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Explaining Russian crisis-management:

Foreign Policy Analysis of Russian policies
in the 2006 and 2009 gas-crises with Ukraine



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Dedicated to the roses that grow from concrete

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CHAPTER 1 INTRODUCTION

Ukraine as a transit country is vital for Russian gas trade as three-quarters of Russian exports is transmitted through Ukrainian pipelines to several European consumer countries (Chyong, Noël and Reiner 2010). Ukraine is also the largest single importer of Russian gas. Both commercial and political disagreements finally resulted in a shutdown of Ukrainian gas supplies both in 2006 and 2009, and subsequently threatened the security-of-supply of several Central and West-European EU-countries further downstream (Stern et al. 2009).¹ The long-term spillover effects of the two conflicts are still in the making, but some effects have materialized. In 2005 an international consortium of five companies (Gazprom, Wintershall, E.ON Ruhrgas, N.V Nederlandse Gasunie and GDF Suez) was established in order to plan, construct and operate the two twin pipelines – dubbed Nord Stream – from Russia to Germany through the Baltic Seabed (Nord-stream.com no date).

The recent opening of the Nord Stream project, diversifying supply towards Germany and other major European consumers away from Ukrainian transit may seem related to the two crises in a long term perspective. The Nord Stream pipelines will supply 27, 5 billion cubic meters (bcm) of Russian gas to Germany, the UK, the Netherlands, France, Denmark and other European consumers in the first half of October 2011. A historical moment materializes when German consumers receive Russian gas directly without the assistance of a third-country. Furthermore, this historical pipeline project will be able to supply a volume of 55 bcm by the year 2013. Meanwhile, The Kremlin also recently announced that a shareholder agreement has been finalized between Russia, Germany, France and Italy regarding the South Stream project. The aim of South Stream is to supply Russian gas to Western Europe flowing under the Black Sea (Asia Times 2011). Both the Nord and South Stream project has one vital common denominator: It bypasses Ukraine and thus implicitly reduces its influence in the decades to come, while redrawing the European energy map to a large extent. With this being the recent and breaking news in the time of writing within the EU-Russo energy relations,

¹ The term “downstream” is common in the petroleum sector lingo, and refers to “(...) the refining of crude oil, and the selling and distribution of natural gas and products derived from crude oil. Such products include liquefied petroleum gas (LPG), gasoline or petrol, jet fuel, diesel oil, other fuel oils, asphalt and petroleum coke. The downstream sector includes oil refineries, petrochemical plants, petroleum product distribution, retail outlets and natural gas distribution companies” (IQPC no date). As opposed to downstream, “upstream” refers to the industry that “(...) finds and produces crude oil and natural gas. The upstream is sometimes known as the exploration and production (E&P) sector” (PSAC no date).

both projects and relations has an inherent and complex background and history. The Russo-Ukrainian gas rows in 2006 and 2009 belong within this perspective.

1.1 Research-problem and analytical framework

At its most general, I will in this project make a systematic attempt to explain the Russian actions and announcements (policy-means) during the events leading up to and within the gas-dispute with Ukraine (2006 and 2009). The systematic explanation incorporate the interaction between Russian motives (policy-goals – stated and not so publicly stated), driving forces (key actors/institutions), mechanisms (political processes), and structural framework conditions within and outside Russia, limiting or enhancing Russia's space for political action – the foreign policy latitude. Foreign policy is the states' pursuit and claim of interests on the international and global arena. Thus the study of foreign policy focuses on motivated actions within the scope of limited political latitude (Fermann 2010:25, 29-30).

The foreign policy latitude in an analytical sense is a function of internal and external *enabling* or *limiting* factors and structures. Furthermore, the available courses of action are considered in the light of the states' particular foreign policy goals and preferences, and thus may be understood as a function of *motivating* factors. In Foreign Policy Analysis one must strive to put oneself in the position of the decision-makers and their perceptions of both internal and external constraints and possibilities that in sum constitute the foreign policy latitude in a given occurrence. This is vital in order to illuminate and understand the total sum of course of actions the decision-makers perceived to possess prior to the balancing of interests that finally led to the foreign policy decision.

More specifically, a closely related research question will guide the design and execution of the comparative, diachronic case-study:

How did external and internal factors influence Russian policies, and what similarities and differences are to be found towards the management of the 2006/2009 gas rows both in terms of execution and causes?

Such formulated, the research question invites Foreign Policy Analysis (FPA) as a useful framework for analysis. Relevant theory from different levels of analysis and explanation will be applied as deductive guidelines for the gathering of data (choice of variables and corresponding data), the formulation of questions as to possible empirical relationships between variables, and interpretation of data (empirical analysis): (i) The state's external context (e.g.

distribution of power, division of labor in the global economy, international norms), and (ii) the internal environment (e.g. Russian interest-groups, commercial enterprises, political culture), as well as attributes of the externally oriented ministries, agencies, and decision-makers which will be operationalized.

A better understanding of the instrumental role of Russian energy policies as it surfaced during the Russian-Ukrainian gas-dispute of 2006 and 2009 is interesting both in itself, as well as for its implications, especially regarding Russia's broader relationship with the main consumer countries in the EU. As a point of departure, the study navigates from a comprehensive explanatory model (see Fig.1, p.17) of foreign policy-behavior (Fermann 2010) which accounts both for inside-out and outside-in perspectives (Gourevitch 1978).

The study is open to a wide range of theoretical specifications. In the present study, the scholarships of Kenneth Waltz (1979) and Andrew Moravcsik (1997) will be applied to inspire an *a priori* better understanding of the external and internal framework-conditions influencing the Russian government's policies and courses of action prior to and during the 2006 and 2009 gas crises. Moreover, one of Graham T. Allison's (1968) conceptual models for analyzing foreign policy decision-making processes – the bureaucratic politics model (BPM) – will be applied as it continues to provide insights into the workings of government in Foreign Policy-making.

1.2 Sources of information

Reliable sources and information is of utmost importance in order to make a sound analysis of the two gas rows, but also to frame the point of departure for both theoretical and empirical approaches for the study at hand. Related to the information gathering and foreign policy analysis itself, Trenin and Lo (2005:7) reminds us that “Policy studies cannot be an exact science, if only because social life is so much more complex and less predictable than nature”. They also emphasize another vital aspect with substantial validity regarding Foreign Policy Analysis and decision-making: It “(...) is a highly intricate and messy process that involves many subjective and even random elements alongside more rational and comprehensible considerations”.

The Russo-Ukrainian gas crises under scrutiny also have a recent time frame. The gathering of information is consequently limited by this fact. With a more distant time frame the information gathering could have benefited from more extensive historical material related to

the cases per se. In total it is fairly evident that this leads to a situation where the information gathering and the subsequent range of sources are not ideal. However, this is regarded as rather typical for data intensive studies of sensitive occurrences that have occurred within a recent time frame.

The “holistic” approach of FPA invites a data-intensive research strategy; information on a host of variables is relevant, from several levels of analysis and explanation. Of course, I will have to make a selection of promising explanatory variables from both the external and internal environments of the decision-making state, as well as from attributes of the foreign policy-making apparatus itself. This based on both theoretical and empirical reasoning, granted that time and space for research and writing is limited to the scope of a master thesis.

By employing the historical method for the critical interpretation of empirical sources in this case study, the Rankean ideal of *Quellenkritik* is vital to provide a solid foundation for processing and analyzing the data. Here the distinction between primary and secondary sources is crucial. The former is direct outcomes of the experience or events of history. Included in this category are interviews and oral histories, original documents, diplomatic reports and white papers. The latter are those sources that are removed from the actual events such as newspaper article based on eyewitness accords or statistics summaries of importance (Moses & Knutsen 2007:120-121).

Secondary sources and their general distance to the actual events make primary sources the desired option in order to accurately describe and comprehend occurrences. Secondary sources also play a vital role in order to unveil background information, to provide a broad overview on the subject at hand and the order of events. It is essential to crosscheck the secondary sources with primary information when possible in order to aim at the Rankean ideal of proper source criticism. The data will be gathered from official documents (e.g. President of Russia 2008) and statements from government and affiliated companies (e.g. Komlev 2010), the scholarly literature (e.g. Romanova 2009, Pirani 2009, Godzimirski 2009, Stern et al. 2009 & Stern 2006), comprehensive statistics (e.g. BP 2011, IEA 2009), interviews, printed and digital media. Relevant information is also offered through relevant subjects at NTNU and through my academic spring semester in St. Petersburg 2011.

1.3 Processing of data and methodological clarifications

The philosophy of science can be viewed as a triad, in which the parts of the whole consist of methodology, ontology (the study of being) and epistemology (the study of knowledge). Ontology's core question is what the world is really made of, the very building blocks of existence itself. The basic and core question of "epistemology" is the determination of what knowledge really is. "Methodology" refers to the different ways in which we acquire knowledge i.e. "How do we know?", while the more specific term "method" may refer to the specific techniques of gathering and analysis of data conducted within an academic discipline (Moses & Knutsen 2007:5).

Different social scientists from various disciplines have different approaches in their perception of how the real world actually is and thus how they should study it. Therefore standard methods are often utilized in several ways by social scientists originating from different methodological perspectives. In the social sciences there are primarily two dominating methodological traditions: naturalism (positivism) and constructivism (hermeneutics). The naturalist science assumes that there is a Real World that is disengaged from our experience of it. By recording our experiences and through thoughts and observations, scientists can gain access to this Real World and discover its regularities and patterns. It is thus through this naturalist methodology we can both discover and explain the patterns of nature (Moses & Knutsen 2007:8).

Derived from the central ontological and epistemological beliefs in the naturalist methodology are the two fundamentals logic and reasoning, which must be supported by direct experience in order to rely on the production of knowledge. When the ontological perspective of an objective Real World is present in the naturalist world view, systematic observations of phenomenon make way for the epistemological reliance that knowledge of the laws of nature are gained through the identification of associations. The implication of this fundamental position is that science's function is ultimately to discover the Real World's regularities and recapitulate them as natural laws. Through the accumulation of true correlations, this also implies that the empirical epistemology is cumulative due to increased growth of accurate theories (Moses & Knutsen 2007:50). Based on this ontological and epistemological view, the method most suitable for acquiring true knowledge is the experimental method because of its inherent control and systemized arrangement of causal and temporal relationships of variables. Among positivists there are sharp distinctions of methodological approaches that

constitute a methodological hierarchy. Following the ideal experimental method is the statistical method which tries to emulate the experimental methodology. The last resort for positivists and at the bottom of this methodological hierarchy is the case study method (Moses & Knutsen 2007:51-52).

For social scientists in the opposite paradigm, constructivism (among other denominations also known as hermeneutics), the role of the observer and society in creating the patterns they study is the most important. Instead of uncovering the Real World, hermeneutic perspectives seek to capture and empathetically understand the meaning of a social action performed by an agent (Bryman 2004). Constructivists emphasize that perceptions and ideas have different meanings to different people. Factors such as age, gender, race, culture and language are among other factors elements that can create or cover up certain perceptions of the world. Thus the acknowledgement of the individual influence makes the attempt to capture the Real World in law-like terms complicated, and even futile. Experience and reason are treasured by positivists and constructivists alike, but the latter emphasize that both can be heavily influenced by contextual factors – thus questioning both traits as fundamentals for being objective elements of truth.

The notion that the world has repetitions and regularities is generally accepted by constructivists. The most distinctive difference from the positivist perspective is that these regularities are socially constructed – even when the world seems to us as an objective fact. Hermeneutic approaches are often utilized in order to encourage new interpretations. A hermeneutic understanding is according to Moses and Knutsen (2007:240) possible “by juxtaposing the particular with the general, the local with the distant”. The comparative perspective is often inherent in hermeneutic approaches, but “the contrast between particular events and general norms helps us to understand the event as something more than just particular, or local” (Moses & Knutsen 2007:240). The constructivist paradigm in general is not so inclined to create a distinct methodological hierarchy as in the positivist tradition, but case studies and comparative analysis are often preferred because of the emphasis on nearness to data and context that is preferable in order to gain insight.

The research problem in this thesis begs for a case study and a qualitative, interpretive approach. But the thesis also makes use of terminology originating from the positivist approach to social science, in that I derive hypotheses from theory to ensure stringency in the

application of theory, and find it useful – for the benefit of validity – to operationalize the variables involved in the clearest possible manner. Indeed, clarity in terminology and theory-application should not be virtues belonging to a particular epistemological position in social science. However, it should be emphasized that the deduction of hypotheses in this thesis does not imply any application of test-methodologies for the scientific control of third-variables. This is not applicable to the case study design which relies on the context-rich interpretation of data.

The qualitative, interpretive approach to empirical analysis is vital in order to describe the process and motive behind Russian policies during the two gas rows – considering the thesis ultimate aim as an explanatory project. The case study approach can be conducted methodologically in different forms. Its core aim and function may be summarized and defined as “(...) the detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalizable to other events” (George & Bennett 2005:5). This project is also comparative in a limited sense (the two gas-dispute crises of 2006 and 2009). This again implies that the study does not fulfill the requirements for comparative control for third-variables (Bryman 2004).

Selection bias is also a common problem with the application of a comparative case study. According to George & Bennett (2005:23) selection biases may occur “when cases or subjects are self-selected or when the researcher unwittingly selects cases that represent a truncated sample along the dependent variable of the relevant population of cases”. This in turn reduces the comparative case method’s ability to generalize about the nature of the Real World (Moses & Knutsen 2007). But researchers often deliberately select cases that have a common denominator: They share a specific outcome. In this case specifically the eventual outcome of the two gas rows in 2006 and 2009 resulted in a shut-down of Russian gas exports. Thus “cases selected on the dependent variable (...) can help identify which variables are not necessary or sufficient conditions for the selected outcome” (George & Bennett 2005:23). Despite its methodological limitations, the qualitative, comparative case study is likely to produce more credible analysis and conclusions than what is within the grasp of a single case-study – everything else being equal.

Empirical studies, both within the realm of positivism and the domain of hermeneutic epistemologies benefit from being theoretically informed. This begs for the deductive

utilization of theoretical insights. Hence, my research will focus on building the “deductive bridge” from the theoretical to the empirical universe as illustrated in table 1, with a sharp eye as to how the scope of the task can be limited so as to preserve explanatory power while increasing parsimony.

1.4 Specification of the practical design

In an effort to specify the practical design of the study even more, the following basic division of labor between the chapters of the thesis will apply:

Chapter 2 will outline the analytical framework of the thesis, and aim to clarify the “deductive bridge” (p.35) from the theoretical to the empirical universe. This will be drawn by empirically mapping the two crises and reasoning how the independent and the explanatory variables are to be understood (operationalized/measured) in this particular study – all in the service of systematization and accuracy of scientific language, including the clarification of key concepts; the presentation of theoretical approaches, including their scope, levels of analysis, lines of reasoning (connecting mechanisms), and empirical foci (variables). The heuristic devise of deducing hypotheses (although my comparative case-study does not allow for any comparative control for so-called third-variables) will also be utilized as a guide towards the empirical mapping and to increase parsimony.

In Chapter 3, I will map the dependent variable based on the above operationalization of what is to be explained (Russian policies during the two crises). The result of the documentary work (information gathering) will also be presented prior to the mapping of the explanatory variables. Furthermore, I will map the independent variables. The more substantial effort of documenting the explanatory variables is done here for the two cases – thus finalizing the task of establishing a factual basis for the empirical analysis to come.

The mapping of both the dependent variable and the explanatory variables make headway for the empirical analysis in Chapter 4. The possible relationship between each one of the explanatory variables and the dependent variable is first discussed separately. Subsequent to this the comprehensive and comparative analyses are executed, allowing me to discuss similarities and differences both in occurrence and explanation across cases. The discussion draws heavily upon the empirical documentation in chapters 3 and 4. However, the substantial analysis will also be supported by the application of the theoretical and conceptual insights presented in Chapter 2.

Following the empirical analysis and the cross comparison among the two cases is the concluding chapter 5 of the thesis. This chapter will recapitulate the research-question, the design and main findings of the study. In addition to this, I will sketch out some implications from the empirical findings for research on Russian energy policy-making

CHAPTER 2 WHAT CAN BE DEDUCED FROM POLITICAL THEORY ABOUT RUSSIAN GAS POLICIES?

The Russo-Ukrainian gas crises were complex occurrences with profound effects on several levels, with mutual influence ranging from the arena of international politics to the domestic environment that affected the factual outcomes. The comprehensive model of foreign policy decision-making (p.17) will outline the theoretical foundation for analyzing the formulation and execution of Russian policies during the crises. The theoretical foundations on several levels that make headway for the empirical analysis enable the project to view the crises from both the external and domestic environment in order to comprehend Russian management and influences.

Political theory in general contain several and different perspectives on how foreign policy and international relations are conducted, emphasizing various elements such as structural explanations both inside and outside the state and systemic factors. If there is no disagreement or conflict in the international sphere, either latent or actual, on what the role of public power should be generated to accomplish or fulfill, “then the state or the network become wholes, responding in a collective way to external stimulants. The analysis of foreign policy is then “(...) reducible to the examination of the international system” (Gourevitch 1978: 904). There also may be different sources of conflict *within* the state concerning the formulation and execution of public policy. According to Gourevitch (1978:904) “then the consequences of having a particular type of state must be linked with the political struggle for one or another policy option. If there is little or no conflict over policy, that too requires explanation.”

2.1 Point of departure: A comprehensive take on Russian Foreign Policy-making

Proceeding further with the outlining of the theoretical foundations applied in this thesis, a point of departure for a comprehensive take on Russian Foreign Policy-making is summed up in figure 1.:

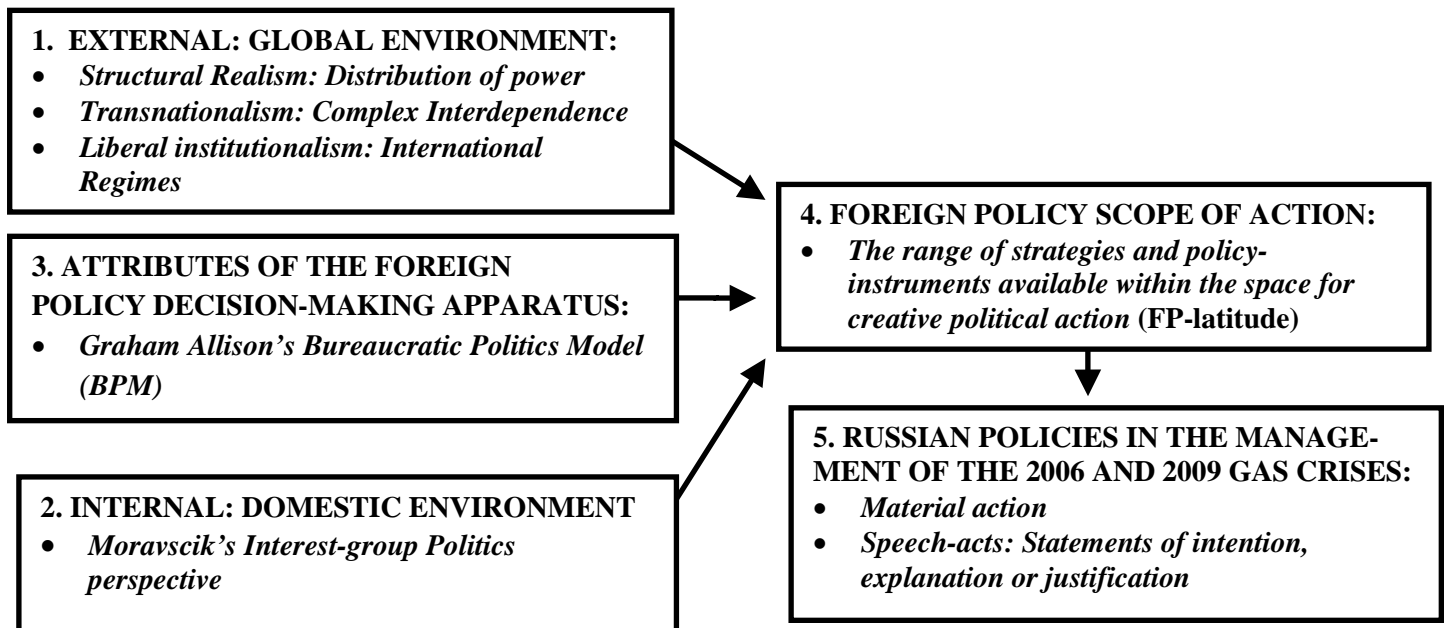


Figure 1.: *Scope of foreign policy action and actual foreign policy as a function of attributes of the foreign policy-making apparatus of the state, and external and internal influences (following Fermann (2010), with thesis-specific applications)*

Hence, several theoretical perspectives are drawn upon to provide a qualified explanation of Russian management and policies of the two occurrences in 2006 and 2009. The model indicates theoretical perspectives operating on different levels of analysis with possible implications for Russian policy-making, which will be reviewed in subsequent subchapters with firm basis in their chronological level of application. Having an outside-in perspective on international politics and nation states behavior, structural realists (and their main proponent Kenneth Waltz) emphasize the structural feature of states capabilities and power as the main explanatory factor of occurrences in international politics. Though conceding that domestic factors may play a role in states behavior on the international stage, they argue that internal factors must give way for the logic of power struggle arising from the predominant anarchical

structure of international politics. On the same global level, liberal institutional theory and complex interdependence is utilized. Although belonging within the same generic rationalist paradigm, the two latter theoretic approaches provide a complementary theoretical framework – grasping the role of not only states, but also institutions and transnational interdependence among states.

From an inside-out perspective, the internal, social domestic politics level is reviewed with Moravscik's (1997) societal liberalism and the politics of interest groups. Moravscik's (1997) liberal theory was originally designed to explain attributes of international interaction (International Relations), but can just as well be applied to explain the foreign policies of a state. Additionally, Moravscik's emphasis on how interest groups and societal actors influence International Relations through foreign policies seems tailor-made for my particular purpose. Also resident on the domestic level and within the inside-out perspective is the characteristics of the power games of internal politics. This is found within the state apparatus' foreign policy oriented governmental administrations, based in the theoretical foundation provided by Allison's (1968) BPM model and its respective implications for Russian policy making. Each subsequent subchapter will deduce empirical propositions (hypotheses) from the different theoretical bodies of thought. We will start with elaborating on the external approaches to explaining foreign policy-making.

2.2 Theorizing the global environment of foreign policy-making

2.2.1 Structural realism and the anarchical world order: Implications for Russian policy-making

Structural realism theory has its theoretical platform rooted in materialism and individualism. The theory of structural realism emphasizes the anarchical international structure that leads to the logic of self-help in which states seek to maximize their security. Kenneth Waltz's *Theory of International Politics* (1979) can be seen as the most important contribution in the making of the structural realism theory. According to Waltz (1979:79) in order to distinguish international-political systems from other international systems, and further separate system-level forces from forces on the unit-level one has to fulfill a certain requirement, namely: "showing how political structures are generated and how they affect, and are affected by, the

units of the system”. Waltz argues further that a system has an inherent structure which in turn consists of interacting units, namely states. But the relations among the states and how they are positioned or arranged is not a marked characteristic of the units. The positioning and relations among states are a characteristic of the system. The structure thus must be defined by the arrangement of the parts of the system and by the principle of this arrangement. This implies the omission of factors such as tradition and culture, analysis of political actors’ personalities, the conflictive nature of political processes and the making and further execution of policy. Waltz implicitly stresses that these factors is important, but they are left out of consideration because one wants to examine the dynamic of the expected effects of structure on process and vice versa. This notion of the parts (states) interaction that constitutes the system is evident in Waltz’ (1979:88) precise notion of the states functional equality: “Formally, each is the equal of all the others. None is entitled to command; none is required to obey. International systems are decentralized and anarchic”. Waltz (1979:89) further characterize the most prominent feature of international politics as “(...) the lack of order and of organization”. Structural realism is concerned with how states behavior is shaped in the structure of the international system. The theory is committed to the state as the only legitimate actor in the world of international relations, and presumes that the state has predisposed and fixed interests.

The main interest of states is according to Waltz survival. Beyond this ultimate motive, states may seek different strategies and aims – ranging from world domination to being isolated. But regarding the *gravitas* of survival for any entity in the system, Waltz (1979:89) argues implacably: “Survival is the prerequisite to achieving any goals that states may have, other than the goal of promoting their own disappearance as political entities”. The “statism” in structural realistic theory is a basic feature, and means that the state has supreme authority to make and enforce laws within its sovereign and territorial space to ensure the security for the citizens. Only then can civil society begin to evolve. Therefore international theory of realism operates with the assumption that the security problem domestically is solved. Within the state the system of law, police protection and prisons ensures this domestic security for the citizens. But in the realm of international relations there is a lack of a supervising authority. The state can therefore be viewed as a fixed entity, a closed “black box”, that relates to other entities/states in the international system based on it’s given capabilities and amount of total power. In the words of Waltz (1979:99) “We do not ask whether states are revolutionary or

legitimate, authoritarian or democratic, ideological or pragmatic. We abstract from every attribute of states except their capabilities”. In materialistic terms the anarchical structure constrains the units/states behavior by capabilities and factors such as military resources, economic strength, technology and geography (Barnett 2005).

Waltz sees the anarchical structure of the international system as the main element for the determination of states behavior and how they interact with each other. This anarchy structure implies that there is no central authority to enforce rules, regulations and norms to protect the interest of the global community as a whole. According to Waltz all states are functionally similar and rational entities. The states experience the same constraints given by this anarchical system and strive to maintain their position within this structure. For Waltz and the structural realists the difference among states is the distribution of *power* and the states *capabilities*. Structural realist’s share the same view as classic realist’s on the concept of power. Power is something exercised in relation to other entities, and it is also measured in relation to what amount of power other states possess. A state’s capabilities could be economic resources, technology and military power. Structural realists believe that these elements of capabilities combined create the total amount of a state’s actual power, and that this amount of power positions a state in the world of anarchical order – bluntly put by Waltz (1979:97) as “States are differently placed by their power”. The total amount of power and positioning further shapes the state’s behavior. And within this structure states with greater power and capabilities tend to have greater influence in the power struggle of international relations (Dunne & Schmidt 2005)

Within Waltz (1979) structural perspective on the global environment and the external factors that may have influenced Russian policies during the two crises – following hypotheses will be put forward for this level of analysis:

H1: Russian policy actions were motivated by the urge to increase Russian influence and control over its downstream gas-flow to Europe.

H2: Russian policy actions were restricted by the broader relationship with her main trade-partners in the EU and their long term concerns about security of supply.

Within the structural perspective on the global environment and its implications for Russian policy-making during the two crises, I will examine the variables *Russian Downstream*

Control (X1) and *EU Energy Security Concerns* (X2) along dimensions such as power balance and control over energy as a strategic resource and source of income between the involved and affected actors: The EU, Ukraine and Russia. X1 is regarded as a motivating condition for Russian policy actions, while X2 is considered as a limiting framework condition. Thus the search and use of empirical material will be utilized as a compass in order to look for the differences in capabilities such as economy and resources to provide a detailed overview of the power balance between the actors. The empirical material will be found in comprehensive statistics, academic books and journals and newsletters from the expert community of scholars on energy. It is thus possible to draw an inference between the economy and resources as capabilities and their influence on the power balance between the actors – being possible determinants for the course of political action during the crises.

2.2.2 Liberalism - trans-boundary complex interdependence and the need for international regulatory regimes: Implications for Russian policy-making

Moving further in the theoretical landscape of international relations, two other systemic theories will be outlined: Keohane and Nye's (2001) Complex Interdependence theory and Liberal Institutional theory. In the words of Moravcsik (1996:9) the "Institutionalists maintain that they can achieve some pareto-improving improvement by institutionalizing their environment". As Moravcsik further notes, both Waltz and Keohane acknowledge that domestic factors do influence foreign policy, but that they are strictly subordinated to systemic factors. But the interaction between countries lies within the domestic and political arrangements of each country interacting with one another, where preferences are being carved out among different actors across the political spectrum. Moravcsik (1996:17) straightforward argument is thus that "the projection of the units into the world blends with their character inside".

Complex Interdependence and transnationalism represented a "third wave" of liberal institutional scholarship, initiated in the 1970's. The adherents to Complex Interdependence theory emphasized a changing world into a more pluralistic view of actors and heightened dependency among them. These theorists envisioned a world based upon four characteristics: Increased relationship between state and non-state actors, the withering away of the classification of high vs. low politics, acknowledgement of several interaction channels

between the actors across national boundaries, and the decrease of military force as a tool in International Relations (Lamy 2005).

Two of the most prominent advocates of Complex Interdependence in particular, are Keohane and Nye (2001). The authors claim that interdependence affects international politics and the behavior of states in the system. But Keohane and Nye (2001:5) also emphasize that “governmental actions also influence patterns of interdependence. By creating or accepting procedures, rules, or institutions for certain kinds of activity, governments regulate and control transnational or interstate relations”. But what is interdependence? The concept may seem to possess certain vagueness, considering both the complexity and multiple ways that states interact with one another on a daily basis – through diplomatic and political connections on several levels; trade, travel and technology, militarily, education, culture and several other arenas of interconnection.

Keohane and Nye’s (2001:7) straightforward definition of the concept is that “*interdependence*”, most simply defined, means *mutual* dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries. In a more definite sense, the effects of international transactions are flow of money, commercial goods, people and communication. The effects of transactions on the concept of interdependence have one vital component to separate interconnectedness from interdependence: The constraints (costs) associated with the transaction(s). In the authors (2001:8) own words; “The distinction is vital if we are to understand the *politics* of interdependence”. Interdependence may thus be seen as an elusive, ideal pareto-optimal concept that provides states with lacking necessities through extensive cooperation. The warning of this reductive issue is brought to the light by the authors, branding it *evenly balanced* mutual dependence.

Keohane & Nye (2001:9) further states that it is “*asymmetries* in dependence that are most likely to provide sources of influence for actors in their dealings with one another. Less dependent actors can often use the interdependent relationship as a source of power in bargaining over an issue and perhaps to affect other issues”. It follows from asymmetrical interdependence that this concept also is a logical venue of power and its execution to affect outcomes in a given situation or occurrence. Power in its most reductive sense can be defined as control over outcomes. The execution of power in an asymmetrical interdependent

relationship between two or more actors is evident when one conceives power as control over resources, or the initial *potential* to affect outcomes. Keohane and Nye (2001) draw an important distinction in how power in asymmetric interdependence relations between actors can affect the outcome(s): *Sensitivity and vulnerability*. The authors (2001:11) provide the definitions of both underlying distinctions: “Sensitivity means liability to costly effects imposed from outside before policies are altered to try to change the situation” and vulnerability “(...) is an actor’s liability to suffer costs imposed by external events even after policies have been altered”. Sensitivity can thus be seen as the degrees of responsiveness within an established policy framework. The measurement is not restricted only to the volumes of flows in transnational exchanges, but also by the costly effects of transaction changes on societies and governments. This in turn is created within a framework of policies. But what would the situation be if this framework of policies could be changed? The notion of vulnerability within the concept of interdependence is prominent in the relative availability and the costs of alternatives that different actors come across. Keohane and Nye (2001:11) clarifies with an example of two petroleum importing countries, respectively importing 35 percent of their petroleum needs and being equally sensitive to price increase for the given commodity: “ (...) if one could shift to domestic resources at a moderate cost and the other had no such alternative, the second state would be more *vulnerable* than the first”.

Finally, the theoretical domain of Complex Interdependence features three distinct characteristics, outlined by Keohane and Nye (2001:21): Multiple channels, absence of hierarchy among issues and the decreased role of military force. The first characteristic summarizes three channels of relations, namely interstate (assumed by realists), transgovernmental (applies under the softened realist assumption that states act coherently as rational units) and transnational (the assumption that states are the only units are abandoned). Incorporated within the multiple channels distinction are features such as informal ties between governmental and nongovernmental elites and transnational organizations (multinational banks or corporations). These actors naturally pursue their own interests, but also functions as transmission belts and influence governmental policies across borders to become more sensitive to one another. Thus economic policy in a foreign policy perspective is more closely related to domestic economic activity than before. Applying to the second distinction, absence of hierarchy among issues, is an issue pluralism that does not only focus or is dominated by military security. The clear cut distinctions between issues within a domestic or foreign policy

realm are dimmed. The issues are handled at several levels and by different governmental departments and bodies, and thus inadequate coordination of policy may inflict significant costs. More importantly, different issues in turn create different coalitions (within and across governments) and invoke several scales of conflict. Multiple issues are likely to threaten the interests of domestic groups, but not often the national security for a nation as a whole. On the role of multinational corporations, they may be significant in two ways. They may take the form of influential independent actors and as instruments for leverage by governments. These actors' attitudes and positioning on various policy issues are likely to be influenced by organized or unorganized communication with their associates abroad, making the challenge of creating a coherent and stringent foreign policy increase in these occurrences.

Furthermore, the ambiguity of the national interest propels serious concerns for governmental leaders: Bureaucracies with direct linkage across national borders makes centralized control more difficult, which may reduce the state to be "multifaceted, even schizophrenic" (Keohane & Nye 2001:30). On the third distinction, Keohane and Nye (2001:21-22) elaborates on the role of military force more specifically, stating that military force "is not used by governments towards other governments within the region, or on the issues, when complex interdependence prevails" and further notes that this kind of means could be "(...) irrelevant to resolving disagreements on economic issues among members of an alliance, yet at the same time be very important for that alliance's political and military relations with a rival bloc". The use of force is seldom a purposive instrument in order to achieve other aims and goals that are becoming more of importance, such as economic and ecological welfare.

Proceeding further and deduced from this theoretical background of complex interdependence, the following hypotheses are suggested:

H3: Russian policy actions were motivated by a long term quest for asymmetrical interdependence towards its main consumer countries in the EU.

H4: Russian policy actions and its shutdown of supplies were enabled by its beneficial asymmetrical interdependence towards Ukraine in both crises.

The focus on actors will be on one of Russia's most lucrative gas importers, Germany, and on the opposite scale – Poland. Germany and Poland are categorized respectively as "Strategic Partner" and "New Cold Warrior" in Leonard and Popescu's (2007:1) comprehensive power audit of EU-Russian relations. These two EU members have widely different relationships

and leverage towards Russia and within the Union itself, both in terms of history and economical aspects. The two gas crises and Russia's relationship with the EU also have different implications for these two actors, which will be defined as the variable *Energy Relations to Key Energy Partners* (X3) and is regarded as a motivating condition for Russian policy actions.

Empirical data such as comprehensive statistics on the actors access to resources, the import and export rate of gas on the market as well as individual projects and agreements between the actors, along with stated goals and announcements, diplomatic relations and history will be the empirical *modus operandi* to gain insights into these aspects of (inter)dependence between the actors – and its results. Stated goals and announcements will be found in official white papers and documents, diplomatic relations in official strategic documents on foreign policy and media outlets, historical aspects will be gathered in academic journals, newsletters and books. Although the main scrutiny will be on the EU-Russian relationship as a whole, illustrated by examining the diametrically different EU members Germany and Poland, Ukraine was one of the actors directly involved in the crises. Ukraine is vital for Russia as a transit country, but also as a significant importer of energy. The variable *Relations to Ukraine* (X4) will thus be operationalized as Ukraine along with energy (inter)dependence and resources as parameters. X4 is considered as an enabling framework condition for Russian policy actions in the crises.

Liberal Institutionalism is considered by many scholars to be the main challenge to realist and structural realist thinking. The foundation of this theoretical approach, which is rooted in liberal thinking, has its origins in integration theory that were less idealistic and more pragmatic than Liberal Internationalism that dominated after the first world war. Liberal Institutionalists view institutions as a mediating factor and a tool to achieve cooperation in the international system. Security threats are still vital, but they change in a progressive world order. Both regional and global regimes that actively promote cooperation between states and provide coordinated policy responses are vital to respond successfully to new security threats such as terrorism, pandemics and internal conflicts. The liberal Institutionalists share the same ontological perspective of the world as structural realists, and find common ground in their assessment of the international world as anarchical and competitive with states as the key actors that are rational interest-maximizers across all issues of the political spectrum.

But as opposed to the structural realists, liberal institutionalists also recognize other actors as influential in the international competition. Within their theoretical domain, actors seek actively to maximize absolute gains through cooperative measures. States are thus less concerned about other states gains or advantages in cooperative efforts. Structural realists are more concerned with relative gains between the actors, and thus the fundamental goal of states in cooperative efforts is to prevent other states from gaining more. Liberal institutionalists core idea is based on the possibility of independent and sovereign states pooling their resources and also conceding a part of their sovereignty, in order to create regional communities or institutions that encourage multilateral cooperation to respond to regional problems or urge economic growth. One such institution is the European Union. The union started as a regional European community aimed at multilateral cooperation –especially within steel and coal production (Lamy 2005).

The following hypothesis is deduced from the theory of Liberal Institutionalism:

H5: Russian policy actions in 2006/09 were enabled by the absence of effective international regulatory regimes with subduing or unraveling effect between Russia, Ukraine and the EU.

Despite several attempts to mitigate from the EU and the main consumer countries which were affected by both crises, the shutdown of Russian gas supplies was the factual result in 2006 and 2009. The interplay between the two conflicts is also of importance. What do the EU *want* in relation to Russian gas export, and what *can* they achieve – to what extent? On the opposite; is Russia interested in establishing a cooperative regime based firmly in the rule of law – why or why not? These are the main questions to engage to provide a satisfactory answer to the hypothesis.

With Liberal Institutionalism being the general theoretical backdrop, the variable *Institutional Framework* (X5) will be applied in order to investigate its possible influence on Russian decision-making and management of the two gas rows. X5 is considered to be an enabling framework condition for Russian policy actions in the two crises. In order to provide a sound empirical mapping in relation to this hypothesis, I will examine the historical role of the three actors with a focused eye to the energy dialogue and the issue of the Energy Charter Treaty between the EU and Russia. This also includes taking into account the stated goals and announcements along with the empirical mapping of the actors' behavior during the two

crises. This material will primarily be covered through extensive academic papers on the two crises respectively and several media outlets providing factual information on the actors' behavior.

2.3 Theorizing the domestic environment of Foreign Policy-making

2.3.1 Societal liberalism and the politics of interest-groups: Implications for Russian policy-making

By employing both Moravscik's (1997) liberal theory on state preferences and Allison's (1968) model of the internal game of politics within the state apparatus, one opens up the rationalists "black box" – abandoning the core assumption of the state as a unitary rational with fixed interests. Rather the direct opposite is argued within these theoretical perspectives, namely by emphasizing how the preferences and interests of different relevant societal actors and governmental bodies of the state are accumulated within a complex political process – which may finally result in the actual decision or action performed in a given occurrence.

Moravscik's (1997) three core theoretical assumptions on liberal IR theory constitute the important relationship between state and society which in turn has fundamental impact on a state's behavior in world politics. Moravscik (1997:513) precisely sums up the core argument: "Societal ideas, interests, and institutions influence state behavior by shaping state preferences, that is, the fundamental social purposes underlying the strategic calculations of governments". On the first assumption, *the primacy of societal actors*, Moravscik (1997) identifies individuals and private groups as average risk averse and rational actors. These actors perform collective action to strengthen different interests. The differentiated interests are promoted under several constraints, namely material scarcity, conflicting values and variations in their influence in society. These actors are assumed to act rational in their pursuit of both material and ideal welfare. The pursuit of interests among the domestic actors is not considered to exist within a utopian harmony. Factors such as scarcity and differentiation create a measure of competition.

Other essential factors which are closely embedded with conflicting societal demands and willingness to apply coercive measures are divergent fundamental beliefs, conflict over scarce material goods and inequalities in political power. Provisions of public goods (such as culture, borders, vital political institutions and local societal practices) promote conflict when beliefs

are irreconcilable, whereas complementary beliefs promote cooperation. In a situation of extreme scarcity, the tendency is towards conflict over resources caused by the increased willingness of actors to assume cost and risk in order to obtain them. In an opposite situation, by abundance, the inclination for conflict is lowered by the opportunity to satisfy wants without engaging in conflict. Some individuals and groups are also given more to defend in a situation of abundance. In the case of the third factor, inequalities in political power, conflict is more likely when the societal influence among actors is unevenly distributed. Asymmetries in political power may enable certain actors to evade the cost of redistribution of goods, which further increase the incentive of exploitative behavior – even on the behalf of the whole society becoming inefficient. On the opposite, where social influence is more or less equal among actors, costs and benefits of actions is more likely to be internalized to individuals through mutually beneficial cooperation or legitimate political institutions (Moravscik 1997).

On his second assumption, *Representation and State Preferences*, Moravscik (1997: 518) provides the definition: “States or (other political institutions) represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics”. According to the author, the state is not an actor but a representative institution within the liberal conception. This implies that the state as an institution is constantly under pressure from different coalitional societal actors that recapture and constructs state policy – performed by both individuals and groups. The government policy is constrained by identities, power and interests of individuals and groups outside and inside the apparatus of the state. These actors influence the decision makers to pursue their interests through public policy. The resulting societal pressure transmitted by institutional practices in turn alters the preferences of the state. These preferences, as the concept is applied by Moravscik, constitute a set of vital interests defined across all states. Moravscik (1997:519) elaborates: “Preferences are by definition causally independent of the strategies of other actors and, therefore, prior to specific interstate political interactions, including external threats, incentives, manipulation of information or other tactics”.

As an advocate of a revisionist liberal IR-theory, Moravscik (1997:519) argues that it “(...) focuses on the consequences for state behavior of shifts in fundamental preferences, not shifts in the strategic circumstances under which states pursue them”. The author also points out two distinctions that are critical in how the state represents social coalitions. States may act in a unitary way, where both national officials and politicians acts in strong coordination. On the

opposite, the disaggregated state may conduct semiautonomous foreign policies on behalf of contradictory societal interests – such as executives, courts, central banks and ruling parties. By amalgamating the two core assumptions, *The Primacy of Societal Actors* and *Representation and State Preferences*, it thus implies that states do not naturally aim to maximize fixed and homogeneous notions of such factors as security, welfare and wealth – as within a realist and institutionalist framework. Instead, they “(...) pursue particular interpretations and combinations of security, welfare and sovereignty preferred by powerful domestic groups enfranchised by representative institutions and practices” (Moravscik 1997:519).

The third and final assumption, *the configuration of interdependent state preferences determines state behavior*, implies that “(...) each state seeks to realize *its* distinctive preferences under varying constraints imposed by the preferences of *other* states” (Moravscik 1997:520). The link between state preferences and the behavior of one or more states is political interdependence. Moravscik (1997) argues that the pattern of interdependent state preferences creates a binding restriction on the behavior of states. In a situation where state preferences are harmonious and optimal for others – the incentives for coexisting with a low degree of conflict is most likely. On the opposite, where dominant social groups in one country attempt to realize their preferences through state action which affects a dominant social group in another country, the governments face a bargaining game with high potential for interstate tension and possible conflict. The premise for this situation is a configuration of preferences that is controversial enough to set the ground for the acceptance of high cost and high risk. Conflict thus requires an aggressor state that set forth demands that the other state is not willing to accept or submit to. The nature and depth of cooperation directly depends on the patterns of preferences. In the words of Moravscik (1997:21) “(...) liberals turn first to countervailing social preferences and unresolved domestic and transnational distributional conflicts”. This is essentially different from both institutionalists and realists, who turn to uncertainty and particular configurations of power (Moravscik 1997).

Moravscik’s (1997) theoretical framework of domestic political activity and its accumulated preferences created by several and different actors, suggests the following hypothesis:

H6: Russian policy actions were motivated by the preferences of Gazprom as the most influential actor in the formulation of policies during the crises

With Gazprom seemingly being the unprecedented key actor for Russia's energy production, consumption and export, I wish to examine the relationship between Gazprom and the Russian state apparatus and its impact on Russian foreign policy making during the 2006/2009 gas crises with Ukraine. The explanatory variable is *The Influence of Gazprom on Russian Policy Making* (X6), and is regarded as an enabling or limiting framework condition for Russian policy actions. Also here the utilization of comprehensive statistics can provide empirical material on the situation of the Russian energy industry especially concerning the historical record of market shares, capital structure in relation to state ownership, extraction and production and share of domestic consumption and exports. Academic journals and books both on the present and historical relationship between Gazprom and the state will be applied. This will provide insights into the alleged symbiosis between the political leadership and the commercial enterprise of Gazprom. Media outlets and official company information will also provide empirical information on the relationship between Gazprom and the state apparatus. Especially several media outlets and academic journals will be emphasized to gain empirical information during the time of the two crises.

2.4 Theorizing the role of the state in foreign policy-making

Having theorized both the external and internal perspectives which may influence Russian policy making during the two crises and subsequently deduced hypothesis from these levels of explanation, I will now turn to how characteristics of the Russian state itself may influence its formulation of foreign policy. Allison's (1968) BPM-model provides the theoretical framework on this level of explanation.

2.4.1 Graham Allison's bureaucratic politics model for decision-making: Implications for Russian policy-making

Allison (1968) highlights three conceptual models for analyzing foreign policy occurrences, namely the Rational Actor Model (RAM), Organizational Politics Model (OPM) and Bureaucratic Politics Model (BPM). The latter conceptual model is employed by Allison in order to ascribe more powerful and in-depth explanations of events in international politics. In Allison's time of writing, the Rational Actor Model could be viewed as the dominant paradigm among foreign policy analysts, journalists and academic scholars. This model views the state as rational and unitary which in turn make deliberate and purposive acts and choices grounded firmly in the national interest and the states security. But Allison (1968:2), with the

substantial aim of his article, notes: “What this assumption obscures is a frequently neglected fact: the maker of governmental policy is not a rational, unitary decision maker but rather a conglomerate of large organizations and political actors.”

The focal point of the third conceptual model (BPM), which will be applied in this thesis, is the internal politics of the government apparatus. This is categorized as outcomes of the dynamic bargaining games of politics among hierarchically placed actors within the national government. Thus the unit of analysis is the political outcome of internal government politics. The outcome cannot be seen as a deliberate solution to a given problem, but should rather be perceived more realistically: As compromise, bargaining, misunderstandings, confusion and coalitions among influential officials who bring their respective perceptions and priorities to the table during a given occurrence (Allison 1968). The puzzle is according to Allison (1968:3) framed as “what outcomes of which bargaining among whom yielded the critical decisions that resulted in this behavior?” The concepts emphasized within this model are games, power and the strategic positioning of players. Thus the pattern of inference for explaining an action performed by a nation in an occurrence is the result of a bargaining process among powerful players in a central game.

In Allison’s (1968:3) wording, to explain such happening “displays the games, power, and maneuvers of principal players and the understandings and misunderstandings from which the outcome emerged.” The political leaders of governments and persons that occupy central positions on top of the involved organizations constitute the arena where these players fight for both their perceptions and priorities amongst each other. As emphasized by Allison (1968), an important characteristic of this power play is that not simply the reason behind an alternative course of action nor the standardized repertoire of organizations which enable the alternatives is decisive – but rather the skill and power of the players that are bickering over the different courses of actions available. The facts which cannot be neglected according to Allison (1968:37) is that “governmental leaders are competitive players rather than a homogenous group; priorities and perceptions are shaped by positions in which players sit; problems are more varied than the straightforward strategic issue (...)”.

Another vital aspect within this conceptual model is the concentric circles that surround the central players which occupy powerful positions in the governmental administration. The players that form these concentric circles, are according to Allison (1968:38) “actors in the

wider government game”, consisting of influential players in the popular assembly, the press and important and powerful interest groups – which demarcate permissive limits of the central game. A related aspect is the background, personality and history of the individual players. People do differ, also in the internal power play. This can be sensitivities to certain issues, commitment to several programs over others, personal standing and debts with different groups in society. Sensitivity to pressures, personality and history is then necessary for many predictions within this conceptual scheme.

Although being a highly interesting field of study in relation to this explanatory level and of governmental affairs in general, the discipline of political psychology is omitted due to relevance and parsimony for the scope of this thesis.²

In accordance with Allison’s (1968) model and analytical level of explaining the decision making process in foreign policy occurrences, the following hypothesis will be put forward related to the Russo-Ukrainian gas rows:

H7: The Russian management of the gas crises was dominated by institutional actors within the state apparatus motivated by political and economic considerations

In line with Allison’s (1968) BPM model, the variable *Institutions-Preferences and Influence* (X7) will be utilized. This is considered to be a motivating condition of Russian policy actions during the two gas crises. I will examine the roles of the Ministry of Foreign Affairs (MFA)

² Although being a separate field of study drawing on several academic disciplines, political psychology could be an important aspect in order to demonstrate the personal mind set and preferences of influential decision makers during a given occurrence. In a centralized state like Russia, Putin's persona, personal beliefs and way of thinking is most likely a solid and influential frame of reference when it comes to the strategic foreign policy thinking of the Russian government. Levy (2003) states that in a highly centralized state the determination of the states foreign policy may be due to the preferences of a dominant decision-maker, but the centralized form of the State itself may also be an explanatory variable. Among other factors, what could be of importance on the psychological and person-oriented level and influencing the decision-making process, is cognitive biases. The decision maker may be more inclined to systemize new information that fits the person's predetermined beliefs based on prior experience. This “selective attention” has important implications in the foreign policy decision-making: If one believes that the adversary is hostile and at the same time responds to external opportunities and threats, one could also easily interpret the adversary's action as innate hostility towards oneself. The adversary's conciliatory action may also be perceived as a response to own actions (Levy 2003:265). A more comprehensive approach is needed to fully understand and map the key decision makers in the state apparatus, especially the powerful leaders Medvedev and Putin. The dynamic between the two leaders and key officials, combined with Gazprom's chain of command within the symbiosis, is vital to unveil the broad picture of Russia's powerful elite and the driving forces behind their decision making process during the two gas crises. Though political psychology as a discipline could be a fruitful perspective to incorporate on the person-oriented level, Allison's (1968) BPM-model seems satisfactory as an analytical tool to provide insights into the decision making processes during the Russo-Ukrainian gas rows. The methodological approach in this thesis is also somewhat limited in order to gather accurate empirical data to cover this unit of analysis satisfactorily.

and the Governmental and Presidential Administrations during the two crises. In order to illuminate and provide a satisfactory answer to the two hypotheses on this level of explanation, academic journals and papers from the Russian community of scholars regarding public governance and history will be applied. By a close examination of the MFA and the two administrations, I will look for which actors and institutions that dominates the foreign policy agenda in general and during the gas rows in particular – and the relative strengths between them. Traditional conflict lines, areas of responsibility and interests between the actors and institutions in relation to the cases are also of interest. Empirical mapping of the relevant actors and institutions will thus be conducted from academic journals, papers and books, but also official white papers and documents from the relevant institutions. Media outlets will also be applied as a source of empirical information on which actors in the state apparatus were involved and to what extent during the crises.

2.5 The deductive bridges: From theory to the compilation of relevant facts

Table 1 shows the completion of the theoretical framework applied in this thesis, ranging from three analytical levels of explanation to sources leading to relevant data. This table illustrates the deductive bridge from theory to the compilation of relevant facts, which constitute the platform for the empirical mapping of variables and the subsequent analysis.

On the external, global environment influencing the foreign policy-making of the Russian state three theoretical perspectives has been outlined. Waltz' (1979) structural realism emphasizing the notions of power directly derived from material capabilities, Institutional Liberalism in general (Lamy 2005) – focusing on the role and importance of regulative and international regimes for cooperation, and finally Keohane and Nye's (2001) theory of Complex Interdependence. The five variables on this global level, *Russian Downstream Control* (X1), *EU Energy Security Concerns* (X2), *Relations to Key Energy Partners* (X3), *Relation to Ukraine* (X4) and *Institutional Framework* (X5) have been operationalized. The variable *Russian Downstream Control* (X1) has been operationalized as power balance; *EU Energy Security Concerns* (X2) focuses on Russian control over energy as a strategic resource and source of income; and *Relations to Key Energy Partners* (X3) is to be understood as Germany and Poland's respective stated goals and announcements, diplomatic relations with Russia and history as further operational features. Finally, the explanatory variable *Relation to*

Ukraine (X4) are to be considered in terms of its operationalized dimensions Ukraine, resources and energy (inter)dependence.

Bridging the gap between external and internal factors that influence Russian foreign policy-making is done by opening the rationalists' "black box", and the subsequent illumination of domestic factors that may influence foreign policy-making. Moravscik (1997) with his theory of Societal Liberalism and his extensive focus on influential interest groups and their interest maximization lays out the theoretical foundation for the variable *The influence of Gazprom in Russian Policy Making* (X6). This variable focuses on the political leadership within the Presidential and Governmental Administrations.

At the final level of explanation regarding the decision-making body of the state and the variable *Institutions – Preferences and Influence* (X7), Allison's (1968) BPM model provides a theoretical framework for understanding the key actors within state apparatus itself and their influence and making of foreign policy. *Institutions – Preferences and Influence* (X7) is operationalized as the Ministry of Foreign Affairs, the Presidential and the Governmental Administrations.

Table 1. Deductive bridge – from theory to practical research

Analytical level of explanation...	...as specified in choice of theoretical approach...	...as specified in choice of author-ship...	...as deduced into hypotheses (Xn => Y)	Conceptualization of explanatory variables (Xn)	Operationalization of explanatory variables (indicators representing Xn)	Sources leading to relevant data
Global environment	Structural Realism Complex interdependence. Liberal Institutionalism	Waltz (1979) Keohane and Nye (2001) Lamy (2005)	<p>H1: Russian policy actions were motivated by the urge to increase influence and control over its downstream gas-flow to Europe.</p> <p>H2: Russian policy actions were restricted by the broader relationship with her main trade-partners in the EU and their long term concerns about security of supply.</p> <p>H3: Russian policy actions were motivated by a long term quest for asymmetrical interdependence towards its main consumer countries in the EU.</p> <p>H4: Russian policy actions and its shutdown of supplies were enabled by its beneficial asymmetrical interdependence towards Ukraine in both crises.</p> <p>H5: Russian policy actions in 2006/09 were enabled by the absence of effective international regulatory regimes with subduing effect between Russia, Ukraine and the EU.</p>	<p>(X1):Russian Downstream Control (motivating condition)</p> <p>(X2):EU Energy Security Concerns (limiting framework condition)</p> <p>(X3):Relations to Key Energy Partners (motivating condition)</p> <p>(X4): Relation to Ukraine (enabling condition)</p> <p>(X5):Institutional Framework (enabling framework condition)</p>	<p>Power balance</p> <p>Control over energy as a strategic resource and source of income</p> <p>Germany/Poland. Stated goals & announcements, diplomatic relations and history</p> <p>Ukraine. Resources and energy (inter)dependence</p> <p>Energy Charter Treaty</p>	Scholarly literature (books, academic journals and papers), official white papers and related documents, different media outlets and reports, comprehensive statistics
Domestic environment	Corporatism/Societal Liberalism	Moravcsik (1996/1997)	<p>H6: Russian policy actions were driven by the preferences of Gazprom as the most influential actor in the formulation of policies during the crises.</p>	<p>(X6): The influence of Gazprom in Russian policy making (enabling or limiting framework condition)</p>	<p>Political leadership, Gazprom</p>	Scholarly literature, official white papers, different media outlets
Decision-making body of the state	Bureaucratic Politics Model	Allison (1968)	<p>H7: Russian policies of the gas-crisis were determined by institutional actors within the state-apparatus motivated by particular political and economical considerations.</p>	<p>(X7):Institutions - Preferences and Influence (Motivating condition)</p>	<p>Ministry of Foreign Affairs, Governmental/Presidential Administrations</p>	Scholarly literature, official white papers, different media outlets

CHAPTER 3 EMPIRICAL MAPPING

Having theorized both the external and domestic environment of the foreign policy state and deduced hypothesis from several levels of analysis and explanation, I will proceed with the empirical mapping of the dependent variable and the explanatory variables. The theories outlined and summarized in figure 1 function as ideational sources of deduction and inspire empirical propositions (hypotheses) on different levels of analysis that may contribute to the explanation of Russian actions and management of the Russo-Ukrainian gas disputes of 2006 and 2009. In order to gain insight into the influential factors of Russian policies during the two crises, a precise account of the gas rows and Russian management will be presented prior to the empirical mapping of the explanatory variables as operationalized above. A sound factual basis is required (Chapter 3) prior to any attempt at showing if, how and to what extent the various enabling/restricting and motivating factors combine along a chronological path to “produce” Russian policies and behavior in the two major disputes.

3.1 Mapping the dependent variable: Russian management and the two gas crises 2006-2009

Almost all of Russian gas destined for Europe transits through three countries; Ukraine, Belarus and Moldova. Of these three countries Ukraine holds the most vital position in the transmission of gas, amounting to more than 80 % of Russian gas destined to consumer countries in Europe (Stern 2006:2). Russia, with its giant gas corporation Gazprom, controls about a third of the world’s gas reserves and in addition it also holds responsibility for a quarter of Europe’s gas supplies. The two major crisis over gas deliveries between the two countries occurred in 2006 and more recently in January 2009. On January 7 2009 the flow of Russian gas through Ukrainian pipelines reached a complete halt, followed by Russian accusations that Ukraine had siphoned off Russian gas intended for European customers, thus resulting in a dozen countries being completely without guaranteed Russian gas supplies. A similar row occurred in 2006 when Gazprom shut down its gas deliveries through the pipelines across Ukraine. Ukraine built up reserves to cover its needs for several months, and so did most of the EU countries (BBC News 2009).

3.1.1 The "Ukrainian freeze" of 2006: A background narrative

Russo-Ukrainian gas relations have been tormented by instability and conflicts since the collapse of the Soviet Union. But the bitter conflict first received extensive press coverage in Western media in the beginning of 2006 due to reduced gas supply to European countries as a result of the dispute between the two countries. According to Stern (2006:2) the hottest issues in the Russo-Ukrainian gas relationship during the period between 1990-2000 encompassed levels of Ukrainian debt accompanied by reduction of Russian gas supplies and controversial diversions of transit volumes destined for Europe. Ukraine was unable to pay huge amount of gas related debts to Russia in the 1990's. In the winter of 1993/94 Ukraine's debt for Russian energy deliveries amounted to 600 million US dollars (Pleines 2008:9). When Russia threatened to, and several times seized gas deliveries due to alleged unpaid debts during this period, Ukraine consumed Russian gas that was intended to reach the continental European market and fulfill delivery obligations to major import countries such as Germany (Johansen 2010). In early 2000 Ukraine was indebted to Russia by 1, 4 billion US dollars for deliveries of gas (Pleines 2008:8).

After the troubled 1990's, Vladimir Putin came to power as Russian president. This transition also brought with it replacements within Gazprom's board of directors and seemingly renewed optimism in Russo-Ukrainian gas relations. The Russian government and Gazprom endorsed two major strategies in the management of the Ukrainian gas trade at the end of the 1990's: In order to make room for Russian gas volumes destined for the European market, Turkmenistan (being the second largest gas producer in the Commonwealth of Independent States – CIS) was encouraged to export its gas to Ukraine. Russia also utilized several intermediary trading companies, most notably RusUkrEnergo from 2005 to both transport and supply gas to Ukrainian market. RusUkrEnergo is a joint venture, partly owned by Gazprom (50 %), Ukrainian businessmen Dmitry Firtash (45%) and Ivan Fursin (5%). The company was the main transporter of gas to the Ukrainian market until the end of 2008 (Stern et al. 2009:7).

During the summer of 2004, former disputes concerning gas transport and debts had been sorted out and a consortium-deal on the Ukrainian pipeline network was in the making. This consortium had the potential to function as an essential problem solver in the gas industry, giving Gazprom control over the Ukrainian pipelines (Johansen 2010). The role of Turkmen gas was also agreed upon after an agreement between the Russian and Ukrainian governments

along with Gazprom. The latter provided loans to the state owned Ukrainian company Naftogaz in order to cover previous debt and the agreement was made with an estimated time span ranging from 2005 to 2009. The price element in this agreement included both the deliveries of Turkmen gas to Ukraine (provided by Gazprom) and Russian gas amounting to 21-25 bcm (billion cubic metres) per year as a barter trade for further transit of Russian gas destined for Europe. The price of Russian gas for this time period was settled to \$50/mcm (dollars per thousand cubic metres) for Ukraine (Stern 2006:2).

It was not only Russia that experienced a transition of power. In Ukraine, the president elect Viktor Yushchenko came to power in December 2004, after a fierce election dubbed by several commentators as the “Orange revolution”. Yushchenko and his newborn administration made it a priority that Ukraine should be treated as an independent nation. Yushchenko’s Minister of Energy put forward a proposition on raising the Russian transit fee on gas to market levels, equaling a hundred percent raise in Russian transit cost for gas transported through Ukraine. The proposal was met with enthusiasm by Gazprom, which in turn saw the opportunity to raise the price on its gas exports to Ukraine. Ukraine was paying as much as \$ 110 below the European market price, which at the time was \$ 160 pr. 1000 m³ (thousand cubic meters). The Ukrainian government did not share Gazprom’s enthusiasm. By the summer of 2005 the optimism had faded completely, leaving the two countries in disarray over gas prices for the year ahead (Johansen 2010).

The Ukrainian president had announced the final death of the gas consortium, and Russia grew more insecure about their critical transit lines’ safety to the European market. Meanwhile the price on gas to the European market rose rapidly, along with Russia’s desire to increase their price on exports destined for Ukraine. In the event that finally led up to the 2006 shutdown, Gazprom announced in December 2005 that an increase in gas prices would be a reality for all import countries except Belarus, thus sparking several fierce and chaotic negotiations between Ukraine and Russia. The rapid deterioration in the relationship between the two countries occurred simultaneously as the oil (and thus gas) prices peaked. The countries of the former Soviet Union were paying \$50-80/mcm at the end of 2005, being a stark contrast to European border level prices equaling 3-4 times the level of the former Soviet Union republics. With a potential crisis looming, Gazprom and the state owned Naftogaz Ukraine made no progress in negotiations. Gazprom set forth a demand that

contained a price increase for Russian gas at the beginning of 2006, raising the price to European netback level (i.e. European price level). The new price increase would be between \$160-230/mcm. The increase of gas prices would be effective if Ukraine did not grant Gazprom an equity stake in the pipeline transit network. This demand was related to an earlier initiative in 2004 with a consortium proposal of pipeline transit operations between Naftogaz, Gazprom and European companies which collapsed in June 2005 (Stern 2006).

Ukraine engaged the Russian proposal stating that it would pay market prices (European netback level) if this was phased in over a certain time period, and that the maximum price they were willing to pay from 2006 was \$80/mcm. Among several other suggestions from the Ukrainian side if the Russians decided to enforce the proposed price increase, was siphoning off gas destined to Europe, raise tariff fees for the transit and raise the port charges for the Russian Black Sea Fleet located in the Ukrainian coastal city of Sevastopol. In turn, the Russian response was to relocate the gas sales to the Russian border, making any siphoning of Russian gas a European problem, and increase the tariff price of vital Turkmen gas delivered to Ukraine. An additional event in the last days of 2005 also influenced the negotiating climate: Gazprom stated that it had contracted 30 bcm of Turkmen gas at the price of \$65/mcm for 2006. 15 bcm would be delivered during the first quarter of the New Year, effectively meaning that Gazprom had purchased all the available Turkmen gas for that quarter, thus leaving nothing to Ukraine. The Ukrainians was believed to have had an existing contract of gas deliveries from Turkmenistan for the period 2002-2006 (Stern 2006:7).

Different arguments were put forward over the negotiation table: Ukraine pointed at an earlier agreement that from their point of view gave Ukraine the existing price until the year 2013. Shortly after it made a proposition that they would accept market level prices, starting effectively from 2007. Another proposition was the payment of Russian gas through the exchange of Ukrainian weapon systems. On the Russian side, the Ukrainian propositions were totally unacceptable. Russia proposed to postpone the increase on gas prices after the Ukrainian election in March 2006, offered to lend Ukraine funds to finance their gas imports or agree to the previous 2004 consortium arrangement (Johansen 2010). The negotiations resulted in a stalemate and finally a Russian shutdown of Ukraine's gas supply on January 1 2006 10:00 AM Moscow time. The consequences of the shutdown had immediate impact during the subsequent days in the period between 1-3 January: Austrian, Slovakian and Romanian supplies were down by one third, Hungary lost up to 40 % of its Russian supplies,

France 25-30 %, Poland 14 %, Italy circa 25 % and Germany – but without further known details (Stern 2006:8-9). Gazprom accused Ukraine of diverting gas to meet its own needs, but officials in Kiev denied this accusation categorically. Gazprom pumped additional gas into the pipeline system in order to restore the supplies destined for Europe. After Gazprom's restoration of additional gas supply, Ukraine admitted siphoning off gas – stating the diverted gas to be scheduled deliveries from Turkmenistan (Sokov 2006:2). By January 4 the Russian gas deliveries were back to normal levels without shortfalls to European customers (Stern 2006:9).

Despite the extensive attention from the rest of Europe, this crisis lasted only a couple of days and an agreement was finally reached. In the agreement it was not stated which price Ukraine should pay in the coming years, thus making the political discontent domestically over Yushchenko's handling of the crisis a fact, even among his nearest supporters. This may have been one of the contributing factors to the Yushchenko-party's demise in political power after the 2006 election, where the alleged Russian-friendly Viktor Yanukovich finally became prime minister. In 2007 a new agreement after the power transition in Yanukovich's favor was made. Inherent in this deal was a gradually increase of Ukrainian gas import prices of 30-40 % each year until 2011 (Johansen 2010).

3.1.2 Interplay and escalation: The 2009 conflict

Leading up to the more severe dispute at the beginning of 2009, it is necessary to review the main developments in the Russo-Ukrainian gas relationship in the interplay between the gas rows. The crisis became the worst in Russia's history as a kingpin gas supplier and as in 2006 several European countries were immediately affected by the shutdown, resulting in fear of a humanitarian catastrophe due to lack of heating (Pirani 2009:3). The gap between the prices being charged for Russian gas to CIS countries and European customers became wider from 2004, thus making Gazprom call for a rise in the charge of CIS prices equaling that of European netback levels. This practically implies European border prices with transportation costs subtracted. With the 2006 crisis fresh in memory Gazprom pursued this demand with increased intensity (Stern et al. 2009: 7).

In December 2007, the former multi-millionaire gas trader Yulia Timoshenko once again gained the position as Ukraine's prime minister, and after almost a year (by October 2008) it looked evident that the Russo-Ukrainian gas cooperation would entail a new era. Meeting

with the Russian Prime Minister Vladimir Putin produced the signing of a memorandum with the intention of leveling Ukrainian prices on gas import and transit fees to market prices (equal to European netback prices) over a three-year period. Ukraine also got access to the lucrative European market through transit cooperation with Gazprom: The state owned company Naftogaz Ukraine was given the possibility to buy central Asian gas from Gazprom (According to Stern (et al. 2009:14) “implying that the intermediary RusUkrEnerg and the trader Uragaz-Energ would be removed from the import business immediately”), and the Russian gas giant’s subsidiaries would get access to the Ukrainian domestic market. The deal struck between the two PM’s in October, and backed by the commercial agreement between the two respective gas companies had one inherent condition before the final implementation; the repayment of Ukrainian debts for gas received at the end of December 2008. Ukraine argued that its debt was \$ 1, 5 billion, while Russia claimed Ukrainian debts amounted to \$ 2, 2 billion (Pirani 2009:3). Building on the initial memorandum agreed upon by Timoshenko and Putin, the commercial agreement also specified that Naftogaz debts owed to RusUkrEnerg was to be directed to Gazprom. It is also worth noting that a renegotiation over transit fees had occurred between the two CEO’s of respectively Gazprom (Alexei Miller) and Naftogaz (Oleg Dubyna) after the memorandum agreement of the two PM’s - indicating a gradually increase of transit charges to market levels. The two CEO’s agreed upon the 2008 levels of transit equaling \$1, 70/mcm/00km (Stern et al. 2009:14).

Naftogaz Ukrainy published a letter along with its correct payment from their point of view on the debt issue, stating that it would divert gas meant for the European market if their own supplies were shut off as they did in the 2006 dispute. Against this backdrop, Ukraine was also hit extremely hard by the recession following the financial meltdown, with its main source of export (steel) plummeting and industrial production figures in December down by 26, 6 percent year-on-year. Ukraine is regarded as one of the world’s most inefficient energy countries and for the first time in a decade the country was contracting. Paradoxically, the mild weather in the winter months of 2008 resulted in decreased Ukrainian dependency of gas. Naftogaz also had one-third (17 billion cubic meters) of Ukraine’s annual gas import stored. (Pirani 2009:3).

At the end of November 2008, Gazprom CEO Alexei Miller had a meeting with PM Vladimir Putin. Miller announced after the meeting that if there was no agreement reached within the year’s ending, the result could be a dramatic price increase of \$400/mcm starting from

January 1 2009. Prime Minister Putin soon followed and stated that deliveries to Ukraine would immediately be cut off if there was any sign of siphoning of Russian gas destined for Europe. The International Monetary Fund's view was that Ukraine had liquid funds to pay of its debt in December. Finally, Naftogaz made a payment to Gazprom on December 30 amounting to \$1, 52 billion. This was debt for outstanding gas deliveries from the former intermediary RusUkrEnergo. But this was not enough according to Gazprom: They insisted on an additional payment for fines and penalties due to lack of payments amounting to a further \$614 million (Stern et al. 2009:16-17). On January 1 2009 the Russian shutdown of Ukrainian gas supply was a fact, after two weeks of prior public threats from Gazprom (Pirani 2009:3).

Within the first four days up to January 5, the shutdown of Ukrainian deliveries were relatively non-dramatic and did not affect European gas supplies. The following days saw a severe escalation of the conflict. Gazprom stated on January 5 that 65, 3 billion cubic metres of gas had been diverted since the immediate cut off on January 1. The Ukrainian side responded that it was entitled to utilize fuel gas taken from volumes destined to the European market when there was no agreement and contract of supply and transit. Fuel gas is the term used worldwide in the industry (also labeled "technical" gas in the former Soviet Union) and is required to run the compressor stations. This type of gas is usually included in the tariff price being charged to the shipping company and is not charged separately. In the period between 1-5th of January, despite the issue of fuel gas, substantial amounts of gas continued their flow to European markets. In the final hours of January 5 and early hours of January 6, Alexei Miller and PM Putin appeared together in a televised conversation, ending with Putin's approval of Miller's suggestion to reduce flows of gas and his further instructions to notify European customers of the decision (Stern et.al 2009:21). Gazprom ended its press release published January 5 with "Responsibility for possible changes in the gas transit regime and, consequently, for reduced supplies to European customers lies with Naftogaz Ukrainy" (Gazpromukrainefacts.com 2005).

By January 7, all gas flows had come to a complete halt and the conflict escalated to a severe point of no return – affecting several countries in south-eastern Europe being extensively dependent on Russian gas supplies. Gazprom's CEO Miller notified the public that they had stopped deliveries of gas because Ukraine had closed the whole system down. Ukraine confirmed shutting down the pipelines, arguing that they did not receive any gas deliveries

from Gazprom. The European supply line had never been interrupted with a severe halt like this since its construction during Soviet times. Not even the 2006 conflict completely halted European supplies like the 2009 conflict. As Stern (et al. 2009:23-24) further notes, a significant detail in this phase of the dispute was when Naftogaz reversed the flow of gas in the pipeline system. This action was performed to transport gas from Ukrainian storage facilities located in Western Ukraine to the south and east where the major consuming areas of gas are located. The Ukrainian argument for this reversal of gas flows was due to the cut off of Russian supplies and the stop in deliveries caused by lack of agreement over the technical gas issue. Deputy CEO of Gazprom, Alexander Medvedev, claimed that due to Ukraine's usage of the transit pipelines to Europe in order to reverse the gas flow caused the stoppage in Russian deliveries destined for Europe. The European gas companies had not been involved in the first phase of the conflict. But as the conflict escalated, several companies put extensive pressure on Gazprom in order to find a solution. January 15 PM Putin and The Head of Italian energy company ENI laid out a solution of a consortium of European companies to finance the necessary funds to provide technical gas and regain normal gas flow, while the bilateral negotiations over new contracts would continue between Russia and Ukraine. The consortium financing proposal proved not to be necessary, as the 20 days dispute ended with two contracts being signed on January 19. The flow of gas destined for European consumers restarted the day after and returned to normal levels during the following day (Stern et al. 2009:24-25).

3.2 Mapping external factors of Russian management of the 2006 and 2009 Russo-Ukrainian gas rows

Five explanatory variables embedded in the outside-in perspective of the states' global environment will be mapped in the subsequent sections - *Russian Downstream Control* (X1), *EU Energy Security Concerns* (X2), *Relations to Key Energy Partners* (X3), *Relation to Ukraine* (X4) and *Institutional Framework* (X5).

3.2.1 Russian Downstream Control and EU Energy Security Concerns

As operationalized in Chapter 2, the variables *Russian Downstream Control* and *EU Energy Security Concerns* (X1/X2) set focus on power balances, and the control over energy as a strategic resource and source of income respectively. Stern's thorough empirical research (2006:16 & et.al 2009: 35) of the two crises overtly states that the 2006 row was primarily

commercially motivated and the latter dispute in 2009 was mainly political. In the 2009 row this is evident by the author's assumption that the Russian leadership tried implicitly to draw Europe into the conflict – with the aim of a European backing on a new transportation system. Russia's (and thus implicitly Gazprom's) desire to obtain downstream control through a consortium ever since the beginning of the 1990's, is outlined to be a vital component in Russia's strategy in the latter crisis. Another important distinction between the two crises was the important role played by intermediaries in the 2006 conflict, in particular Central Asian (mostly Turkmen) gas deliveries to Ukraine which were acquired by Gazprom and resold to Ukrainian Naftogaz. The role of Central Asian gas was twofold, aimed at Ukrainian domestic consumption and further transit to Europe on Russian behalf.

The 2006 gas row had a complex structure of commercial agents, even more so compared to the more severe 2009 conflict. An undisputed fact claimed by the authors, is that the risk taken by escalating and prolonging the 2009 conflict compared to the row in 2006 has produced irreparable damages to Russia's reputation as a secure supplier of gas to European consumers. In the limited time-span during and between these two conflicts, the explanatory variables *Russian Downstream Control* (X1) and *EU Energy Security Concerns* (X2) may be useful in order to re-examine Stern's general conclusions on the division between the political-economical spheres in the two gas rows. *Russian Downstream Control* is considered to be a motivating condition for Russian policy actions, while *EU Energy Security Concerns* is regarded as a limiting framework condition.

Powerful economic factors also drove the 2009 dispute. Oil prices fell dramatically as a result of the financial meltdown in September 2008, which effectively put a halt to Russia's oil boom. Gas prices in Europe are closely tied to the oil price, within a six to nine months delay. With this in mind, Gazprom was aware of that their future revenues would undergo a major cutback in the midst of 2009. The recession hit Ukraine hard, evident through the IMF's gigantic loan amounting to 16, 5 billion dollars. Ukraine's industrial production was down by 26, 6 percent year-on-year in December 2008, signaling the severity of the financial situation. Being one of the world's most energy-inefficient countries, Ukraine's economy was contracting – resulting in lesser need for gas. Combined with mild weather and the fact that Naftogaz had one-third of Ukraine's annual import requirement in storage, a prolonged dispute with Russia turned out to be a necessary and possible economical survival strategy in a grave situation. Ukraine did not pay for 2007 imports until 31 December 2008. Ukraine paid

1, 5 billion US dollars, Russia claimed the price was 2, 2 billion dollars (including penalties for late payment). More importantly Naftogaz announced that they would divert gas destined for European customers if their supplies were cut, as became a reality on 1 January 2009 (Pirani 2009).

Thus the overall background and driving forces behind the conflict seem more complex. Stern's research (2006 & et al. 2009), and several others research on the two conflicts, does not include a theoretical perspective as a part of the empirical analysis. This explanatory variable is one that can determine and affect the bilateral relations between the actors in a foreign policy context. In this context, this is related to and anchored in the structural realism theory of Kenneth Waltz (1979). Waltz' structural realism theory among other theoretical factors considers the economy and resources as one of several capabilities that comprise and determine the total power balance and thus the foreign policy leverage for nation states, competing for their strategic positions in the international system.

Why is trade between countries so important in the arena of politics? Leal-Arcas (2009:342-343) provides a straightforward answer in stating that "trade is about money, and money is a powerful instrument to foster political relations". In relation to Europe over the past 40 years, European consumption of natural gas as a source of energy has grown steadily – and much faster compared to primary energy consumption. Since the middle of the 1970's, imports have covered this growth in energy consumption – evident in the 2007 figures of consumption which equaled 60 percent of 300 bcm of imported gas. Gazprom's entire profits roughly accounts for 40 percent by exports to its main consumers in Western Europe, namely Germany and Italy. Another powerful European actor, France, is the third biggest importer of Russian gas. Thus in the broader strategic picture, as Noël (2008:9) argues; "Germany and Italy can effectively capture the economic benefits of their cozy political relationships with Moscow, they have a strong incentive to accommodate Russia politically at the expense of European unity".

Having established the strategic importance between Europe and Russia in the energy sphere it is of importance to turn to the power balance of this relationship. When it comes to natural gas and proved reserves related to the main actors within the EU and Russia, Germany's R/P ratio (reserves-to-production) is expected to be 6, 5 years, Italy amounting to 11,1 years and

Russia 76 years.³ By looking at the levels of consumption of natural gas by the most influential countries in the EU in 2006 and 2009 respectively, the figures shows a relatively high consumption rate for France (2006: 42,1 bcm / 2009: 42,2 bcm), Germany (2006: 87,2 bcm / 2009: 78,0 bcm) and Italy (2006: 77,4 bcm / 2009: 71,5 bcm). Ukraine's consumption for 2006 and 2009 was respectively 67, 0 bcm and 47, 0 bcm. In striking contrast, Poland's figures of consumption in the same years equaled 13, 7 bcm in 2006 and 13, 4 bcm inn 2009. When one observes the trade movements of natural gas between the main EU actors and Russia the figures (by pipeline) show a relatively clear dependency on Russian gas exports. Germany imported a total of 90, 84 bcm in 2006. 36, 54 bcm of this total were imported from Russia, while 26, 80 bcm and 21, 30 bcm were imported from Norway and the Netherlands respectively. France imported a total of 35, 70 bcm in 2006 where 9, 50 bcm came from Russian import. Its biggest import came from Norwegian gas equaling 14, 50 bcm of France's total. Of Italy's total of 74, 27 bcm imports in 2006, 22, 92 bcm were Russian gas. Italy's import of Russian gas were only second to its biggest importer, Algeria, from which it imported 24, 46 bcm. By 2009 figures, all these main countries in the EU reduced their gas imports from Russia – but not in a dramatic fashion as the figures clearly indicates: France's gas imports from Russia amounted to 8, 20 bcm, Germany 31,50 bcm and Italy 20,80 bcm (BP 2007:30,BP 2010:30).

As shown in the above figures, Russia is the EU's biggest energy supplier. The EU is also the biggest investor in the Russian energy sector. But the dependency of gas varies to a great extent within the European Union. Some countries (i.e. Latvia and Bulgaria) are totally dependent on Russian gas, but in the overall picture Russia provides only 7 percent of the EU's total energy needs. The EU receives gas from several other suppliers such as Norway, Algeria, Nigeria and Qatar. Of these sources of import, Norway is the most stable and reliable supplier of natural gas. Other than Norway there are few other areas or states that could be recognized as stable suppliers. Natural gas from Russia accounts for 24 percent of the total consumption in the EU. But the concern over security of supply has reached a level of top priority on the EU's foreign policy agenda. For some members of the EU Russia poses a severe security threat, while for others Russia is an essential partner in dealing with global security and the proliferation issue of weapons of mass destruction.

³ R/P ratio is defined by BP statistical review of World Energy June 2011 (2011:20) as "If the reserves remaining at the end of any year are divided by the production in that year, the result is the length of time that those remaining reserves would last if production were to continue on that rate."

During the latter crisis EU envoys were surprised over the lack of transparency in the Russo-Ukrainian gas relations. After the 2006 crisis, a warning mechanism was established in order to safeguard supplies to Europe. In 2009 this mechanism was completely ignored and EU leaders urged the diversification of supplies and stated that the gas row resulting in a shutdown of Russian supplies were unacceptable. EU's president Barroso accompanied by nine commissioners visited Moscow 6 of February to press for the Russian signature of the Energy Charter Treaty and urge Russia to access WTO as quick as possible. He also stated that it would take many years before Russia had made up for their breach of trust as a reliable partner to the EU. President Medvedev stated that Russia were willing to ratify the charter if it was reformulated to include Russian concerns (Cameron 2009:21-22).

Barroso's and Medvedev's statements are illustrative of the stalemate between the Russian side and the EU. Russia wants access to EU markets for their companies but at the same time they are not willing to accept the same terms and arrangements for EU companies. The view of the inherent conditions of a market and its regulations is diametrically different among the two actors. In the Russian view it can still be a market under a monopolistic framework, on the opposite the EU regards monopoly as being in direct opposition to the very foundation of a functioning market. Cameron (2009:23) gives a precise account of the separate views, stating that the issue of energy security for Russia "(...) is guaranteed by a strong vertical control of the energy sector from extraction to the point of sale. From the EU's perspective, it is guaranteed by an impartial and effective regulatory framework and by diversity with regard to source, supply, transport and sales."

During the 1990's Russia were buried in debt, accompanied by severe financial instability and its involvement in the prolonged war in Chechnya which made it reliant on Western help. This has changed, and high oil and gas prices have made it more powerful and assertive. The revenues gathered from energy exports gave Russia a desired increase on state budgets and in turn a huge decrease of dependency on foreign funds: The amount of hard currency reserves in Russia amounts to the third largest in the world and it has paid off its foreign debts. Russia's new assertiveness has by large changed its relationship towards the EU. They are selective in their approach to the Union and signing long term deals through bilateral cooperation with individual member states – indirectly undermining the Union's principles in its common strategy. As Leonard and Popescu (2007:8) notes, "whereas the EU stands for an idea of order based on consensus, interdependence and the rule of law, Russian foreign policy

is motivated by a quest for power, independence and control". Russia intentions are to further secure and expand its sphere of influence, to have control over its energy assets and secure their economic interests in both their neighborhood and within the EU. But on several indicators, the EU outranks Russia: EU's economy combined amounts to 15 times the size of the Russian economy, the Union's population is three and a half times the size of Russia's population and taking the military spending into account the EU's military spending is seven times that of Russia's total. By examining the trade figures it shows the same trend: 56 percent of Russian exports are bought by the EU and the Union supplies 44 percent of Russian imports. On the opposite, Russia purchases 6 percent of EU's total sales and it supplies just 10 percent of what the EU obtains from abroad (Leonard & Popescu 2007:8).

While the EU seemingly should hold the strongest position, it is de facto weaker than Russia's. In the words of Leonard and Popescu (2007:10) "if one defines power as the ability to achieve objectives rather than as the resources a country commands, Russia is in the ascendant; and it frequently uses that power to weaken the Union". Russia sees the culture of compromise within the EU to be its biggest weakness and Russia has strengthened its political relationships by recruiting big companies to lobby their cause within influential EU membership countries. Russia's state controlled companies have been establishing extensive partnerships with E.ON and BASF in Germany, ENI (Italy), GDF and Total (France) along with Gasunie in the Netherlands. Many of the influential EU member states tend to make their disputes with Russia an EU issue, while at the same time make lucrative bilateral deals. This further reinforces the channel of bilateral cooperation which further undermines the EU's prospect as a whole to achieve key goals of its foreign policy. An illustrative example of the geopolitical energy game between EU and Russia is the 2007 gas pipeline deal struck between Russia, Turkmenistan, Kazakhstan and Uzbekistan – which in effect stopped the proposed plans for European gas supplies through a Transcaspian pipeline bypassing Russia. Russia also signed long term contracts with Turkmenistan and Uzbekistan, putting it in effective control over gas that was available for European exports. This may be regarded as a strategic move by Gazprom in order to fulfill its contractual commitments of future deliveries to Europe and increase European dependence of Russian gas (Leonard & Popescu 2007:13-18).

The EU's inherent purpose upon its very construction is to provide a counterweight to any potential hegemony of a single state on the European continent, which had been a characteristic for Europe in past centuries. The EU commission's mandate and role plays a

vital function in seeking the fulfillment of this overall objective and its mitigating efforts over prospective power politics in Europe along with its pursuit of a common good among member states. As evident in the recent Nord Stream project, but also through its divisiveness on the energy issue in relations with Russia, large powers are not likely to subordinate their relations with Russia to genuinely pursue a common energy policy (Harriman 2010:35).

One of the most influential EU actors is Germany, which is a key factor in order to understand “the EU-Russian gas relationship and ultimately the EU’s limited political capacity in the gas supply issue” (Harriman 2010:35). Also being an EU member state, but with a very different leverage in their energy relations with Russia, is the Baltic country Poland. Their relationship with Russia and its implications will further be empirically mapped under the subsequent variable *Relations to Key Energy Partners* (X3).

3.2.2 Relations to Key Energy Partners and Relation to Ukraine

When one definitely could question the European Union’s stance towards Russia concerning its energy policy and of how vital importance this relation is for both parts, one of several explanatory variables that may influence the dependent variable *Russian actions and management* in the 2006/2009 gas rows are *Relations to Key Energy Partners* (X3) and *Relations to Ukraine* (X4). By employing Noël’s (2008) article as a starting point, it is possible to move further in the operationalization of the latter explanatory variable by utilizing Popescu and Leonard’s (2007) comprehensive classification and power audit of EU states and the nature of their relations with Russia. In their comprehensive assessment, Leonard and Popescu’s research draws on data gathered from researchers in all 27 EU member states, whom conducted a survey on their respective nation’s economical, political and military relations with the Russian Federation. In their comprehensive report, the authors identified five policy approaches to Russia which were shared by both new and old EU member states – ranging from “Trojan Horses” (defenders of Russian interests within the EU system) to “New Cold Warriors” (states with an overtly hostile relationship towards Russian policies).

Neither Popescu and Leonard (2007:1) is merciful in passing their judgment on the (lack of) EU’s common strategy, stating that Russia “(...) is picking off individual EU member states and signing long-term deals which undermine the core principles of the EU’s common strategy” and that Russia “is trying to establish a relationship of 'asymmetric interdependence'

with the EU". Being more specific, the authors further notes that Russia "divides the EU into big and small states, energy dependent and energy independent states, friends of Russia and adversaries, and into states that under-react and over-react to the new Russian challenge" (Leonard & Popescu 2007:26). Also Noël (2008) is overwhelmingly clear in his focal point: The EU does not have a unified stance towards Russian energy policies, which in turn makes bilateral agreements conducted among the influential nations in the Union towards Russia a long term handicap and divisive issue – also a favored and desirable position for the Russians.

The explanatory variable *Relations to Key Energy Partners* (X3) constitutes a motivating condition for Russian policy actions, and will be investigated (empirically mapped) with two very different Russian energy-trading partners in mind: Germany and Poland. The latter is classified as a "New Cold Warrior" and the former as "Strategic Partner". The economic ties with Russia have historically been strong for Germany, and German-Russian trade amounted to a huge sum in 2005: 38, 9 billion Euros. The Russians also supply 42 % percent of Germany's need for gas and thus makes the German market Russia's most important. Along with the completion of Nord Stream Germany is also the leading advocate of integration with Russia and it opposes a full ownership unbundling of EU energy companies. As the EU's economical locomotive it also promotes a Russia-first policy in the Eastern neighborhood. On the contrary, Poland has 70 percent of its gas acquired from Gazprom (and its affiliated RosUkrEnergo), openly opposed the Nord Stream project, explicitly engaging Russia through EU mechanisms and was active in supporting the Orange revolution in Ukraine (Leonard & Popescu 2007). With the independent variable being operationalized into two countries, some core and common operationalized features will be investigated in their relations with Russia. In general, how do these different EU-member states interactions between announcements, diplomatic relations, history and practical politics towards Russia influence the Russian management during the two gas rows?

The impact of the relationship between Russia and Germany has been notable to Europe since the end of the Second World War. Germany has served as a balancing factor between the East and West, and its position among these poles has been an important question for its European identity. This is also of vital importance for smaller states (i.e. Poland), which are uneasy in regard of the Russo-German relationship and are "suspicious (...) when they are good and worried when they are bad" (Harriman 2010:36). Germany is not overtly optimistic on the prospects of a common EU energy policy, and plays a central role via its geographical

location which positions the country in the middle of distribution networks of regional natural gas and electric power. The Germans have been regarded as one of the most influential proponents of European integration through a common monetary union and by including Central European countries from the former Soviet Union. Concerning the issues of renewable energy, climate change and energy conservation, they have been given strong German support. Issues such as liberalization of energy markets (i.e. natural gas) and common external EU policy regarding this have been more hesitant (Duffield & Westphal 2011:169).

Since the reunification of Germany and the constructive role played out by Mikhail Gorbachev and continued by Boris Jeltsin, German policymakers have continued to gratify the Russo-German relationship which also is present today. Following Willy Brand's *ostpolitik* in the 1970's – aimed at improved relations with East Germany, Poland and the Soviet Union, former Chancellor Helmut Kohl was the architect for Russia's relations with the future Europe in the 1990's. Helmut Kohl was not overtly enthusiastic over the membership plans of former Soviet Union republics joining NATO due to the fear of provocation in Russian domestic politics. During the severe Russian financial difficulties in the 1990's Germany also allocated financial help. Germany's policy towards Russia between 1991 and 2005 was intentionally aimed at integrating Russia into the larger architecture of Europe. According to several opinion polls the Russian elite consider Germany to be a trustful partner and a reliable advocate in the West. As opposed to its view on the US, Russia does not consider Germany as a geopolitical rival in its surrounding post-Soviet territory (Rahr 2007:137).

Being Russia's most vital trade partner, German businesses and its lobby overwhelmingly salutes the new possibilities in Russia's emerging markets. The industrialists are keen on Germany's role as the key partner in the Russian modernization process. Having close commercial ties with the political elite since the 1970's they also welcome the strengthened role of the state in Russian domestic affairs, being viewed as a hedge against corruption and increased focus on law and order. Especially in the economic and commercial field the German elites are very satisfied with their position as *the* protagonist for European interest in its relations with Russia, and additionally their mediating role between Russia and the US. But the policymakers in Germany are having a hard time in striking the proper balance on several delicate issues regarding its policy, especially the promotion of business relations, increase the Russian focus of liberal reform and promote incentives for increased growth for

states in the post-Soviet territory. The political leadership in Berlin is dissatisfied with the EU's lacking efforts to promote the development in Europe's Eastern part (Rahr 2007:137-138).

Since 1997 there have been strategic summits between Germany, its main European ally France and Russia, especially in order to promote mutual interests on economic and security issues. The intention behind this strategic forum is to signal to the Russian's that they are being included in European decision-making despite its lack of membership in the EU or NATO structure. Along with his counterpart, the German Chancellor Gerhard Schröder, Putin enabled a strategic energy dialogue between the EU and Russia in 2005. In an earlier speech in the Reichstag during his incipient years of his presidency, Putin proposed a merger with the loaded Siberian energy resources and the more technologically advanced EU. Although the proposal was met with skepticism by the EU which formulated a gradual approach through its "four common spaces" (economic cooperation, foreign affairs, domestic security and cultural issues) and with no further weighty progress achieved, Gerhard Schröder managed to end his Chancellorship with increased economic cooperation in 2005. The outgoing Chancellor oversaw the finalization of the Russo-German Baltic Sea pipeline ("Nordstream"), being severely criticized by the Baltic States and Poland. In 2006 the EU-Russo relationship became weakened, and Russia refused to ratify the Energy Charter which in effect would have brought Russian pipelines under international influence and control. During the EU summit in Finland in 2006, Germany endorsed the increased skepticism within EU after Russia threatened to diversify their energy exports to the Asian markets if the Union would not meet Russian terms. Germany was increasingly concerned of Russia's potential role as a revived energy superpower and its aggressive behavior towards European states (Rahr 2007:139-140).

The Head of former Chancellor Gerhard Schröder's administration, and Germany's Foreign Minister Frank-Walter Steinmeier, envisioned and emphasized the importance of both the continuation and strengthening of energy relations with Russia and the Central Asia region. Steinmeier has criticized Poland's notion of a Western energy alliance and has been a critic of proposed containment strategies towards Russia. He further holds that to not utilize the possibility to maintain relations with Russia ultimately will lead the Russians to engage China in cooperative efforts motivated by a united position against the West. Regarding the field of energy, Steinmeier and his ministry also hold that Germany should support efforts to incorporate both the Caspian and Black Sea producers and transit states within a joint energy

alliance, in which exporter, transit and consumer countries should firmly act according to pre-established rules and regulations (Rahr 2007:140-141).

Not sharing the exact same vision is the present Chancellor Angela Merkel. The Chancellor emphasizes a more pragmatic policy strategy towards Russia and its post-Soviet territory, albeit Merkel's recognition and appreciation of the vast opportunities both German and European enterprises have in the expanding Russian economical market. Merkel therefore is committed to the strategic partnership in Russo-German relations, with a strong emphasis on the issue of energy cooperation. Merkel is sensitive to Germany's relationship with the US, Poland and the European Union and is thus cautious in how far Germany could pursue its policies in relation to Russia without creating severe tensions. The Chancellor is also aware of the crucial role played by Russia as a strategic partner on issues such as Iran, North Korea and in the Middle East region. Thus, pressing for an aggressive agenda in Russia's near territories could provoke unsuitable reactions from the Russian side. Despite Merkel's inherent resistance to actively engage Russia and her skepticism towards their future democratic prospects, she cannot ignore Russia because of the EU's massive needs of Russian energy supplies (Rahr 2007:141-143).

An example to actualize the context between the two EU-countries different point of departure towards Russia in relation to the latter crisis in 2009, is Chancellor Angela Merkel's pressure on the European commission and EU member states to back the continued process of then unfinished Nord Stream, just weeks after the severe gas row of 2009. According to an EU observer (2009) article, the German Chancellor's request to the EU president Topolanek and other member states came into play 24 hours after the EU commission pledged millions of euros to the non-Russian gas pipeline Nabucco and after "(...)Topolanek called Nord Stream and Gazprom's second project South Stream a threat to the construction of the European project." Furthermore, "Nord Stream was highly criticized by the Baltic states, Poland, Finland and Sweden for trying to leave them out by connecting Germany directly to the Russian gas fields (...)" (EU observer 2009). Only days after the previous crisis in 2006, in a time were both business and political leaders were skeptical about the liability of Russia as a stable gas supplier, Merkel publicly announced the strategic partnership between Berlin and Moscow. Thus the Chancellor made clear that the energy strategy between the countries from the previous year was not in severe danger (World Security Network 2006).

The close Russo-German relationship is a particular concern for the Eastern European states. Poland in particular wants to limit the cooperation between the two powerful states or at least be involved through the framework of EU policies (Warsaw Business Journal 2011). The majority of Poland's energy imports (most notably oil and natural gas) come from Russia, and it has recently sought to diversify its energy dependence towards Russia by constructing short term LNG (Liquefied Natural Gas) terminals and long term by development of shale gas (STRATFOR 2012).⁴

Polish history is closely related to Russia, and wars between the nations were numerous in the 16th and 17th centuries. In 1918 the partitions of Poland were annulled by the Soviet government which earlier was conducted by tsarist Russia. Poland regained independence after the First World War when Germany was defeated. The Polish government wanted to reinstate Poland into the 1772 borders of the Commonwealth. The intentions of the Soviet government differed, as they aspired for control of the entire territory of the former Russian Empire and make "Soviet Russia the bridgehead of the world revolution" (European Dialogue 2010). The following Soviet-Polish war of 1920 resulted in different estimated victim rates of 16 000 (according to Polish historians) and 80 000 Soviet prisoners of war being killed (Soviet and post-soviet Russian historians). The following Riga treaty gave Poland control over West Belarus and the western parts of Ukraine (European Dialogue 2010).

A more recent and controversial issue was the Molotov-Ribbentrop pact concluded in 1939, a Treaty of Non-Aggression between the Soviet Union and Germany. Inherent in this pact was the secret additional protocol which defined both Soviet and German spheres of influence in the Eastern parts of Europe. The secret additional protocol was a pre-established agreement over geographical demarcations in Polish territory in the prospective event of territorial and political rearrangements. In the same year, Germany started the Second World War by attacking Poland in September. After a few weeks most of Polish territory was occupied by German troops. In accordance with the Molotov-Ribbentrop pact, the Red Army crossed the Polish border on September 17. The Red Army held 240 000 Polish soldiers in captivity and more than 14 000 Polish officers were interned on Soviet territory. In 1943 the first reports of the massacres of Polish officers in the Katyn forest and other villages carried out by NKVD

⁴ Geology.com (2010) provides the definition: "Shale gas refers to natural gas that is trapped within shale formations. Shales are fine-grained sedimentary rocks that can be rich sources of petroleum and natural gas. (...)Shale gas is found in shale "plays", which are shale formations containing significant accumulations of natural gas and which share similar geologic and geographic properties."

(Soviet's secret police) appeared.⁵ After the liberation of Poland in May 1945 and the following Potsdam Conference, Poland regained its western territories and its construction of socialism was led by the Polish United Worker's Party – with extensive financial assistance by the Soviet Union. Diplomatic relations were established between Poland and Soviet Russia in 1921 and with the Soviet Union in 1945. Being a successor to Soviet Union by law, Russia ratified a Treaty of Friendship and Neighborly Relations with its Polish neighbor in 1992 (European Dialogue 2010).

Following the historical complexities between Poland and Russia, in the popular consciousness the feelings towards each other are deeply charged. But the two states have developed a close relationship in the economical sphere, especially in the sector of natural gas. Poland is an import aspect in Russia's export strategy, being a notable transit country and consuming significant amounts of Russian gas. The overall trend shows a decline in consumption, being 72 percent in 1992 to 49 percent in 2008. The total primary energy consumption in Poland is also lower than the OECD countries average consumption. The Polish imports of natural gas from Russia are transferred through pipeline, and Polish dependency on Russian imports have historically impeded their bilateral relationship rather than strengthened it. Although the consumption of natural gas is significant, the Polish dependency of Russian oil rather than natural gas has grown steadily over the last two decades. Traditionally, and since the end of the Second World War, the Polish energy production has primarily come from coal – a natural consequence for a country that deposits some of Europe's largest quantities of coal. This low cost energy source accounts for about 60 percent of Poland's total production of energy and electricity, but it is also a highly polluted.

The development of a functional gas market in Poland has materialized very slowly. The reason for the inertia has several explanatory elements. One is that Poland requires most of its natural gas imported due to lack of significant deposits, and as a consequence the political

⁵ The historical record of the gruesome effects of the Molotov-Ribbentrop Pact and its subsequent effects - most notably the massacres of Polish officers is provided by Sanford (2006:95): "On 5 March 1940 the Politburo, the leading committee of the Soviet Communist Party, officially ratified a decision taken by Stalin a few days earlier to execute about 15,000 Polish prisoners of war (PoWs)."(...) "During April–May 1940 the Starobelsk PoW's were taken by train in almost daily convoys to be shot in the NKVD prison cellars in Kharkov and to be buried in a forest park close to the city. Those from Ostashkov were similarly transported to be shot in the NKVD prison cellars in Tver and buried in the greatest secrecy at Mednoe, a small village about 20 miles distant. Those transported from Kozelsk were, apparently, shot and buried in one fell swoop in the Katyn forest 12 miles from Smolensk. The Germans occupied this region following their June 1941 invasion of the USSR but Reich Propaganda Minister Joseph Goebbels chose his moment carefully to announce the discovery of the Katyn bodies only in April 1943."

leadership in Kremlin preferred to export gas to Western countries with a higher price rate rather than subsidize Poland in the 1960's and 1970's. West Germany, being the largest Russian gas consumer, contributed to a significant decrease in the progress of developing a functioning Polish gas market. This was primarily due to the almost no existing relations between West and East Germany, which led West Germany to receive any gas transmitted through the East. Thus, Soviet routed its construction of their pipeline network through Ukraine, further through Austria before finally reaching Germany from the southeast. This had implications for the northern corridor (and the transit of gas destined to Europe via Belarus and Poland), which practically was not utilized until the dismantling of the Soviet Union (Stone 2010:73-75).

After the corrosion of the Soviet Union, Poland sought to integrate fully with Europe. The requirements for a prospective EU membership came along with several demands especially regarding its energy sector: Poland had to reduce its pollution derived from its massive reliance on coal production and the state control and influence over the energy sector had to be decreased. These new developments and the prospective growth of its gas sector made headway for other actors in the region, especially newly united Germany and the Russian giant Gazprom (spurred out of the former Soviet Ministry of Gas). The German company Wintershall was eager to cooperate with Gazprom in order to challenge the dominant German company Ruhrgas (presently E.ON Ruhrgas). Gazprom needed hard currency and profits which Wintershall provided. The Russian perspective was also focused on a revival of the northern corridor, being an important element in their overall geopolitical perspective due to tense relations with Ukraine after their declaration of independence. Subsequently, in 1996 Wintershall, Gazprom and the Polish Oil & Gas Company agreed on the construction of the Yamal-Europe pipeline which would transit gas destined for Europe from the Yamal fields in Russia via Belarus and Poland. The Polish company agreed to buy between 6-7 bcm per annum. The rest of the gas was destined for Germany. From a Polish point of view, they were skeptical of increased dependency on Russian gas, but the physical pipeline would boost its integration and relations with Germany. Additionally, the new pipeline would decrease their dependency on pollution intensive coal production and in turn provide leverage to their prospective membership potential in the EU. The pipeline project did not live up to the expectations, and the Polish Oil & Gas Company only managed to build two out of five

agreed compressor stations for the network operation. At the projects opening, the pipeline output of natural gas flows was far below the initially expected 33 bcm (Stone 2010:76-78).

Further problems in the Polish-Russian relations occurred from the new millennium and onwards, but they were not related to the issue of gas. Drastic developments took place in Poland's history among nations when they became NATO members in 1999 and a few years later became a full member of the European Union in 2004. The NATO membership was accomplished despite the fury of the paralyzed incumbent Russian President Boris Yeltsin. Russia saw the Polish membership as both a dangerous and disrespectful action performed by their neighbor. By embarking upon full membership, Poland also agreed to reduce its dependency on Russian gas in accordance with the wishes of the EU. Fuelling the Kremlin's fury, Poland actively supported the Orange revolution in Ukraine late 2004 and 2005 and was the leading state in the supervision of the election between the pro-Western Yushchenko and the pro-Russian candidate Yanukovich, which the former eventually won. Yanukovich's political platform was to orientate Ukraine towards Russia rather than Europe. The developments went even further: In 2005 Lech Kaczyński was elected Poland's President. His political platform and political message was overtly anti-Russian and filled with communist criticism. The President elect also encouraged and supported Ukraine's prospective NATO and EU memberships. The political elite in Moscow was severely angered over its neighbor's drastic developments, especially their encouraging agenda towards Western orientation in Russia's near abroad and sphere of influence (Stone 2010:79-80).

The Russian relations with Ukraine, Poland and Belarus had severe implications for the gas sector. The Ukrainian gas crises along with gas disputes with Belarus in 2004 and 2007 led Gazprom to the conclusion that the transit routes to the Western European market were no longer reliable. A strategy vividly pursued by Gazprom in this period was the acquisition of transmission networks in countries that provided transit. The intention behind the "share bonanza" in the downstream networks is to avoid price increases and gas siphoning from the countries that provide transit of Russian gas. Consequently, Gazprom's efforts to position itself in the Polish downstream market have been fueled by the liberalization of the energy market mandated by the EU. Gazprom have been actively taking advantage of the EU's market liberalization policy since 2003 in acquiring vital infrastructure throughout Eastern part of Europe. Poland has proved to be a fierce opposition towards this policy, and the recent Nord Stream pipeline has been named a new Molotov-Ribbentrop Pact by former President

Kaczynski and PM Donald Tusk. Poland's fierce resistance towards the market liberalization has emphasized the lack of reciprocity for European companies in the Russian market and thus should not allow Gazprom the same privileges on Polish soil (Stone 2010:78-80).

The Secretary of State at the Ministry of Economy, Piotr Naimski (2007:3), endorse Poland's resistance towards Russia and emphasize the importance of decreased dependence on Russia: "(...) I can say that Polish national sovereignty is strongly correlated with the ability to assure independence from Russian energy resources and pipeline infrastructure." The Russo-Ukrainian gas rows also had an impact on the Polish view of the nature of Russian gas and its substantive purpose by Naimski (2007:9) stating that "(...) The Russian Federation uses its natural resources as a tool of hard-power foreign policy and not as a market commodity. Commercial competition need not turn into national rivalry but it does in the case of Russian oil and natural gas." On the issue of the EU's policy of liberalization of the energy market, Naimski emphasize that this pose a grave danger to the energy security for member states. On Poland's stance on the issue, Naimski (2007:12) fears that its mid-term diversification strategy would be in the balance: "Taking the geopolitical situation of Poland into account, full market liberalization introduced before diversification of supplies is implemented, may make impossible the latter to be finished."

Naimski has also emphasized Poland's urge for the EU to stand together in solidarity to ensure full leverage behind the issue of collective energy security. This is evident during the 2006 Russo-Ukrainian gas crisis when Poland proposed an intergovernmental agreement named the European Energy Security Treaty. According to Naimski (2007:13), this "(...) would provide assistance to the country, whose energy security is in danger." The commitments of the treaty had its inherent collective approach in that "the parties agreed that a threat to the energy security of one of them will be considered a threat to the energy security of all of them" (Naimski 2007:13). He further stated that Poland believes in a collective approach, "even though the EU countries seem to prefer to act on their own" (Naimski 2007:14). The Minister of Economy elaborates further on the EU's role towards Russia, not being satisfied with current affairs: " While the official strategy of the Russian Federation provides for the use of energy resources to obtain political goals, the biggest European countries remain silent, and the concern grows bigger" (Naimski 2007:16).

It is evident when looking at Germany and Poland, that they have different approaches and leverage towards Russia and the issue of energy. This also implies that these countries' strategies and policies are influenced in a different way when related to energy security in a European context. As Godzimirski (2009:175) points out, actors like Germany emphasizes long term supply contracts as essential for Europe and will act accordingly, while Poland fears that their energy security will be at risk due to political employment of resources and thus pursue different strategies and prefer other measures to be taken.

A final focus within the Complex Interdependence approach is the variable *Relations to Ukraine* (X4), which is treated as an enabling framework condition for Russian policy actions. When comparing Ukraine and Russia on such parameters as resources and energy (inter)dependence – it is quite clear that Russia is the more powerful actor. Though at the given time of both crises, Ukraine as a transit country to Russia's most lucrative market in Europe accounted for 80 percent of Russia's gas transmitted through their borders. According to BP (2011:22) the Russian Federation produced 595, 2 and 527, 7 billion cubic meters of natural gas respectively in 2006 and 2009. In 2010 Russia produced 18, 4 % of the world's total. Ukraine's production were 18, 7 and 19, 3 bcm in 2006 and 2009. In 2010 Ukraine produced 0, 6 % of the world's total of natural gas. In 2010, Russia and Ukraine held 23, 9 and 0, 5 % of the world's proven reserves of natural gas respectively (BP 2011:20). Ukraine is not included in the 2006 overview, but in 2009 all of their natural gas import (24, 15 bcm) came from Russia (BP 2010:30). Russia is also Ukraine's main trading partner, providing 29, 1 % (import) and 21, 4 % (export) of its total trade. Russia's main trading partners are China (import) and the Netherlands (export) with respectively 14, 2 % and 12, 3 % of its total trade (CIA 2011).

3.2.3 Institutional Framework

The variable Institutional Framework (X5) is in this study regarded as an enabling framework condition for Russian policy actions. The EU-Russia energy dialogue was launched with the initiative of then Presidents Chirac and Putin and EU commissioner Prodi as recognition of the EU and Russia as partners with mutual interests concerning energy and energy security. The intention of this forum was to provide a dialogue between the two actors on its common energy interests and integrate both into a closer relationship. Regular working groups between representatives from both actors have met regularly to discuss four main points in their relationship; Energy strategies, transfers of technology, energy efficiency and investments.

During the second half of 2005, a permanent Partnership Council (PPC) was established in order to add a new dynamism to the dialogue. More structure, focus on vested interests – including business and political authorities from both the EU and Russia – were its core components. Despite this, positive practical measures remain vague and different interpretations and priorities from both parts have stalled the practical implications among the actors, especially on the Energy Charter Treaty (Monaghan 2006).

The Energy Charter Treaty is the only legally binding multilateral instrument concerning intergovernmental cooperation in the energy sector. All 27 EU member states and European communities have ratified the ECT, except Russia, who has signed the Treaty but not ratified it (Leal-Arcas 2009:358). According to the Energy Charter Secretariat (no date) the role of the treaty is “to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments (...)”, and further plays an important role as an “(...) international effort to build a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development”. Martin Bartenstein, the president of the EU Energy Council, was eager to ratify the Treaty with Russia – but their counterpart was hesitant. According to Bartenstein, the Russian side was reserved in its response to the treaty ratification – while at the same time putting the pressure on for a transit protocol to guarantee freedom of transit through existing grids (Monaghan 2006). Russia and The EU has been negotiating over a Transit Protocol since 2000, which has not come in to force due to an off-and-on negotiating climate. Both Gazprom and Russian officials has claimed that the ECT is almost useless in gas transit disputes, and additionally that it is incompatible with Russia’s interests and should subsequently be amended (Leal-Arcas 2009:361).

Monaghan (2006:3) argues that in the backdrop of this, fundamental differences exist between the two actors: Russia wants support for modernization of its energy sector and aims for further protection of this vital sector, while the EU wants reformation and opening of Russia’s market via the formation of a positive business climate. As Noël (2008:2) points out, the EU’s strategy of a depoliticized and regulatory reform of the gas trade with Russia has more or less failed. Russia's intentions of the opposite (a politicized relationship), can explain the failure of the energy dialogue of the late 1990’s and the failure of securing Russia’s ratification of the Energy Charter Treaty. This was made clear by then president Putin at the EU-Russia summit in Sochi on May 25 2006, where he explicitly rejected the EU proposals on the restructuring

and depoliticizing issues of the gas relationship. Regulatory provisions sought established through the first and second gas directive enacted respectively 1998 and 2003, were aimed at the unbundling of gas companies and the establishing independent regulation of transmission system operators. Albeit these provisions, the EU market for gas has remained severely dysfunctional and the much sought after market integration has not progressed as intended.

Also belonging within the institutional framework is the EU's deployment of a monitoring commission. Following the humanitarian crises during the Russo-Ukrainian gas row in 2009, Chancellor Merkel proposed on January 7 2009 to establish an independent monitoring commission composed of European, Russian and Ukrainian experts. The monitors deployed a few days after, but did not have any significant effect on the outcome. The complete stoppage of gas deliveries during the 2009 crisis violated article 7 (concerning transit) in the Energy Treaty Charter. Ukraine ratified this treaty; Russia did not (Westphal 2009:16-18).

3.3 From outside-in to an inside-out perspective on Russian foreign policy-making

The variables *Relations to Key Energy Partners* (X3) and its core components through stated goals and announcements, diplomatic relations and history for both Germany and Poland in their relations with Russia have been mapped. *Relations to Ukraine* (X4) have also been empirically mapped along its indicators Ukraine, resources and (inter)dependence. I will in the subsequent sections empirically examine the two final variables: *The influence of Gazprom in Russian Policy Making* (X6) with an emphasize on political leadership and Gazprom, and *Institutions – Preferences and Influence* (X7) operationalized in terms of the Ministry of Foreign Affairs (MFA) and the Presidential and Governmental Administrations. X6 is considered to be an enabling or a limiting framework condition for Russian policy actions.

X7 is theorized as a motivating condition. These variables and their operational indicators belong within the inside-out perspective of the foreign policy making environment of the state. The final explanatory variables draw on the theoretical foundations of Moravcsik (1997), Gourevitch (1978) and Graham T. Allison (1968). These variables accounts for two levels of analysis, namely characteristics of the key influential actors and the power games of internal politics within the foreign policy oriented administrations – and the internal social and domestic politics context.

3.3.1 The influence of Gazprom in Russian Policy Making

According to Gourevitch (1978) one has to discover how groups and organizations use different means when pursuing their goals in the interactions with several institutions. This is a chain of events in which each step can affect the final result. Gourevitch (1978) dubs this “coalitional analysis”: The main source of explanation of policy is to discover and explain the content of the group interests and the alliances and factions that arise among them.

Gazprom was a substantive actor in both the gas rows with Ukraine, as well as additionally being Russia’s most important company in the energy sector operating both domestically and abroad. In 1989 Gazprom “Kontsern” was created by Victor Chernomyrdin. Chernomyrdin became the company’s first president and subsequently served for several years as the Prime Minister of Russia. In 2003 Gazprom was registered as an OAO (Open Joint Stock) company, and it obtained licenses issued to the company to explore and produce hydrocarbons. There were few changes in Gazprom’s ownership structure in the years 1993-2004. The Government possessed 35-40 percent of the shares, Russian legal entities held the same amount; while individuals (also employees of Gazprom) held 15-20 percent and foreigners had 10-12 percent of the company’s total shares. The first signs of a shielding of Gazprom as a company were evident at the end of the 1990’s when two decrees were passed, thus limiting foreign ownership control of Gazprom to 14 percent. The Law of Gas Supply additionally prohibited foreign shareholdings in the charter capital of the company to 20 percent. In the beginning of 2003, an increased state ownership of the company was accomplished by a shareholding of 51 percent by the Russian state consolidated between the state and Gazprom along with its subsidiaries (Stern 2005).

Gazprom’s governance and especially the Russian governments shareholding position was deeply contested issues in Russia during the 1990’s. A particular controversial topic was the presidential decree issued in 1996 that gave Gazprom the right to vote 35 percent of the government’s total share of 40 percent over a three year period. The company’s engagements on the political arena in the late 1990’s was also subjected to harsh criticisms: Gazprom gave financial support to Victor Chernomyrdin’s party “Our Home is Russia”, and in the 1999 elections 130 candidates were supported and provided with private political consultancy. In June 2001 the term of office for Chairman of the company, Vyakhirev, had expired. The new Head of Gazprom became Alexei Miller, who at that time was Deputy Minister of the Ministry of Energy. Little information was available on Gazprom’s new top man; except that

Miller had previously worked with President Vladimir Putin at the Mayor's Office in the President's home town, St.Petersburg. Changes in the Gazprom management were more or less immediate, as the previous management either had retired or been replaced. By the midst of 2005, of the nineteen members of the Management Committee in Gazprom only three remained from the old administration – eight of the new members were from *Piter* or enjoyed close relations with Miller or Putin. With Miller's arrival Gazprom became a very close part of the state with direct links to President Putin, with Gazprom often being referred to as a "state within the state" (Stern 2005:172).

By 2010 figures, the Russian state remains as the main shareholder with a total share of 50,002 % (Gazprom no date). Gazprom's official webpage elaborates further on the substantial aim of the state's takeover maneuver: "The move enabled to reinforce the state's control over the company being of strategic significance for the national economy" (Gazprom no date). It is clearly stated that the state's takeover is made with the intent of controlling a company which is vital to the Russian economy. This empirical fact coincides with president at the time Vladimir Putin's statement that Russia's national idea was to be competitive. As Godzimirski (2009:179) points out, in order to exercise control over the energy sector in a more direct fashion, the Russian political leadership has been aiming for the strengthening of the ties between the political and the economic elite. Putin has effectively placed his close allies in central oil and gas companies (Alexei Miller and Dmitry Medvedev in Gazprom, Igor Sechin and Sergei Naryshkin in Rosneft, and Sergei Vainshtokh and Viktor Krishtenko in Transneft) and through these made strategic decisions on the sectors future development.

3.3.2 Institutions – Preferences and Influence

Graham T. Allison's (1968) perspective on foreign policy decision-making provides a model for further in-depth analysis of bureaucratic politics.

Allison's (1968) pioneer-like article from the late sixties highlights an alternative pathway to understand and analyze the 2006 and 2009 Russo-Ukrainian gas rows. The BPM model offers a perspective which emphasizes how different aspects of internal politics within the state apparatus and its key actors contribute and shapes the process of foreign policy decision-making. The BPM-model thus provides an internal perspective in a more person- and position-oriented form. The basic unit of analysis in this model is the political actors and the bargaining games in the "game of politics". Applying this model to explain an occurrence,

would be to identify the game and map the political actors competing for different desired outcomes with their respective resources.

Romanova (2009:16-17) argues that it is noteworthy that energy is an omitted field of responsibility for both the Ministry of Economic Development and Ministry of Industry and Trade. This implies that energy is a shielded sector from the rest of the economy. The regional authorities, being stripped of their independence and competence (through the abolition of direct elections and the current appointment made by the president), have little influence in the decision process of energy policy. Federal authorities functions both as a regulative authority, but also a contractor. Gazprom is almost a monopolist in the natural gas sector of Russia, controlling about 62 % of the resources available and produces 84 % of Russia's natural gas. The independent producers do not have the right to produce quantities for export and domestic gas prices in Russia remains at a low level, which makes the independents underrepresented in the daily activity of the energy sector. An additional and vital point is that the independent companies' access to domestic consumers are limited and determined by Gazprom because of its ownership of the pipeline network in Russia. The Russian government has been actively involved in the making of Gazprom as the main actor, accusing independent companies of several violations in natural resources projects and finally forced their ceeding of shares to Gazprom. Additionally, the authorities further increases Gazprom's position in the market by Russian law which in effect assigns the exposition of strategic gas deposits to the owner of pipeline infrastructure, being Gazprom in most cases (Romanova 2009:18).

Polikanov (2009) argues that under the leadership of Putin as both President and Prime Minister, the foreign policy of Russia has more than ever been tied to domestic developments. The "siloviki" group (former intelligence professionals within the state apparatus) within the Presidential Administration is well known for their ideals of "state capitalism" and further willingness to obtain national control over strategically important industries through the workings of government, especially the lucrative energy sector. Polikanov (2009:65) stresses the narrow circle of decision-makers on foreign policy issues and states that this process is "highly personalized and is concentrated in the hands of the President and his close entourage, namely different units within the Presidential Administration". Polikanov (2009:68) views the MFA as a body of implementation, quoting the independent Duma politician Vladimir Ryzhkov: "Russia's foreign policy is determined by the President and the Foreign Ministry

implements it”. But the head of the MFA since 2004, Sergey Lavrov, has been more assertive in diplomatic wars than his predecessor Igor Ivanov. Polikanov (2009) also remarks that president Putin has not been satisfied with the MFA, and wants it to provide increased intellectual breakthroughs and be more proactive in promoting Russia’s interest – emphasizing the sphere of economic interests.

The role of the Governmental Administration and the Presidential Administration is also of vital interest in order to illuminate the structure of the decision making process during the crises. As Romanova (2009:16) notes, key personnel from the Presidential Administration followed Putin to his Governmental Administration after Dmitry Medvedev won the 2008 presidential election. As a result, there was a strong tendency that the main directions of the energy policy were determined there. The ministries and services that relate to the energy field are accountable to the head of government (being Prime Minister Putin), and not directly to the president as several other ministries, including the MFA). Under Putin’s presidency strategic energy planning was conducted both by the Governmental and the Presidential Administration. Romanova (2009:11) outlines two key features concerning the symbiosis of the state and the energy sector: The belief in the state as the key agent of modernization through vital sectors such as energy for the society as a whole, and traditionally weak institutions that make Russia rely more on personalities in formulation of policy. The political leadership is personally interested in the revenues from oil and gas, but these revenues also play a vital role for the reformation of the rest of the economy and the society as a whole. Key to this is according to Romanova the maximization of profit - which is a fundamental and predetermined factor in the strategic energy thinking. This is evident on several levels, but especially in investments in natural gas distribution to its main export market, the EU. What Romanova (2009:11) points out as “the inherent idea” is that profit is highest in distribution (downstream) while upstream activity is costly and requires massive investments.

In the official document Foreign Policy Concept of the Russian Federation (President of Russia 2000:1) which was approved by President Putin, it is stated that the Concept “(...) is a system of views on the content and main areas in the foreign policy activities of Russia”. Regarding the shaping and implementation of Russia’s foreign policy it is stated that the president “(...) shall provide guidance of the country’s foreign policy and as the Head of State shall represent the Russian Federation in international relations”, while the role of the MFA is to “(...) provide direct implementation of the foreign policy course approved by the President

of the Russian Federation” (President of Russia 2000:12-13). In the more recent concept approved by president Medvedev in 2008, the role of the MFA is stated as “The Ministry of Foreign Affairs of the Russian Federation develops a general foreign policy strategy (...)” and should implement it in accordance with the concept, but it is also stated that “The Government of the Russian Federation acts to implement the country’s foreign policy” (President of Russia 2008:11).

As stated in the 2000 concept, the ultimate aim of Russia’s course in foreign policy “(...) is to protect the interests of the individual and the society” and that “Russia should seek to achieve a multipolar system of international relations (...) with its great variety of interests” (President of Russia 2000: 1, 3). Regarding the main objectives in Russia’s economic relations, the Concept states that Russia’s main objective is to “(...) promote the development of the national economy (...)” and further to “(...) assist the expansion of domestic export and rationalization of import into the country, as well as Russian entrepreneurship abroad, uphold its interests in foreign markets (...)” and further that “Russia must be prepared to utilize all its available economic levers and resources for upholding its national interests” (President of Russia 2000:4). In the Foreign Policy Concept of 2008, approved by President Medvedev, the statement is even more specified regarding the Russian State and prospective economic achievements: “The Russian Federation provides state support to Russian enterprises and companies in getting access to new markets and in developing traditional markets (...)” (President of Russia 2008:6).

In chapter 4 of the 2000 concept under the section “Regional priorities”, Russia’s relationship with Europe is emphasized – stating that “Relations with European states is Russia’s traditional foreign policy priority” and “of key importance are relations with the European Union”. In relation to the EU and Russia’s role in the relationship with the Union, the Concept states that “(...) Russia will seek due respect for its interests, including in the sphere of bilateral relations with individual EU member countries” (President of Russia 2000:9). In the 2008 Concept a more specific account is elaborated on regarding relations with European states: “The development of mutually advantageous bilateral relationships with Germany, France, Italy, Spain, Finland, Greece, the Netherlands, Norway and some other Western European States is an important resource for promoting Russia’s national interests in (...) world affairs”, and also that these bilateral relationships are important for “(...) putting the Russian economy on an innovative track of development” (President of Russia 2008:9).

Meeting with the foreign media on January 8 2009 in the midst of the latter gas row, PM Putin elaborated on the Russian intentions concerning the gas crisis in 2006: “The need to adopt to market principles in the sphere of gas supply and concern for Europe’s energy security were our motive in January 2006 under the difficult conditions (...)” and continued his statement regarding the former crisis saying that “ (...) we managed to separate the contracts for gas supply to Ukrainian consumers and for transit to Europe. I think it is a very important fact in terms of European energy security” (Prime Minister of the Russian Federation 2009:1). Also commenting on the issue of Gazprom’s position and prospective price increases in the European gas market, PM Putin remarked that “ price does not depend on us, it is determined by the market and not by administrative decisions” (Prime Minister of the Russian Federation 2009:1).

With Putin being the most visible political persona in both crises, it is important to examine the main camps and their possible influence within the Presidential and Governmental administrations. Larsson (2006:60) argues that two main camps can be found within these administrations with its own views on the economic and energy policy. The first faction is considered as conservative hardliners belonging to the “siloviki” camp, which advocates increased state control over the energy sector. As remarked above, persons belonging within this faction are mainly personnel with an extensive background in the former Soviet system’s intelligence services. The hardliners are informally led by Igor Sechin which is deputy head of the presidential administration and has been a loyal ally towards Putin since 1991. The Minister of Natural Resources, Yury Trutnev, embraces the general views of Putin and has made public threats of revoking licenses to companies which do not develop the resources they are granted by the state. Putin replaced the liberal Mikhail Kasyanov as his Prime Minister in favor of Mikhail Fradkov in his second presidential term. Fradkov stands firm on Putin’s side regarding the views of increased state control of the energy sector. The hardliner camp enjoys a massive support in the national assembly (the Duma), which in turn makes headway for strong decisions.

The other main faction is the liberal camp, which is headed by Dmitry Medvedev (Larsson 2006:61-62). In 2000 he became the Chairman of the Board in Gazprom and later in 2003 he headed the Presidential Administration. In 2005 Medvedev was appointed First Deputy Prime Minister and consequently resigned from his current office as Head of the Presidential Administration. Later President Putin put Medvedev in charge for several national priority

projects such as education, public healthcare, infrastructure and agriculture (Russia Today 2008). In the 2008 presidential election, Medvedev was Putin's desired successor and was elected Russia's third president with a total of 70, 2 % of the votes (The Guardian 2008). The Deputy Minister of Foreign Affairs, Andrei Denisov, also belongs within Medvedev's liberal faction and has opposed Putin's argumentations on state control, emphasizing that the Russian state should pave the way for a liberalized gas market with competition among companies. Another prominent figure within the liberal faction is the Minister of Economic Development and Trade, German Gref, who has openly criticized the extensive state involvement in the Russian energy sector (Larsson 2006:62). Gref served as Minister from 2000 to 2007, before he was appointed president of Russia's biggest commercial bank – Sberbank. Later in 2009 he joined the board of Lukoil, another influential Russian energy company (Russia Profile 2010).

The liberal camp further consists of several other influential persons, among them Andrei Illarionov (Putin's economic advisor), Igor Ivanov (former Foreign Minister), Anatoly Chubais (former First Deputy Prime Minister and Head of state owned electrical company RAO UES), Alexander Zhukov (Deputy Prime Minister since 2004) and Alexei Kudrin (longest serving Finance Minister in post-Soviet Russia, serving from 2000-2011) (Larsson 2006:63, The Moscow Times no date).

Despite several replacements during Putin's two presidential terms, it is estimated that 58 percent of the people closest to Putin consists of "siloviki" hardliners. The agendas of these individuals may vary, but the *modus operandi* of the hardliners is quite similar: The culture created by this faction is a silent and common understanding of what needs to be done and how to pursue the objectives to get it done. The formal powers of the president and the Presidential Administration are comprehensive and continually increased. As noted by Larsson (2006: 116), the common denominator between Putin and the influential persons involved in Russia's energy sector is that they all have their roots in the former team of the powerful mayor of St. Petersburg, Anatoly Sobchak, in the early 1990's. Alexei Kudrin, Anatoly Chubais, Alexei Miller, German Gref, Igor Sechin and Viktor Ivanov all originate from this St. Petersburg clique. Alexei Miller, the CEO of Gazprom, is allegedly in an uncontested and privileged position where he meets with Putin three times a week – and considered a very loyal associate to Putin. During times when different structures of the state have divergent interests and opposes each other or third party actors, it is usually done by using *soglasovanie* (bureaucratic coordination agreements). It is hard finding exact evidence of openly internal competition,

but as Larsson (2006:65) points out “(...) the larger pattern suggests that it exists and that the centre of power, i.e. the Presidential Administration, is not strong enough fully to coerce a specific outcome at every level”.

CHAPTER 4 EMPIRICAL ANALYSES

The purpose of the present chapter is to analyze the empirical evidence presented in Chapter 3 in relation to the seven hypotheses deduced in Chapter 2, with the aim at deciding what hypothesis find support in the empirical facts. The analysis is conducted in three phases: (i) Several partial analysis of each of the hypotheses; (ii) two comprehensive analysis of the “interplay” of several variables in the two crises respectively; and finally (iii) the concluding comparative analysis of the two cases.

This chapter is organized in two parts: First, I will systematically examine each of the hypotheses individually and chronologically in relation both to theoretical aspects and to the empirical material. This, in turn, will provide some indications over the different variables possible influence on the Russian management of the crises, which will be examined more thoroughly in the subsequent part. In part two, all explanatory variables included in the seven hypotheses will be examined as a coherent whole aiming at a synthesis. Here, I will also examine whether the two gas rows may be interconnected, and if and in what way the interconnection influenced Russian crises-management. As point of departure for the concluding analysis, I apply Fermann's (2010) FPA-model with thesis-specific applications as illustrated in Figure 1, (p.17).The three levels covering both external and internal influences, which further affects Russia's foreign policy scope of action, are important to illuminate the foundation for Russian policies conducted in the two crises.

4.1 Partial analysis of hypotheses H1 through H7

In the subsequent section I will analyze the hypotheses chronologically in order to examine whether the hypotheses are strengthened or weakened in the light of the empirical material, but also within the theoretical framework that has been accounted for.

4.1.1 Increased influence and control over European downstream (H1)

Is there empirical evidence to support the assertion that “Russian policy actions were motivated by the urge to influence and control its downstream gas-flow to Europe (H1)”? As a theoretical platform for the global environment and its influence on Russia’s policies and

management, Waltz' (1979) structural realism theory has been utilized. Waltz and structural realism theory recognizes states as the only legitimate actors in international relations, and emphasizes that their interests are predisposed and fixed. The ultimate interest for a nation state is according to Waltz (1979) survival, and the actors can utilize various strategies in order to ensure their survival. The states are also equal in their original function, because no one is ordered to command or obey – thus equaling a decentralized and anarchic world. Due to the anarchical world order in the realm of international relations, *power* and *capabilities* are of vital importance for how the flora of states positions themselves in the system. In sum, it is the capabilities that in the end constitute a state's total power. The total power of states is something that is conducted in relation to other states in the system and the measurement of power is also related to which amount of power other states possess. The amount of power also shapes the behavior of the states in the international system. States may have different forms of domestic political regimes, ranging from liberal democratic states to authoritarian regimes; Waltz (1979: 99) precisely sums it up by stating that "(...) we abstract from every attribute of states except their capabilities". Among others, such attributes would be military resources, economic strength, technology and geography.

In the great geopolitical sphere of energy, it is clearly evident that some vital parameters of capabilities stand out between the actors involved in the two disputes. If one is to follow the theoretical foundations of Kenneth Waltz' (1979) structural realism, the causal chain of the operational feature in the variable *Russian Downstream Control* (X1) would be the capabilities inherent in economy and resources – which in turn could affect the power balance and the energy (inter)dependence among the actors. Along the resources parameter Russia is clearly the dominant actor as evident by the empirical facts both in production and R/P ratio for natural gas. Russia is also Ukraine's most important trading partner; while the former's most important trade partners are China (import) and the Netherlands (export). The relative strength and power among the two actors when considering the featured capabilities thus seem obvious in favor of Russia.

But Russia is also highly reliant of their revenues from export of their vast natural resources, such as natural gas. To have a highly resource-dependent economy could also prove to be a severe weakness. The gas price is tightly correlated with the oil price, and the market of these commodities is severely volatile when facing a global financial turmoil as occurred in September 2008. The financial meltdown affected a whole world, including Russia, but

Ukraine was hit even harder by the global recession. As Pirani (2009) has noted, Ukraine's industrial production was down by 26, 6 percent year-on-year in December 2008 and the IMF granted a loan amounting to 16, 5 billion. Thus at an overall glimpse of both Russia and Ukraine through the lenses of parameters such as economy and resources, Russia is the evident beneficiary in both crises.

Another parameter is the energy (inter)dependence among the involved actors which is directly linked to the power balance. Having established Russia as the obvious stronger and more powerful actor through given parameters such as economy and resources, it is also possible to categorize the Russians as more vital for Ukraine in terms of energy dependence than vice versa. In 2009, Ukraine imported all of their natural gas (24, 15 bcm) from Russia, and their huge eastern neighbor is also Ukraine's main economical trading partner (BP 2010:30). But Ukraine has one vital advantage, namely that 80 percent of Russian gas destined for Europe travels through their borders via the physical infrastructure of a pipeline network. This directly implies that Ukraine effectively controls as much as three-quarters of Russian gas exports and a substantial part of its downstream. It also indirectly implies that the economical life line of the Russian states revenue from its important energy export is outside their borders and is vulnerable due to political as well as commercial frictions that occurred in the two crises.

The gas relations between the countries have been tormented by instability ever since the corrosion of the Soviet Union, and accumulated Ukrainian gas related debts to Russia followed by supply interruptions has been a regular tale during the 1990's. It has also been established that Ukraine have been siphoning off gas destined to European consumers countries, first and foremost Germany. As Pleines (2008:8) has remarked, in the early 2000's Ukraine was indebted to Russia by 1, 4 million dollars related to gas deliveries. Assuming in the theoretical spirit of structural realism that Russia is a rational actor, it would not be an unfair assumption that Russia would seek increased control over their main economical source of income – namely the supply of Russia's vast resources of natural gas to European consumers. After Russia's repayment of its foreign debts and massive revenues from their energy exports, the very capability to ensure and safeguard their main source of revenue would be the renewed economic leverage which seem massive compared to their debt-ridden counterpart in time of both crises. If in sum the capabilities of one state make up the state's total power, and the primary foci of this power are utilized to ensure the most vital aim of a

state, namely its survival – then economy and resources could be regarded as two of Russia's most important assets. It would further be in Russia's direct interest to safeguard their assets at almost any means necessary to ensure the survival of the state. Increased control over the downstream flow of its most vital source of revenues would then be a rational object to pursue for long term security of its survival.

This is evident by the time of summer 2004, when a consortium agreement was in the making – effectively giving Gazprom downstream control over Ukrainian pipelines. Gazprom even offered Naftogaz Ukrainy a loan to cover previous debts and to ensure deliveries of Turkmen gas to Ukraine provided by Gazprom, being effectively in control of downstream operations. The “Orange revolution” and the elected President Viktor Yushchenko's announcement of the final death of the consortium agreement put an effective stop to the Russian's prospective aim of downstream control within Ukrainian borders. Pointing at the fact that European border prices of natural gas rose rapidly and Gazprom's subsequent wishes for a price increase in natural gas deliveries to Ukraine, sparked fierce negotiations among the actors leading up to the 2006 shutdown. From the Russian side, the options for Ukraine were as simple as they were crystal clear: Accept European netback prices (between \$116-230/mcm) or provide Gazprom with an equity stake in the Ukrainian pipeline network. The Russian side also threatened to increase the tariff price of the Turkmen gas delivered by Gazprom, after Ukraine threatened to siphon off Russian gas to Europe and raise tariff prices for these volumes.

Ukraine and other energy dependent CIS states have sought to diversify their supplies, particularly by purchasing oil and gas from Central Asia and the Caspian Area. Russia has increasingly used Central Asian gas to make up for its own decreased production of gas to cover its contractual obligations to Western consumer countries. This has been achieved by purchasing and controlling the downstream of gas exports among most of the Central Asian states' (Balmaceda 2008:3). Gazprom also contracted all available Turkmen gas for the first quarter of 2006, effectively securing downstream control over these volumes, even though it is believed that Ukraine had an existing contractual agreement with Turkmenistan. As pointed out by Balmaceda (2008:104-105), Ukrainian stealing of gas has been a big issue between the two actors, and has significantly propelled the debt issue. Prime Minister Timoshenko has previously officially acknowledged Ukraine's stealing of gas, and this “(...) stolen gas could be calculated as a part of Ukraine's debt to Gazprom, and later be used to acquire assets in Ukraine's energy sector” (Balmaceda 2008:105). Once again Russia seemingly tried to

capitalize on their economic leverage, by proposing to loan Ukraine sufficient funds to finance their gas imports, postpone their price increase after the 2006 election or by agreeing to the previous consortium agreement. Shortly thereafter, the 2006 shutdown of Russian supplies was a fact.

Considering the energy (inter)dependence, it is overwhelmingly clear that Ukraine is dependent on Russian imports – primarily directly from Russia, but also through Gazprom's control over Turkmen gas as an intermediary. Although there is also a strong Russian dependency on the secure transit of their gas exports to the European market, which in turn is vital for their revenue and subsequently for their economical capability and leverage. During the interplay and escalation leading up to the more severe 2009 conflict, Russia seemingly pursued a strategy to gain increased downstream access to the Ukrainian market. PM Putin and PM Timoshenko signed a memorandum by the end of 2008, with the intention of leveling both Ukrainian gas prices and Russian transit fees to European levels. Another important aspect of the memorandum regarding downstream control was that Naftogaz Ukraine was given the chance to buy Central Asian (primarily Turkmen) gas from Gazprom, in exchange for direct access for Gazprom's subsidiaries in the Ukrainian market.

In sum, there seem to be considerable support for the assertion that Russia's policy actions were motivated by increased influence and control over its downstream to Europe. This is also due to the fact that Russia and Gazprom raised the issue of a drastic price increase at the end of 2005, while in the same instant offered an alternative to the increase: The provision of an equity stake for Gazprom in the transit network. This was also evident in the escalation up to the 2009 conflict, when the Putin/Timoshenko memorandum was being signed. In this memorandum one of the main issues besides an agreed price increase for both Ukrainian imports and Russian transit fees, was that Gazprom's subsidiaries would get access to the Ukrainian market. Shortly afterwards, the truce-like memorandum was completely halted by the reoccurring debt issue. Although one should be cautious and not overtly categorical about the Russian motivations for pursuing increased downstream control, in Waltzian terms it could be regarded as a completely rational interest in order to ensure the state's long term survival. This is especially important when considering the vital role of the revenues Russia obtains from energy exports and their dependency of this income. Thus both the economy and the resources can be seen as two vital capabilities that are mutually dependent on each other and also mutually reinforcing: Vast amount of (high demand) resources, equals massive

revenues and thus a strong economic base, while a strong economy (especially in relative terms compared to Ukraine) comprise a vital capability and a useful leverage. This leverage can be used as an instrument of *power*, evident among several other factors – when Russia utilized these capabilities to obtain Turkmen gas (and subsequently downstream/distributional control) and putting further pressure on Ukraine. When Ukraine threatened with increased transit price, Russia responded with an increase in gas prices and vice versa. The main difference is that Ukraine are almost completely dependent on Russian gas deliveries, with severe potential consequence for both the public and industrial sector, and that Ukraine's economy was in worse shape than their Russian counterparts during both disputes.

A prolonged conflict with Russia with all its grim consequences (especially in the 2009 conflict), and the subsequent attention from the international community, may have been Ukraine's only viable survival strategy – given their important strategic role in the midst of influential European states and Russian gas exports. This is the main element in the subsequent section when examining possible restrictions in the Russian policy making during the two crises.

4.1.2 Restrictions on Russian policies and its main trading partners' security of supply (H2)

Following H1 regarding Russia's intentions and pursuit of increased downstream control towards Europe, is the broader global perspective which incorporates the role of its main trading partners in the EU and whether this was a restrictive factor in their policy making. Is there support for the theoretically reasoned proposition that “Russian policy actions were restricted by the broader relationship with her main trade partners in the EU and their long term concerns about security of supply” (H2)?

The EU's most influential countries had a general high consumption rate of gas in both 2006 and 2009. More importantly and closely related to the consumption rate are the trade movements between these EU actors and Russia by pipeline. Italy, Germany and France rely heavily on Russian gas exports as the figures from trade movements (BP 2007:30 & BP 2010:30) clearly indicate. But the overall picture of the relations within these parameters is not a one way street. Although Russia is the EU's biggest and most important energy supplier, Russia only provides approximately 7 percent of the Union's energy needs and accounts for 24 percent of its total consumption. Norway, Algeria, Nigeria and Qatar are other actors from

which the EU receives the majority of their remaining supplies. This implies that the EU market is of great importance for Russia, and is thus closely interconnected to another vital capability being of vital importance for Russia's total sum of power: The economy and its huge revenues accumulated from its energy exports. But there are also substantial modifying factors in Russia's leverage when one makes an overall comparison between the EU and Russia to estimate the relative power balance: The EU's combined economy amounts to 15 times the size of the Russian economy and the military spending of the Union is seven times of Russia's total spending. More importantly regarding flow of trade over national borders, Russia seems more reliant on EU than the opposite: The EU purchase 56 percent of Russian export and supplies 44 percent of Russia's total import. By reversing the flow of trade, Russia only purchase 6 percent of the EU's total sales and it supplies only 10 percent of EU's total imports from abroad (Leonard & Popescu 2007:8).

The figures of Russian gas exports to the EU have also declined substantially since the 1990's – being at 75 percent in 1990 to approximately 40 percent in 2008. But despite the figures regarding relative trade and the economical dimension among the actors, Russia remains the largest gas exporter to the EU – amounting to annual exports of 130 bcm (Nöel 2008:5). Gazprom's 40 percent of its entire profits is accumulated by its exports to their main consumer countries in Western Europe, being Germany and Italy. As previously stated by Leonard & Popescu (2007:10), in sum the EU as a unit should hold the strongest position, but it is de facto weaker than Russia. This could be described to be a result of Russia's strategy of *divide et impera*, namely to conduct bilateral relations and agreements towards the main influential actors within The Union and thus effectively prohibiting the EU to utilize their power as a single unit. In a structural realist world order there is no ideational view of mutual gains of states interacting with each other, rather the direct opposite: The relations among actors is viewed within zero-sum perspective, where the substantive question is who gains *more*.

With 80 percent of Russia's gas exports destined for Europe transits through Ukraine and the two crises impact on EU consumer countries, it is evident that this poses a severe long term security threat for the EU as a whole. Following European skepticism after the 2006 gas row, a warning mechanism was established in order to safeguard gas supplies to Europe. This mechanism was completely ignored leading up to the more severe 2009 shutdown of Russian supplies, and several EU leaders got cold feet and immediately urged for instant

diversification of supplies. Also during the latter gas row in 2009, on Chancellor Merkel's initiative, an independent monitoring commission was deployed as a resort to be a mediating factor in the dispute. The commission had no significant effect on the outcome.

Thus, in both crises the EU was affected and achieved practically nothing. EU President Barroso and nine commissioners pressed hard to get Russia to ratify the Energy Charter Treaty, which in the EU's point of view would depoliticize the gas relations and provide a more stable framework of interaction between the actors. Russia categorically and officially opposed the ratification, stating that it would sign when Russia's interests had been incorporated. Being the main part of the contention between the EU and Russia, is Gazprom's transport monopoly. As stated by Westphal (2009:18), "(...) Gazprom wants to own pipelines outside Russia, but refuses to let foreign companies or governments own pipelines inside Russia". Russia posits the world's largest gas reserves (with more than a quarter of the global deposits (!)), and Europe's reserves are running dry – so the two actors are bound together by this simple fact. As Westphal (2009:16) also points out, there was no immediate alternative to Russian gas via Ukraine – given the geographical and physical infrastructure of the pipeline system. Major European consumers were affected by shortages in the 2006 dispute, and the more severe dispute in 2009 resulted in a breeding humanitarian crisis in South Eastern Europe as well as European shortages.

Given the official statements of EU President Barroso and other EU leaders in which the worries of future security of supply were voiced in both crises, Russia could not have misunderstood these signals from The Union. Bearing in mind Russia's refusal to ratify the Energy Charter Treaty and the breach of the transit protocol (article 7) inherent in the Charter, indicates that the Russian side was well aware of their European counterparts limited options regarding sanctions and/or countermeasures. The notion of Russia's (seemingly successful) *divide et impera* strategy is reinforced by the EU itself, when influential EU member states tend to make their disputes with Russia an EU issue, while at the same time conducting lucrative bilateral and strategic deals (The German-Russo Nord Stream being the most prominent example). Gazprom and thus indirectly Russia's close relationship with German E.ON and BASF, ENI in Italy, Total in France and Gasunie in the Netherlands all undermine the EU's potential unified leverage. The EU's intentions of diversified supplies through the Trans-caspian pipeline, which bypassed Russia, were also obstructed by the Russians in 2007 – where Russia signed long term contracts and reached a gas pipeline deal with Turkmenistan,

Uzbekistan and Kazakhstan. This would be a strategic move from Russia, securing long term European dependency on Russian gas deliveries. Another European attempt to diversify its energy supplies is through the Nabucco pipeline, providing supplies from Central Asia and the Caspian basin through Turkey. But the Nabucco pipeline will only cover 5 percent of EU's total energy needs (BBC 2009). To claim that the Russian side is not fully aware of this fact in the drawing of the broader geopolitical energy map would seem utterly naive.

As previously noted, the two actors are bound together by their respective resource situation, and it may be evident in the two gas rows that Russia plays for high stakes in what is of their vital interest: A prosperous relationship with its main trade partners. The reputation of Russia as a stable supplier were left shattered after both crises, and made the EU voice their future concerns. It is worth emphasizing that Russia pumped additional gas into the pipelines in the 2006 conflict, in order to restore the supplies destined for Europe. At the same time, Ukraine admitted that it had siphoned off gas scheduled for Europe, stating it was a direct consequence of Russia's intrusion into pre-arranged supplies from Turkmenistan. In 2009 PM Putin officially warned that there would be an instant cut off in supplies if there was any sign of Ukraine siphoning off gas for internal consumption. The IMF also stated that Ukraine at the time had liquid funds to pay off their gas related debt. Ukraine used gas as they did in 2006, claiming that this was for technical purposes. The Russian shutdown was immediate and made official by Putin and CEO Miller, who made it a priority to notify the affected European consumers. Thus, when examining the empirical evidence – it may seem that Russia also was concerned of how the shutdown would affect their European consumers.

Although the main battle seemingly was fought over debts in both occurrences, it is quite evident that Russia could have ended the disputes and take the write-off of the remaining difference to ensure stable European supplies. As such, with their deliberate knowledge of European concerns and their subsequent actions as in the handling of the Energy Charter Treaty and the issue of the Transcaspian pipeline – there is no strong support for the assertion that their policy actions were restricted by their main EU trading partners' long term concern of security of supply (H2).

4.1.3 Russia's policy actions and quest for asymmetrical interdependence towards EU partners (H3)

Proceeding with the global environment as the analytical level of explanation and with Complex Interdependence as the theoretical backdrop, this section will examine whether there is an asymmetrical interdependence between Russia and its main trading partners in the EU. The assertion under scrutiny will be H3, stating that "Russian policy actions were motivated by a long term quest for asymmetrical interdependence towards its main consumer countries in the EU". By examining Russia's relationship towards two separate EU countries, Germany and Poland, and utilize the theory of complex interdependence – one seeks to illuminate if the Russian policy actions in the two crises were part of a broader strategy towards its main export area and the possibility of eventual implications it had on Russian policies in the two gas rows.

In the previous section on *Russian Downstream Control* (X1), it was made evident that the relationship between the EU and Russia is complex and that Russia seemingly holds the total power balance in its favor due to a divided EU. Although by comparative figures concerning general trade movements, total economic size, population and military spending the EU is a more powerful actor. On the resource side of the equation, Russia is solely the most powerful actor. But Russia's resource base, combined with Europe's extensive need for energy, enables a strategic relationship. Having previously established the strategic relationship between the main influential actors in the EU and Russia in the energy sphere, the substance of this relationship and how this may affect formulation and execution of Russian policy is of the essence.

Keohane and Nye (2001) are the two most prominent advocates of Complex Interdependence and their claim is that interdependence affects international politics and the states behavior in the system. In Keohane and Nye's (2001:7) definition of interdependence, it is simply stated to be *mutual* dependence. Thus inherent in the definition is the component of *reciprocal* effects among the actors. This includes the flow of international transactions between borders, such as money, commercial goods, people and communication. But there is one vital element to separate interconnectedness from interdependence when one is to understand and illuminate the *politics* of interdependence. This important difference is stated by Keohane and Nye (2007) to be the constraints (costs) associated with the transactions. More important related to the geopolitical energy game, is the notion of power exercised among the actors –

which is *asymmetrical* dependence. Asymmetry in the dependence among actors is the factor “(...) that are most likely to provide sources of influence for actors in their dealings with one another” (Keohane & Nye 2001:9). On the issue of asymmetrical interdependence and power, there are two underlying distinctions: Sensitivity and vulnerability. The differences are best accounted for by the previously stated example provided by Keohane and Nye (2001:11), illustrated by two petroleum importing countries, respectively importing 35 percent of their petroleum needs and being equally *sensitive* to price increase for the given commodity: “(...) if one could shift to domestic resources at a moderate cost and the other had no such alternative, the second state would be more *vulnerable* than the first”.

The strategic relationship between the influential actors in the EU and Russia can with a high degree of certainty be labeled as interdependent, in accordance with Keohane and Nye’s (2001) definition. Russia's vast energy resources needs an export outlet, and less self-sufficient European actors needs supply of energy. Being the *less* dependent actor in this interdependent relationship, one can utilize this “as a source over power in bargaining over an issue and perhaps to affect other issues” (Keohane & Nye 2001:9).

If one maintains the assumption and possibility that Russia employ a strategy based on *divide et impera* in its relationship with a supposedly more powerful EU, asymmetrical interdependence may be its overarching aim. As Noël (2008) notes, European dependency on Russian gas has become a paramount internal issue on how to wield their relationship with Russia and its energy policy. As opposed to popular belief, Noël holds that the EU consumer countries problem is divisiveness, not dependence – following from the notion that the European market is dysfunctional and segmented. Noël argues further that most of the Russian gas is supplied to EU countries in Western Europe with an inherent diversification. On the opposite scale of the spectrum, other member states in Central and Eastern Europe consume relatively small amounts of Russian gas – but does not have any external suppliers. Gazprom’s biggest clients are Germany and Italy which jointly accounts for about half of all Russian gas volumes in the EU. Thus up to 40 % of Gazprom's revenues are generated by exports to these countries.

The logic is opposite for the highly dependent Eastern European countries: They account for a relative “drop in the ocean” profit for Gazprom generated from export to these nations compared to the Western member states. The highly dependent nations in the East of Europe

dislikes the pro-Russian stance evident in the German, Italian and French relations with Russia – ascribing the relationship as strategic between Gazprom and the Western European importers. The national differences between the member states would not be such a big issue in the case of a single European gas market. But this is not the current state of affairs. The European gas market is “(...) segmented along national lines and (...) when supply disruptions occur – as in January 2006 at the height of the gas crisis between Ukraine and Russia (...) we see very little reallocation of supply between national markets” (Nöel 2008:2).

The connections between Russia and Germany on one hand, and Russia and Poland on the other, makes Nöel’s (2008) assessment quite evident. The historical Russo-German relationship has traditionally been strong and the trade figures among the actors from 2005 amounted to 38, 9 billion Euros. More importantly Russia provides 42 percent of Germany’s total need for gas, and the latter has been a strong advocate for the recent Nord Stream project. Angela Merkel’s official call on other EU members to give full backing to the Nord Stream projects just weeks after the 2009 gas row may also indicate an asymmetrical interdependence in Russia’s favor at the expense of EU as a unit. This relates to the aspect of *sensitivity* and *vulnerability*: Both crises (in particular the 2009 gas row) more or less evidently displayed that The EU is getting affected by the crises, both physically (experiencing gas shortages) and politically (division, discord and concern over security of supply and prospective diversification).

Providing a more specific definition of the two underlying distinctions of asymmetrical interdependence, Keohane and Nye (2001:11) states that “Sensitivity means liability to costly effects imposed from outside before policies are altered to try to change the situation” and vulnerability “(...) is an actor’s liability to suffer costs imposed by external events even after policies have been altered”. During the 2006 shutdown between the 1-3 January, several European countries experienced immediate gas shortages – among them France (25-30 %), Poland (14%), Italy (25%) and Germany (without further details, but is likely that the shortages amounted to French and Italian levels). One can definitely argue that measures had been taken earlier to decrease the degree of sensitivity (through the Permanent Partnership Council ((PPC)) and strenuous diplomatic efforts to agree on Russia’s ratification of the Energy Charter Treaty), but it may nevertheless be regarded as costly effects imposed from the outside, regardless of previous efforts. Gently put, the warning mechanism established

after the gas row in 2006 also proved to be ineffective as the 2009 row were even more devastating.

Looking at the second underlying element of asymmetrical interdependence among actors, vulnerability, it seemingly puts the EU (as well as Germany itself) in an even more exposed position: At Merkel's initiative, an entourage of independent observers was sent to monitor the situation in order to subdue the effects of the crisis. This had no effect on the outcome. In addition, EU President Barroso accompanied by nine commissioners, condemned the Russian actions and stated that this would have consequences for Russia's reputation as a reliable supplier for Europe. Additionally, they pressed for Russia's ratification of the Energy Charter Treaty which was categorically turned down by President Medvedev – due to alleged disregard of Russian interests. Thus, EU and Germany suffered costs by external events after policies had been altered.

From Russia's perspective, it consequently would seem as the *less* dependent actor in the interdependent relationship and utilizing the accompanying power. Russia would not be in a sensitive position, precisely because of its bilateral deals struck with influential actors such as Germany. Merkel's public announcement requesting continued support for Nord Stream just weeks after the 2009 crisis, and her official declaration of the Russo-German strategic energy cooperation only days after the 2006 row does not signal sanctions or punishment, but rather a trace of bilateral pragmatism and at least a clear dependency on Russian gas supplies.

Another issue which may make this picture even clearer is the diametrically different EU actor Poland and their concern over the Russo-German strategic partnership, which is shared among many Eastern European states. In the 2006 gas row, Slovakian and Romanian supplies were down by one third. In 2009, the supplies to 16 EU countries and Moldova were completely halted on January 7 and the most affected countries in the Balkans experienced a humanitarian catastrophe due the lack of heating in private households (Stern et.al 2009:4). Poland was central in the 1996 construction of the Yamal-Europe pipeline construction, being executed by German Wintershall, Gazprom and Polish Oil & Gas Company. Gas from the Yamal fields was intended to provide a strengthened northern corridor for Russian gas flowing to European markets, passing through Belarus and Poland. Despite Polish skepticism towards increased dependency on Russian energy, they were aiming for deeper integration with Germany and Europe. The Polish Oil & Gas Company mainly flawed the operation;

building only two out of five compressor stations and the output of the project was far below the expected estimations. Poland has also voiced their concern over the German-Russo Nord Stream project calling it a modern Molotov-Ribbentrop pact and strongly opposes the EU's liberalization of its energy markets.

After becoming a member of the EU in 2004, Poland made efforts to decrease their dependency on Russian supplies. But the very EU mandate to liberalize the European energy market has hit Poland as a small actor hard, with Gazprom effectively maneuvering to acquire vital infrastructure throughout the Eastern part of Europe, including Poland. During the 2006 row, Poland took the initiative to create the European Energy Security Treaty. The Energy Treaty's function was to be a collective approach to supply disruptions affecting individual countries, but the Polish voice was never heard. Piotr Naimski, Poland's Minister of Economy illustrated the Union's division and vulnerability by stating that "the biggest European countries remain silent, and the concern grows bigger" (Naimski 2007:16).

Bearing in mind that the European market, and particularly the most influential actors such as Germany, is Russia's most important trade partner regarding energy – it is important to acknowledge that Russia also is vulnerable if their reputation as a reliable partner is severely damaged. One can hardly categorically state that one of the main catalysts for Russian policy actions revealed during the two crises was to obtain a relationship with its main European consumers based solely on asymmetrical interdependence. But the two crises and its relationship with two diametrically different EU actors can serve to *illustrate* that there is an asymmetrical interdependence in Russia's favor, especially regarding the sensitivity and vulnerability among the actors involved and their actions. Thus in sum, there is support for H3.

4.1.4 Asymmetrical interdependence between Russia and Ukraine enabled Russia's shut-down (H4)

Although Germany and Poland have been under scrutiny in order to illuminate the broader and strategic picture of power and asymmetrical interdependence between Russia and the EU, the main counterpart for Russia in both crises was Ukraine. Ukraine is included under the variable *Relation to Ukraine* (X4), and I will examine if one can find support for the assertion that "Russian policy actions and its shutdown of supplies were enabled by its asymmetrical interdependence towards Ukraine in both crises" (H4).

Since the dissolution of the Soviet Union, the relationship between Russia and Ukraine has been a relationship consisting of inherent volatility, particularly on the issue of energy. This issue has also plagued Ukraine with a severe amount of accumulated debt, which also was an important element of quarrel between the actors during the two crises. Important infrastructure and urban development during Soviet times made gas the preferred source of energy. Ukraine was self-sustained through the 1960's, but the next decade proved to be tougher; after the dissolution of the Soviet Union it found itself heavily reliant on gas supplies from fields in Western Siberia. The extensive pipeline network built during Soviet times was constructed with the intention that the two actors were to cooperate under the Soviet umbrella. The tide of history did not remove the pipeline network, but it removed the previously distinct borders of the Soviet Union. Russian cut-offs subsequently became a common tale during the 1990's (Stern et.al 2009:5).

At the end of 1993, Ukrainian energy related debts amounted to approximately 600 million US dollars, and by the early 2000's the total energy debt for Ukraine had decreased to 1,4 billion US dollars – still being a significant amount (Pleines 2008: 8-9). Besides the economical debt issue in their relations, Keohane and Nye (2001:9) warns of an elusive pareto-optimal notion of interdependence among actors, which would be the case when two actors provide each other with lacking necessities through extensive cooperation. This concept is branded by the authors as evenly balanced mutual dependence. This is evidently not the case between Russia and Ukraine regarding energy. BP's figures (2011:22) show that Russia produced 595, 2 and 527, 7 billion cubic meters of natural gas in 2006 and 2009 respectively. Ukraine produced only 18, 7 and 19, 3 bcm respectively the same years. Ukraine also imported all of their natural gas from Russia in 2009, amounting to 24, 15 bcm. Russia is also Ukraine's main trading partner and not vice versa. Initially a term for the relationship would be mutual dependence, when considering that 80 percent of Russian gas transit through Ukraine and that Ukrainian imports of gas from Russia in general has been between 47 -57 bcm per annum recent years. But in order to understand the politics and the accompanying element of power among the actors, one has to estimate if there is an asymmetric interdependence between the two actors. The execution of power in an asymmetrical interdependent relationship is thus evident when one conceives power as control over resources or the initial potential to affect outcomes.

Ukraine is also one of the world's most energy inefficient countries. Its consumption of natural gas constitutes more than one-third of its total primary energy supply. In 2010, Ukraine was the second largest importer of Russian gas after Germany (Carnegie 2011). On the issue of sensitivity, it is clear that Ukraine in the short term during the crises did not have any option to diversify its gas supplies. Russia is their main partner and provides the gas which is vital for private households, but also the energy demanding industrial sector.

Russia is a self-sufficient actor in regard to its vast resource base, but as previously established it is highly dependent on revenues from its gas exports to the European market. The physical infrastructure of the pipelines is routed primarily through Ukraine, which makes Russia vulnerable regarding its reputation as a reliable gas partner to Europe. Precisely here lies the bargaining chip of Ukraine and the power this position provides is crucial. Keohane and Nye (2001) hold that power is control over resources, but also the potential to affect outcomes. While it's relatively obvious that Russia controls the resource base and that Ukraine is highly dependent on Russian gas to sustain its industrial production and perform basic functions as an industrial nation, Ukraine also holds a stake in its ability to influence the outcome. But Ukraine is more vulnerable to price increase for gas as a costly commodity, largely because they cannot immediately or in the prospective long term shift to domestic resources. One way to decrease their dependency in the long term would be to focus the attention to energy efficiency and prospective diversification, but during the crises this would not seem as a viable nor realistic strategy.

After the "Orange Revolution" in December 2004, The President elect Yushchenko and his newborn administration made it a priority to distance Ukraine from Russia, proposing a hundred percent price increase of Russian transit fees. Seemingly using its leverage as a vital transit country, the proposal was an invitation to Gazprom to strike back at Ukraine where it hurt the most: The economy. During negotiations between Gazprom and Naftogaz, it was made evident that Russia wanted an equity stake in the transmission network or the price increase would be a fact. Gazprom's proposed price increase would be between \$160-230 /mcm, while Ukraine proposed \$80/mcm phased in over a longer period of time. At no point in the 2006 crisis would Ukraine even go down the path of giving away to Gazprom and Russia their biggest leverage: Control over Russia's downstream routes towards Europe. This somehow changed in the interplay and escalation leading up the 2009 row, when the Putin/Timoshenko memorandum paved way for Gazproms' subsidiaries entering the Ukrainian

domestic market. As what seemed to be a compromise, the heavily debated price increase would be phased in over a three year period to finally equal European netback levels. Additionally, the state owned Naftogaz gained would gain access to the lucrative European market through as transit cooperation with Gazprom. In what can be seen as relative prosperous deal for both actors, the ink on the memorandum signed by the two PM's had barely dried up before an old ghost made its appearance: The debt issue.

Under the multiple channels distinction outlined by Keohane and Nye (2001:21), the role of non- and governmental elites and transnational organizations (such as multinational banks or corporations) also influence governmental policies and functions as transmission belts across borders. Corporations may also functions as leverage for governments. The commercial agreement propelled out of the memorandum was completely halted by the one condition put forth in order to continue with its implementation, namely payment of Ukrainian debts for gas deliveries in December 2008. Ukraine stated it debts to be 1, 5 billion dollars, Russia stated 2, 2 billion dollars. Naftogaz debts to the shady joint company RusUkrEnergo (initially evicted from the import business immediately upon the signing of the memorandum) would also be transferred to Gazprom. Later, Naftogaz paid 1, 52 billion dollars on December 30, but this was according to Gazprom not enough: It lacked payments from fines and penalties amounting to a further 614 million dollars. Two days later the shutdown was a fact. When one could certainly assert that both companies was used as leverage for governmental decisions (especially Gazprom and the several quests for pipeline control), it is also quite evident that the commercial arrangements were a contributing factor to a prolonged time frame of the 2009 crisis, as exemplified with the debt issue above.

As Keohane and Nye (2001) points out, power in its most reductive sense can be defined as control over outcomes. Russia seemingly holds the ultimate power in both crises, since they seemingly had the ultimate tool of power in their hands, namely the physical shutdown of supplies towards an extremely energy dependent and energy inefficient country. With Russia seemingly being the less dependent actor in the relationship, it could also be regarded as the dependent actor when one take into considerations Ukraine's role as a vital hub towards Europe in a broader context. For sure, it seems somehow obvious that Ukraine would be aware of this balance and that a prolonged conflict would be a viable strategy to strike bargains in their national interest. Initially, it would be a fair assessment to regard Russia as the most powerful actor in an asymmetrical interdependent relation among the two, and that

precisely this factor at the outset enabled Russia to cut supplies in both crises. But the broader consequences, especially for Russia and their reputation as a stable gas supplier were severely damaged, and Ukraine's utilization of its relative power proved costly to Russia. Sergei Komlev, Head of Contract Structuring and Price Formation of Gazprom Export, has stated that Russia lost approximately 3 billion US dollars and European consumers gained 1, 7 billion US dollars during the 2009 conflict. This due to take-or-pay obligations' write off, paid unutilized pipeline capacities, fines for not meeting daily delivery obligations and lost revenues for undelivered gas (Komlev 2010:12). In sum, and in accordance with the core elements above, I find modest support for the hypothesis H4.

4.1.5 Absence of effective international regulatory regime enabled Russian policy actions in the two gas rows (H5)

Still operating within the global environment, the final hypothesis on this level of explanation has its theoretical domain rooted in Liberal Institutionalism. Is there support for the hypothesis that "Russian policy actions in 2006/09 were enabled by the absence of effective international regulatory regimes with subduing or unraveling effect between Russia, Ukraine and the EU (H5)"?

The fundamental assumption of Liberal Institutionalism is that institutions constitute a mediating factor among states in international relations and additionally that institutions is a tool to achieve cooperation among the actors in the international system. Liberal Institutionalism shares some important ontological aspects with structural realists, such as the world been anarchic and highly competitive among states that are recognized as the substantial actors. States are also rational interest-maximizers, but they also pursue absolute gains as opposed to structural realists' notion of relative gains – the view that the fundamental aim is to prevent others from gaining more in cooperative endeavors. The idea of independent states pooling their resources and renouncing parts of their sovereignty to establish institutions in order to meet common challenges or incite economic growth is also an important foundation.

With Russia and EU being strategic partners due to their interdependent relationship, The Partnership and Cooperation Agreement (PCA) from 1994 would seem to fit neatly into the institutional and cooperative foundations of Liberal Institutional theory. Energy Commissioner in the European Commission, Andris Piebalgs (2009:5), highlight the spheres of the intended cooperation between the actors by stating that the PCA along with the improvement of

security of supply should “(...) develop management and regulation of the energy sector, to promote energy saving and energy efficiency, to modernize energy infrastructure and to limit the environmental impact (...)”. Another cooperative measure initiated by Presidents Chirac, Vladimir Putin and EU commissioner Prodi launched in the summer months of 2000 was the EU-Russia Energy Dialogue – with the fundamental recognition of the actors as partners with mutual interests as a starting point. Energy strategies, technology transfers across borders, energy efficiency and investments were focal points for the dialogue. The forum was further strengthened in 2005, just months before the first dispute between Russia and Ukraine, when a Permanent Partnership Council (PPC) was established. The PPC were enabled to increase the focus on vested interests among the businesses and political authorities within the EU and Russia, and additionally provide the dialogue with more structure.

Another vital aspect of EU-Russian relations is the Energy Charter Treaty. This treaty is “a political declaration on international energy cooperation (...) which was signed in 1994 and which entered into force in 1998” (Energy Charter Secretariat no date). On the substantial function of the treaty, the mutual benefit of the involved actors is accounted for, by the statement that “The Energy Charter is based on the idea that international flows of investments, capital and technologies for the energy sector are mutually beneficial (...)” (Energy Charter Secretariat no date). Russia has signed, but never ratified the treaty. According to Monaghan (2006), the President of the EU Energy Council was eager to pursue the Russian ratification of the treaty, but the Russian counterpart was hesitant - while at the same time exerted pressure for a transit protocol to guarantee freedom of transit through existing grids. Monaghan (2006:3) has further argued, that this signals fundamental differences among the two actors: Russia is aiming for support for modernization of its energy sector and protection of this vital sector, while the EU wants reformation and opening of the Russian market.

The eagerness of the EU to incorporate Russia into the Energy Charter Treaty is evidently a very concrete step to institutionalize their environment and their relationship with their Russian counterpart, in order to create a system for the two actors to engage with each other within a transparent framework based on the rule of law, long term predictability and stable investment climate across borders. But almost four months after the 2006 dispute, this kind of arrangement was explicitly rejected officially by President Putin at the EU-Russia summit in Sochi May 25 2006, when he dismissed EU proposals on restructuring and depolitization of the gas issue. Another practical issue that shows the EU’s motivation to utilize institution-

nalizing measures is the deployment of the independent monitoring group to oversee the gas flows in the latter crisis. This is made evident by a series of telephone conversations made by EU's leading officials during the time of increased escalation of the gas row: "(...) President Barroso and Commissioner Piebalgs got assurances from both sides that if an international monitoring mission was deployed to control the flows of gas would be fully restored" (Europa.eu 2009). As the historical record clearly shows, this did not happen.

Prior to the 2009 crisis, the Secretary General of the Energy Charter tried to somehow be proactive in the prospective crisis that was looming by engaging Ukraine through a press release – urging Ukraine to ensure further transit to Europe in the event of a crisis (Stern et al. 2009:50). Ukraine has signed and ratified the Energy Charter Treaty and did not honor the article regarding transit. Ukraine were siphoning off the technical gas and even reverted gas flow to its more energy intensive industrial parts of the country, while additionally refusing to resume gas transit in the absence of an agreement concerning the issue of technical gas. The European Commission and the other EU member states, which have all ratified the Treaty, could have enforced the Treaty's obligations by stating publicly what was evident: That Ukraine had violated its commitment to the Treaty and had not honored its obligations regarding the transit protocol.

As Stern (et al. 2009:54) remarks, the Energy Charter Treaty are the only international transit regime and it is likely to remain as such for many years to come. It has taken over a decade to get more than 50 countries to ratify it. Neither the Ukrainian side, which in turn has ratified the Treaty and Russia, was affected or showed no intentions of honoring the Treaty's fundamental provision. In 2006, The European Commission reacted at the end of the crisis and urged both sides to resolve the dispute rapidly – with no practical measures being taken. In the latter dispute, the European Commission pushed hard for a Russian ratification of the Energy Charter but met fierce resistance from Russia. It may seem that the EU came in too late in the latter conflict and pursued a peace-broker role through its establishment of the monitoring group, while additionally not holding Ukraine publically responsible for its breach of contract. This could also possibly have given leverage to the institutional framework the EU seek so vividly to implement and sent a strong signal to Russia that the Energy Charter Treaty is there to be honored irrespective of initial power or status among actors.

In sum it is possible to assert that the international regulatory regime is present through the Energy Charter Treaty, but The EU (first and foremost through the European Commission) and its member states failed to provide it with substantial leverage from the get go – implicitly making the present regime worthless in regard to its practical implementation. As such, there is strong support for H5.

4.1.6 Russian policy actions were driven by the preferences of Gazprom as the most influential actor in the formulation of policies during the crises (H6)

On another level of explanation, the domestic environment constitute a different perspective on possibilities and constraints for the state, emphasizing the domestic structures of society and the different influences exercised by several interest-maximizing groups on foreign policy decision making. One of the leading advocates of societal liberalism is Andrew Moravcsik (1996), which constitutes the theoretical domain for this level of explanation. Is there support for the assumption that “Russian policy actions were driven by the preferences of Gazprom as the most influential actor in the formulation of policies during the crises (H6)”?

Within Moravcsik’s theoretical framework the rationalists’ assumption that the state is the dominant actor with fixed interests is abandoned. Rather what is emphasized by Moravcsik (1996) is that within the borders of the state there are several powerful interest groups pursuing vigorously their own interests and preferences by seeking to influence the process in the complex decision making structures of the state in given occurrences. The relationship between state and society thus plays an important role for the state’s behavior in international relations. The influential actors of a society, be it corporations, institutions or different organizations – play a fundamental role in that they influence and shape the state's preferences. Both individuals and private organizations are according to Moravcsik (1997) risk averse and rational actors that promote their interests under constrained conditions such as material scarcity, conflicting values and variations of influence. These actors exert influence through public policy and this accumulated societal pressure alters the preferences of the state. The preferences of the state are pursued in its foreign policy, but other states preferences are imposed on the state and in turn constitute a constraint. It follows from this notion that the nature and depth of cooperation among states is directly connected to each state's preference pattern.

Gazprom is a very powerful and influential societal actor, both within and outside Russian borders. Gazprom, being the globe's largest natural gas producer, supplies 20 percent of the global gas demand and controls over a quarter of the world's gas reserves (Vahtra 2007:19). Gazprom's position in Russian society has roots from the time of the once so powerful Soviet Union, spurred out from the former Ministry of Gas (Stone 2010). In the Russian energy sphere, Gazprom could be regarded as a monopolist, being in control of approximately 62% of the resource base and its production rate amounting to 84 percent of Russia's natural gas. It is also in effective control over the physical pipeline network in Russia, which by Russian law also grants the company exploration rights of strategic gas deposits. The Russian government has also reduced the role played by the domestic independent companies by making the independents cede their shares to Gazprom in several natural resource projects on Russian soil (Romanova 2009:18).

At a glance, there seem to be no substantial competition for Gazprom on the domestic scene in order to influence state preferences and subsequently the state's policies. The independent companies operating in the energy sector are chiefly marginalized. Despite Gazprom's powerful position it is important to bear in mind that Lukoil and Rosneft are two giant oil companies (the latter being state owned) that combined holds a total value of nearly 20 billion US dollars in foreign assets (Vahtra 2007:18). But regarding natural gas, Gazprom's position is uncontested. While in other countries there apparently are several companies that constitute a sector and make efforts both on behalf of the respective company *and* the given sector as a whole to influence state preferences, it may seem as Gazprom is *the* sector within the realm of natural gas on Russian soil. Gazprom as a powerful domestic and commercial actor and their influence towards shaping state preferences may even seem as a desired outcome when observing the state's majority shareholding position in the company (50,002 %) (Gazprom 2010).

As established by Romanova (2009) the state is the key driver for modernization in Russia, and the present Russian leadership has a personal interest in the profit from energy exports. More importantly regarding the states key role as a main agent for the modernization in Russian domestic society, is that the profits from these very energy exports is intended to be the cornerstone of reformation for the rest of the Russian economy and its adaption to the post-industrial society. Gazprom's modus operandi as a commercial enterprise has one fundamental aim: The accumulation of profit. The Russian state in being the major shareholder also

share this fundamental preference, especially when regarding the revenues from gas exports as vital for the Russian society and its modernization as a whole. Thus, the fundamental preference among the actors seems to be shared as such.

In the gas rows the economical aspect, regarding both the issue of substantial accumulated Ukrainian debt and proposed price and transit increase, was seemingly at the very heart of the issue. One could easily assume that the simple equation of increased revenues to Gazprom would equal increased revenues to the Russian state, thus making the symbiosis between Gazprom and the states act in accordance with this fundamental preference. Especially in the latter crisis, PM Putin and Gazprom CEO Miller had several meetings – one was a televised conversation on January 5, ending with Putin's approval of Miller's decision to reduce gas flows. Miller also proposed a drastic price increase after a meeting with Putin earlier in November, where the Russian PM followed up by stating that supplies would be cut immediately if the Ukrainian side were siphoning off gas destined for Europe. As far as the empirical evidence goes, this indicates that communications regarding strategies and actions between the two actors seem highly coordinated – most evident in the latter crisis. But on January 15 2009 it was not Alexei Miller that met with The Head of the Italian energy giant ENI over talks to negotiate a prospective consortium solution to the crisis. At the other end of the table was Prime Minister Putin.

Although it would be few things more interesting in the world related to the field of energy, it is not possible to stand behind the curtain with attentive ears and a notebook during talks between the political leadership and Gazprom's key figures. Despite this obvious restriction of accurate data, it is noteworthy to register that Vladimir Putin restructured almost the entire Management Committee in Gazprom by the midst of 2005, where eight of the new members were from Putin's working years in St. Petersburg or enjoyed close relations with him or Miller. The latter has previously worked with Putin in the Mayor's office in St. Petersburg and allegedly has a close relationship to Putin. As previously noted, it is no secret that the Russian state is bluntly honest on the strategic role of energy – echoed in the statement from Gazprom on their own website after the state acquired a major shareholding position: "The move enabled to reinforce the state's control over the company being of strategic significance for the national economy" (Gazprom no date). Moravcsik (1997) points out two critical distinctions in how the state represents social coalitions: Acting in a unitary or in a disaggregated way. Judging from the two crises, it seems evident that the Russian state acted in a highly unitary

and coordinated way and that both actors were unified in accepting the high cost and high risk by the end game of shutting down supplies. As for a centralized state like Russia and Putin's allegedly strong political power-vertical, it supposedly is not much space for pursuing channels of influence if one is not affiliated with the circles of power. Among independents and other companies operating in the sphere of natural gas, Gazprom is seemingly the most influential actor in influencing fundamental preferences, if not the only one – specifically in the two gas rows.

It can be argued that Gazprom should not be viewed primarily as an (individual) autonomous actor in the domestic struggle to influence the preferences of Russian authorities, but rather as a useful instrument for key Russian decision-makers – implying that the condition status of Gazprom is more in the domain of an enabling framework condition than in the realm of a motivating condition. Gazprom's influence on Russian policies seem to be determined by how effective the company is in being sensitive to and able to act on (implement) the policies of the Russian state. Within a pluralist view of society, Gazprom may be seen as an (semi-)autonomous commercial enterprise navigating according to commercial incentives. In a Russian authoritarian context, much points in the direction that the pluralist approach is misguided since Gazprom in a very real and direct sense is controlled by the state, and used as a policy-instrument in ways which makes it more meaningful to see the company as an extension of the Russian state.

When it comes down to who shape state preferences and in turn alters state policies among the state and Gazprom in the two gas rows, it is likely that the state primarily represented by Vladimir Putin has both hands on the wheel of decision-making. As such, there is modest support for H6.

4.1.7 Institutional actors motivated by political and economical considerations (H7)

On the final level of explanation, one finds a hypothesis concerning influential institutional actors within the state apparatus bargaining in the game of politics over which policies to pursue in the backdrop of self interests and perceptions. The hypothesis is being examined within the theoretical backdrop of Allison's (1968) BPM model. The institutional actors under scrutiny are the Ministry of Foreign Affairs and the Governmental and Presidential Administrations. Is there support for the proposition that "Russian policies of the gas-crises were

determined by institutional actors within the state apparatus motivated by political and economical considerations (H7)’’?

At the core of Allison’s (1968) BPM model is the fundamental assertion that the bargaining games of politics and the outcomes of these power games among hierarchically placed actors constitute the political outcome of internal government politics. Compromise, confusion and different perspectives and priorities among influential actors within the state apparatus is the main content in the power games behind the end result, as evident in the seemingly unitary policy decision(s) from the state in a given occurrence. Games, power and strategic positioning among actors are the main ingredient in the shadow play, and the actors with most skill and power prevails in the formulation of policy and subsequent actions. Outside of the entourage of influential actors within the state apparatus there are also powerful actors which constitute concentric circles of power. These actors may be the media, influential members of the popular assembly and powerful interest groups and organizations. These actors demarcate permissive limits of the central power game.

In a highly centralized state as Russia, the federal authorities function both as a regulative authority and also a contractor within the energy industry. The centralization of power in the Russian state is most visible in that the regional authorities are stripped of their independence through the abolition of direct elections to the direct appointment by the President. The influence in the decision making process in the energy sphere from regional authorities is severely limited (Romanova 2009:16-17). In examining the centralized power of the state apparatus and the actors under scrutiny on this explanatory level of this thesis, it is worth recapitulating the challenge of getting accurate data in a power circle that is highly secretive and where access to confidential information is isolated to a very few influential decision makers. There is still possible to make sound inference on the decision making structure, its fundamental driving forces and the key actors that is transferable to the two gas rows – though in a more general sense. This implies that the aim of this explanatory level is to illuminate the driving forces in the decision making processes and its influential actors.

The main camps within the two administrations have their actors with own distinct views on both economical policy and energy policy. The two main camps with fundamental different ideas on Russian policy are the conservative hardliners (siloviki’s) and the liberal camp. The former camp is supposedly headed by the “energy tsar” Igor Sechin, a loyal ally to Vladimir

Putin since 1991 and considered as the most powerful individual in Russia after Putin himself. The silovikis (“powerful ones”) emphasizes that the state should control the access to natural resources, and additionally opposed the presidential candidacy to the liberal camp’s alleged leader, Dmitry Medvedev. There is very little information on Sechin’s background, but he has served as an officer in the GRU – the former KGB's division on foreign-intelligence. Sechin’s holds a reputation as a fierce protector of the interests of the Russian state, especially in the energy sector (Forbes 2009). Sechin was Vladimir Putin's Chief of Staff when Putin served as a Deputy Mayor in St.Petersburg in 1994 and remained Putin’s deputy in various departments until 1998. When Putin was appointed President in 2000, Sechin became Deputy Chief of the Presidential Administration, and he served in this position until Vladimir Putin resigned by law from the Presidential office in 2008 and Dmitry Medvedev became President the same year (Russia profile 2010). Putin was appointed Prime Minister after the 2008 victory in the presidential election by Medvedev and on May 12 the same year Igor Sechin became First Deputy Prime Minister of Russia. Two years earlier, Sechin was appointed the Chairman of the board of directors in the state owned oil giant Rosneft (Russia profile 2010, Government of the Russian Federation no date).

With Igor Sechin as the alleged leader of the powerful Siloviki faction, it is of essence to shed light on the core of this group’s preferences and interests. The Siloviki camp seemingly lacks a coherent vision in their strategic orientations but pursue a set of vital interests. The consolidation of political and economic power within a highly centralized state, accompanied by strong security and defense structures is a general priority for the faction. The role of the state plays an important role in the economical life of the society and strategic sectors should not be on private hands. Additionally, the silovikis strongly oppose foreign investments in strategic sectors, giving the economical aspect a strong nationalistic sentiment. In the realm of foreign relations, the silovikis emphasize Russia’s role as a Great Power and holds that the position of Russia should be a leading force in international relations. Personal enrichment plays an important role in economic matters, but more importantly economic power is viewed and utilized as a tool to realize policy goals. In sum, the silovikis are in effective control over more than 10 government agencies and has strong partial influence over several others (Bremmer & Charap 2006:87, 89)

Also an important position within the Governmental apparatus is the Minister of Natural Resources, headed by Yury Trutnev. Trutnev has made public threats on revoking licenses to

companies that does not comply with the terms regarding the fields handed out by the state, and he embraces publically the views of Vladimir Putin. Putin himself has an extensive background in the intelligence services where most of the siloviki hardliners originate from, but despite the alleged criticism from the siloviki camp he pointed out Dmitry Medvedev as his designated successor as President. Medvedev became the Chairman of the Board in Gazprom in 2000 and later headed Putin's Presidential Administration in 2003. There are also several powerful actors within Medvedev's liberal camp, holding influential positions. Among them is the Deputy of Foreign Affairs, Andrei Denisov, who has publically opposed Putin's regard for increased state control of the sector, leaving no questions on where he belongs within the factions of power. Another outspoken critic of increased state control of the energy sector is German Gref, serving as the Minister of Economic Development and Trade between 2000-2007 and later became the director of Russia's biggest bank Sberbank, before joining the board of Lukoil in 2009. Putin's former main economical advisor, Andrei Illarionov, also belonged within the liberal faction. He later resigned and has publically provided his views on the siloviki faction: "(...) this is groups of people who are connected with one another by mutual relations and mutual obligations, but who are prepared to use force – and regularly do use it – in relation to the remaining part of society" (RobertAmsterdam.com 2010).

During the first crisis in 2006, Vladimir Putin was serving as president and in the latter 2009 crisis he was prime minister. The prime minister and the Cabinet are traditionally involved in the making of foreign policy on an occasional basis and the MFA is the most visible actor in the field, according to Trenin and Lo (2005:12). Despite the Presidential role's increased power, Putin was the most visible political persona in both crises – especially in the 2009 conflict when he was prime minister. Trenin and Lo (2005:12) claims that the role of the MFA has been undermined by new policy players, and that it exerts secondary influence at best such as in WTO questions and EU relations – being reduced to the province of the economic wing of the Cabinet. Its input on strategic decisions concerning foreign relations is at the overall very modest according to Trenin and Lo (2005). Without knowing explicitly every detail of the strategic meetings taking place within the state apparatus relating to both crises, it is evident that the Foreign Minister Sergei Lavrov did not make a public appearance during the two crises. If one asserts at the outset that Russian energy policy is closely related to its foreign policy in these occurrences, it may seem as the MFA has been reduced to an

advisory body – at best. The epicenter of strategic foreign policy decisions seemingly lay at the Presidential Administration, where also Russia's big businesses has to look for guidance on all major policy issues (Trenin & Lo 2005:13).

But it is remarkable that most of the key personnel from the Presidential Administration followed Putin to the Governmental Administration when he took the Prime Minister's Office in 2008, and as a result the tendency is that the main strategic decisions are taking place there (Romanova 2009: 16). One of the key players that have systematically followed Putin through his whole career is the powerful Siloviki front man Igor Sechin. Another indicator of the vector of power is that the ministries relating to field of energy reports directly to the prime minister being Putin from 2008, and not to the president. Additionally, under Putin's presidency strategic energy planning was conducted by both the Presidential and the Governmental Administrations. Taking into account Romanova's (2009:11) assertion that Russia's traditionally weak institutions make personalities even more important, it seems that Putin as a persona is *the gravitas* of power and his administrative puzzles seem to encircle powerful actors, such as Sechin.

As it is noted by Trenin and Lo (2005:10) institutions play an important role, but mainly in executing various policies. Regarding execution versus the carving out of strategic policy decisions, the authors notes that "This is truer than ever under Putin, who appears to be the sole decision-maker on all important foreign policy matters" (Trenin & Lo 2005:10). In the foreign policy concept of Russia from 2000 approved by President Putin, it is also explicitly stated that the President as the Head of State should represent Russia in international relations. In the more recent foreign policy concept approved by President Medvedev in 2008, it is clearly stated that The Government should act to implement Russia's foreign policy. One should be careful with reading too much into the official and written words concerning the hierarchy of decision making and subsequent responsibilities of implementation due to its theoretical aspect, but taken these factors into account the arrows of power solely points to Vladimir Putin – even as prime minister from 2008.

It may be overwhelmingly clear at the outset that Vladimir Putin is the key actor and subsequently the most powerful one. But the decisions on foreign policy are not carved out in a vacuum and Putin is surrounded by both influential and powerful actors which in turn exerts pressure and influence when it comes to strategic decisions. One important factor and a

common denominator, is that almost all of the influential and powerful actors within the state apparatus and the Russian energy sector originate from Vladimir Putin's days as Deputy Mayor in St.Petersburg in the middle of the 1990's.

Even Gazprom's CEO Alexei Miller has his roots from this period in *Piter* and additionally served as a Deputy Minister at the Ministry of Energy before entering the corridors of Gazprom as Head of the company. Miller and Gazprom combined may be regarded as an influential actor that is a part of what Allison (1968) has labeled the concentric circles of power. Miller's experience within the bureaucracy as Deputy Minister and his close relationship to Vladimir Putin makes Miller a significant actor in the games of power. Despite several change of personnel during his two first terms as president, the estimation is that 58 percent of the people closest to Putin is regarded to belong within the siloviki faction. The siloviki faction also enjoys a considerable amount of support in the Duma, which in turn enables the fusion of the faction into the concentric circles of power. This in turn would equal even more leverage to the siloviki faction in their influence on policy decisions and not at least its implementation.

The liberal faction, with Medvedev, Gref, Ivanov and Chubais as the front figures – is generally in favor of decreased role of the state in the energy sector and a liberalization of the energy market. Although applying to the case of Gazprom and the state's majority ownership, it seems that the siloviki faction and Igor Sechin hold a firm grip as the most powerful group in the battle of the internal game of politics and thus can exert most pressure in influencing decisions on policy actions. One of the substantial aims of Russian domestic and foreign policy under Vladimir Putin is to focus on the energy resources as a driving force for economic development and an instrument in Russia's international relations.

By 2007, the Russian state controlled about 30 percent of oil and 87 percent of natural gas production in Russia (Godzimirski 2009:178-179). This indicates that Igor Sechin's powerful faction and its substantial aim of state control over strategic resources and businesses in the energy sector to a large extent has succeeded. Related to the crisis, Legvold (2008:16) points out that Putin definitely had his hand in the gas row of 2006 regarding the Russian decision-making due to his public threats of a potential shutdown and his later approval of its implementation. It is also hard to identify any particular foreign policy objects being sought by the political leadership. In general, the objectives has mainly been to force economic

concessions, maintain or acquire asset-control or integrate countries closer to the Russian dominated networks of energy.

But there is seemingly a desire for the current political leadership to maximize profit from energy sales, both on a personal level and for the Russian state as it is the key agent of modernization. This does not imply stable market conditions for all companies across the energy sector per se, as the liberal faction especially emphasize as their primary vision when it comes to Russia's energy sector. The support of specific companies, such as Gazprom, directly translates to the desire of profit maximization (Romanova 2009:11). It has been established that the production and refining of energy resources are costly and that the profit maximization is to be found in the distribution (downstream), especially towards Russia's principal export market being The European Union.

Although it is hard to trace or document the direct influence exerted by influential siloviki's during the crises, it is possible to assert some preferences and motivations by turning to the group's fundamental orientations. If one is to assert a possible tendency for both crises in general relating to the actors motivations, it is thus possible that Gazprom's profit maximization (economical motivation) is highly dependent on the downstream towards Europe (political motivation), and that the evident Russian pressure for a transit control is to be viewed within this perspective. Alexei Miller and Gazprom seem to have had more leeway in the 2006 dispute, in a conflict that seemed more commercially motivated. The 2009 row became more politicized, having severe impact on the supplies towards Russia's main European export market.

The political leadership with Putin as the public persona appeared with Miller publically on two occasions, signaling that the political leadership was more directly involved in the latter crisis. In both crises, one of the underlying factors during negotiations were the Russian access and acquirement of Ukrainian transit infrastructure – which seemingly is closely connected to downstream control and thus revenues both for personal enrichment among the influential siloviki actors and the Russian state. If one follows the theoretical notion of Allison (1968), the actors with skill, will and power prevails in the formulation of policy. Igor Sechin who has followed Putin during his professional career and his powerful silioviki entourage seemingly prevailed in assuming increased state control in the decision-making process when both revenues and political were at stake.

Hence, there is support for H7, but with some modifications: The MFA seems largely marginalized in the two crises and the influence of Presidential and Governmental Administrations as institutions seems vicarious and dependent on where Vladimir Putin and the major siloviki faction reside.

4.1.8 Summary of the partial analysis of hypotheses

Having completed the partial empirical analysis of the respective hypotheses, the summary of the assessment is recapitulated as a whole in table 2.

Table 2: Summary of the results of the partial analysis of hypotheses

Hypotheses (H1-H7)	Assessment after empirical analysis
H1: Policy actions motivated by increased influence and control over downstream to Europe	Strengthened (Considerably)
H2: Policy actions were restricted by main trading partners in the EU and their concern for security of supply	Weakened
H3: Policy actions motivated by long term quest for asymmetrical interdependence towards main consumer countries in The EU	Strengthened
H4: Policy actions enabled by asymmetrical interdependence towards Ukraine in both crises	Strengthened (Modestly)
H5: Policy actions enabled by the absence of effective regulatory regimes with subduing effect between Russia, Ukraine and The EU.	Strengthened
H6: Policy actions driven by Gazprom's preferences as the main and most influential actor in the formulation of policy preferences during the two crises	Strengthened (Modestly)
H7: The Russian policies of the gas crises were determined by institutional actors within the state apparatus motivated by political and economical considerations	Strengthened

4.2 Comprehensive analysis

The case study approach has its inherent limitations and has been conducted within an interpretative epistemological framework. One of the most substantial limitations is that it is not possible to control for third-variables that may have influenced the dependent variable. This implies that the hypotheses are not tested in a strict sense. Despite this, the presentation of systematic and context-rich data on the dynamics and framework conditions of the two crises has made it possible to make sound inferences as to what enabling/limiting and

motivating forces that in conjunction conditioned the Russian policies and management of the two crises.

In the partial empirical analysis of the hypotheses, four of the hypotheses (H1, H3, H5, H7) have strengthened the assumption that their respective independent variables exerted influence on the motives of Russian management during the crises, with its subsequent shutdowns of gas supply. It is also possible that several of the independent variables may have correlated with different strength and influence in the composition of Russian policies during the crises. By examining in conjunction the enabling/limiting factors influencing the foreign policy latitude of Russia, and the motivating forces influencing how the foreign policy latitude were to be exploited, it is possible to shed light on their relative and particular influence as potentially contributing, necessary, or – much less likely – sufficient conditions for Russian policies and management during the two crises.

A distinction is made between *necessary* conditions and *contributing* conditions in order to assess the impact of the explanatory factors on Russian policies as relevant to crisis-management. An explanatory factor considered necessary is a factor that constitutes a condition which needs to be fulfilled in order to bring about the particular Russian policy actions. An explanatory factor considered contributory is a factor that can be present by exerting influence and pushing in the same direction as a part of the total explanation to bring about particular Russian policy actions. The comprehensive analysis will thus aim for a better understanding of which elements that was more important, and how and to what extent the various factors have weakened or strengthened each other in producing Russian policies.

In the subsequent sections I will analyze the 2006 and 2009 crises respectively with its hypotheses and variables, before turning to a comparative assessment in order to unveil the similarities and differences of the Russian management in the gas rows.

4.2.1 The 2006 crisis and influences on Russian policies

Both crises had external and internal factors and actors that influenced Russian policy making. The 2006 and 2009 gas rows with Ukraine finally ended with the same practical result: Russia shut down the gas supplies to Ukraine which also affected several European consumer countries. This section will examine how the possible explanatory factors “interacted” in affecting Russian policy actions, and substantiate what factors – whether

framework conditions or motives – were critical (necessary) or contributing conditions in this regard.

In the particular analysis of hypothesis H1, it was proposed that Russia's policy actions were motivated by the Russian urge for increased influence and control over its downstream value-chain to Europe. Inspired from the outside-in perspective, the variable *Russian Downstream Control* (X1) can be seen as an *enabling* framework condition influencing (enhancing) Russia's foreign policy latitude. Within the structural realists' conception of the execution of foreign policy, the main goal for a state in an anarchical world order is to ensure its survival and security through its capabilities and the total amount of power this constitutes. Several elements are in play: The relative power between Russia and Ukraine in terms of economy and resources, along with the power balance in the energy sphere. This would imply that Russia's shutdown of gas supplies can be regarded as policy actions motivated by the drive for increased security, enabled by structural framework conditions. This motivating security condition could also be seen in relation to Russia's wish to ensure control over its vital revenues from its downstream activity towards Europe, considering the states' role as the key agent of modernization and its reliance on revenues from energy export. This crisis seems to be more commercially motivated, primarily due to Russia's response to Ukraine's initial proposition to increase Russian transit prices to European levels – which in turn sparked the gas row.

Russia responded with a proposed price increase of gas equaling European netback levels to all import countries, except Belarus. Countries of the former Soviet Union had benefitted from a heavily subsidized price formula, with European netback levels being 3-4 times higher than their purchase price of Russian gas at the end of 2005. Meanwhile, the price of gas on the European market rose rapidly, indicating that a motivating condition was to boost Russia vital revenues in the extension of the proposed transit increase by Ukraine. Russia also offered to lend Ukraine funds to finance their imports and additionally to postpone the price increase after the 2006 elections. Although Russia threatened that the price increase would be in effect if it was not granted an equity stake in the pipeline network through the previously proposed consortium, the commercial aspect seems to be the dominating motivation. Thus, *Russian Downstream Control* (X1) is considered to be a *contributing* condition influencing Russian policy actions during the 2006 crisis.

EU Energy Security Concerns (X2) can be seen in relation to Russia's urge for downstream control in the European market— through its engagement with Ukraine that also affected its European partners. In the partial analysis I found only weak support for H2 in the empirical material. *EU Energy Security Concerns (X2)* can be regarded as not particularly *restrictive* factor. It is worth noting that Gazprom pumped additional gas into the pipeline system in order to restore European supplies and that Ukraine admitted siphoning of gas destined to Europe. Despite this, Russian actions gives precedence to its own primary interests regarding security over European concerns - as indicated by the empirical material: Russia's aggressive pursuit of a price increase to European netback levels, and furthermore its purchase of Turkmen gas, which was a vital source of diversified supplies to Ukraine, indicate a main course of action which was not restricted to its main trading partners concerns of security of supply. Thus *EU Energy Security Concerns (X2)* is considered as a *contributing* condition in its influence on Russian policy actions during the time of crisis.

Institutional Framework (X5), being an outside-in factor of explanation, is an enabling or limiting condition which will be assessed in a broader context related to the 2006 crisis. Russia has signed but not ratified the Energy Charter Treaty and is thus not required to obey by this multilateral treaty. It is a different story with Ukraine, who has signed and ratified the Treaty and subsequently violated article 7 regarding transit. Russia's decision not to ratify the Treaty further increases its foreign policy latitude and *enables* it to shutdown gas supplies without being held responsible to a binding international agreement. Ukraine violated the Treaty, but did not receive public criticism or judicial prosecution even after their public confession of it siphoning off European supplies. This may also have sent a strong signal to Russia in that it a), were right not to commit to an international binding agreement and b), that this agreement does not imply any practical judicial prosecution when push comes to shove and consequently c), that this increases the foreign policy latitude when it comes to the utilization of power. Thus, the lack of an effective *Institutional Framework (X5)* can be considered as a *necessary* condition for Russian policy actions during the 2006 crisis.

H6, theorizing about Gazprom as a prominent actor and the main influential actor regarding the Russian policy actions during the 2006 dispute (*The Influence of Gazprom in Russian Policy Making (X6)*), were found modestly strengthened in the partial analysis. It was also established in the partial analysis that Gazprom is an extension of the Russian state and consequently can be regarded as an enabling framework condition. The 2006 crisis seem

primarily economically motivated, and Gazprom was eager to bring about a substantial price increase on its gas deliveries to Ukraine and all other import countries except Belarus. As a commercial actor, Gazprom is naturally driven by profits and a price increase to European netback levels for Ukraine was long overdue according to Gazprom. The price increase proposed would be between \$160-230/mcm if not Ukraine granted Gazprom an equity stake in the transit network.

One can observe a merging of motivating economical and political conditions among the political leadership related to *Russian Downstream Control (X1)*. In line with the economical aspect of the 2006 crisis, are *Institutions- Preferences and Influence (X7)* and the siloviki-dominated influential actors in their influence on Russian policy actions. H7 were given support by the empirical evidence, indicating that both political and economic motives dominated the influential actors' motivating conditions. The symbiosis between Gazprom and the Russian state surface as an *enabling* condition for Russian policy actions. It is also indicative of a interplay of outside-in and inside-out explanatory factors when considering the course of action: Proposing a severe price increase (economical motivation for increased revenues) and at the same time the pursuit of obtaining increased control over Gazprom's downstream to Europe (political motivation for security and the consolidation of power in the geopolitical energy game). Gazprom was apparently the leading actor directly involved in the dispute, and the direct political involvement seems to some extent subordinated to the commercial driving forces – primarily due to the more economical backdrop of the conflict. The influential actors within the state apparatus is also directly interested in the accumulation of profit, and seemingly provided Gazprom with more leeway to pursue this primary object.

But as the crisis surfaced, the influential institutional actors also grasped the opportunity to utilize Gazprom as an instrument to press for downstream control. But this was subordinated to the commercial nature of the crisis and consequently Gazprom were permitted increased latitude to pursue increased profits. When considering the motivating conditions of the political leadership (X7) and the empirical support for the assertion that Gazprom is an enabling framework condition for Russian policy actions, it is possible to assess Gazprom's role and the motivating conditions of the political leadership as *necessary* conditions for Russian policy making in the 2006 crisis.

Relations to Key Energy Partners (X3) and H3 were strengthened in the partial analysis. In the 2006 crisis, Russia's relations to key energy partners is considered to be a *contributing* condition in its influence on Russian policy actions. The empirical material clearly indicates that there exists a beneficial asymmetrical interdependent relationship for Russia in relation to its main energy trading partners. This is even clearer when one examines Russia's relationship with the diametrically different EU members Poland and Germany. The Russian policy actions in the 2006 crisis with Ukraine can be regarded as a *motivating* condition to further strengthen its position and leverage towards European consumers and increase its foreign policy latitude.

Relation to Ukraine (X4) and its inherent hypothesis H4 was modestly strengthened when examining the empirical material in the partial analysis, on the assertion that asymmetrical interdependence between Russia and Ukraine *enabled* Russia's shut-down. Russia also can be regarded as a dependent actor taking into account that Ukraine controls vital parts of its pipeline network to Europe. When considering the preferences (motivating conditions) of influential actors within the state apparatus (X7) and Russian urge for downstream control (X1) related to increased influence and security, it is rather obvious that Ukraine has a strong bargaining chip as a fundamental hub to European consumers. Russia is at the outset the more powerful and less dependent actor in the relationship when considering resources and otherwise. Power can be regarded as the potential to affect outcomes. Russia holds the ultimate power tool towards a highly energy dependent country with next to none diversifying possibilities – namely the physical shut-down of supplies. But Ukraine also holds a stake in its ability to affect the outcome which it clearly demonstrated: Siphoning off gas intended for Europe on Russian behalf, making severe damage to Russia's reputation as a reliable supplier. In the 2006 conflict Ukraine was nowhere near the bereavement of its transit infrastructure, thus giving up its biggest bargaining card. This modifies the power equation. Thus, asymmetrical interdependence in favor of Russia may be regarded as a *contributing* condition when considering its influence on Russian policy actions. This is due to the modification in the power equation following Ukraine's substantial stake in affecting the outcome – which it also utilized to the full extent.

The 2006 crisis seem more economically motivated, particularly when considering the substantial role played by Gazprom in the dispute and their seemingly increased leeway as a commercial actor in the dispute. This of course does not solely indicate that Gazprom was

operating with a *carte blanche* exempt from influential political actors. It is more indicative as an illustration of the alleged symbiosis between Gazprom and the Russian state as its major shareholder, and the converging of preferences.

Seldom is one factor sufficient to explain complex political processes and policy-outcomes. This is also evident in the assessment of the explanatory factors' influence on Russian policy actions in the 2006 gas row. Three variables operating on the outside-in and inside-out level of explanation respectively stands out as the main conditions for Russian crisis-management: *Institutions-Preferences and Influence (X7)*, *The Influence of Gazprom in Russian Policy Making (X6)*, and *Institutional Framework (X5)* are on balance all found to be *necessary conditions* for Russian policy actions during the 2006 dispute. Without these parameters set as they were, Russian crisis-management would have looked differently.

Also influencing Russian policy-making during the crises were *Relation to Ukraine (X4)*, *Relations to Key Energy Partners (X3)* *EU Energy Security Concerns (X2)* and *Russian Downstream Control (X1)* - but not in a decisive way. These outside-in factors was found to be to contributing conditions only.

4.2.2 The 2009 crisis and influences on Russian policies

Turning to the 2009 crises, one will aim to assess which key influential factors affected Russian policies and illuminate whether the explanatory factors operated in interplay and to what extent. The 2009 crisis lasted for a longer period of time and affected European consumer countries even more than the previous 2006 crisis.

In the interplay leading up to the 2009 conflict and with the previous 2006 gas row fresh in mind, a seemingly peaceful agreement would satisfy both actors through a sort of compromise agreement: The memorandum signed by Prime Ministers Putin and Timoshenko. The substantial content of the memorandum signaled a gradual price increase to market levels during a three year period on gas import prices (Ukraine) and market levels for gas transit (Russia), while the remaining debt owned by Naftogaz to the intermediary RusUkrEnergoo would be transferred to Gazprom. Additionally, Ukraine and Naftogaz would get the opportunity to purchase and distribute Central Asian gas. As a barter trade, Gazprom's

subsidiaries would subsequently get access to the domestic Ukrainian market. In the backdrop of this memorandum, both countries were hit hard by the financial crisis in 2008. Ukraine took the worst blow, evident by their industrial production down by 26 percent year-on-year in December the same year and their massive IMF loan amounting to 16, 5 billion US dollars.

What ruined the harmony in the prospective bright future sketched out in the memorandum, were the reoccurring debt issue. Ukraine stated its debts amounted to 1, 5 billion US dollars, Russia on the opposite stated 2, 2 billion US dollars. Later the payments were made from Naftogaz (\$ 1, 52 billion), while Gazprom claimed it lacked additional funds for fines and penalties (\$ 614 million).

Russian Downstream Control (X1) and its inherent H1 was strengthened in the partial analysis. This motivating condition is manifested in the Putin/Timoshenko memorandum, where it finally seemed as if Russia would benefit from gaining access to the domestic Ukrainian market. Gazprom's subsidiaries would according to the intentions in the memorandum get admittance to this long sought after market, thus being a probable giant leap to increase Russia's downstream control. This is particularly evident by examining the historical track record in negotiations among the two actors, where either a consortium agreement over pipeline infrastructure or Gazprom's entry into the Ukrainian market has been one of the substantial Russian terms. The resource base and the accumulated revenues from vital gas exports to its lucrative European market may make the issue of downstream control a direct implication for both survival and security, considering the highly resource dependent Russian economy and the state's fundamental role as the key driver for modernization. Another *motivating* factor would be that if Russia controls the downstream flow, it can also be regarded as the less dependent actor in the established interdependent relationship. If Russia controls downstream flow, it consequently increases its leverage towards partners and enhances security – applying both to its energy relations with Ukraine, but more importantly in this regard, the EU. In the 2009 crisis, the Russian urge for downstream control can be considered as *necessary condition* in its influence on Russian policy actions.

In interplay with the urge for downstream control during the 2009 crisis are the variable *Institutions – Preferences and Influence (X7)*, an inside-out explanatory factor. One can assess that these variables operate in interplay with each other, and that the Russian policy actions motivated by the urge for increased downstream control can be seen in accordance

with the motivating conditions of powerful actors within the state apparatus. Vladimir Putin were acting president during the first gas row, in the latter 2009 crisis he held office as prime minister. His close entourage of influential players followed Putin from the Presidential Administration to the Governmental Administration, indicating that the main decisions on strategy were taken there. Putin's primary following, the siloviki faction, is regarded as the main influential group in the process of carving out foreign policy decisions. The empirical evidence indicates that the motivating conditions of the siloviki group within the political leadership concur with the chosen actions. The fundamental siloviki preferences are regarded as a consolidation of political and economical power along with extensive focus on security and the defense establishment. An additional vision held by the silovikis is the role of Russia as a leading power in international relations. These motivating conditions, regarding security and consolidation of political and economical power with a vision of Russia's leading role in foreign relations concur with the content of the Putin/Timoshenko memorandum - and the continuous push for consortium agreements to obtain increased downstream control. *Institutions – Preferences and Influence (X7)* is thus also a *necessary* condition when considering the influence on Russian decision-making and subsequent policy actions.

Also in interplay with X1 and X7, is the variable *The Influence of Gazprom in Russian Policy Making (X6)* – concerning Gazprom's role in the 2009 conflict. It will subsequently be assessed if Gazprom's influence on Russian policy actions constitutes an enabling or a limiting framework condition. The 2009 crisis had an obvious economical aspect, especially concerning the reoccurring debt issue. H6 were strengthened modestly in the partial analysis, due to the company's monopolistic position domestically within the sphere of natural gas - which makes it *the* dominant influential actor in the natural gas sector. Limiting elements regarding Gazprom's influence in the Russian policy making are Putin's restructuring of the company's leadership and the majority position of the state that *enables* a strong political influence and subsequently the utilization of Gazprom as an instrument to obtain political goals.

In the interplay up to the crises and during the 2009 row, Putin and Miller appeared on two televised appearances. Putin declared a full shutdown of supplies if Ukraine siphoned off Russian gas destined for Europe and Miller warned of a drastic price increase if an agreement was not reached after the meeting with Putin. Up to January 5 gas flows to Europe were operating near normal levels, but the drastic turn came on January 7 when Putin approved of

Miller's suggestion of cutting supplies, and further instructed Miller to notify European consumers. The crisis subsequently escalated and European gas companies put pressure on Gazprom to resolve the crisis. Putin met with the Head of Italian energy company ENI to discuss a possible consortium to solve the issue of technical gas and resume flows. This is another indicator of when the going gets tough, despite the seemingly coordinated efforts of the state and Gazprom, the case is on the political leaderships (Vladimir Putin's) desk and the final decision-making is within the state's domain. The motivating conditions, accumulation of profits and increased control over downstream, seems to a large extent to be shared – making the symbiosis between the state and Gazprom evident. Putin's restructuring of the company and the state's majority shareholding position enabled the strong political influence as is evident in the 2009 crisis. Without its majority shareholder position and restructuring of Gazprom's management under Putin, the Russian state may not have had the possibility to act in such strong coordination with Gazprom as it did during the 2009 crisis. Judging by the empirical material, it was the political leadership with Putin as the leading figure that had the final say – also in relation to the physical shutdown. The litmus test thus becomes: Would it be possible for the Russian state to pursue its policies leading to a shut-down of supplies, without Gazprom? The present study indicates a “no” to this question. Hence, *The Influence of Gazprom in Russian Policy Making* (X6) may be regarded as a *necessary* enabling condition for the Russian policy actions during the crisis.

Another variable that stands out as a motivating condition with considerable explanatory power is *Relations to Key Energy Partners* (X3). H3 were strengthened in the partial analysis, representing the asymmetrical interdependent relationship that exists in the strategic Russo-EU energy partnership very much present during both crises. The 2009 conflict seem more politicized, evident by the even more severe impact it had on European consumers and the EU's increased involvement followed by its inability to act effectively. Up to January 5, gas flows to European consumers were not affected by the crisis. But when Putin approved the proposal of reduced gas flows and instructed Gazprom's CEO Miller to notify European consumers, the crises escalated and severely affected European supplies. The immediate shutdown illustrated to a whole world how dependent European consumers are on Russian gas deliveries, and that the less dependent actor in the relationship seemingly is Russia.

When an actor is the less dependent part in an interdependent relationship, the less dependent actor can utilize this power in the bargaining over an issue - but also to affect other issues.

The Russo-Ukrainian gas crisis as it surfaced in 2009 may be seen within this context, with Russia embracing the opportunity to additionally tighten the grip in its relation with its main consumer base in Europe. Russian policies and its relation to key energy partners is a *motivating* condition for Russia's interest in increased EU involvement and to politicize the gas row. By examining the empirical material, Russian policies during the crisis seem motivated by increased foreign policy latitude towards key energy partners by ending the reoccurring transit issue in their favor - where Russia was aiming to press forward the previously proposed transit protocol to guarantee freedom of transit through existing grids as they did in 2006. President Putin explicitly rejected the proposals on restructuring and depoliticizing the EU-Russo energy relationship at an EU-Russian energy summit in May 2006, and the EU and Russia has been negotiating over a transit protocol since 2000.

By shutting down supplies, escalating the conflict and increase the burden on the main European consumers, it could utilize its initial strong position towards the EU consumers to involve the vulnerable and dependent partners to renegotiate the transit agreement on Russian terms. An increased politicized turn of the crisis would thus seem beneficiary to Russia, capitalizing on its strong position in relation to the EU in order to put pressure on for a transit agreement in their favor. It is important to bear in mind that Putin emphasized that European consumers should be warned immediately of the shutdown, and that the official reason for doing so was Ukraine's siphoning off gas destined to these very European consumers. Thus, *Relations to Key Energy Partners* (X3) is judged to be a *contributing* condition for Russian policy actions in the 2009 gas row.

Related to X3 and in interplay with Russia's quest for asymmetrical interdependence, is the explanatory variable *Institutional Framework* (X5) - being an enabling framework condition. After the 2006 crisis, a warning mechanism was established by the EU in order to be proactive in the event of a new potential crisis. This was completely ignored in the 2009 crisis, and Russia did once again not ratify the Energy Charter Treaty – despite desperate pressure from EU President Barroso and nine commissioners. By refusing to ratify the Charter once again, Russia increased their foreign policy latitude – with their range of possible policy actions not being restricted by a binding international agreement. The plain and straightforward argument for this was that the Treaty did not incorporate Russia's interest. When the crisis escalated due to the Russian shutdown on January 7, the Merkel initiative of a monitoring group deployed to watch the situation. Barroso and EU commissioner Piebalgs'

press statement signaled that they had got assurances that the flow would be restored when the monitoring group was in operation. This was also completely ignored. The EU showed no ability to act effectively, neither on the issue of the ECT ratification nor the substantial role that was intended for the monitoring group. Angela Merkel later clearly showed the issue of the EU's divisiveness, when she few weeks after the 2009 crisis urged the member countries for continued backing of the strategic Russo-German Nord Stream project.

EU's failure to provide leverage to the ECT, by judicial prosecution and public pressure towards Ukraine's second breach of the transit protocol, along with the non-effective monitoring commission and the public divisiveness within the Union increased the foreign policy latitude of Russia. If Russia had ratified the ECT and were tied to its provisions, the costs associated with a severe breach of the agreement could have been a highly limiting factor on Russian policy making. Thus the lack of a strong and effective institutional framework is a *necessary* condition to explain the Russian policy actions in the gas crisis of 2009.

EU Energy Security Concerns (X2) and its inherent H2 were weakened in the partial analysis. This is an explanatory factor within an outside-in perspective and is regarded as a restrictive element of influence towards Russian policy actions. At the complete Russian shutdown on January 7, the crisis escalated and European consumers were notified. A Gazprom press release issued shortly after the shutdown stated that the shortages and the responsibility for the consequences should be directed to Ukraine and Naftogaz. Although Gazprom and Russia notified European consumers, its actions do not imply that it was overwhelmingly concerned about Europe's anxiety of security of supply.

The 20 day long dispute was primarily escalated by Russian actions. It turned off the flow of gas after public threats by the political leadership to do this, and after Ukraine publically admitted siphoning off gas destined for Europe. Even if Gazprom had pumped additional gas into the pipeline infrastructure, it would not have reached Europe due to the Ukrainian reversion of gas in the system. The financial aspect is another substantial element: Gazprom finally got 1, 52 billion US dollars previously owed to RusUkrEnerg, but fiercely stated that it lacked additionally 614 million US dollars. When considering a possible long term peaceful and prosperous deal for Russia inherent in the Putin/Timoshenko memorandum, the write-off on this sum could have quelled the gas row in the making and spared EU consumers for the

troubles. Russia did not follow through on this notion. The 2009 were a severe blow to Russia's reputation and reliability as a stable gas supplier towards its most important market, the EU. The subsequent discussions on increased focus of diversification of supplies flared up instantly within the Union due to the crisis. This may be a long term problem for Russia. But ostensibly it was not a particular restrictive explanatory factor during the 2009 crisis and is considered to be a *contributing* condition to Russian policy actions in the time of crisis.

Relation to Ukraine (X4) is a factor belonging within the outside-in perspective as an enabling condition that influenced Russian policy actions. In the partial analysis, the notion that Russia's asymmetrical relationship towards Ukraine enabled the shutdowns (H4) was strengthened modestly. Russia's initial less dependent position in the relationship and its vast resource base is an enabling factor that increased its foreign policy latitude in the crisis. Ukraine is also completely reliant on Russian gas imports. By taking into consideration the Russian resource base, Ukraine as one of the world's most energy inefficient countries and their sole dependency on Russian imports, these elements constitute an *enabling* factor for Russia's ultimate decision to shutdown supplies and utilize its power to put pressure on Ukraine.

A limiting element during the time of the 2009 crisis, is that Ukraine also holds a substantial stake in its ability to affect the outcome, considering that it controls the vital physical infrastructure (pipeline network) that transit Russian gas to Europe. As the conflict escalated from January 7 due to the Russian shutdown of supplies, Ukraine siphoned off gas and even reverted gas flow in the system to its energy intensive parts of the country. This is a restrictive factor for Russia's foreign policy latitude, and implies that if Russia wanted to resume flows in the system destined for Europe, this was practically impossible. As such, Ukraine showed its ability to affect the outcome by seemingly prolonging the conflict. This explanatory variable was in Chapter 2 treated as an enabling factor, but as shown in the analysis in the present chapter it has inherent limitations on Russia's political latitude due to Ukraine's actions that modifies the power equation between the actors. Even in a more balanced relationship, it is possible that Russia still would have shutdown gas supplies. Thus, *Relation to Ukraine* (X4) is regarded as a *contributing* condition in influencing Russian policy action in the crisis.

As in the 2006 gas crisis, it is clear that one explanatory factor is not sufficient to explain Russian policy actions in the 2009 crisis. Several factors operating on different levels are in play. In sum, four necessary conditions stand out as substantial explanatory factors in the 2009 crisis: At the level of the external environment; *Russian Downstream Control* (X1) and *Institutional Framework* (X5), and at the level of domestic politics; *Institutions–Preference and Influence* (X7) and *The Influence of Gazprom in Russian Policy Making* (X6). Finally, *Relations to Key Energy Partners* (X3), *EU Energy Security Concerns* (X2), and *Relation to Ukraine* (X4) were likely to contribute to Russian policies at the level of the external environment of the state.

4.3 A comparative assessment of Russian policy actions and Path

Dependency

Having examined both the crises and the influence the explanatory variables exerted on Russian policy making, I will in this subsequent section assess if there is a path dependency that affected the Russian management. The concept of path dependency is to be understood as “(...) past policy decisions acts to circumscribe [or enhance] (my inclusion) policy space” (Kay 2006:29). The study conducted is a diachronic, case study of two foreign policy processes that occurred within a limited time span. The two gas crises may be regarded as two independent observations, but the empirical evidence strongly suggests that these occurrences were related. By comparing the two (related) cases, I will assess how the result of the former crisis may have influenced the Russian management of the latter crisis (path-dependency) (Kay 2006).

Both crises in 2006 and 2009 had one important denominator: The shutdown of Russian gas supplies to Ukraine. Both crises affected European consumers, but with different intensity. The 2006 and 2009 gas rows also has the same inherent political rhetoric, particularly the Ukrainian threats to divert gas for internal consumption and the subsequent Russian response to execute complete shutdowns. The latter crisis in 2009 lasted 20 days and affected European consumers to a greater extent than in the previous gas row. The issue of transit fees and import prices for gas was essential elements of controversy in the 2006 dispute, and the issue of Ukrainian debt sparked the 2009 crises.

Both crises had commercial as well as political origins. Russia’s official demand as one of several terms was to obtain an equity stake in the transit network, either by a consortium

agreement or Gazprom's access through its subsidiaries. The Ukrainian side seemingly sparked the 2006 conflict after the election of Viktor Yushchenko, were they pushed for a price increase in Russian transit fees to be immediately adjusted to European levels. Gazprom quickly responded with a proposed price increase to the same European levels on its gas deliveries, after subsidizing Ukraine at levels well below European market price for several years. The Ukrainian side threatened to siphon off Russian gas destined for Europe, and publically admitted to do so in both crises.

Russia's political leadership seemed to be reactive in its response as the 2006 crisis escalated, and Gazprom was apparently the active and leading actor in the initial days of the looming crisis. Gazprom also decided to increase the price towards all the import countries (except Belarus), indicating a drive for increased profit. Ukraine was also offered a loan to finance new import prices, and a postponed date after the 2006 elections for the price increase to come in effect. The political leadership in Russia seemed to provide Gazprom with more leeway in the 2006 crisis, but a political shadow loomed large as the crisis went on. This was made clear by the Russian demand to allow Gazprom an equity stake in the pipeline network or submit to the previously agreed consortium agreement.

The 2009 conflict also had commercial elements regarding the reoccurring debt issue, which sparked the crisis. Russia's political leadership was apparently better prepared in this gas row, and the coordination between the Gazprom and the state signaled a proactive power display from the political leadership. The EU was hardly involved in the 2006 row, only urging the actors to reach an agreement. The Union was more involved in the latter dispute, but the aim of a Russian signature of the ECT and the Merkel initiative of a monitoring group were practically worthless. Russia utilized its increased foreign policy latitude derived from a practically absent regulatory regime to politicize the conflict, by honoring its initial warning of shutdown. A financially torn apart Ukraine finally paid its debt, but Gazprom and the Russian state turned on the screw and demanded an additional 614 million US dollars.

Against this seemingly commercial backdrop, Putin officially approved of a full shutdown and at the same time Gazprom denied any responsibility – addressing the issue to the Ukrainian side of the table. The Russian political leadership apparently took a strategic decision by expanding the arena of conflict to include European consumers. The complete halt in supplies severely affected European consumers. Putin also headed the talks with the

Head of ENI concerning a consortium agreement on the issue of technical gas to resume flows, indicating to an even greater extent that the 2009 issue was heavily politicized and a top foreign policy priority for Russia. The quarrels with Ukraine regarding transit and price of gas is an issue which is not breaking news in the historical relationship between the actors. The 2009 conflicts' heavily politicized conditions could therefore be regarded as a massive effort for the political leadership to finally mitigate the impact and consequences of their Achilles heel in their broader geopolitical energy relations.

The explanatory factors are comprehensively accounted for and in the subsequent sections one will focus solely on substantial elements where one can assess elements of path dependency. In both crises, Russia's political end game was the shut-down of supplies both towards Ukraine and European consumer countries. One of the factors related to Russia's foreign policy latitude is the role of the EU and the institutional framework. At the outset the EU is more powerful than Russia, but this has one inherent condition: A united, not divided Union. The EU's inability to act and pursue effectively the enforcement of the Energy Charter Treaty in effect signaled to Russia that it had extensive room for maneuver – increasing their foreign policy latitude and its possible range of actions in the 2009 crisis. The latter crisis was even more severe in regards to European consumers and Russia initiated the escalation of conflict by shutting down supplies on January 7. Even after the escalation, the EU's monitoring group and efforts to persuade Russia to sign the ECT did not prove to be effective. Despite the flare up within the Union and the voiced condemnation among member states, Russia pursued unruffled. Thus, the historical experiences from the previous EU involvement and the regulatory framework in 2006 seemingly increased Russia's foreign policy latitude and range of actions in the latter gas row.

Another enabling external factor evident in both crises was the asymmetrical interdependence between Russia and Ukraine. Russia's shut-down in the 2006 conflict proved to be relatively effective instrument of coercion, finally ending in an agreement with the intentions of raising Ukrainian import prices with 30-40 % each year up to 2011. Judging by its seemingly successful policy action by the shutdown in 2006, this mechanism also proved to be a viable alternative course of action in the 2009 crisis. As such, the continued asymmetrical interdependence between the actors (especially considering Ukraine's non-diversifying supply measures and their dependency on Russia as their sole supplier) may have increased the foreign policy latitude of Russia at the outset in finally shutting down supplies. The Ukrainian

response to the Russian power play also constricted the available course of Russian actions. In the latter crisis Ukraine siphoned off gas as in 2006, but they also reversed the gas flow in the pipeline system – thus making it impossible for Russia to regain flows if they wanted. This can be regarded as a substantial constriction in their foreign policy latitude, especially under increased prospective pressure from their main European consumer countries as the crisis was in motion.

Shut-down of supplies to obtain downstream control and further security of vital revenues was also a seemingly prominent preference among the influential actors within the state apparatus in both crises. The disputes with a minor power like Ukraine and Russia's geopolitical aim of increased downstream control may also signal an attempt to increase its political latitude towards the EU and their main consumer base, particularly evident by the politicized conflict in 2009 due to Russian escalation of the conflict.

Converging of preferences between the state and Gazprom was evident in both crises. But the more politicized 2009 conflict indicates that downstream control and the following influence had become of increased importance on the political agenda – namely to keep and preferably increase the political latitude towards Europe. The commercial shadow play evident 2006 was seemingly a breeding ground for a more assertive political intervention in 2009. Judging by the relative power among the actors in a broader international relations context, a more politicized conflict in 2009 would benefit the more powerful actor, Russia, in their fundamental pursuit of downstream control and consequently increase their foreign policy latitude.

It is thus clear that path dependency manifest itself in several areas. The external factors with the EU's inability to act efficiently through its institutional framework, along with the internal factors of converging interests among Gazprom and the state apparatus increased the political latitude of Russia. An actor with next to none domestic societal dispute on the course of action and coordinated preferences apparently gains more latitude. Gazprom can be considered as an extension of the Russian state which was an essential actor in both crises. Gazprom apparently had more leeway in the 2006 crisis, primarily due to the initial surprising Ukrainian initiative of proposed increase in transit fees.

In the 2009 conflict, the path dependency is evident by the utilization of Gazprom by the Russian political leadership as an instrument to obtain broader strategic goals, turning the

crisis into an issue of high politics. An external factor such as the asymmetrical interdependence towards Ukraine and Russia's more or less successful shut-down in 2006 also increased its latitude at the outset of the 2009 conflict, but the Ukrainian response by diverting flows also restricted the range of subsequent actions to be taken. Increased involvement by the Russian political leadership as the driving force in the 2009 conflict is apparently evident as a proactive stance; by expanding the arena of conflict to extensively involve European consumers may be regarded as a small cost to end the historical conflict line on Russian terms. This applies both in regard to Ukraine but also Europe in the broader strategic sense.

CHAPTER 5 CONCLUSION

In the concluding chapter, I recapitulate the research-problem of the study, its theoretical and empirical foundations, and the main findings. In regard to the main findings, I will assess similarities and dissimilarities between the two crises as to Russian policies and the driving forces – framework conditions and motivations – behind the policies. I will also discuss some methodological limitations inherent in the design of the study. Finally, some possible implications of the two gas-crises and the Russian management are outlined, and related to this I will suggest some promising avenues for further research in relation to the approach and conclusions of the present study.

5.1 The study - purpose, design, findings

The ultimate aim of this case study has been to explain and illuminate the framework conditions and the motivational drivers behind Russian policies in the gas rows with Ukraine in 2006 and 2009. The study is thus also a diachronic, comparative case study of two foreign policy events which through a reaction-reaction process became international events of two foreign policy occurrences. The focus has consequently been on Russia's course of available actions in direct relation to its total room for maneuver in the crises – the foreign policy latitude. The foreign policy latitude is, analytically speaking, a function of internal and external enabling or limiting factors/framework conditions. The Foreign Policy Analysis conducted in this thesis and its inherent aim as an analytical framework is the assessment of Russia's foreign policy latitude, derived from both external and internal influences exerted on the foreign policy making state. It is within this space for creative political engineering the

decision-makers' preferences are brought to bear; available means calibrated and combined in ways that are believed to best serve the most sought for goals.

The study draws on theoretical foundations that accounts for both outside-in and inside-out perspectives and influences on the Russian policy-making represented by such diverse contributions as political realism (e.g. Waltz), Complex Interdependence (e.g. Keohane & Nye), Liberal Institutionalism (e.g. Lamy), Societal Liberalism (e.g. Moravscik) and Bureaucratic Politics Model (e.g. Allison). These theoretical foundations range from the global environment to the domestic societal context and mechanisms within the state apparatus.

This study incorporates diverse and comprehensive theoretical approaches, as well as extensive empirical material. In order to provide an answer to the research-problem, I have utilized five theories operating on several levels of explanation. In Chapter 1 I outlined the theoretical foundations. On the *global environment* three theories constitute this level of explanation: Structural Realism (Waltz 1979), Complex Interdependence (Keohane & Nye 2001) and Liberal Institutionalism (Lamy 2005). Within the *domestic environment* level of explanation, Moravscik's (1996, 1997) theory of Societal Liberalism was utilized. Originally an International Relations theory, Moravscik's (1996, 1997) theory of Societal Liberalism were applied due to its highly relevant emphasis on how societal actors and interest groups influence International Relations through foreign policies.

On the final level of explanation, *the decision-making body of the state*, Allison's (1968) Bureaucratic Politics Model (BPM) was utilized. In Chapter 2 presented seven hypotheses operating on the three explanatory levels. I summarized and illustrated this deductive process in table 1 (p.35), "the deductive bridge – from theory to practical research", where the variables was operationalized into measurable indicators. I proceeded with an empirical review of the study's dependent variable, Russian management of the two gas crises, and the respective crises substantial content in Chapter 3. Subsequent to the empirical review of the dependent variable and the study's two cases, I conducted the empirical mapping of the variables *Russian Downstream Control* (X1), *EU Energy Security Concerns* (X2), *Relations to Key Energy Partners* (X3), *Relation to Ukraine* (X4) *Institutional Framework* (X5), *The Influence of Gazprom in Russian Policy Making* (X6) and *Institutions – Preferences and Influence* (X7).

The empirical mapping of both the dependent and explanatory variables paved the way for the empirical analysis in Chapter 4. In this chapter, I analyzed the deduced hypotheses from Chapter 2 separately and chronologically. Additionally, I summarized the results of the assessment of the various hypotheses in table 2 after the empirical analysis. I further conducted the empirical analysis with the respective variables for each of the two crises. In the final section of Chapter 4 I made a comparative assessment of the two crises, substantially examining if there was a path dependent process involved in the Russian management of the two gas rows.

The results in general seem to adhere to Stern's (et al. 2009 & Stern 2006) thorough research in that the crises were predominantly economic and politically motivated. Although there is gliding motion between the two elements, the 2006 crisis seems more economically motivated while the more severe 2009 crises is more politicized. Several explanatory factors operating both within outside-in and inside-out perspectives can be accounted for when assessing the external and internal influences of Russian management of the gas crises. There is considerable support for the assertion that the Russian management was motivated by increased downstream control in both crises, although the actions regarding this motivating factor manifests in different actions during the two crises. The aim of downstream control was a necessary condition in the latter conflict, while in the 2006 row it was a contributing factor due to the commercial nature of the dispute.

In 2006 Gazprom seemingly had more leeway in pursuing its commercial aims, tightly connected to its primary interest – the accumulation of profit. Although the empirical evidence clearly indicates that influential actors within the state apparatus had converging interest with its extended branch Gazprom, regarding the accumulation of profit to a vital company for the Russian state. The commercial element seem to be the driving force due to its reactive handling of the 2006 crisis, but the political shadow also loomed in the background. As the crisis escalated the political leadership seemingly became more involved by setting forth terms of increased access to the transit networks as one of several demands for the Ukrainian side to avoid price increase.

Another substantial explanatory factor influencing the Russian management in both crises was the institutional framework, being a particular enabling factor in relation to Ukraine and particularly the EU. This is also indicative of a divided European Union when being affected

by these crises and their inability to act in a stringent and an effective manner. The evidence from this study also clearly indicates that Russia was not overwhelmingly concerned or restricted by European worries of security of supply. Particularly in the latter crises this contributed to the increased foreign policy latitude of Russia, which even aimed to take advantage by influencing the transit protocol. Russia's asymmetrical interdependence towards Ukraine is also a substantial explanatory factor in both crises in enabling the end game of Russian shut-down of supplies. But as this study demonstrates, most notably in the latter conflict, Ukraine also has a stake in the control over outcomes by reversing the gas flow in a physical pipeline infrastructure within their borders. This consequently exerts restrictions on the Russia's foreign policy latitude and may have increased the course of action towards a continued confrontational line.

Thus, the subsequent "take-home messages" clearly indicates that the Russian management of both crises were influenced by both external and internal factors, and that the underlying motives and driving forces were quite similar in the two occurrences.

- *The motivation for downstream control:* The enabling factor of Russia's motive for downstream control was a substantial factor in both crises, but manifested with different intensity. The 2006 crisis were more or less surprisingly sparked by Ukraine after the transition of power, and the political leadership in Russia consequently became on the reactive side – with Gazprom responding to the Ukrainian initiative. As the crisis was in motion the political shadow loomed large, evident by one of the demands being Russian access to the transit network.
- *Expanding the arena of high politics:* The urge for downstream control and the indication that this had reached the top agenda of Kremlin decision-makers was clear in the 2009 conflict, due to the proactive stance by the Russian political leadership – thus making the conflict an extended arena of high politics by extensively involving European consumers through the escalating action performed as a complete shut-down.
- *Enabling institutional environment:* The structural framework conditions enabled Russia to shutdown supplies in both crises. While the EU were relatively passive in the first gas row, its efforts to institutionalize the conflict through the Russian ratification of the ECT flawed, and subsequently increased Russia's latitude to

perform another shut-down with increased wide ranging consequences for European consumers.

- *Asymmetric interdependence towards key consumers:* In both crises, Russia was also not overwhelmingly concerned over Europe's anxiety over safety of supplies. Rather the asymmetrical interdependent relationship proved to be a motivating condition for Russian actions to increase its latitude and leverage towards its key consumers, particularly apparent in the 2009 crisis.
- *Gazprom as an enabler in foreign policy-making:* The role of Gazprom is considered to be a structural framework condition that enables the Russian state to execute a full shut-down of supplies and to utilize the company as an instrument to obtain foreign policy objectives that is closely related to the states revenues as a the agent of modernization, and consequently its fundamental motives of security and survival.
- *The desired symbiosis:* Gazprom cannot be considered a particularly independent actor. The company holds an uncontested position within the natural gas sector and in the Russian domestic societal context, but this position is primarily granted through political engineering by influential actors within the state apparatus.
- Gazprom can be considered as an extended branch of the Russian state, as evident in both crises – but particularly the strong coordination of the two in the 2009 crisis is also indicative of who eventually holds the final decision-making position: The political leadership dominated by the siloviki faction within the Russian state apparatus.

Both crises showed that the Russian management was influenced by external and internal factors, being enabling and motivating conditions that in sum constituted the range of political actions to be taken and affecting the Russian political latitude. Structural realism and its focus on capabilities, security and survival has clearly been a theoretical backdrop which has extensive explanatory vigor. Related to the crises, Russia has a vast resource base compared to the other actors involved, and this is a capability which constitutes an instrument of power. The vast resource base and its fundamental role as a revenue generating asset is also closely related to the state as the key modernizing actor domestically, and thus is closely linked to the security and survival of an emerging Russian state on the arena of international politics.

Another theoretical foundation with explanatory vigor related to the two crises is Liberal Institutionalism and its emphasis on regulatory regimes. This perspective also incorporates the importance of the anarchical structure of the international system where states are the key actors being rational interest-maximizers. Regarding the two crises, it is illustrative of an EU which actively seeks to incorporate Russia within an institutional cooperative framework to obtain absolute gains, evident by the ECT treaty. Russia seemingly is more concerned about relative gains and who gains more in cooperative efforts, and refuses to ratify the Treaty – which subsequently increases their foreign policy latitude as a consequence of Russia not having to oblige by this very regulatory framework among other states. Ukraine's breach of the transit protocol and the lack of consequences from the EU also provide an interesting perspective regarding the effective implementation of such an overarching regulatory framework.

Allison's (1968) BPM model is also a perspective of utility in relation to the crises, and the motivating conditions for the institutional actors that fight for their preferences in the internal game of politics within the state apparatus. The BPM model provides a theoretical framework that enables the analysis with an important insight to what the different preferences of the influential actors is, and how this affects the policy making. As previously noted, the information gathering revolving around the domestic power struggles within the political leadership of Russia is challenging to put under extensive scrutiny and obtain further detailed data. Although the model allows for clear tendencies and preferences, that in sum contribute to a complementary and valuable picture of Russian policy making during the crises – particularly by blending it with an extensive empirical context. This is clear by observing the two rival factions within the state apparatus, the silovikis and the liberals, and their general preferences and priorities regarding energy issues and foreign policy.

Moravscik's (1996, 1997) theoretical foundation of Societal Liberalism is a perspective that enables the scrutiny focusing on how influential domestic groups and actors and their influence on the foreign policy oriented state. Although in a Russian context, the power struggle among societal actors over preferences which in turn influence the preferences of the state is seemingly a more or less straightforward issue than it would be in a liberal democracy. Gazprom is regarded as *the* actor within the energy sector, especially in the sector of natural gas. It has also to a large extent obtained this position by the promotional and protective hand of the Russian state, which also is an important finding in light of Moravscik's theoretical

backdrop. Furthermore, the assessment of the Russian state as the most influential among the two regarding preferences and foreign policy making also shed light on the assertion that Gazprom is an extension of the state and acts accordingly.

The Complex Interdependence theory of Keohane and Nye (2001) has proved to be useful and has explanatory vigor related to both crises. Particularly the aspect of politics in an interdependent relationship between the actors and the power to affect outcomes has been evident both in relation to Ukraine, but also in relation to the EU in a broader context. The power equation in both crises was modified by Ukraine's ability to affect the outcome, particularly in the 2009 conflict where they even reversed gas in the physical pipeline infrastructure. This had a restrictive impact on Russia's foreign policy latitude. It also siphoned off gas in both occurrences and distracted European supplies through its actions, and signaled clearly that interdependence in the words of Keohane and Nye (2001) means mutual dependence. Ukraine effectively controlled about 80 percent of Russian gas flows to Europe during both crises making, Russia sensitive to a prolonged crisis. But Ukraine is also more vulnerable than Russia, when considering that their sole imports come from the big Eastern neighbor and their diversifying possibilities are next to none. This sets a vital context for the structural framework conditions that both actors operated within during both crises.

5.2 Limitations of the of the study and perspectives on further research

This thesis is a case study of the Russian management of two foreign policy occurrences, namely the gas rows with Ukraine in 2006 and 2009. Thus the study has more explanatory variables than the two cases under scrutiny. This equals some obvious limitations on the study. As evident in the empirical mapping of selected variables and in the design for this thesis as a whole, the comparative control for exogenous third-variables is not within the grasp of this study. This in turn would require vast numbers of cases or occurrences which would be substantially equal in order to address a sufficient comparative scrutiny. It is also dubious if the universe of similar occurrences has a suitable dimension to perform an adequate control of exogenous factors. Thus the main objective for the study as a whole and the subsequent analysis has been to create probable causal explanations anchored in a systematic approach towards the empirical material and the interpretation of this material.

Mediating elements regarding the inherent limitations of this case study is attempted by the comprehensive theoretical and empirical contextualization of the cases, examination of

several different and probable causal explanatory factors and drawing on a varied material of sources as possible – providing in depth knowledge of the two cases. In addition, it is hard to imagine that a case study per se will ever be fully completed, especially within the limited space of a master's thesis. Selection of both theories and method would also necessarily be clarified in the process. Although through the outlining of theoretical foundation, the empirical mapping and the analyses of the explanatory factors, the study has demonstrated that a broad approach towards explaining the Russian management in the two crises is important – especially with regard to internal validity.

It is worth emphasizing that the information gathering in this thesis has been a demanding task for several reasons. The wide theoretical approach applied in this study demands information gathering on international relations as well as decision-making procedures and the environment for these decisions in several areas within the Russian bureaucratic system and official activities. Trenin & Lo (2005:6), both being prominent researchers in the field of Russian foreign- and security policy, illustrates the challenge of engaging the information gathering regarding Russian foreign policy: “(...) the formulation of foreign policy remains an elite preserve, obscured by a pervasive culture of confidentiality”.

The authors (2005:13) also claim that “(...) the workings of foreign policy have been characterized by a particularly strong culture of secrecy” and after Putin's rise to power as president in 2000 the Kremlin “(...) has reinforced the trend of previous administrations (including those of Gorbachev and Yeltsin) in limiting strategic decision-making to the very few”. This particularly applies to analytical level of the decision making body of the state in relation to the theoretical backdrop of Allison's BPM-model. It follows from this that the study has sought to map where and by which potential groups the decisions have been made, and less towards exact persons that at given times exerted influence to certain effects.

Furthermore, the two gas crises which occurred have a recent time frame. Thus the information gathering is naturally limited by this fact. With a more distant time frame the information gathering as a methodological tool could have benefited from more extensive historical material related to the cases per se. The two cases also have direct implications for the Russian state apparatus and the political environment both domestically and abroad in that it also involves broader consequences with some of its main trading partners and influential actors in international relations. It is also important to bear in mind that these cases have

strong overtones directly related to security policies as well as resource politics. In sum it is evident that this equals a situation where the information gathering and the subsequent range of sources are not ideal, but rather typical for data intensive studies of sensitive occurrences that has a recent time frame.

By gazing into the academic horizon, it is possible to suggest some perspectives in relation to tentative research and the subject that has been under extensive scrutiny in this thesis. A perspective that has not been covered in the theoretical backdrop in this thesis is the constructivist approach to the subject. It would have been interesting to see the impact of ideas, norms and perceptions among the different actors and how this may have affected the Russian policy actions in both crises. Another interesting area of study related to the effects of Russian policies would be an interdisciplinary study drawing on insights from both the international relations perspective in political science combined with insights provided by economical science.

In many states the leading energy companies are of vital importance to the national economy and often additionally as substantial premise supplier for the sector as a whole. Both conflicts, the 2006 crisis in particular, had inherent complex economical foundations invoked by the involved commercial actors such as Naftogaz Ukrainy and Gazprom. A study of such kind would imply that one may assess the role of the structure and the position of states on an overarching geopolitical level in the energy sphere, while the economical aspect may extensively examine the connection between politics and business firmly based in both economic theory and method.

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