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Russian gas games or well-oiled conflict? Energy security and the 2014 Ukraine crisis

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ABSTRACT

This essay explores the link between energy security and the 2014 Ukraine crisis. Whenever there is an international conflict involving a major oil or gas producer, commentators are often quick to assume a direct link, and the Ukraine crisis was no exception. Yet, the various avenues through which energy politics have affected the Ukraine crisis, and vice versa, are not well understood. This paper seeks to shed light on the issue by addressing two specific questions. First, how exactly did energy contribute to the crisis in the region? Second, can energy be wielded as a 'weapon' by Russia, the EU, or the US? We find that Russian gas pricing played a crucial role as a context factor in igniting the Ukrainian crisis, yet at the same time we guard against 'energy reductionism', that is, the fallacy of attributing all events to energy-related issues. We also note that there are strict limits to the so-called energy weapon, whoever employs it. In the conclusion we provide a discussion of the policy implications of these findings.

Whenever there is an international conflict involving a major oil or gas producer, commentators are often quick to assume a direct link between the conflict and the presence of energy resources—a phenomenon described as the 'trap of resource-determinism' [1]. Things were no different in 2014 when Russia, then the world's second-largest oil and gas producer, annexed Crimea and supported separatists in eastern Ukraine. Energy has featured prominently in public discussions about the Ukraine crisis [2]. Even before Russian gas deliveries to Ukraine became distorted in June 2014, the G7 energy ministers had come together in Rome to discuss ways to "disarm Russia's energy weapon," as UK Energy Minister Ed Davey put it [3]. His words suggested that Russia was stirring or even masterminding the events in Ukraine by exploiting its position as the dominant gas supplier in the region. This article seeks to explore the links between energy resources and the 2014 Ukraine crisis by addressing two specific questions. Did energy help cause the crisis in the region? And, can energy be wielded as a weapon by Russia, the EU, or the US to affect the course of events in Ukraine?

We understand the term 'energy weapon' as one state's threat or action involving energy resources to compel or deter another state in the short-term. The possibility that a state might take action in the energy-sector to induce a long-term change in another state's behavior is something we consider separately, at the end of the paper.

On the causes of the crisis, we explore three potential energy-related causes. Contrary to some observers, we find little reason to believe that acquiring energy reserves or denying them to Ukraine played any significant role in Russia's decision to annex Crimea or engage in eastern Ukraine. Ukraine's energy reserves are insignificant compared to Russia's existing reserves, which is one of several reasons to doubt the proposition. However, we view natural gas price disputes between Russia and Ukraine as a contextual factor in the crisis. Moreover, we point out an additional energy-related factor that is overlooked by most observers: the nature of Russia as a petrostate, that is, a country which is heavily dependent on oil export revenues. Under the right conditions, oil rents can facilitate aggressive foreign policy. In this way, energy helped establish the foundations of the crisis. Geopolitical rivalry and domestic divisions within Ukraine were principally responsible for triggering the crisis. Turning to the dynamics of the crisis itself, we note that there are strict limits to the so-called energy weapon, whoever employs it. Russia has found that turning off the taps of natural gas exports is a rather blunt instrument, not ideally suited to extracting concessions. Conversely, the US will struggle to use its energy industry as a tool of foreign policy towards Russia in the short- or even medium-

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Table 1
Energy's role in the Ukraine crisis.

	Hypothesized mechanisms	Evidence
Cause of the conflict	Russia conquered Crimea for its oil and gas reserves	Implausible
	Disputes over natural gas trade spilled-over into conflict	Key contextual factor
	Oil wealth has made Russia more autocratic and belligerent	Key contextual factor
Weapon in the conflict	Russia can cut-off its gas deliveries to Ukraine and Europe	Yes, but ineffective
	US LNG exports can undermine Russia's power in Europe	Depends on market forces
	Western energy sanctions can bring Russia to its knees	Highly unlikely

term. Table 1 summarizes our findings about energy's role in the Ukraine crisis.

A full recap of the complex events that have unfolded in Ukraine is beyond the scope of this article. Suffice it here to repeat that what started as a wave of protests against former Ukrainian President Viktor Yanukovych in November 2013 steadily escalated into a conflict of global geopolitical significance. Russia annexed Crimea in March 2014 and actively supported Russophile separatists in eastern Ukraine, though Moscow repeatedly denied any involvement. After a five-month conflict between the separatists and the Ukrainian army a fragile cease-fire was agreed in early September 2014, yet shelling and skirmishes continued. By the end of November, the death toll of the conflict had already risen to at least 4364 people [4], including 298 passengers on a Malaysian airliner traversing eastern Ukraine in July. In February 2015, a new settlement agreement was reached. Even though low-scale conflict continues, the new agreement still commands at least rhetorical support in Kiev and Moscow. For the foreseeable future, it appears that Donbass (Ukraine's eastern province) is destined to occupy a place on the list of frozen conflicts in the post-Soviet space.

The political fall-out from the crisis continues. Russia has been ousted from the G8 and NATO countries have agreed to establish a rapid-response force, capable of deploying to Eastern Europe on 48 h' notice, combined with more military exercises and enhanced air patrols over the Baltic States, Poland and Romania. Western countries have also agreed on a series of diplomatic and economic sanctions against Russia, including sanctions targeting its energy sector. Moscow has responded in kind with sanctions against Western individuals and, since August 2014, a full embargo on food imports from the EU, US and other western countries.

Our analysis operates at multiple levels, considering systemic, state-level, and leader-level behavior and effects. No detailed analysis of a specific crisis such as this one can afford to ignore any of these levels. We show that energy resources were not the primary causes of the conflict, although they played an important contextual role. Instead, the main drivers of the conflict have to do with Ukraine's contested position within Russia's sphere of influence and the orbit of European Union. Domestic politics and decisions by individual leaders also play a significant role. Broadly speaking, for Putin, the crisis was an opportunity to strengthen Russia's sphere of influence – and to bolster his own domestic popularity. For Ukraine, the conflict arose out of a determined struggle by some but not all of its people to re-orient the country towards the EU and Western ideals of governance.

1. Is the Ukraine crisis an energy war?

The continuing standoff between Russia and Ukraine is *not* primarily an energy battle. It is a multi-layered conflict that revolves first and foremost around power, territory, and domestic politics. Nonetheless, it is hard to fully apprehend the complex and contingent events in Ukraine as they unfold without an appreciation of the role that energy played in igniting and shaping the conflict—a crucial role, certainly, but far from a straightforward one.

To begin with, energy was no direct *casus belli*. True, the Crimean peninsula has significant potential offshore oil and gas reserves, which had attracted the attention of companies such as Exxon and Shell prior to the crisis [5]. These potential fields now fall under the (disputed) jurisdiction of Russia, as does Chernomorneftegaz, the breakaway subsidiary of the Ukrainian state-led Naftogaz that owns several energy assets, including an underground gas storage facility with a capacity of 1 billion cubic meters. Some observers suggest that these energy resources and assets were an important part of Russia's strategic motivation in seizing Crimea [6]. Yet this seems implausible. Consider the counterfactual: if Crimea had zero energy resources, would Putin still have decided to annex the territory? We think it is highly probably that he would have.

After all, Crimea is of more obvious historic, cultural, and strategic importance to Moscow than it is of economic significance. Crimea belonged to Russia from the 18th century until 1954, when Krushchev gave the land to Ukraine, then a Soviet republic. The transfer was merely symbolic until the break-up of the Soviet Union in 1991. Out of its 2 million residents, nearly 60% identify as Russian, which is the highest concentration of Russian speakers in Ukraine [7]. Crimea has historically been a naval stronghold for Russia. After the dissolution of the Soviet Union, an agreement between Russia and Ukraine allowed Russia to keep stationing part of its Black Sea fleet in Sevastopol. With these key Russian interests at stake, the presumed presence of offshore oil and gas, the size of which is still clouded in uncertainty, played a secondary role at best.

The energy assets seized in Crimea should thus be thought of as collateral benefit, rather than a deliberate strategic objective. So is the fact that the fighting in eastern Ukraine destabilizes an important Ukrainian region for shale gas. Estimates indicate that Ukraine has the third-largest shale gas reserves in Europe, behind France and Poland [8], and some of these shale fields are in eastern Ukraine [9]. The current crisis ensures that Kiev's hopes of becoming more energy independent are shelved for some time. Yet exploration activity in Ukraine had been minimal anyway, and it is highly unlikely that this element influenced the calculations of Russian decision-makers when they decided to covertly support separatists in the region.

Still, it would be wrong to conclude that energy did not shape the conflict at all. Consider a second potential cause: the history of disputes over natural gas pricing. After the break-up of the Soviet Union, some (but not all) Soviet successor states continued to receive Russian gas at discount prices. This changed in the mid–2000s when Russian President Putin began to support Gazprom's desire to realign gas prices for neighboring customers with European oil-indexed prices. The steady increase in the oil prices, and therefore European gas prices, from 2003 to 2008 made the transition particularly difficult for the importers. These price increases provoked a series of 'gas wars' between Russia and key transit countries (with Ukraine in January 2006, March 2008, and January 2009; with Belarus in February 2004 and January 2007; and Moldova in January 2006) [10]. Ukraine, especially, was poised to exploit its pivotal transit role for Gazprom's deliveries to Europe [11]. In 2004, 80% of Russian gas exports to Europe were still delivered via Ukraine [12]. The 2009 Russo-Ukrainian gas crisis was the