Subsequently, the contract was amended to say "up to 9mn t," which helped TNK-BP avoid penalties.³¹

Similarly, Russian gas was supplied to industrial clients through RosUkrEnergo and UkrGaz-Energo, two intermediaries, which were named as close to Russian and Ukrainian politicians.³² Russia began pressing Ukraine to pay back its debt even as it controlled gas supplies to the country's big industrial enterprises.³³ At the same time, it began to demand that Ukraine either start paying more for gas or else give Russia control over strategic infrastructure.

Back in 1993, Ukraine's debt for Russian gas had given the Russian Prime Minister Chernomyrdin the leverage to press Kyiv over the Black Sea Fleet and the transfer of the nuclear warheads stored in Massandra. Despite vehement opposition from Ukraine's military, including then-Defense Minister Kostiantyn Morozov, Ukraine agreed to give Russia part of the fleet, allowed it to be stationed in Crimea, and consented to the transfer of the warheads to Russia. This was long before the infamous Budapest Memorandum. In 1994, Gazprom made its first attempt to buy part of Ukraine's gas pipelines and underground storage facilities for 400 million USD.³⁴

"We were forced to make some concessions in dividing the Black Sea Fleet... Under the documents signed we were willing to sell our share of the Black Sea Fleet. In addition, Ukraine pledged to move all nuclear warheads to Russia..."

"The Massandra Accords were seen as 'treason' and 'loss of prestige' in certain Ukrainian circles. Some Western observers even described this as a move towards the restoration of a union between Ukraine and Russia..." Anatoliy Zlenko, Minister of Foreign Affairs (1990-1994, 2000-2003)³⁵

²⁹ On the state of settlement and repayment of debts for consumed heat, electricity, and natural gas. The Cabinet of Ministers of Ukraine Resolution No. 790 of June 2, 1998. <http://zakon2.rada.gov.ua/laws/show/790-98-%D0%BF>

³⁰ Gavrysh, Oleg and Chernovalov, Aleksandr. Ukrainian Market of Oil Products. Kommersant. Last modified December 8, 2012. <https://www.kommersant.ru/doc/1090839>

³¹ Dudnik O.Y. Odesa-Brody: Once again reverse or averse? (2005-2006). Scientific herald of the Institute of International Relations of the National Aviation University, Part 2, Issue 2 (2010). <http://jnl.nau.edu.ua/index.php/IMV/article/viewFile/3071/3011>

³² Court starts bankruptcy proceedings for one-time gas monopolist Firtash. Economichna Pravda [Economic Truth]. Last modified September 8, 2017 <https://www.epravda.com.ua/news/2017/09/8/628866/>

³³ Starovoyt, Roman and Zviagintseva, Inna. Gas of internal combustion. Kontrakty, Issue 42 (2006). <http://archive.kontrakty.ua/gc/2006/42/24-novijj-indikator.html>

³⁴ Solodko, Pavlo. Hard to say no. Kontrakty, Issue 43 (2006). <http://archive.kontrakty.ua/gc/2006/43/1-skladno-vidmovlyatisya.html>

³⁵ Zlenko, Anatoliy. Diplomacy and politics. Ukraine in the process of dynamic geopolitical change. Folio, 2003.

"I remember very well how we felt, reading these lines, like something broke inside. It was painful and bitter to see all the efforts by our military and the Ukrainian people to create a Navy had been for nothing." — Adm. Volodymyr Bezkorovainyi, Commander of the Ukrainian Navy (1993-1996)³⁶

That was the first time that Russia used cheap gas for its geopolitical goals. Seeing that this strategy worked, Russia's leaders began to encourage Ukraine to accumulate public debt for gas in every way possible. The most effective means was lending to private companies under state guarantees. The case of United Energy Systems of Ukraine (UESU) was a classic example: its debt was eventually recognized as public debt.

In the late 1990s, UESU company, then run by Yulia Tymoshenko, failed to fulfill a 1997 contract to deliver components to Russia's Defense Ministry, leading to a large debt. Then, according to Russian side, Ukrainian Prime Minister Pavlo Lazarenko allegedly provided state guarantees that the commitments would be fulfilled³⁷. A company representative insisted in court that the 1996 letters from then-Ukrainian Premier Pavlo Lazarenko on the supply of Russian gas to Ukraine did not qualify under law as a state guarantee for UESU's deliveries in exchange for gas debts. He also pointed out that the contract had not been fulfilled because of pressure from Ukrainian government agencies³⁸.

Legal disputes over that debt dragged for 18 years and were only resolved recently³⁹. Meanwhile, the case was used as a tool to pressure the Ukrainian government the entire time.

³⁶ Navy in Diamonds. Interview with Volodymyr Bezkorovainyi. Ukrainian Life in Sevastopol. <http://www.ukrlife.org/main/tribuna/bezkorovainyi.htm>

³⁷ Court to hear Ukrainian government's appeal in UESU debt case on October 4. Interfax-Ukraine. Last modified September 28, 2012. <https://en.interfax.com.ua/news/general/119369.html>

³⁸ The court ordered the Government to pay Russia 3.1 bn UAH of the UESU debt. Ukrainskyi Tyzhden [Ukrainian Week]. Last modified September 19, 2012. <http://tyzhden.ua/News/60362>

³⁹ Russian Ministry of Defense finally loses the dispute over 3 billion of Tymoshenko debts and should return 38 million to Ukraine. Nashi Groshi [Our Money]. Last modified August 14, 2014. <http://nashigroshi.org/2014/08/14/minoborony-rosiji-ostatocno-prohralo-spir-za-3-milyardy-borhiv-tymoshenko-i-maje-povernuty-ukrajini-38-miljoniv/>

2000 – 2004. NEW MAN IN TOWN: PUTIN PUTS THE PRESSURE ON

In an attempt to improve the management of the energy sector and strengthen its position in negotiating with Gazprom, Ukraine followed Russia's example and set up NJSN Naftogaz of Ukraine as the key company for the transportation, production and delivery of gas in Ukraine, and for wholesale sales and supply. At this point, whoever controlled Naftogaz and the Ministry of Energy in the Cabinet controlled Ukraine's energy sector. According to experts, this was, firstly the business of presidents while their Cabinets only confirmed any political arrangements.

In 2000, a new team came to power in Russia, led by Vladimir Putin. The old Soviet guard represented by Viktor Chernomyrdin and Rem Viakhiriev left the scene, to be replaced by Mikhail Kasyanov and Alexey Miller. As the gas sector became more concentrated under the president, Gazprom became a silent tool to implement his political goals. And one of these goals was to bring the gas transport infrastructure of the entire post-Soviet region back under Moscow's control.

Almost immediately after being elected, President Putin began a campaign to pressure Ukraine in order to gain control over its GTS. In 2000, Russian Vice Prime Minister Viktor Khristenko announced that the two countries could only jointly manage the Ukrainian GTS if Gazprom were given 51% of the shares of a consortium that would take over managing the system.⁴⁰ The Russian press⁴¹ reported at the time that the Ukrainian Government was actually preparing the necessary documents for such a concession even though setting it up would require an approval by the Verkhovna Rada.

In 2002, the next attempt came, this time to set up "gas transport consortium" with Russia and Germany, to jointly manage the pipeline. Germany eventually withdrew from the talks. Politicians who remembered that time said it was quite possible that Germany had received a "signal" from its Russian counterparts that Ukraine was supposedly holding separate talks with Russia and that Germany would be "a third official party that would simply be told the conditions for forming the consortium." Given the lack of perceived trust and transparency, the German chancellor refused to be involved in such a consortium.⁴²

⁴⁰ Saprykin, Volodymyr. The Future of Ukraine's Gas Transmission System: Can't Lease It Privatize It. No One is Ready Except for the Comma. Dzerkalo Tyzhnia [Weekly Mirror]. Last modified December 22, 2000. https://dt.ua/ECONOMICS/maybutne_gazotransportnoyi_sistemi_ukrayini_orenduvati_ne_mozhna_privatizuvati_iii_usi_ne_gotovi.html

⁴¹ The government intends to transfer gas pipelines to Russia. Korrespondent. Last modified August 22, 2000. <https://korrespondent.net/business/5885-pravitelstvo-namereno-peredat-gazoprovody-rossii>

⁴² «Pipe» again without Germans, but with the governments of Ukraine and the Russian Federation. Ukrainska Pravda [Ukrainian Truth]. Last modified December 9, 2002. <https://www.pravda.com.ua/news/2002/12/9/2991945/>; For Germany, the Russian-Ukrainian gas consortium is "an endless story". Ukrainska Pravda [Ukrainian Truth]. Last modified

Meanwhile, Russia began to issue statements about Ukraine's unreliability as a partner and to accuse it of "stealing gas." One interesting development was in 2000, the only time that Russia tried to prove its accusations in court. At that time, Gazprom announced that it had suffered 88.256 million USD in losses because Ukraine had supposedly taken gas illegally from November 1, 1998 to December 31, 1999. Interestingly, the Russian company had insured its gas transit via the territory of Ukraine against this specific risk. The policy was written up with a Gazprom subsidiary called SOGAZ, and the reinsurer was a company called Monegasque de Reassurances (Monde Re), registered in Monaco as an "anonymous company."⁴³ That same year, Monde Re paid out the premium to Gazprom and then turned to Naftogaz for compensation. In November 2002, the US Court of Appeals ruled against Monde Re in its suit against Ukraine and Naftogaz.⁴⁴ Nevertheless, the image of Ukraine as a country that steals gas continued to be spread in the following years, during the gas wars of 2006⁴⁵ and 2009,⁴⁶ and during the crisis years of 2005⁴⁷ and 2014.⁴⁸

The next component of Russia's strategy to gain control over Ukraine's GTS infrastructure was limiting the delivery of gas to Ukraine from other sources, starting with Turkmenistan. Here, the first step was that Gazprom signed a contract to buy up all of the gas in Turkmenistan, Kazakhstan and Uzbekistan that



February 7, 2003. <https://www.pravda.com.ua/news/2003/02/7/2992716/>; Germany will be ...notified of the Ukrainian-Russian version of the consortium. Ukrainska Pravda [Ukrainian Truth]. Last modified April 29, 2003. <https://www.pravda.com.ua/news/2003/04/29/2993669/>

⁴³ Panfilova, Yulia. Gazprom has «insured» Kuchma. Kommersant, Issue 153 (2000). <https://www.kommersant.ru/doc/155828>

⁴⁴ Ukraine won a lawsuit against a Monaco insurance company. Korrespondent. Last modified November 28, 2002. <https://korrespondent.net/business/60468-gosudarstvo-ukrainavyigrala-sudebnuyu-tyazhbu-protiv-monakskoj-strahovoj-kompanii>

⁴⁵ Transcript of the Internet Conference of the President of Russia, President of Russia. Last modified July 6, 2006. <http://kremlin.ru/events/president/transcripts/23691>; On the results of the meeting on ensuring gas supplies to consumers in the period of sharp cold. Gazprom press release. Last modified January 26, 2006. <http://www.gazprom.ru/press/news/2006/january/article55572/>; "Energy for the Planet". Speech by Alexei Miller at the XXIII World Gas Congress in Amsterdam. Gazprom press release. Last modified June 6, 2006. <http://www.gazprom.ru/press/news/miller-journal/2006/99383/>

⁴⁶ Press conference on the results of the International conference on ensuring the delivery of Russian gas to consumers in Europe. President of Russia. Last modified January 17, 2009. <http://kremlin.ru/events/president/transcripts/2880>; Prime Minister Vladimir Putin held a working meeting with Alexey Miller, Chairman of the Gazprom Management Committee. Government of Russian Federation. Last modified January 5, 2009. <http://archive.government.ru/docs/2948/>; Prime Minister Vladimir Putin held a working meeting with Alexey Miller, Chairman of the Gazprom Management Committee. Government of Russian Federation. Last modified January 12, 2009. <http://archive.government.ru/docs/2989/>; Prime Minister Vladimir Putin held a meeting with foreign media. Government of Russian Federation. Last modified January 8, 2009. <http://archive.government.ru/docs/2956/>; Ukraine unilaterally changed the basic provisions of the «Rules for monitoring of transit ...» Gazprom press release. Last modified January 11, 2009. <http://www.gazprom.ru/press/news/2009/january/article56908/>; Gazprom ready to start negotiations with Naftogaz of Ukraine at any moment. Gazprom press release. Last modified January 6, 2009. <http://www.gazprom.ru/press/news/2009/january/article56918/>

⁴⁷ Press conference following the Russian-Ukrainian talks. President of Russia. Last modified January 24, 2009. <http://kremlin.ru/events/president/transcripts/22795>

⁴⁸ Appeal of the President of Russia to the leaders of some foreign states. President of Russia. Last modified April 10, 2014. <http://kremlin.ru/events/president/news/20751>; Meeting of the International Discussion Club «Valdai». President of Russia. Last modified October 24, 2014. <http://kremlin.ru/events/president/news/46860>; Interview of Alexei Miller to «Russia 24» TV channel. Gazprom. Last modified May 17, 2014. <http://www.gazprom.ru/press/news/miller-journal/2014/191189/>; Press conference of the Minister of Energy of the Russian Federation Alexander Novak and Alexei Miller. Gazprom press release. Last modified June 16, 2014. <http://www.gazprom.ru/press/news/2014/june/article193523/>

was accessible for export through Russian territory.⁴⁹ Next, starting in 2006, the intermediary company RosUkrEnergo, which sold a "blend" of gas from Russian and Central Asian fields, was introduced in gas trade between Ukraine and Russia. For Ukraine, it was a major loss when Turkmen gas refused to honor its gas supply contract starting January 1, 2006.⁵⁰ One of the main reasons was given for not fulfilling its contract⁵¹ was the presence of debts that had not been paid on time.⁵²

Both in 2006 and 2009, Russia used the same approach: it threatened to cut off gas supplies until Ukraine signed contracts on terms that benefitted Russia. Individuals who were involved in the negotiations recall the different "tricks" they faced during their time in Moscow: from open bribery to blackmail involving threats to their families⁵³.

All this was nothing new. According to estimates by the Swedish Defense Research Agency, Russia used coercive energy policy 55 times between 1991 and 2006, 16 times involving Gazprom. This coercion included forced pricing, supply cuts and sabotage.⁵⁴ In 36 of these cases, the motivation was clearly political. The main targets of this kind of coercion were Lithuania, Georgia, Belarus, Ukraine, and Moldova. Leverage in the energy sector effectively became one of Russia's tools in its hybrid war.⁵⁵

Finally, in July 2006, Russia adopted a law "On Gas Exports,"⁵⁶ which gave Gazprom and its subsidiaries a monopoly on supplying gas abroad, a position that was only weakened in 2013, but even that only affected LNG. In this way the entire flow of gas from Russia and Central Asia to West was completely in the hands of Gazprom.

In 2003, Russia officially admitted that its resources were a weapon on the geopolitical arena as it began to clearly mention this in official documents. For instance, in the Energy Strategy of Russia to 2020, it states:

"Russia controls significant reserves of energy resources and a powerful fuel and energy complex that is the foundation for economic growth and **an instrument of domestic and foreign policy**. The role of our country on world energy markets largely determines its geopolitical influence."⁵⁷

⁴⁹ Gazprom bought all of Central Asian gas. Korrespondent. Last modified November 11, 2005. <https://korrespondent.net/business/136046-gazprom-skupil-sredneaziatskij-gaz>

⁵⁰ Ukraine will repay the debt for Turkmen gas until mid-September. Podrobnosti [Details]. Last modified August 30, 2006. <http://podrobnosti.ua/343640-ukraina-pogasit-zadolzhenost-za-turkmenskij-gaz-do-serediny-sentjabrja.html>

⁵¹ Legal framework of the relations between Ukraine and Turkmenistan. Embassy of Ukraine to Turkmenistan. Last modified January 2017. <http://turkmenistan.mfa.gov.ua/ukraine-tm/legal-acts>

⁵² Lishko, Volodymyr. Ukraine denies any debts for Turkmen gas. Radio Free Europe / Radio Liberty. Last modified February 21, 2006. <https://www.radiosvoboda.org/a/940480.html>

⁵³ Based on anonymous interviews the authors conducted with major Ukrainian stakeholders of the 2009 gas crisis.

⁵⁴ Åslund, Anders. Gazprom Challenged Giant in Need of Reform, in: Russia After The Global Economic Crisis, Peterson Institute for International Economics, 2010. https://piie.com/publications/chapters_preview/4976/07iie4976.pdf

⁵⁵ For more details on this aspect, see: Gonchar, Mykhailo; Chubyk, Andriy; and Ishchuk, Oksana. Energy Component in New Generation Warfare. Case of Russia's hybrid aggression against Ukraine. Centre for Global Studies «Strategy XXI», 2015. https://geostrategy.org.ua/images/August_2015_Hybrid_Aggression_final.pdf

⁵⁶ Federal Law of July 18, 2006 No. 117-FZ "On Gas Exports". President of Russia. <http://kremlin.ru/acts/bank/24036>

⁵⁷ Energy Strategy of Russia by 2020. Order of the Government of the Russian Federation of August 28, 2003 No.1234-r. Government of Russian Federation. Last modified June 15,

The 2009 Strategy, which has been revised since then, is less aggressive, declaring the goal of the Russian energy policy as "the most effective possible use of natural energy resources and the potential of the energy sector for supporting sustainable economic growth, raising the standard of living for the population, and **strengthening its foreign economic positions**."⁵⁸ In practice, however, the objectives laid out in the earlier version of the document are still being carried out.

This kind of policy from Moscow is nothing new and not part of the know-how of the Putin team. As with most decisions that Russia considers "geopolitical," using energy to exercise leverage is little more than standard Soviet practice. The Central Committee of the Communist Party during the period of stagnation anticipated a massive expansion of cheap energy towards the West, starting with oil, then gas, and finally electricity⁵⁹. Ukraine's atomic energy stations all date from this time and gave the country infrastructure that has allowed it to export power to the EU, but not to supply its own capital.




2009. <http://government.ru/docs/all/46465/>

⁵⁸ Energy Strategy of Russia by 2030. Order of the Government of the Russian Federation of November 13, 2009 No.1715-r. Government of Russian Federation. Last modified November 13, 2009. <http://government.ru/docs/all/70320/>

⁵⁹ For a detailed analysis into late Soviet energy exports see: Ermolaev, Sergei. The Formation and Evolution of the Soviet Union's Oil and Gas Dependence. Carnegie Endowment for International Peace. Working Paper. Last modified March 29, 2017. <https://carnegieendowment.org/2017/03/29/formation-and-evolution-of-soviet-union-s-oil-and-gas-dependence-pub-68443>; Jensen, Robert G., Shabad, Theodore, and Wright, Arthur W. (ed.) Soviet Natural Resources in the World Economy. University of Chicago Press, 1983. pp. 252-261.

2004 – 2013. "THIS MEANS WAR": UKRAINE'S POLITICAL AWAKENING

kraine's revolutions forced Russia to adjust the way it weaponized gas. Where previously Moscow did not have to worry about its timing and could wait until Ukraine had accumulated enough debt to make strategic concessions, the Orange Revolution, which Vladimir Putin saw as a threat to stability in his own country, required an immediate response using every available form of leverage, including gas.

To a large extent, Ukraine's own officials themselves were partly to blame for its defeats. They were reluctant to negotiate transparently and all too willing to be partners in underhanded schemes. Still, the practices Russia used in pursuit of its desired results in Ukraine can—and were—applied elsewhere:

- 1. Decisions to stop supplying gas to Ukraine are always made at the last moment.** Russia insisted until the very end, through official and unofficial channels, that a contract would be signed. When the time came, however, Ukraine was left to deal with the fact that no gas was forthcoming and make decisions under pressure.
- 2. Every gas dispute was accompanied by a massive campaign in the West about what an unreliable partner Ukraine was.** Messages like "Ukraine is stealing gas" and "those in power in Ukraine are all corrupt" were spread around the EU to persuade its member states to avoid direct contact with Ukraine.
- 3. Having contracts signed under pressure set up additional traps that would later give Russia leverage over Ukraine's strategic decisions.** Over 2006-2009, RosUkrEnergo was an instrument to get money in non-transparent way. Over 2010-2013, the gas pricing formula played this role and was used to get then-President Viktor Yanukovich to reject the Association Agreement with the EU.

A key factor in the 2009 gas dispute was the ongoing conflict between then-President Viktor Yushchenko and then-Prime Minister Yulia Tymoshenko. Russia exploited this skillfully—negotiating with both separately and simultaneously, and offering each of them a different formula⁶⁰.

The role of the European Union in both gas disputes is also worth noting. Given that gas transit contracts were being negotiated between Ukraine and Russia, EU countries were largely neutral according Ukrainian officials who were involved in the negotiations. EU officials preferred not to get involved, opting to concern themselves

⁶⁰ For some details see: Draft of preliminary report of the Temporary Investigation Commission of the Verkhovna Rada of Ukraine on investigation of the state of functioning of the gas transmission system of Ukraine and gas supply to consumers in 2008-2009. Registered under No.4031 of February 5, 2009. Verkhovna Rada of Ukraine. <http://w1.c1.rada.gov.ua/pls/zweb2/webproc34?id=&pf3511=34372&pf35401=134723>

solely with the EU's own security. This position was reinforced by a stream of messages stating that only Russia had the leverage to deal with Ukraine effectively. This was another factor in Ukraine's defeat in both gas wars.

In 2013, Viktor Yanukovich found himself trapped by overly high gas prices that would have affected the rates households had to pay, inevitably damaging his position with voters. Once again, Russia exchanged gas for strategic concessions. It gave a new discount and a 15 billion USD loan in return for three major geopolitical concessions: an extension on the Black Sea Fleet's lease in Crimea until 2042, the freezing of relations with NATO, and the rejection of the Association Agreement with the EU.⁶¹

⁶¹ See the related protocol and statements of Yanukovich and Putin at: Meeting of the Russian-Ukrainian intergovernmental commission. President of Russia. Last modified December 17, 2013 <http://kremlin.ru/events/president/news/19852>; on the Russian gas-and-fleet deal see: Treaty between Ukraine and the Russian Federation on the issues of the Black Sea Fleet of the Russian Federation stay on the territory of Ukraine. Legislation of Ukraine. Last modified April 27, 2010. http://zakon0.rada.gov.ua/laws/show/643_359

2014 AND AFTER. "TRY TO DO IT MY WAY:" TRANSPARENCY AND INDEPENDENCE IN A TIME OF WAR

The Revolution of Dignity forced Russia to yet again try to use the "gas in exchange for strategic concessions" trick. Most likely, the expectation was that Ukraine would once more go for opaque bilateral negotiations, as had happened in 2006 and 2009. The difference this time was that there was a third party to the talks: the EU. And this eliminated the kind of methods that had worked when talks took place in Moscow. In fact, the EU's quickly devised and very concrete position against the backdrop of the "gas phase" of this conflict effectively stopped the blackmail and shifted the conflict to negotiations⁶².

A second factor in this victory was the transparency of the negotiation process and the agreements to deliver gas to Ukraine. The trilateral format ensured what the Russians had always avoided in the past: trust between the Ukrainian and European sides. This principle of solidarity with Ukraine took away the one instrument the Kremlin had always relied on: cutting obviously inconvenient deals due to its stronger position and an untransparent negotiation process. What was even more important was that the new circumstances made it possible to move the resolution of the conflict over the contracts for gas imports and transit from the realm of bilateral talks behind closed doors, the way they were signed, to the very competent Stockholm arbitration, which in the end ruled it unfair and not market-oriented⁶³.

The third factor in this victory was a real diversification of sources of gas supplies to Ukraine. What's more, Gazprom's attempts to continue its strategy of accruing debts to Ukraine failed this time and most were refuted by the Stockholm arbitration. After the 2009 gas conflict, the decision to diversify sources became obvious even for Ukraine. In order to ensure the formal and technical reliability of up to 30 bcm from its western border, Ukraine had to invest considerable effort and energy at the political level, but this investment returned at a healthy profit.⁶⁴ Reorienting its sources of gas supplies allowed Ukraine to finally eliminate the constant pressure on its energy policies and begin the reforms needed to properly liberalize its gas market. Gazprom's considerable efforts to block the capacities of interconnectors at the EU-Ukraine border offered the best proof of Russia's deliberate intention to weaken this move towards integration in a common energy market that is rule-based and not driven by the interests of individual players.⁶⁵

Ukraine's experience shows clearly that the most effective way to prevent mistakes and losses from energy cooperation with Russia is upholding European principles of competitiveness, diversification, common policies, as well as publicity and transparency. Some of these principles can be ignored in carrying out individual gas transportation projects on an exceptional basis, but it is precisely such "exceptions" from European rules that are likely to become dangerous traps that will later make it a lot harder to maintain a high level of energy security on its own.

⁶² EU-Ukraine-Russia talks agree on \$4.6 billion to secure gas supplies. European Commission. Last modified October 30, 2014. <https://ec.europa.eu/energy/en/news/eu-ukraine-russia-talks-agree-46-billion-secure-gas-supplies>; EU-Ukraine-Russia talks agree on the terms of a binding protocol to secure gas supplies for the coming winter. European Commission Statement. Brussels, 25 September 2015. http://europa.eu/rapid/press-release_STATEMENT-15-5724_en.htm

⁶³ Olearchyk, Roman. Ukraine's Naftogaz claims \$2.56bn legal victory over Russia's Gazprom. The Financial Times. Last modified March 1, 2018. <https://www.ft.com/content/b933b8bc-1cd3-11e8-aaca-4574d7dabfb6>

⁶⁴ Chłoń, Tomasz. Gas reverse flow from Slovakia to Ukraine: an Obvious Thing to Agree On? Visegrad Insight. Last modified March 17, 2014. <http://visegradinsight.eu/reverse-flow-gas-from-slovakia-to-ukraine/>

⁶⁵ Socor, Vladimir. Slovakia: Potential Gateway for Reverse Gas Flows from Europe to Ukraine (Part Two). Eurasia Daily Monitor, Vol. 10 Issue 150. Last modified August 13, 2013. <https://jamestown.org/program/slovakia-potential-gateway-for-reverse-gas-flows-from-europe-to-ukraine-part-two/>