UKRAINE’S ENERGY POLICY UNDER KUCHMA AND DEPENDENCE ON RUSSIA

GEORGE MOSSESSIAN

1. Introduction

Energy dependency has played a crucial role in the development of former Soviet Union (FSU) states, both domestically and internationally affecting politics and economics. It goes without saying that Russia is chiefly in control of energy in the region and uses it for foreign policy leverage by both maintaining old dependencies and creating new ones. However, it is not solely the state that is responsible for the conflicts and policy decisions due to energy dependency, but largely competing interest groups attempting to profit from dependency. Of the issues being dealt with by energy-dependent states, the most important are arguably Russia’s control of sales and transport, which allow for the creation of new dependencies aside from existing infrastructural ones, Russia’s manipulation of these dependencies as leverage in foreign policy and, obviously, domestic affairs in post-Soviet states, dominated by corruption, affecting the state’s ability to manage energy dependency.

Infrastructural dependencies are the most obvious of those that states must deal with – even if energy were to be purchased from another source, it would have to go through Russian pipelines. However, attempts to diversify the energy sources, geographical dependencies, and contracts have also been hindered by Russia’s monopsony on oil and gas from Central Asia (CA). Effectively, buying gas from Turkmenistan means doing business with Gazprom. By monopsonizing the CA energy market, Russia has both prevented CA states from marketing in other economies, and prevented states like Ukraine from being able to diversify their energy supplies. Aside from control over markets in the region, Russia also holds control of transit infrastructure from the Soviet era. Since the dissolution of the Soviet Union, control of pipelines in FSU states has been a source of extended conflict – for example, Russia has managed to all but completely take over the gas transit systems of Armenia and Moldova, and prices and competition are often controlled via the use of threats to cut off oil from an entire country. Gazprom also owns the majority of oil shares in Estonia, Lithuania and Latvia. The creation of these new dependencies is often facilitated by the participation of local partners in the countries involved, which raises the question of how domestic conditions have affected relationships with Russia.

Furthermore, Russia unabashedly uses its control of energy industries as a foreign policy tool. The example of Lukashenka’s regime and, in fact, the survival of the entire Belarusian economy by virtue of Russian oil subsidies is a painfully obvious one: Russia is all but buying Belarus’ support against NATO and EU expansion. Ukraine is another such buffer, and control of these two states is crucial to Russia’s profitable exports of gas and oil to Western Europe. Theoretically, transit countries should be able to threaten transit disruption to put pressure on Russia. However, since the mid-1990’s, Russia has built bypass pipelines to avoid the possibility of such complications with border states such as Belarus, Ukraine and Poland. Furthermore, such interdependencies do nothing to alleviate the energy dependency
at the contractual, energy source, or geographic level. Nor have Putin’s rise to power since 2000 and the increase of oil and gas prices worldwide made it any easier for FSU states to assert their independence. The changes under Putin are most clearly illustrated by the 2003 arrest of Mikhail Khodorkovsky, Yukos’ CEO. By 2004, Yukos was all but destroyed, and by 2005 Abramovich had sold Sibneft’ to Gazprom because of pressure from the Kremlin. This trend is widely observed, and the State’s (read: Putin’s and his “St. Petersburg Group’s”) ownership of Gazprom shares went over 50% by 2005, controlling Russian distribution of oil and gas. Overall, the trend has been towards changes allowing for greater influence towards domestic and foreign policy goals.

Russia’s suspension of gas from Ukraine in 2006 had consequences beyond Ukraine alone – Moldova was left without gas for two weeks in an attempt to raise prices in that country, and for Gazprom to gain a larger share of MoldovaGaz; both points were successful. In short, it is difficult to disagree that Russia uses energy dependency as a tool to prevent FSU states from becoming too close to the West, and in general as leverage to push the states into following policies considered desirable by Russian leaders and private interests. I will take this for granted, and attempt to examine how domestic conditions in FSU states, specifically Ukraine, affect Russia’s ability to use energy as a foreign policy tool. Russia’s role as monosponist and enforced monopolist by control of transit infrastructure highlights the participation of the countries involved, and the question of which groups benefit from this dependency and how is one of great interest.

It may seem counterintuitive that there are large profits to be made in dependent countries, unless the role of corrupt groups in energy import, distribution and export is taken into account. The term for unearned benefits received from continued dependency is “rents of energy dependency” (referred to as “rents” from here on), and they can take on forms varying from the sustained existence of an entire economy (e.g. Belarus) to concrete benefits received by specific interest groups. Ukraine provides a strong example of rents by various economic groups pursuing legal, semi-legal and illegal methods, and so I will focus on this country. Due to Ukraine’s role as a large energy importer and transit state, it gives many opportunities for profiting from rents. Ukraine is fairly typical amid the FSU states in levels of energy dependency. Ukraine is also the best example of Russia’s use of energy as a policy-making tool, evidenced by Putin’s pressure (2005) on Yushchenko against a pro-Western agenda in Ukraine. Finally, Ukraine presents the largest potential for rent profit-making, and the largest domestic struggles for these profits, from deals used to pay for Russian energy to using debt to gain control of companies, and even state intervention in private trader’s debts.

Ukraine’s dependency is so pronounced that some have questioned the meaning of formal statehood. So why is it that Ukraine’s dependence on Russian energy increased during Kuchma’s time in office? How has Ukraine’s domestic situation affected Russia’s ability to use energy dependence as a political weapon?

An important factor in this question is the blurred line between “state” and “private” interests – there exist state-owned companies with private interests inside of them, which may not necessarily coincide. Energy relationships in FSU states include a variety of shady actions, making the question of independence difficult to answer using a state-only approach. Because of this, neither state-interest nor nationalist interest arguments really suffice to explain Ukraine’s prolonged dependence, and these arguments risk ignoring real divisions in Ukrainian society, and the differing economic interests therein.
Ukraine does have some counter to Russia’s leverage, and there is no denying that the relationship is one of interdependence; Ukraine has power both as an intermediary for Russia’s exports to Europe, and as a recipient of investments by Russian energy companies. However, this only complexifies the question of dependence. Furthermore, there is the question of Ukraine’s relationship with Turkmenistan, the largest gas supplier in Central Asia. Despite this evidence of seeming contractual diversification, it just serves to underline the many aspects of Russia’s control of the energy market in the region. Energy purchased from Turkmenistan has no choice but to travel through Russian pipelines, and Russia has shown that it has no qualms over taking advantage of this situation and denying transit rights when it sees fit to do so. The concrete mechanisms of importing gas from Turkmenistan are discussed later.

Obviously, Ukrainian energy policy did not come about spontaneously. There have been five main periods in Ukraine’s economic development since independence. The first five years were characterized by hyperinflation, currency instability, and industrial collapse. From 1991 to 1998, Ukraine’s real GDP declined by 62%\(^{15}\). In 1996, the Gryvna was introduced, and helped to generally stabilize the economy. However, the economic reforms set forth by Kuchma were haphazard and not very successful: Ukraine’s GDP continued to fall, and the idea of reforms became generally unpopular. 1999 saw the beginning of privatization of large-scale companies, including oil refineries. Much of this process, however, was corrupt, and made of dealings between Kuchma and his cronies; none of it was transparent. The election of Yushchenko and Tymoschenko as PM and Vice PM for energy issues respectively began a brief period of liberalization and anti-corruption reforms, which ended in 2001 with their removal from their posts. By 2000, the GDP was growing again. Up until 2005, however, little economic reform was seen, until Yushchenko’s ascension to the presidency, and then the Orange Revolution. All of these changes had important effects on Ukrainian energy policy, and on Ukraine’s relationship with Russia, particularly on the possibilities of various forms of economic rents of energy dependency.

To summarize the task ahead: first, I will discuss the context of Ukraine’s energy policy, by looking at energy’s role in Ukraine’s foreign relations, the effect of domestic policy under Kuchma on energy policy-making, and the development of Ukraine’s energy markets up until 2004. Having established this background, I will look at the relationship between energy policy and domestic politics during the Kuchma period by comparing the rhetoric of energy reform to the actual policy changes, the role of domestic groups in turning energy diversification goals into non-diversification policies, and of course, by discussing energy rents and Kuchma’s central role in managing separate private interest groups\(^{16}\).

2. The context of Ukraine’s energy policy

2.1. Energy and Ukrainian foreign relations. The Ukrainian economy is very sensitive to the behavior of the Russian market – Russia is Ukraine’s chief supplier of pipes, metals, chemical industry, military products, high-tech industry, and agriculture products. In all of these, there exists an asymmetrical interdependence, left over from the development of intertwined military-industrial complexes during the rule of the USSR\(^{17}\). It is unclear what “Russia’s” response to this interdependence has been, as there are many conflicting interests at the state, corporate, individual, individual-within-corporate, individual-within-state, etc. levels. Furthermore, these interests are continuously evolving – in 2001, it made sense to talk solely of the state’s role in Gazprom (with Putin’s replacement of the CEO by Aleksei
Miller)\textsuperscript{18}, but by 2006 every level of interest, from personal to international, was present in the decision-making process of the company. How did these changes in Russian-Ukrainian energy relations take place?

It was not until 1993-1994 that Russia consciously used energy to influence Ukrainian policy, to make Ukrainians “rethink the wisdom of their sharp break with Russia.”\textsuperscript{19} Russia began threatening cutoffs of supplies, turning energy debt into state debt and using it as a raincheck for political concessions (for example, control of the Black Sea Fleet (BSF), gas transport rights, nuclear weapons control, etc.), and ensuring Ukrainian dependence on Russian energy by setting lower prices\textsuperscript{20}. D’Anieri\textsuperscript{21} argues that Russia was unwilling to use a complete embargo because, by definition, such a tactic can only be used once. Rather, Russia has gone for the “carrot-and-stick”\textsuperscript{22} approach, forcing Ukraine to find a solution, and continue its dependency on Russian energy rather than acclimatizing to European rates via a “shock therapy”-like process. Furthermore, argues D’Anieri, by continuing dependency, Russia has been weakening Ukrainian nationalism. In this way, Russia was able to convince Ukraine to give up its nuclear weapons in the 1994 Non-Proliferation treaty. Most importantly, Russia was able to get Ukrainian interest groups to seek a profit from dependence on Russian energy, which would have long-term implications for Ukraine’s energy policy.\textsuperscript{23}

Around 1994, Russia began to move towards more indirect methods, and began to use its power for control over energy transit infrastructure. Russia attempted to impose an excise duty on exports to Ukraine to pressure it to join the CIS Customs Union, and Gazprom used its pressure to attempt to gain full control of Ukrainian pipelines, which would have left Ukraine with no leverage against Russia at all\textsuperscript{24,25}. In 1994, Ukraine got support from international financial institutions, and began to pay its debts on time, which forced Russia to slacken its attempts at seizing control. This led to the 1997 Russian-Ukrainian Treaty on Friendship, Cooperation and Partnership, in which Russia officially recognized Ukrainian sovereignty and led to the Treaty of Economic Cooperation for the Period 1998-2007, which opened up Ukrainian privatization for Russian investors\textsuperscript{26}. Yet, during his first term, Kuchma could not openly support a pro-Russian foreign policy, as the majority of his support came from the nationalist movement\textsuperscript{27}. It is only in his second term that Russian oligarchic groups supplanted these interests and gained strong support in the Verkhovna Rada.

During his re-election campaign, Kuchma focused his rhetoric on diversifying foreign policy strategy with Russia and the US, but the disappearance of opposition investigative journalist Gongadze (in which Kuchma was implicated) and the devaluing of Kuchma’s plan to sell Kolchuga radars to Iraq ended any possibility of such foreign policy reform, and pushed Ukraine closer to Russia\textsuperscript{28}. Isolated thus from the West, Kuchma had no choice but to comply with Russian wishes. In February 2001, the two countries’ energy grids were linked. One by one, a series of agreements gave Russian and Russian-dominated companies control of significant portions of Ukrainian oil and gas transit. Furthermore, 2000 saw the election of Russian President Putin, and the beginning of a much more assertive Russian foreign policy, prompting Ukraine to move ever closer to Moscow. Ukraine briefly attempted to create an opposing center for post-Soviet leadership by taking control of GUAM (George, Ukraine, Azerbaijan and Moldova) in 2001, but this informal organization’s attempts to promote non-Russian centric energy transit structures fell victim to Ukraine’s close relationship with Russia as well\textsuperscript{29}. By 2002, four of Ukraine’s six oil refineries were under Russian control, and Gazprom was only prevented from taking control over the gas market by strong opposition from the Rada\textsuperscript{30}.
The context of the Russia-Ukrainian relationship in this period was that of Russia’s attempt to create a Single Economic Space (SES) in the FSU states\textsuperscript{31}. Russia saw Ukraine as crucial for the success of this endeavor, because Ukraine’s membership would convince other FSU states to join. However, Kuchma had one eye towards joining the WTO, and initially Russia’s attempts failed. However, in 2003, Ukraine, Kazakhstan, Belarus and Russia signed an agreement to later establish the SES. The implication on energy policy was that the creation of the SES signaled a willingness to cooperate in the creation of Ukraine’s energy infrastructure, and that energy prices for SES states (never confirmed by Moscow) might be lower. The holders of such hopes were disillusioned when, in 2005, Russia began to raise gas prices to punish Yanukovich’s tendency to lean west, culminating in the 2006 gas crisis.

Ukraine’s dependency on Russia has proved to be a positive feedback loop, with Ukrainian policy wavering between East and West, making it difficult to build relationships with the West and promoting further the involvement of Russian and Ukrainian oligarchy in decision making\textsuperscript{32}. Ukraine has had a chronic dependence on Russian energy, and a chronic inability to pay off its debt, and is further forced into murky border deals to keep energy flowing. Further yet, Russian-subsidized inefficiency makes Ukrainian energy less competitive in the global market, despite efforts by the US and Germany, and the EU in general\textsuperscript{33} to help Ukraine increase efficiency. While the EU’s Energy Charter Treaty would significantly increase Ukraine’s transit revenues\textsuperscript{34}, and give Ukraine access to CA gas without Russian intervention, Russia has refused to ratify it. The problem of Ukraine’s dependency is too large and embedded to break off in one fell swoop via an outside solution, and too secondary to the problem of Russia as a supplier for many resources to be allocated to it. Finally, Ukraine itself is exhibiting too limited of an interest in its own energy diversification and relationship with the EU, with Kuchma’s statements such as “haste is absolutely not required” setting the tone\textsuperscript{35}. All of this gave Russia more opportunities in Ukraine, and Putin took advantage of the lack of attention from the EU.

Having looked at Ukraine’s foreign relations vis-a-vis energy policy, it is time to turn to the effects of domestic policy under Kuchma on Ukraine’s energy dependency on Russia.

2.2. Kuchma and domestic energy policy. How does one characterize Ukraine’s political system under Kuchma, and how did it affect policy-making? D’Anieri\textsuperscript{36} describes the system as “electoral authoritarianism” – i.e. a semi-authoritarian system that follows the letter, if not the spirit of democracy. Such a “competitive authoritarianism”\textsuperscript{37} allows democratic institutions to survive by means of competition, but under manipulation by the regime via informal, semi-legal methods. Regardless, the powers of the President, parliament and government were not clearly demarcated, and government institutions such as ministries and agencies “issuing instructions which are akin to Presidential and cabinet decrees”\textsuperscript{38}. These quasi-legislative fuzzy systems made it easier for the President to wield his informal powers.

Under Kuchma, the defining characteristic of the Ukrainian system was the existence of strong interest groups wielding non-trivial influence to take over state policies and limit state powers. These groups, were kept under the President’s control via his act of “balancing” them, i.e. of mediating various interests and exchanging economic favors for political support. Three of the most powerful clans were the Cnipropetrovsk, Donetsk and Kyiv clans; these had their own media outlets, political leaders, and representatives in the Rada\textsuperscript{39}. They competed for control over policies and economic interests, but had a common interest in Kuchma’s maintaining of a balance between them. This role as arbiter came through formal
and informal powers, and was parallel to achieving his own political and economic interests, though these were often not necessarily separate roles. Kuchma gave preferential treatment to those groups with high economic value potential in exchange for informal regime support. Politically, Kuchma’s manipulation of the Rada by keeping any one decisive opposition group from forming was critical to his regime, and he played interest groups against each other while keeping the infighting under control by offering government appointments and various economic rents.40, 41

These roles filled by Kuchma came largely from the informal powers afforded to him. While formal powers included powers of appointment and dismissal of government and lower-level functionaries of state companies, which placed limits on the powers of the Cabinet and Rada, informal powers included “the selective application of administrative regulations through the politicization of government beaurocracy, of the media, electoral and patronage-for-vots processes, and choice of real estate holdings through the Presidential administration.”43 These powers made his balancing act possible. Kuchma and his Administration were thus able to get around government procedures in major foreign policy making, such as the 2003 SES agreements.

Furthermore, the role of the Rada also aided the President’s role in the competitive authoritarianism. The power of Parliament held by the three clans discussed above helped them translate their economic power into political influence.44 As such, Ukrainian parties were often brough together under cults of personality rather than political ideologies, which in turn made those parties especially vulnerable to the interest groups and the President. “Without strong political parties that would be politically accountable and would control the Cabinet, the underlying logic of political struggle is the competition of the [clans] for the rent.”45 As a proportional representation system was not in place until 2006,46 a number of elected officials were entrepreneurs with their own economic interests.47 As the ultimate shield of immunity from criminal prosecution was available to members of the Rada, it is not surprising that many of these elected representatives were corrupt oligarchs and leaders of clans. The combination of lack of organized political ideology and an economically motivated electorate made the Rada relatively easy for Kuchma to hold control over.48 While there was never a Presidential majority, there was never any opposition majority either, and Kuchma built ad-hoc pro-government majorities as the need for them arose, using blackmail and threats when necessary.49

To summarize, ambiguous power boundaries and lack of formal organization in Parliament made it easy for Kuchma to balance the powers of multiple informal interest groups, while fulfilling his own political and economic interests. Competition existed, but the forces behind the non-transparent, semi-legal process are not necessarily clear, and the outcome for energy policy is that it was created solely with the interest of individuals vying for political and economic influence in mind.

2.3. The development of the Ukrainian energy market up through 2004. How did the evolution of domestic policy-making processes discussed above affect the development of Ukraine’s energy markets? Upon independence in 1991, 89% of oil and 56% of gas were imported from Russia, and there was no concept of Ukraine-centric energy security policy independent of Russia.51 Politically, independence did not bring a turnover of the elite, and the same elite class maintained their strong influence and ways of using energy dependency, albeit with new interests.52 In the first years after independence, the continued supply of cheap Russian energy and survival of Soviet-era industry practices helped to raise managers
of energy companies to political power. These “red dictators” continued energy practices as if the Soviet Union were still a unified state, and the continuation of artificially low prices shielded them from the full shock of economic changes. Simultaneously, the system of centralized gas purchase from Russia was evolving, and the two reinforced each other. When prices finally began to rise in 1993, the dictator’s behaviors did not change. Furthermore, the industrial section of Ukraine continued to expand, making Ukraine even more dependent on Russian exports.

Unlike the later clans, the red dictators were organized by economic structure and sectoral interests, and did not have strong influences on media, political parties, etc. As PM under Kravchuk, Kuchma established these red dictators as his power base, and began to rearrange their economic structures and use them for political power, eventually leading the red dictators to form the clans organized by regional structure by 1995. Under Kuchma as President, the clans, first among which was Kuchma’s power base Dnipropetrovsk, began to take important positions in state and rent-seeking structures.

After 1994, heavily subsidized Russian imports ended, and the resulting debt from this burst bubble was taken over by the state. As discussed above, this period suffered from hyperinflation and currency depreciation. As such, a complex semilegal group of “gas traders” (hazotreidery) came into play, who were flexible in their dealings with Gazprom and used creative methods such as simple goods trading (bartering), IOUs and tax scrips to ensure gas supplies to both residences and enterprises. This led to a completely unorganized energy market, with numerous suppliers and prices in different parts of the country. In an attempt to control the situation, wholesale importers were given monopolies to gas from Russia and Turkmenistan, regulated by the state to give separate importers separate territorial divisions. Of course, this led to problems – Dnipropetrovsk’s Iedinyi Enerhytychni Systemy Ukrainy (IESU) began to acquire much more power than originally intended, and its political influence grew large enough to threaten the established balance. PM Lazarenko helped reduce the number of these licensed companies from eight down to two in 1996. It is estimated that Lazarenko profited on the order of $200 million a year from these ventures. Soon, the IESU supplied half of the natural gas imported to Ukraine. The influence of Lazarenko and Dnipropetrovsk reached a mafia-like level in the summer of 1996, when an assassination attempt on Lazarenko caused a reactionary campaign against Donetsk businessmen, culminating in the November assassination of Yevhen Shcherban’, the leader of the Liberal Party of Ukraine. Lazarenko was never convicted in a court of law, but it is generally understood that he was behind the act.

Lazarenko’s pursuit of power eventually led him to pursue an agenda independent of, and even contrary to, that of Kuchma, and split the Dnipropetrovsk clan into factions. Predictably, this sparked a power struggle. In 1997, he was forced to resign, and replaced by Pustovoitenko, a member of the pro-Kuchma faction of Dnipropetrovsk. Lazarenko rallied his Hromada party in a campaign against Pustovoitenko, to which the new PM reacted by systematically overpowering and decomposing the IESU. This left the company’s debt to Gazprom, which Gazprom argued should be taken over by the State. The gas market remained under control of Kuchma’s other associates, but the IESU’s uncontrolled growth had managed to frighten Kuchma, both because of the threat to Kuchma’s balancing system and to Kuchma himself. His response was to completely take sole control of Ukraine’s energy system. Out of this policy were created new structures, out of which NAK (National Shareholding Company) Naftohaz Ukrainy (NAKNU) was the most significant, in May 1998. This
company came to completely monopolize Ukraine’s gas and oil market, and gave Kuchma almost full control over all gas and oil money in the country, thus giving him even more power as balancer of the various clans. The Ukrainian-Russian relationship was transformed into a bilateral monopoly, which Gazprom on one side and NAKNU on the other.

The schizoid semipolitical alignments in the Rada discussed earlier were seen again when Kuchma announced for his 1999 re-election campaign that support would be welcomed (and, the assumption was, rewarded) regardless of political affiliation. Such an act makes it difficult to argue with the corruption and informal nature of Ukraine’s political organization. Kuchma fully made use of his ability to trade favors for support, and so when in 2000, the Yushchenko/Tymoshenko energy reforms began, Kuchma’s 1999 supporters were resolutely against them.

2.3.1. *The Yushchenko/Tymoshenko Reforms.* Tymoshenko, a reformist, was named as Kuchma’s PM for energy issues largely due to pressure from the West. The West’s eye had turned to Ukraine following Russia’s 1998 financial crisis, which had forced Gazprom to begin demanding cash from Ukraine and to cut off gas to Ukraine for December 1999-January 2000$^{63}$. Their first action was to announce a three-month “state of emergency in the energy sector”, and to begin demanding transparency and accountability. One of their main goals was to eliminate informal oil and gas trade (as in the hazotreidery), and to re-establish state control over gas purchases from Turkmenistan. The first goal was largely achieved by establishing oil auctions and making them compulsory for a certain percentage of Ukraine’s energy market. Also, the elimination of barter trade for oil and gas greatly reduced the ability of informal energy groups to get unregulated rents, and threatened the control of the oligarchy over the energy market. Even more severe was Tymoshenko’s attack on NAKNU, executed both for reasons of disciplining the Ukrainian market and ending the cycle of debt, but also to extract revenge on Surkis and Bakai, who had been responsible for the destruction of IESU when she had been that company’s head, and for state refusal to take on IESU’s debt.

In March 2000, Tymoshenko announced a plan to break apart NAKNU. Gazprom and NAKNU had been arguing over their debt for some time now – Gazprom claiming about $2 billion, NAKNU closer to $1 billion. Tymoshenko went to Moscow and announced that the debt was over $2 billion. In doing so, she simultaneously accused NAKNU of stealing Russian gas, and of Gazprom managers of rigging the numbers for their personal gain. Tymoshenko proposed a joint between ITERA, a Gazprom-sponsored company responsible for a good chunk of Ukraine’s energy imports from Turkmenistan, and NAKNU to handle all gas imports with Russian companies bidding for regional gas monopoly licenses. Later, Tymoshenko proposed giving ITERA the industrial market and NAKNU the residential one, which was not always able to pay. These proposals were suspiciously similar to those under Lazarenko, where well-liked companies were given able-to-pay customers, and unfavorable companies were given unfavorable customers.

As such, it is unclear whether the Yushchenko/Tymoshenko reforms can truly be said to be in defense of Ukrainian interests. Not only was Tymoshenko’s good relationship with ITERA quite obvious, but the reforms were coincidental with the entrance of a massive amount of Russian capital into the Ukrainian oil refineries$^{64}$. As a result of constant infighting between Tymoshenko and Boiko, head of NAKNU, and frankly, weakly written and easily criticized reform language, the reforms were quickly mired down, and the state machinery ultimately failed to fully support Tymoshenko’s policies. The judicial system failed to present many corruption cases$^{65}$. In July of 2000, Kuchma agreed for the state to informally take over
energy debts, which generally went completely against the Yushchenko-Tymoshenko reforms. Next, the oligarchs moved directly against Tymoshenko and Yushchenko, arguing that her actions were done in the name of revenge, and by summer of 2001 Tymoshenko was removed from office, and Yushchenko in April. The parliamentary coalition that accomplished this was led by the Kyiv clan’s Medvedchuk, who was given the position of Presidential Commission in May 2002. Donetsk’s Yanukovich was named PM in the November of the same year. Thus, the main three clans were back in power. Oleh Dubin replaced Tymoshenko, and he proceeded to talk about continuing her energy reforms, but in fact allowed the oligarchy to all but completely nullify all of the reforms made.

Despite the seeming contradiction between this brief period of transparency and Kuchma’s balancing act, the role played by Tymoshenko’s stint as Vice PM may have been related to Kuchma’s desire to maintain control of the various clans, and pit various factions in the Rada against each other. Tymoshenko’s reforms in the gas system were unsuccessful, and the debt dealings between NAKNU and Gazprom remained complicated and opaque. The area of reform that did stick was the requirement of cash payments, replacing barter trading, but this is arguably largely because both the Ukrainian gas giants and Gazprom realized that this would benefit them in the long term. This trend continued to develop and affect the work of the clans long after Tymoshenko’s dismissal. In addition to this move away from barter, three other processes affected the development of the Ukrainian energy system: the alienation of private gas companies such as ITERA from the Ukrainian market, the growing importance of Russian capital, and the further consolidation of the Ukrainian economic elite with its own interests despite the influence of the clans. In 2000, Russian companies took control of over half of the Ukrainian petrol market, and massive Russian investments restarted the Ukrainian refining sector. By 2003, 90% of refinement was run by Russian companies, and 86.6% of oil was provided from Russian source. It may seem contradictory that Ukrainian oligarchs, exchanging support for Kuchma for benefits, would be willing to share those benefits with Russian interests (such as Gazprom) In fact, by both moving against the Russians when they threatened direct economic control, and working with them to increase rents, profits were extracted. The next section describes how decisions in these actions turned out to be crucial for the question of energy dependency management.

3. Energy and domestic policy

3.1. Rhetoric and action in Ukraine’s energy policy. Having reviewed the historical development of energy markets in Ukraine, it is time to turn to how these developments reflected themselves in the management of energy dependency. How did the Ukrainian government proclaim that it would deal with the legacy of dependency on Russia, Russian infrastructure, and inefficiency, and what did it actually do? How did Kuchma manage energy diversification and trade?

One of the most obvious factors that could affect energy dependency is efficiency. In 2005, energy loss, as the difference between the Total Primary Energy Supply (TPES) and final consumption, was 71%, making Ukraine the most inefficient energy user in all of Europe, including Russia. Throughout the 1990’s, Ukraine launched multiple attempts at improving efficiency – the Law on Energy Conservation in 1994, the Comprehensive National Program on Energy Conservation in 1996, and a Presidential decree to reduce energy waste in the public sector in 1999. Yet by 2005, the majority of houses did not have gas meters, and were charged flat rate. Many power stations are old enough to make system-wide changes
almost prohibitively expensive. Furthermore, many local improvements were quickly cancelled because of budget problems and unclear legislation. Artificially low prices did not particularly encourage conservation either. These lower prices were paid for by other means – the share of energy in the cost structure of Ukrainian goods was 25% in the late 1990s, and metallurgic and other energy-heavy industry products were exported to the West, US and Far East at higher costs. As these industries were among the heaviest consumers of energy, this effect supported the continuation of inefficiency in the system.

Another factor affecting energy dependency was the choice to use foreign energy vs. domestic sources. As of 2004, 47% of Ukraine’s TEPS was gas, 23.6% coal, 16.7% nuclear and 12.7% coal. Nuclear and coal are viable options, but “poor quality of local coal sorts, low labor productivity, the manipulation of prices by [clans], and the de facto bankruptcy situation of most mines ... have been major factors preventing coal from becoming a real alternative”, and nuclear power is met with huge domestic opposition from the obvious reason of Chernobyl. A 2001 Alternative Energy Resources bill proposed to develop renewable energy sources, but as of 2005 this only covered 0.9% of TPES. Energy is further lost because of the outdated distribution system. Corruption and a non-friendly investment environment have prevented foreign aid from helping to modernize them.

The largest contradictions between words and actions can be seen in the area of geographic diversification. In 1996, a “Concept for the Diversification of Gas and Oil Supplies” was proposed to increase diversification from Turkmenistan, Iran, Uzbekistan, and the Near and Middle East. It was updated in 2000 under PM Yushchenko to be “corrected” (since its 1996 goals had not been met) and to label the import of more than 30% of gas from a single source as “unsafe” for the state. Despite the pro-reformist rhetoric, actual reforms that followed were shoddy and contradictory.

Though Turkmenistani gas accounted for 42% of gas imports to Ukraine, these were never managed to decrease dependency on Russia. In 2003, an agreement was signed under which almost the entire gas production of Turkmenistan would be sold to Gazprom from 2007 on. Even before this agreement, Ukrainian-Turkmenistani relations were plagued by barter trading, delays in supply and payment, and irritation on the Turkmenistani side. Tymoshenko’s efforts as Vice PM to reduce barter trading in the area were vetoed by Kuchma, and when Tymoshenko was about to reach an agreement in 2000 establishing cash payments for Turkmenistani gas, Kuchma intervened to ensure provisions on a 50% payment in barter trade. Another example is the building of the Odessa-Brody pipeline – upon its completion in 2002, the official government statement was that there were neither buyers nor sellers at either end of the pipeline. Instead, in 2004, Ukraine agreed to reverse the intended direction of the pipeline and transmit Russian oil from Brody to Odessa, a most obvious example of the contradictions between rhetoric and actions in diversification policy. Further, despite new policies unveiled in response to each energy crisis in 1998, 2001 and 2004, by the 2006 crisis Ukraine had still failed to develop even a 90-day oil reserve.

Not only has Ukraine failed to diversify geographically, but there has also not been any particular progress with contractual diversification, that is, variance in the types of companies dealt with, and the contracts made with them (short term, long term, etc.), even when the companies are not geographically diverse. To be discussed later are the contracts between Ukraine and Gazprom that squandered monetary resources, diversification options, and Ukraine’s decision-making power. Transparent and responsible organization of the energy sector was not encouraged by the State’s assumption of energy debts, either.
Ukraine’s total energy dependency is among the highest in the FSU states\textsuperscript{82}. Furthermore, percentage of energy dependency alone is not an all-encompassing variable, and must be looked at in connection with overall oil vulnerability and GDP: though Ukraine’s level of energy dependency fluctuates around 45\%, its energy intensity (the amount of energy responsible for unit of GDP) makes it one of the most vulnerable in all of Europe – Germany, which imports around 78\% of all its gas, has a gas vulnerability index of 0.06, compared to Ukraine’s 0.35\textsuperscript{83}. Then, throughout the 1990s, energy dependency remained mostly constant, while consumption fell significantly\textsuperscript{84}, resulting in a declining in domestic production and more inefficient energy use.

In short: energy policy under Kuchma was characterized by very low levels of transparency, very high reflection of private interests as opposed to national interests, and policy management that reflected an anti-diversification agenda. The state’s resources were depleted and its power in international affairs weakened. Ukraine has remained extremely sensitive to the fluctuations of the Russian market, and this dependence has limited its ability to make its own relationships with foreign powers.

3.2. Domestic Groups and Energy Dependency. Now that it is established that Ukraine’s declared goals and actual policies differed significantly, it is time to turn to the causes of those differences – domestic groups, and how formal and informal institutions affected Ukraine’s management of energy dependency under Kuchma. This happened through the organization of the energy market, the system of private interests and interest representation, the existing legislative and executive systems, and the system of energy rents. I will cover the first three of these now, and the last is given its own section.

One important factor in Ukraine’s management of its energy dependency was transparency of action, including regulation of property rights and corporate power. Regulation of property rights, which would serve as a safeguard against over-appropriation of rent resources, were largely replaced by Kuchma’s role as arbiter between the clans and economic interests\textsuperscript{85}. Regulations of corporate power were also basically absent, with no guarantee of minority shareholder’s rights, low disclosure of financial and ownership structure information, manipulations of dividends payments, and widespread occurrence of asset dilution and stripping\textsuperscript{86}. Levels of corruption were not openly discussed, as the media was largely controlled by the clans themselves. Lack of transparency and regulation in the Ukrainian energy market can be largely attributed to the specifics of the Kuchma political system, the nature of the transition period and the need to rebuild political institutions in the wake of Soviet collapse, and to the role of barter trading in supporting the shadow economy. Also important was the tendency of real policy-making to take place in informal networks of patron-client relationships. The non-transparency and lack of prosecution of corrupt deals gave Kuchma the ability to blackmail, and to maintain his balancing of the various institutions.

This lack of transparency affected both foreign and domestic aspects of management of energy dependency. Externally, this discouraged Western involvement in the market, and encouraged further dealings with Russia, where the gray market “expertise” was to be found, and was willing to work semi-legally for individual profit, as exhibited by the behavior of PM Lazarenko described earlier. From the Russian side, the non-transparency was desirable for much the same reasons – such policies provided a way to keep Ukraine dependent, and allowed for Putin to personally control much of the industry (Putin’s preference for a non-transparent market is evident in the shutdown of Yukos, widely considered to be the most transparent of the energy companies)\textsuperscript{87}. For such reasons, it is difficult to imagine that
Ukraine could have a chance to benefit from an independent, non-Russian controlled gas transit system any time soon.

The potential for large profits in the energy sector attracts many powerful interest groups, and the methods these groups use to achieve their interests have strong implications for the formation of energy policy. Kuchma’s role as arbiter between the clans steered this interest articulation away from elected institutional means and into largely informal territories, and actually somewhat succeeded in separating the market of clan interests from the regular open political and economic markets, which were at a distinct disadvantage against their corrupt counterparts, as they were stuck paying for the lack of transparency and government manipulation regardless.

Thus, the system of interest representation affected the management of energy dependence in three ways. First, the lack of a formal method of interest representation facilitated the use of energy policy for non-energy purposes – i.e. for the balancing of interests. Second, the system led to uncontrolled growth in the clans’ power, allowing them to formally control the direction of energy policy. Finally, the lack of transparency eliminated any chance for societal control of these policies. As such, the demands of “balancing” these powers took the forefront to actually developing and pursuing clear policies, as maintaining the balance was considered before the actual policy was, and the policies made were a reflection of the interests of whatever group happened to have the upper hand at the time of its writing.

This is one of the main reasons Ukraine has been unable to institute policies that would further it from dependency on Russian energy.

Private companies were not the only important actors in the policy-making process – an important role was also played by state companies with black-boxed chain of command, captured by economic groups or individuals. This is not to say that the Rada passed no effective energy legislation; in 1995, it voted to ban the privatization of gas transit, and in 1998 it prevented NAK NU from gaining control of oil refineries. In 2001, the passage of the Law on Oil and Gas managed to limit private ownership of pipelines to those built on private money, which is exactly what prevented the Ukrainian-Russian gas consortium from taking over Ukraine’s gas transit system in its entirety. however, the Rada was severely limited; as discussed previously, it was largely an arena for the conflicting clan forces, with parties formed under economic incentives instead of political ones, and as such was much more successful at passing prohibitive legislation than proactive legislation. For these reasons, most of the interests lobbying took place in the closer-to-media, opaque area of the Presidential Administration (PA). In light of this, the PA began acquiring more muscle; in 2003, it took on the responsibilities of the Foreign Ministry, and by 2004 encompassed a staff of 2000 people, giving Kuchma manipulative power over the parliament and government.

The use of energy policy for non-energy interests afforded to the President by his informal powers predictably steered policy-making even further from energy independence, domestic legitimacy, foreign confidence, and increased his dependency on Russia. For example, Kuchma’s management of the 2002 Ukrainian-Russia-German gas consortium included counting Ukraine’s debt to Gazprom as Gazprom’s capital contribution to the consortium, and the easing of terms on Germany’s Ruhrgas; these actions reflected his need of Russia’s support at the time, and as a result he was more open to compromising with Gazprom than he would have been had their support not been so critical. So, paradoxically, it is precisely the lack of constraints on the President’s power that drew Ukraine to become more and more dependent on Russian energy.
Nor did the clan-controlled government present a platform for a debate-driven democratic policy-making structure, as these informal structures remained outside of the control of the electorate. The lack of democratic process in energy policy-making prevented policies that were beneficial in the long-term, as a set of agreed-upon goals simply failed to exist. As discussed earlier, policy was based on whatever was economically advantageous at the time of its creation, regardless of whether it ultimately benefited or hurt Ukrainian independence. Capture of state institutions allowed clans to “get the rents in full, but pass the losses to the rest of the population”—91. The previously discussed case of NAKNU is an example of such a capture of a company’s structure by clan interests. Such captures clearly did not benefit Ukraine or Gazprom as corporations, but they did benefit well-connected individuals at both government and company levels, and corrupt managers in both Ukraine and Russia.

Another set of decisions that were made in the interest of maintaining a power balance as opposed to actual good policy were personnel and organization decisions. Kuchma used the threat of having a group’s cash flow taken away and given to another group as a threat, and so the groups controlling energy policy were constantly being reshuffled. Examples of this happening in the gas market have been discussed earlier (section 2.3). Another example is the creation of various NAKs under the control of the President, which kept the Ministry of Fuel and Energy in disorder throughout the 1990s and early 2000s. Thus the ministry could never really make use of its research division (which existed only on paper), and administrative duties became the main job. Other research centers either lacked funding or personnel92. Even when energy policies were adopted, their implementation posed a problem, and were interfered with by larger policy groups, for example the attempts at importing gas from Turkmenistan and oil from the Caspian Sea.

As mentioned previously, the 1996 “concept” failed to actually do what it promised because of lack of support from the corrupt economic elites. Management of gas imports from Turkmenistan was given to opaque intermediary companies easily manipulated for profit by informal means93, leading to many payments and supply delays and failures94 (in many cases, these companies simple took 30-40% of the gas they were transporting and resold it as if their own, effectively cutting the amount of gas delivered to Ukraine to be significantly below stated import levels95). Imports from the Caspian Sea were plagued by similar problems.

Russia’s role in wanting to reverse the direction of the Odessa-Brody pipeline is not simply one of competing state interests, but also of state companies, political elites, and clans/interest groups. The proposal by the Turkmenistan Neftianaia Kompania (TNK)96 to reverse the intended direction of the pipeline demonstrates sharply the conflicting Ukrainian interests involved. The proposal aggravated existing conflicts, as in between Manchuk and Buniak in 1999-2001, and was representative of larger-scale conflicts such as between the economic elite (NAKNU) and the Ministry of Fuel and Energy, headed by the anti-reversal Yermilov, which in turn reflected the views of the Donetsk clan97. As a result, policy regarding this pipeling was in flux in 2003 and 2004. In early 2003, only a 52km section of the pipe was run in reverse, to get Russian oil to the Odessa port. Using the argument that Russia’s export capacity was filled, the TNK pushed for a full reversal a few months later, met with opposition from Yermilo. This conflicted continued until Yermilo was dismissed in March 2004, along with Kuchma’s removal of anti-reversal players Vice PM Haiduk and head of Ukrtransnafta Tediichuk, resulting in an agreement to a three-year reversal of the pipeline by TNK. This decision had obvious immediate economic advantages, such as immediate cash payments and another source of transit fee payments, but the effects on Ukraine’s long-term
energy security are clearly detrimental, further increasing dependency and setting a poor precedent for future projects, and is indicative of both the power of interest groups and the absence of a national policy and democratic processes.

3.3. Rents of Energy Dependency. Rents are “windfall profits that, under some circumstances, can be made out of a situation of energy dependency, profits received without the creation of value added”\(^98\). In more intuitive terms, a company rents energy dependency by making a profit off of actions that force the state to assume more dependency. As mentioned earlier, if illegal and semi-legal means are not taken into account, this situation seems paradoxical. I will attempt to here point out some of the main trends in the development of rents of energy dependency, which are “Ukraine’s specific feature, which hardly can be found elsewhere”\(^99\), as a result of the discussed size of energy trade, the role of energy-intensive industries (a Soviet industrialization legacy), and, of course, the post-independence political system that I have been discussing. The role of President Kuchma as arbiter facilitated this development, as he was willing to allow (and even condone) illegal dealmaking and corrupt bargaining. Rents by private groups were used to support political actors, including the President\(^100\).

The early development of rents of energy dependency began when the Ukrainian state began issuing credits under very generous conditions (“soft credits”) of energy use to heavy industry users in order to cushion them from the rapid rise in prices associated with the downfall of the USSR; by 1994, as the prices began to increase, the state began assuming the private debt of these industries\(^101\). Ukraine was even further sheltered from the international market by the widespread use of barter trade, and in this case also, the cost of the cushioning from outside economic forces was picked up by the state. First, energy rents were taken by clans, and used to stay in power, but by the late 1990s, Kuchma’s use of the NAKs basically institutionalized the process, as exemplified by Lazarenko’s relationship with the Denipro Petrovsk clan.

Most energy rents were of gas dependency, as gas could only be transported by pipeline, providing ample conflict ground over transport rights, as well as opportunites for theft.

The first instance of rents in independent Ukraine was in the form of re-exportation of cheap Russian gas to the West at significantly higher prices. Despite the obvious loss of profit to Gazprom as a company, re-exportation remained unregulated in contractual agreements because of the role of private interests inside of the corporations involved. Gazprom’s response included, in the short term, an increased export tax in 2000\(^102\), making gas re-exportation all but impossible, and in the medium term, building bypass pipelines around Ukraine. It is critical to remember, however, that these were actions representing Gazprom’s interests as a company, and not representing the private interests within the company.

Another source of rents of energy dependency was privatization – public companies were not paid for their supplied gas, but private ones were. This arrangement was manipulated so that well-connected energy moguls could profit greatly, all while the state itself could barely afford its own energy. For example, under Lazarenko as PM, IESU was paid in full, but debt to national gas companies grew uncontrolled\(^103\). In addition to this, the members of regulatory organs were often members of the companies that they were regulating (again, see Lazarenko)\(^104\). As such, state gas companies acquired debt that was passed on to the state itself, and could not maintain their infrastructure, all while private actors acquired profits at the expense of the state and the people.
Another source of rents of energy dependency during the mid to late 1990s was the “selective allocation of profitable gas distribution contracts...in exchange for political loyalty.”105 In other words, giving companies monopolies over able-to-pay customers. These monopolies were used not just to raise prices, but to extract rents from the customer companies; for example, farmers were forced to sign off a portion of their future crop, which was then resold at a much higher value106. Another game that was played by such privileged energy suppliers was driving a company into bankruptcy, and then acquiring it at a reduced cost. Again, such private companies succeeded in profiting immensely in a time when the country could barely afford its own energy.

Another source of rents of energy dependency was the reporting of artificially high prices of gas, a process made possible by the non-transparency of such companies’ dealings. Such manipulation of prices could only have occurred via collusion between Russian and Ukrainian actors107. This benefited individuals inside of the corporations by allowing them to in turn charge their customers artificially high prices. For an example, see the previous discussion of attempts to import gas from Turkmenistan. However, debt calculations based on these artificial prices led to an increase in Ukraine’s state debt to Gazprom, which in turn gave Gazprom leverage to further acquire shares of Ukraine’s energy industry108. In an even more abstractified complication, companies rushing to acquire rent via such means actually resulted in a surplus of Ukrainian gas, which Ukraine did not have the capacity to handle109, leading to increased re-exportation, already discussed. Another related scheme was importation of Russian gas and falsely claiming its origin as Western Europe to inflate the price110.

Another source of rents of energy dependency was forcing the assumption of private debts by the state, made possible by guarantees for gas purchases provided by the state, which forced the state to take responsibility for payment if the company was unable to do so. Under this clause, companies would sign contracts, collect partial payment, declare bankruptcy before paying Gazprom, and then reform under a new name, rinse and repeat. An important example of this is, again, Lazarenko and the IESU’s debts from the mid-’90s, but this also occurred with private corporations told to import gas from Turkmenistan111. As usual, while profitable for individuals inside the corporations involved, the long-term consequences for Ukraine’s energy dependence were obviously negative.

Another source of rents of energy dependency was blatant theft of gas from Gazprom pipelines, as described in Tymoshenko’s 2000 accusations. Surprisingly enough (or not, at this point), individuals within Gazprom were as responsible for these actions as individuals from the Ukrainian side112. It could even be argued that Gazprom-as-a-corporation benefited from this, because the stolen gas was eventually configured into Ukraine’s debt to the company. Again, reselling this stolen gas profitted the accomplices of the act greatly, but also helped to ruin Ukraine’s standing with Western institutions even further, as well as resulting in an oil embargo in 2002. It also further pressured Russia into building bypass lines around Ukraine, so abolishing Ukraine-as-a-state’s main pushback against Russian authority; this specific individual profit came at a very high cost to the state.

Another source of rents of energy dependency was discounted bills of exchange and barter trading. A gas distributor would supply gas to a company, and would pay partially with such bills, which were then used to avoid tax liability – in short, they were IOUs113. The trick used was discount sale of such bills, based on the risk level of the seller – the difference in this level at various points of a bill’s “exchange route” could be taken advantage of at a
profit. As the initial rate of exchange was set by the state, such bills were very useful for trade for privileges in the balancing system\(^\text{114}\). Yet again, this practice benefitted individuals greatly, but took tax income from the state.

Another source of rents of energy dependency came in the form of production of goods from energy-heavy industries, to be sold at Wester prices. The energy used by these industries came mainly from the state, which bought energy at higher prices and resold it at lower ones, so the massive profits made from selling metallurgic etc. products to Central and Western Europe came at a heavy loss to the state. This method was especially prominent in the years just after independence, as the price differences were most pronounced at this time, but continued to be used throughout the Kuchma period as well\(^\text{115}\).

Ihor Bakai noted famously in 2001 that “all political fortunes in Ukraine were made on the basis of Russian gas”\(^\text{116}\). The above examples explicitly illustrate how this was done, and how making of these fortunes drew Ukraine deeper and deeper into energy dependency.

Rents of oil have been generally less profitable than those of gas, but have also been used for gain by similar means, such as re-exportation and state tax exemptions. Having discussed concrete examples of rents of energy dependency, some attention should be paid to the President’s method of obtaining rents for use in maintaining the balance of power. Kuchma did this in two ways. First, he established the NAKs, particularly in the energy sector, to hold monopolies over various aspects of the market. Second, he relied more on people who would be more responsive to the President than to any of the clans. These two seemingly obvious methods began in earnest in the wake of Lazarenko’s almost-monopolizing of state power by the Dnipropetrovks clan. So NAKNU was established in May of 1998, followed by similar organizations for atomic energy, electricity, and coal\(^\text{117}\). These were subordinate not to the Ministry of Fuel and Energy, but directly to the Cabinet of Ministers, with direct access to Kuchma\(^\text{118}\). Through NAKNU, basically the entire gas distribution system was under direct control of the President; especially important was the 1998 barter deal, wherein Ukraine paid off $1 billion gas debt to Russia through food and industrial supplies. Kuchma successfully used this state machine to balance the rent-seeking activities of the clans, and to give himself access to rents to support himself and his campaign in the upcoming elections\(^\text{119}\). However, the creation of NAKNU and other state shareholding companies did little good for Ukraine’s long-term energy issues, as they were guilty of most of the same rent-seeking methods as private gas companies, discussed above: gas price manipulation, selective contracting, bartering, privatization, further demonstrating a lack of centralized policy under Kuchma.

To summarize, rents of energy dependency played an absolutely critical role in the development of Ukraine’s energy dependence under Kuchma. In focusing on individual economic interests, individuals within corporations effectively dug Ukraine deeper and deeper into dependency on Russian gas and oil. Kuchma was also responsible for this decay, as he used the rent-seeking desires of energy companies to secure political and economic support for himself. Especially important was the widespread availability of rents during Ukraine’s formative years. The vast amount of available rents drew oligarchs and managers like moths to a flame, and it is no surprise that they chose to make their fortunes this way. Furthermore, the various methods by which Ukraine was sheltered from the shock of economic independence gave no incentive towards the creation of an independent energy policy that would be in tune with Ukraine’s energy scarcity. The concerns of the common people were ignored,
and as a result of the fundamentally non-democratic nature of the developed system the were given little to no voice in the process of creating the energy policy of their country.

4. Conclusion

Understanding the development of Ukraine’s government and politics in the aftermath of the dissolution of the USSR is critical to understanding the development of Ukraine’s energy dependency on Russia. The large availability of energy rents, the flow of corrupt money between energy companies, and the interplay between the energy sector and the industrial sector all played formative roles in developing Ukraine’s energy dependency. Money (both Russian and domestic) from rents and from other forms of energy corruption all but ran the country under Kuchma. The informal aspect of politics was not limited to the energy sector, but spread to all parts of the economy and politics, and as political decisions were made on the bases of individual economic growth, the country continued to suffer.

So we return to the question posed earlier, “why is it that Ukraine’s dependence on Russian energy increased during Kuchma’s time in office?” The answer I propose is a mixture of effects. One aspect is that immediately after gaining independence from Russia, Ukraine was buffered from a shocking economic transition by artificially low energy prices and the pre-existence of a military-industrial complex left over from the Soviet Union. The economic elite, unchanged during the transition period, took advantage of these things for massive personal gain at the expense of the state, and when prices began to rise in 1994 they continued this behavior with increased vigor. Second, the structure of domestic policy-making in Ukraine is by its very nature corrupt and rife with what would be called, in a democratic country, “conflicts of interest”. Individual interests within companies are often in conflict with the interests of the companies, which are themselves either formally or informally part of the state, in either case making them responsible for their own regulation. Third, as hinted at in the previous item, the informal powers afforded to the President and other state actors have effectively turned the country’s energy market into something resembling a shadow economy. Also critical is the context of legacy Soviet infrastructure in which all of this occurs, which gives Russia full control of energy flowing into Ukraine from Central Asia, severely limiting Ukraine’s capability for diversification.

Where does this leave the Ukrainian people? The next step, not in the scope of this paper, was the Orange Revolution, an anti-corruption series of protests that resulted in the election of Yushchenko. But the constitutional reforms that followed were overturned in 2010, deemed unconstitutional, and the Yushchenko regime had its own problems that resulted in Yanukovich winning the next Presidential election. The common citizens have not gotten much for their troubles, however, as the 2006 gas crisis again demonstrated. I believe that without serious Western intervention, Ukraine, along with most of the states in the region, will not break free of Russian influence any time soon, and will be left with continued instability, continued rule by oligarchy and corruption, and that the people of these regions will continue to be left in the dark\textsuperscript{120}. 


Notes

3. See Fritz, State-Building.
5. Fritz, State Building.
6. Ibid.
9. See Balmaceda, Energy Dependency pg. 8.
11. See Kubicek, Unbroken Ties pp. 1-12.
14. See Abdelal, National Purpose in the World Economy: Post Soviet States in Comparative Perspective.
16. The organization of this paper is due in large part to the organization of Balmaceda’s Energy Dependency, Politics and Corruption in the Former Soviet Union. See this work for a much more in-depth discussion of rents of energy dependency, or actually almost any of the topics touched upon in this paper.
17. Kubicek, Unbroken Ties, pp. 34-61, p. 36.
18. Fritz, State-Building.
20. See Ibid. on the Massandra summit for a detailed example.
21. Ibid.
25. D’Anieri, Economic Interdependence, p. 82.
27. See Kuzio, “Neither East nor West: Ukraine’s Security policy under Kuchma”, p. 64.
32. See Bukkvoll, “Private interests Public policy”, and Puglisi, “Clashing Agendas?”.
33. See www.traceca-org.org.
34. See Petra Opitz and Christian von Hirschhausen, “Ukraine as the Ga Bridge to Europe?: Economic and Geopolitical Considerations”, Cited in Balmaceda, Energy Dependency.
35. Kuzio, “Neither East nor West”, p. 64.
NOTES

41 van Zon, “Political Culture and neo-Patrimonialism under Kuchma”, p. 14
42 Bukkvoll, “Private Interests, Public Policy”, p. 13
46 Balmaceda, Energy Dependency, p. 42.
48 Ibid.
50 Ibid., p. 6.
51 Ibid.
52 Balmaceda, Energy Dependency, p. 46.
53 Ibid.
54 Ibid.
55 Ibid.
56 Ibid.
57 Ibid.
58 Puglisi, “The Rise of the Ukrainian Oligarchs”.
59 Babanin et al., Ukraine: The Lost Decade, p. 47
60 Bonner, “Ukraine Staggers in the Path to the Free Market”, cited in Balmaceda, Energy Dependency.
61 Ibid.
63 Dubrovskyi et al., “The Reform Driving Forces” p. 116
64 Balmaceda, Energy Dependency, p. 53.
67 See Puglisi, “Clashing Agendas?” p. 839
69 Babanin et al., The Ukrainian-Russia Gas Agreement: Analysis and Alternatives”, cited in Balmaceda, Energy Dependency.
70 Tyshchuk, “Kholodnyi Dush”, cited in Balmaceda, Energy Dependency
72 Balmaceda, Energy Dependency, p. 68.
73 Ibid.
75 Babanin et al., Ukraine: The Lost Decade, p. 54.
76 Balmaceda, Energy Dependency, p. 70.
77 See Pavel, “The Ukrainian-Russian Gas Agreement”.
80 Ibid., p. 72.
81 See Petrov, “Sozdanie strategicheskikh zapasov nefteproduktov ne provalilo, a vsego lish otsrochilo na god”.
82 See Table 5.4 in Balmaceda, page 74
83 Ukrainian Centre for Economic and Political Studies, “Concept of the State Energy Policy”, p. 19.
84 see Tables 5.5, 5.6 in Balmaceda 
86 Balmaceda, Energy Dependency, p. 79. 
88 Dubrovskyi et al., The Reform Driving Forces, p. 17. 
91 Dubrovskyi et al., The Reform Driving Forces, p. 94. 
92 Balmaceda, Energy Dependency, p. 87. 
93 Ibid., p. 92 
94 Ibid., p. 93 
95 Ibid. 
96 Ibid., p. 94 
97 Ibid. 
98 Ibid., p. 97 
99 Babanin et al., Ukraine: The Lost Decade p. 9. 
100 Ibid. 
101 Ibid. 
103 Khmurych and Tkachenko, “Opportunities for Corruption in the Ukrainian Gas Market”. 
104 Ibid. 
105 Balmaceda, Energy Dependency, pg. 101 
106 Ibid. 
108 Balmaceda, “Energy Dependency”, p. 104 
109 Ibid. 
110 Ibid. 
111 Ibid. 
112 Ibid. 
113 Savka, “Vzaiemnozialik iak sposib zhyttia,” cited in Balmaceda “Energy Dependency”. 
114 Khmurych and Tkachenko, “Opportunities for Corruption”, p. 5, cited in Balmaceda, Energy Depen-
dency. 
115 Babanin et al., Ukraine: The Lost Decade, p. 50. 
117 Balmaceda, Energy Dependency, p. 109 
118 Ibid. 
119 Ibid. 
120 Pun intended. 

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[2] Bahai, Ihor interview in The Warsaw voice, April 8, 2001. Original article seems to have disappeared online, but it is referred to by both Balmaceda Energy Dependency and Puglisi Clashing Agendas?, so presumably it exists.
NOTES


