

THE YEARLY ENERGY RITUAL THE 2009 ENERGY CRISIS BETWEEN RUSSIA AND UKRAINE

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Energy crises have become a regular feature of the relationship between Ukraine and Russia with far reaching effects on Russia's European customers. While the energy connections between Moscow and Kyiv go back all the way to the Soviet time when Ukraine was receiving its energy supplies for free from the Soviet system, the breakup of the USSR made Ukraine an independent country with an ever increasing energy bill. In the 1990s when the Kyiv regime was Kremlin-friendly the system of price reductions was kept in place. However, the moment Kyiv showed any sign of foreign policy freedom, the country was reminded where its energy came from. This strategy was first applied in the winter of 1992/1993, shortly after Leonid Kuchma had won the Ukrainian presidency on a platform based on national values. The energy was stopped for several days, allegedly for unpaid Ukrainian debts, interrupting the gas flow to Western Europe. The energy contracts and the debts were renegotiated and the Kuchma regime became much more close to the Kremlin.

The greatest crisis to date came in 2006, when, after the Orange revolution changed dramatically the orientation of the Ukrainian government towards the West, the Kremlin decided to renegotiate the price that Kyiv was paying for its gas increasing it to world values. The gas stopped for 4 days creating deep worries in the European circles that were relying more and more on Russian energy, of which 80% crossed the Ukrainian territory. The truce of 2006 was only temporary, new gas deals being signed in March 2008, when the Kremlin turned off the gas taps again in order to facilitate a favorable deal. However, this time the deal was meant to be renegotiated at the end of that year, a new crisis looming on the horizon of 2009. As predicted this crisis occurred, this time far more severe than ever before. The gas flow was perturbed for 18 days in the middle of a very harsh winter, creating Europe-wide outrage.

This paper will focus on the 2009 energy crisis, tracing the context and the events that marked the crisis. Secondly, the effects of these events will be analyzed for all the actors involved: Russia, Ukraine, as well as the European customers. Thirdly, the paper will test the possibility that this could be a Russian strategy in the making, a way for the Kremlin to keep under its influence reluctant partners in the near abroad. The main focus of the paper will be to underline the creation of this strategy by following the events and the consequences of the 2009 gas crisis.

The context

In November 2008 Russia and Ukraine started new negotiations on the price of the gas Kyiv was to import from Moscow. On December 24th, Russia called on European nations to pressure Ukraine to guarantee the delivery of Russian natural gas to the continent. The appeal, made by Energy Minister Sergei Shmatko, came as negotiators prepared to meet in Moscow in an attempt to resolve the politically tinged standoff. Russia and Ukraine had appeared close to a deal on a 2009 gas price for Ukraine on New Year's Eve, when talks broke down. Russia was arguing for a price of \$250 per 1,000 cubic meters of gas, while Ukraine wanted a price of \$201, up from \$179.50 in 2008. Since January 1st, Ukraine said it may be willing to pay \$235, but Gazprom now wanted \$450 while Kyiv began demanding an increase in the transit price of Gazprom gas towards Europe.

This new crisis came in a context of similar events that have many times disrupted the gas flow to Europe raising questions on energy security. In March 2008, Russia briefly reduced its supply of gas to Ukraine as a means to seal more quickly a gas deal for 2008's imports. However,

the gas crisis most present in European memory is the one in 2006 when for 4 days in January the gas cut to Europe severely disrupted the activity in many EU countries. However, in the case of this latest disagreement both the causes and the consequences could be more severe. This is due mostly to the context in which this new crisis occurred.

At the beginning of the dispute talks were mainly focused on Gazprom's demands that Ukraine pay more than \$600 million in late fees on overdue bills and a new gas price. Yet complicating the talks are charges of political motives by both sides. Ukrainian officials say the Kremlin is trying to weaken their pro-Western government, which is seeking NATO membership and backed Georgia in its August war against Russia. The Kremlin's relations with Ukraine have been strained since the 2004 street demonstrations known as the Orange Revolution, which resulted in a pro-Western government in the former Soviet republic that is seeking membership in NATO and the European Union. However, ties worsened in 2008 after Ukrainian President Viktor Yushchenko vocally backed Georgia in its August war with Russia. Putin later accused Ukraine of secretly supplying arms to Georgia before and soon after the fighting broke out. (Washington Post, January 8, 2009)

Politics have also contributed to Ukraine's unwillingness to back down. Yushchenko's popularity had severely plunged before the 2009 gas crisis. He was also locked in a feud with his former Orange Revolution ally, Prime Minister Yulia Tymoshenko. Each has accused the other of mishandling the gas dispute with Russia, and it is unclear who would have the final word over negotiations. Yushchenko and Tymoshenko issued a joint statement outlining a common bargaining position when the energy talks first collapsed in December, but Tymoshenko has said little in public about the gas dispute since, a sign that differences may remain. The most notable difference being the decision to eliminate the role of shadowy middleman company RosUkrEnergo in Ukraine's purchases of gas from Russia, which Tymoshenko has described as a vehicle of corruption for Yushchenko.

For both Russia and Ukraine the outcome of this dispute has consequences that go beyond just the gas price. In Russia's case, a regain in regional power is extremely important especially in front of Ukraine that is actively seeking to enter Western organizations such as the EU and NATO. In the context of the growing economic crisis within the country, a victory on the international level is crucial for the political support of the regime in Moscow. Moreover, as the oil price has been dropping constantly, gas revenues might end up representing the most important revenue for the Russian state. Similarly, Ukraine also sought a victory in this crisis as the country had been one of the most affected economies in Eurasia by the current economic downturn. Even with the loans offered by the international organizations such as IMF, Kyiv does not have the means to pay for the gas debt and it cannot afford a double fold increase of its gas price. Therefore both countries started this dispute knowing that the outcome is crucial for their economies.

How it happened

Russian gas monopoly OAO Gazprom cut off gas exports to Ukraine on January 1st after talks with Ukraine's Naftogaz Ukrainy failed to set a new gas price for 2009. Gazprom continued delivery of gas for downstream users in the EU, which gets about 80% of its Russian gas imports via Ukraine and depends on Russia for a quarter of its gas needs, but did not send the amount of gas Ukraine usually takes for its own consumption. Soon after this gas reduction, European countries signaled a drop in their contracted gas quantities, which in turn led to accusations from Moscow that Kyiv is stealing Europe-bound gas.

To this, Putin retaliated by ordering Gazprom chief executive Aleksei Miller to cut volumes of natural gas shipped through Ukraine towards Europe by amounts equivalent to those Moscow has accused Ukraine of stealing, expecting Kyiv to supplement this quantity by the amounts it took. The Gazprom chief executive said in a conversation with Prime Minister Putin broadcast on Russian state television that Gazprom would reduce exports bound for Western

Europe through Ukrainian pipes by the same amount that it accused Ukraine of diverting. Miller also said Gazprom would instead increase gas deliveries to Europe through Belarus and the Blue-Stream pipeline under the Black Sea. (Radio Free Europe, January 5, 2009)

In spite of these Russian efforts to supplement exports through alternative routes, on January 6th Bulgarian and Turkish authorities said that Russia had completely suspended their gas supplies. The Bulgarian Energy Ministry said that its gas supplies were suspended early Tuesday, including gas intended for transit to Turkey, Greece and Macedonia. Bulgaria gets the vast majority of its gas from Russia, and had only a few days of supply in reserve. The Turkish energy minister, Hilmi Guler, told reporters in Ankara that the Russian gas from a pipeline that transits Ukraine had been completely cut. But Turkey was seeking to increase deliveries of Russian gas via a Black Sea pipeline which links Russia and Turkey through the Black Sea, he said. In Prague, the Czech pipeline operator RWE Transgas said the flow of gas "delivered by the transit pipeline system through the Ukraine and Slovakia to the Czech republic and other EU countries has dropped significantly." It said it would increase purchases of Norwegian gas delivered via another pipeline. (New York Times, January 6, 2009)

A delegation from the European Union was to meet Ukrainian officials in Kyiv on January 6, and fact-finding talks were also planned between EU officials and Gazprom, though the venue had not yet been confirmed. European Commission President Jose Manuel Barroso said on January 5 he had appealed to Putin and Ukrainian Prime Minister Yulia Tymoshenko not to let their dispute affect Europe's gas supplies. "I hope that the matter will be resolved, as the reality is that if it is not then it may create problems for European countries who are not responsible for the situation," he said. (Radio Free Europe, January 6, 2009)

Russia's state-controlled gas export monopoly Gazprom fully suspended supplies of transit gas towards Ukraine on January 7, saying there was no longer any point delivering the gas because Kyiv had shut down the pipelines. On January 8, the two top gas executives from Russia and Ukraine held talks in Moscow, in the first face-to-face contact since their row began, but no immediate result emerged. (Radio Free Europe, January 8, 2009)

The European Commission sought to offer its assistance in the crisis. The offer to send observers was a measure of the desperation gripping the EU. Any observer mission in the former Soviet Union is fraught with complications, and it is only with great reluctance that the EU undertakes monitoring duties in any given dispute. Ferran Tarradellas, the European Commission's energy spokesman, said the EU was ready to do "whatever it takes" to ensure gas supplies resume, including manning the pipelines with its own monitors. The president of the European Commission, Jose Manuel Barroso, personally called Prime Ministers Vladimir Putin of Russia and Yulia Tymoshenko of Ukraine in order to solve the crisis. At a press conference in Prague, Barroso hinted at some of the difficulty the EU has had in dealing with the two sides.

The European Union's efforts to restore natural-gas supplies from Russia stumbled on Moscow's decision not to turn on the taps until its own experts were included in an international mission to monitor Ukraine's gas-transit system. Putin was dismissive of Ukraine's political leadership, describing it as corrupt and unable to make decisions. However, while Ukrainian officials signed an agreement on the 8th to accept monitoring of the country's gas-transit system by EU experts, they wouldn't accept Russian monitors. This made the Russian leadership to refuse any restart of the gas flow to Europe's disappointment.

The European efforts did bring about an agreement on January 12. Under the trilateral agreement, experts from the three parties were supposed to monitor transit operations at both Russian and Ukrainian facilities. The breakthrough began on Saturday, when the Czech prime minister, Mirek Topolánek, whose country was holding the rotating presidency of the European Union, met for hours of talks with the Russian Prime Minister outside Moscow and secured Russia's agreement. Mr. Topolánek then flew to Kyiv, Ukraine, late that night to meet with Ukrainian leaders. Early Sunday, the Ukrainian Prime Minister of Ukraine emerged from talks with Mr. Topolánek to say her country had signed the protocol.

The European Union showed growing frustration with Russia and Ukraine as efforts to restore the supply of Russian natural gas failed again, even after an agreement was signed by all parties. Moscow said it couldn't restart gas flow because of a Ukrainian declaration Sunday that it would tap Russia's EU-bound gas exports – and pay for it later – in order to pump those exports across its territory. Russia considers that to be theft. The declaration, issued alongside a signed agreement setting up a monitoring mission for Ukraine's pipeline system, also blamed Russia for the gas cutoff to the EU. (Wall Street Journal, January 12, 2009) The reason why this initial deal failed is because Russia did not offer Ukraine the kind of long-term deal enjoyed by its customers in Western Europe, which might settle the dispute for good.

In spite of growing frustration the European side showed great restraint in its declarations. Jose-Manuel Barroso stressed that he was not casting blame in the transit dispute. Other European leaders have also avoided placing the blame on a specific country. "I have no ambition to sort out Russian-Ukrainian relations right now. It was not established as my goal," Topolaneck, whose country took over the EU presidency on January 1st, said Saturday at the news conference with Putin. French President Nicolas Sarkozy called the dispute a "bilateral matter" at a joint news conference with German Chancellor Angela Merkel. Only Hungarian Prime Minister Ferenc Gyurcsany said that it was unacceptable for "the bullets that Ukraine and Russia shoot at each other to hit Hungary". (The Moscow Times, January 13)

In the end, on January 13 Russia started pumping transit gas destined for European consumers into Ukraine for the first time since a contract dispute left Europe short of fuel in freezing temperatures. Yet the agreement collapsed soon after. With EU monitors along the pipeline to make sure that Ukraine did not divert any gas for its own use, Russia agreed to resume shipments to Europe. But rather than repressuring the Ukrainian pipeline system for exports, Russia's gas monopoly, Gazprom, ordered a single test shipment to see if it would pass through Ukraine to Europe through a pipeline that was being used to supply the Ukrainian city of Odessa. Ukrainian authorities refused to open that particular pipeline, saying they did not want to cut supplies to the entire city of Odessa, and Russia again halted shipments. (Christian Science Monitor, January 13, 2009)

Ukrainian energy adviser Bohdan Sokolovsky said Russia deliberately shipped the gas along a technically arduous route that requires Ukraine to cut out domestic consumers before it can deliver gas to the Balkans. He said a gas entry point on the Russian border at Sudzha and a gas pumping station near the Romanian border where Gazprom wants its gas delivered are not linked by an export pipeline. Medvedev insisted that Russia deliberately chose Sudzha because it is an export pipeline with direct access to nations hit hard in the dispute, including Bulgaria, Romania and Turkey.

Moreover, in this context of mutual distrust, Aleksandr Medvedev, Gazprom's deputy chief executive, raised a new allegation, saying that Ukraine had been taking orders from Washington after the United States and Ukraine signed a partnership agreement in December that included a clause on energy cooperation. Medvedev did not explain why the United States would seek to disrupt relations, not to speak of the gas supply. In a statement, the United States Embassy in Moscow said that the allegation was "baseless." (Christian Science Monitor, January 13, 2009)

This new cut made two of the worst hit EU states, Bulgaria and Slovakia to send their Prime Ministers to Moscow and Kyiv on January 14 in a renewed attempt to reach an agreement. (Radio Free Europe, January 14, 2009) Moreover, Commission president Jose Manuel Barroso said he would advise EU energy companies to sue the two companies responsible unless Gazprom and Naftogaz moved fast to restore supplies. He said if agreements, sponsored by the European Union, are not observed "as a matter of urgency", he would advise energy companies that have deals with Gazprom and Naftogaz, to file lawsuits against them. (BBC, January 15, 2009)

On January 16, senior officials from Eastern Europe have gathered in the Ukrainian capital Kyiv for a meeting with President Viktor Yushchenko aimed at ending his country's gas

row with Russia. The talks, which brought together some of Moscow's toughest Eastern European critics, was organized with unusual speed and secrecy and announced just hours before it began. Participants include Polish President Lech Kaczynski, Lithuanian President Valdas Adamkus, Slovak President Ivan Gasparovic, and Moldovan Prime Minister Zinaida Greceanii, according to a Ukrainian statement. (Radio Free Europe, January 16, 2009)

On January 18, the prime ministers of Russia and Ukraine agreed to a resolution of their countries' gas dispute with an understanding that Ukraine will pay prices for Russian gas pegged to the price of oil, as is the practice in Western Europe. Under the agreement, however, Ukraine will pay a price substantially similar to what authorities in Kyiv had offered before the dispute escalated into a 12-day cutoff of heating fuel to large parts of Europe. The two parties agreed that Ukraine would buy gas from Russia at a 20 percent discount to prices paid by Gazprom's customers in Europe, which are expected to fall sharply this year. These customers, such as the German utility E.On or Gaz de France, are expected to pay an average of between \$260 and \$300 for 1,000 cubic meters of natural gas in 2009, according to estimates by Gazprom. Thus, under the agreement, Ukraine would pay between \$208 and \$240 for natural gas. (New York Times, January 18, 2009)

At the ceremony of signing the 10-year contract, Russian officials said gas would start flowing again soon across Ukraine to Europe, but the European Union said it would not consider the crisis over until its monitors register gas arriving at the bloc's borders. (Moscow Times, January 10, 2009)

Effects in Europe

In Austria, where about 60% of demand is met by Russian gas, the energy flow stopped on January 7. German energy groups E.On and Wingas were relying on gas stores and a transit route via Poland. Gas shipments to Europe via Ukraine were massively reduced since early on January 6.

In Turkey production at three power stations stopped on the 8th. Russian gas supplies from the western pipeline passing through Ukraine were cut on the 6th. The country has raised supplies of Russian gas delivered via a pipeline under the Black Sea. Gazprom's Blue Stream pipeline to Turkey was working at its full capacity of 45 million cubic meters. Also, Iran raised the amount of its daily supply volumes to Turkey to 18 million cubic meters from 12 million, following the partial cutoff of Russian gas.

Greece depends on 82% of its gas consumption on Russia. All Russian gas supplies via Ukraine to Greece were halted on January 6. Turkey's gas exports to Greece were below the contract level with low pressure on the pipeline. However, Greece, a latecomer to creating infrastructure to supply gas to households, was better placed to ride out the Russia-Ukraine gas crisis than some of its neighbors as the country continues to rely on oil for heating and power production. According to the Greek gas company Depa, natural gas accounts for about 20 percent of Greece's energy needs, with about 9 million cubic meters per day needed to cover domestic demand. About 5 million to 6 million cubic meters come from Russia, via Ukraine and then Moldova, Romania and Bulgaria.

In Italy, about 28% of the gas demand is met by Moscow. Although gas imports were substantially interrupted, Italy has tapped its gas reserves. France also suffered a 70% drop in shipments, but France does not rely on gas in the same way as Germany or Italy because 80 percent of its electricity is produced by nuclear power stations.

Hungary is about 60% dependent on Russia for its gas. For the duration of the crisis, E.On Ruhrgas was to supply Hungary with 2.5 million cubic meters of gas per day via a pipeline from Austria. Hungary's MOL and Germany's E.ON Ruhrgas were to export 4 million to 4.5 million cubic meters of gas via Hungary to Serbia and 1 million to 1.5 million cubic meters to Bosnia. The two were to make a joint shipment of 1 million cubic meters to Croatia via Austria.

Czech Republic's gas demand is 80% dependent on Russia. During the gas cut, the main transit pipeline from Russia to the Czech Republic and Western Europe was shut on January 7.

No customers have suffered any shortfall, said the dominant gas firm RWE Transgas, a unit of Germany's RWE. The firm said it had about 1.9 billion cubic meters of gas in storage, enough to supply Czech firms and households for several weeks unless the weather was extremely cold. There were no plans at present to reduce supply to industrial customers. Consumption is about 50 million cubic meters on an average winter day. The country imported around 17 million cubic meters per day from Norway and Russia via Germany, more than standard shipments coming through the link only from Norway. The Czech Republic will provide about 4 million cubic meters of gas per day to Slovakia. Slovakia said it would restart a nuclear power plant unit it shut down in 2008 because the cutoff of Russian gas supplies threatened to cause power blackouts. It will resume power production at the 440-megawatt unit of the Jaslovske Bohunice plant in less than six days, the country's prime minister said on January 10.

Other consequences of the crisis

As the most immediate consequence of the crisis one only needs to look at the 3.3% jump in US heating prices in the first days of the disruption, Europe expecting harder increases. Also, in a move that suggested the crisis may encourage EU states to reduce their reliance on Russian gas, Poland said it would press ahead with plans to build one or two nuclear power plants. (BBC, January 15, 2009) Slovakia also said it would reopen a nuclear power plant unit closed under its EU accession agreement. In the middle of the worse energy cuts in Europe, Bulgaria expressed a similar wish to rely more on nuclear power.

Also, the crisis deepened the political situation of Ukraine. The opposition parties in the Rada, the Ukrainian parliament, have repeated calls for the government's resignation and a start to impeachment proceedings against the president over a row with Russia that has left the country 13 days without gas supplies. Viktor Yanukovich, the leader of the Party of Regions, the main opposition party, proposed a debate on holding a vote of no confidence in the government for January 15 but no motion has been put on the agenda yet. The government of Yulia Tymoshenko has already survived such a vote when it was taken in July 2008. (Radio Free Europe, January 13, 2009)

A Russian energy strategy in the making

In the 2006 crisis, the entire European continent accused Russia of exerting the "energy weapon" on Ukraine for the mere fact that Kyiv has changed allegiances and that the new "Orange" government was seeking a European-centered foreign policy. In the past 3 years the Kremlin has shifted its strategy.

The Kremlin and Gazprom have learned the importance and tricks of PR. This time around, Moscow began an information offensive well in advance, way before it became clear that it was again on a collision course with Kyiv over gas prices. In November 2008, Moscow launched a well-orchestrated campaign to inform Europe about a possible collapse of gas talks with Ukraine. Gazprom and the Russian government provided daily updates of information on the status of talks over debt repayment, making it clear how this might affect the future of gas deliveries to and through Ukraine.

By December, when it became clear that Ukraine was likely to provoke a crisis by disrupting supplies to Europe, top Gazprom officials went on an offensive in Western media. Gazprom deputy head Aleksandr Medvedev, one of the country's best communicators, was dispatched to tour European capitals to deliver Gazprom and the Kremlin's side of the story.

Gazprom acted preemptively by inviting Britain-based SGS, a leading energy auditing company, to its gas pumping installations at the points of entry and exit from Ukraine, providing early documented proof of Ukraine's wrongdoing. Gazprom also wasted no time in filing a legal complaint with the Stockholm Arbitration Court against Ukraine's Naftogaz for breach of the gas transit contract.

During the 2009 crisis, emphasis on the commercial nature of the dispute was timely shifted to Ukraine's breach of contractual obligations as a transit country, including under the Protocol of the European Energy Charter to ensure uninterrupted Russian gas deliveries to Europe under any circumstances. Discussion of the need for alternative energy routes bypassing Ukraine, like the Nord Stream and South Stream pipelines, has been reinvigorated as more prominent European politicians endorsed the proposals.

It was also a big diplomatic coup for Russia to drag the EU into direct mediation and monitoring of Ukraine's fulfillment of its transit obligations. This immediately made Ukraine look like the chief culprit and forced Kyiv to come up with bizarre explanations that only reinforced the sense of Ukraine's culpability.

During this crisis, the Russian Prime Minister Vladimir Putin became the principal spokesman for the crisis. This had the immediate effect of drawing media attention to Russia's side of the story. President Dimitry Medvedev played the backstage role of someone who ultimately looks after the country's vital interests while delegating authority for hands-on crisis management.

The investment in sophisticated PR capabilities paid off. During "Ukrainian Gas Crisis - 2009", few Western newspapers and television programs described Russia as a bully wielding its "energy weapon" and trying to bring down a burgeoning Ukrainian democracy. (Moscow Times, January 13, 2009) The success of this strategy show up mainly in the European reaction. Instead of objecting to Russia's pipeline politics, Europe says it was a "commercial dispute [that] has to be solved by the two parties". (Wall Street Journal, January 18, 2009)

This view brings many problems to Europe's future. By viewing Moscow as the reliable partner, hindered only by a capricious Kyiv, may lead Europeans to believe that what they really need are more direct gas links to Russia. The chief options mooted are the Nord Stream pipeline across the Baltic Sea to Germany and the South Stream pipeline across the Black Sea to Bulgaria. Nord Stream, which is designed to circumvent Poland, Estonia, Latvia and Lithuania, is Moscow's energy version of dividing and conquering Central and Eastern Europe. As for South Stream, it has eroded EU's resolve to complete the Nabucco pipeline that would cross Turkey and the Balkans, routing Central Asian gas around Russia rather than through it. As the Europeans weigh these projects, the Kremlin has been striking deals with the very Central Asian countries that could supply Nabucco or other non-Russian pipelines. Diversifying Europe's gas sources is more important than varying the transit countries between the EU and Gazprom's fields.

Europe's energy security is also threatened by Gazprom's failure to invest adequately in its production capacity, which is widely forecast to begin falling next year. Natural gas prices are linked with oil prices, and the windfall of the past couple of years is coming to an end now that crude prices have fallen back to earth. The credit crunch, along with Russia's unpredictability for foreign investors, means money won't necessarily pour in from the outside as it did over the past decade. (Wall Street Journal)

Future pipelines and the crisis with Ukraine

Top Russian officials, including Prime Minister Vladimir Putin, have said the crisis proves that Europe should back two Russian gas pipeline projects – Nord Stream and South Stream – that would bypass Ukraine, running directly to the EU under the Baltic and Black seas. The EU has backed Nord Stream, saying it will enhance the Continent's energy security. But the project has faced stiff opposition in some quarters of the EU, which suspect the project is a ploy to free Russia's hand in using the gas tap to influence its ex-Communist neighbors. Construction of the pipeline's first phase was delayed from this year to 2010, after some EU countries requested more assessments of the project's environmental impact. (Wall Street Journal, January 12, 2009)

Putin said on January 2009 that construction of Nord Stream, scheduled to come online in 2011, would be a guarantee against supply disruptions in the future. "The current crisis confirms

that there is a need for a true diversification of the ways to deliver our energy resources to the main consumers in Europe," Putin said at a joint news conference with Czech Prime Minister Mirek Topolánek in Moscow. Putin also suggested building the less-advanced South Stream across the Black Sea and southern Europe and moving ahead with plans to liquefy gas – or chill it into a liquid – to ship by tankers worldwide.

Russia has gone to great lengths to defend its position in the dispute, and EU reactions are more muted this time than in January 2006, when the West accused Moscow of using energy as a weapon by cutting off gas supplies through Ukraine. "If Ukraine wants to be closer to the EU, it should not create any problems for gas to come to the EU," Barroso told a news conference in Prague, where he was meeting Czech officials who hold the rotating presidency of the 27-nation EU. (Moscow Times, January 12, 2009)

Conclusions

The general elections in February 2010 in Ukraine changed the much hated pro-Western Orange government with the pro-Russian leader of the Party of Regions, Viktor Yanukovich. The change in the Russian attitude was almost immediate. As Yanukovich is reversing many of the actions bringing Ukraine closer to the West and getting the country back in the good graces of the Kremlin, the energy sector also has followed this trend of changes. This makes future energy stand-offs such as those in 2006 and 2009 much less likely. However, in spite of excellent Russian-Ukrainian relations, Europe remains painfully aware of its dependency of Russian gas. Although the EU member states have set for themselves bold goals that would ensure quick diversification and greater security of their energy needs, there is little concrete progress to date. Each state is still acting unilaterally, first and foremost concerned about securing their own energy needs in a quick, reliable and cheap manner, often ignoring longer-term and political implications.

Russia under Putin's leadership has fully understood the power of energy monopoly and their continued hold over the European markets for the Kremlin's longer-term political, economic and strategic goals. With Russia acting as one and dealing with 27 countries on a bilateral basis, instead of under a single EU flag, Moscow has easily maneuvered itself into all the strategic energy projects and assets ranging from gas storage to electricity distribution. Over the last decade Russia has systematically moved to maintain, and when possible, increase, the level of European dependency by building new infrastructure projects on the one hand and preventing other major suppliers from the east such as Azerbaijan or the Central Asian countries to compete with Moscow in Europe. To this end projects such as Nord Stream and South Stream are strategically built in order to saturate the European market with gas ensuring the double goal of keeping a strong grip on a valuable source of revenue for the Russian economy and of eliminating alternative projects to Europe such as Nabucco. At the same time, Russia is forming the Gas Exporting Countries Forum – the infamous Gas OPEC – to bring together Algeria, Bolivia, Brunei, Egypt, Equatorial Guinea, Indonesia, Iran, Libya, Malaysia, Nigeria, Qatar, Trinidad and Tobago, the United Arab Emirates and Venezuela – Kazakhstan and Norway are observers – so all gas reaching European markets from the south would be controlled by Russia and its allies.

Russia may seem to be unstoppable on this path of increased consolidation, yet there are finally signs that more and more people within the EU member countries are uncomfortable to live with this tight bear hug. Russia's often aggressive actions in the international sphere are increasingly pushing the reluctant EU countries to come together to back alternative projects to Russian and Russian-controlled routes. The current economic crisis has slowed down many projects and provided new opportunities to reconsider them thus offering Europe a new chance at redesigning its energy strategy.

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