

ATILIM UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCE
INTERNATIONAL RELATIONS DEPARTMENT
INTERNATIONAL RELATIONS MASTER'S PROGRAM

MASTER THESIS

**A RUSSIAN PERSPECTIVE ON THE ENERGY PROBLEMS BETWEEN
UKRAINE AND RUSSIA – 2005-2015**

Anna Lukyanova

Ankara-2017

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Supervisor: Hasan Ali Karasar

Ankara-2017

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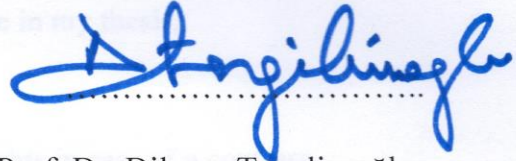
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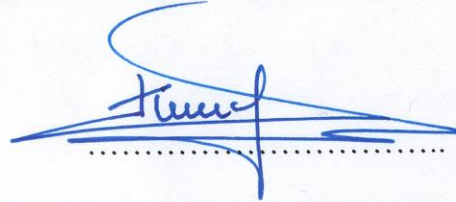
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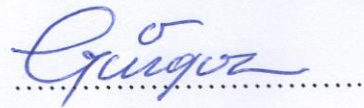
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ÖZET

[LUKYANOVA, Anna]. [Rusya Perspektifinden 2005-2015 Yılları Arasında Ukrayna ile Yasanan Gaz Problemi], [Yüksek Lisans Tezi, Ankara], [2017].

Rusya ile Ukrayna arasındaki ilk gaz krizi 1993 yılında Sovyetler Birliği'nin dağılmasından hemen iki yıl sonra başladı. Sorun oldukça karmaşık siyasi, iktisadi ve coğrafi temellerde iki ülkeyi karşı karşıya getiren bir olguydu. Bu tez Rusya açısından iki ülke arasındaki gaz çatışmasının başlangıcı ve devamındaki sebepleri aydınlatmaya çalışmaktadır. Bu yüzden de tez sorunun zirve dönemi olarak adlandırılan 2005-2015 yılları arasını mercek altına almaktadır. Rusya-Ukrayna ilişkileri hali hazırda da her geçen gün daha karmaşık bir hal almakta ve iki taraf birbirinden tamamen farklı amaçlar üzerine kurdukları politikalar izlemektedirler. Bu tez hem iki devletin dış politikalarını hem de Gazprom ve Naftogaz gibi gaz tekeli şirketlerin konu hakkındaki siyasalarını incelemek suretiyle aynı zamanda Rusya-Ukrayna ilişkilerinin şirketlerin de dahil olan bir haritasını çıkarmaktadır.

Anahtar Sözcükler

Enerji, Gaz, Rusya, Ukrayna

ABSTRACT

[LUKYANOVA, Anna]. [A Russian Perspective On The Energy Problems Between Ukraine And Russia], [M.A. Thesis, Ankara], [2017].

The first gas conflict between Russia and Ukraine was erupted in 1993, two years after the Soviet Union was disintegrated. The problem started on the bases of complex political, economical and geographical grounds between the two countries. This thesis, tries to shed light on the reasons behind the emergence and continuation of gas conflict from Russian perspective. It covers the 2005-2015 period which is considered as the peak time of this conflict. The Russian-Ukrainian relations are getting more complicated every day and both parties in fact are following different purposes. By focusing on the state policies and policies of their gas companies such as Gazprom and Naftogaz, the thesis also maps out the bilateral relations of Russia and Ukraine together with the involvement of their gas companies within the limits of the given time period.

Keywords

Energy, Gas, Russia, Ukraine

DEDICATED

This thesis dedicated to my family

Ankara, 2017

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ABBREVIATIONS:

EU – European Union

USSR – Union of Soviet Socialist Republics

NATO – North Atlantic Treaty Organization

USA – United States of America

US – United States

GTS – Gas Transportation System

WTO – World Trade Organization

GUAM - Organization for Democracy and Economic Development.

CIS - Commonwealth of Independent States

LNG - Liquefied Natural Gas

ES – Energy Strategy

INTRODUCTION

Economically, socially and politically, Russia and Ukraine through common historical heritage are closely connected with each other. Most existing today bilateral problems between Russia and Ukraine have deep historical roots. In this respect, the question of the “gas” conflict, which is renewed at regular intervals for two decades, is not an exception. Therefore, it seems timely to provide a historical retrospective of the designated problem and assess the feasibility of the historical experience of the settlement of the "gas" disputes given the real prospects for a new round of Russian-Ukrainian confrontation in this area.

By the time of the collapse of the Soviet Union, the Ukrainian territory held about 95% of gas transit routes in Eastern and Western Europe, which has identified a number of opportunities for independent Ukraine. On one hand, it provided clear economic benefits: the Ukrainian government could count on significant revenue to the state budget from the payments for the transportation of natural gas through the pipelines. At the same time, this fact helps explain Russia’s flexibility on the issue of "blue fuel" prices for Ukraine.

According to some reports, the forces of Russian leadership maintained "privileges" as an instrument of influence on Ukraine in order to preserve it in its sphere of influence. However, the realities of the market economy took their toll. The first Russian-Ukrainian gas conflict erupted February 20, 1993, when Gazprom CEO Rem Vyakhirev promised to stop gas supplies to Ukraine in the connection with the debt payment. The conflict was quickly resolved then.¹

In 2004, the Ukrainian Orange Revolution took place, which represented a pro-European vector of Ukrainian foreign policy. In Russia, these changes were met unenthusiastically. It became clear that the days of "benefits" for the former sister republic ended. The elimination of potential threats to each other has a significant impact

¹ O. Grinyov, *Ukraina I Rossiya: partnerstvo chi protistoyaniya?*, Lviv, Institute Narodoznavstva NAN, Ukraine, 1997. p.348

on national development. It seems that the mutual influence and interdependence were asymmetric in favor of Russia as one of the largest and powerful state in the world.

In this thesis we will try to look at the problem from different sides, and find perspectives for Russia in this situation.

FIRST CHAPTER

RESEARCH AND REVIEWS

1.1. Research Questions

In this research, I will try to shed light to the following question:

What are the reasons of the emergence and continuation of the Russian-Ukrainian Gas crisis?

1.2. Methodology

This thesis based on today's Russian-Ukrainian conflict analyses. It shows my studies about that topic and deep understanding of the problem. It explains the relations and strong connections between both countries from the beginning.

This thesis shows a Russian view on the problems between Russia and Ukraine in 2005-2015 and shows its perspectives on that conflict situation. This research is useful to understand the problem between two countries, their motives, behavior and looks to this situation from the Russian perspective.

1.3. Literature Review

There are many academicians who study Russian-Ukrainian relations. Even though today these are two different countries after the Soviet Union collapse, it used to be an organic whole. The two countries speak very similar languages, and have a lot in common culturally. In fact it is two-brother countries.

Lev Gumilev (1992) in his book *Ot Rusi k Rossii* shows Russian and Ukrainian relations from the beginning. He explained how two powers were connected together, - in fact it was one - and how they were sorting out their problems. Gordon Dmitriy, (2016), explained in his book *Ukraina Bez Granits: ot Skifov do Putina*, history of both of countries, and their relations until today. Grinyov O., in his work *Ukraina I Rossiya: partnerstvo chi protistoyaniya?* (1997), was explaining the important moments in the

partnership between both countries. Metlenko E.A. in his books (2012-2013) was researching the reasons and solutions in Russia – Ukraine gas conflict.

In my research, I would like to show to what point these relations came today. This research is based on the books and articles, which helped to understand the Russian-Ukrainian relations in different times.

SECOND CHAPTER

HISTORICAL BACKGROUND UNTIL 2005

2.1. Kievan Rus'

Ukraine and Russia share much of their history. Kiev, the modern capital of Ukraine, is often referred to as a *mother of Russian Cities* or a cradle of the Rus' civilization owing to the once powerful Kievan Rus' state, a predecessor of both Russian and Ukrainian nations.²

Kievan Rus' was the early, mostly East Slavic state dominated by the city of Kiev from about 880 A.D. to the middle of the twelfth century. People speaking East Slavic dialects were known from the ninth century as Rus (also referred to as ancient Russians or Ruthenians). Later, they diverged into three major nations—modern Belarusians, Russians, and Ukrainians, and also into several minor ethnic groups, including Carpatho-Ruthenians. From the historiographical point of view, Kievan Rus' is considered a predecessor state of three modern East Slavic nations: Belarus, Russia and Ukraine.³

According to the *Primary Chronicle*, the earliest chronicle of Kievan Rus', a Varangian (Viking) named Rurik first established himself in Novgorod, located in modern Russia (he was selected as common ruler by several Slavic and Finno-Ugric tribes) in about 860 C.E. before moving south and extending his authority to Kiev. The chronicle names him as the progenitor of the Rurik Dynasty.⁴

In the period of greatest prosperity of the Old Russian state with its capital in Kiev, occupied the territory from the Taman Peninsula in the south of the Dniester River and the headwaters of the Vistula River in the west to the upper reaches of the Northern Dvina River in the north and in the east of the Volga River tributaries. By the middle of the XII century, it entered into a state of feudal fragmentation and virtually disintegrated into a dozen separate Russian principalities controlled by different branches of the Rurik

² Editorial, [Kievan Rus](#), *The Columbia Encyclopedia*, Sixth ed., Columbia(2001-2005.) Columbia University Press. Retrieved December 9, 2007

³ Editorial, [Kievan Rus](#), *The Columbia Encyclopedia*, Sixth ed., Columbia(2001-2005.) Columbia University Press. Retrieved December 9, 2007

⁴ Editorial, Kievan Rus, New World Encyclopedia, Kievan Rus, USA, 2014.

dynasty. Kiev has lost its political influence in favor of several new centers of power, continued formally considered the main table of Russia until the Mongol invasion (1237-1240), and the principality of Kiev was in the collective ownership of Russian princes. As ethno-cultural region of Russia continued to exist after the political disintegration, which later played an important role in the process of unification of Russia.⁵

2.2. Mongol Invasion

Start of the XII century was an important milestone in the chronological history of the Middle Ages. During this period, almost all Asia, and a number of European countries, including Russia, suffered a devastating Mongol conquest, had the effects of the world-historic significance. As for Russia, this event radically affected the course of Russian history.

Kiev Defense (1240) - one of the central events of the Mongol invasion of Europe 1236-1242 years and the Mongolian invasion of Rus' 1237-1240 years, in the early years of the Mongol campaign 1240-1242, which aims to become possession of Daniel Galitsky, Poland and Hungary. The siege and capture of the combined forces of the Mongol ulus, headed by Batu Genghisides and captain of Kiev Subutai, which lasted from September 5 to November 19, 1240.⁶ Kiev was a goal of Mongol invasions since 1223.⁷ For 240 years there was established Mongol-Tatar yoke – the system of dependence of Rus' from the Golden Horde, which was expressed in the following areas:

- Economic – every year Russians had to pay tribute;
- Political - Mongol khans were controlling all the activities of the Russian princes, and did not allow them to be consolidated;
- Culture - the best Russian masters were forced for construction and decoration of the Golden Horde;
- Military - Russian soldiers were taking part in the military campaigns of the Mongols.

According to Klyuchevskiy's opinion, Tatar-Mongol yoke showed the unique ability of the Russian people to overcome the most severe adversity and rise "from the

⁵ V.T. Pashutov, B. N. Florya, A. L. Khoroshkevich, *Drevnerusskoye nasledie i istoricheskiye sud'bi vostochnogo slavyanstva*, *Nauka*, p.264, Moscow, 1982.

⁶ L.A. Hetagurov, *Sbornik Letopisey*. Vol.2, Rashid-Ad-Din, USSR, 1952.

⁷ S.A. Kozin, *Sokrovennoye Skazaniye Mongolov*, *Monumenta Altaica*, <http://altaica.ru/SECRET/tovchoo.php> (a.d. 09.01. 2017)

ashes". He emphasizes the foundation of life of the Russian people - faith in themselves, even in the most tragic moments in history, such as Tatar-Mongol yoke.⁸

Thus, the Mongol-Tatar invasion, and the yoke of the Golden Horde, which followed after the invasion, played a huge role in the history of Kievan Rus. After the dominion of these nomads lasted almost two and a half centuries, and during that time, put a significant imprint on the fate of the Russian people. This period in the history of the country is very important, as it predetermined the further development of ancient Rus'.

After the Mongol invasion of Rus the histories of the Russian and Ukrainian people started to diverge.⁹

2.3. Russia Rising

The Mongol invasion had depopulated Rus and Kiev land.

Eastern part of the southern Russian lands, where in the XII century we could hear the name of Ukraine for the first time, has become a desolate for a long time, or at least extremely thinly populated. Population deepened in the west - Volyn and Chervonaya Rus, the center of political activity also moved there.

In the XIV century, the western part of the South of Russia Chervonaya Rus united with Poland, and east part became a part of newly created Russian state under the power of *Velikoye Knyajestvo Litovskoye*, which means Grand Principality of Lithuania.

¹⁰ (See Map 1)

⁸ V.O. Klyuchevskiy, *Kurs Russkoy Istorii*, Vol.2, Moscow, 1959

⁹ Lev Gumilev, *Ot Rusi k Rossii*. AST, 2005. [ISBN 5-17-012201-2](#)

¹⁰ N.I. Kostomarov, Bogdan Khmel'nitskiy, Vol. 4, P.13, Stasyulevich tipography, SPB, Russia, 1904



Map 1: West Rus in the Grand Principality of Lithuania.

In the South-West of Russia the power of the Golden Horde lasted until 1362, when the Golden Horde were defeated by the Lithuanians in the Battle of Blue Waters. Thereafter Southwest Rus fell into dependence from the Lithuanian princes, who had already taken control of the separate principalities on the territory of modern Belarus and Ukraine.

Northeast Russia was in political dependence on the Golden Horde until 1480. The victory of the northeastern Russian princes headed by the Moscow Prince Dmitry Donskoy of the Tatar army in the Battle of Kulikovo in 1380 entailed a relaxation of political dependence (after this event the great princes ascended the throne without Khan's label), but it did not bring the final overthrow of the yoke and the end of payments to Golden Horde. The final release was achieved by the Great stand on the Ugra river

1480. Before and after the event a unification processes in Russia took place, which led to creation of a single centralized independent Russian state during the reign of Ivan III.

Formed under Ivan the Great, the unified Russian state has managed to break free from the dependence of the Golden Horde, and strived for the restoration of the Old Russian state in its previous borders. Ivan the Great assumed the title Tsar of All Russia, which contained claims to Western Russia and the political reunification. As the only Orthodox Power of that time, the Russian government saw itself as an heir to the Byzantine Empire, trying to act as patron of the same faith in Lithuania, where discrimination of orthodoxy was on the rise.

2.4. Integration of Ukraine Into Russia

After the Mongol invasion of Rus, the fates of Russian and Ukrainian people began to diverge. North-eastern Russia have overcome feudal fragmentation, which led to the disintegration of the Kievan Rus, and a formation of a powerful and united Russian state. Southwestern Rus came under Polish-Lithuanian rule, however, the growing pressure on the Orthodox made the Zaporozhian Cossacks seek again a unification with Russia on Pereyaslav Rada.

2.4.1. Zaporozhian Army

Since the XVI century, the value of a new social class increases - the Cossacks, symbolized by the Ukrainian lands it became as *Zaporizhzhyan Sich* or Zaporozhian Army. In 1591-1638 was a series of Cossack and peasant uprisings. It arose in connection with the desire of the Ukrainian population to leave in the uninhabited south-eastern steppe regions of Ukraine from economic, national and religious oppression of the Polish authorities, harassment Ukrainian feudal lords, the attacks of the Crimean Tatars and Turks, and in view of the organization of the Polish authorities Zaporozhye Cossacks in military prison to protect its borders. With the first half of the XVI to the XVII century the Cossacks managed to maintain political autonomy, and in 1649 with help of Bohdan Khmelnytsky, created a semi-independent state.

In 1654, troops had signed an agreement with Russia, under which it retained internal autonomy and, with some reservations, the possibility of conducting an independent foreign policy, but in the future these freedoms were gradually trimmed. Finally the army was abolished by the manifesto of the Russian Empress Catherine II on June 5, 1775.

2.4.2. Bohdan Khmelnytsky

Bohdan Khmelnytsky was born on 6th of January 1595. A hetman of Zaporozhian Army, military leader and statesman of Ukraine¹¹ was one who led the charge in the creation of a Ukrainian Cossack state and contributed to Ukrainian integration into the Russian Empire. During his life, his career was going up. He became a clerk of Zaporozhian Army, and then the ambassador of the Cossacks in the court of the Polish King Vladislav IV. When the war started between Russia and Poland, he participated in the siege of Smolensk in 1634.

The turning point in the life of Khmelnytsky was the event that took place in 1646. When he was away from his village, Polish nobleman Chaplinskiy Danilo, his old enemy, attacked his village, beat his youngest son to death and took away the woman with whom he was going to get married.

The future leader of the Cossacks Khmelnytsky went to court, but it did not accept the complaint: "How is it that the brave armed Cossacks themselves can not defend their rights ?!" - inquired the King Vladislav. Desperate to defend his rights peacefully, Khmelnytsky secretly gathered and informed the Cossacks about the intention to seek justice with the weapons in their arms. Cossacks supported him and in 1648 proclaimed their hetman. Ukraine also became known as the Hetman.

¹¹ Anastasiya Anushevskaya, "Danniy Bogom. Kak getman Bohdan Khmelnytsky obyedinil Rossiyu I Ukrainu," *Argumenti i Fakti*, Russia, 06.01.2016, http://www.aif.ru/society/history/dannyy_bogom_kak_getman_bogdan_hmelnickiy_obedinil_ukrainu_i_rossiyu#comment_list (a.d. 09.01.2017)

Subsequently, under the flags of Khmel'nitsky, the huge number of troops had been gathered - up to 100 thousand people. This was the beginning of the war for the independence of the Cossacks.¹²

However, winning many wars, Khmel'nitsky was able to clearly verify that the Hetman could not fight in a bloody war using only their own power - it needed the patronage of a state. He chose Moscow and thus came an important event: the unification of the two brotherly peoples. And this choice was made not just by hetman himself, it was the will of the entire Hetman.

Then Ukraine has been gradually integrated into the Russian Empire and the process was completed at the end of the XVIII century, when Poland was divided and dissolved Zaporozhian Army. Many natives of Ukraine, then known as Little Russia, has reached an outstanding position in the Russian Empire, being considered part of the titular nation.

2.5. Ukraine Under the Russian Empire

Hetman autonomy became limited and started to be managed by *Malorossian Collegium*. In the XVIII century Cossacks were integrated into the Russian nobility. In 1751, Zaporozhian Army was transferred under the power of Hetman. Later in 1764 the Empress Catherine II abolished the Hetmanate, and in 1775 - Zaporozhian Army.

2.5.1. Territory

As a result of Russian-Turkish War in 1768-1774, Crimean Khanate was recognized as independent of any outside power, and in 1783 its lands were incorporated into Russia. At the annexed by the Russian Empire steppe lands of *New Russia* and Tauris, Russian land is based on the location of the Tatar settlements, including such current major cities as Zaporozhye (1770), Dnepropetrovsk (1776), Kherson and Mariupol (1778), Sevastopol (1783), Simferopol Melitopol (1784), Nikolaev (1789),

¹² Anastasiya Anushevskaya, "Danniy Bogom". Kak getman Bohdan Khmel'nitsky obyedinil Rossiyu I Ukrainu, *Argumenti I Fakti*, Russia, 06.01.2016, http://www.aif.ru/society/history/dannyy_bogom_kak_getman_bogdan_hmelnickiy_obedinil_ukrainu_i_rossiyu#comment_list (a.d. 09.01.2017)

Odessa (1794), Lugansk (1795). By the end of XVIII - early XIX century, Ukraine was a predominantly agrarian economy, and from the middle of XIX what are now the eastern regions of Ukraine, and Kyiv region begin to develop as industrial.¹³

It was the same as historical area of Ukrainian Hetman. From the middle of the XX century the area was defined as "Northern Black Sea" and "Southern Ukraine". Today it is defined as "South-eastern Ukraine." Now the term "New Russia is widely used by the supporters of the federalization of Ukraine."¹⁴

2.5.2. Industry

A major role in the industrialization of Ukraine played a European capital, including - the famous French "Russian loan" of one billion francs. In establishing of commodity grain production in southern Ukraine, massively exported through the Black Sea ports, played an important role not only Ukrainian villagers, but the German colonists, the number of which in Ukraine amounted to about half a million. By the early twentieth century, the Carpathian region became an oil producing region.

2.5.3. Education

Historically an important role in education of Ukraine, as in the European countries, was occupied by academies. At the turn of the XVI and XVII centuries leading intellectual center of Ukraine was Ostroh Academy, which eventually the Polish authorities closed. During the XVII-XVIII centuries largest educational and scientific center of the East Slavic peoples was Kiev-Mohylyan Academy - the first in Eastern Europe Orthodox higher education institution and the largest in the Russian Empire in the beginning of the XVIII century, the number of students there reaching 1200 graduates of the Academy. The first universities of the Empire were established. The teaching language at the Kyiv-Mohylyan Academy were Russian and Latin. At the beginning of

¹³ Ivan Alekseev, *Ukraine, Carpaths*, 2015, http://aleksee-iva.narod.ru/regions/ukr/_ukraina.html (a.d. 09.01.2017)

¹⁴ Dmitriy Gordon, *Ukraina Bez Granits: ot Skifov do Putina*, Ukraine, 2016, <http://gordonua.com/specprojects/kordon.html> (a.d. 09.01.2017)

the XIX century, the Academy, in which the authorities saw "Mazepa spirit", was transformed into a seminary.

The first secular university in Ukraine, Kharkov University were opened in 1805. Then, the Kyiv University in 1834 and Odessa University in 1865 was opened. Even though the teaching program was in Russian language, they gave rise to the birth of the Ukrainian national movement, initially cultural, and since the 1840s - the political too.¹⁵ Ukrainian national language was formed only at the beginning of the XX century, the Ukrainian literature was partially forbidden till that time.¹⁶

2.6. Ukraine Under Revolution

In 1917 Russia had one of the biggest political event in XX century in its history, an *October Revolution*, which influenced the future course of the world history.

The October Revolution of 1917 in Russia was the armed overthrow of the Provisional Government and the coming to power of the Bolshevik Party, which proclaimed the establishment of Soviet power, the beginning of the elimination of capitalism and the transition to socialism.

The slowness and lack of movements in the Provisional Government after the February bourgeois-democratic revolution of 1917 in decision of working, agrarian and national issues, which continued Russian participation in World War I led to a deepening national crisis and set the stage for strengthening the extreme left parties in the center and nationalist parties in the suburbs countries. The Bolshevik's Party acted the most energetically. They proclaimed a course toward a socialist revolution in Russia, which they regarded as the beginning of the world revolution. They put forward a popular slogan: "The peace - to nations", "Soil – to the farmers", "Factory – to the workers."¹⁷

The first February Revolution of 1917 in Russia, which triggered an active movement of Ukrainians, was the cause of the legalization movement for autonomy of Ukraine.

¹⁵ Ivan Alekseev, *Ukraine*, Carpaths, 2015, http://aleksee-iva.narod.ru/regions/ukr_/ukraina.html (a.d. 09.01.2017)

¹⁶ Alexey Torgashev, *Ukrainskiy Pasyans*, Expert Online, Moscow, March 2014, http://expert.ru/russian_reporter/2014/10/ukrainskij-pasyans/ (a.d. 09.01.2017)

¹⁷ V. Baranovskiy, *Oktyabrskaya Revolyutsiya 1917 Goda v Rossii*. Spravka, Ria-Novosti, Moscow, 2010, http://ria.ru/history_spravki/20101029/285488202.html (a.d. 09.01.2017)

2.7. Ukraine Within the SSR

Ukrainian Central Rada 7 November 1917 proclaimed the Ukrainian People's Republic as a part of democratic Russia. Negotiation of the Central Rada and the Provisional government of Russia concerning Ukraine joining Russian Republic on the rights of broad autonomy were interrupted by the October Revolution, which took place in October 1917, as a result of which the Bolsheviks came to power in Russia. They recognized the UPR and immediately declared to it an ultimatum demanding to force to stop the Russian Cossacks and officers who followed through Ukraine to the Don River.

In response to an ultimatum, the Central Rada announced the independence of Ukraine in 25th January 1918, informing the secession from Russia. The first head of the new Ukrainian national state became Mikhail Grushevsky. During this period, new Ukrainian symbols was created including the flag and the coat of arms. The emblem of Ukraine became trident – the sign of the prince Vladimir, which is also minted in the coins.

In December 1917, in the first Soviet Congress of Ukraine in Kharkov, the Soviet Government of Ukrainian People's Republic was created (UPR). UPR name remained until November 1918. This government announced the creation of the Soviet Ukraine and requested military assistance from the Bolshevik leadership in Moscow. The armed forces of the Soviet Ukraine, pushed out of the White Guard of Donbass and launched the attack against the troops of the Central Rada. In January 1918, they occupied the whole left part of Ukraine and in 26th January they took Kiev.¹⁸ A year later - January 22, 1919 the West Ukrainian People's Republic and the UPR was united.¹⁹

In fact, Ukraine remained separated from the Soviet Russia. The German occupying forces started to enter Ukraine. The government, depending from Germany, was established on Ukrainian territory. The Germans were not happy with the government of Ukrainian Central Rada and it was dispersed. April 29, 1918 with the

¹⁸ Ivan Alekseev, *Ukraine, Carpaths*, 2015, http://aleksee-iva.narod.ru/regions/ukr_/ukraina.html

¹⁹ Dmitriy Gordon, *Ukraina Bez Granits: ot Skifov do Putina*, Ukraine, 2016, <http://gordonua.com/specprojects/kordon.html> (a.d. 9.1.2017)

support of Germany in Kyiv there was a coup, which changed Central Rada socialists to Hetman P. Skoropadsky and the country became known as Ukrainian State.

The proclaimed Ukrainian territory included lands of east Poland, Pridnestrovye and Zadnestrovye. It was extended to a depth up to 250 km, on the territory of modern southern Belarus and Russia, including part of Kursk and Belgorod regions, and the lower parts of Don River as well.²⁰

On the Crimea peninsula in the times of the UPR the local government was headed by the king's General Matvey Suleiman Sulkevich, who was opposed to the inclusion of Crimea into the Ukrainian People's Republic. Hetman Skoropadsky, who considered Crimea as a part of Ukraine, imposed an economic blockade to peninsula. As a result, the negotiations decided to include the Crimea in Ukraine as a territorial autonomy.

After Germany's defeat in World War I, Hetman publishes a law of federal relations of Ukraine with a future non-Bolshevik Russia. On the same day the Directory in White Church near Kiev, started a rebellion against Hetman. December 14, 1918 Hetman formally abdicated and fled with the Germans to Berlin, the Directory declared itself the supreme legislative and executive power in Ukraine. In November, the Soviet Government put forward its troops to Ukraine. In January-February 1919, a large part of Ukraine was again occupied by Soviet troops.

In the first years after the World War I, the Bolsheviks worried about expressed "Russianness" of the Soviet administration and the party of the national republics, they decided to make a greater involvement of national cadres to the party and government, and also gave the green light to the national and cultural aspirations to intelligentsia. This policy was called "*indigenization*". Ukrainization, held in 1920 in the framework of this policy has led to an increase of the number of Ukrainian schools and universities, the dissemination of the Ukrainian language in the previously Russian-speaking cities.

²⁰ Dmitriy Gordon, *Ukraina Bez Granits: ot Skifov do Putina*, Ukraine, 2016, <http://gordonua.com/specprojects/kordon.html> (a.d. 9.1.2017)

According to the 1920 census, the population of Soviet Ukraine was 25.5 million people. Where 20.9 million rural residents, and 4.6 million of urban.²¹

2.8. Ukraine During the World War II

During the World War II, the territory of modern Ukraine occurred a number of major battles: first, during the German attack (1941-1942), and after the break in the war (1943-1944) – during the Soviet liberation operations, such as Barbarossa operation, Battle of Uman, Kiev operation (1941), the defense of Sevastopol, Kharkov operation (1942), the Battle of Kursk, the Battle of the Dnepr, Dnepr-Carpathian operation, Battle of the Korsun-Chevchenko operation, Crimean operation, Lvov-Sandomir operation, Yass-Kishinev operation.

In certain periods of 1942 – 1943 the whole territory of Ukraine was occupied by the troops of Hitler coalition: German, Romanian, Hungarian. At the beginning of the war Ukrainian nationalists attempted to create an independent Ukrainian state, but the occupation authorities have reacted to this idea very negatively - Hitler repeatedly stated the inadmissibility of any autonomy on the USSR territory. As a result, a number of active members of the nationalist movement were shot by the Gestapo, others, including Stepan Bandera - placed in a concentration camp. Part of Ukrainian nationalists collaborated with the German occupiers.

During the war, the Ukrainian territory have seen an extensive development of the guerrilla movement, represented by the units established and acting on the orders of the Soviet authorities, and Ukrainian nationalist organizations. The occupation of Ukraine stood out in cruelty, especially towards Jews and Gypsies. More than a hundred thousand people were killed only in Kiev. The most famous place of execution of civilians - Babiy Yar. By the autumn of 1943 the Red Army liberated left part of Ukraine, and in October 1944 - the rest of the republic territory.

The war brought to Ukraine enormous destruction and millions of victims. The population fell from 41,657 thousand in June 1941 to 27,382 thousand in the beginning of 1945. Almost all of its territory was the scene of fierce fighting. During the retreat of the

²¹ Editorial, Lektion 1, Sotsialno-Ekonomichniy Razvitok Ukraini, Bila Tserkva National Agrarian University, Ukraine, 2012, <http://btsau.net.ua> (a.d. 9.1.2017)

two fighting sides used the tactic of "scorched earth". The factories have been evacuated or destroyed, several million Ukrainians died at the front or in the occupation, about three million Germans were taken to Germany for forced labor. A quarter of the inhabitants by the end of the war were homeless.²²

2.9. Ukraine and USSR Until 1991

2.9.1. After War Period

After World War II the demographic losses of Ukraine were significant. According to specialists, they amounted to 14 million people or 22% of the total population. Because of that, the workforce was sharply reduced. But even these numbers do not give a complete picture of the tragic consequences of the terrible war. In after war period the people continued to die from wounds, mines, shells and other lethal items that remain in the Ukrainian land. Dramatically worsened the living conditions of the population: about 10 million people became homeless.

In such difficult conditions, when the territories were becoming free from invaders, the restoration of the national economy was starting immediately. By the end of 1945 it has been restored 44% of prewar capacity engineering and 30% of light industry, enacted 123 major and 506 small mines of Donbas.²³ A lot of work has been done on recovering of houses, and reactivated a large part of schools, universities and health care institutions.

2.9.2. Recovery of Ukraine

In March 1946, Verkhovna Rada of USSR adopted a five-year recovery plan and economic development for 1946-1950. Disregarding the physical ability of people, the plan provided less than 5 years to rebuild the destroyed parts of the country, to restore the pre-war level of industrial and agricultural development and even exceed it, increase productivity to 36%.

²² Ivan Alekseev, *Ukraine*, Carpaths, 2015, http://aleksee-iva.narod.ru/regions/ukr/_ukraina.html (a.d. 9.1.2017)

²³ O.I.Pometun, N.N. Gupan, *Istoriya Ukrayini*, Kharkiv: Sitsiya Publisher, 2012, p. 8.

The experts believed that the Soviet Union's recovery will take several decades. The features of Ukraine recovery:

- The extent of restoration work was greater than in any other country in Europe.
- Republic had to rely on their own power and resources of the Soviet Union, but not on external aid. The "Cold War" made impossible the use of Western, primarily US, financial and technical assistance.
- The restoring stake was on heavy industry and the energy sector (80% of investment) at the expense of light industry, social sector and agriculture (the last was given to only 7% of investment).
- Ukraine's economy was rebuilding not as an independent, self-sufficient and closed complex, but as part of the country's total economic system. In addition, due to the development of new industrial centers of USSR in Ural and Kazakhstan, the share of Ukraine country's production in 1945 decreased in comparison with the prewar period from 18% to 7%.
- At the same time the administrative-command system was established. Its hard conditions allowed to mobilize and focus the considerable material and human resources for the restoration of the economy.
- Extremely big role assigned to the ideological promotion of labor, which finds its expression in the large-scale mobilization and advocacy activities - socialist competition, associations of foremost innovators.
- The recovery was complicated by famine in 1946-1947.
- The lack of manpower, especially skilled, and modern equipment and technology was sharply felt.

The recovery results have been mixed.

On the one hand, the industry of Ukraine was restored. Its volume in 1946-1950, increased by 4.4 times and exceeded the level of 1940 by 15% (but the amount of light industry production in 1950 decreased compared to the pre-war by 20%). On the other hand, the price of recovery due to the rigid methods of its implementation was very high.

The cancelling of card system of product distribution and involving the monetary reform in 1947 became a hard time for workers. Especially it was a difficult situation for

peasants. They were getting meager wages, the social guarantees were not extended to them, they were denied the right to have a passport, and, accordingly, to move freely, they had to pay heavy taxes on homestead land.²⁴

2.9.3. Ukrainian Lands

In 1945, the Sub-Carpathian Rus was attached to Ukraine, which got a name Zacarpathian region. For the first time, almost all ethnic Ukrainian lands were united into one state. In 1944-1946 the exchange of population had a place: from Ukraine to Poland nearly 1 million people moved, mostly Poles, and from Poland to Ukraine - 520 thousand Ukrainians.²⁵ In 1954, on the personal initiative of the First Secretary Khrushchev Crimean region came to Ukrainian SSR.

In the early post-war years Soviet Ukraine is actively doing restoration of economy, destroyed by the war. After Stalin's death, Nikita Khrushchev became a head of Soviet Union (the former first secretary of the Communist Party of Ukraine), and a revision of the Stalinist policy had been started. Illegally repressed were proceeding a Rehabilitation.

2.9.4. Chernobyl

The tragic event in the history of Ukraine was an accident at the Chernobyl nuclear power plant at April 26, 1986. The explosion happened in reactor, which was completely destroyed, and the huge quantities of radioactive substances were released to the environment. The accident is regarded as the largest of its kind in the history of nuclear energy, both in the estimated number of dead and injured from the consequences of its people and also an economic damage. During the first three months, 31 people died after the accident; long-term effects of radiation detected over the next 15 years, caused death of 60 to 80 people, and about 200,000 people were forced to move to other areas.²⁶

²⁴ O.I.Pometun, N.N. Gupan, *Istoriya Ukrayini*, Paragraph 8, Kharkiv, Sitsiya Publisher, 2012

²⁵ Editorial, *Ukraina v prviye poslevoyenniye godi (1945-1950)*, V Pomosh Studentam – Ukrainian History, <http://ukrainian-history.jimdo.com> (a.d. 9.1.2017)

²⁶ Editorial, *Kto pomog sozdat' "Chernobylskiy mif"?*, Russia, 2004, proatom.ru (a.d. 9.1.2017)

This case undermined the credibility of the party leaders, who tried to hide the accident in the first days. In July 1990, the Ukrainian Supreme Council adopted the Declaration of Sovereignty (one month after the adoption of this declaration by Russia), and in June 1991 established the post of president of the republic.

2.10. Kravchuk and Russian Federation (1991-2005)

Leonid Kravchuk (January,10, 1934) was the first president of independent Ukraine (1991-1994 years), Head of the Verkhovna Rada of Ukraine (1990-1991 years), the People's Deputy of Ukraine (1990-1991 and 1994-2006), a hero of Ukraine.²⁷ Leonid Kravchuk - the politician who played a major role among the Ukrainians in the collapse of the Soviet Union, Ukraine's independence, and building the foundations of Ukrainian statehood. Kravchuk has reached the main goal of Ukrainian national liberation movement - to gain independence and to defend it.

In December 8, 1991, he was the one who, together with the Russian Boris Yeltsin and Belarusian Stanislav Shushkevich signed the cessation of the existence of the Soviet Union, so an independent Ukrainian state could appear on its ruins.

On June 19, 1992 Kravchuk signed a law on the complete exclusion of references to the Soviet Union of the Ukrainian Constitution in 1978.²⁸ During the presidency of Leonid Kravchuk, Ukraine has acquired the basic features of an independent state.

- He banned the Communist Party of Ukraine;
- Approved the Coat of Arms, the Flag and the Anthem of Ukraine, the first 400 legislative acts were taken, foundations of independence had been fixed;
- The Armed Force has been formed;
- The whole world has recognized Ukraine as an independent state;
- The presidency of Leonid Kravchuk considered the peak of freedom of speech in Ukraine;
- The foundation of a multi-party system has been laid in Ukraine, as a basic element of democracy.

²⁷ Editorial, Geroyi Ukraini, Kravchuk Leonid makarovich, Ukraine, 2014

²⁸ L. Kravchuk, Zakon Ukrayini ot 19.06.1992 No.2480-XII, Ukraine, 1992.

Leonid Kravchuk, lost the presidential elections in 1994, and he was the first who set the example of Ukraine as a democratic state:

- According to the first presidents of independent republics of the former Soviet Union (Kazakhstan, Turkmenistan, Uzbekistan, etc.) he has not usurped the power and did not give it "inheritance" (as in Russia and Azerbaijan) and losing early presidential elections Ukraine, calmly and with dignity left his post;
- Easily continued political activities by becoming elected deputy of Ukraine;
- Repeatedly acted with sharp criticism of the current government. In particular, 25 February 2009 urged Viktor Yushchenko, the president of Ukraine at that time, to resign.²⁹

However Kravchuk brought a lot of changes to Ukraine as an independent country, there were a lot of people who was not supporting him as a president:

- He made the people poor, and the economy of Ukraine is practically unmanageable when, in 1993, the government of Russia lifted the state control over pricing. As a result, Ukraine's economy was destroyed, began mass unemployment, hyperinflation, etc.
- He did not lead Ukraine along the path of fundamental reforms that were being implemented in Poland, Latvia, Estonia, Lithuania, preferring the administrative regulation of all issues.
- Destroyed many economic ties with other countries. In particular, the debt to the Russian Federation for energy was growing rapidly, and already stood at 138 billion rubles in 1993.
- Many enterprises had to reduce its own production due to lack of raw materials. In 1993 and 1994 the money supply in circulation increased by 18 times.
- Kravchuk has repeatedly been accused of betrayal, including for the renunciation of nuclear weapons.

²⁹ Editorial, Geroyi Ukraini, Kravchuk Leonid makarovich, Ukraine, 2014, <http://heroes.profi-forex.org/ru/kravchuk-leonid-makarovich> (a.d. 9.1.2017)

2.11. Kuchma and Russian Federation

Leonid Kuchma (August 9, 1938) - the second president of Ukraine, was elected to the post twice - in July 1994 and in November 1999.³⁰ Before this, in 1990 he became a people's deputy of Ukraine, from October 1992 to September 1993 he was prime minister of Ukraine.³¹

During the presidency of Leonid Kuchma, Ukraine experienced important changes, such as:

- Hryvnia invention. In 1996 President Kuchma used the National Bank to introduce into circulation the national currency hryvnia. Ukraine has got a permanent, full-fledged currency, which contributed to economic stabilization in the country.
- Equidistance of Tuzla. Ukraine won in a territorial war with Russia over Tuzla Island through diplomatic wit and resourcefulness of Kuchma. Having sensed that Tuzla is going to chop off the Krasnodar region (the Russian Federation), Kuchma cut his Latin American tour, met with his Russian counterpart, Vladimir Putin, and persuaded him to stop territorial encroachment.
- Sent people to Europe. At his time Leonid Kuchma made the Euro-integration in Ukraine. People start to go to Europe during Kuchma power.
- Built a relationship with Russia. With Russian President Leonid Kuchma all the time spoke on an equal (meaning psychological) factor. He built relations with the neighboring country so that the Kremlin perceived Ukraine as a full partner in the international arena, but not the "poor relative of the Soviet family."

Kuchma signed the "Big Treaty" with Russia. The document laid the foundation for cooperation between the two countries. Thanks to him, Ukraine's relations with Russia were built smoothly and mutually beneficial.

- He gave a live to Constitution. Another achievement of Kuchma was an adoption of Constitution. In 1996 he insisted that the Parliament approved the Basic Law of the country. And revision of this Constitution has been recognized by many international experts as one of the most democratic in the world. However, further efforts (in 2004) to

³⁰ Editorial, Vtoroy Prezident, Delo 09.08.2006, N192, Ukraine, 2006

³¹ Editorial, Den' v Istorii – 10 iyulya, Ria Novosti, Russia, 2005

rewrite the Constitution, damaged the reputation of Kuchma - he was accused of trying to adjust the basic set of laws for his third term.³²

During the presidency of Leonid Kuchma, who was elected as president by pro-Russian slogans, there was an oligarchic system, which still exists today. The main subjects of this system are dependent on the interests of the West, they use ethno-political division of Ukraine in their interests, and categorically not interested in the development of real integration with Russia. Thus, Ukraine put forward and replicated respective ideological postulates ("Ukraine is not Russia", "Ukraine is Europe"), executes control over the most influential media.

During the formation and consolidation of the basic parameters of the system in the second half of the 1990, Russia could not influence these processes to soften their character. In the context of the liberal experiment in Russia it was very difficult to do. The main parameters of the new Ukrainian state (oligarchic political system, liberal ideology, pro-Western foreign policy orientation, the condemnation of the Soviet historical experience, and others.), mainly characterized the situation in Russia in the 1990s. That's why it was difficult to expect the action from Russia on the promotion to Ukraine a different logic of political development.³³

2.12. Orange Revolution

The Orange Revolution - wide campaign of peaceful protests, rallies, pickets, strikes, which took place in several cities in Ukraine on 22 November 2004 to January 2005.³⁴ It began after November 21, 2004 Ukraine's Central Election Commission announced the preliminary results of the first round of the presidential election, according to which Viktor Yanukovich, who was the prime minister at that time, won with a margin of 3%. The supporters of the main rival of Yanukovich in the election - Viktor Yushchenko - and most foreign observers believed that the preponderance of

³² Elena Galadjy, *Kuchma-75: sem' dostizheniy I pyat' prokolov vtorogo prezidenta*, Komsomolskaya Pravda, Kiev, 2013

³³ Editorial, *Deideologizatsiya Rossiyskoy Politiki Kak Faktor Oslableniya Vliyaniya Rossii Na Ukraine*, Tsentr Sulakshina, Russia, 2014, <http://rusrand.ru/analytics/deideologizatsiya-rossijskoj-politiki-kak-faktor-oslableniya-vlijaniya-rossii-na-ukraine> (a.d. 9.1.2017)

³⁴ Andrew Wilson, *Ukraine's 'Orange Revolution' of 2004: The Paradoxes of Negotiation*, Oxford University Press, 2009, pp. 295—316

Yanukovych in the vote was achieved due to violations of the election. The action started as a reaction to the massive fraud that affected the outcome of the election.

The main base of the united opposition became the western and central regions of the country, including Kiev, while Yanukovich was supported mainly by eastern and southern regions.³⁵ The public opinion of Russian Federation was on the side of Victor Yanukovych, Western countries - to the Ukrainian opposition party.³⁶

In December 3, 2004, the Supreme Court of Ukraine made a decision that a winner is not possible, and appointed to make the second round on 26 December 2004. Repeated voting gave the victory to Viktor Yushchenko with a margin of 8%. The center of Orange revolution was the Square of Independence in downtown of Kiev, where the continuous rally at tent camps continued for about two months. The rallies on Independence on certain sign up days collected half a million people. It is believed that the Orange Revolution began on November 22, 2004 when the Independence Square began to gather a rally of supporters of presidential candidate Yushchenko under orange flags. Protesters have established dozens of tents and have started an indefinite protest.

The election race was held in a tense atmosphere, sounded allegations of violations of the electoral law, the charges of fraud, bribery and intimidation of voters, media bias. People stopped the protests after the inauguration of Viktor Yushchenko in January 2005. They returned to their normal lives. And the orange team began to disintegrate. Yushchenko, as a new leader, was not able to justify the high hopes vested in him by Ukrainian society.

In less than a year numerous scandals and permanent political crisis with many elections and re-elections, intensified corruption and the continued dominance of oligarchs forced Ukrainians bitterly disappointed at the Orange Square. In the future policy of Yushchenko and his former allies in the Maidan, with whom he quickly fell out, has led to the initiated by Ukraine a termination of advantageous gas contracts with

³⁵ Central Election Commission of Ukraine. Repeated voting of the presidential elections November 21, 2004. Results of voting on regions of Ukraine, 2004, <http://www.cvk.gov.ua/pls/vp2004/WP301?PT001F01=501> (a.d. 9.1.2017)

³⁶ Vitaly Portnikov, The presidential election campaign in Ukraine and Russia, Radio Liberty, Guests in the studio: Roman Manekin, Tamara Guzenkova, October 24, 2004.

Russia and replacement of them with contracts at European prices, to the "gas war" with Russia and a sharp deterioration Russian-Ukrainian relations.³⁷

The only thing that he could manage at that time to thoroughly spoil the relations with Russia was declaring a course towards European integration and NATO membership. In addition, Yushchenko has caused mixed reactions in the country for the Ukrainization policy, in particular, foreign-made films became duplicated into Ukrainian language. Furthermore, he stated the need for reconciliation of the veterans of Ukrainian Insurgent Army (who collaborated with the Nazis) and the Red Army, securing all of them the status of members of the Ukrainian liberation movement. Yushchenko, as a third President of Ukraine, also initiated the recognition of the *Holodomor* of 1932-1933 as genocide of Ukrainian people.

At the same time, he did not carry any of the promised economic reforms out. All the time the president had conflicts with the parliament and the prime minister and his colleague in the "orange camp" Tymoshenko. The contradictions in the government appeared on the grounds of distribution of powers. A cruel joke with Yushchenko was largely played by the constitutional reform adopted in a package of laws necessary for rerun elections in 2004. The amendments considerably restricted the powers of the presidency.³⁸

As a result, Yushchenko foolishly squandered a huge loan of public trust. In 2008-2009, the Ukrainian economy experienced a sharp dip in the GDP, because of the debts to the West that returned to the level of the 1990s. In the presidential elections of 2010, Yushchenko scored a total of about five percent of the vote. Victory in the second round was taken by the leader of Party of Regions, Viktor Yanukovich, ahead of incumbent Prime Minister Tymoshenko. The opposition leader Yanukovich took revenge on fragmented and weakened by internal strife "orange" leaders.

Despite the apparent discrediting of Maidan, the organizing of regular Maidan protests has become since 2004 a constant threat for the Ukrainian political life. In 2013-

³⁷ Editorial, Orangevaya Revolyutsiya, Ruksper, Russia, April 2016, http://ruksper.ru/Оранжевая_революция (a.d. 9.1.2017)

³⁸ Editorial, Posledstviya "Orangevoy Revolyutsii": Zabveniye Yushenko I Vzlyot Poroshenko, Ria Novosti Ukraina, Kiev, November, 2014, <http://rian.com.ua/politics/20141122/359842988.html> (a.d. 9.1.2017)

2014, the threat was realized in the form of Euromaidan, sponsored by Americans, that led to the Bandera-oligarchic coup, during which the president Yanukovych was removed from power and run away from the country. Euromaidan eventually led to the deepest political and economic crisis and the split in the country under the control of the some of the active participants in the Orange Maidan in 2004.³⁹

³⁹ Editorial, Orangevaya Revolyutsiya, Rukspert, Russia, April 2016, http://rukspert.ru/Оранжевая_революция (a.d. 9.1.2017)

THIRD CHAPTER

ENERGY CONFLICT 2005-2015

3.1. Energy Relations of the Russian Federation With the Former Soviet Union Member Countries

Among domestic energy resources in Russia, the natural gas, in contrast to the electricity and oil, is truly a national treasure, and plays a crucial role in the development of the domestic economy and in strengthening the position of Russia in the foreign economic sphere. Russia accounts for over 30% of the world's proven reserves of natural gas and more than 20% of world gas production capacities. It is the largest exporter of natural gas in the world, providing more than 25% of Europe's gas needs. Russia also has an extensive internal network of gas transmission and distribution facilities, and is the second-largest consumer of natural gas (after the US). The gas industry remains a significant and constant source of foreign exchange earnings, and it significantly contributes to the economic growth of Russia.⁴⁰

In 2004, the ratio of gas supply to the domestic and foreign markets was, respectively, about 300 billion cubic meters and 190 billion cubic meters (120 billion cubic meters - in the CIS countries and 70 billion cubic meters - CIS and Baltic countries). The weighted average selling price of natural gas in Russia for domestic use, including VAT, was fixed at the level of 47.12 dollars per 1 thousand cubic meters. At the present time it is the ultimate cover price of gas production costs.

In Western Europe, Russian gas is sold to wholesalers for \$ 250 per 1 thousand cubic meters. In 2004, the average price for Russian gas supply to the CIS countries amounted to 50.9 US dollars per 1 thousand cubic meters, including Ukraine – 50 US dollars per 1 thousand cubic meters, Belarus - 47,2 US dollars, Moldova - 82.5 US dollars. In the

⁴⁰Andrey Kobayakov, Vitaliy Averyanov, Vladimir Kucherenko, Postsovetskoye Ekonomicheskoye Prostranstvo, *Russkaya Doktrina*, Russia, 2005, <http://www.rusdoctrina.ru/page95733.html> (a.d. 9.1.2017)

Baltic countries, the average price amounted to 83.5 US dollars per 1 thousand cubic meters.

CIS countries are the territories where Russia transits its gas for export deliveries. In 2004, the level of transit rate in Ukraine amounted to \$ 1.09 for pumping 1 thousand cubic meters of gas per 100 km, Belarus - \$ 0.75 (\$ 0.46 - on a gas pipeline "Yamal-Europe", which belongs to "Gazprom"), in Moldova - \$ 2.5, in Lithuania – Euro 0.5, in Latvia – Euro 0.4, in Uzbekistan - \$ 0.76, in Kazakhstan - \$ 0.76 (to pump Turkmen and Uzbek gas to Russia) and \$ 0.9 for the transit of Russian gas.⁴¹

If to analyze the level of transit tariffs and to compare the scale of prices for Russian natural gas in the countries of near and far abroad, a logical question arises: why Russia sells its gas to the nearest neighbors in the CIS and the Baltic States to the detriment of himself, that is, not at world prices?

Here the main role comes to a number of economical and geopolitical reasons: From these figures, it is clear that Ukraine is a leader in the establishment of the highest tariff for the transit of Russian gas. This is due to the fact that Russia gets 80-85% of foreign exchange earnings from oil and gas exports to Europe via Ukrainian pipelines. Half of the storage facilities of the former Soviet Union is located in Ukraine.

The Ukrainian side, in this way, as a monopolist in the transit of Russian gas to European Union countries, using its advantage, can dictate the conditions of Russia in establishing transit tariff. Such a situation in a market environment makes the transit of Russian energy supplies through Ukrainian territory as a weak spot in the economic security of Russian Federation. Russia should seek to transit multi-vector export routes and reduce the Ukrainian monopoly in Russian pumping energy.

The main reason why Russia sells its gas at prices two to three times below the world to the CIS countries, lies in the fact that the countries as "fragments" of the great power have not yet become viable and self-sufficient national economies whose potential would allow them to pay to Russia for gas even at artificially low prices. Even in Belarus, whose macroeconomic indicators of the national economy are the best in the whole post-Soviet space, the transition from 1 January 2004 of gas, price changed from \$ 30 per 1 thousand

⁴¹ Andrey Kobayakov, Vitaliy Averyanov, Vladimir Kucherenko, Postsovetskoye Ekonomicheskoye Prostranstvo, *Russkaya Doktrina*, Russia, 2005, <http://www.rusdoctrina.ru/page95733.html>

cubic meters to a new price \$ 46.68. It has caused the additional costs, according to the Belarusian government about \$ 250 million.⁴²

To maintain the viability of the Belarusian economy and fulfill alliance commitments, Russia agreed to provide the credit to Minsk of \$200 million to pay for the gas, the price of which had been risen up. In other words, the geopolitical benefits costs require "a lot of money" and "understanding of the issues" of the ally.

3.2. Russia Emerging as an Energy Giant

The history of the gas industry of Russia is complicated, because for a long time it engaged in the extraction of natural gas, which is one of the most important and expensive resource in the world. To date, this resource is concentrated in the hands of a few large companies, so from this we can say that there is an oligopoly on the market. Russian gas industry is mature and has good prospects for the effective development and growth, and this is due to the fact that in the country there are plenty of places where natural gas is produced, which is an essential resource for the normal life of any country.

It should be noted that the gas industry is a significant source of government revenue, so its development and modernization takes a lot of money and attention from the government. This leads to the fact that the industry is constantly evolving, modernized and improved. Therefore, there are great prospects for its effective and efficient development. This is because of the implementation of new pipelines, which are durable and reliable quality. Also unique technologies and techniques used in the gas production, advance equipment and technology.

All this leads to the fact that the Russian gas industry is constantly evolving and becoming a source of such a large income that the funds received could be used not only by the industry, but also other spheres of activity. Opening new gas fields, and thereby increase a profit, leads to the fact that improving the country's gasification rate increases exports, increases economic and energy efficiency, and is obtained by using new technologies to extract from the received resources useful and necessary components.⁴³

⁴²Andrey Kobayakov, Vitaliy Averyanov, Vladimir Kucherenko, Postsovetskoye Ekonomicheskoye Prostranstvo, *Russkaya Doktrina*, Russia, 2005, <http://www.rusdoctrina.ru/page95733.html> (a.d. 9.1.2017)

⁴³ Editorial, Tendentsii Razvitiya Gazovoy Promyishlennosti v Rossii, *Promyishlennost' Rossii*, Moscow, 2014, http://doloni.ru/gazovaya_promyishlennost_rossii.html (a.d. 9.1.2017)

In the year 2000, when president Putin started be in charge, he stabilized the situation in the country by the consolidation of the energy sector under state control. The government effectively nationalized the majority of the energy sector under the roof of the three state giants as Gazprom, Rosneft and Transneft. The Kremlin has become more aggressive in the negotiations of supplying contracts with the former Soviet republics and Europe, forcing them to buy large amounts at very high prices, because these clients do not have alternative sources of energy. The Kremlin has also started to stop the supply of energy to some markets, accusing troublesome transit countries such as Ukraine, in order to form other political talks.

Although Moscow's energy strategy has become quite aggressive, it helped Russia become stronger and more stable. Revenues from energy increased due to the high world prices for oil and natural gas, which is paid for in Europe. Russia received surplus funds to pump into their political, social, economic and military spheres. Energy policy has also helped to strengthen Russian influence in its former suburbs and forced Europe to withdraw from the containment of Russia's revival. Of course, the financial crisis that has gripped Europe and Russia in 2008, Russia recalled its major energy customers, when oil prices fell, and demand began to decline.⁴⁴

In the domestic market, "Gazprom" Group sells more than half of sales gas. In 2015, revenues from gas sales of the Group (excluding VAT) in the domestic market reached 805.6 billion rubles. Sales volumes amounted to 221.2 billion cubic meters of gas.

⁴⁴ Loren Gudrich, Mark Lanterman, Proshloye, Nastoyasheye I Budusheye Energeticheskoy Strategiyi Rossii, Geopolitika, Moscow, 2016, <http://www.geopolitica.ru/article/proshloe-nastoyashchee-i-budushchee-energeticheskoy-strategii-rossii#.WE2NoHdh1bU> (a.d. 9.1.2017)



Scheme 1 Gazprom group Gas realization in Russian Market

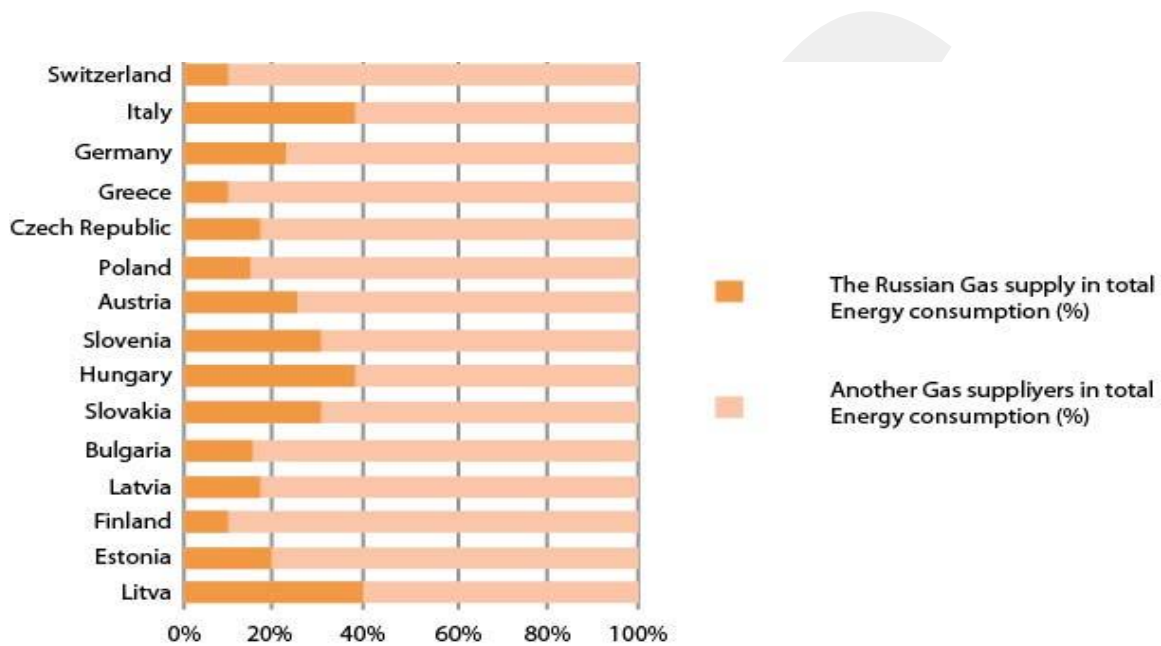
As for an international market of Europe, the import of Russian Gas became necessary in 2000's, because their own natural resources became not as strong as before. So, if in 1990 and 2005, gas production in Europe increased by 68%, in 2014 it fell to 47%. Reduced gas production was mainly due to a significant reduction in the UK and the Netherlands production. The main reason for this was the depletion of natural gas reserves.

The third major European gas supplier - Norway, is also experiencing difficulties with the extension of gas reserves. But at the same time it steadily increases production (for 2009-15 to 7%) and its share in the European gas market (an increase from 19 percent to 25 percent). In 2016 the Norwegian state company Statoil plans to increase the competition to "Gazprom" in Europe.

The share of imported gas in Europe increased from 39% in 2000 to 63% in 2015, and experts predict will increase in the future. Therefore, the problem for the EU gas supply countries gained importance, especially in the formation of a permanent source of tension around the transit of Russian gas through Ukrainian territory.

Sustained growth in natural gas consumption in the European countries (from 1990 to 2010, an increase of nearly 1.9 times) and jump in natural gas prices (from 2000

to 2011 - almost 4.5 times) has created euphoria in Russia about gas production in progressive movement towards the EU's energy dependence on Russian gas. In the first decade of the new century, the proceeds of "Gazprom" on exports increased by 2.8 times compared to previous period.⁴⁵



Scheme 2 Dependence of Europe from Russian Gas

3.3. Energy as a Diplomatic Weapon

3.3.1. Georgia

Georgian Energy Power for very long period of time has been in a rather difficult situation. Suitable rivers with significant potential currently used only in part due to the poor technical condition of a number of hydro and thermal power plants. The annual production of electric energy in Georgia only to a small extent is able to meet the needs

⁴⁵ Valery Scherbina, *Rossiyskiy Gaz v Evrope: Mejdru Proshlim I Buduschim*, Levyy Bereg, Kharkiv, 2016, http://lb.ua/economics/2016/09/28/346230_rossiyskiy_gaz_evrope_mezhdu.html (9.1.2017)

of the state, therefore, energy imports from Russia and Armenia are vital. First of all, in the winter months to ensure the critical situation of electricity. In 2002, the consequences of the influence of climatic conditions have been frequent interruptions in the supply of electricity and gas. Even in Tbilisi for two weeks there was no gas and electricity supply.

For Georgia's energy dependence on Russia and Armenia in the highest degree advantageous. Armenia is an ally of Russia, and relations with Georgia are running high - especially because of the situation prevailing in the province of Javakheti in southern Georgia, where the majority of the population are Armenians - most numerical national minorities in Georgia.⁴⁶ The Georgian-Abkhaz and Georgian-Ossetian issues are only part of the problems of the main, that is, the Russian-Georgian relations and ethnic conflicts in Georgia, thus, are only part of the above mentioned, as the official Moscow is using the Abkhazians and Ossetians in its foreign policy in relation to Georgia. Russia defends its strategic interests in Georgia and Georgia, in turn, hold with the collapse of the Soviet Union a pro-Western policy, since it is not going through with respect to the Russian special sympathy, given that historically.

In 2006, the relationship between "Gazprom" and Georgia stopped because of dissatisfaction with Georgia's price proposed by Russia. Moscow has offered to buy Tbilisi Russian natural gas at the price the same for all countries - \$ 230 per thousand cubic meters. There is an apparent downward trend in the Russian presence in the energy sector. Russia has long been a major supplier of natural gas to Georgia, but in the second half of the 2000s, Georgia began systematically to reduce purchases of Russian gas, increasing imports from Azerbaijan. The main reason was the increase in the price of gas supplied from Russia. Earlier, the Georgian side has repeatedly stated that it considers the set gas price too high.

In the early 2000s, there was a hope that the cooperation in the energy sector will reach a new level. It was, above all, the participation of Russian business in the gas distribution sector of the Georgian economy. As an example, the creation of gas distribution company "Itera-Georgia" (100% subsidiary of the CIM "Itera" Russian companies), gas supply is carried to more than 100 enterprises in Georgia, including

⁴⁶ Tomash Shmidt, *Kratkoye Opisaniye Istorii Gruzino-Rossiyskih Otnosheniy, Russkiy Vopros*, Czech Republic, Jan. 2004

more than 30 regional gas distribution companies. In 2012 the company was bought out by the State Oil Company of Azerbaijan (SOCAR), which is now the only retail operator in Georgia (except Tbilisi).⁴⁷

As the head of the Center of oil research Ilham Shaban said:

“Georgia will never fully replace Russian gas to Azerbaijanian. In this case it will be necessary to block the pipeline "Russia-Georgia-Armenia". The Georgian side gets good money for transit - 200 million cubic meters. Therefore, it is simply not profitable to give up on Russian gas in full. It is also foolish, if Georgia would be completely abandoned Azerbaijani gas in exchange for Russian".⁴⁸

3.3.2. Ukraine

Gas relations between Russia and Ukraine have a rich history - Kiev is not the first year speculates cost of fuel supplies, and Moscow threatens to close the valve. The first gas dispute between Moscow and Kiev appeared immediately after the collapse of the Soviet Union. Since the gas transportation system of Ukraine was used to export Russian gas to Europe, Kiev provides different preferences for the transit and purchase of gas.

Ukraine is a leader in the establishment of the highest tariff for the transit of Russian gas. This is due to the fact that Russia gets 80-85% of foreign exchange earnings from oil and gas exports to Europe via Ukrainian pipelines. Half of the storage facilities of the former Soviet Union are located in Ukraine.

The Ukrainian side, in this way, as a monopolist in the transit of Russian gas to European Union countries, using its advantage, can dictate the conditions of Russia in establishing transit tariff. Such a situation in a market environment makes the transit of Russian energy supplies through Ukrainian territory as a weak spot in the economic security of Russian Federation.

⁴⁷ Elena Zavyalova, *Vzimoreystviye Rossii I Gruzii V Oblasti Ekonomiki*, RSMD, Moscow, May 2014
http://russiancouncil.ru/inner/?id_4=3665#top-content (a.d. 9.1.2017)

⁴⁸ Dg, Alekperova, *Azerbaydjanskiy Gaz Gruzii Neobhodim*, Echo, Azerbaidjan Jan, 2016,
<http://www.echo.az/article.php?aid=95107> (a.d. 9.1.2017)

The first gas dispute between Moscow and Kiev appeared immediately after the collapse of the Soviet Union.

However, in spite of the existing facilities, in 1993 Ukraine owed "Gazprom" 138 billion rubles. Then the head of the Russian gas monopoly Rem Vyakhirev threatened to cut off gas exports until the account is paid for the fuel. Kiev, in turn, promised to block the transit of gas to Europe. However, the turn off of the valve did not happen - the parties managed to reach a compromise quickly enough.

- For the first time to limit supplies to Ukraine Russia decided in March 1995 when the Kiev debt increased to 1 trillion rubles (1,5 billion USD). The volume of exports decreased three times - from 114 million cubic meters to 40 million cubic meters. But on March 10 the parties agreed on the continuation of supplies - Kiev promised to pay its debt by 200 million \$ every year, but in 1999 has stopped and showed itself as a bankruptcy in Eurobond as 200 billion Deuch marks.

According to political analysts, the Russian Federation did not close the gas for political reasons.

In 1999 Russia offered a deal: to get 11 Ukrainian bomber planes and 575 cruise missiles (rockets) and degreese the debt to 285 million \$.

In 2002 both countries made an agreement to transit Gas from 2003-2013 with a fixed price 80\$/1000 m³, but in 2005 Ukraine offered a new price 50\$ for first 17 billion m³, and 8 billion m³ at the price 80-82\$, and from September 1 2005, the price will increase to 90-96\$.

A new round of gas misunderstanding occurred in 2006, after Ukraine was faced with the first Maidan. The administration of the new head of state Viktor Yushchenko demanded that the "Gazprom" to increase the tariff for gas transit, passing through the territory of Ukraine from \$ 1.09 to 2-2.5 dollars per thousand cubic meters. But at the same time Kiev wanted Moscow to preserve original fuel prices for Ukraine.

The Russian response was to move to a system of mutual settlements on the European environment and to increase the transit rate, but only if Ukraine transitions to

the average European price of 160-170 dollars per thousand "cubes" of gas. Such a proposal Kiev found unprofitable, and tried to return to the previous agreements, but while negotiations continued, the average European price rose to 220-230 dollars. The Ministry of Fuel and Energy of Ukraine said that in the first quarter of 2006 are willing to pay for gas \$ 80 per thousand cubic meters at the tariff for transportation to \$ 1.75.

And not having reached an agreement with the Ukrainian colleagues, "Gazprom" has been decided to January 1, 2006 to cut off gas supplies to Ukraine. The remaining without fuel Kiev began siphoning off gas intended for Europe, which is why Russia had to increase the volume of deliveries.

The disconnection of the gas valve acted on "Naftogaz", and already on 4 January sides signed a five-year contract under which the cost of fuel for Ukraine was \$ 95 per thousand cubic meters (in the first quarter of 2006, then the price could be changed by mutual agreement between Moscow and Kiev). As for the transit tariff, it was set at \$ 1.6, which "Gazprom" pay "Naftogaz" for the supply of fuel through the territory of Ukraine.

In 2007 Gazprom was planning to stop the gas supply, because of Ukrainian debt.

The gas disputes of Russia and Ukraine came back in 2008. The conflict began in Kiev debt for delivered fuel - as of December 11, 2008, "Naftogaz" has run into debt to "Gazprom" \$ 2.4 billion, while the debt for the year increased to \$ 3 billion. From 1 January 2009, the Russia again went to extraordinary measures. First, "Gazprom" has disabled the supply of fuel in Ukraine, then cut gas exports to European consumers, and from January 7, transit fuel was discontinued completely. January 13, the Russian side tried to resume transit supplies, but Kiev has not gone forward.

The conflict took place only on January 19, after the parties have signed contracts for the supply and transit of energy resources to Ukraine. According to the reached agreement, Kiev receive a discount of 20% of the EU average rate, the cost of transit was 1.7 dollars per thousand cubic meters.

January 20, 2009 Europe started to receive Russian fuel. For a while the gas is fed into the EU, "Gazprom" has suffered losses of \$ 1.2 billion.

In 2013 Ukraine again having a debt to Russia. And Russia makes a discount to get at least some money back. The price degreed from 421\$ to 268,5\$.

In the autumn of a year 2015 Ukraine became a "hostage" of Euromaidan - the country's economy, which is experiencing is not the best of times, was in the danger of an imminent default among the conditions of political instability. In December, Russian President Vladimir Putin during a meeting with his Ukrainian counterpart Viktor Yanukovych agreed to reduce the cost of gas by one-third.

When Vladimir Putin gave Ukraine a gas discount, he mentioned that the discount will be temporary. Preference operated under the condition of good fuel payment and Kiev accepted these requirements. For example, "Naftogaz" managed to transfer to "Gazprom" 1.28 billion dollars for the gas bought by Ukraine in 2013, and 191 million dollars for the supply of fuel in 2014. The former head of the Ministry of Energy of Ukraine Eduard Stavitskiy promised that soon the debt of Kiev to Moscow would be repaid. However, the promise of Stavisky was not destined to come true - February 22 coup in the country gave way to power, which was in no hurry to pay the bills. Since April 1, the price of gas for Ukraine has increased from 268.5 dollars to 485 dollars per thousand cubic meters. First, Russia has canceled the December discount of 30%, second, have terminated the Kharkiv agreements of 2010, and third, since Ukraine is not keeping the promises according to agreements, does not pay it's debt, Crimea peninsula annexed to Russia, and Russia can easily transfer the gas by it's way – the price for Ukraine became same as for Europe. Also, Since that date Ukraine can only buy the natural gas from Russia by making prepayment for the next part.

Ukrainian politicians have flatly refused to pay for fuel at the new price, every day putting forward new conditions Russia and demanding the return of the former cost of 268.5 dollars. New revolution in the gas dispute between Moscow and Kiev threatens the transit of Russian gas to Europe, which is simply freeze, if the Russian Federation block

the valve. Therefore, European officials that support the new Ukrainian government, acknowledged the debt of "Naftogaz" to "Gazprom".⁴⁹

At November 25, 2015, Russia fully stopped a gas transitions to Ukraine.

- 1993 – 138 billion RUB
- 1994 – 600 million USD
- 1995 – 1,5 billion USD

The agreement was to pay up to 200 million USD each year, but 1999 Ukraine stopped the payments.

- 1999 – 285 million USD + 11 bomber planes and 575 cruise missiles.
- 2000 - 2006 – 1,3 billion USD
- 2007 – 1,07 billion USD
- 2008 – 1,5 billion USD
- 2013 – 2,7 billion USD
- 2014 – 3,007 billion USD
- 2015 – Russia export it's gas according to Ukrainian prepayment.

Scheme 3. Ukrainian Natural Gas Debt to Russia

⁴⁹ Elena Tregubova, A Gaz I Nine Tam. Istoriya Energeticheskikh Konfliktov Rossii I Ukraini, Argumenti I Fakti, Moscow, 13.06.2014

- 2006 — \$95
- 2007 — \$130
- 2008 — \$179,5
- 2009 — \$259,4
- 2010 — \$260,7
- 2011 — \$309
- 2012 — \$421
- 2013 — \$421 to \$268,5
- 2014 — \$268,5
- 2015 - \$268 to \$485

Scheme 4. Gas prices for Ukraine 2006- 2015

3.4. Energy Companies and the Technicalities of the Conflict: RF-Ukraine Energy Dispute

Today Russia and Ukraine have their own state energy companies, such as Gazprom (Russia) and Naftogaz (Ukraine).

3.4.1. Gazprom and its Political and Economic Importance in Russia

PJSC "Gazprom" - the Russian transnational corporation,⁵⁰ established in 1989, is engaged in exploration, production, transportation, storage, processing and sale of gas, gas condensate and oil, as well as the production and marketing of heat and electric power, banking and media structures. The largest company in Russia,⁵¹ the largest gas company in the world, has the most extensive gas transmission (more than 160 000 km).

⁵⁰ Yuliya Evseeva, Development of the Russian Transnational Corporation "Gazprom" in Current Economic Conditions, *Vestnik Saratovskogo Gosudarstvennogo Sotsialnogo Universiteta*, Saratov, 2013

⁵¹ Editorial, Spisok Krupneyshih Kompaniy po Rinochnoy Stoimosty (Kapitalizatsiya) na 1 Sentyabrya 2009, *Ekspert*, N38 (p.675), Oct. 5-11, 2009

“Gazprom” the global industry leader. According to *Forbes Global 2000*, "Gazprom" revenue occupies the 17th place among the world's.⁵²

The meaning of Gazprom for the Russian economy at the moment is huge. In fact, the corporation is responsible for such an important area as the gasification of the country. A number of projects in the gasification program is very important, Gazprom in 2013, included in the program of gasification of Russian regions, pilot projects for the construction of CNG stations and vehicles gasification. Pilot projects will be implemented in areas that already have vehicles gasification experience and with the necessary financial and economic opportunities. It also defines the main target group of vehicles gasification: municipal transport, housing and communal services, agricultural enterprises, medium and small businesses. The replacement of traditional fuels in these sectors to avoid increase of tariffs in public transport, reduce the cost of agricultural industry products, operation of equipment to save money, improve the environment.⁵³

Gazprom at the moment is an export-oriented company. Main profits it receives from the abroad. A lot of projects on the territory of Russia, in fact, is for it an extra load. But because of its size, of course, Gazprom must carry this burden. Gas exports brings to Gazprom more benefits than selling it in the domestic market. Accordingly, a major investment in the gas monopolist does "European direction". Although in terms of social policy, the state should develop a strategy of equal concern, both in the domestic and foreign markets.

The head of Gazprom Alexey Miller, when encountered difficulties in foreign markets, has repeatedly stated that the company has a huge potential for growth of the gas market in the country. But be that as it may, in spite of the sometimes not entirely justified Gazprom's position on the domestic market, we must understand that Gazprom is performing a complex tasks for Russia - is fighting for foreign markets to bring the country's income and realizes, albeit sometimes under pressure from the state, important projects within the country.⁵⁴

⁵² Steve Schaefer, Andrea Murphy, *The World's Biggest Public Companies*, US, 2016

⁵³ Yan Sokolnikov, *Znachenije Gazproma I Gazovoy Promishlennosti*, Rossiya Navsegda, Moscow, Feb.16 2013, <http://rossiyanavsegda.ru/read/676/> (a.d. 9.1.2017)

⁵⁴ Yan Sokolnikov, *Znachenije Gazproma I Gazovoy Promishlennosti*, Rossiya Navsegda, Moscow, Feb.16 2013, <http://rossiyanavsegda.ru/read/676/> (a.d. 9.1.2017)

Natural gas production is carried out in many cities in Russia, but most of all fields available in the Urals and Western Siberia, as well as production efficiently produced in the Volga region. It is important to note that to date, many other industry activities, which include automotive, try to create such products, which will not work on gasoline and other products of the oil industry, namely from the gas, because the gas is considered to be a commodity that has an affordable cost, and can significantly reduce the production of certain waste products.

3.4.2. Naftogaz Ukraine and its Place in Ukrainian Economy Politics

National Joint Stock Company (NJSC) Naftogaz of Ukraine - a vertically integrated oil and gas company, which carries out exploration, drilling production wells, development of oil and gas, transportation of hydrocarbons through the main oil and gas pipelines (including the transit of Russian natural gas, and as Russian and Kazakh oil to third countries), processing of gas and condensate in five gas processing plants, the supply of gas to consumers in Ukraine, the implementation of compressed and liquefied natural gas and petroleum products through a network of filling stations and CNG filling stations, and also carries out scientific support for oil and gas industry. Established in 1998.

Its the largest company in Ukraine, in 2004, it had 13.8% of Ukraine's GDP. 97% of oil and gas across the country is produced by enterprises of the company. NAC performs the processing of natural gas, crude oil and gas condensate in the five Ukrainian gas processing plant that are the property of the company. Thus, the company produces liquefied petroleum gas, fuel and other petroleum products. The company is also actively involved in international projects for the development of hydrocarbon resources and projects to develop and improve the efficiency of oil and gas transportation systems.

NAC - the leading enterprise of the fuel and energy complex of Ukraine, one of the largest companies in the country. The total c of enterprises of NAC to the beginning of 2006 amounted to 170 thousand people.⁵⁵ Naftogaz is considered one of the more open

⁵⁵ Editorial, Naftogaz Ukrayini, Liga, Kiev, May 25, 2007, http://file.liga.net/company/2293-nftegaz_ykraini.html (a.d. 9.1.2017)

and transparent Ukrainian companies seeking to follow a more pro-Western approach to the management of the company and its subsidiaries. The series of corporate reforms allowed Naftogaz to invest in its own gas production. Now Naftogaz has become independent and no longer a burden on the state budget.⁵⁶

3.4.3. Energy Transmission Lines (Pipelines) and Russia's Dependence on Them

Pipeline transportation in Russia is a means of transport. The most important goods transported are crude oil, natural and associated gas. In perspective the transportation of petroleum products, liquid and gaseous chemicals was planned. It operates a large network of oil and gas pipelines, supplying the Russian economy by hydrocarbons, and also Western Europe, Turkey, as well as Southeast Asia. In Russia, the transportation network is dominated by large-diameter pipes (1220 and 1420 mm) and long distance in the latitudinal direction.⁵⁷ Active development of pipeline transport in Russia began in the late 1950s.

In 2008, the pipeline transported 488 million tons of oil and oil products, this indicator increased in comparison with 2000 by 53%. Throughput of pipeline transport amounted to 1.1 trillion ton-kilometers, an increase in comparison with 2000 by 49% in terms of oil and oil products in 2008. The length of the main gas and oil pipelines in 2008 was 63 thousand km, an increase in comparison with 2000 by 2 thousand km.⁵⁸

As of the end of 2012, the length of the main pipelines (according to Rosstat) amounted to 250 thousand km, including 175 thousand gas pipelines km, 55 thousand km of oil pipelines and product pipelines 20 thousand km.⁵⁹

3.4.4. RF's Efforts to Bypass Dependency on Lines Passing From Ukraine and Belarus

⁵⁶ Timur Gromov, Forbes, "Naftogaz" I "Gazprom": Ukraina Proyavlyayet Druzhelyubiye, RIA Novosti, Ukraine, Nov, 2016, <http://rian.com.ua/analytics/20161128/1019117042.html> (a.d. 9.1.2017)

⁵⁷ A.S. Nikolayev, Yedinaya Transportnaya Sistema, Moscow, Litsey, 2001.

⁵⁸ Editorial, Rossiyskiy Statisticheskiy Yejegodnik, Rosstat, Moscow, 2009

⁵⁹ Editorial, Protyazhennost Putey Soobsheniya, Rosstat, Moscow 2012

When Russia faced first problems while transferring gas by Ukraine to Europe, the country started to think about alternative ways to transfer the gas. Today there are two different alternatives for it: Nord Stream Project and South Stream Project.

3.4.4.1. Nord Stream Project

"Nord Stream" is the export gas pipeline from Russia to Europe via the Baltic Sea. It directly links the "Gazprom" and European consumers, bypassing transit countries. "Nord Stream" is designed for high reliability of Russian gas supplies to Europe. In December 2000, the decision of the European Commission project "Nord Stream" was given the status of the TEN (Trans European Networks), which was confirmed in 2006. This means that the "Nord Stream" is the key to sustainable development and energy security of Europe.

In April 2010, the construction of the pipeline "Nord Stream" in the Baltic Sea began. In November 2011, the first line of "Nord Stream" was put into operation, in October 2012 - the second line.



Scheme 5 Nord Stream Map

The power of two lines - 55 billion cubic meters of gas per year. Length - 1224 km.⁶⁰ The gas pipeline "Nord Stream" - the longest underwater gas export route in the world.⁶¹ The project involves Russia, Germany, the Netherlands and France; against its implementation were transit countries for Russian gas and the Baltic countries. Project objectives - to increase gas supplies to the European market and reduce dependence on transit countries.

According to forecasts, import of natural gas in the EU will increase from 312 billion cubic meters in 2007 to 512 billion cubic meters in a year 2030.⁶² Russian gas fields are able to provide about a quarter of additional gas import. Natural gas has the lowest CO₂ emissions of all fossil fuels and successfully replaces coal, whose emission levels are higher by 50%. Thus, the increase in the supply of natural gas fits into the concept of a European program to combat climate change, consistent with the United Nations Framework Convention.⁶³

3.4.4.2. South Stream Project (Now Turkish Stream)

The company headquarters South Stream Transport B.V. located in Amsterdam, Netherlands. As a subsidiary of PJSC "Gazprom", the company responsible for the construction of the offshore pipeline "Turkish Stream" passing under the Black Sea. Experience in the construction of the offshore pipelines. South Stream Transport Company was originally designed for the planning and construction of the offshore gas pipeline "South Stream". In preparation for the implementation of this project the Company has accumulated rich experience in the design of offshore pipelines. Team effort, bringing together more than 200 international experts and recognized manufacturers from around the world, the company has developed innovative solutions in

⁶⁰ Editorial, Nord Stream, Gazprom, Russia, 2003-2016, <http://www.gazprom.ru/about/production/projects/pipelines/active/nord-stream/> (a.d. 9.1.2017)

⁶¹ Vitaliy Lukashov, Severniy Potok. Technicheskiy shedevr I znak partnerstva, Rossiya -24, Russia, 8 Oct. 2010

⁶² Editorial, Nord Stream: Obshaya Informatsiya O Proekte, Russia, Aug. 2016

⁶³ Editorial, WWF, Climate Change Secretariat (UNFCCC), Germany, 2004

the construction of deep-water pipes and also provided testing, testing and production of pipes according to the highest quality standards.

After the cancellation of the 2014 construction of the gas pipeline "South Stream" PJSC "Gazprom" has decided to maintain the experience and assets of the company South Stream Transport. In 2015, the company began to develop the offshore gas pipeline "Turkish Stream" on the basis of the principles of safety and environmental responsibility once again pushing the boundaries of the possible in the design of offshore pipelines.⁶⁴

The construction began in December 7, 2012 and the plan was to end in 2015. Power of the "South Stream" should reach 63 billion cubic meters of gas per year.⁶⁵ It was assumed that the pipeline will help diversify the supply of Russian natural gas to Europe and reduce the dependence of suppliers and buyers from unreliable transit countries (in particular, from Ukraine).



Scheme 6. Proposed route of South Stream

⁶⁴ Editorial, South Stream Transport V.B., Russia 2016, <http://www.south-stream-transport.com/ru/o-nas/> (a.d. 9.1.2017)

⁶⁵ Ali Aliyev, Problem ne Budet, Expert Online, Russia, Feb. 16, 2010

It was assumed that the pipeline will consist of four lines with 15.57 billion cubic meters capacity of each. Maximum laying depth was to be 2250m. The estimated cost of the "South Stream" was to be 15.5 billion euros.

3.5. Political and Economic Issues Regarding Gas Trade Between RF and Ukraine

Russia considers Ukraine the most strategically important country for itself in the former Soviet space, for several reasons. Ukrainian and Russian economies and industrial centers are actually integrated. About 80% of Russian natural gas exports to Europe go through Ukraine. But perhaps most importantly, the geographical position of Ukraine (adjacent to the central part of Russia) means that Ukraine is hostile to Russia, or is friends with the enemies in Moscow, is a real threat to Russia's national security. When Ukraine has moved in a pro-Western camp during the "Orange Revolution" of 2004 and has made the task of the national strategy for accession to the EU and NATO, it has caused concern in the Kremlin, with a degree of concern that few other events could cause.

Just after the turn of the West Ukrainian Russia really began its geopolitical resurgence. In the presidential election in 2010 Russia was able to review the results of the "Orange Revolution", when pro-Russian candidate Viktor Yanukovych won a victory over "Orange", the current President Viktor Yushchenko and the then Prime Minister Yulia Tymoshenko. In the year since the arrival Yanukovych to power in Kiev, Moscow has achieved notable success in all matters of the greatest strategic importance for Russia. One of the first decisions as president was Yanukovych's decision to prevent Ukraine from joining any military alliances, including NATO. In April 2010, Ukraine and Russia signed an important agreement, which will last for the last term of the lease database Black Sea Fleet for 25 years, in exchange for a lower price for Russian natural gas for Ukraine.

Later, after the (disputed) March 2014 accession of Crimea to the Russian Federation, Russia unilaterally terminated the treaty on 31 March 2014. Russian Federal Security Service (FSB) to normalize relations with the Ukrainian Security Service of Ukraine (SBU), and the United States took the place of Russia in the list of the main

objectives in the process of collecting intelligence information SBU. Constant overlap of the gas pipes, which have been the highlight of Russia's policy towards Ukraine during Yushchenko's almost gone; Ukraine is actually used as an alternative route for gas supplies to Europe when Russia cut off gas supplies to neighboring Belarus.⁶⁶

⁶⁶ Editorial, Mesto Ukrayini v Evolyutsioniruyushey Vneshney Politike Rossii, Stratfor, USA, Jan 7, 2011

CONCLUSION

The history of Russian and Ukrainian relations is tightly connected and going with its roots far too many centuries ago. Here I wanted to shed light to the recent conditions between two countries, which are coming out from the end of XX and beginning XXI century:

February 14, 1992 diplomatic relations were established between Ukraine and the Russian Federation. In May 1992, Kiev refused to sign the Treaty on Collective Security of the CIS countries, and in general to participate in any military alliance Commonwealth.

In 1993, the Ukrainian leadership has taken on associate membership and has not signed the agreement on the formation of the Interstate Economic Committee - CIS first supranational body. Ukraine did not sign the CIS Charter, thereby technically renouncing membership in the Commonwealth. New contradictions emerged in Russian-Ukrainian relations when Kiev in 1997 was among the initiators and active participants of the *GUAM* association.

In the middle of the first decade of the twenty-first century, bilateral relations were in a deep crisis. With the advent of the "orange" coalition was taken by Ukraine towards European integration. Accession to the *WTO* in 2008 was for Ukraine mainly a political move: it was important not only to join the WTO and becoming a member of the organization before Russia would make it.

The "gas conflicts" (1993, 2005-2006, 2007-2008, 2008-2009) were not prevent to improve the relations between Russia and Ukraine. The reason for the deterioration of Russian-Ukrainian relations was the signing of the Brussels Declaration on modernization of Ukrainian gas transportation system (*GTS*) of Ukraine representatives, the European Commission and three international banks, bypassing Russia.

In 2009, Russian President Dmitry Medvedev sent a message to President of Ukraine Viktor Yushchenko, in which he expressed deep concern over the level of

Russian-Ukrainian relations, primarily political, which have developed as a result of targeted actions the political leadership of Ukraine. In 2010 an active political dialogue between Russia and Ukraine began. In April 2010, Kharkov agreements concluded envisaging preservation of the base of the Russian fleet in Sevastopol until at least 2042, and prices for Ukraine for Russian gas. In July 2010, the Ukrainian prime minister said that the government of Ukraine is in talks about creating a gas transport consortium between Ukraine, EU and Russia.

Fundamental documents of modern Russian-Ukrainian relations are: Treaty of Friendship, Cooperation and Partnership of May 31, 1997 (October 1, 2008 is automatically extended for the next ten years), the Russian Federation and the Economic Cooperation Program of Ukraine for 2008-2010, and others.

The problem of supply and transportation of energy resources is one of the key problems in Russian-Ukrainian relations, manifested almost immediately after the collapse of the USSR in December 1991 and the formation of independent Russian Federation and Ukraine.⁶⁷

"The gas issue" in relations between Russia and Ukraine came almost immediately after the collapse of the USSR. Disruption of a single economic space of the former Soviet Union led to the decline of national economies of Russia and Ukraine in general and the oil and gas industry in particular. Total orientation of Ukrainian industry and utilities sector for the Russian oil and gas were a significant factor of dependance of the Ukrainian state from the Russian Federation. However, the geopolitical location of Ukraine determined the inverse relationship: the passage through the Ukrainian territory of all the main export pipeline and the long term alternative ways of laying on the one hand, allow it to defend its own position on economic issues, on the other hand, provide the ability to export fuel siphoning. As a result, by the end of the 1990s, such behavior has become a common practice of Ukrainian companies to deal with which effective counter-measures did not really exist.⁶⁸

⁶⁷ Editorial, *Istoriya Otnosheniy Rossii I Ukraini*, Voyennaya Enciclopediya, Voenizdat, Moscow, 2004.

⁶⁸ E.A. Metlenko, *Problema Postavok I Transportirovki Energonositeley Kak Faktor Rossiysko-Ukrainskih Otnosheniy v 1990-ye// Sovremenniye Problemi Nauki I Obrazovaniya*, N1, Russia, 2013.

Initially, Ukraine declared readiness for market principles for full-scale economic cooperation, including coordinated policies for mutual settlements with the energy supply and transit. In August 1992, it entered the first agreement on gas deliveries to Ukraine and transit through its territory, as well as mutual settlements of such transactions. Intergovernmental agreement expressly stipulates that transit gas "can not be distributed among the population of Ukraine", in the case of short supply of gas to third countries through the fault of Ukraine the Russian Federation had fully recovered all incurred in connection therewith, Ukraine had no right to re-export resulting from the Russian natural gas.⁶⁹

Since mid-February 2015 gas conflict had a new direction of development: February 19 Ukraine cut the gas supplying to parts of Donetsk and Lugansk regions, controlled breakaway Donetsk republic and Lugansk republic, citing damage to gas pipelines; As a response, the Russians began to supply gas on these territories from the Russian side using the Prepaid Ukrainian money for February.⁷⁰

Application for the supply in this case came from "Donbasstransgaz" under the control of separatists; Ukrainian party disagreed with the legitimacy of the application. This situation has led to the fact that Ukraine has not made an advance payment for the supply of gas in March.⁷¹ In November 25, 2015, "Gazprom" has fully stopped the gas supplying to Ukraine until they pay their debts.⁷²

From 1992, the energy policy of Russia has passed a certain evolutionary path: from the transition of the condition, burdened with many attributes of the Soviet era, to its modern, highly pragmatic partially type. Obviously, a watershed in Russia's energy policy falls on the line XX and XXI centuries. It then begins to resets internal energy potential of the country, as well as the lining of the state policy of pragmatic and efficient use of energy resources in foreign economic and in part foreign policy purposes. Without prejudice to the status of an independent supplier of energy carriers, Russia is becoming

⁶⁹ E.A. Metlenko, "Gazoviy" Konflikt mejdu Rossiyey I Ukrainoy: Opit Razresheniya v 1992-1999 Godu. Istoriya, Politologiya, Economica, Informatika, N19, (p. 138), Part24, Belgorod University, 2012.

⁷⁰ Editorial, Gazprom predupredil Ukrainu o Riske Prekrasheniya Postavok, *Interfax.ru*, 24.02.2015

⁷¹ Editorial, Rossiya Prodlit Skidku na Gaz Dlya Ukraini, *Rossiyskaya Gazeta*, 31.03.2015

⁷² Editorial, Naftogaz: Ukraina budet zakupat gaz v Evrope, *Kommersant*, 26.11.2015

an active participant in multilateral energy cooperation, including issues related to global warming.

Against the background of rising world energy prices observed in the 2000s Russian energy companies are expanding their presence in foreign markets. Growing participation in oil and gas projects in the CIS countries, North and West Africa, Latin America, Asia-Pacific and the Middle East. In parallel, the process of entry to domestic companies begins in the refining and marketing assets of foreign countries, including the United States and Western Europe. At the same time "nuclear renaissance" was not quenched, but rather enhanced international interest in Russian nuclear technology, which allows to "Atomstroyexport" is not only to continue the previously started projects, but to start new projects abroad. Today, a leading engineering company "Rosatom" is building or modernizing power units in China, India, Iran, Turkey, Vietnam, Bulgaria, and some other countries.

Beginning in the late 1990s. Russia launched a number of major infrastructure projects to diversify its energy exports as the European direction, and as a whole. Among them there are: commissioning of the gas pipeline "Yamal-Europe" (1999), "Blue Stream" (2002), "Nord Stream" (2011) and the LNG factory on Sakhalin Island (2009); launch of the Baltic Pipeline System 1 and 2 (respectively, in 2002 and 2012), the pipeline of the Eastern Siberia-Pacific Ocean, with a branch pipeline to China (2009); construction of oil export terminals on the coast of the Sea of Okhotsk (De-Kastri, 2006) and Pechora Seas (Varandey, 2008).

In the future, Russia's dependence on transit countries of the CIS and also European consumers will be even lower. This will occur through the construction of "South Stream" gas pipeline (Novorossiysk-Varna (Bulgaria), and later to Italy, bypassing the territory of several European countries); gas pipelines from Russia to China; a series of new plants and terminals for LNG exports, and possibly other projects.⁷³

⁷³ Editorial, Atomstroyexport, Vedushaya Vneshekononicheskaya Kompaniya Goskorporatsii "Rosatom", <http://www.atomstroyexport.ru/> (a.d. 9.1.2017)

Since 1992, Russia adopted a number of fundamental documents, conceptualized the energy policy of the state. Among them: "The main provisions of Russia's energy policy concept in the new economic conditions" (1992), "The main provisions of Russia's energy strategy for the period up to 2010" (1995) "Energy Strategy of Russia until 2020" and, finally, the "Energy Strategy of Russia until 2030" (2009, hereinafter ES-2030).⁷⁴ ES-2030 maintains a certain continuity with the previous documents, especially with the "Energy Strategy of Russia for the period till 2020".

A separate section is devoted to the ES-2030 Russia's energy policy in the international arena. Its strategic goal is declared to be the most efficient use of the energy potential of the country to strengthen its position in the global energy markets, as well as to achieve the greatest benefits for the development of the national economy.

Achieving this goal requires solving a number of problems. Among them:

- A reflection of Russia's national interests in the emerging system of world energy;
- Ensuring stable conditions in the global energy markets, including security of supply and reasonable prices for major Russian exports;
- Diversification of export energy markets and commodity structure of Russian energy exports;
- Strengthening the position of the leading Russian companies as a global energy leader;
- Ensuring effective international cooperation in the implementation of technologically complex and capital-intensive projects in Russia (including on offshore projects in the Arctic);
- Promotion of a single European-Russian-Asian energy space.

To accomplish these tasks Russia relies mainly on an active dialogue with the CIS countries, Asia-Pacific, the EU and the United States, other countries and international organizations, including the IEA. However, the Russian state does not waive the

⁷⁴ Editorial, Energeticheskaya Strategiya Rossii na Period do 2030., Utverjdjena Rasporyazheniyem Pravitelstva RF, 1715-p, Moscow, Nov 19, 2009 // <http://minenergo.gov.ru/aboutminen/energostrategy/> (a.d. 9.1.2017)

coordination of its activities in the global oil and gas markets with OPEC and independent exporters.⁷⁵

It has been a year that Ukraine stays without Russian gas. And the country's role as a transit country is not clear anymore.

Despite its relatively small extent, Ukrainian land proved to be of a strategic importance and allowed Ukraine to be a transit key for Russian gas to the EU countries. Russia could not keep control over the gas pipeline, which allowed Ukraine to resort "to blackmail" when determining pricing for transit and gas supplies for its own needs. The Ukrainian side was repeatedly accused in siphoning off, and incorrect accounting of the products. Russia, in turn, using a monopoly on the filling pipe and the lack of independence of Ukraine's energy has been blackmailing the partner with less attractive price than Europe, and conditions of contracts for natural gas purchases. In general, both sides are exploiting the exclusivity of its capacity in common in the recent past, and now the different national interests.

Regarding the role of Ukraine as a transit country, Russian "Nord Stream" makes a serious competition of Ukrainian gas transportation system. Europe, in spite of the political support for Ukraine and the imposition of economic sanctions against Russia, in matters of its own gas needs prefers multipolarity. By signing a memorandum on energy cooperation with Ukraine at the November summit in Brussels in 2016, the European Commission is simultaneously the process of preparing the quadripartite document on the distribution of **OPAL** gas pipeline capacity.

This pipeline connects the "Nord Stream" gas transportation systems with Germany and Central European countries, that is, it receives the Russian gas that bypasses Ukraine. Due to the limitations of European Regulators pipe is not fully loaded, and now, under the new arrangements, which can start to operate in January 2017, "Gazprom" will have access to 90% of OPAL capacity.⁷⁶

Currently, the main directions of export supplies of gas from Russia are Europe and the CIS countries. In 2009, with a significant reduction for economic and political

⁷⁵ Y.V. Borovskiy, *Energeticheskaya Politika Rossii Na Mejdunarodnoy Arene*, International Relations, MGMIO MID Russia, Moscow, 2012.

⁷⁶ Valentin Korj, *Eneergozalejnost' Po-Kievski*, Rosbalt, Moscow, Nov. 30, 2016, <http://www.rosbalt.ru/world/2016/11/30/1571677.html>

reasons, the EU and CIS imports of gas have been reduced Russian exports to more than 70 billion m³.

Under these conditions, the strategic task of the state - access to the markets of the Pacific network and liquefied natural gas, which in recent decades, regardless of the situation of energy prices, have seen a rapid growth in demand for hydrocarbons. Gas consumption in the region in 2009 exceeded 500 million m³, imports (in the form of LNG from regions outside the Asia-Pacific Region) - more than 70 billion m³. There is a steady increase in foreign supplies as a result of the increase in gas demand while reducing production. Currently launched LNG supplies come from Sakhalin in the Asia-Pacific markets, mainly in Japan and Korea.

One of the important priorities is formation in Eastern Siberia and the Far East, new centers of gas, gas processing, petrochemical, gas chemistry, helium industry, the expansion of the Unified Gas Supply System in the East, the organization is commercially efficient supply of gas and products of its advanced processing to the Pacific market (to Asia-Pacific on the US Pacific coast).

Loomed in the United States in recent years, the growth of shale gas production will not be significant, and in the long term will not affect the level of prices in international gas markets. Shale gas is a highly dispersed mineral. Its production has the most powerful impact on the environment, and development costs are significantly higher than the level of investment in other gas resources.

That's why the hard-resources, which include shale gas are a supplement but not an alternative to large deposits of natural gas. Taking into account the specifics of shale gas production, in the coming years it will continue to boom, and a decrease of its production in existing projects can begin as early as 5 - 7 years, and it will be a landslide, that will eventually lead to a sharp increase in the cost of gas in the structure of relative energy prices.

In the future, Russia will see growth in use of gas in the country and increased exports. With a favorable development for the Russian gas transport system from

Turkmenistan, Uzbekistan and Azerbaijan, the volume of gas that can be transferred into Russia or through Russian territory to a third country may be brought to 70 - 80 billion m³.

Commercial and technological gas consumption in Russia in 2020 is projected at 514 - 556 billion m³ in 2030 - 578 - 635 billion m³; the implementation of an effective export policy will restore and strengthen the Russian position on the European direction in the coming years, and medium- and long-term, large-scale delivery in Asia Pacific and North America can be arranged.

Deliveries of gas to Europe and Turkey may reach 113 - 221 billion m³ in 2020 and to 198 - 227 billion m³ in 2030

Gas exports to Asia-Pacific and North America could be brought up to 30 - 120 billion m³ in 2020 and up to 70 - 190 billion m³ in 2030.⁷⁷

The active cooperation with traditional and new major export and import countries of gas is undoubtedly the most important area of strengthening economic and geopolitical position of Russia in the world, as well as diversification of exports, increase territorial and structural balances in oil and gas industry to ensure the economic security of the country. The main principle of cooperation is an informed strengthening of Russian economic positions in the territory of the producing countries and gas importers, while maintaining national sovereignty over strategic objects in Russia.

⁷⁷ A. Korzubaev, Gazoviy Kompleks Rossii: Perspektivi Razvitiya, Vozmojnosti Mejdunarodnoy Kooperatsii, ili Neobhodimo li Sozdaniye Gazovoy OPEK?, Institute of economy and the industrial production of the Siberian Branch of RAS, Novosibirsk State University, Novosibirsk, Sept. 2010, <http://burneft.ru/archive/issues/2010-09/2>

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CIRRUCULUM VITEAE



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Professional Summary

An expert in natural stone business with deep knowledge of customer's needs, direct relationships with natural stone factories, successful natural stone sales experience in Middle Eastern, European, and Asian markets, in-depth understanding of construction industry needs, and a passion for everything beautiful.

Looking for an opportunity to deal with natural stone or construction business in Turkey.

Professional Experience

CEO at Amer Stones LLC, June 2011 - Present

A natural stone exporter in Ankara, Turkey.

I founded Amer Stones with the goal to provide Turkey's best natural stone to markets in Europe, Middle East, and Asia.

At Amer Stones I was responsible for:

- Sales of company's products (marble blocks, slabs, tiles) including identifying an opportunity, deal negotiation, contract execution, and delivery management;
- Closed 200+ stone export deals in key markets with 86% repeat purchase rate;
- Vendor relations - developed and maintained relationship with 120+ stone quarries and factories around Turkey;
- Setting strategy and direction of the company - identified key markets and aggressively developed them;
- Defining and nurturing the company's culture;
- Budgeting and capital management.

Export department manager at Lotustas LLC, June 2009 - June 2011

A natural stone seller in Ankara, Turkey.

At Lotustas I was responsible for:

- Products sales (natural stone) including market research, identifying opportunities, deal negotiation, and delivery management;
- Marketing activities including online company presence and participation in trade shows;
- Relationships with natural stone factories;
- Customer support.

Education

- 2014 - 2017 Atilim University, International Relations, Master degree, Ankara, Turkey
- 2001 - 2006 Irkutsk State University, Russia, Service and advertising faculty, Bachelor, Irkutsk, Russia
- 2009 - 2010 Foreign Language school “Active English”, Ankara, Turkey

Skills

- Natural stone project management
- Natural stone pricing and contract negotiation
- Natural stone sourcing, processing, and logistics
- International shipping
- Natural stone consulting
- Languages: Russian (Fluent), English (Fluent), Turkish (Fluent), Spanish (Beginner)
- Fabrication and installation techniques concerning all aspects of natural stone
- Excellent communication skills

Interests

- Sport, Music, Cinema, Travelling, Photography, Drawing, Art, Cooking, Books, Psychology, Languages