



Individual Advanced Research Opportunities Program

Research Report

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“Between Private and State Interests: the Role of Energy in Ukrainian-Russian Relations”

Summary

During my stay in Kyiv, I conducted research on the Ukrainian case study of my book on project on Understanding the Comparative Management of Energy Dependency in the Former Soviet World. In addition to interviews and primary source research, a central component of my work in Ukraine was an intensive Ukrainian language program.

Main questions and areas of research

Participation in the IARO Program allowed me to conduct field research in Ukraine on the issue of energy relations with Russia and the management of the country’s energy dependency. Some of the main questions I explored were:

- (a) How are domestic political battles affecting the possibilities open to Russian oil and gas companies in Ukraine?
- (b) Through which formal and informal political and interest-group networks are Russian energy companies working through? How are these related to various private and state Russian interests?

- (c) What are the consequences in terms of the larger Russian-Ukrainian relationship?
- (d) In what ways is the activity of Russian energy companies in Ukraine similar to and different from their behavior in Hungary, Belarus, Poland and Slovakia?

I researched these questions on the basis of primary source research, interviews with Ukrainian scholars, analysts, and policy-makers, and work with Ukrainian statistics. Frequent consultations with my academic advisor, Mr. Volodymir Saprykin, were invaluable as a source of background information and important insights into my research area.

Main Results and Research Findings

Research Findings and Empirical Contribution: Contribution to book project The research I conducted under the auspices of this grant is closely related to one of the chapters of my ongoing book project on Understanding the Comparative Management of Energy Dependency in the Former Soviet World. The all the cases in the book, Ukraine is the one where energy plays the largest role in the country's daily economic survival, making the Ukrainian chapter central for the book. Of all the Central-East European states, Ukraine is the one where, arguably, energy issues play the largest role in the country's daily economic and political life.

Analyzing the Ukrainian case is also essential for other parts of the book. Analyzing the complex system of barter and debt-for shares swaps that has been the basis of much of Ukrainian-Russian energy trade is essential for Part III of the book, which analyzes alternative payment systems in post-COMECON energy trade.

Research Findings: Contribution to the Development of Theoretical Framework

As I seek to reach both a policy and an academic audience, developing the right theoretical framework is essential for the success of the project and for securing the manuscript will be accepted for peer-reviewed publication. The work I did with Ukrainian primary sources, especially research on the issue of energy politics in the context of interest representation during the Kuchma period (1995-2004) was crucial for me to zero-in on what will be the basic hypothesis of my book: that the nature of the political system in various Central East European and former Soviet states will affect the management of energy dependency in general and, more concretely, the management of energy relations with the largest partner (Russia) and the opportunities created for its energy interests in that country.

Research Findings: Conclusions on the Ukrainian Case

In the case of Ukraine, the de-facto system of power and interest articulation under President Kuchma (a system where the President acted as 'balancer' between the various interest groups involved in energy policy) affected the management of energy dependency in a variety of ways, for example through the ways in which it affected (a) the transparency or non-transparency of energy markets; (b) the country's ability to develop and pursue a clear and consequent energy policy; (c) the existence or absence of a transparent, democratically-controlled energy policy; (d) the institutional space given to the executive by the political system and domestic factors constraining leaders'

negotiating space; (e) the system of interest articulation; and, (f) access to and use of “rents of dependency.”

In the case of Ukraine under Kuchma, policy decisions (including energy policy decisions) were often the result of the nontransparent negotiations between various well-placed groups --and arbitred by the President-- with various results depending how the rent-seeking interests of the various groups involved will be balanced. In terms of energy policy, sometimes these results helped promote energy diversification, and sometimes led to an entrenchment of energy dependency. The central factor in energy decisions was not adherence to a long-term national energy policy, but the short-term rent-seeking perspectives opened by each policy alternative to specific groups and how they affected the ‘balance’ between the various groups. The case of the Odessa-Brody pipeline provides a clear example of wavering energy policies which eventually led to an undermining of Ukraine’s long-term energy diversification interests.¹

On January 24, 2005, Viktor Yushenko was inaugurated as Ukrainian president on an anti-corruption platform that also privileges the development of ties between Ukraine and the Western community. Essential to achieving both goals is a clear reform of Ukraine’s energy sector in order to transform it from a source of corruption money able to poison the whole political system into a motor of integration with the Western world. Whether or not the system of ‘balancing by the president’ will change after the coming to power of the Yushenko/Timoshenko government in January 2005 still remains to be seen. The energy sector should be the first one to be watched in order to see if the promised reforms are for real.

¹ The Odessa-Brody pipeline started to be discussed in the early to mid-1990s as a way of fostering Ukraine’s energy supply diversification, reducing its dependency on Russia and helping put the country in the map as a transit corridor for Caspian oil to Europe. Yet problems followed the project from the very beginning. At first, the completion of the project, originally envisioned in the mid 1990s, was delayed for a number of years. When the Odessa-Brody segment was finally completed in 2002, it turned out little business planning had been done in advance, and no Caspian oil was ready to flow through it, which called for Polish reservations on building the connecting segment to Plotsk. In early 2003 the Ukrainian side responded to the absence of offers of Caspian oil to the shipped North through the pipeline by temporarily “reversing” the flow of a fifty-two kilometer segment of the pipeline, using it to transport Russian oil through the Odessa port to Western Europe. This was followed by a proposal by the Russian oil company Tuimenskaya Neftenaya Kompania (TNK) for a “full reversal” of the pipeline, i.e., to transit Russian oil (also belonging to TNK) from Brody in the North to Odessa in the South (to be shipped further West by tanker), that is, in the opposite direction as the pipeline was originally intended. This proposal took place in the context of, and was justified by TNK on the basis of, the acute lack of free export capacity in Russian pipelines system at a time when the difference between domestic and export prices is especially large. In July 2004 the Ukrainian agreed to TNK’s proposal. Odessa-Brody has been flowing in reverse direction since August 2004.