

*RussCasp Working Paper*

# Conceptualizing energy insecurity in the EU's Southern flank

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## Introduction

The first week of every month in spring and summer 2009 registers a spike in tensions related to gas export from Russia to the EU via Ukraine so that this 'business conflict' has acquired the profile of the main threat to European energy security. Technically, this regular escalation is pre-determined by the deal struck by prime ministers Vladimir Putin and Yulia Timoshenko on 18 January 2009 which requires Ukraine to make monthly payments for imported gas by the end of the first decade of the following month. This condition would have been entirely trivial in a normal economic situation but the deep recession in Ukraine has brought such a crisis of state finances that payments are turning from very difficult to plain impossible. Putin was perfectly aware of this dynamics from the moment of making the deal (behind the backs of European mediators), and his aim is first to make the EU pay for Ukraine's hugely wasteful consumption and then to make Russia a key member of the international consortium that would take over management and modernization of Ukraine's gas infrastructure. At the moment of this writing, it is unclear whether the EU would find money for helping Ukraine out or take the risk of a new cut in the gas flow; what is clear, however, is the failure of political efforts aimed at reducing the high vulnerability of the trilateral structure of cooperation between Russia, Ukraine and the EU.<sup>1</sup>

It is also clear that the protracted and evolving gas crisis is not driven by the so-called 'fundamentals' since Russia has had no problems with supplying the European demand, which up until the first half of 2009 had remained stable despite the price fluctuation, while Ukraine has had remarkably few technical problems in providing the transit capacity. Looking back at the 1990s, we see incessant quarrels between Moscow and Kiev over unpaid bills and stolen volumes, always resolved by suspiciously non-transparent deals, corruption being the key mechanism of both dispute-settlement and reproduction. Multiple reductions and interruptions of export deliveries to the EU and the non-EU East-Central Europe occurred but did not cause much concern as the limits of acceptable damage were implicitly acknowledged by all parties.<sup>2</sup>

Such a brief reflection on the not-too-distant past would suffice to establish that there is now a new quality to this pattern of cooperation-&-conflict, which is partly created by the EU expansion into East-Central Europe (which has left for *Gazprom* only a few independent customers in the Balkans) and partly caused by the climb of the energy prices that tumbled down from the breath-taking peak in the second half of 2008 but have since settled on a high plateau, where Ukraine can barely survive. The main source of this new quality, however, is the sharp political antagonism between Russia and Ukraine caused by the 'orange revolution' in late 2004. What initially was a challenge to the regime stability in Russia and a personal humiliation to President Vladimir Putin has translated into a profound negative shift in political perceptions and public opinion.<sup>3</sup>

The EU provided crucially important support for the 'orange revolution' and then had to deflect Ukraine's European aspirations – but it was caught unprepared by the spread of this

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<sup>1</sup> See Tony Barber, 'Barroso races to prevent escalation of Ukraine gas dispute', *Financial times*, 20 June 2009; Natalya Grib, 'The third gas war', *Business guide in Kommersant*, 17 June 2009 (in Russian).

<sup>2</sup> Those quarrels are carefully examined in Jonathan P. Stern, *The Future of Russian Gas and Gazprom*, Oxford: OUP, 2005, particularly pp. 86-96.

<sup>3</sup> In May 2009, 56% of respondents in Russia expressed negative and 34% positive attitude to Ukraine, while in March 2005, the corresponding figures were 22% and 71%; see Levada Center poll 'The attitude towards US, the EU, Ukraine, Belarus and Georgia', 10 June 2009 (<http://www.levada.ru/press/2009061004.html>).

conflict into the energy sphere. In retrospect, the gas 'skirmish' in January 2006 might appear blown out of all proportions as it generated an avalanche of alarmist commentary and prompted the EU to focus on developing an energy strategy.<sup>4</sup> It provided, nevertheless, a perfect introduction for the much more serious gas 'war' in January 2009 that was terminated by the above-mentioned Putin-Timoshenko deal.<sup>5</sup> One indicator of the economic fallout from this war is the 40% drop in the volume of *Gazprom's* export of gas to the EU in the first quarter of 2009, and the political resonance is no less powerful.<sup>6</sup> There are, however, no signs of readiness in Moscow, Kiev or Brussels to search for a cooperative solution for the by no means insoluble problem of gas trade, which means that the structure of political conflict is quite inflexible and cannot be minimized by the traditional means of gas diplomacy.

This article aims at examining the strategies of Russia, Ukraine and the EU that shape their political and energy interactions and determine the persistence of current conflict. This examination will not try to uncover hidden personal agendas in the decision-making processes and will largely treat the three parties as unified actors, which is admittedly a big stretch, particularly as far as the EU is concerned, while in Ukraine presidential elections would produce a new combination of bitterly divided elites. The hugely important problem of corruption is also left out of this analysis. It starts with a comparison of the aims and energy-related plans of the three protagonists, then suggests a model for trilateral interactions, which is then applied to the conflict in question. The conclusion offers a few insufficiently informed speculations.

### *Securitization of the Russian-European gas business*

Since the start of the gas flow from Western Siberia to West Germany in the early 1980s, the energy connection has been one of the key stabilizing factors in all-European security mitigating the impact of such catastrophes as the collapse of the USSR; by the end of 2000s, however, disagreements over gas matters have become one of major stumbling stones in the stalled Russia-EU dialogue. This lull in relations is fundamentally caused by the inability of both Russia and the EU to define their trajectories vis-à-vis one another. Moscow aspires the status of an 'equal partner' to the EU despite having only a fraction of its economic potential and insists on its European identity despite the undeniably un-European nature of its political regime. Yevgeny Yasin, the doyen of Russian liberal economists, admits: 'We are a European nation without European values, and it is not clear how to get out of this trap'.<sup>7</sup> The EU, from its side, has to admit that the paradigm of relations based on the assumption that Russia in the course of long transition is gradually becoming 'Europeanized' has failed, but remains unable to put forward a new one.<sup>8</sup> Rapprochement has given way to estrangement, and the regular summits cannot produce any progress in talks on a new Partnership and Cooperation Agreement (PCA).

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<sup>4</sup> A couple of more sober opinions were Jerome Guillet, 'Gazprom as a Predictable Partner. Another Reading of the Russian-Ukrainian and Russian-Belarusian Energy Crises', *Russie.Nei.Visions*, No. 18, March 2007; and Vladimir Milov, 'Russia-EU energy dialogue: filling a vacuum', *Russia in Global Affairs*, October/December 2007.

<sup>5</sup> One instant and remarkably accurate assessment is Thane Gustafson & Simon Blakey, 'It's not over till it's over: The Russian-Ukrainian gas crisis in perspective', *CERA Decision Brief*, January 2009.

<sup>6</sup> The *Gazprom* leadership remained, as of mid-2009, in denial about the immediate costs and further ramifications of such an unprecedented contraction of its key market, see Elena Mazneva, 'Market is lost', *Vedomosti*, 16 June 2009 (in Russian).

<sup>7</sup> Yevgeny Yasin, 'We have not exhaled authoritarianism yet', *The New Times*, 18 May 2009 (in Russian).

<sup>8</sup> Katinka Barysch, 'PCA? The EU needs a real Russia debate', *CER Blog*, 24 November 2008 (<http://centreforeuropeanreform.blogspot.com/2008/11/pca-eu-needs-real-russia-debate.html>).

Ukraine is in a very different situation as its elites even when maneuvering between Russia and the EU have never had any doubts about the country's European vocation. The triumph of the 'orange revolution' was taken by the victorious coalition for the decisive breakthrough in the 'return' journey to Europe, so they refused to take 'No' for answer from the EU and were ready to go first for the 'halfway-house' of NATO, despite the strong negative feelings towards the Alliance in many segments of the fragmented public opinion. The EU leadership was reluctant to explain in no uncertain terms to the sincerely pro-Western (if not entirely pro-democracy) groups of Ukrainian elite that accession could not be an option in any foreseeable future and was ready to grant many symbolic and substantial privileges to this partner. What has vexed Brussels to such a degree that most offers of special access have been called off is the endless bickering inside the 'orange camp' that has paralyzed the government and left Ukraine defenseless in the face of devastating depression.<sup>9</sup>

In this situation of muddled political goals and deteriorating content of 'partnerships' uniting Russia, Ukraine and the EU, the essentially commercial questions of gas trade and transit have become politicized and even 'securitized' – as the 'energy security' discourse has gained currency – to an unprecedented degree. Belarus has seen much the same 'gas-first' shift in political priorities but the European connection in its self-positioning is quite weak (despite much bragging about joining in spring 2009 the newly-launched EU's Eastern Partnership), so the main bargaining and brinksmanship has happened between Messrs Putin and Lukashenko who are not known for warm feelings or kind tempers.<sup>10</sup> The paramount security profile of natural gas has been established despite the fact that the volume of this trade has not changed in any significant way during the 2000s and the relatively modest risks comparing, for instance, with the destructive resonance from the collapse of the *Lehman Bros.*

This 'securitization' is to a large extent driven by the increased uncertainty in the fundamentals of the gas business, which in principle should have been more stable and predictable than the turbulent oil market – but in fact is not. One part of this uncertainty is related to the issue of costs since the traditional and in essence entirely artificial formula of calculating gas price on the basis of quarterly average of several oil products invented back in the late 1970s for regulating West Germany's payments to the USSR still remains operational. Steep increase of *Gazprom* prices in the last quarter of 2008 and the first quarter of 2009 was determined by the run of oil prices in the first half of 2008, but this inflexibility became a serious aggravating factor for the economic recession and weakened Moscow's argument for long-term contracts.<sup>11</sup>

Another part of the uncertainty involves Russia's ability to supply additional volumes of gas to European consumers in the 2010s, which is indeed questionable due to sustained underinvestment in exploration and development of new fields. This issue attracted particular attention in the aftermath of the January 2006 supply interruption as *Gazprom* focused its

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<sup>9</sup> See Arkady Moshes, 'Orange has turned into gray', *Gazeta.ru*, 8 June 2009 (in Russian) ([http://www.gazeta.ru/comments/2009/06/07\\_x\\_3207903.shtml](http://www.gazeta.ru/comments/2009/06/07_x_3207903.shtml)); and on the lack of substance in the Russia-EU dialogue see also his 'Russia-EU relations: unfortunate continuity', *European issues* no. 129, Foundation Robert Schuman, 24 February 2009.

<sup>10</sup> On Russia's plan for reducing oil export via Belarus by constructing the second trunk of the Baltic Pipeline System, see Grigory Gritsenko, 'The total dismantling of the *Druzhba*', *Polit.ru*, (in Russian) 25 June 2009 (<http://www.polit.ru/analytics/2009/06/25/bts.html>).

<sup>11</sup> See Vladimir Volkov, 'Gazprom inflexibility is too expensive', *Newsru.com*, 19 June 2009 (in Russian) (<http://www.newsru.com/columnists/19jun2009/volkov.html>).

efforts on pipeline construction while domestic demand in Russia was fast expanding.<sup>12</sup> Production on the depleted fields in Western Siberia is indeed falling fast but Moscow sought to dispel speculations about a 'gas crunch' but launching an international project for developing the giant Shtokman off-shore field in the Barents Sea, while Gazprom began laying transport routes towards the even larger Bovanenkovskoe field in the Yamal Peninsula. The reference scenario from the International Energy Agency (IEA), nevertheless indicated that the gap between own production and demand in Europe will increase from 236 bcm in 2006 to 332 bcm in 2015, and in Russia production will exceed demand by approximately the same 205 bcm.<sup>13</sup>

The looming deficit of about 100 bcm constituted a major strategic headache that was aggravated by the successful campaign for making Europe 'greener', first of all in the context of debates on global climate change. The European Commission found a way to address both concerns by issuing in November 2008 the Energy Security and Solidarity Action Plan that elaborated on the so-called '20-20-20' targets, establishing specifically that on the level of oil prices close to \$US 100 per barrel, the EU gas import will go down by 3-5% in 2020 comparing with 2005.<sup>14</sup> *Gazprom* was quite upset about this sudden violation of its favorite principle of 'security of demand', but was inclined to interpret it as a triumph of wishful 'green' thinking.<sup>15</sup> However, the shocking 40% cut in the EU import from *Gazprom* in the first quarter of 2009 has made the 'politically correct' guidelines look just about realistic notwithstanding the deep cuts in investments in alternative energy sources. Moscow's only answer to the challenge of disappearing demand is to insist even firmer on the 'take-or-pay' long-term contracts dismissing the initiatives for liberalizing the European gas market.

Comparing with this triple uncertainty – prices, supply and demand – transit constitutes a far less acute problem, and the 'wars' involving Ukraine and Belarus have merely prompted the EU to reassess the rationale for greater reliance on natural gas, environment-friendly as this source is. Diversification has become the key direction in ensuring energy security aiming at increasing the share of renewables in the energy balance and increasing the share of non-Russian gas delivered by routes outside Russia's control. Moscow sees (and has reasons to) this concept as politically-driven and essentially anti-Russian, so Aleksei Miller, *Gazprom*'s reclusive CEO, warned at the annual meeting in June 2009<sup>16</sup>

*Europe's desire for diversification is understandable but it should not become a fetish. The priority in Europe's policy for securing access to new resources at the expense of relations with traditional suppliers, such as Russia, might lead to a paradox result: more diversification would mean less stability and reliability.*

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<sup>12</sup> See Nadejda Victor, 'Russia's gas crunch: looming shortfall poses a tough choice', *Washington Post*, 6 April 2006.

<sup>13</sup> See *World Energy Outlook 2008*; Paris: IEA, 2008, pp. 110-115.

<sup>14</sup> Great value of current information can be found at the EU web-portal 'Energy policy for a competitive Europe' ([http://ec.europa.eu/energy/index\\_en.htm](http://ec.europa.eu/energy/index_en.htm)); see also Pierre Noël, 'Beyond dependence: How to deal with Russian gas', *Policy Brief 9*, European Council on Foreign Relations, November 2008.

<sup>15</sup> Aleksandr Medvedev, *Gazprom*'s Deputy CEO, argued that the EU Plan was based on 'political phobias related to greater dependence on Russian gas supplies' and as such was 'to put it mildly, devoid of sense'; the text of his speech at the 'Russian Gas – 2008' Forum is available at (<http://www.europeanenergyreview.eu/index.php?id=392>).

<sup>16</sup> My translation from the text available at

(<http://www.gazprom.ru/investors/ir-releases/2009/june/article66674/>).

What Moscow suggests instead is a different idea of diversification that focuses primarily of opening new pipelines that would connect Russia with customers in the EU without any transit bottlenecks or with a different set of transit providers. Two key projects in this regard are the *Nord Stream* pipeline across the Baltic Sea to Germany and the *South Stream* pipeline across the Black Sea to Bulgaria.<sup>17</sup> It is obvious that these new channels would greatly reduce Ukraine's leverage as the key transit state; what is perhaps less obvious is that the EU's plan for diversification, which includes the *Nabucco* gas pipeline across Turkey, would have much the same outcome.

Strictly speaking, one diversification does not necessarily preclude another but their common problem is the need to channel huge investments towards projects with highly uncertain returns. For Russia, creating considerable excess pipeline capacity would bring only small economy on transit fees, while for the EU, any alternative source of gas would be as expensive as the Russian supply, and the high costs of 'green' renewables cannot be cut by granting them non-market advantages. Financial crisis that constitutes the heart of the still-deepening recession has severely undercut funding available for executing such commercially unprofitable projects as *Nabucco* or *South Stream* (the provisional bill for the latter runs into 20 billion euro), but both Russia and the EU stubbornly refuse to take the gloomy economic reality into account. Complicated political maneuvering around gas matters generates a constant stream of breaking news, but it is tempting to try to capture the pattern of these fluid intrigues by applying a tailor-made game theory model.

### *A model of trilateral cooperation/conflict behavior*

Examining stable patterns in the behavior of Russian, Ukrainian and the EU leadership, to the degree that each of the three can be seen as a coherent actor, it is possible to find elements of various classical conflict models. For instance, Moscow's course aimed at increasing flexibility of the gas flows by building new pipelines encounters resistance from the transit states, first of all Ukraine, who see this flexibility as means to put pressure on them. They mobilize lobbies for undermining the expensive pipeline projects and try to convince the EU to invest in modernizing their gas infrastructure. This action-counter-action sequence has a definite resemble to the 'security dilemma' model usually applied to the arms race dynamics, when one actor's search for maximum security pushes another actor to build military muscle in order to reduce perceived vulnerability.<sup>18</sup> Russia remains blind to the well-established conclusion of this model that every attempt to secure a unilateral advantage in a tight inter-dependency situation inevitably backfires and leads to a reproduction of the stalemate situation at a greater costs and higher risks.

It is also possible to find elements of the 'chicken' game in the tactics of Russian and Ukrainian leadership that involves raising stakes in the gas conflict with the expectation that the other side would not dare to make the crucial step in cutting down or stopping altogether

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<sup>17</sup> See Katinka Barysch (ed.), *Pipelines, Politics and Power: The Future of EU-Russia Energy Relations*, London: CER, 2008.

<sup>18</sup> The textbook presentation of the model is Robert Jervis, 'Cooperation under the Security Dilemma', *World Politics*, vol. 30, no. 2, January 1978, pp.167-213; see also Jack Snyder & Robert Jervis, 'Civil War and the Security Dilemma', pp. 15-37 in Barbara F. Walter & Jack Snyder (eds), *Civil Wars, Insecurity and Intervention*. New York: Columbia University Press, 1999. I examined the origins of this idea in Pavel Baev, 'Thucydides' Three Security Dilemmas in Post-Soviet Strife', *Journal of Military Ethics*, vol. 5, no. 4, December 2006, pp. 334-352.

the gas flow to the EU.<sup>19</sup> This 'zero-sum' thinking driven by political and even personal conflict between the Kremlin and the leaders of the 'orange revolution' is entirely foreign to the European mediators who try to reintroduce the business logic of shared profit and losses. A variation of this 'non-zero-sum' strategy would have informed Russia and Ukraine that they stand to win most vis-à-vis the EU by cooperating, but the lack of mutual trust prompts each to 'defect' to Brussels, so they both end up losing – in a perfect illustration to the so-called 'prisoner's dilemma'.<sup>20</sup>

Application of game theory models to real-life situations is always limited but in the investigated case, this usefulness is further reduced by the particular quality of trilateral cooperation/conflict that cannot be captured by a simple increase in the number of 'prisoners' or 'chickens'. The intention here is to suggest a new model that can be best described as a simple game involving three participants that can choose to hold hands or to keep them free knowing that a free hand has zero value while two busy hands have maximum value. It is plain obvious that a triangle of partners holding hands secures maximum benefit for each of them – hence, perhaps, the historical popularity of trilateral alliances. In the contemporary Europe, the Baltic trio – Estonia-Latvia-Lithuania – provides one example, the Scandinavian trio – Denmark-Norway-Sweden – another one; the BeNeLux construct still remains functional, and the Vyshegrad troika from the mid-1990s – the Czech Republic-Hungary-Poland – was successful in achieving the common goal of accession to the EU.

Such triangles can be quite stable but there is, nevertheless, a catch in this 'everybody-is-a-winner' situation: If one of the handshakes is broken, the player with two busy hands finds himself in a position of relative advantage, even if the absolute value of two busy hands remains the same. Indeed, two other players become dependent upon the triumphant thirds as the triangle is transformed into a straight chain of three links. One example of such a two-sided triangle can be found in the South Caucasus where Armenia and Azerbaijan are divided by the protracted conflict over Nagorno Karabakh, so Georgia becomes the party that benefits the most from interactions inside the region. Ideas about being a geopolitical 'bridge' between Europe and Asia are invariably popular in Russian political thinking, even if attempts to perform such a role, for instance opening for Iran a way out of the isolation enforced by the West, are never entirely successful.<sup>21</sup>

Once the triangle is broken, the two players with a free hand have a choice of three strategies for improving their position: a) to reconnect with the previous partner; b) to make two other players to break their handshake and take the second hand of the current partner; and c) to bring into the game a fourth player, who might further connect with one or another of the two other players, forming either a new triangle or a square.

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<sup>19</sup> This model was famously described by Bertrand Russell in *Common Sense and Nuclear Warfare*, London: George Allen & Unwin, 1959; further development is Rappoport & Chamah, 'The game of Chicken', *American Behavioral Scientist*, no. 10, 1966.

<sup>20</sup> Albert W. Tucker invented the context of choices that two criminals face after been arrested on flimsy evidence; see Poundstone, *Prisoner's Dilemma*. New York: Doubleday, 1992.

<sup>21</sup> On Russian ideas about 'bridging', see Dmitri Zamyatin, 'Strategies of interpretation of historic-geographic images of Russia', *Oktyabr* (in Russian), no. 6, 2002 (<http://www.strana-oz.ru/?numid=7&article=345>); meticulous examination of Russian-Iranian relations is John W. Parker, *Persian Dreams: Moscow and Tehran Since the Fall of the Shah*. Washington DC: Potomac Books, 2009.

The first strategy is the simplest and reconciliations indeed happen quite often in real-life trilateral alliances.<sup>22</sup> The second strategy is not only more complicated but also contains a distinct element of malice as the 'victory-without-reconciliation' seeking player has to convince or force his partner to break the handshake with the third player, who then becomes a clear loser. Examples of such abandoning the former partner to his fate should perhaps be sought in the medieval history of Europe or Japan, but a more recent one can perhaps be found in the Munich agreement (1938), when France broke its commitments to Czechoslovakia and opted for a bilateral alliance with Great Britain.<sup>23</sup> That alliance was also responsible for the so-called 'phoney war' (1939-1940), when France and Great Britain refrained from any military operations against Germany after declaring war, which in fact amounted to breaking their commitments to Poland.<sup>24</sup>

The third strategy is even more complicated as it involves a qualitative alteration of the initial setting by bringing into the game a new player, who might not be accepted by the two other players, and then a four-links chain appears – with two winners and two losers, who still cling to the value of one busy hand and try to build the chain yet further. Thus, in the Pacific theater of WWII, the US had strong ties with both the USSR and the UK, who had few interests in common and tried to increase their positions by cultivating ties with the Chinese communists and Australia (and India), respectively. Another variation occurs when the fourth player is embraced by the player with two busy hands, who thus have to break the handshake with the third player condemning him to the position of loser. An example can be found again in the South Caucasus, where Azerbaijan and Georgia opted for making Turkey the third party in the energy cooperation, leaving Armenia in isolation with few available options other than to rely on alliance with Russia. From its side, Russia does not want to connect exclusively with Armenia (refusing the offer of the second hand) and cultivates ties also with Azerbaijan, seeking to form a broken triangle and isolate Georgia.<sup>25</sup>

It is also possible to imagine an outcome where the fourth player would connect with the third player thus forming a square instead of triangle. What makes this option analytically inelegant is the inevitable assumption that the first and the third players as well as the second and the fourth have no direct ties, since every player has only two hands. Nevertheless, some real-life similarity can be found in Central Asia, where Kazakhstan has few ties with Tajikistan (as they have no common border), while Uzbekistan is not dealing much with Kyrgyzstan, so the structure of regional cooperation in central Asia indeed resembles a square with no diagonals, while Turkmenistan is slowly moving out of self-isolation maintained during the Turkmenbashi era.<sup>26</sup>

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<sup>22</sup> One examination of the US-Japan-South Korea security triangle is Young Whan Kihl, 'Security on the Korean Peninsula: continuity and change', *Security Dialogue*, vol. 33, no. 1, March 2002, pp. 59-72.

<sup>23</sup> British Prime Minister Neville Chamberlain was soon held responsible for the failure of that 'appeasement', while formally he did not betray any promises; see Igor Lukes & Erik Goldstein (eds), *The Munich Crisis, 1938 : Prelude to World War II*, London ; Portland, OR : Frank Cass, 1999.

<sup>24</sup> France had a long-standing alliance with Poland, while the UK entered into a military treaty only in 1939, so that side of the triangle was newly-formed; see Piotr S. Wandysz, *The Twilight of French Eastern Alliances*. Princeton: PUP, 1988.

<sup>25</sup> One examination of these overlapping triangles is R. Gachechiladze, 'Geopolitics in the South Caucasus: Local and external players', *Geopolitics*, vol. 7, no. 1, summer 2002, pp. 113-138; for a recent re-examination, see Paul Goble, 'The South Caucasus reordered: new challenges to Baku's foreign policy assumptions', *Azerbaijan in the World*, vol. 2, no. 4, February 15, 2009 (<http://ada.edu.az/biweekly/issues/165/20090329012102810.html>).

<sup>26</sup> On regional cooperation in Central Asia see Roy Allison, 'Virtual regionalism, regional structures and regime security in Central Asia', *Central Asian Survey*, vol. 27, no. 2, June 2008, pp. 185-202.

Overall, the 'busy-hands-win' model simulates a dynamic situation with limited number of choices for each of the three equal players seeking to maximize their benefits; an important feature of their interactions is that cooperation (handshake) requires consent of two players, while conflict (broken contact) could be initiated unilaterally.

### *Application to the EU Southern Flank*

Before applying this model, it is necessary to perform some analytical simplification of the multiple-interdependency situation where everything is causally connected with everything else. The China connection can be safely cut out since despite Putin's promises to start exporting gas to China via a new pipeline already in 2011, the work on this project has not even started and the periodic recycling of this proposition serves only the purpose of applying psychological pressure on European partners.<sup>27</sup> Intrigues in the Caspian area have more relevance for the conflict under investigation as Moscow has relentlessly pursued the aim of contracting every available source of gas in Central Asia and in Azerbaijan in order to ensure that the EU would not be able to diversify in this direction.<sup>28</sup> However, it is China that has made the most impressive advances in Turkmenistan, so the Trans-Caspian pipeline has become a far-fetched idea not only due to Moscow's opposition but also due to Beijing's appetite.<sup>29</sup> Azerbaijan certainly remains connected to Turkey with pipelines and political ties between these two states have only slightly eroded in the second half of this decade, so this link has to be included, even if tangentially, in further analysis.

There are many splits and divides inside the EU, but one of them makes a significant difference for this attempt at conceptualization: Northern Europe has very different structure of inter-state relations comparing with South-Eastern and Central Europe. The main avenues for energy-political interactions in the former connect Russia with Germany and with Belarus (while these two states have very little ties with one another), and the main intrigue for the near future involves the *Nord Stream* project. This sub-region is quite saturated with gas (Norway is a major supplier, and the North Sea resources are still yielding significant output), and so was not affected in any serious way by the interruptions in January 2009. It was the states of South-Eastern and Central Europe that suffered most, and they see no other way to hedge against further risk than to engage the EU agencies to the maximum possible degree. This sub-region, therefore, can be perceived as the EU Southern flank, while in the Northern flank Germany projects serious (if not quite hegemonic) 'soft power', so the role of the EU institutions is less prominent. It is exactly in the EU Southern flank that the triangular model of cooperation-&-conflict appears to fit the empirical observations of state behavior.

For the first twelve years since the collapse of the USSR, the trilateral structure of cooperation between Russia, Ukraine and the EU functioned reasonably well and the ideological paradigm of gradual transition of the former two towards becoming 'normal' European nations survived the test of the First Chechen war and lingered on despite the consolidation of 'putinism'.<sup>30</sup> It was the 'orange revolution' in Kiev in late 2004 that created a permanent conflict with Russia since the Kremlin understood perfectly clear that a functioning democracy in Ukraine would

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<sup>27</sup> The development of the Sakhalin gas fields is a different story that has no relevance for the European market; see Pavel Baev, 'Asia-Pacific and LNG: The lure of new markets', pp. 83-92 in Barysch (ed.), *Pipelines, Politics and Power*, 2008.

<sup>28</sup> Vladimir Solovyev, 'Azerbaijan pumps in every direction', *Kommersant*, 30 June 2009 (in Russian).

<sup>29</sup> 'Anywhere but to Europe', *Expert*, 15 June 2009 (in Russian).

<sup>30</sup> On Russia's departure from the 'transition' trajectory, see Steven M. Fish, *Democracy Derailed in Russia*. Cambridge, MA: CUP, 2005.

constitute a mortal threat to the 'enlightened authoritarian' regime that Putin presided over.<sup>31</sup> Bitter squabbles inside the 'orange coalition' have made Ukraine nearly ungovernable but Russia nevertheless is firm set on demonstrating the malignant nature of that revolutionary breakthrough, and so this connection in the triangle has remained broken.

The EU provided crucial support for the 'orange revolution' and saw no particular problem in the breakdown of the Russian-Ukrainian relations expecting that Moscow would learn a lesson and re-consider its post-imperial ambitions. Enjoying the most beneficial position of the player with two 'busy hands', the EU never expected that the political tensions between Russia and Ukraine would translate into breakdowns of energy transit, so the January 2006 gas 'skirmish' became an eye-opener. Brussels did not make any consistent effort towards restoring the broken connection (assuming that an estrangement between Russia and Ukraine suits the EU strategic interests) and tried to minimize the gas-related risks through the diversification policy. The *Nabucco* project became the key focus of this policy, and it could be interpreted as an attempt to build a separate cooperative triangle with Turkey and Azerbaijan.<sup>32</sup> Neither Russia nor Ukraine saw this project as useful for their respective policies of maximizing stakes for the EU in the game on their common table, and the offer to Kiev to set a new connection through the *White Stream* pipeline across the Black Sea to Georgia never began to look serious.<sup>33</sup>

Preoccupied with re-launching the relations with Russia distorted by the war with Georgia in August 2008, the EU did not see a new 'gas war' coming and was caught unprepared yet again by the three-week (rather than three-day) long interruption of gas flow in January 2009. What the Brussels bureaucrats underestimated most was the desperation in Ukraine and its readiness to play 'all-in' in the hope of reviving its hopeless bet to join the EU.<sup>34</sup> President Victor Yushchenko sought to cut the Gordian knot of domestic intrigues by provoking Putin to stop the gas deliveries (calculating this response just about right) expecting that European politician would again put the blame squarely on Moscow (clearly misjudging their frustration with himself).<sup>35</sup> That move fits very well into the 'cut-out-the-third-player' course described by the model, but for the EU the proposition for isolating Russia was too risky, while the idea of putting Ukraine on a fast track to accession was a non-starter.

In hindsight, it is remarkable how little difference the high-resonance 'gas war' has made in the positions of the three parties (while much the same could perhaps be said about the Russian-Georgian war). The only fresh initiative from the EU was the proposal to partake in the modernization of gas infrastructure in Ukraine and invest some 2.5 billion euro in relevant projects organized by a new independent operator.<sup>36</sup> Ukrainian pipelines and compressors are indeed in gross disrepair, so the plan makes plenty of practical sense; Moscow, however, was

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<sup>31</sup> For an upbeat assessment of Ukraine's transformation, see Anders Åslund, *How Ukraine Became a Market Economy and Democracy*. Washington: Peterson Institute for International Economics, 2009.

<sup>32</sup> As Andris Piebalgs, the EU Energy Commissioner, wrote in his blog, 'Nabucco pipeline is probably the flag project of the diversification efforts of the EU for our security of supply.' See 'Making Nabucco a reality', 4 November 2008 (<http://blogs.ec.europa.eu/piebalgs/making-nabucco-a-reality/>).

<sup>33</sup> For an attempt to boost this project, see Vlad Socor, 'White Stream: Additional outlet proposed for Caspian gas to Europe', *Eurasia Daily Monitor*, 12 October 2007.

<sup>34</sup> Fedor Lukyanov, 'Ukrainian gamble', *Russia in Global Affairs* (in Russian), January-February 2009 (<http://www.globalaffairs.ru/redcol/0/11040.html>).

<sup>35</sup> Dmitri Trenin, 'Playing Russian Roulette in Kiev', *Newsweek*, 6 September 2008 (<http://www.newsweek.com/id/157509>).

<sup>36</sup> Alan Riley, 'EU-Ukraine gas deal is no pipe dream', *Wall Street Journal*, 22 April 2009.

outraged by this declaration of intent.<sup>37</sup> This apparent over-reaction was in fact a pre-emptive move against a suspected ploy to build an EU-Ukraine gas alliance that would simply purchase the agreed volumes on the border denying Moscow any political dividends from the 'strategic' business.

Russian plan for the gas-political game is in fact strictly opposite to the Ukrainian impossible dream; it envisages opening several new channels of gas export to Europe that would reduce Kiev's share in the transit to some 30-40%, which would deny it any opportunity to hold both Russia and the EU hostages to its political caprices or economic turmoil. The 'big idea' of eliminating political leverage of transit states is elaborated in the 'Conceptual approach' to energy security presented by President Medvedev as an alternative to the Energy Charter that Russia wants to bury.<sup>38</sup> The key to Russia's strategy is the *South Stream* project, so its planned capacity was doubled to 63 bcm at the May 2009 meeting of prospective partners aiming at delivering 35% of Russia's export to the EU.<sup>39</sup> There is, however, one particular problem with this pipeline, besides its extra-high cost: on the way to Bulgaria, it has to cross either Ukrainian or Turkish exclusive economic zone (EEZ) in the Black Sea. Moscow expects to secure Turkish consent for this construction by offering it additional volumes of gas through the extra trunk of the *Blue Stream* pipeline.<sup>40</sup> These technicalities potentially amount to a very serious reconfiguration of the gas-related political ties as Russia paves the way for Turkey to join the broken triangle as the fourth player.

Overall, the three game-plans as they shape up after the January 2009 'gas war' (and quite possibly, before a new one) are strikingly incompatible. The EU aims to do a little at every direction but basically to preserve the current combination where it can deal with both Russia and Ukraine (as well as Turkey) separately. Kiev tries to convince the EU that opening a window for accession is a less bad option comparing with a breakdown of transit or with a Russian dominance over Ukraine. Moscow seeks to increase the complexity of the system by including Turkey (but not Belarus) assuming that the EU would not be able neither to deliver on its commitment to negotiate accession terms with Turkey nor to implement any coherent energy policy due to the strengthening of the centrifugal trends inside the Union. What is remarkable about these plans, which broadly correspond to a) preservation of the broken triangle; b) embrace of two players who turn their backs to the loser; and c) expansion to a broken square; is that none of them would probably come true, unless a major disaster strikes.

### *Prospective outcomes*

Twists and turns of energy-political intrigues involving Russia, Ukraine and the EU produce surprises every week, so forecasting becomes as hopeless as guestimates about the trajectory of oil prices. The triangular model used in this analysis certainly cannot significantly reduce the uncertainty greatly intensified by the still-deepening recession and supply definite predictions; nevertheless, three possible configurations could be identified and briefly compared.

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<sup>37</sup> Ali Aliyev, 'Irritable Russia', *Expert*, 24 March 2009 (in Russian).

<sup>38</sup> This idea was spelled by one of Medvedev's aids: 'There are two key parties in energy policy – producer and consumer. Transit states perform a service, so they should not be treated as independent players'; see Natalya Grib, 'Turning the gas valves', *Business guide in Kommersant*, 14 May 2009 (in Russian).

<sup>39</sup> Mikhail Zygar, 'The war of streams', *Kommersant-Vlast*, 18 May 2009 (in Russian).

<sup>40</sup> Pavel Baev, 'Competing designs for Caspian energy highways: Russia and the EU face reality checks', *PONARS Eurasia Memo 55*, Washington: Georgetown University, May 2009.

The first one is the most natural development in a 'broken triangle' situation – restoration of the dysfunctional connection and stabilization of the 'everybody-wins' pattern of interactions. Such an outcome might appear to fall into the 'too-good-to-be-true' category as there are too few signs of bridge-rebuilding in the Russian-Ukrainian relations. Despite much emotional charge in the stream of mutual accusations, sober damage assessments from the January 2009 'gas war' inform decision-makers that such spats produce no winners.<sup>41</sup> One important condition for this rapprochement is the disappearance of Viktor Yushchenko from the Ukrainian political arena, which appears quite probable after the presidential elections scheduled for 17 January 2010. Another key step might be the removal of Vladimir Putin from the position of prime minister, which is currently discussed only by a few fringe commentators but would become a practical proposition when economic stagnation translates into political discontent.<sup>42</sup> The restored triangle of cooperation would be based on joint investments in (and maybe collective ownership of) the gas infrastructure in Ukraine, which remains the most cost-efficient channel for transporting Russian gas; the high-cost projects for underwater pipelines would then be abandoned.

The second possible configuration involves forming of a new triangle through the entry of a new player who shakes hands with two of the original trio and leaves the loser to reflect upon missed chances. This new player is Turkey which might gather gas inflows from Azerbaijan, Iran, Iraq and Russia and become a real gas 'hub' – a far more attractive status than just a transit 'corridor'.<sup>43</sup> That would require not only the doubling of the *Blue Stream* pipeline but, more importantly, Russia's consent on reselling the imported gas in South-Eastern Europe as well as the EU participation in constructing a trans-Turkey pipeline that would carry Russian gas to Greece and other markets (the name *Nabucco* would hardly survive such change of supply source). If some 10% of Russian gas export to the EU goes via Turkey, and 35% - through the *South Stream*, 15% are transported via Belarus and another 15% through the *Nord Stream*, that leaves only 20-25% for the Ukrainian transit – hardly enough to instrumentalize for any political purpose. Ukraine is thus cut out of the game and if its trademark political mess is not cleared up after the presidential elections, it could find itself first in isolation and then in dissolution, so that President Putin's provocative description of this 'artificial state' at the Bucharest NATO summit in April 2008 might come true.<sup>44</sup>

The third configuration is similar to the previous one as the EU builds a triangle of cooperation with two transit states – Ukraine and Turkey – and Russia is left to figure out how it has managed to end up as a loser having all the trump cards. Such a development could hardly be a result of a deliberate choice of, or a conspiracy led by the EU leadership (or a cabal of key member-states) since European politicians understand perfectly clear the risks associated with an isolated Russia; this major European power remains, nevertheless, perfectly capable of isolating itself.<sup>45</sup> In practical terms, such self-exclusion would mean not only that the *South Stream* project is abandoned and *Nabucco* is built but also that the EU (or rather several energy 'majors' like *Total* and E.ON) has become a co-owner of the Ukrainian

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<sup>41</sup> Aleksei Khaitun, 'Everybody is counting losses', *Nezavisimaya gazeta*, 14 April 2009 (in Russian).

<sup>42</sup> One such comment is Stanislav Belkovsky, 'The first post-Putin government', *Ezhednevny zhurnal*, (in Russian) 16 March 2009 (<http://ej.ru/?a=note&id=8897>).

<sup>43</sup> On Russia's encouragement of Turkey's 'gas hub' ambitions see Igor Torbakov, 'The Georgia crisis and Russia-Turkey relations', *Jamestown Report*, Washington: Jamestown Foundation, November 2008.

<sup>44</sup> As two US experts argue, 'He challenged Ukraine sharply and at length, effectively threatening to end its existence...'; see Anders Åslund & Andrew Kuchins, *The Russia Balance Sheet*. Washington: Peterson Institute for International Economics, 2009, on p. 126.

<sup>45</sup> See Dmitri Trenin, 'Moscow the Muscular: Loneliness of an Aspiring Power Center', *Briefing paper* 11/1, Moscow Carnegie Center, January 2009.

gas infrastructure. The European gas market is increasingly liberalized and *Gazprom* feels so uncomfortable in this environment that it prefers to sell gas on the Ukrainian border and increases the emphasis on constructing LNG terminals. 'De-securitization' of the gas business is in itself a positive development but it signifies for Russia a loss of major stake in cooperative arrangements, which quite probably would lead to a major breakdown of the European security system.

Without a major mathematical elaboration (which is beyond the ambition of this author), the suggested model cannot produce any assessment of probability of each of the three outlined options. The thunder-strike of the now-over-predicted crisis has proven that expert opinions are much over-valued methods of forecasting of non-linear political processes; still, this author can offer only the entirely unsubstantial 'gut feeling' that the second triangle (with Turkey in and Ukraine out) appears more probable than the first one (forget the 'orange revolution'), and that the third one (Russia turns introvert) is the least probable. Indeed,