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RUSSIA'S ENERGY POLICIES AND UKRAINE'S NATO CANDIDACY

by

Mark A. Imblum

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Thesis Co-Advisors:

Robert E. Looney
David S. Yost

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RUSSIA'S ENERGY POLICIES AND UKRAINE'S NATO CANDIDACY

Mark A. Imblum
Lieutenant Commander, United States Navy
B.S., United States Naval Academy, 1993

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June 2008**

Author: Mark A. Imblum

Approved by: Robert E. Looney
Thesis Co-Advisor

David S. Yost
Thesis Co-Advisor

Harold A. Trinkunas
Chairman, Department of National Security Affairs

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ABSTRACT

NATO enlargement and the European Union's growing dependence on external energy supplies controlled by Russia have simultaneously developed into crucial security issues in Europe. The emerging interaction between Alliance enlargement and energy policies may yet affect Ukraine's future relationship with NATO as well as Russia and even determine which direction NATO takes regarding Ukraine's candidacy for membership. As the leading natural gas exporter with the largest proven gas reserves in the world, Russia provides more natural gas to the European Union than any other supplier. Eighty percent of Russian-controlled gas (from Central Asian countries as well as Russia) transits Ukraine for Europe, amplifying Ukraine's geostrategic significance. Russia and several West European members of NATO continue to augment their economic interdependence through strategic and lucrative natural gas agreements. The amalgamation of key NATO European states' strong dependency on Russian natural gas and Ukraine's potential NATO membership makes Kyiv's political and strategic orientation a relevant and contemporary question for the United States and its NATO Allies. Russian-European energy interdependence could lead to a rift within the Alliance regarding Ukraine's candidacy for NATO membership, but cooperative solutions may yet be achieved.

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I. INTRODUCTION

A. MAJOR RESEARCH QUESTION

A major global energy consumer, Ukraine maintains an energy-intensive and energy-dependent economy. Russian-Ukrainian natural gas transactions provide a clear indication of Ukraine's energy dependence. As the leading natural gas exporter with the largest proven gas reserves in the world, Russia provides more natural gas to the European Union than any other supplier. Eighty percent of Russian-controlled gas (from Central Asian countries as well as Russia) transits Ukraine for Europe, amplifying Ukraine's geostrategic significance. Russia and several West European members of the North Atlantic Treaty Organization (NATO) continue to augment their economic interdependence through strategic and lucrative natural gas agreements. Since 1994, when it joined NATO's Partnership for Peace program, Ukraine has forged close relations with the Atlantic Alliance. Nevertheless, the NATO Allies postponed approval of Ukraine's request for a Membership Action Plan (MAP) at the Bucharest Summit on 2-4 April 2008.

The amalgamation of key NATO European states' strong dependency on Russian natural gas and Ukraine's potential NATO membership makes Kyiv's political and strategic orientation a relevant and contemporary question for the United States and its NATO Allies. This thesis investigates the following questions: How could Russian-Ukrainian energy relations affect Ukraine's NATO candidacy? To what extent could Russia's energy supplies to West European NATO allies influence their policies on Ukraine's NATO candidacy?

B. IMPORTANCE

Ukraine deserves careful study due to its geographic position linking Russia to the rest of Europe, its unique demographic make-up with a large Russian-speaking minority, its incessant shuffling of power among a few political party elites, and its position as the primary transit state of Russia's natural gas to West European NATO powers.

In view of Ukraine's current geostrategic importance for Russian-European energy ties and Russia's recent array of bilateral energy deals with France, Germany and Italy, doubts remain as to the willingness of the European Allies to accept Ukraine into NATO, let alone into their more exclusive EU club. As the prospective pipeline plans for all three energy agreements with Russia physically circumvent Ukraine, these NATO European powers have displayed a preference to directly enhance the security of their energy supplies from Russia, thereby placing Ukraine in a precarious situation. Russia has equally demonstrated a dependence on the European market, buoying its economic growth through energy export revenues. Russia's interest in pipelines skirting Ukraine suggests that Moscow may envisage a more unstable relationship with Kyiv.

Hence, Russia's energy supplies and Western Europe's energy needs are interdependent. Russia depends on its oil and gas revenues from Europe and elsewhere to maintain a positive economic growth rate. Europe strives to diversify its energy portfolio, partly in order to limit its growing dependence on Russia. Russian-European energy interdependence could lead to a rift within the Alliance regarding Ukraine's candidacy for NATO membership. In sum, Ukraine merits close analysis, not only because of its intrinsic importance, but also because neither NATO nor Russia, nor Ukraine itself for that matter, can predict the direction in which it will turn for greater political, economic and military cooperation.

C. PROBLEMS AND HYPOTHESES

Given Russia's rising confidence, which has been encouraged by its oil and natural gas-fueled economic resurgence, NATO faces even greater challenges with enlargement in the post-Soviet space that Russia has traditionally regarded as its "sphere of influence." The current tensions principally concern NATO aspirants Ukraine and Georgia. At the same time, many of NATO's leading states have forged greater economic ties with Russia. French, German and Italian energy companies have all signed major energy deals with Gazprom, Russia's state-owned natural gas company, since 2005.

Russia's skepticism about NATO's intentions derives from centuries of tumultuous relations with Western Europe and its search for, and protection of, an identity that uniquely blends European and Asian elements.¹ Nevertheless, more than fifteen years after the collapse of the Soviet Union, Russia finds itself in a peculiar geostrategic position – disadvantaged vis-à-vis its historical conditions. NATO has welcomed all former non-Soviet Warsaw Pact countries (finalized with Albania's invitation at the Bucharest Summit) in addition to the three former Soviet Baltic republics into the Alliance. To Russia's chagrin, the United States has even voiced plans to deploy ten missile defense interceptors in Poland and an accompanying radar in the Czech Republic.² To Moscow's dismay, the current governments of the former Soviet republics of Ukraine and Georgia, once components of Russia's protective layer, are seeking shelter under NATO's collective defense umbrella.

In view of these European security developments, the bilateral energy relationship between Russia and Ukraine has become increasingly complex. Russia and West European NATO members are cultivating greater long-term economic ties through the very same natural gas stratum. Furthermore, the natural gas dispute offers a microcosm of the contemporary strains between Russia and Ukraine, which extend into nearly all areas of state-to-state interaction.

In summary these developments lead to some important preliminary conclusions. Ukraine, due to a lack of effective natural gas alternatives, remains vulnerable to Russian influence while implementing its political, economic and defense reforms. If Ukraine did in fact move closer to NATO, what would that entail for West European ties with Russia? Would Russia perhaps use its energy leverage to cut off gas to both Ukraine and West European states? Germany and France led the European members of NATO at the Bucharest Summit that favored postponing a MAP for Ukraine and Georgia. Have these European members of NATO consequently exposed Ukraine, their East European neighbor, to greater security risks and natural gas cutoffs by Russia? Will disagreement

¹ Robert G. Wesson, *The Russian Dilemma: A Political and Geographical View* (New Brunswick, NJ: Rutgers University Press, 1974), 10-12.

over Ukraine's 2008 MAP request further divide the Atlantic Alliance when West European and Russian energy consortiums complete the proposed pipelines, diminishing reliance on transit through Ukraine?

These particular Russian-European energy projects may severely reduce Ukraine's strategic role as a transit state of natural gas and therefore further weaken its political autonomy, economic flexibility and energy security, increasing its exposure to Russia's political and economic coercive measures. These circumstances lead to the hypothesis that West European leaders may continue to pay "lip service" to Ukraine on potential NATO (and European Union) membership while attaching greater importance to economic ties with Russia. This potential development could split the Alliance between champions of Ukrainian membership (Canada, the United States, and new NATO Allies, such as the Baltic states, the Czech Republic, Poland, and Slovakia) and states more cautious about Kyiv's membership in NATO and seemingly more conscious of their dependence on Russian energy resources (France, Germany, and Italy).

D. LITERATURE REVIEW

Recent literature focuses on Russia's reemergence as a global political force. Russia's political clout stems from economic success through windfall oil and natural gas revenues. Some analysts argue that Russia uses its abundant energy resources not only for purely economic reasons but also to regain political influence. Concurrently, experts argue that Russia employs a hard-nosed strategy of "soft imperialism" to recapture its ascendancy over former Soviet republics. Overall, the literature pertaining to this thesis covers two areas of study: Ukraine's persistent natural gas dependency on Russia and the inconsistent course of NATO-Ukraine relations.

Many authors discuss Ukraine's heavy dependence on Russian resources to drive its energy-intensive economy in heavy industry and manufacturing. Paul D'Anieri, an expert on Ukrainian politics, stresses that Ukraine's economic prosperity remains innately linked to Russia. While interdependence with Russia is a geographic and

² Jan Cieski and Demetri Sevastopulo, "Poland demands US air defence system," *Financial Times*, November 20, 2007, 4.

economic necessity for Kyiv, it unavoidably reduces Ukraine's autonomy. In fact, D'Anieri states, "Ukraine has yet to figure out how to protect all of its primary security goals – prosperity, autonomy, and sovereignty."³

Ukraine's dependence on Russia centers on its lack of energy resources, natural gas in particular. Although Ukraine has acquiesced to economic interdependence with Russia in order to gain prosperity, in doing so it may become even more susceptible to Russian economic coercion. Indeed, Ukraine may have more to lose as its economy makes greater strides, a consequence of international trade. Moreover, Ukraine's government will strive to avoid disturbing its relationship with Russia for fear of economic reprisal.⁴

Russia's use of energy as a means of leverage over its fellow former Soviet republics has persisted since the early 1990s. Ukraine in particular clearly remains dependent on Russian energy resources. Furthermore, Ukraine has not been able to locate any viable natural gas alternatives and therefore continues to receive its gas predominantly from Russia and Turkmenistan (via Russia).

Though Russia recognizes Ukraine's declaration of independence in 1991, it nevertheless seeks to firmly retain Ukraine within its sphere of influence. Ukraine, however, has vehemently defended its *de jure* sovereignty, occasionally suffering economically while in turn revealing its vulnerability to Russia. D'Anieri defines autonomy as "freedom from the threat of coercion." He observes that Ukraine "cannot deal with Russia successfully on the basis of power, but that other policies are even less acceptable."⁵ Of course, the major dilemma at the heart of Russian-Ukrainian relations and Ukrainian political and economic autonomy remains the persistent energy dispute.⁶ In her studies on Ukrainian energy, Margarita Balmaceda of Seton Hall University concludes that Ukraine will remain dependent on Russian energy for decades. She

³ Paul J. D'Anieri, *Economic Interdependence in Ukrainian-Russian Relations* (Albany, NY: SUNY Press, 1999), 200.

⁴ Ibid., 200-201.

⁵ Ibid., 204.

⁶ Ibid.

recognizes that Ukraine's dependency on Russian natural gas entails interdependency; Russia also relies on Ukraine as an energy consumer and transit state of its West and Central European-bound natural gas.⁷

Ukraine cannot optimally diversify its natural gas imports, owing to its limited alternatives. Rawi Abdelal of Harvard University observes that during the Soviet era natural gas proved vital to the industrial sector in each of the constituent republics of the Soviet Union, ultimately becoming "the single most important resource in the regional economy."⁸ The Soviet Union heavily subsidized gas (and oil) prices, keeping them drastically below the world market price and creating economic interdependence among the Soviet republics. With the dissolution of the Soviet Union, Russia offered to continue subsidized energy prices to the former Soviet republics as an economic inducement for them to align their foreign and economic policies with Russia. Thus, Soviet-era dependency has translated into a strong but turbulent Russian-Ukrainian energy relationship.

The literature also broadly discusses Ukraine's NATO candidacy. James Sherr of the Defence Academy of the United Kingdom has pointedly observed that prior to 1994 many analysts and government officials believed that NATO might become obsolete in the post-Cold War security landscape.⁹ NATO, however, acquired new missions and took a transformational path. In Brussels, in January 1994, the North Atlantic Council established the Partnership for Peace (PfP) program, foreshadowing NATO's policy of enlargement. Conflicts in the Balkans since the early 1990s have confirmed that a post-Cold War Europe did not mean a secure Europe, and the need to address these conflicts gave NATO a revitalized and critical mission.¹⁰

⁷ Margarita M. Balmaceda, "Explaining the Management of Energy Dependency in Ukraine: Possibilities and Limits of a Domestic-Centered Perspective," *Mannheimer Zentrum für Europäische Sozialforschung*, Working Papers 79, 2004, 2.

⁸ Rawi Abdelal, "Interpreting Interdependence: Energy and Security in Ukraine and Belarus," in *Swords and Sustenance: The Economics of Security in Belarus and Ukraine*, ed. Robert Legvold and Celeste Wallander, 104-105 (Cambridge, MA: The MIT Press, 2004).

⁹ James Sherr, "The Dual Enlargements and Ukraine," in *Ambivalent Neighbors: The EU, NATO, and the Price of Membership*, ed. Anatol Lieven and Dmitri Trenin, 108 (Washington, DC: Carnegie Endowment for International Peace, 2003).

¹⁰ *Ibid.*, 108, 113.

Sherr notes that PfP, which was originally intended to “deflect pressure for NATO enlargement,” in fact “evolved into an essential instrument of enlargement policy.” One of PfP’s functions became to groom potential candidates for membership. PfP has allowed states with no desire to join, such as Switzerland, as well as Austria, Finland, Sweden, and former Soviet republics such as Ukraine and Georgia, “to draw closer to the NATO fold.”¹¹ Even with Kyiv’s evident rapprochement to NATO, typical public opinion polls in Ukraine repeatedly show less than 50 percent support for Ukraine’s prospective NATO membership.¹²

Concurrently with its enlargement process, NATO has sought closer strategic relations with Russia and dialogue on veritable differences such as Kosovo’s independence and missile defense. NATO has also encouraged Russia to return to compliance with the Conventional Armed Forces in Europe (CFE) Treaty and to honor associated commitments.

Sherr has drawn attention to the “Russia first” policy which took precedence in the 1990s in U.S., European and NATO policies alike to incorporate Russia into strategic security discussions and partnerships. This policy remains prevalent in contemporary NATO enlargement debates and NATO-Russia relations.¹³ Paradoxically, Ukraine may best capitalize on its past non-alignment policy if tensions resurface between Russia and the West.¹⁴

Sherr shares D’Anieri’s idea that Ukraine needs to develop economic flexibility that supports its political autonomy. Without economic diversification Ukraine will remain within Russia’s sphere of influence. Sherr argues that Ukraine must solidify its judicial system, as well as property rights, privatization, and taxation reform. These

¹¹ Sherr, “Dual Enlargements,” 113.

¹² Poll findings vary in recent reports. Oxford Analytica states “barely half [the Ukrainian population] support[s]” NATO membership while a March 2008 Congressional Research Service report states that less than one quarter wish to join NATO. See, respectively: “Ukraine/NATO: Kiev’s bid to join presents dilemma,” *OxResearch*, January 28, 2008, 1; and Steven Woehrel, “Ukraine,” in Paul Gallis, Paul Belkin, Carl Ek, Julie Kim, Jim Nichol, and Steven Woehrel, *Enlargement Issues at NATO’s Bucharest Summit*, Congressional Research Service Report for Congress, RL34415, March 12, 2008, 22.

¹³ Sherr, “Dual Enlargements,” 111.

¹⁴ D’Anieri, *Economic Interdependence*, 209.

improvements must take place not only for possible entry into European security and economic institutions, but also, and more importantly, for Ukraine to achieve greater national cohesion.¹⁵

In conclusion, the literature discusses extensively Ukraine's high natural gas consumption level to support its energy-intensive economy. As a net consumer and importer of natural gas, Ukraine is exposed by its dependency on Russian energy supplies. Moreover, the literature discusses Ukraine's relationship with NATO since its independence in 1991. Milestones include its PfP membership in 1994, its Intensified Dialogue categorization in 2005, and its MAP request in January 2008. The literature, however, does not fully examine the possible relationship between Ukraine's NATO candidacy and (a) Ukraine's dependence on Russian natural gas (a dependence further complicated by Russia's aggressive and geostrategic natural gas policies) and (b) the economic interdependence between Russia and major NATO European importers of Russian natural gas.

Ukraine remains central to the future of European security, owing in part to its large land mass and population, access to the Black Sea, and border with Russia. Owing to its unique ethnic makeup, economic potential, and divided history between Russia and the rest of Europe, Ukraine is at the center of some of contemporary Europe's most essential policy debates and issues, such as energy security, NATO and EU enlargement, the West's relations with Russia, and U.S. national security interests in Europe. This thesis seeks to contribute constructively to the literature on these topics.¹⁶

¹⁵ Sherr, "Dual Enlargements," 126.

¹⁶ This thesis deliberately excludes other issues related to Ukraine's candidacy for NATO membership. For example, if it becomes a NATO ally, Ukraine will probably choose to reduce its dependence on Russian manufacturers of military equipment. Kyiv still exports as much as half of its defense industry products to Russia while continuing to receive up to 80% of its military technology and hardware from Russia. Ukraine will probably follow the example of its East European neighbors, which conducted effective military reforms, including equipment modernization in conformity with NATO standards. See "Ukraine/NATO: Kiev's bid to join presents dilemma," *OxResearch*, January 28, 2008, 1.

E. METHODS AND SOURCES

This thesis analyzes Russian-Ukrainian energy relations and Russian energy relations with NATO Europe. In studying these two relationships, the thesis seeks to understand the ramifications for Ukraine's NATO candidacy and U.S. security policies with reference to NATO, Ukraine and Russia. In addition to secondary sources, this thesis is based on primary sources, including official government statements of NATO Allies, Russia, and Ukraine.

F. THESIS OVERVIEW

This thesis is organized as follows. Chapter II examines Russian-Ukrainian energy relations. Chapter III considers Russian energy relations with NATO Europe. Chapter IV focuses on Ukraine's NATO candidacy. Chapter V offers conclusions.

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II. RUSSIAN-UKRAINIAN ENERGY RELATIONS

A. INTRODUCTION

On 12-13 February 2008 Ukrainian President Viktor Yushchenko met Russian President Vladimir Putin in Moscow and resumed heated discussions on pricing disputes concerning Russian and Central Asian natural gas bound for energy-dependent Ukraine. President Putin also used the high-profile meeting to send a foreboding message not only to Ukraine but also to the North Atlantic Treaty Organization (NATO), threatening to aim Russian missiles at Ukraine if the Alliance were to welcome Kyiv into the collective defense pact and subsequently place missile defense bases in the former Soviet republic.¹⁷

Russia's state-controlled natural gas monopoly, Gazprom, did in fact carry through on its threats in the seemingly incessant natural gas disagreement, cutting supplies to Ukraine by 25% on 3 March 2008 and by an additional 25% the next day in a renewed crisis that then lasted several days. Furthermore, Gazprom accused Ukraine of siphoning gas bound for Western and Central Europe. The incident was reminiscent of the January 2006 natural gas crisis between Gazprom and Ukraine which left some European consumers without winter gas supplies for four days.¹⁸

Undoubtedly, Ukraine remains geostrategically central to Russian-European energy security interdependence. In fact 80% of all natural gas leaving Russia and Central Asia for Western and Central Europe passes through Ukraine, making it the main transit state. Accordingly, Ukraine holds significant geopolitical and economic importance to Russia and Western Europe.¹⁹

¹⁷ "Russia in Ukraine missile threat," *BBC News*, February 12, 2008, <http://news.bbc.co.uk/2/hi/europe/7241470.stm> (accessed February 12, 2008).

¹⁸ Claire Bigg, "Gas Crisis Averted, But Underlying Problems Remain," *Radio Free Europe/Radio Liberty*, March 6, 2008, <http://www.rferl.org/featuresarticle/2008/3/E080D871-0236-4BAF-B4D1-7E89F9C87160.html> (accessed May 9, 2008).

¹⁹ "Russia Politics: Belarusian Exposure," *EIU ViewsWire*, January 15, 2007, <http://libproxy.nps.edu/login?url=http://proquest.umi.com/pqdweb?did=1210871051&sid=1&Fmt=3&clientId=11969&RQT=309&VName=PQD> (accessed August 20, 2007).

Since taking its momentous path to independence, Ukraine has faced repeated challenges to its autonomy. Russia has effectively exploited the Soviet planners' system of economic interdependence among all the various Soviet regions to manage and even manipulate present-day former republics. In Ukraine's case Russia has attempted to weaken its autonomy through energy dependency.²⁰ More specifically, Russia's strategy pinpoints Ukraine's energy-intensive economy and its inability to find alternative natural gas sources. Ultimately, dependence on Russia's energy resources contributes to Ukraine's security dilemma: choosing between closer political and economic cooperation with Russia or a move toward NATO's collective defense (and ultimately greater economic prosperity through the EU).

B. THE MAGNITUDE OF NATURAL GAS IN RUSSIAN-UKRAINIAN TIES

As a result of its heavy industry and manufacturing economy, Ukraine demands energy. Natural gas constitutes Ukraine's most critical energy resource, making up 49% of Ukraine's energy consumption.²¹ In addition, Ukraine expends around 76 billion cubic meters (bcm) of natural gas per year.²² This elevated level of gas consumption contributes to extremely high energy intensity (energy consumption per unit of GDP).²³ Moreover, notwithstanding a population of only 46 million, in 2006 Ukraine was the eighth largest gas consumer in the world according to the Energy Information Administration's estimates.²⁴ Ukraine is the former Soviet Union's largest natural gas net importer, and remarkably, "consumes more gas than Poland, the Czech Republic,

²⁰ Abdelal, "Interpreting Interdependence," 101-102.

²¹ "Country Analysis Briefs: Ukraine," *Energy Information Administration*, August 2007, <http://www.eia.doe.gov/emeu/cabs/Ukraine/Background.html> (accessed March 21, 2008).

²² *Ukraine Energy Policy Review 2006* (Paris, France: Organisation for Economic Co-operation and Development/International Energy Agency, 2006), 67.

²³ Balmaceda, "Management of Energy Dependency," 7.

²⁴ "International Gas Consumption Tables: Dry Natural Gas Consumption, All Countries, Most Recent Annual Estimates, 1980-2006 (Billion Cubic Feet)," *Energy Information Administration*, May 20, 2008, <http://www.eia.doe.gov/emeu/international/gasconsumption.html> (accessed May 20, 2008). The world's top eight natural gas consumers are as follows: the United States, Russia, Iran, Germany, Canada, the United Kingdom, Japan, and Ukraine.

Hungary, and Slovakia combined.”²⁵ To comparatively illustrate Ukraine’s level of energy intensity, Ukraine out-consumes Germany by “over twice as much energy per unit of GDP.”²⁶ Moreover, Ukraine’s energy intensity is triple the EU average.²⁷

Energy is also critical for Russia, the second-largest gas consumer in the world (after the United States).²⁸ In contrast to Ukraine, however, Russia is exceptionally energy-rich. Globally, Russia is the second largest oil exporter (after Saudi Arabia), the eighth largest owner of proven oil reserves, and the second largest owner of proven coal reserves (after the United States). Most significant to this study, Russia is the world’s leading natural gas exporter and holder of the world’s largest proven gas reserves. Moreover, Gazprom accounts for 90% of Russia’s gas and owns a quarter of the world’s proven reserves.²⁹

Contrary to frequent Western media and academic analyses that hold that Russia employs its energy resources, in particular natural gas, as a foreign policy “weapon,” the counterargument, in accordance with the Russia’s 2003 Energy Strategy, emphasizes Russia’s aim to eliminate subsidy carry-overs from the Soviet era and charge market prices to all its foreign buyers as an impetus to maximize its profits and implement economic reforms in accordance with World Trade Organization pledges to the EU.³⁰ Furthermore, Gazprom, Russia’s primary natural gas negotiator in the international market, must increase prices to offset its declining gas outputs and cover costs for enhanced production, improved infrastructure and new transport pipelines.³¹

Nevertheless, evidence suggests that Russia does maintain and exploit a clear advantage in its natural gas relationship with Ukraine. Strained relations over natural gas

²⁵ “Country Analysis Briefs: Ukraine,” *Energy Information Administration*.

²⁶ Ibid.

²⁷ *Ukraine Energy Policy Review 2006*, 53.

²⁸ “Country Analysis Briefs: Russia,” *Energy Information Administration*, April 2007, <http://www.eia.doe.gov/emeu/cabs/Russia/Full.html> (accessed May 8, 2008).

²⁹ Ibid.

³⁰ Jonathan P. Stern, *The Future of Russian Gas and Gazprom* (New York, NY: Oxford University Press, 2005), 54.

³¹ Nadejda M. Victor, “Russia’s Gas Crunch: Looming Shortfall Poses a Tough Choice,” *Washington Post*, April 6, 2006, A29.

supplies are not new and have persisted since the Soviet era. What brings the current Russian-Ukrainian relationship to the forefront is a more politically, economically, and militarily intertwined Europe with both NATO and the EU literally rubbing up to Ukraine's borders. As economic ties abound, between the EU and Russia and the EU and Ukraine, including natural gas, the Russian-Ukrainian natural gas tensions receive much more attention. Ukraine's strong natural gas dependency, along with domestic energy inefficiency, non-transparent gas intermediaries, corruption, and divergences among the political elites, spells internal turmoil and potential security concerns.

C. UKRAINE'S NATURAL GAS DEPENDENCY AND LIMITED ALTERNATIVES

When the former Soviet republics took their separate paths of independence in 1991, "the Ukrainian economy was dependent not just on Russian energy, but on low-cost Russian energy."³² Due to its transit status, Kyiv's national company in charge of energy transit, Naftogaz of Ukraine, received \$2 billion in 2002 and \$1.9 billion in 2003 for transport of gas and oil to Europe.³³ In this respect Ukraine theoretically maintains some economic influence with Russia. Ukraine's leverage, however, quickly dissipates as Gazprom regularly accuses Kyiv of siphoning off gas bound for Europe.³⁴ Furthermore, Ukraine has incurred a huge gas debt with Russia; regular disputes with Gazprom over not only the debt amount but on pricing contracts have worsened relations. The most notorious disagreement over gas price subsidies took place in late 2005 and early 2006. Gazprom chose to unexpectedly cut off gas to Ukraine for four days, causing much angst in Russia's West European recipients with disruptions to their gas supplies.³⁵

D'Anieri has identified three clear-cut rationales of the role of energy in the Russian-Ukrainian relationship, thus explaining how dependence affects Ukraine's autonomy. First, Ukraine has an energy-intensive economy and is thus highly dependent

³² Abdelal, "Interpreting Interdependence," 125.

³³ *Ukraine Energy Policy Review 2006*, 204. This data is the most recent that can be located.

³⁴ Abdelal, "Interpreting Interdependence," 111.

³⁵ Jonathan Stern, "The Russian-Ukrainian gas crisis of January 2006," *Oxford Institute for Energy Studies*, January 16, 2006.

on Russian energy; second, the energy sector demonstrates “the perceived dangers of a large degree of economic dependence on Russia. Third, energy dependency has in fact been used by Russia to attempt to persuade Ukraine to give way on a whole range of issues.”³⁶

The energy market’s volatile rules and organization do not afford Ukraine ample opportunity to create a system that is conducive to long-term planning or that attracts serious investors. To make matters worse, Ukraine’s government institutions for energy perform purely bureaucratic duties, lack research infrastructure, and give way to state companies that often cater more to private than to state interests.³⁷ While Ukraine is not in a position to optimally diversify its natural gas imports, its institutional shortcomings arguably contribute to its energy vulnerability.

Ukraine has sought to diversify its natural gas alternatives yet often appears caught in a vicious circle. Energy diversification is not a linear process and in fact encompasses “energy source diversification, geographical diversification, and contractual diversification.”³⁸ At first glance, Turkmenistan would seem to provide the ideal alternative. As Central Asia’s leading gas producer, Turkmenistan is also Ukraine’s largest supplier of natural gas. Ukraine, however, cannot regard Turkmen gas as an alternative to Russian gas for two key reasons. First, Turkmenistan currently runs all of its pipelines through Russia. Second, Gazprom or murkier intermediaries have managed the imports from Turkmenistan, creating more corruption than market reform progress.³⁹

Turkmenistan has become a much tougher negotiator, compelling Gazprom in March 2008 to pay “European prices” for gas beginning in 2009. Currently, Gazprom pays Turkmenistan \$130 per 1000 cubic meters compared to the \$354 per 1000 cubic meters it charges European customers. Ironically, the Gazprom-Turkmen agreement coincided with the March 2008 agreement made between Gazprom and Naftogaz of

³⁶ D’Anieri, *Economic Interdependence*, 69.

³⁷ Balmaceda, “Management of Energy Dependency,” 10.

³⁸ Margarita M. Balmaceda, *Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia’s power, oligarchs’ profits and Ukraine’s missing energy policy, 1995-2006* (New York, NY: Routledge, 2008), 15.

³⁹ Balmaceda, *Energy Dependency, Politics and Corruption*, 15.

Ukraine which called for Ukraine to pay \$179.5 per 1000 cubic meters through 2008. Such developments have led to price increases for Ukraine in 2009 and repeated “gas wars” between Moscow and Kyiv.

Unlike oil, natural gas generates “the prohibitively high capital costs of constructing and operating new pipelines and developing alternative methods for monetizing gas.”⁴⁰ At present liquefied natural gas (LNG) proves extremely expensive to process as well as to ship abroad. Thus, Ukraine’s natural gas options narrow to Russian pipelines.⁴¹

D. AN ENERGY-INTENSIVE ECONOMY AND ECONOMIC INTERDEPENDENCE

While an unavoidable geographic and economic reality, taking a path of interdependence with Russia evidently reduces Ukraine’s autonomy. National cohesion presents a constant challenge in Ukraine. Though no concrete boundaries define the social divide, tensions meet along the Dnieper River and at Kyiv, the state’s centrally located capital. The west predominantly draws its social and cultural tendencies from its western border, whereas eastern Ukraine’s population includes significant numbers of ethnic Russians. Western Ukraine once formed part of the Polish and Lithuanian kingdoms.⁴² Eastern Ukraine and Crimea were centers of Russian nationalist sentiment during the Russian and Soviet empires and maintain large ethnic Russian populations.⁴³

This east-west divide not affects Ukraine’s politics but also carries over to its economic, and hence energy-related, structure. Ukraine is the eighth largest steel producer in the world, and eastern Ukraine’s industrial strength relies on Russian

⁴⁰ Adam N. Stulberg, *Well-Oiled Diplomacy: Strategic Manipulation and Russia’s Energy Statecraft in Eurasia* (Albany, NY: SUNY Press, 2007), 67.

⁴¹ F. Stephen Larrabee, “Russia and Its Neighbors: Integration or Disintegration?,” ed. Stephen J. Flanagan, Ellen L. Frost, and Richard L. Kugler, *Challenges of the Global Century: Report of the Project on Globalization and National Security, Volume II* (Washington, DC: NDU Press, 2001), 866.

⁴² Andrew Wilson, *The Ukrainians: Unexpected Nation* (New Haven, CT: Yale University Press, 2000), 46, 48.

⁴³ Martin Malia, *The Soviet Tragedy: A History of Socialism in Russia, 1917-1991* (New York, NY: The Free Press, 1994), 439-440; and Wilson, 211-212.

energy.⁴⁴ Moreover, Russia has successfully played the nationalist hand, maintaining positive ties with eastern Ukrainians. Indeed, Ukraine's comparative advantage is steel, in that Russia imports one-third of Ukraine's steel production.⁴⁵ For Gazprom to meet its export demands, enhance production, and build ambitious pipelines in the Arctic, it requires steel imports.⁴⁶

Ukraine's economic prosperity remains innately linked to that of Russia. In fact "Ukraine has yet to figure out how to protect all of its primary security goals – prosperity, autonomy, and sovereignty."⁴⁷ As a heavy industry and manufacturing country, Ukraine's dependence on Russia centers on its lack of energy resources, natural gas in particular.

During the Soviet era, natural gas proved vital to Ukraine's industrial sector, ultimately becoming "the single most important resource in the regional economy."⁴⁸ The Soviet Union heavily subsidized gas (and oil) prices, keeping them drastically below the world market price. With the dissolution of the Soviet Union, Russia, with its enormous oil and gas reserves, offered to continue subsidized energy prices to the former Soviet republics as an economic inducement to align their foreign and economic policies with Russia.⁴⁹

Throughout communist rule, the Soviet planners successfully created economic interdependence among the republics. Ukraine had been a major coal producer, but Russian and Central Asian oil and gas were so inexpensive that Ukraine's coal industry atrophied. Ukraine's energy-intensive economy based on heavy industry and

⁴⁴ "Steel Map of Ukraine," *The Ukrainian Association of Ferrous Metallurgy Enterprises*, http://www.ukrfer.org.ua/Map_eng.php (accessed March 18, 2008).

⁴⁵ Vladimir Socor, "Ukrainian Steel Exports Face Hurdles on the Russian Market," *Eurasia Daily Monitor* 2:16 (January 24, 2005). http://www.jamestown.org/edm/article.php?article_id=2369141 (accessed May 12, 2008).

⁴⁶ Andrew E. Kramer, "As Gazprom's chairman moves up, so does Russia's most powerful company," *International Herald Tribune*, May 11, 2008, <http://www.ihf.com/articles/2008/05/11/business/11gaz.php?page=2> (accessed May 11, 2008).

⁴⁷ D'Anieri, *Economic Interdependence*, 200.

⁴⁸ Abdelal, "Interpreting Interdependence," 104-105.

⁴⁹ Stulberg, *Well-Oiled Diplomacy*, 14.

manufacturing received some of the most beneficial oil and gas subsidies – with prices much lower than those in the global market – during the Soviet era. In essence, the Soviet planners created an institutionally energy-dependent Ukraine.⁵⁰ Soviet-era dependency has translated into a profound contemporary Russian-Ukrainian energy relationship.

Ukraine exacerbates its energy dependency by continued domestic subsidies on natural gas prices, thus perpetuating its energy inefficiency. Due to subsidies, industries and the public have no motive to adhere to prudent practices of energy conservation.⁵¹ In addition, Ukraine faces inflation problems. Though negligible in comparison to inflation woes in the 1990s, Ukraine's inflation problem, which surpassed 26% year-on-year in March 2008, constitutes its biggest economic concern.⁵² Government officials claim that the increase in gas prices significantly contributes to the problem. Gazprom has raised gas prices in the latest agreement in March 2008 with Ukraine "to \$179.5 per 1000 cubic metres – 40% cheaper than global prices of \$250 per unit but a lot higher than the \$70 it paid two years ago."⁵³ Inflation and price increases compound the problems associated with the Ukrainian government's continued policy of subsidized energy prices for the population. The energy industry invites corruption; and this is another battle Ukraine must face in the energy sphere.

Ukraine's quandary may lead to closer cooperation with Russia to try to retain low gas prices. With low gas prices, however, Ukraine remains in an inflationary bind and thus looks less appealing to the EU as a potential member. Closer ties between Russia and Ukraine could obviously make NATO members less apt to bring Ukraine into the Alliance.

⁵⁰ Abdelal, "Interpreting Interdependence," 109.

⁵¹ Janusz Bugajski, Steven Pifer, Keith Smith, and Celeste A. Wallander, "Ukraine: A Net Assessment of 16 Years of Independence," *Center for Strategic and International Studies*, February 2008, 16.

⁵² "Rampant Inflation in Ukraine," *Economist.com*, April 8, 2008, http://www.economist.com/daily/news/displaystory.cfm?story_id=10987650&fsrc=nwl (accessed May 11, 2008).

⁵³ "Ukraine: Inflation Crescendo," *Oxford Business Group*, April 22, 2008, http://www.directiq.com/preview/view.asp?cid=563&user_id=335541&client_id=11 (accessed May 11, 2008).

To curb dependence on Russia and promote greater economic diversity, Ukraine continues to increase its participation in international institutions. On 5 February 2008 the World Trade Organization (WTO) invited Ukraine to join following fifteen years of negotiations. President Yushchenko envisions economic progress in Ukraine's metallurgy production – a move toward potentially greater economic diversity – through the WTO.⁵⁴ Ukraine's Parliament, the *Verkhovna Rada*, ratified the WTO accession agreement on 10 April 2008 with the endorsement by 411 of 450 Members of Parliament (MP).⁵⁵

In what was perhaps an attempt to defuse tensions with Russia (the world's single major economy that is not a WTO member) Prime Minister Yulia Tymoshenko stated, ironically at a joint press-conference with the President of the European Commission, José Manuel Barroso, in Brussels, that Ukraine's WTO membership "will not serve as an instrument of putting pressure on the other countries, first of all, Russia, which concerns the issues of economic cooperation, particularly in [the] gas sphere."⁵⁶ In due course, Ukraine's WTO accession may foster greater transparency and economic reform, thus reducing its foreign debt and its energy debt to Gazprom in particular.

E. THE GEOPOLITICS OF UKRAINE'S ENERGY SECURITY

Ukraine has treated its energy dependent relationship with Russia as a security issue and even a considerable security threat. Ukraine's interpretation not only affects its political and economic relations with Russia but also its rapprochement to NATO and the

⁵⁴ "Ukraine sees WTO boost to economy," BBC News, March 18, 2008, <http://news.bbc.co.uk/2/hi/business/7230008.stm> (accessed March 18, 2008).

⁵⁵ Government of Ukraine, "WTO protocol approved una voce nearly," *Web Portal of Ukrainian Government*, April 10, 2008, http://www.kmu.gov.ua/control/en/publish/news_article?art_id=125469177&cat_id=32598 (accessed May 10, 2008). The remaining 39 Communist Party MPs abstained in the Rada's WTO vote. See "Verkhovna Rada ratified protocol on Ukraine's WTO accession," *Unian News Agency*, April 10, 2008, <http://www.unian.net/eng/news/news-245761.html> (accessed May 10, 2008).

⁵⁶ Government of Ukraine, "Yulia Tymoshenko assures Ukraine's membership at WTO will not serve as instrument of pressure on other countries," *Web Portal of Ukrainian Government*, http://www.kmu.gov.ua/kmu/control/en/publish/article?showHidden=1&art_id=108302876&cat_id=56561510&ctime=1201600456614 (accessed May 10, 2008). The joint press conference between Barroso and Tymoshenko took place on January 28, 2008, eight days prior to Ukraine's WTO accession. Evidently, Ukraine does not want to be compared with WTO member Georgia, which has repeatedly vetoed Russia's accession to the WTO.

European Union. Furthermore, as Ukraine has enhanced its autonomy since its 1991 declaration of independence, it has pursued greater and more balanced economic opportunities with both the EU and Russia. In fact, despite Ukraine's domestic east-west political divide, the European Union has constituted Ukraine's largest trading partner over the last six years. The EU has imported 25.6% of Ukraine's total exports while Russia, Ukraine's second leading trade partner, has received 21.3% of Ukraine's goods.⁵⁷ In addition, as of 2007, Germany leads all foreign investors with 23.5% of Foreign Direct Investment (FDI) in Ukraine. As the seventh leading foreign investor at 5.1%, Russia has dropped far behind.⁵⁸

Regardless of the mutual benefits of increased trade among all parties, Russia's political ambitions present challenges to Ukraine's autonomy. As is discussed in the following chapter, with Russia's ambitious projects with the European Union as well as its lucrative bilateral deals with France, Germany, and Italy, Ukraine faces greater difficulties in tackling its energy security issues. Russia comprehends Ukraine's dilemma. By achieving greater natural gas interdependence with NATO Europe, Moscow may hope to prevent NATO's acceptance of an energy-dependent Ukraine.

1. Natural Gas Negotiations versus The Black Sea Fleet and Nuclear Weapons

With respect to Moscow's attempts to exploit the Russian-Ukrainian energy relationship, former Ukrainian Prime Minister Anatoli Kinakh once emphatically stated, "We will never be paying our energy debts with shares of our companies."⁵⁹ In essence the former prime minister's statement divulges the tumultuous nature of the Russian-Ukrainian natural gas relationship. Kyiv has skeptically and cautiously proceeded in its deals with Russia and Gazprom. In the early stages of post-communist independence, Russia attempted to reduce Ukraine's autonomy and even threatened it.

⁵⁷ Bugajski et al., "Ukraine: A Net Assessment," 12.

⁵⁸ Ibid., 12. As noted in the CSIS study, Russia's investment in Ukraine is likely higher than this official figure as some of its investments may pass through Cyprus for tax reasons. Similarly, companies in the United States, the sixth leading investor in Ukraine, follow this course as well.

⁵⁹ Abdelal, "Interpreting Interdependence," 119, from "Ukrainian Prime Minister Rules Out Debt-for-Assets Deal with Gazprom," *AFX*, July 4, 2001.

During the “energy war” with Ukraine in 1993-1994, Russian behavior suggested that Moscow thought that if it threatened Ukraine’s economic prosperity and fragile advancement as a newly independent state, it could retain a political hold on Ukraine. The Russian strategy played out in September 1993 at the Massandra Summit in the Yalta region of Crimea. Russian and Ukrainian officials organized the summit to resolve two critical issues – the future status of the Black Sea Fleet and Ukraine’s nuclear disarmament.⁶⁰ Foreshadowing contemporary gas disputes, “A week before the summit, Gazprom cut its supply of gas to Ukraine by 25 percent, citing Ukrainian non-payment as the reason. At Massandra, Russian negotiators caught the Ukrainian delegation off guard by proposing a cancellation of Ukrainian gas debt in return for full control of the Black Sea Fleet and the surrender of Ukraine’s nuclear warheads. If Ukraine did not agree, the Russians said, gas supplies would be halted.”⁶¹

Ultimately, due to domestic resentment of “selling” Ukrainian interests, including the Black Sea Fleet, to Russia, Ukrainian President Leonid Kravchuk withdrew his acceptance of Russia’s coercive economic diplomacy. Taking a nationalist stance certainly preserved Ukraine’s autonomy in the short-term but quickly damaged its economy as half of Kyiv’s industrial firms had to close by October 1993.⁶²

The 1993 turbulence clearly demonstrates that the 2006 and 2008 episodes simply represent “more of the same” in the Russian-Ukrainian gas relationship. This pattern of turbulent negotiations particularly reflects present-day troubles not only for Ukraine’s dependence on Russian gas but also for the wariness with which Europe should proceed in its natural gas relations with Russia. Understandably, with the majority of its natural gas supplies passing through Ukraine, NATO Europe has chosen to exercise some caution in its relations with both Russia and Ukraine.

Indeed, Ukraine effectively handled nuclear disarmament through a multilateral process. As the issue of ensuring the security of nuclear weapons in the post-Soviet

⁶⁰ D’Anieri, *Economic Interdependence*, 78.

⁶¹ Ibid., 78-79.

⁶² Ibid., 80.

space attracted attention from NATO, Russia's call for Ukraine's nuclear disarmament prior to the Massandra Summit was not bilaterally resolved. NATO's nuclear powers, i.e., France, the United Kingdom, and the United States, all displayed heightened interest in the status of Ukraine's nuclear weapons. Russia, Ukraine, the United Kingdom, and the United States signed the December 1994 Memorandum on Security Assurances associated with Ukraine's accession to the Nuclear Nonproliferation Treaty as a non-nuclear-weapon state. The memorandum further called for the assurance of a sovereign and independent Ukraine; and significant to this study, the 1994 document guaranteed Ukraine's protection from economic coercion.⁶³

Conversely, the naval forces disagreement between Russia and Ukraine predictably resurfaced. For Russia, the Black Sea Fleet has historically represented not only military but national prestige. To hand over the fleet to Ukraine could not only provoke an outburst of Russian nationalism but also irritate the mostly ethnic Russian inhabitants of Crimea, home to the Black Sea Fleet in the port city of Sevastopol. Ethnic Russians make up more than 70% of the autonomous Republic of Crimea's population and until 1954 Crimea formed a part of "modern" Russia.⁶⁴ The Soviet Union presented Crimea as a gift to Ukraine in celebration of 300 years of Russian rule of Ukraine.⁶⁵

In 1997 Russia and Ukraine signed the notable Black Sea Fleet accords, which effectively advanced the bilateral relationship. Ukraine legally secured Crimea as part of its sovereign territory, despite Russia's previous desires for control.⁶⁶ Nonetheless, the accords included certain provisions that remain in place today. The lease agreement allowed Russia to maintain its Black Sea Fleet in Ukrainian ports for twenty years (until 2017) with an option for a five-year extension.⁶⁷ Ukraine must consequently share

⁶³ David S. Yost, *NATO Transformed: The Alliance's New Roles in International Security* (Washington, DC: The United States Institute of Peace, 1998), 153-154. Yost notes that "France made similar commitments to Ukraine on a unilateral basis."

⁶⁴ James Sherr, "Russia-Ukraine Rapprochement?: The Black Sea Fleet Accords," *Survival*, vol. 39, no. 3, Autumn 1997, 34.

⁶⁵ "The 2 Ukraines," *CBC News Online*, December 2, 2004, http://www.cbc.ca/news/background/ukraine/two_ukraines.html (accessed March 17, 2008).

⁶⁶ Sherr, "Russia-Ukraine Rapprochement?," 39.

⁶⁷ *Ibid.*, 40.

basing privileges. Russia arguably got the better end of the deal with the deeper draft ports. Reportedly, Russia eventually plans to move its fleet to Novorossiysk (on Russia's Black Sea littoral).⁶⁸

Lastly, Ukraine's energy debt conspicuously enters the equation. According to the agreement, Russia resumed payments for basing its fleet in Sevastopol. Rather than pay Ukraine directly for its base leasing, Russia insisted that Kyiv re-funnel the funds back to Moscow to cover its energy debts.⁶⁹ Russia has thus managed to exploit Ukraine's natural gas dependency to make Kyiv concede on major issues.

Though natural gas prices, debts, and agreements did contribute to the Black Sea Accords, 2017 is certainly too far off to make accurate predictions on whether natural gas supplies will play a role in future negotiations on the status of the Black Sea Fleet. Indeed, the current trend of Gazprom to move the Russian-Ukrainian gas relationship toward market prices would indicate that energy will not play a role in the future of the Black Sea Accords. Even so, Russia must make a concerted effort to remove subsidies from its domestic gas market to allow for economic reforms, which through internal improvements may in turn soften its confrontational position with Ukraine. Likewise, its interest in maintaining sovereignty over Sevastopol and the rest of Crimea should encourage Ukraine to adhere to a disciplined energy policy, to conform to market prices and to enhance its energy efficiency. Moreover, serving as a more reliable economic partner to Russia and NATO Europe will lead to better relations as a gas transit state.

2. Pipeline Policies

Though disadvantaged by its dependency on natural gas imports from and through Russia, Ukraine's role as the principal transit state of Russian natural gas to Europe offsets to some extent Russia's upper hand in the relationship. Ukraine has not cooperated with Gazprom's strategy to acquire control of pipelines transiting its territory to European markets. Gazprom has thus enjoyed limited success in achieving its

⁶⁸ Sherr, "Russia-Ukraine Rapprochement?," 40 and 41.

⁶⁹ Abdelal, "Interpreting Interdependence," 120.

strategy. Among its Commonwealth of Independent States (CIS) customers, only Armenia and Moldova have acquiesced on joint ventures that give Gazprom control of 45% and 50% of their pipelines, respectively.⁷⁰

Strategically critical to the energy relationship between Russia and Europe, Ukraine serves as the principal natural gas transit state, with 80% of Russian gas passing through its pipelines to Western and Central Europe. Gazprom has succeeded, however, in building alternative routes. In the mid-1990s, Gazprom built the Yamal pipeline through Belarus and Poland that does not cross Ukrainian soil.⁷¹ As is discussed in the following chapter, Gazprom has signed new contracts with Germany and Italy to build gas pipelines from Russia to Europe. Neither plan, however, goes through Ukraine.

F. CONCLUSION

The Russian-Ukrainian natural gas relationship has greatly evolved since the dissolution of the Soviet Union. While developing greater political and economic ties with its European neighbors to the west, Ukraine has strived to safeguard its sovereignty and strengthen its autonomy. Meanwhile, Russia has regained international prestige, building an economic base from its oil and gas industry and enhancing its own significant economic ties with Western Europe.

A major turning point occurred, however, when President Leonid Kuchma backed Russia's proposed Single Economic Space (SES). Russia has sought to marshal former Soviet republics in a common economic zone to enhance political and economic ties. Kuchma thought that in supporting the SES, Russia would support his selected candidate for the 2004 presidential elections. In the energy field, the SES was to allow greater Russian management of Ukraine's pipelines to Europe. Accordingly, Russia was "to abandon the idea of building new pipelines around Ukraine."⁷² The flawed 2004 elections ignited the Orange Revolution's call for greater democratic governance. With the Western-oriented Viktor Yushchenko claiming victory, the energy relationship has gone

⁷⁰ Stern, *Future of Russian Gas*, 106.

⁷¹ Stulberg, *Well-Oiled Diplomacy*, 106.

⁷² Balmaceda, *Energy Dependency, Politics and Corruption*, 31.

the way of the two countries. Gazprom has carried out gas cutoffs to Ukraine while Ukraine has failed to make payments or readily agree to price increases. Furthermore, Ukraine has chosen not to sign on to the SES and has rejected Gazprom's desire to control the pipelines in Ukraine. Lastly, Russia has made concerted efforts to build new pipelines around Ukraine. Hence, the more both countries turn to Western Europe, the less importance they attribute to bilateral cooperation. What remains to be determined is what direction NATO Europe will take.

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III. RUSSIAN ENERGY RELATIONS WITH NATO EUROPE

A. INTRODUCTION

In his momentous speech at the Munich Conference on Security Policy in 2007, Russian President Vladimir Putin emphasized the critical nature of Russian-Ukrainian energy relations in the context of European energy security:

For fifteen years prior to 2006 ... deliveries of Russian energy and, first and foremost, of gas to Europe depended on the conditions and prices for the deliveries of Russian gas to Ukraine itself. And this was something that Ukraine and Russia agreed among themselves. And if we reached no agreement, then all European consumers would sit there with no gas... We signed separate contracts for the delivery of our gas to Ukraine and for delivering Russian gas to Europe for the next five years. You should thank us, both Russia and Ukraine, for this decision.⁷³

Putin evidently wished to conjure up an image of a Russian-Ukrainian “tandem” ensuring consistent natural gas supplies to Europe. In reality, Russia and certain states in Western Europe have made palpable efforts to distance themselves from Ukraine as the principal transit state while establishing greater economic ties through the energy industry.

Russia’s impressive economic ascent stems largely from windfall oil and gas profits since 2001. In December 1998 the market price for world crude oil was approximately \$10 a barrel, but by September 2000 the price had climbed to \$33 a barrel.⁷⁴ Devaluation of the ruble after the 1998 economic crash induced low labor and capital input costs, allowing Russia to capitalize on the soaring prices without even increasing production.⁷⁵ While Russia has initiated few structural improvements to its

⁷³ President of Russia, “Speech and the Following Discussion at the Munich Conference on Security Policy,” (Munich, Germany, February 10, 2007) *President of Russia Official Web Portal*, http://www.kremlin.ru/eng/speeches/2007/02/10/0138_type82912type82914type82917type84779_118123.shtml (accessed May 13, 2008), 13-14.

⁷⁴ Philippe Sébille-Lopez, *Géopolitiques du Pétrole* (Paris, France: Armand Colin, 2006), 241.

⁷⁵ Fiona Hill, “Energy Empire: Oil, Gas and Russia’s Revival,” *The Foreign Policy Centre*, September 2004, 11.

economy, its fiscal success derives largely from “a combination of high energy prices, oil and gas production growth rates, rising energy export volumes, and associated revenues” since 2001.⁷⁶

Russia’s predominant commodity export has traditionally been petroleum; however, natural gas has become increasingly popular, particularly in the West European market. Gazprom controls one quarter of proven world gas reserves.⁷⁷ The EU receives one quarter of its gas supply from Russia, the largest amount from any supplier; forecasts suggest that EU dependency on Russian gas may grow to 50% by 2030.⁷⁸ In fact, Russia has concluded several recent agreements with not only West European companies but also non-European suppliers of natural gas to Europe in order to implement its “security of demand” energy policy.

B. RUSSIA’S CIRCUMFERENTIAL GAS APPROACH TO EUROPE

Russia’s strategy of utilizing its energy resources to reassert its political and economic influence is reminiscent of the famous adage, “all roads lead to Rome.” In Russia’s case, all pipelines to Europe flow from Russia. Though embellished, this claim is metaphorically not far from the truth; Gazprom has relentlessly sought to expand cooperation with Norway and other leading energy suppliers to Europe. Gazprom has concluded deals with African energy powerhouses such as Algeria, Libya, and Nigeria, endowing Russia with even greater control of gas pipelines into Europe. In fact, a Gazprom spokeswoman emphasized, “Africa is one of Gazprom’s priorities, as the company made a decision to go global in terms of acquiring assets and developing strategy outside Russia.”⁷⁹

⁷⁶ Fiona Hill, “Beyond Co-Dependency: European Reliance on Russian Energy,” *Brookings Institution*, U.S.-Europe Analysis Series, July 2005, 2.

⁷⁷ “Russia: Refusal to deregulate energy markets worsens political tensions with US and EU, but keeps up investor appeal, with non-oil sectors main victims of WTO delay,” *Hilfe Daily Briefing*, April 25, 2006, 2.

⁷⁸ “Breaking up is hard to do,” *Economist.com*, September 13, 2007, http://www.economist.com/business/displaystory.cfm?story_id=9803986 (accessed September 13, 2007).

⁷⁹ Uchenna Izundu, “Gazprom prompts fears, seeking Nigerian gas development,” *Oil & Gas Journal* 106:2 (January 14, 2008): 34.

On 17 April 2008, for example, Putin traveled to Libya to sign a major energy agreement with Colonel Muammar Gaddafi. Putin's landmark visit to Libya, the first by a Russian leader since 1985, extended Russia's reach to North Africa. In essence, Putin erased Tripoli's \$4.5 billion debt, which had accumulated from Cold War-era procurements of Soviet weapons, in exchange for multibillion dollar joint ventures with Russian state-owned companies, most significantly between Gazprom and Libya's state-owned energy company, National Oil Corporation of Libya, to jointly "explore for, produce, transport and sell oil and gas."⁸⁰

Ultimately, Russia's stratagem with Libya ties into the European energy market. Alexey Miller, Gazprom's chief executive, who traveled with Putin to Tripoli, asserted that Gazprom aspires to work with the Italian energy leviathan, Ente Nazionale Idrocarburi (Eni), the principal foreign energy company in Libya, in constructing a new pipeline from Libya to Sicily.⁸¹ Miller's timely proposal comes after Eni extended its contract with Libya in October 2007 for another twenty-five years with plans to double Libyan natural gas deliveries to Europe with the expected pipeline.⁸²

In addition, Gazprom has set its sights on Nigeria. As of January 2008, Gazprom and Nigerian officials have been involved in negotiations toward a \$2.5 billion deal to increase Nigeria's natural gas potential, including exporting gas to Europe via the Trans-Saharan Gas Pipeline through Algeria to the Mediterranean coast. Moreover, Nigeria prefers to work with "non-Western" companies to advance its natural gas industry, further playing into Russia's hands.⁸³ Indeed, Gazprom has positively influenced Nigerian energy officials, leading one to declare, "What Gazprom is proposing is mind-boggling. They're talking tough and saying the West has taken advantage of us in the last 50 years and they're offering us a better deal."⁸⁴

⁸⁰ Neil Buckley, "Gazprom signs fuel supply deal with Libya," *FT.com*, April 17, 2008, <http://search.ft.com/ftArticle?ct=0&id=080417000374> (accessed May 12, 2008).

⁸¹ Ibid.

⁸² Dino Mahtani and Ed Crooks, "Eni gains 25-year extension in Libya," *FT.com*, October 16, 2007, <http://search.ft.com/ftArticle?ct=0&id=071016000616> (accessed May 15, 2008).

⁸³ Izundu, "Gazprom prompts fears," 34.

⁸⁴ Neil Ford, "Gazprom to signal end of Western domination?," *African Business*, March 2008, 30.

Ironically, Gazprom, which possesses no LNG production capacity, may hope to gain proficiency through an agreement with Nigeria.⁸⁵ Gaining such proficiency would enhance Gazprom's upstream capacity for LNG production and shipping from its gas fields in proximity to the Baltic Sea, the Barents Sea, Sakhalin Island, and the Arctic.⁸⁶

Algeria, as of 2004 the third largest exporter of natural gas to Europe after Norway and Russia, opened discussions between its state-owned energy company, Sonatrach, and Gazprom in 2006; but these firms have not yet come to any agreement.⁸⁷ Both Nigeria and Algeria stand out as critical to Europe, as the EU has proposed a "2,700-mile pipeline linking the Niger Delta to existing gas transmission hubs" from Algeria to Europe.⁸⁸

Lastly, in 2005 Gazprom continued ties with Norway's major energy company, Statoil, to work more closely on LNG production, including supplies to the United States.⁸⁹ Gazprom has not greatly advanced ties with Norway since 2005, instead increasing cooperation with other West European energy companies.

Indeed, Russia's energy advances with external energy providers, in Africa in particular, have caused concern in the EU. Gazprom's tireless efforts prompted Igor Tomberg, an energy expert at the Institute of World Economy and International Relations in Moscow, to observe: "Europe is sleeping as Gazprom makes every effort to become a global player and increase its grip on Europe... By diversifying its supplies and gaining even more access to European markets, geopolitically, it is surrounding Europe."⁹⁰ This

⁸⁵ Stefan Nicola, "Analysis: EU eyes Gazprom's Nigeria play," *United Press International*, April 11, 2008, http://www.upi.com/International_Security/Energy/Analysis/2008/04/11/analysis_eu_eyes_gazproms_nigeria_play/4491/ (accessed May 17, 2008).

⁸⁶ Ford, "Gazprom to signal end of Western domination?," 30.

⁸⁷ Isabel Gorst, "COMPANIES - EUROPE: Gazprom push with Eni into Libya fuels EU security fears," *Financial Times*, April 3, 2008, 25.

⁸⁸ Nicola, "EU eyes Gazprom's Nigeria play."

⁸⁹ "On Working Meeting Between Alexey Miller and Helge Lund," *Gazprom*, April 28, 2005, <http://www.gazprom.ru/eng/news/2005/04/16427.shtml> (accessed May 13, 2008).

⁹⁰ Judy Dempsey, "Gazprom and Eni prepare to join forces to pipe natural gas from Libya to Europe," *International Herald Tribune*, April 9, 2008, <http://www.ihf.com/articles/2008/04/09/business/pipe.php> (accessed May 11, 2008).

concern has not translated into any coherent and coordinated EU energy strategy, as West European energy companies have advantageously pursued bilateral deals with Gazprom that benefit their domestic gas suppliers and even convert them into transit mechanisms to other West European states. These innovative ventures systematically circumvent Ukraine as well as other transit states, such as Belarus and Poland.

Russia and its instrument Gazprom relentlessly pursue greater economic opportunities in the enormous hydrocarbon commodity market. In an unmistakable game of geopolitics, Russia has found its niche in the energy trade while clearly ensuring its influence over – or control of – pipelines into Western and Central Europe. Furthermore, Russia has informally proposed the idea of a natural gas cartel to several gas suppliers to Europe. Gazprom envisions a cartel that would operate much like OPEC to control global natural gas prices; Iran and Libya support the proposal while Algeria and Qatar have not yet pledged support.⁹¹

In essence, while the member states of the European Union struggle to reach a consensus on a common energy policy, Russia has unilaterally and vigorously sought to influence Europe's energy market. Though not an orthodox approach to capitalism, Russia's energy ventures have thus far succeeded in striking bilateral agreements with some states, while in effect leading the disadvantaged, e.g., Poland and the Baltic states, to clamor vociferously in the EU for a consensus energy policy. Consequently, Gazprom instrumentally serves as the model for Russia's modern business plan.⁹² In a free market economy and during an era of globalization, Putin holds, Russian companies should intrinsically represent the state; hence, Putin's move to renationalize much of Russia's energy sector. Russia needs Western investment, technology, and capital to improve Gazprom's production levels, jumpstart LNG production capacity, and finance exploration and expansion of its natural gas reserves in the Arctic. Russia's thinking reflects "the Soviet economic model, with an emphasis on gigantism and economies of

⁹¹ Andrew Kramer, "As Gazprom's chairman moves up, so does Russia's most powerful company," *International Herald Tribune*, May 11, 2008, <http://www.iht.com/articles/2008/05/11/business/11gaz.php?page=1> (accessed May 11, 2008); and Buckley, "Gazprom signs fuel supply deal with Libya."

⁹² Kramer, "As Gazprom's chairman moves up, so does Russia's most powerful company."

scale and faith in the pricing power of monopolies.”⁹³ State capitalism has thus far succeeded in sparking Russia’s resurgent economy. In fact, Putin capably allocated \$144 billion toward an energy stabilization fund from surplus oil and gas revenues as well as accumulating nearly \$480 billion in foreign currency reserves.⁹⁴

Nevertheless, the state of the economy is sharply linked to (a) the productivity of Russia’s energy companies and their ability to meet the demands of European customers and (b) continued high global energy prices. These current high oil and gas prices help to explain Putin’s move to enhance state control of the oil industry. Moreover, the economy has become exceedingly reliant on oil and gas revenues as a percentage of GDP, jumping “from 12.7% in 1999 to 31.6% in 2007.”⁹⁵ Ultimately, Russia requires energy sales to sustain economic growth. Gazprom’s joint ventures with European energy giants are intended to ensure continued sales as well as the lead in European energy markets. The fact that Europe lacks a common voice with respect to energy greatly assuages Russian concerns and may even translate into greater political strength with Russia’s neighbors, specifically Ukraine.

C. NO “UNION” IN THE EU’S ENERGY POLICY

Russia’s energy exports to Europe, natural gas in particular, are highly significant. In fact, the European Union imports 46% of its natural gas from Russia; as previously stated, 80% of these Russian gas supplies pass through Ukraine. Norway and Algeria are the other key sources, supplying the EU with 27% and 20%, respectively.⁹⁶ It is Russia that causes the greatest juxtaposition of collective consternation and self-interested national collusion among EU members, which take divergent, and to some extent, contradictory, paths in their energy relationships with Russia. Admittedly, the EU has

⁹³ Kramer, “As Gazprom’s chairman moves up, so does Russia’s most powerful company.”

⁹⁴ “Russia’s Economy: Smoke and Mirrors,” *The Economist*, March 1, 2008, 27.

⁹⁵ The Institute of Economic Analysis provided the data in *The Economist*’s article, “Russia’s Economy: Smoke and Mirrors,” 29.

⁹⁶ Commission of the European Communities, “Commission Staff Working Document: EU Energy Policy Data,” Brussels, Belgium, October 10, 2007, http://ec.europa.eu/energy/energy_policy/doc/02_eu_energy_policy_data_en.pdf (accessed May 14, 2008), 45.

never formulated and pursued a cohesive energy security strategy. Member countries have simply carried out exclusive policies based on their individual interests and needs; hence, Brussels has not recognized any requirement for a common EU energy policy.

The dynamics in Brussels have greatly altered, however, since EU enlargement ushered in former Warsaw Pact countries, as well as the ex-Soviet Baltic states. These countries bring to Brussels historical relations with Russia starkly different from those of their West European neighbors. These differences resonate equally within NATO. These new member states of the EU and NATO have helped to mold a more vigilant approach to Russian energy, arguably bringing Europe closer together.

Conversely, these states, Poland and Lithuania in particular, have actively promoted caution on accords designed to foster greater interaction with Russia.⁹⁷ The primary vehicle has been the Partnership and Co-operation Agreements (PCA), which the EU has developed with East European and Central Asian states as “legal frameworks, based on the respect of democratic principles and human rights, setting out the political, economic and trade relationship between the EU and its partner countries. Each PCA is a ten-year bilateral treaty signed and ratified by the EU and the individual state.”⁹⁸ The PCA is the overarching collaborative agreement between the EU and Russia. Russia and the EU signed their first PCA in 1997 but have failed to renew the treaty.⁹⁹ Disagreements over renewing the PCA demonstrate the infighting among EU members regarding not only a common energy policy with Russia but also a unified political strategy.

An obsolete PCA leaves the EU two remaining alternatives to interface with Russia on energy relations: the Energy Charter Treaty (ECT) and the EU-Russia Energy

⁹⁷ Pami Aalto, “The EU-Russia Energy Dialogue and the Future of European Integration: From Economic to Politico – Normative Narratives,” in *The EU-Russian Energy Dialogue: Europe’s Future Energy Security*, ed. Pami Aalto, 35 (Burlington, VT: Ashgate Publishing Company, 2008).

⁹⁸ European Commission, “The EU’s relations with Eastern Europe and Central Asia: Partnership and Co-operation Agreements,” http://ec.europa.eu/external_relations/ceeca/pca/index.htm (accessed May 20, 2008).

⁹⁹ “The European Union and Russia: Divide, rule or waffle,” *The Economist*, May 3, 2008, 59.

Dialogue.¹⁰⁰ The ECT evolved from an EU declaration in 1991 to a treaty in 1994 and entered into legal force in 1998.¹⁰¹ The EU utilizes the ECT to standardize energy regulations and agreements and to foster greater international collaboration on energy relations.¹⁰² The ECT has drawn its legal foundations from the General Agreement on Tariffs and Trade (GATT), and subsequently its successor, the World Trade Organization (WTO), for the purpose of greater adherence to free market principles and evenhanded competition.¹⁰³ In essence, the ECT calls for the liberalization of trade and investment and guarantees each member state autonomy in its decision-making about energy resources. The ECT does not obligate member states to privatize their energy sectors.¹⁰⁴

EU member states have been major proponents of the ECT in order to establish and sustain a multilateral approach to energy security. In 1991 Dutch Prime Minister Ruud Lubbers proposed a “European Energy Community” at a European Council meeting in Dublin.¹⁰⁵ By design, the EU, one of the major proponents of the ECT, intended to employ the treaty to enhance cooperation with the former Soviet republics and establish a multilateral legal and economic foundation for a sustainable energy security policy.¹⁰⁶

To Europe’s dismay, Russia has signed but has not ratified the ECT. Gazprom does not perceive any incentive to adhere to the ECT’s “Protocol on Transit,” which would break up Gazprom’s near monopoly on natural gas pipelines in Central Asia and the post-Soviet space adjacent to Europe.¹⁰⁷ Moreover, Russia has no reason to conform

¹⁰⁰ Paul Belkin, *The European Union’s Energy Security Challenges*, Congressional Research Service Report for Congress, RL33636, January 30, 2008, 12.

¹⁰¹ See the Energy Charter website for details: <http://www.encharter.org/index.php?id=7> (accessed May 28, 2008).

¹⁰² Belkin, *Energy Security Challenges*, 3.

¹⁰³ Pami Aalto and Kirsten Westphal, “Introduction,” in *The EU-Russian Energy Dialogue: Europe’s Future Energy Security*, ed. Pami Aalto, 11 (Burlington, VT: Ashgate Publishing Company, 2008).

¹⁰⁴ *Ibid.*, 12.

¹⁰⁵ Energy Charter: <http://www.encharter.org/index.php?id=7> (accessed May 28, 2008).

¹⁰⁶ *Ibid.*

¹⁰⁷ Aalto and Westphal, “Introduction,” 12.

to the ECT as long as it is not a WTO member. Hence, rather than anticipate Russia's ratification of the ECT, the EU has sought a more direct approach to Russia through the EU-Russia Energy Dialogue.

In October 2000 in Paris, during the sixth energy summit between the EU and Russia, the two sides decided to form an enhanced strategic energy partnership. Thus, the EU-Russia Energy Dialogue was established to "provide an opportunity to raise all the questions of common interest relating to the [energy] sector, including the introduction of co-operation on energy saving, rationalisation of production and transport infrastructures, European investment possibilities, and relations between producer and consumer countries. The planned ratification of the Energy Charter Treaty by Russia and the improvement of the investment climate will be important aspects."¹⁰⁸ The EU envisioned the EU-Russia Energy Dialogue as the primary interface to capitalize on its interdependent energy relationship in hope of Russia's ratification of the ECT. Though the Dialogue has been useful in creating better energy trade opportunities, the EU has not succeeded in defining a collective and effective energy policy or in bringing about Russia's ratification of the ECT.¹⁰⁹

In January 2007 the European Commission expressed optimism about making progress toward an all-encompassing energy policy and sent a communication to the European Council and the European Parliament entitled, "An Energy Policy for Europe."¹¹⁰ Moreover, the EU highlighted the importance of a common energy policy at its March 2007 summit.¹¹¹ EU member states concur that they face a growing problem of dependence on Russian energy suppliers, and they intend to strengthen their energy security. Nevertheless, the ECT, the EU-Russia Energy Dialogue, and the earnest

¹⁰⁸ European Commission, "EU-Russia Energy Dialogue," http://ec.europa.eu/energy/russia/overview/index_en.htm (accessed May 19, 2008).

¹⁰⁹ Aalto and Westphal, "Introduction," 13.

¹¹⁰ "An Energy Policy for Europe," Communication from the Commission to the European Council and the European Parliament [COM(2007) 1], January 10, 2007, <http://europa.eu/scadplus/leg/en/lvb/127067.htm> (accessed May 20, 2008).

¹¹¹ Belkin, *Energy Security Challenges*, 1.

attempt to define a consensual energy policy have not overshadowed the continued bilateral energy deals between individual EU members and Gazprom.

D. POLITICAL DYNAMICS OF BILATERAL ENERGY DEALS WITH GAZPROM

1. Germany

Germany's strategic partnership with Russia has manifestly developed through increased energy ties. In fact, according to the Brookings Institution, "Germany has been Russia's closest Western energy partner since the 1970s."¹¹² In September 2005 German companies BASF/Wintershall AG and E.ON Ruhrgas AG signed an agreement with Gazprom to construct a pipeline, Nord Stream, directly from Portovaya Bay, near the Russian border with Finland, to Greifswald, Germany.¹¹³ The pipeline will run along the Baltic Sea, and most prominently, will not transit any other East European state. Moscow prefers to deliver as directly as possible to the countries that it deems reliable business partners, such as Denmark, France, Germany, the Netherlands, and the United Kingdom.¹¹⁴ Thus, Russia avoids having to deal with tenuous political relations by overtly bypassing its historic "sphere of influence," including former Soviet satellite states, while fulfilling Western Europe's energy "security of supply" policy and increasing Western Europe's dependence on Russian natural gas.

Nord Stream's success hinges on Europe's energy demand. The Kremlin and Gazprom have adeptly rallied political support in Western Europe for the ambitious project. Gerhard Schröder, the former German chancellor, not only endorsed the joint Russian-German venture toward the end of his term in office; he also accepted Putin's offer to lead the Nord Stream consortium.¹¹⁵

¹¹² "The Brookings Foreign Policy Studies Energy Security Series: The Russian Federation," *Brookings Institution*, October 2006, 13.

¹¹³ "Nord Stream Gas Pipeline," *Gazprom*, <http://www.gazprom.com/eng/articles/article18466.shtml> (accessed August 24, 2007).

¹¹⁴ *Ibid.*

¹¹⁵ Judy Dempsey, "Gas pipeline under the Baltic faces many hurdles," *International Herald Tribune*, May 6, 2008, <http://www.iht.com/articles/2008/05/06/europe/pipeline.php> (accessed May 11, 2008).

Nevertheless, Nord Stream must surmount numerous obstacles before starting to lay the pipeline under the Baltic Sea. No country bordering the Baltic Sea along the projected pipeline's path has provided the required construction permits to the Nord Stream consortium to build under the sea in its territorial waters. The list of bordering countries includes Nord Stream's potential West European recipients (Denmark, Finland, Germany, and Sweden) and those opposed to Nord Stream (Estonia, Latvia, Lithuania, and Poland).¹¹⁶ Major setbacks have beset Nord Stream, including Sweden's environmental concerns, Denmark's and Poland's boundary discords, and Estonia's refusal to allow the pipeline to pass through its territorial waters. These setbacks have increased negative perceptions of the project, while projected costs have climbed from \$7 billion to more than \$11.5 billion.¹¹⁷

Currently, Russian natural gas makes up only 43% of German domestic consumption.¹¹⁸ That figure, however, is expected to rise over the next several years, especially if Nord Stream comes on line, making Germany an even greater consumer, and indisputably a major transit state as well. The increasingly close relations between Russia and Germany transcend energy, yet the energy sector emblematically defines a budding strategic partnership. Moreover, contemporary German-Russian relations stand in contrast with current trends in Russian-Ukrainian relations, and tend to magnify tensions between the two former Soviet republics.

2. Italy

Italy's leading energy company, Eni, in which the state holds about 30 percent, has considerably advanced its bilateral ties with Gazprom. In addition to possible cooperation on pipeline plans in Libya, Eni and Gazprom have agreed to asset swaps. Thus, Eni has access to "the production, or upstream, business in Russia, a rare privilege

¹¹⁶ Dempsey, "Gas pipeline under the Baltic faces many hurdles."

¹¹⁷ Ibid.

¹¹⁸ "Country Analysis Briefs: Russia," *Energy Information Administration*.

for a foreign company, in return for Gazprom's entering the downstream, or retailing, distribution and transportation network in Italy."¹¹⁹

Most significantly, and in parallel with the Russian-German energy relationship, Eni signed a memorandum of understanding in June 2007 to construct the South Stream pipeline, providing southern Europe with a new Russian supply line. Russia plans to extend this pipeline from Russia under the Black Sea to Bulgaria. It will then separate in two directions. The northern line will proceed to Romania and Hungary, while the southern line will traverse the Balkans and Greece en route to Italy and potentially further West European destinations.¹²⁰ At the signing of the agreement between Gazprom and Eni, Italy's Minister for Economic Development, Pierluigi Bersani, announced, "The South Stream project aims at strengthening Europe's energy security. The agreement signed today once again testifies to the strength of the strategic partnership between Italy and the Russian Federation that will support the cooperation between the European Union and Russia."¹²¹

Evidently all states involved in South Stream have likewise formed bilateral ties with Gazprom. In April 2008 Gazprom invited Romano Prodi, a former Italian Prime Minister and a former President of the European Commission, to head South Stream, but Prodi declined Gazprom's offer.¹²² In any case, Russia's move demonstrates its desire to achieve political backing for its energy ventures in Europe. Moscow probably sees political support based on energy interdependence as (a) potential backing with respect to such contentious issues as NATO enlargement and missile defense, as well as (b) potential understanding from the EU with regard to Moscow's increasingly tempestuous relations with Kyiv and Tbilisi.

¹¹⁹ Judy Dempsey, "Gazprom and Eni prepare to join forces to pipe natural gas from Libya to Europe."

¹²⁰ "Russia/Europe: Moscow puts South Stream on the map," *OxResearch*, July 24, 2007, 1.

¹²¹ See Eni's website: "Eni and Gazprom sign the agreement for the South Stream Project," June 23, 2007, http://www.eni.it/en_IT/media/press-releases/2007/06/Eni_and_Gazprom_sign_the_agree_23.06.2007.shtml (accessed May 28, 2008).

¹²² Judy Dempsey, "Gazprom courts Prodi as pipeline chief," *International Herald Tribune*, April 28, 2008, <http://www.ihf.com/articles/2008/04/28/business/gazprom.php> (accessed May 11, 2008).

South Stream is undoubtedly controversial for two reasons. First, as with Nord Stream, Gazprom has clearly designed a pipeline to circumvent Ukraine. Second, South Stream is conspicuously the chief competitor of Nabucco, the proposed pipeline to supply gas from the Caspian Sea basin to Europe.¹²³ Both the EU and the United States back Nabucco as it is configured to counter Gazprom's monopoly of gas pipelines from Russia and Central Asia into Europe. In fact, Nabucco came to the forefront of the EU's energy plans following the January 2006 natural gas dispute between Russia and Ukraine. In essence, Nabucco would run from Caspian states rich in gas, primarily Turkmenistan, as well as Azerbaijan and Kazakhstan.¹²⁴ Nevertheless, though the EU energy commission has sponsored Nabucco, the ambitious Nord and South Stream bilateral projects with Russia may take precedence.¹²⁵ Compounding the situation, Turkey, a probable Nabucco transit state from the Caspian to Europe, has bargained with the EU for considerable control over the pipeline. Paradoxically, using its leverage as an EU outsider, Ankara has sought to receive reduced domestic prices for Nabucco gas and charge transit fees to the EU.¹²⁶ Nabucco is therefore tending to fracture solidarity among NATO and EU member states.

3. France

Following these major developments with Germany and Italy, in July 2007 Russian President Vladimir Putin signed a major energy deal with French President Nicolas Sarkozy for France's Total, the world's fourth largest oil and gas company, to exploit offshore gas fields in the Russian Arctic. The so-called Shtokman project is worth \$20 billion and possesses enough proven gas reserves to meet the world's natural

¹²³ Celestine Bohlen, "Turkey uses gas pipe as leverage in EU talks," *Bloomberg News* in *International Herald Tribune*, April 22, 2008, <http://www.ihf.com/articles/2008/04/22/europe/letter.php> (accessed May 11, 2008).

¹²⁴ In the future, Iran and Uzbekistan, as well as Russia, could potentially supply natural gas to the Nabucco pipeline. See Bohlen, "Turkey uses gas pipe as leverage in EU talks," and Khadija Ismayilova, "Azerbaijan: Baku Hesitates on Nabucco Pipeline Project," *EurasiaNet.org*, April 10, 2008, <http://www.eurasianet.org/departments/insight/articles/eav041008a.shtml> (accessed May 28, 2008).

¹²⁵ Bohlen, "Turkey uses gas pipe as leverage in EU talks."

¹²⁶ Ibid.

gas requirements for an entire year.¹²⁷ Thus, France has also entered into a strategic energy partnership with Russia that mirrors increasingly close political and economic Russian-French relations.

E. CONCLUSION

The EU's inability to renew the PCA with Russia has heightened tensions among EU member states. In November 2005 Warsaw blocked a new PCA with Russia over Moscow's ban on Polish meat exports; Poland dropped its objection when Russia lifted the embargo in December 2007.¹²⁸ On 29 April 2008 the EU foreign ministers' negotiations came to an impasse when Lithuania vetoed the PCA.¹²⁹ Vilnius had contended that the EU should incorporate tougher language in the accord due to Russia's questionable democratic practices and harsh stance with its neighbors. Lithuania has been particularly concerned about its oil supplies from Russia as well as the severe strains between Moscow and Tbilisi regarding the so-called frozen conflicts in Abkhazia and South Ossetia.¹³⁰ On 26 May 2008 the EU eliminated the gridlock over the renewed PCA with Moscow by assuring Vilnius that its apprehensions would be discussed at the summit scheduled for 26-27 June 2008 in Siberia.¹³¹

The energy debate has revealed fractious internal divides in the European Union. The wrangling in Brussels has permitted states seeking more comprehensive deals with Russia and Gazprom to justify their actions. In fact, Italy reportedly "made a barely veiled threat along these lines," in view of the EU's standstill on the Russia PCA in April 2008.¹³² *The Economist* reported that "Greece chose the same day formally to sign up to

¹²⁷ "Russian Energy: Behind the Gazprom-Total deal," *Economist.com*, July 13, 2007, http://www.economist.com/business/displaystory.cfm?story_id=9495268 (accessed July 13, 2007).

¹²⁸ "Russia lifts embargo on Polish meat," *EurActiv.com*, December 21, 2007, <http://www.euractiv.com/en/trade/russia-lifts-embargo-polish-meat/article-169365> (accessed May 28, 2008).

¹²⁹ "Divide, rule or waffle," *The Economist*, 59.

¹³⁰ *Ibid.*

¹³¹ "The European Union and Russia: Uneasy Partnership," *The Economist*, May 31, 2008, 54.

¹³² "Divide, rule or waffle," *The Economist*, 59.

South Stream, a Kremlin-backed Black Sea pipeline that many see as a direct rival to the EU's own [Nabucco] plans in the region."¹³³

Due to the complexity of the energy sector and the multitude of institutional and legal frameworks, bilateral approaches with Russia appear to be preferred by most European governments. German Chancellor Angela Merkel, as the first Western leader to personally congratulate Russian president-elect Dmitry Medvedev in Moscow (just six days following the Russian presidential elections on 2 March 2008), concisely declared, "Germany and Russia, Europe and Russia, are interdependent. We must find a way to go forward together. There are many things to do."¹³⁴ Although Europe and Russia maintain an interdependent energy relationship, political rhetoric can quickly revert to past tensions amid future worries. At the very same press conference with Chancellor Merkel, Putin expressed his deep concern over NATO: "You get the impression that attempts are being made to set up an organisation that would substitute for the UN... [If that occurred,] the potential for conflict would only increase."¹³⁵ In spite of significant economic advances, primarily via the energy sphere, Russia remains overtly concerned over the prospect of NATO's further enlargement in the post-Soviet space. Apparently neither an enhanced PCA with the EU, nor the EU-Russia Energy Dialogue, nor blockbuster bilateral energy deals with the larger countries of NATO Europe will quell Moscow's anxieties about NATO's potential enlargement on its various borders, above all with Ukraine. Moscow's critical reaction to the NATO enlargement process represents one of the major obstacles to Kyiv's accession to NATO, notably in the context of Russian-European energy relations.

¹³³ "Divide, rule or waffle," *The Economist*, 59-60.

¹³⁴ "'No Russian thaw under Medvedev'," *BBC News*, March 8, 2008, <http://news.bbc.co.uk/2/hi/europe/7285131.stm> (accessed March 8, 2008).

¹³⁵ *Ibid.*

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IV. UKRAINE'S NATO CANDIDACY

A. INTRODUCTION

Ukraine is an immense country by European standards. Its 603,700 square kilometers make it the largest European state.¹³⁶ In addition, its Black Sea coastline stretches nearly 3,000 km.¹³⁷ Hence, Ukraine represents a critical geostrategic state situated between NATO Europe and Russia. Russia had influenced and had often controlled Ukraine from the latter half of the 1600s to the breakup of the Soviet Union in 1991. Moscow helped to form the modern Ukrainian state through imperial acquisitions of lands from the Hapsburgs, Hungarians, Poles and Romanians.¹³⁸ As Sherman Garnett, an expert on Ukrainian security studies, aptly observed, "There is in fact an almost perfect correlation between a strong Russian state and Ukrainian statelessness."¹³⁹

Nevertheless, Ukraine has emerged from its "statelessness" into a state with a veritable national identity (though on occasion domestically divided) that must face a reemerging "strong Russian state." Since the dissolution of the Soviet Union, a confrontational relationship has persisted between Russia and Ukraine. Moreover, Ukraine's identity through self-rule has assuredly altered the relationship; Russia undoubtedly must encounter challenges in its strategy toward Ukraine, formerly a key part of Russia's protective layer. Evidently, a Russian invasion of Ukraine is in current circumstances politically improbable and militarily remote, given the weakness of

¹³⁶ "Background Note: Ukraine," *U.S. Department of State*, March 2008, <http://www.state.gov/r/pa/ei/bgn/3211.htm> (accessed May 5, 2008). Ukraine's ranking as the largest state in Europe is based on continental territory. If France's overseas departments and territories are included, France possesses the largest land area in terms of square kilometers. Russia is excluded from this reckoning because much of its territory is in Asia.

¹³⁷ "The 2008 World Factbook," *Central Intelligence Agency*, <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html#Geo> (accessed February 15, 2008).

¹³⁸ Sherman W. Garnett, *Keystone in the Arch: Ukraine in the Emerging Security Environment of Central and Eastern Europe* (Washington, DC: Carnegie Endowment for International Peace, 1997), 46.

¹³⁹ *Ibid.*

Russia's conventional military forces. Unlike Poland and the Baltic states, Ukraine cannot currently take cover from Russia under the protective umbrellas of NATO and the EU.¹⁴⁰

Having gone through political and social turmoil since the 1990s, Ukraine has moved to shed an authoritarian past and establish a fledgling, if teetering, democracy and quasi-free market economy. With its Orange Revolution that arose from controversial presidential elections in November 2004, Ukraine demonstrated its desire to look westward.¹⁴¹ At times Ukraine has seen its future in both NATO and the EU to protect democracy and promote economic prosperity.¹⁴² Ukraine's position nonetheless sometimes appears more aligned with that of its former sovereign. Tendencies to move closer to the West have not only fueled increased internal political and social tensions between pro-West and pro-Russian groups, but have also aggravated external tensions between Ukraine and Russia.

Given Russia's rising confidence encouraged by its oil and gas-fueled economic resurgence, NATO faces even greater political and diplomatic challenges with the prospect of enlargement in Russia's "sphere of influence," principally NATO aspirants Ukraine and Georgia. At the same time, many of NATO Europe's leading states have forged greater economic ties with Russia. As noted in Chapter III, French, German and Italian energy companies have all signed major bilateral energy deals with Gazprom since 2005.

B. NATO ENLARGEMENT

1. From Partnership for Peace to Membership

Initially following the collapse of the Soviet Union, NATO governments assumed that there would be no need to extend their collective defense organization in post-Cold

¹⁴⁰ Note: The Treaty on European Union does not include a collective defense pledge. The political solidarity of the EU, however, may be construed as constituting a sort of protective umbrella.

¹⁴¹ Fred Weir, "Ukraine's new bumpy path; Its embrace of democracy contrasts with Belarus, this week's elections show," *The Christian Science Monitor*, March 24, 2006, 6.

¹⁴² Yulia Tymoshenko, "Containing Russia," *Foreign Affairs* 86:3 (May/June 2007): 74.

War Europe. NATO persisted, however, due to several factors of human nature – “habit, inertia, uncertainty, prudence, and corporate interest” in addition to the persistent belief in the West that Russia might resume the role of the former “Soviet antagonist.”¹⁴³ In fact, “NATO is a living rather than fossilized security organization and capable of seeing that ‘deterrence’ and ‘defense’ will offer very limited protection against post-cold war security challenges...NATO membership was synonymous with being part of the west. Return to a ‘gray zone’ was synonymous with insecurity.” Hence, NATO also serves an internal and external security role. First, NATO prevents armed conflict among its members and rids Europe of balance-of-power politics.¹⁴⁴ Second, NATO ensures U.S. cooperation with Europe and averts a return to an isolationist policy.¹⁴⁵

In any case, NATO had not anticipated the magnitude of its future rounds of enlargement. In 1991 U.S. officials made statements implying that former Warsaw Pact member states in Central and Eastern Europe should neither anticipate NATO membership nor expect security guarantees.¹⁴⁶ For example, President George H. W. Bush stated in November 1991, “Let’s make them [Central-East European former Warsaw Pact states and former Soviet republics] know that we [the NATO Allies] have keen interest in their security and in their economic well-being. But I think it’s premature to go beyond that.”¹⁴⁷

NATO did profess, however, to support the development of democracy in these states. The very fact that NATO announced its willingness to support democratic advances signifies its transformation from a collective defense pact into a much broader political-military instrument with a greater *raison d’être* and an enhanced vision of European security. Furthermore, the end of the Cold War permitted NATO to set higher

¹⁴³ James Sherr, “Dual Enlargements,” 108.

¹⁴⁴ Ibid., 112.

¹⁴⁵ Ibid.

¹⁴⁶ Yost, *NATO Transformed*, 100.

¹⁴⁷ President George H. W. Bush, “The President’s News Conference in Rome, Italy,” November 8, 1991, *Weekly Compilation of Presidential Documents*, November 11, 1991, 1605, in Yost, *NATO Transformed*, 100.

requirements for entry into the Alliance.¹⁴⁸ Democratization goals have promoted a more cohesive Alliance, and NATO has undertaken new international security responsibilities within and beyond Europe.

Partnership for Peace (PfP) provided perhaps the greatest impetus in accelerating NATO's enlargement process. As noted in the introduction, in 1994 the North Atlantic Council established the PfP program to enhance political-military collaboration with non-NATO countries in the Euro-Atlantic region, which was defined as encompassing the territory of the states participating in the Conference on Security and Cooperation in Europe. Despite internal divisions, the Clinton Administration promoted a NATO enlargement agenda via the PfP program.¹⁴⁹

Though NATO enlargement was politically and strategically difficult for Russia to accept, NATO proceeded with two rounds of enlargement following the reunification of Germany. At the 1997 Madrid Summit, the Alliance invited the Czech Republic, Hungary, and Poland to join NATO; at the 2002 Prague Summit, the Alliance invited Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia to become members.¹⁵⁰ Inviting these Central and East European states to join the Alliance proved difficult for Russia to accept. The idea of Ukraine becoming a NATO member, however, may overstep Russia's capacity for tolerance of the NATO enlargement process.

2. Russia's Reaction to NATO Enlargement

Despite the Alliance's repeated assurances that NATO enlargement does not threaten Russia's security, Moscow has remained wary. In the 1990s Russia unquestionably perceived that NATO enlargement (or "expansion" and "encroachment" – terms that better describe Russia's views of NATO's policy) represented a military threat that might evoke a Russian military response.¹⁵¹ Russian President Boris Yeltsin

¹⁴⁸ Yost, *NATO Transformed*, 71-72.

¹⁴⁹ Yost, *NATO Transformed*, 102.

¹⁵⁰ The Czech Republic, Hungary, and Poland joined NATO in 1999. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia joined NATO in 2004.

¹⁵¹ Sherman W. Garnett, "Russia's Illusory Ambitions," *Foreign Affairs* 76:2 (March/April 1997): 68.

interpreted NATO enlargement as a negative development for peace and stability. Yeltsin declared, “Europe is in danger of plunging into a cold peace.”¹⁵² In fact, Yeltsin reportedly misunderstood U.S. Secretary of State Warren Christopher’s October 1993 presentation of PfP as a means to an end, rather than a stimulus for enlargement, in a greater Russian-European post-Cold War security architecture.¹⁵³

Critics who share Russia’s objections to NATO enlargement contend that Central and East European states have exaggerated the modern security risks of a resurgent Russia. These critics hold that historic troubles between these states and Russia should not translate into modern security trepidations.¹⁵⁴ It appears that these critics consider that Russia’s energy trade policies are intended to bring the country into the globalized free market economy and create sustainable growth and productive commercial relations with Europe rather than to pursue imperialistic objectives.

Indeed, Moscow has been the key architect in the establishment of several post-Cold War security organizations following the dissolution of the Soviet Union and the Warsaw Pact. Nevertheless, the Commonwealth of Independent States (CIS) has been unproductive and has not materialized into the political-military pact Moscow had envisioned as a competitor to NATO and the EU.¹⁵⁵ Moreover, Kyiv rejected the May 1992 Treaty on Collective Security, or Tashkent Treaty, which Moscow had initiated as a “regional security structure within the CIS.”¹⁵⁶ Moscow and Beijing took the lead in the creation of a new pact, the Shanghai Cooperation Organization (SCO), in June 2001. Lastly, in October 2002 Russia established the Collective Security Treaty Organization

¹⁵² Yeltsin quoted in Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Communist Russia* (New York, NY: W. W. Norton & Company, 2000), 104.

¹⁵³ Ronald D. Asmus, *Opening NATO’s Door: How the Alliance Remade Itself for a New Era* (New York, NY: Columbia University Press, 2002), 54. Asmus refers to a U.S. State Department report: “Secretary Christopher’s Meeting with President Yeltsin, 10/22/93, Moscow,” Secto 17027, October 25, 1993. See also Warren Christopher, *In the Stream of History: Shaping Foreign Policy for a New Era* (Palo Alto, CA: Stanford University Press, 1998), 93-94.

¹⁵⁴ “Cracks in the Foundations: NATO After the Bucharest Summit,” *Center for Security Studies, EHT Zurich, Analyses in Security Policy* 3:33 (May 2008): 2.

¹⁵⁵ Marcin Kaczmarek, “Russia Creates a New Security System to Replace the C.I.S.,” *EurasiaNet.org*, January 11, 2006, <http://www.eurasianet.org/departments/insight/articles/pp011106.shtml> (accessed March 25, 2008).

¹⁵⁶ *Ibid.*

(CSTO), which evolved from the Tashkent Treaty, as the new “security system in the post-Soviet space.”¹⁵⁷ The CSTO and the SCO are conceived as collective defense and security bodies that may rival NATO and the EU.¹⁵⁸

Ironically, Russia’s security concerns regarding an expanding NATO contrast with its own positive developments in cooperation with the Alliance. Along with 12 other former Soviet republics, Russia joined PfP in 1994.¹⁵⁹ On the one hand, Russia’s PfP membership demonstrated a progressive and potentially budding partnership between Moscow and NATO. On the other hand, Russia’s critics of PfP argued that Moscow’s status had been reduced to a level equal with that of its fellow former Soviet republics, once parts of its empire.¹⁶⁰

To demonstrate a commitment to improved relations with Russia, however, NATO concluded the 1997 NATO-Russia Founding Act on Mutual Relations, Cooperation and Security. At the 2002 Rome Summit, NATO and Russia decided to transform the Permanent Joint Council established by the Founding Act into a more ambitious institution called the NATO-Russia Council, “a mechanism for consultation, consensus-building, cooperation, joint decision and joint action, in which the individual NATO member states and Russia work as equal partners on a wide spectrum of security issues of common interest.”¹⁶¹

Though the NATO-Russia Council has evidently fostered more dialogue, Russia’s angst has become greater with the prospect of Ukraine’s NATO candidacy. Russians have questioned the coherence of the Alliance’s policies toward Russia. NATO professes an interest in genuine partnership with Russia yet strives to continue the enlargement

¹⁵⁷ Marcin Kaczmarski, “Russia Creates a New Security System.”

¹⁵⁸ The CSTO member states include Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan. The SCO includes China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan.

¹⁵⁹ All 15 former Soviet republics have joined NATO’s Partnership for Peace program. All but two joined in 1994; the exceptions are Belarus (1995) and Tajikistan (2002). See NATO’s website, “Signatures of Partnership for Peace Framework Document,” <http://www.nato.int/pfp/sig-cntr.htm> (accessed May 23, 2008).

¹⁶⁰ Dmitri Trenin, *The End of Eurasia: Russia on the Border Between Geopolitics and Globalization* (Washington, DC: Carnegie Endowment for International Peace, 2002), 273-274.

¹⁶¹ See NATO’s website for more details: “NATO-Russia Council,” <http://www.nato.int/issues/nrc/index.html> (accessed May 26, 2008).

process at the possible expense of its relationship with Moscow. Vladimir Putin voiced this concern in his speech at the Munich Conference on Security Policy in 2007:

[I]t is obvious that NATO expansion does not have any relation with the modernisation 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. And we have the right to ask: against whom is this expansion intended? And what happened to the assurances our western partners made after the dissolution of the Warsaw Pact?¹⁶²

In his speech, Putin further noted that Manfred Wörner, then the NATO Secretary General, declared in Brussels in May 1990: “The fact that we are ready not to deploy NATO troops beyond the territory of the Federal Republic [of Germany] gives the Soviet Union firm security guarantees.”¹⁶³ In Putin’s statement and many others, Russians have articulated a sense of having been betrayed or “double-crossed” by NATO.

Though the NATO Allies can certainly agree on the importance of pursuing positive relations with Russia, a divide persists on the future political and strategic orientation of Ukraine, a substantial part of the geographic divide between NATO and Russia. The United States and some of Ukraine’s neighbors, including the Czech Republic, Poland and Slovakia, favor a MAP for Ukraine. In contrast, West European NATO Allies, including France, Germany and the Netherlands, express caution in this regard. The NATO Allies which support Ukraine’s pursuit of Alliance membership concede nonetheless that this question cannot be considered without equally addressing the prospective membership of the Balkan states and Georgia.¹⁶⁴

¹⁶² President of Russia, “Speech and the Following Discussion at the Munich Conference on Security Policy,” 7.

¹⁶³ Ibid, 7. See NATO’s On-line library for the complete text of Manfred Wörner’s speech: Manfred Wörner, “The Atlantic Alliance and European Security in the 1990s,” (Bremer Tabaks Collegium, Brussels, Belgium, May 17, 1990) *North Atlantic Treaty Organization Speeches*, http://www.nato.int/docu/speech/1990/s900517a_e.htm (accessed May 29, 2008). This thesis reproduces Wörner’s exact words instead of the translation from Russian into English found on the website of the President of Russia.

¹⁶⁴ “Ukraine/NATO: Kiev’s bid to join presents dilemma, *OxResearch*, January 28, 2008, 1.

C. UKRAINE'S RAPPROCHEMENT TO NATO

As the Cold War drew to a close, ironically, the United States ineffectually sought to keep the Soviet Union intact to contain the potential for ethnic conflict and further economic decline in a volatile nuclear weapon state.¹⁶⁵ Speaking in Kyiv, Ukraine's capital, on 1 August 1991, U.S. President George H. W. Bush stated, "Yet freedom is not the same as independence. Americans will not support those who seek independence in order to replace a far-off tyranny with a local despotism. They will not aid those who promote a suicidal nationalism based upon ethnic hatred."¹⁶⁶ Rejecting the U.S. call for Soviet unity, Ukraine followed its nationalist momentum and declared independence just three weeks later on 24 August 1991.

Ukraine has made great advances in its relationship with NATO. It was the first former Soviet republic to join NATO's PfP.¹⁶⁷ Yet, Ukraine underscored its advances in cooperation with the Alliance with the establishment of the 1997 NATO-Ukraine Charter on a Distinctive Partnership, which created the NATO-Ukraine Commission.¹⁶⁸ In November 2002, the Commission further launched the NATO-Ukraine Action Plan to coordinate defense and economic reforms to close the gap on NATO-Ukraine integration.¹⁶⁹ The most significant development, and one to which NATO has given exceptional attention, has been Kyiv's military reform. Democratization has also served as a key element in the relationship.¹⁷⁰

Politically, Ukraine has sought to overcome the previous tendency for authoritarian governance since the Orange Revolution of late 2004. Russia has

¹⁶⁵ Yegor Gaidar, *Collapse of an Empire: Lessons for Modern Russia*, trans. Antonina W. Bouis (Washington, DC: Brookings Institution, 2007), 197.

¹⁶⁶ George H. W. Bush quoted in Gaidar, *Collapse of an Empire*, 197. See also George Bush and Brent Scowcroft, *A World Transformed* (New York, NY: Alfred A. Knopf, Inc., 1998), 515.

¹⁶⁷ See NATO's website, "Signatures of Partnership for Peace Framework Document," <http://www.nato.int/pfp/sig-cntr.htm> (accessed May 23, 2008).

¹⁶⁸ Grigoriy M. Perepelytsia, "NATO and Ukraine: At the crossroads," *NATO Review* 2 (Summer 2007), <http://www.nato.int/docu/review/2007/issue2/english/art2.html#> (accessed March 21, 2008).

¹⁶⁹ Ibid.

¹⁷⁰ James Sherr, "Ukraine: Reform in the Context of Flawed Democracy and Geopolitical Anxiety," *European Security* 14:1 (March 2005): 158.

continuously played an influential role in Ukrainian politics and sought to keep Ukraine in its sphere of influence and turned away from the West. Despite its ethnic diversity and political struggles, Ukraine has largely avoided violent internal conflict. Through President Yushchenko's Western-oriented policy, Ukraine has increased overtures to join Euro-Atlantic security institutions such as NATO and the European Union (EU), and has thus arrived on the verge of political autonomy from Russia. Though the current tandem of Orange Revolution leaders, President Viktor Yushchenko and Prime Minister Yulia Tymoshenko, has determinedly followed a pro-Western rapprochement policy, the majority of the population does not concur with the goal of NATO membership. With respect to Ukrainian accession to NATO, a 2000 poll conducted by a non-profit public organization, the Ukrainian Centre for Economic and Political Studies (UCEPS), found that "only 10.5 percent believe in NATO's desire to defend Ukraine, and only 37.5 percent believe that NATO would honor an article 5 commitment if Ukraine actually joined NATO."¹⁷¹ Post-Orange Revolution polls look even bleaker; these sources indicate that from less than half to as little as one quarter of Ukraine's population desires integration into NATO.¹⁷²

The individual political leaders' platforms have often further divided the country along nationalist lines. President Yushchenko has continually pushed for more cooperation with and from the Alliance, asking on 15 January 2008 for a Membership Action Plan (MAP) for Ukraine at the Bucharest Summit.¹⁷³ In contrast, his opponent in the Orange Revolution, Viktor Yanukovich, has remained a steadfast partner with Russia. In the March 2006 Ukrainian parliamentary elections Yanukovich and his political party made a startling comeback, and in August 2006 he regained critical power and credibility in the government. Yushchenko resignedly named Yanukovich prime minister under the stipulation that he would adhere to a Western-oriented agenda. As

¹⁷¹ Sherr, "Dual Enlargements," 116, from "National Security & Defence," *Ukrainian Center for Economic and Political Studies* 8, 2000, 15.

¹⁷² Sources vary in their recent reports. Oxford Analytica states "barely half [the Ukrainian population] support[s]" NATO membership while the CRS Report RL34415 claims less than one quarter wish to join NATO. See, respectively: "Ukraine/NATO: Kiev's bid to join presents dilemma," *OxResearch*, 1; and Woehrel, "Ukraine," 22.

¹⁷³ Woehrel, "Ukraine," 22.

prime minister, however, Yanukovych did not delay in reorienting Ukraine politically toward Russia, or more importantly, away from the West. In Brussels in September 2006 he gently but assuredly steered Ukraine away from pursuing NATO membership, informing NATO Secretary General Jaap de Hoop Scheffer that Ukraine would “have to take a pause...because of the political situation in Ukraine.”¹⁷⁴

Moreover, Ukraine may wish to present an image of neutrality in its policy decisions and economic ties with Russia and the Alliance (that is, Canada, NATO Europe, and the United States). In reality, however, Ukraine has engaged both sides in order to, first, pursue its own interests, and second, to defuse domestic tensions. In other words, by remaining a limited participant in the CIS and simply a privileged partner of NATO, Ukraine simultaneously calms the pro-West population in western Ukraine and the largely pro-Russian residents in eastern Ukraine.¹⁷⁵

Russia feared that if Ukraine acquired complete control of the Black Sea Fleet, NATO could prospectively use Sevastopol as a future base – an imaginable but unrealistic possibility and simply unacceptable to the Russians.¹⁷⁶ This last point has lingered in Russian minds as NATO’s enlargement process has included the Baltic states and several former Warsaw Pact countries. In view of the fact that Russia will likely maintain its Black Sea Fleet in Sevastopol until at least 2017, NATO may take a prudent path in moving toward Ukrainian membership while not disrupting its relations with Russia.

Ukraine has independently done its part to dampen tensions with Russia over its potential NATO membership. President Yushchenko has issued repeated assurances to Russian authorities that if Ukraine were to join NATO, it would not permit the Alliance to establish military bases on its territory.¹⁷⁷ In order to reduce tensions with Russia while maintaining diplomatic and economic relations, Ukraine must continue to exercise

¹⁷⁴ “Ukraine ‘not ready’ to join Nato,” *BBC News*, September 14, 2006, <http://news.bbc.co.uk/2/hi/europe/5345406.stm> (accessed March 24, 2008).

¹⁷⁵ D’Anieri, *Economic Interdependence*, 207.

¹⁷⁶ Sherr, “Russia-Ukraine Rapprochement?,” 38.

¹⁷⁷ “No NATO bases on Ukrainian soil – Yushchenko,” *Russian News and Information Agency Novosti*, March 27, 2008, <http://en.rian.ru/world/20080327/102397464.html> (accessed May 26, 2008).

restraint in its political rhetoric. This approach may also reassure NATO European member states which are reticent in their support for a MAP for Kyiv.

D. THE BUCHAREST SUMMIT AND UKRAINE'S PROSPECTIVE MEMBERSHIP

As noted in the introduction, Gazprom reduced natural gas supplies to Ukraine on 3 and 4 March 2008. This move proved timely for two reasons. First, Russia again demonstrated its ability to exploit Ukraine's gas dependence – barely two weeks after Gazprom and Ukraine had supposedly worked out a temporary gas deal. Moreover, the gas reductions tellingly commenced the day after Russia held its presidential elections, demonstrating that a change in the Kremlin from Vladimir Putin to Dmitry Medvedev would not alter Russia's foreign policies, including energy relations. Second, Gazprom's action reminded Europe just one month before NATO's April 2008 Bucharest Summit of the importance of Russia's geopolitical role as the principal supplier of European energy resources.

Leading up to the Bucharest Summit, MAP tensions circulated within trans-Atlantic diplomatic circles, as NATO European and Russian leaders revealed in their speeches and interviews. In an attempt to quell the discord between those states for MAP status for Ukraine and Georgia and those opposed to it, NATO Secretary General Jaap de Hoop Scheffer called for an innovative and extensive strategy to constructively enhance the Alliance's partnership with Russia.¹⁷⁸

Nevertheless, German Chancellor Angela Merkel publicly led the charge in opposition to MAP status for Ukraine and Georgia at the Bucharest Summit. In fact, she spoke directly about denying MAP status to these countries on 10 March 2008 in the presence of the NATO Secretary General. Evidently, much speculation has emerged as to whether this policy amounts to providing Russia with a "veto" and undermining

¹⁷⁸ "Ukraine Turns to Germany, France to Back NATO Bid," *Deutsche Welle*, March 18, 2008, <http://www.dw-world.de/dw/article/0,2144,3200273,00.html> (accessed March 18, 2008).

NATO's collective defense.¹⁷⁹ Exhibiting solidarity with Germany's argument, French Prime Minister François Fillon, upon arrival at the Summit, echoed Merkel's reservations: "We oppose Georgian and Ukrainian accession [to MAP status] because we believe that this is not the right answer in terms of balance of power in Europe and between Europe and Russia. We want to conduct a dialogue on this dossier with Russia. The President [Nicolas Sarkozy of France] will say these things in Bucharest."¹⁸⁰

Prior to the Bucharest Summit, even Luxembourg weighed in on the MAP debate. Jean Asselborn, Luxembourg's Deputy Prime Minister and Minister for Foreign Affairs and Immigration, said, "We have a new president in Russia and I think the European Union wants to put its ties with Russia on another footing. We have to take the interests of others, not only of NATO members, into account."¹⁸¹

Some NATO European states do not wish to upset growing economic relations, namely energy ties, with Russia. Certain states also continue to fret about the apparent relationship between NATO accession and subsequent EU membership. For example, France and the Netherlands did not support MAP decisions for Ukraine or Georgia at NATO's Bucharest Summit, openly voicing a concern that many European Union members reportedly share – that a MAP may lead to NATO membership, which in turn may provide Ukraine and Georgia a stepping stone to eventual European Union membership.¹⁸²

Russia also presented its case in the lead up to the NATO summit in Bucharest. Following his joint briefing with Merkel in Moscow on 8 March 2008, Putin candidly

¹⁷⁹ Vladimir Socor, "Chancellor Merkel's 'Alleingang' in Moscow Ahead of the NATO Summit," *Eurasia Daily Monitor* 5:53 (March 20, 2008). http://www.jamestown.org/edm/article.php?article_id=2372900 (accessed March 20, 2008).

¹⁸⁰ Vladimir Socor, "NATO Opens a Crisis Summit in Bucharest," *Eurasia Daily Monitor* 5:62 (April 2, 2008). http://www.jamestown.org/edm/article.php?article_id=2372882 (accessed May 25, 2008), from Agence France Presse, April 1, 2008.

¹⁸¹ "NATO's Eastern Expansion Plans Hit Roadblock," *Deutsche Welle*, March 10, 2008, <http://www.dw-world.de/dw/article/0,2144,3174763,00.html> (accessed May 25, 2008).

¹⁸² Vladimir Socor, "Extraneous Considerations Block Georgian and Ukrainian MAPs at the NATO Summit," *Eurasia Daily Monitor* 5:61 (April 1, 2008). http://www.jamestown.org/publications_details.php?volume_id=427&&issue_id=4440 (accessed May 26, 2008).

declared, “Regarding NATO, the Chancellor and I said today that the open-ended enlargement of a military-political bloc seems to us not only unnecessary, but also harmful and counterproductive.”¹⁸³ On 21 March 2008, in a rare interview with the Western media, Dmitry Medvedev, as Russia’s president-elect, told the *Financial Times* of London:

I would like to point out separately that we are not happy about the situation around Georgia and Ukraine. We consider that it is extremely troublesome for the existing structure of European security. I would like to say that no state can be pleased about having representatives of a military bloc to which it does not belong coming close to its borders. This is something that is even more difficult to explain when the vast majority of citizens of one of the states, for example of Ukraine, are categorically against joining Nato while the government of this state follows a different policy. So this is real democracy. At the very least in such situations it is usual to hold a referendum.¹⁸⁴

Unsurprisingly, Medvedev clearly voices a Russian foreign policy – opposing Ukraine’s political autonomy – that has persisted for centuries. On this issue, Russia has the paradoxical support of some of its key West European economic partners. Moreover, some West Europeans have declared that Medvedev must be given an opportunity to refresh relations between the Kremlin and Europe. Putin foreshadowed the direction of Russia’s foreign policy under the Medvedev regime: “I do not think our partners will have it easier with Medvedev.”¹⁸⁵ Putin, however, has expressed a desire to forge closer collaboration with NATO despite the disagreement over the possibility of MAP status for Ukraine and Georgia, as well as Kosovo’s independence and the U.S. missile defense plans in the Czech Republic and Poland. In fact, he attended the final day of the Bucharest Summit, 4 April 2008, to sign an agreement with the Alliance regarding NATO’s transit of Russian airspace to deliver logistical support to the International Security Assistance Force (ISAF) in Afghanistan. If the Alliance invited Ukraine to join

¹⁸³ Socor, “Chancellor Merkel’s ‘Alleingang.’”

¹⁸⁴ Dmitry Medvedev, President-elect of the Russian Federation, interview by Lionel Barber, Neil Buckley, and Catherine Belton, *Financial Times*, March 21, 2008, The Kremlin, Moscow, Russia. See the FT.com website: <http://www.ft.com/cms/s/0/f40629a8-f9ba-11dc-9b7c-000077b07658.html>.

¹⁸⁵ “No Russian thaw under Medvedev,” *BBC News*.

NATO, it could expect little or no Russian cooperation; and Moscow might withdraw the transit agreement in support of ISAF.

Despite the sharp divergences within the Alliance, along with Russia's adamant displeasure at even the most remote consideration of such NATO enlargement, NATO members did agree in principle at the Bucharest Summit to bring Ukraine and Georgia into the Alliance in the future. NATO affirmed in its Bucharest Summit Declaration:

NATO welcomes Ukraine's and Georgia's Euro-Atlantic aspirations for membership in NATO. We agreed today that these countries will become members of NATO. Both nations have made valuable contributions to Alliance operations. We welcome the democratic reforms in Ukraine and Georgia ... MAP is the next step for Ukraine and Georgia on their direct way to membership. Today we make clear that we support these countries' applications for MAP. Therefore we will now begin a period of intensive engagement with both at a high political level to address the questions still outstanding pertaining to their MAP applications. We have asked Foreign Ministers to make a first assessment of progress at their December 2008 meeting. Foreign Ministers have the authority to decide on the MAP applications of Ukraine and Georgia.¹⁸⁶

Berlin and Paris unsurprisingly led the opposition to MAP status for Ukraine and Georgia at the Bucharest Summit. Nevertheless, NATO's declaration certainly points to a policy of "not if, but when" for MAPs for Kyiv and Tbilisi. The lead-up to the December 2008 NATO Ministerials may once again provoke clamorous debate and potential tensions with Moscow.

E. CONCLUSION

Ukraine's natural gas dependency constitutes a critical factor impinging upon its autonomy and consequently leading to divisions with regard to NATO membership aspirations. Ukraine remains nationalistically fractured between western Ukraine, which is influenced by its cultural heritage and historic ties with Poland and Lithuania, and eastern Ukraine and Crimea, the regions where the population proudly maintains its Russian-speaking identity and heritage. Though a flawed presidential election in 2004

¹⁸⁶ "NATO Press Release (2008)049: Bucharest Summit Declaration – 3 April 2008," par. 23, <http://www.nato.int/docu/pr/2008/p08-049e.html> (accessed April 24, 2008).

receives credit for triggering the Orange Revolution, the country's national divide provided the impetus behind the demonstrations for greater democracy and an improved civil society.

For the foreseeable future, Ukraine will not realistically be able to reduce its natural gas dependency on Russia. Alternative sources must become available. Nevertheless, by appropriately paying off its energy debts to Russia and resisting the temptation of subsidized prices rather than responsibly moving to global market prices for natural gas, as well as striving for democratic and military reform, Ukraine will augment its economic choices and reduce political constraints due to energy dependency. Greater autonomy from Russia will logically make Ukraine a more appealing ally to West European NATO members. Nevertheless, NATO European member states' bilateral energy agreements with Russia may (a) in fact supersede any prospects for Alliance membership for Ukraine and (b) overwhelm economic ties between Brussels and Kyiv.

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V. CONCLUSION

A. AN AMALGAMATION OF “BUFFER” AND “ENERGY TRANSIT” STATE ROLES

NATO enlargement and the European Union’s growing dependence on external energy supplies controlled by Russia have simultaneously developed into crucial security issues in Europe. The emerging interaction between Alliance enlargement and energy policies may yet affect Ukraine’s future relationship with NATO as well as Russia and even determine which direction NATO takes regarding Ukraine’s candidacy for membership. As former U.S. National Security Adviser Zbigniew Brzezinski unequivocally declared in 1994: “It cannot be stressed enough that without Ukraine, Russia ceases to be an empire, but with Ukraine suborned and then subordinated, Russia automatically becomes an empire.”¹⁸⁷

Although Russia has formed productive partnerships with NATO and the EU, Moscow regards NATO enlargement along its borders as threatening. “Losing” Ukraine to NATO would be perceived by many Russians as a strategic and psychological defeat for Moscow, regardless of the potential for greater cooperation with the Alliance.

Russia has sought to exert influence in other former Soviet republics. In order to maintain a leadership role in its traditional sphere of influence in the post-Soviet space, Russia has helped to organize various post-Cold War international organizations, e.g., the Commonwealth of Independent States (CIS), the Collective Security Treaty Organization (CSTO), and the Shanghai Cooperation Organization (SCO). Though Russia has largely failed to gain Kyiv’s participation in these organizations, with the exception of the CIS, it has retained some geopolitical influence over Ukraine.

In essence, Ukraine has served as Russia’s buffer state with NATO Europe. The renowned British international relations scholar, Martin Wight, defined a buffer state as “a weak power between two or more stronger ones, maintained or even created with the

¹⁸⁷ Zbigniew Brzezinski, “The Premature Partnership,” *Foreign Affairs* 72:2 (March-April 1994): 80, in Asmus, *Opening NATO’s Door*, 156.

purpose of reducing conflict between them.”¹⁸⁸ Russia recognizes, however, that with a weak conventional military force in a globalized political and economic system, it cannot retain its traditional authority over Ukraine. Interestingly, while Russia appears to regard Ukraine as a traditional buffer state for security purposes, Moscow must also contend with the fact that Ukraine has been and remains a critically important transit state for energy trade. As Ukraine’s role as a buffer state might disappear if NATO invited Ukraine to join the Alliance, Russia has sought to reduce Ukraine’s functional importance as an energy transit state and has found some partners in this endeavor among the major states of NATO Europe.

Ukraine’s dependence on Russian energy, natural gas in particular, reduces its political weight in managing its relationship with Russia. Hence, Russia can exert greater leverage over Ukraine by concluding huge bilateral energy contracts with key NATO European member states while the European Union continues to flounder in search of a common energy policy. For its own security concerns and geopolitical influence, Russia wishes to prevent Ukraine’s entry into NATO. Moscow is evidently striving to maintain Ukraine as a buffer state while utilizing pipeline projects such as Nord Stream and South Stream to diminish Ukraine’s geostrategic energy status from that of a principal transit state to that of a secondary transit state. If Moscow can succeed in these aims, it will achieve its immediate political-military and economic goals, and may in the long term regain its great power status.

B. A FINE BALANCE BETWEEN PARTNERSHIPS AND A POWER VACUUM

On the eve of the April 2008 Bucharest Summit, Grigory Karasin, State Secretary of Russia’s Ministry of Foreign Affairs, cautioned: “Ukrainian movement toward [NATO] membership would trigger a deep crisis in Russia-Ukraine relations and would impact upon European security as a whole.”¹⁸⁹ Germany’s Foreign Minister, Frank-

¹⁸⁸ Martin Wight, *Power Politics* (New York, NY: Holmes & Meier Publishers, Inc., 1978), 160.

¹⁸⁹ Grigory Karasin quoted in Vladimir Socor, “NATO Opens a Crisis Summit in Bucharest,” *Eurasia Daily Monitor* 5:62 (April 2, 2008). http://www.jamestown.org/edm/article.php?article_id=2372882 (accessed May 25, 2008), from ITAR-TASS News Agency, April 1, 2008.

Walter Steinmeier, while visiting Yekaterinburg, a major Russian industrial city east of the Ural Mountains, expressed a similar point of view in May 2008: “I am convinced that there can be no security in Europe, in the entire Eurasian area, without – much less against – Russia.”¹⁹⁰ Moscow does in fact play a key role in the security of Europe, especially with regard to Ukraine. Putin has reportedly stated that if Kyiv were to join NATO, Ukraine would “cease to exist as a state.”¹⁹¹ Certainly, Moscow could exploit Ukraine’s east-west divide to create internal turmoil and could also support agitation for Crimea’s secession from Ukraine.¹⁹²

Conversely, improved energy ties between Russia and Ukraine could enhance Europe’s overall security situation. Many analysts argue that Russia imposes its will on Ukraine through the energy market. Chapter II concluded that though Russia’s control over supply and pricing may be used as leverage, Russia has economic as well as political incentives to increase prices and eliminate subsidies. This point has resonated even more in Moscow since Ukraine has joined the World Trade Organization (WTO) while Russia still awaits membership. Moreover, Central Asian suppliers plan to raise their gas prices in sales to Russia in conformity with world market rates in 2009.¹⁹³ The entire post-Soviet space is transitioning to market-based energy prices in great contrast to what these economies experienced for several decades under the Soviet centrally planned economic system.

Evidently, Russia has objectives beyond using its natural gas as a foreign policy tool against Ukraine. As discussed in Chapter III, Russia has focused on improving its economic performance. Vladimir Putin gladly assumed his role as prime minister in May 2008 to continue to shape the economy and implement his version of “state capitalism.”

¹⁹⁰ Frank-Walter Steinmeier quoted in Jackson Janes, “The Russian Challenge,” *American Institute for Contemporary German Studies*, May 16, 2008, <http://www.aicgs.org/analysis/at-issue/ai051608.aspx> (accessed May 17, 2008).

¹⁹¹ Vladimir Putin’s statement to President George W. Bush in April 2008, quoted in Vladimir Socor, “Moscow Questions Territorial Status Quo in the Crimea,” *Eurasia Daily Monitor* 5:92 (May 14, 2008). http://www.jamestown.org/edm/article.php?article_id=2373056 (accessed June 2, 2008).

¹⁹² Ibid.

¹⁹³ “Gazprom to buy Central Asian gas at ‘European prices,’” *International Herald Tribune*, March 11, 2008, <http://www.iht.com/articles/2008/03/11/business/gazprom.php> (accessed June 2, 2008), from *The Associated Press*.

If Russia succeeds in blocking Ukraine's entry into NATO through its energy partnerships with major NATO European powers, Russia will have achieved a "win-win" outcome.

C. A CALL FOR COOPERATIVE AND COMPLEMENTARY POLICIES

Ukraine depends profoundly on Russian energy and Russian gas pipelines from Turkmenistan for domestic consumption and an energy-intensive and heavy-industry-based economy. Ukraine's energy dilemma derives not only from turbulent relations with Russia but also from a disjointed energy policy and ineffectual domestic institutions.¹⁹⁴ Energy policy often consists of pushing energy traders' debt and energy waste losses onto the state budget. Thus, the state must forfeit funds that could otherwise be used to enhance, reform, and reorganize the country's infrastructure, services, and institutions.¹⁹⁵

As noted previously, the European Union lacks a cohesive and cooperative energy security policy. NATO's relationship with Russia shows a parallel lack of coherence. As Karl-Heinz Kamp, the research director of the NATO Defense College in Rome, has astutely observed: "There is no NATO policy toward Russia that is accepted by all members. Even on the continent, the positions of the East-Central Europeans differ markedly from those of their Western counterparts."¹⁹⁶ Nevertheless, as EU and Russian representatives prepare to meet in Siberia for a June 2008 summit to begin talks regarding a renewed EU-Russia strategic partnership, the prospects for a constructive dialogue appear optimistic. Moreover, Warsaw has proposed an "Eastern Partnership" to its EU partners to ensure that states between and along Russia's and the EU's periphery (Armenia, Azerbaijan, Georgia, Moldova, Ukraine, and in time, Belarus) concomitantly

¹⁹⁴ Balmaceda, "Management of Energy Dependency," 34.

¹⁹⁵ *Ibid.*, 13.

¹⁹⁶ Karl-Heinz Kamp, "Frozen Conflict: Moscow and the West agree on more than meets the eye," *Internationale Politik* 9 (Summer 2008): 30.

strengthen ties with the EU.¹⁹⁷ Poland's proposal calls for a cooperative approach that the EU and the Alliance should continue to strive for.

It is noteworthy in this regard that Pierre Noël, a researcher at the Electricity Policy Research Group (EPRG) at Cambridge University and the European Council on Foreign Relations, has suggested a cohesive policy for the European Union:

A European integrated and flexible gas market would make eastern Europe more secure, just as it would make the relationship between Gazprom and large utility importers in Germany, Italy or France less cosy. This is a better position from which to speak with one voice to Moscow.¹⁹⁸

Closer cooperation in the EU and NATO would thus be a straightforward and sound remedy to energy security and NATO enlargement tensions. Ultimately, greater cooperation among individual states as well as international institutions would better serve all parties in the greater European security architecture. Whatever decision NATO takes regarding Ukraine's possible membership in the Alliance, it should not allow extraneous interests, e.g., economic ties and energy policies, to override political-military objectives. An enhanced strategic relationship between NATO and Russia as vital partners should complement a common EU energy security policy regarding Russia and other suppliers. This would benefit the Alliance, the EU, Kyiv, and Moscow.

¹⁹⁷ "EU Ministers Agree to Work Toward Deal with Russia," *Deutsche Welle*, May 26, 2008, <http://www.dw-world.de/dw/article/0,2144,3360567,00.html> (accessed May 30, 2008).

¹⁹⁸ Pierre Noël, "Europe needs a single market for natural gas," *FT.com*, May 14, 2008, http://www.ft.com/cms/s/0/6faaed1e-21b1-11dd-a50a-000077b07658.dwp_uuid=70662e7c-3027-11da-ba9f-00000e2511c8.html?nclick_check=1 (accessed June 2, 2008).

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