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RUSSIA-UKRAINE 2009 GAS CRISIS:

**Comparative view from Kyiv,
Bucharest and Chisinau**

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The publication aims to provide for comparative analysis of 2009 Russia-Ukraine gas crisis' impact on decision-making processes in the three neighboring countries: Ukraine, Romania and the Republic of Moldova. The research is based on cognitive institutionalized approach developed by the Crisis Management Europe Program under the guidance of the Center for Crisis Management Research and Training (CRISMART) at the Swedish National Defense College.

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FOREWORD

Dramatic events, known as Ukraine-Russia «gas crisis» in 2009 caused significant consequences that go far beyond the bilateral relations of the crisis major players.

Taking into consideration the essential increase of international attention to the problems of energy security, there was a chance to eliminate from the practice of international gas relations the most predisposing crisis elements which are non-transparency and inflexibility of the gas market, its dependence on monopoly suppliers and intense political nature of gas relations.

Prospects for the situation development remain unclear. Change of leadership of Ukraine after 2010 Presidential election will certainly lead to a new attempt of re-thinking of «gas crisis» lessons and relations format between producers, transit countries and gas suppliers.

Unfortunately, the first signals of the new government show that deep gas sector reform in accordance with a clear program of reforms is not among its top priorities. So far we have not heard how the transparency of the gas market will be ensured. Instead, there was repeatedly suggested to come back to the ideas being rejected by the past years experience, such as “Gas Transport Consortiums”, which does not include compulsory reforms, whereas, can threaten with a loss of control over the national Gas Transport System (GTS).

Whereas Ukraine finally managed to jump down from the needle of «cheap prices» for gas and thereby eliminate the possibility of blackmail by reviewing prices there have been heard again the calls for return to the practice of extra-market and preferential pricing based on political conditions and shadow business interests.

Our neighbors from the Republic of Moldova have already accumulated a negative experience: Moldova pays for gas as any other country in the region, and meanwhile its GTS is definitely lost (Gazprom owns 50% +1 share). Moldova’s lessons have to be carefully studied by all Ukrainian decision makers. The main lesson learned — gas price cuts are temporary, but the ownership of strategic pipelines is lost forever.

Whereas Romanian experience is more productive: country had no claims for price cuts or other preferential conditions from Russia. Instead, it was able to reduce gas consumption and minimize import needs, ensuring the most of its gas needs with domestic gas output.

A comparative view of three countries — Ukraine, the Republic of Moldova and Romania — where each country in its own way was involved in the course and consequences of «gas crisis» provides us an opportunity to match the degree of vulnerability of countries that are in different weight categories, international regimes and organizations; they have a varying degree of economy reforming and different quality of the state institutional capacity and national unity. At the same time these countries belong to the only region, they experience similar transformation problems that make it possible and efficient to compare their practices.

Given research was prepared by authors of the three countries. Each of the three parts is an independent research and reflects the evaluation of authors from different states. Whereas joint methodology allows to compare the situation in three countries with common characteristics.

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GENERAL CONTEXT

On 2 January 2009, the gas deliveries from the Russian Federation to Romania via Ukraine and the Republic of Moldova went down. The ostensible reason was another dispute between Russia and Ukraine over the failure to renew existing contracts and to repay outstanding Ukrainian debts to the Russian gas company Gazprom.

Ukrainian imports of gas from Central Asia via Russia were stopped on 1 January. Gas supplies from Russia via Ukraine to 18 other European countries stopped on 6 January. In Bulgaria and other Balkan countries that were heavily dependent on imported Russian gas, many residents were left without heating in the midst of a harsh winter. A humanitarian crisis resulted. The Russian and Ukrainian governments signed an agreement on 19 January providing for the resumption of supplies to Ukraine and other customers downstream. Still, the two sides did not make public some details of their agreement, while other parts remained to be settled at a later date. On 21 January, the gas deliveries were fully restored.

The crisis happened a few days after a new Government was installed in Romania following the general elections that were held on 30 November 2008. The ministers were sworn in on 23 December and a week later they were caught in the middle of a gas crisis. The implications were huge since the gas shortages came on top of the economic and financial crisis that was already playing havoc with the world economy and began to show its effects in Romania in the last 3 months of 2008.

In Ukraine gas crisis emerged immediately after the end of strong parliamentary-governmental crisis: the threat of the new early elections was just removed, ruling coalition not just revived but even widened. However, it did not helped to overcome the conflict between the president and Cabinet of Ministers' leadership.

1. THEORETICAL BACKGROUND: CRISMART AND THE CRISIS MANAGEMENT EUROPE RESEARCH PROGRAM¹

The NATO open doors policy and the EU enlargement highlighted the fact that effective civilian crisis management and civil protection had become important items on the public policy agendas of individual nations as well as international organizations. Civilian crises can all too easily escalate into political crises or lead to the outbreak of violent domestic or international conflicts. The Crisis Management (CM) Europe program is a research project aiming to produce scientific knowledge that can be used to train practitioners to cope more effectively with national, regional and transnational crises.

The CM Europe Program was initiated in 1997 with a focus on the Baltic Sea area under the guidance of the Center for Crisis Management Research and Training (CRISMART) at the Swedish National Defense College. It currently involves more than one hundred scholars from different parts of Europe and North America. The program systematically documents and analyzes specific cases of national and regional crises. It relies upon a contextually grounded process tracing method for case reconstruction and dissection derived from relevant literature in political science, psychology, and organizational sociology. The Romanian research team joined that international effort in 2002. This book represents the tenth published CM Europe volume focusing on national crisis management².

These case studies reflect an attempt to apply a scientifically informed, systematic, and user-friendly methodology in a uniform fashion to a set of cases focused on various policy sectors and countries. In this volume, we seek to compare the challenging events documented in the so-called “gas crisis” in order to examine the ways in which the governments and the societies in Ukraine, the Republic of Moldova, and Romania perceived that crisis and coped with it. The general purpose of this type of research is to encourage not only scientists but also a wider circle of practitioners to engage more resolutely in a holistic approach to crisis management. By way of such studies, we hope to encourage greater acceptance and more systematic use of theoretical tools and research methods in the field of crisis management in general and case studies more specifically. Moreover, the trilateral approach enables us to see the differences of perceptions and decision-making systems in the three countries as well as patterns for decision at a time of crisis. This, we believe, will result in the production of new and useful knowledge and will create better conditions for civil crisis planning and crisis management, both in this trilateral region and elsewhere.

That was the spirit presiding over the original formation of a Romanian-Swedish research group consisting of professionals from the spheres of academia and national security. The cross-disciplinary nature of the group helped bridge the gap between theorists and practitioners, allowing not only for the transposition of theory into practice but, equally important, the transformation of practical knowledge into theory. The Romanian research team, in particular, hoped not only to apply new crisis management research methods and insights gained during the project to future crises in Romania, but also to exchange experiences and strengthen contacts with corresponding crisis management institutions abroad,

¹ The CM Baltic research program was originally established in 1997. In July 2000, it was re named the CM Europe program. All reports prior to July 2000 are therefore referred to as CM Baltic/Europe reports, whereas those after July 2000 are referred to as CM Europe reports.

² In addition, volumes focusing on Poland and Ukraine are forthcoming, and one on Kaliningrad is currently in progress.

to enhance crisis management practices in Romania to the level of most advanced EU and NATO countries, to create a more unified crisis management methodology for research on future crisis cases, and to develop new proposals and suggestions for national practices in the field of crisis management.

Thereafter, the Romanian CRISMART team, represented by the Conflict Prevention and Early Warning Center, set for itself the objective to multiply the acquired knowledge and methodology through training and to apply them in Romania's relations with its Eastern neighbors: the Republic of Moldova, Ukraine, Georgia, Armenia and Azerbaijan. By capitalizing on the experience of the well-established trilateral think tanks, the Conflict Prevention and Early Warning Center proposed this project, which was financed by the Black Sea Trust of the German Marshall Fund, as a step towards understanding the perceptions of the decision makers in the region about the crisis and the way they reacted to it in order to improve the trilateral relations by revealing to the practitioners in one's own country the reactions of the other partners to their gestures and decisions.

Method³

The basis for the comparative analytical approach applied in this volume, is presented in Stern et al. (2002) and Stern and Sundelius (February 2002). This method entails:

a) Detailed reconstruction of the crisis events using available government documents and reports, mass media sources (broadcast and print), previous scholarly treatments and interviews with involved decision-makers, stakeholders, and citizens.

b) Dissection of the case into a series of crucial decision making occasions — a series of pressing, “what do we do now?” problems that arise during the period of the crisis, challenging decision-makers' ability to cope with the situation. The selection criteria for identifying decision making occasions include:

- The problems/dilemmas which decision-makers mostly focused on
- Issues which were not emphasized by the crisis actors but which in retrospect had the potential to change the course of crisis development, or affect the management of the crisis
- Problems that were recognized by decision-makers but coped with as “routine decisions”—problems that escalated at a later stage of the crisis, causing unforeseen problems
- Episodes of particular pedagogical value — those that point to “best” or “worst” practices that are of interest beyond the particular case in question

c) Thematic analyses of phenomena pertinent to crisis management (see the following sections on analytical themes and propositions)

d) Comparing and contrasting findings with other cases documented in the CM Europe case bank and the international literature.

The trilateral cases will be compared with each other in order to explore the national crisis management style of each country. In addition, the trilateral findings will be juxtaposed, at the end of the work, that should include several crises, with findings from other countries participating in the CM Europe research program. This is done in order to better illustrate the particular crisis management predicaments faced by transitional states (and new democracies) in Europe (Stern et al., 2002). With its greater focus on processes and less on structures, the CM Europe

³ This section borrows elements from Stern and Hansén (2000:8-9).

series adds to the rich literature available on transitional states (e.g. Miller, White and Heywood, 1998; Lawson, 1993; Elster, 1993; Pridham and Vanhanen, 1994). However, these volumes complement the conventional literature with examples taken from real life and extraordinary situations—when the structures are put to the test and societal hardship is a given.

A caveat of methodological character concerning the case studies in this volume should be brought up in this context. As described above, the approach provides the instruments to dissect a course of events in a very detailed way, unveiling processes at institutional as well as individual levels. Although the politics of those countries are rapidly moving towards democratic consolidation and transparency, political life in the Republic of Moldova and Ukraine is still largely closed to the public and our researchers could not always pry open the ‘black box’ of decision making. That’s why the approaches in Ukraine and Republic of Moldova are based on a limited number of interviews and much of the empirical material was derived from media sources and official documentation. Nevertheless, these in-depth case studies of crisis management experiences in this particular case will contribute to research on developing experience based capacity building within the field.

CM Europe Analytical Themes⁴

The authors in this volume explore a number of set themes in relation to their empirical findings. The analytical themes serve as tools for the CM Europe analysts in their analysis of crisis management experiences and only a few of them will typically be applied to an individual case study. These themes have also been explored in previous CM Europe volumes focusing on national crisis management in the countries of Sweden (Sundelius, Stern and Bynander, 1997), Estonia (Stern and Nohrstedt, 2001), Latvia (Stern and Hansén, 2000), Russia (Porfiriev and Svedin, 2002), Poland (Bynander et. al. forthcoming), Slovenia (Brändström and Malesic, 2004), Bulgaria (Engelbrekt and Förberg, 2005), Lithuania (Buus et. al. 2005) and Iceland (Bernharðsdóttir and Svedin, 2004), and also in the EU (Larsson, Olsson and Ramberg, 2005). These themes are as follows:

- Crisis preparedness, prevention, and mitigation
- Leadership
- Decision units
- Problem perception and framing
- Value conflict
- Politico-bureaucratic cooperation and conflict
- Crisis communication and credibility
- Transnationalization and internationalization
- Temporal effects and crisis management
- Learning

Crisis preparedness, prevention and mitigation: This theme focuses on the extent to which crisis managers and their organizations are prepared to respond to extraordinary events. Have they experienced serious crises before? Have they cultivated an “it could happen here” attitude and prepared themselves psychologically for the rigorous demands that crisis management entices? Are there efficient and legitimate structures and plans in place

⁴ This section borrows elements from Stern and Hansén (2000:8-9).

for crisis management and are these easily adapted to a variety of situations? Are decision-makers able to identify potential threats and act quickly to prevent these threats from escalating? Are there windows of opportunity available in the crisis management structures and organizations studied that allow actors to limit the damage or contain the situation at lower levels?⁵

Leadership: This theme focuses on the leadership styles displayed by key actors during the given crisis situation. Leadership may be operative, in the sense of taking charge of crisis management activities and coordination. It may also be symbolic, in the sense of declaring and showing that the leading figures are participating in the crisis effort and empathizing with the victims of a crisis or those still at risk. Leadership can also be concrete and personal or more abstract and distant. In deliberations, leaders may be hierarchical or collegial. Leadership should be seen as relational; as inextricably linked to those who are being “led” and influenced by factors such as power, affect, culture, organizational structure, access to expertise, and context. Finally, leaders vary in their propensity to become involved in the details and the operative process, or to delegate and decentralize when it comes to critical decisions (see, for example, Bass, 1998; Gardner, 1995; Hermann and Hagen, 1998).

Decision units: This theme focuses on the question of how and where decisions are made in the complex institutional systems typically engaged in managing a national crisis. For example, crucial decisions may be made by a variety of decision-making groups ranging from a single individual to small groups to entire organizational networks. Decision-units can be located in different political/administrative and public/private systems and play different roles within those systems. Such units may be strategic or operative in nature and may be located at local, regional, national, or supra-national (e.g. EU or UN) levels. Decision units may also vary during a given crisis in terms of composition, mode of operation, and where they are placed, and it is not uncommon to see a certain shift of authority upwards (so called up-scaling) or downwards (down-scaling) in the escalation process (see Snyder, Bruck, and Sapin, 1963; Hermann, Hermann, and Hagen, 1987; Rosenthal, ‘t Hart, and Kouzmin, 1991; Stern, 1999). Finally, what are the criteria for determining which individuals or organizations will be included in (or excluded from) the decisional ‘loop’ and the decision unit?

Problem perception and framing: This theme focuses on the subjective and socially constructed aspects of crisis management. All actors engaged in managing a crisis will act upon a perceived picture of events, one that might not necessarily be understood and interpreted the same way by all parties involved (Snyder, Bruck, and Sapin, 1963; Sylvan and Voss, 1998; Stern, 1999). While problem framing often takes place at a sub-conscious level (at least with “naïve” decision makers), defining the problem entails the exertion of enormous influence on choices. In the act of identifying and framing a problem, many possible alternative interpretations and prospects of action are discarded, and the way forward is narrowed. Framing is influenced both by political considerations and cognitive processes,

⁵ This section borrows from ‘CM Baltic/Europe Analytical Themes’ in Stern and Hansén (2000:9-13) and “Crisis Management Europe: An Integrated Regional Research and Training Program” by Stern and Sundelius (February 2002). This set of themes was first introduced in Sundelius, Stern and Bynander (1997).

such as analogical (historical) and metaphorical reasoning, as well as social structures such as culture, information flows, and the organizational context (Vertzberger, 1990; Larson, 1985; Khong, 1992). There are important questions to ask when it comes to why actors frame problems in a certain way at critical junctures in a crisis.

Value conflict: This theme focuses on potential tension and conflict among different values at stake in a crisis situation. An integral part of problem framing is identifying which values are perceived to be at stake in a given situation. Identifying these values is often a demanding analytical task, and it can be difficult for decision-makers to see the range of values involved in a complex issue if they do not engage in rigorous critical analysis (see e.g. Steinbruner, 1974:16-17; Keeney, 1992). Crises, by definition, present a serious challenge to fundamental values, including the preservation of human life, national sovereignty/autonomy, economic well-being, democracy, rule of law, and so forth. More parochial values, such as the personal and political future of individuals and careers, also influence the decision making process. Good crisis performance makes careers; poor performance can break them. Due to the stress of balancing values that are sometimes in competition with each other, decision-makers often face painful dilemmas and tragic choices (Janis and Mann, 1977). Decision-makers may choose to ignore value conflicts or to accept them, which tends to generate unbalanced policy-making. They may choose to procrastinate and hope for better times, or they may seek to resolve the conflict and find a solution that protects those values at stake.⁶ These dynamics influence the decision-making process and eventually the crisis process itself. How do different crisis actors cope with the very real and tangible dilemmas that occur when value conflicts emerge in a crisis situation?

Political and bureaucratic cooperation and conflict: This theme focuses on the issue of patterns of convergence and divergence as well as parochialism and solidarity among actors and stakeholders during a crisis. There are a number of well-documented dynamics that tend to create and exert pressures towards cooperation and solidarity in a crisis (e.g. the “rally around the flag” effect, leader attentiveness, and “groupthink”).⁷ However, there are also a number of countervailing tendencies. Crises are often perceived as threatening situations that sometimes lead actors to engage in defensive and antagonizing behaviors. Following failures or setbacks, for example, actors often engage in “blame games” to decide who is to be held accountable for a particular problem. A crisis presents not only problems but also opportunities, and actors are often likely to end up competing with one another for credit for one or more particular outcomes. Moreover, situation and contextual factors are often influenced by personal relationships and by the strength of national cultural norms opposing opportunism in critical situations (see Rosenthal, ‘t Hart, and Kouzmin, 1991; Stern and Verbeek, 1998; Allison and Zelikow, 1999).

Crisis communication and credibility: This theme focuses on the relationship between crisis managers, the media, and elite/mass publics (see e.g. Edelman, 1988; Nohrstedt and Tassew, 1993; Nordlund, 1994; Pearce, 1995; Regester and Larkin, 1998; Boin et. al., 2005). In democratic polities, maintaining credibility and legitimacy with

⁶ On value conflicts, see George (1980) and Farnham (1998: 26-39).

⁷ See, for example, Rosati (1981) and Janis (1982).

the media and the public is an essential task of successful governance in crisis and more normal situations alike. Crisis managers enter crises with varying degrees of credibility and may gain or lose over the course of the crisis. Actors vary considerably in their approach to crisis communication. Some take a defensive/closed stance, which can easily antagonize the media and cost credibility. Others take a more proactive/open stance and seek to maintain the initiative in providing information and establishing friendly relations with the mass media. Actors also vary considerably in ways in the degree to which they coordinate crisis communication and in the information strategy and tactics developed. Similarly, some actors closely monitor how their messages are being received and act to correct problems, while others — focusing on other aspects of crisis management and distracted by stress — are oblivious to growing credibility problems. There are a number of recurring credibility “traps” — the creation of a perceived gap between words and deeds, expectations and performance — that can cost crisis management dearly, as can neglecting the symbolic aspects of crisis management (Boin et. al., 2005; Hansén and Stern, 2001; Stern 1999; 201–202).

Transnationalization and internationalization: This theme focuses on the tendency of crises to spill over national boundaries in a world that is increasingly interdependent—politically, economically, socially and ecologically. While some crises may arise within a single country, many actual and potential threats do not respect national borders. Infectious diseases, natural disasters, financial disturbances, and terrorism are just a few examples of such “borderless” threats. For this reason, coping with contemporary crises often requires transnational collaboration — ad hoc or institutionalized, bilateral or multilateral — in order to deal with these cross-border threats (‘t Hart, Stern and Sundelius, 1998; Buzan, Weaver, and De Wilde, 1998; Steinbruner, 2000; Buzan, 1991). Since crises often have international repercussions, actors participating in international affairs during times of crises may also attempted to exert influence upon the decision-making processes of countries which are not their own (Cf. Zielonka and Pravda, 2001; Keohane and Milner, 1996). In turn, the international sphere may become an arena for rallying support of certain new policies and regulatory tools (Haggard, Levy, Moravcsik, and Nicolaidis, 1993).

Temporal effects: This theme focuses upon sequencing and synchronicity — temporal effects that may have a profound effect on how a crisis is managed. Sequencing refers to the path-dependent nature of crisis decision-making. Choices made early in crises tend to constrain the possibilities for later action and steer crisis management along a particular trajectory that may be difficult to change later (e.g. see Levy, 1991; Sundelius Stern, and Bynander, 1997; Billings and Hermann, 1998). Often feedback — especially negative feedback — from earlier decisions will necessitate additional decisions, which, together, form a sequence. Synchronicity, in turn, refers to the tendency of simultaneous events to influence each other via psychological and organizational mechanisms such as “availability”, opportunity cost, cumulative stress, and distraction (Snyder, Bruck and Sapin, 1963; Haney, 1997; Stern 1999). Synchronicity may appear within a single crisis (when multiple problems must be solved at the same time), between two simultaneous crises (as in the case of Hungary/Suez in 1956 and Watergate/War in the Middle East in 1973), or between a crisis and other highly prioritized coincident activities such as elections, state visits, crucial legislative negotiations, etc.

Learning: This theme focuses upon the extent to which actors are capable of analyzing their experiences and using the conclusions drawn as a basis for change. As noted above in the section on problem framing, actors may attempt to use “lessons” from past experiences (encoded as historical analogies or as experientially-based “rules of the thumb”) as a guide for current action. Similarly, actors may respond to positive or negative feedback regarding performance during a crisis, by drawing lessons and modifying beliefs and practices. Actors commonly attempt to reflect upon crisis experiences after the fact, draw lessons for the future, and formulate reform projects on the basis of interpretations of crisis experiences. Crises present considerable opportunities for learning, but post-crisis learning attempts are often undermined or even derailed by a variety of typical social and psychological dynamics that may result in distorted collective memories of the crisis in question (Porfiriev and Svedin, 2002; Lagadec, 1997; Stern, 1997b; Levy, 1994; Breslauer and Tetlock, 1991; Lebow, 1981).

2. GAS CRISIS: A VIEW FROM BUCHARSET

The gas crisis is repetitive in this part of the world. The chronic dispute took place because of the interdependence between the interconnected systems of pipelines between the two countries and the fact that four out of five gas shipments to Europe are transported through Ukraine. The old habitude of getting cheap gas was maintained after Ukraine's independence due to "the Slavic brotherhood" between Moscow and Kiev, the memory of the former Soviet Empire and the aspirations of Russia to build back its former relations.

After the Orange Revolution, the relations between Russia and Ukraine entered in a period of backtrack and the prices demanded by Russia began to shift to a range closer to "European prices", as the old historical and current debts were demanded with impatience and with interest rates.

This change of perspective found Ukraine in an economic crisis due to the lack of reforms during previous Kuchma's times and paying back the money owed was practically impossible. Ukrainian industries, heating networks and housing, all designed to use then-cheap Soviet gas, remain, 20 years later, heavily dependent on mainly Turkmen supplies provided by Gazprom. The pipeline and distribution system was also old and badly maintained because of the lack of resources after the independence so that an enormous quantity of gas was lost in the process. These losses together with unreformed industry and heating system and the cheap social prices, for both the population and the industry put Ukraine in a bad situation.

Supplies to Europe were interrupted once before, in January 2006. Then, Gazprom was demanding an increase in Ukrainian import prices to "European netback levels" (i.e. to the level that its European customers pay, meaning Germany price with the cost of transport through Ukraine, Slovakia and the Czech Republic deducted). It also wanted to pay to transport gas through Ukraine in cash, instead of with the biggest of all remaining post-Soviet barter transactions (transit-for-gas).

When Yulia Tymoshenko, the multi-millionaire former gas trader, returned to the Ukrainian prime minister's office in December 2007, renewed conflict seemed likely. She was determined to remove RosUkrEnergo and its part owner Firtash from the gas trade. She ordered that RosUkrEnergo and its affiliates be frozen out, leading to a brief "gas war" in March 2008. But then

Moscow indicated it was ready to dispense with Firtash at year's end, and the conflict subsided. The 2008-2009 gas crisis was the most important one.

1. EARLY WARNING SIGNALS

On the first of December, Gazprom spokesman Sergei Kupriyanov said that Ukraine has «not paid in full, and has asked for a postponement» regarding its debt for the gas consumed in 2008. As of December 1, Ukraine was supposed to have paid \$550 million. Kupriyanov said talks on whether to postpone the repayment schedule would continue. A spokesman for RosUkrEnergo, the intermediary company between Russian Gazprom and Ukrainian Naftogaz said that he only received \$268.7 million of the \$550 million.

Gazprom claimed Ukraine a debt of \$2.4 billion for consumed gas, and asked this amount to be paid before the commencement of a new supply contract. Although in December 2008 more than \$1 billion was paid by Ukraine to reduce its debt, Gazprom remained com-

mitted to cut supplies to Ukraine on 1 January 2009 if Kiev authorities did not redeem its \$1.67 billion debt for gas supplies and \$450 million in fines.

On the 5-th of December, The Russian prime minister Vladimir Putin made a statement that Russia will reduce the natural gas supplies to Ukraine if Kiev does not pay for the debts for the deliveries already made and broke its obligations regarding the deliveries of the Russian gas to Europe. This was a second warning signal announcing possible gas crisis, as every European country knew that Ukraine would not be able to pay this debt in the new exploded world economic and financial crisis.

Moreover, on Christmas day in Romania and Europe, December the 25-th, in an interview broadcasted live on television, the Russian President Dmitri Medvedev warned Kiev that the failure to pay the full debt for gas could lead to the suspension of the Russian gas deliveries for Ukraine since Russia is determined to recuperate the historical debt even if it has to rely on sanctions for that matter. At the same time, Moscow stated that in any case, it will grant and honor its contracts with Western consumers.

All the European observers were warned by the previous gas crisis and knew that if the settlement is not reached until the New Year Eve, Russia will cut the supplies for Ukraine, which will mean that Ukraine will have to take gas from the pipeline for its own consumption and thus reduce the pressure for Europe. The complexity of the reserves of gas in Ukraine and the technical gas allowed each of the two actors in dispute, Ukraine and Russia, to play the blame game.

On the other hand, Russia's usual behavior concerning human rights commitments and the respect for the life of its own citizens and those of the European states was well known. Any other state would never have dared to shut down the gas in the winter, for an economic dispute, but Russia did it in 2006 with the gas in Ukraine, in 2005 with the oil in Belarus, in 2007 completely with the oil for the Northern branch of Drujba oil pipeline for the Baltic States.

This was done on New Year's Eve especially for pressuring the European consumer countries and the citizens of the respective country to pressure their own Governments so that Russia would get its money. The same happened with the pressure of European Governments towards the transit countries from the post-Soviet space. Moreover, this type of event harms the relation of the transit country with the EU, no matter if this type of behavior also harms Russia's credibility as a reliable supplier of oil and gas.

2. DEFINITION OF THE CRISIS

In the decision making system in Romania, the institutions involved in solving this crisis were the Romanian Presidency — involve in both foreign policy and security issues, with a special position embraced by the Romanian President, Traian Băsescu, who called the Russian Prime Minister Vladimir Putin at least two times — The Supreme Council for Defense of the Country — which was not activated since the issue did not arrive at the level of a security threat so that could affect Romania (a good sign for the level of the perception of the crisis) — the Ministry of Foreign Affairs — involved directly in the foreign negotiations — the Romanian Government and especially the Ministry of Economy, the one responsible for the energy supplies for the population and the industry, but also responsible as the main supplier of internal gas for the country — through Romgaz, the Romanian Producer and Transgaz, the Romanian transporter. Two private distribution companies — Gas de France-Suez and Ruhr Gas subsidiary Distrigaz Nord were involved at a secondary level.

This was a crisis because it filled up all the conditions for a crisis:

1. It was a **sudden change of the existing situation** — the drop of the pressure and quantity of imported gas was a sign for the population and the economy, but since Romania is covering most of its consumption from internal resources, at the domestic and industrial level, and there is a program of cutting the supplies for big industrial consumers with few employees like in the steel industry, the chemical industry of the aluminum industry, the concern was more on the situation of the other neighbor states, EU countries, Balkan countries like Serbia and also Hungary, countries depending completely from the Russian gas deliveries.

2. It represented a **threat to the basic values**:

The behavior of the EU/NATO countries after this moment and the possible implications of energy security in their behavior, the possibility of splitting both organizations due to this tool and threat were of high importance for Romania.

Afterwards, a new concern for basic values came from Ukraine and the way it will be seen in Europe and the world, since the blame game between both of the actors involved appeared and the EU had an important position of trying to balance the blames and responsibilities for the gas crisis. In this respect, Romania's concern was to prevent Ukraine alienation from the EU and EU countries alienation from Ukraine and prevent altering Ukraine chances to get closer to the EU and NATO for that matter, an issue which was at the core of the Romanian concerns.

Last but not least, there was another concern once the telephone discussion between president Traian Băsescu and Prime Minister Vladimir Putin was revealed to the public by the latter, when there was no agreement on this fact. The purposes was that the Romanian public television correspondent in Moscow could leak the information that Romania had an interest or a reaction on those matters and could put Bucharest and President Băsescu in a bad position towards its Ukrainian counterparts and towards its EU partners.

In that respect, Romania never tried to take advantage of the situation by replacing bilateral relations between Russia and Ukraine in the gas fields, neither to intermediate for Ukrainian gas. The question on South Stream and the consequent answer was also a trap, being known that Romania is a firm supporter of the Nabucco pipeline and the EU projects of the Southern corridor, but these interventions and allusions by Prime Minister Putin made some troubles for Romanian leadership.

3. It introduces a sense of **emergency**

There was clearly a need to reestablish gas transit towards Europe, but on the other hand Ukraine was itself in a bad position on the supplies of gas for its own population and industry, when other Balkan countries were really in a bad shape, the population was freezing and the lack of gas raised important problems on the cooking and preparing food and bread at level of all those countries.

4. The institutions asked to solve the problem were in an acute situation of **uncertainty** For sure, in spite of past experiences concerning gas crisis between Russia and Ukraine, the uncertainty was constant during the whole crisis: Ukraine became an unpredictable partner during the crisis because of the difference of views that appeared between President Viktor Yushchenko and Prime Minister Yulia Tymoshenko, because of Russia's unpredictability — and the rejection of the first agreement by Russian Prime Minister Putin, than because of the Czech Presidency — the

presidency of a country from Eastern Europe, known for its bad relation with Russia — critical through its approach as a former socialist country and subject to former capital-periphery frustrations, un-experienced in this position and without sufficient strategic weight to impose itself in the dispute.

Last but not least the uncertainty and unpredictability came from the bilateral Ukraine-Russia relations which could escalate if things were not settled up in due time. The debate inside the EU created uncertainty about positions and possibility of a biased approach, which could harm EU unity but also the effectiveness of EU's intervention in the crisis. At the same time, uncertainty was also related to the Putin-Băsescu episode and the possibility of that episode to be used for breaking away the relation between Ukraine and Romania, casting doubts on Romania's fairness towards its partners in the EU regarding Nabucco project.

3. THE CONTEXT OF THE CRISIS

1. Historical, political, bilateral relations with the parties involved

Too close to Ukraine, too far from Russia

The context was complicated in Romania because, among other things, of the perception of citizens condemning Russia for the August invasion of Georgia which froze bilateral relations, in an environment where the bilateral relations had not been good for the last 20 years and the visit of President Putin to Bucharest for the NATO summit in 2-4 April was the only visit of a Russian high ranking official since the revolution of 1989.

The friendly relations established during a dinner in Bucharest continued with an invitation of Vladimir Putin for President Basescu to visit Moscow, a visit which should have taken place in September. But the Russian-Georgian war and the "business not as usual" approach of the EU and NATO made President Basescu cancel his visit, something that was not appreciated in Moscow at all.

Moreover, the support that Romania gave to Ukraine and Georgia for the accession into NATO and the debate where Romania defended the position of granting both of the post-Soviet countries the Membership Action Plan at the Bucharest Summit were not appreciated by Moscow who always tried to inflame the bilateral relation between Bucharest and Kiev. In this context, where relations turned better and better after the Orange Revolution of 2004-2005 and the bilateral good relations were substantiated by the Yushchenko-Basescu Commission aimed at solving all the bilateral issues on the table.

This bilateral approach was supported by the population even though in Romania some extremists were teasing this relation due to the minority rights of the Romanians in Ukraine and in Ukraine some politicians were always looking for enemies in the very often electoral periods, and Romania was there for the taking. Even officials claimed that Romania is the first threat to Ukrainian security (Minister of Defense Yuri Yekhanurov) but this didn't shift the level of good perception and the official relations.

In that context, on the 3-rd of February the International Court of Justice issued the decision on the delimitation of the maritime economic exclusive zones and the shelf between Romania and Ukraine. The decision came after a trial that lasted 3 years and ended a nine year period of attempts to solve through negotiations the territorial dispute lasting since Soviet times, in 1947. Both of the countries convened in 1997, in the bilateral Treaty, that if

the delimitation could not be made through negotiation, the parties will address the matter to the International Court of Justice.

The development of the dispute inflamed, from time to time, the bilateral relations through the media and some politician statements in Ukraine, but at the final decision, both Romania and Ukraine won since they were able to exploit the gas and oil from the respective zones that they could just explore until the final delimitation. After that moment, no dispute and no open divergence harmed the bilateral relation and all the existing ones were in a process of being solved in the suitable mechanisms and institutions, both international and bilateral.

History of the gas crisis

As we have seen above, the gas and oil crises have been repeated years on end. Cutting off gas was a Russian strategy in order to obtain the payment for gas, the payment of all debts towards Russia, a way of taking over the gas and oil infrastructure and pipeline — a policy used with all the post-soviet countries — and when this was done, with control of a majority package of the company owning the pipelines, the step forward was to take over, for the price of the debts, the best companies that were dependent on gas supplies.

In the relation between Russia and Ukraine, the first major gas crisis occurred on New Year's Eve 2006/2007, with the same cutting of gas supplies to Europe with the same problems and accusations of stilling gas, debts unpaid, unreliable transporter, the same blame game where Russia used all its weight and capabilities in the media and PR in order to put the Orange President Viktor Yushchenko in a bad light and diminish his public support.

The agreement that ended the 2006 dispute was good for Gazprom, as it received barter deals and direct Ukrainian negotiations with central Asian suppliers, mainly Turkmenistan. Since then, Gazprom has bought all the gas central Asia sends West and resold most of it to RosUkrEnergo, a Swiss trading company owned by Gazprom (50%) and Ukrainian businessmen Dmitry Firtash (45%) and Ivan Fursin (5%), which then resells it in Ukraine.

Rosukrenergo was the last of a series of intermediary companies used by Gazprom to transport and/or resell central Asian gas to Ukraine. The practice began in the mid-1990s when barter was predominant and the entire gas trade unstable. Its persistence into the 2000s has been criticized because of its opacity and the resulting scope for corruption, and because of favoritism shown by Gazprom to the intermediaries' owners. The deal's negative aspects, from Gazprom's standpoint, were that Ukrainian import prices stayed far below European netback levels. And whereas in Belarus, Gazprom bought 50 percent of the pipeline company in 2007, Ukraine has refused to contemplate even partial Gazprom ownership.

Why intermediaries meant a lot in the gas distribution and trade? They were introduced for two reasons: one is to maintain a constant flux of money and revenues for Gazprom and the Russian state, with a large contribution of Russian officials, and second to transfer revenues from this business to some agreed businessmen linked with the officials in order to "encourage" them to pay the costs required. The third side effect was the debts that the target began to accumulate towards this particular intermediary company that could be covered only by shares in the company of distribution and transportation in the given country.

In the case of RosUkrEnergo, the system was the same: the initial goal of the deal was to change the gas debts with pipeline ownership, concerning public debts of domestic consumers, and second to take over of the most important companies dependent on gas supplies. For that matter, RosUkrEnergo started a Ukrainian company, UkrRosEnergo, which obtained the right to distribute gas to private companies in Ukraine from the state.

The situation at this point was the following: Ukraine was importing both Russian and Turkmen gas (through the same Gazprom, but not directly, since Russia's policy was not to allow competitive access to its pipelines — that's why Moscow never agreed to join the European Energy Chart — but convincing all the Central Asian companies and states to sell the gas to Gazprom and the European and Western post-soviet states to buy from the same state giant company). Russian gas was established at 220 USD per 1000 cubic meters, while the Turkmen gas was at 90 USD per 1000 cubic meters. The domestic and state consumers get their gas at a medium range of 160 USD per 1000 cubic meters.

Allowing UkrRosEnergo to interfere with the Ukrainian market opened the door for the following deal: this company could sell the gas to a consumer either from "Turkmen gas", at 90 dollars, if the company has the right political orientation or agrees to sell 50% plus one share to a Russian company, whether "Russian gas" with 220 USD if it wasn't the case. This type of deal altered the internal market of Ukraine, but also the competition, and also the political life, because some of those companies were completely unhappy that their businesses were taken over by Russian companies or challenged and attacked through unfair market practices by such companies, with similar products obtained with a lower gas price, so in a dumping situation towards the internal Ukrainian market or the export competition.

For the part related to the public debt, realizing the risks, Yulia Tymoshenko proposed a law in the Supreme Rada that blocked any type of administration or ownership of shares in the public company of transport and distribution of gas, Naftogaz to Ukraine, by any foreign company. The law was voted with a large majority by all the parties, so that there was no longer a stake to distribute gas in Ukraine, and the take-over of Ukrainian transport pipelines was blocked.

2. Russian communication policies: debts, stolen gas, European prices. Means for limiting Ukraine's security options

We have to talk in the new context about the propaganda and communication manipulation and misinformation established at the level of Moscow officials regarding the gas crisis generally and the Russian-Ukrainian gas crisis especially. Studies about this have been published and they refer to formulations as "Ukraine's stealing of gas," "Russian's subsidization of Ukraine", "Ukraine stealing the gas" and "Gazprom's move to market / European prices"⁸. These phrases and formulations could be found in the language of officials and experts all over the world, subject to this propaganda or open to embrace the Russian positions, but they can also be found in some European leaders' statements and documents. That's why it is worth analyzing this approach.

⁸ "Background to the Russia-Ukrainian Gas crisis: Clarifying central issues and concepts" by Margarita Balmaceda, Cambridge, MA, in Russian Analytical Digest, nr. 53, 20 of January 2009.

The debt issue

Ukraine's debt to Gazprom has been a constant problem since Ukraine's independence in 1991. At the technical level, there is the important problem of the absence of gas metering stations on Ukrainian territory — all are located on Russian territory — the debt issue was considered a good cover for corrupt deals. The debt was always used in political and economic pressures labeled by Ukrainian and foreign analysts as “blackmails”, and the result was limitation of sovereignty and political or economic concessions — as it did in 1997 when Russia persuaded Ukraine to give up most of the Black Sea Fleet in exchange for gas debt forgiveness⁹.

On the Ukrainian side, the un-transparent and potentially dirty game was possible through a difference in the level of officially recognized debts towards Gazprom. In that respect, experts are quoting Yulia Tymoshenko's role who came in the forefront several times: when she was first vice PM in charge of energy, she announced that Naftogaz debt to Gazprom was over \$2 billion, while Naftogaz's management cited a figure closer to \$1 billion., than in October 2007, before elections in the Verhovnaia Rada, and again during the March 2008 “mini-crisis” over the question of who the gas in Ukraine's underground gas storage belongs to.

This “unclear numbers game” clearly benefited top Ukrainian officials and involved oligarchs and Gazprom, who made money from this differences and some alleged cover corrupt operations. We have seen this type of differences even during the current gas crisis when Naftogaz claimed that it did pay the requested sum on the 31st of December, but anyway, the crisis took place since Gazprom first said it didn't receive the money — paid to RosUkrEnergo, the contractor, than requested another 500 millions in interests and at the end cut the gas supply because a new contract for 2009 was not yet in place, establishing the quantity, price of the gas and price of the transport of the Russian gas to Europe in an accepted way. This was enough to cut the gas for 18 countries of Europe and let people without heating and gas for cooking the food in the middle of the winter, after the New Year celebrations.

The “Gas stealing” issue

Much of Gazprom's media campaign to weaken Ukraine's transit reputation has been based on presenting Ukraine as an unreliable transit partner, and, in particular, on accusations of Ukrainian stealing Russian gas for Europe. The lack of control of the quantity of gas entering Ukraine, the problems of the technical gas needed in order to push the quantity of gas requested by EU countries, the losses of gas in the old and poorly maintained Ukrainian gas pipeline system had their share in the “stilling of gas”.

Moreover, the problem of “cutting the gas for Ukraine” and maintaining the supplies for Europe is another joke, because of the diminishing pressure without a proper establishment of the responsibilities. If there is a difference between the perceptions of Ukraine and Russian of this particular matter, Ukraine will claim that it doesn't have a problem and take its share of gas — being the first in line on the pipe — and consequently the gas pressure and quantity for the successive countries will fall every day. A normal behavior will put the parts in conflict to solve their matters and then move to any type of conclusions.

In any case, the most important mistake and fault of Gazprom and Russia, never accepted as such though, is the fact that no European country, Romania included, will ever accept

⁹ Idem

that for an international trade or economic dispute, the solution is an action that uses force, like cutting the gas for coercing your long standing partner to comply. Russia and Ukraine are linked together, there is no possibility for them to act separately on the gas supplies without the other, there are symbiotic, so that no action in force between the two is acceptable.

And yes, they could have been stealing gas, but no one could accept that this is an act of Ukrainian companies, without a full knowledge — and sharing of the revenues — of the Gazprom and Russian leadership. That's why the EU system of monitoring was put in place and both of the two parts agreed to grant access for the EU monitors to the metric devices proving the quantity of gas and where it went in Ukraine. The program of supporting the maintenance of the Ukrainian gas pipelines for avoiding the losses of gas was also a natural part of the solution of future gas crisis and a result of the lessons learned from the 2006/2007 and 2008/2009 gas crisis.

The “market” or “European prices”

Russian commentators have repeatedly used the concept of “market prices” in both the 2006 and the 2009 confrontations, arguing that Russian demands for higher prices for its gas is in line with a general trend in Gazprom gas pricing policy towards “market policies”, rejecting the intention of “an energy blackmail policy”. The so-call “market prices” is not an internationally established price — according to a formula linking the gas price to the oil price six month before in time — and is not even presented alternatively as a kind of “average European prices” or “German prices minus transport costs.”

The policy of negotiating with Gazprom¹⁰ was influenced by repeated prices changed during such negotiations, as well as a remodeling of how the system of distribution was addressed every time, including always introducing new arguments and parameters like technical gas, quantity of gas, costs of the transport through Ukrainian pipelines or the schedule of the payments. Another thing that played an important role every time is the accepted confidentiality of commercial contracts with European importers, an issue that makes it very hard to clearly establish the prices and payments by independent NGO or agencies, but also by Ukrainian officials.

Another influence on the price is the fact that it is established for one year — in opposition with the Romanian case which has a system of adaptation every month or European countries accepting changes every month. When there is a huge difference and high level or instability on the oil market, gas prices are impossible to establish. And since Ukraine has only one supplier and is dependent on it, the captivity of the supplier would demand a

¹⁰ Ukraine's top energy experts, as well as a number of Kuchma era politicians, have been largely unanimous in confirming the existence of this type of arrangements. See for example Oleksandr Moroz (leader of Ukraine's Socialist Party) quoted in *Gaz i neft'*. *Energeticheskii biulleten'*, February 13, 2002 (via ISI), Volodymyr Saprykin, interview in Radio Svoboda Ukrainian service “Priamyi Efir,” April 12, 2005 17:00 UTC, text available at www.radiosvoboda.org/article/2005/04/69d7a9c5-6fdb489e-9075c4ed57a3c7bb9.html (accessed April 14, 2005), Dmytro Vydrin (Director, European Institute of Integration and Development, Kyiv) quoted in “Gazovyi kontsortsium. Otsenki ekspertov,” *Gaz i neft'*. *Energeticheskii biulleten'*, July 16, 2002 (via ISI), Dmytro Vydrin, interview in *Nezavisimaia Gazeta*, November 16, 2000, p. 5, and Yevhen Marchuk, interview in *The Day*, No. 32, November 7, 2000, available at www.day.kiev.ua/266656/ (accessed July 30, 2007).

different system for avoiding the dictatorship of the monopoly on the gas price demand. It is not the case, and since this profited at some moments Ukrainian officials, now it is very difficult to deal with this reality of the unpredictable prices.

And furthermore there is no real market even inside the CIS, the Community of Independent states. In spite of the fact that Ukraine is a far larger consumer than any other CIS state, or post-Soviet state if you want, and in spite of the fact that it is a direct neighbor of Russia — therefore the price of the transport to the border should be cheaper than taking it far away — Gazprom is continuing to set gas prices politically, meaning cheap one for proxies and expensive one for indifferent countries. In that respect, the difference in 2008 range from 110 dollars for 1000 cubic meters for Armenia and Belarus to 278.71 dollars for 1000 cubic meters for the Republic of Moldova.

The “subsidization” issue

As the confrontation escalated, Russian Prime Minister Vladimir Putin presented the accusation that, in the last years, Russia had “subsidized” Ukraine to the amount of \$47bn, mainly in the form of lower-than market prices for gas¹¹. In real term this could not be quantified because the price was never beyond the internal price in the Russian Federation (and the Soviet Union before), as it was more expensive at all moments than Belarus or Armenia one. And in this case, the sum requested for the transportation was equivalently subsidized by the Ukrainian state, in the sense that Kiev was charging a low level rate, far less than European prices for the same purpose. Moreover, the transactions have been made in barter, and there are no records on previous negotiations or agreements to be taken into account.

Another important point was Gazprom’s access to the Ukrainian underground gas storages, which offered the possibility of importing the cheap gas in the spring or summer, when the market allowed it and the re-sale in the best seasons, when the prices were very high. The profits of this very lucrative deal were held by Gazprom, but some minor (or even more substantial) shares were given to some Ukrainian oligarchs or officials. Taking over the underground storages by the Ukrainian state through Naftogaz now allows the Ukrainian state to have full profit of its belongings — with important losses for RosUkrEnergo — ousted from the intermediary market after the 2008/2009 gas crisis and from the “storage deal” some weeks after, by the Tymoshenko government.

Limiting Ukraine’s security options

But the most important consequence of the game played every year with the gas prices and supply negotiations was the temptation to limit Ukraine’s security alternatives. After the Orange Revolution, every time that Kiev manifested its independence and chose to walk towards the West, including the request of joining NATO, Moscow was not pleased and tried to impose its will on Ukrainian authorities. This has been the case with the involvement in the internal political life, by supporting a candidate or another, by using political-technologists and fake “proofs” or special operations in order to support or to disqualify one candidate or another, a party of another. This has been made by the control

¹¹ “Background to the Russia-Ukrainian Gas crisis: Clarifying central issues and concepts” by Margarita Balmaceda, Cambridge, MA, in *Russian Analytical Digest*, nr. 53, 20 of January 2009.

of some elements especially in Crimea, and financing the protests against NATO PFP exercises in Odessa.

This type of control of the former empire center towards its former periphery was well known in the post Soviet space. It began with the policies of “the compatriots” — a special right of supporting Russian citizens all over the world but also those considered from a “Slavic brotherhood” or who still claimed an identity that succeeded to the former Soviet one (in the absence of a CIS citizenship or identity). This continued with the “citizenship policy” of granting the Russian citizenship and passports to citizens of the post Soviet space where there was an interest — separatist regions of Transnistria, Abkhazia and South Ossetia, Crimea — when the workers from the same CIS countries were rejected or deported selectively. Now this type of policies continue with the “self assumed responsibility for the Russians living abroad”, as well as with the new 2009 Law on the amendments on defense or the previous 2008 Foreign Affairs doctrine or the new Military doctrine on the way of being adopted, laws allowing Russia unilateral military interventions whenever the Russian (citizens, ethnic, self identified as such) are involved or their interests are at stake.

This is just a policy that ended a large range of methods and policies of controlling and limiting former CIS countries options and alternatives, including their sovereignty. First it was the debts from the Soviet period and gas debts and interests, then the Ruble as unique currency, then the energy supplies — from an unique monopolistic source — then military constrains — see the new unique intervention force in the CSTO — and now, more recently, the use of the loan policy that would help those countries to face the economic and financial crisis. Last but not least, the Russian Georgian war plays its role as an example of what happens with and independent state from the self-assumed “Moscow sphere of interests” that does not answer to Russian requests, demands or limitations of its policies.

3. Synchronization with other events

The gas crisis took place, as we have seen, at the same time with some important events: On November the 30-th, in Romania general elections in a special environment took place, without the Presidential ones — scheduled one year after — and in a new system of competition between parties in special poll constituencies. The new government was formed in December and on the 23-rd of December the ministers were installed, just days before the crisis.

In spite of the fact that the majority were old ministers — including Energy and Foreign Affairs — a former state secretary — and the President was in place, the system moved with certain inertia. The Christmas and New Year celebrations played their role in the difficulty of moving things quickly.

The second issue was the eternal rivalry between the Nabucco and South Stream gas projects: When the EU embraced the Southern corridor projects and Nabucco, Russia continued to advocate for North Stream and South Stream, projects that were started to avoid some Eastern European countries — the Baltic States and Poland in the case of North Stream and Romania in South Stream — but specially Ukraine.

In spite of the fact that those were not EU common projects, but on the contrary, opposed to EU interests, companies from some member states and politicians from the same EU coun-

tries were involved in those projects like German companies and the German former social-democrat chancellor Gerhard Schröder for North Stream, of ENI and the Italian Prime Minister Berlusconi for South Stream.

The Southern corridor projects were designed to fulfill the idea of alternative sources and alternative routes for oil and gas, designed for Caspian and Central Asia gas via Turkey of the Black Sea. On the 22nd of January the announcement was made and on the 27th of January the reunion on Nabucco took place, with a political, economic and technical content, in order to provide the needed EU support for those projects.

Last but not least, the period of the crisis was the one when both Romania and Ukraine waited for The Hague International Court of Justice Decision on the delimitation of the maritime shelf and exclusive economic zones of the two countries in the Black Sea. The final decision arrived on the 3rd of February, at the end of the crisis. Since the bilateral relations of between Romania and Ukraine could be harmed by the final decision in the case of a dispute, raising emotional reactions, this event could have been affected the behavior or positions in the gas crisis.

4. The decision making system reaction

Besides the moment of the gas crisis, Christmas and New Year Eve, and the recent entering in place of a new government in Bucharest, the normative, institutional and functional aspects of the institutions involved in the decision making process during this crisis was according to European rules.

It was a clear moment of distress in the decision making system when the newly appointed Minister of Energy declared a state of Emergency, when this could only be declared by the Romanian President, according to the Romanian Constitution. The perception of this “state of emergency” statement created unwilling and unexpected emotions for the population for some hours.

In less than two hours, after comments were issued by the media, the Economics Minister Adrian Videanu made a new press conference and explained his mistake: it was about a stage of emergency, a situation that could be declared by the minister and which allowed the subordinated institutions to buy and have access to the needed fuel, for thermo-power plants — heating and hot water providers, without the required period of time for public auctions and acquisition procedures required by Romanian (and EU) legislation.

4. CHRONOLOGY OF THE CRISIS

December 2008:

- **December 2nd** — NATO announced the conditioned and gradual resuming of the relations with Russia after the Russian Georgian war and demanded Ukraine to stabilize its political situation to make the necessary progresses to join the Alliance; the EU resumed negotiations with Russia for a new Agreement on an energy partnership.
- **December 5th** — Russian prime minister Vladimir Putin stated that Russia will reduce the natural gas supplies to Ukraine if Kiev does not pay the debts for the deliveries already made and broke its obligations regarding the deliveries of the Russian gas to Europe.
- **December 11th** — The winter European Council reunion in Brussels, launching the bi-annual Czech presidency; The Romanian president announced that he will support the Eastern Partnership as long as it does not affect the Black Sea Synergy.

- **December 15th** — tensions on the political scene in Belgrade because of the negotiations regarding the Russian-Serbian energy agreement regarding the privatization of the oil state company NIS by Gazprom and Serbia's participation in South Stream.
- **December 23rd** — on the day the new minister of Foreign Affairs — Cristian Diaconescu took office, president Traian Băsescu declared that the Romanian's diplomacy biggest failure is the relation with Russia; the new minister promised a change in this direction; the reunion in Moscow of the ministers for energy from the gas exporting countries with the purpose of adopting the project for an inter-governmental organization called the Forum of the gas exporting countries took place.
- **December 24th** — Moscow, the signing the Russia-Serbia energetic agreement by presidents Dmitri Medvedev and Boris Tadic.
- **December 25th** — in an interview, Dmitri Medvedev warned Kiev that the non-full payment of the gas debts may cause the suspension of Russian gas deliveries for Ukraine and underlined that Russia is determined to fully retrieve the outstanding amount even by resorting to sanctions, but it will fully honor the obligations to the West-European consumers.
- **December 29th** — failed negotiations between Vladimir Putin and Viktor Iushchenko regarding the gas problem; Moscow blames Kiev that "it won't pay" and warns that it may cease gas deliveries starting the 1st of January; Gazprom gives insurances that it will fully meet its commitments to the European consumers despite of the Russian-Ukrainian gas crisis.
- **December 30th** — Viktor Iushchenko's representative on energy issues announced that Naftogaz fully paid the 2008 imported, unlocking the negotiation of contracts for 2009; Gazprom does not confirm receipt of money, announcing the creation of an operative cell which will technically prepare a possible gas delivery cease towards the Ukrainian consumers and the fact Kiev will shift the existing gas prices to the price of the European market.
 - Russia warns that it might stop the delivery of natural gas towards Ukraine as of December 31st, which it accuses of not paying its debts for the past two months.
 - Gazprom director, Alexei Miller, states that the Russian society created an operative cell which will technically prepare a possible gas delivery cease towards the Ukrainian consumers starting 10am, 1 January, if Ukraine will not fully pay its debts and penalties.
- **December 31st** — the Naftogaz negotiator receives indications from President Yushchenko to suspend negotiations with Gazprom and to return urgently to Kiev;
 - Ukraine says that its debt for the natural gas delivered by Russia was paid, in November and December, and now it is waiting for Gazprom to give up the threat of ceasing the gas deliveries;
 - Naftogaz President receives from President Viktor Iushchenko the mandate to suspend negotiations with Gazprom and to return urgently to Kiev.

January 2009:

- **January 1st** — the Russian giant Gazprom suspends gas deliveries for Ukraine
 - the two sides call for resumption of negotiations and the European Union urges Russia and Ukraine to «honor their commitments» regarding the supply of gas to Europe.
- **January 2nd** — US asks Russia to urgently resume deliveries to Ukraine and the European Union announces that it seeks to focus on the dispute, whereas its supply through pipelines passing through Ukraine has been affected in 2006, in the previous Ukrainian Russian cri-

sis. Russians give assurances, however, that Europe will not suffer because of its decision to stop deliveries to;

- Gazprom accuses Naftogaz Ukraine for the failure of negotiations on a contract in 2009;
- Russia suggests a Special Session of the European Parliament dedicated to the Moscow-Kiev gas crisis;
- A Gazprom spokesman says the volume of supplies to Europe has increased on other routes, including Belarus.

➤ **January 3rd** — Romania, Hungary and Poland are among states where sudden decreases in Russian gas deliveries are recorded during the night. In Romania, the flow of gas through Isaccea decreases by 30-40%;

- Transgaz director, Ioan Rusu says that currently there are no grounds for concern, Romania has enough reserves to cover domestic demand;
- Press conference of the minister of economy, Adrian Videanu: the authorities give assurances that Romania has no problem with the gas supply;
- Russia accuses Ukraine that it has seized some of the gas allocated for European Union countries;
- Russian company Gazprom announces that it is looking for alternative routes for transporting gas to Western Europe;
- The Russian company Gazprom accuses Ukraine of illegally taking gas, while the Ukrainian company Naftogaz raises technical problems arising in deliveries to Europe;
- Russian company Gazprom announces it will appeal to the International Court of Arbitration in Stockholm to ask the Ukrainian company Naftogaz to ensure gas transit to Europe.

➤ **January 4th** — Romania, Bulgaria, Poland and Hungary have already complained that gas deliveries decreased by 30%;

- Gazprom's First Vice President, Alexander Medvedev, while visiting several European capitals to present Russia's position in gas dispute with Ukraine, calls for the Ukrainian company Naftogaz Ukraine to come back to Moscow for negotiations and demands it stops gas theft from the transit pipelines as well as from the underground storage of gas in Ukraine;
- Russia sends to the European Commission a request to ensure independent monitoring of Russian gas through Ukraine, accusing Kiev that it «steals» the gas transfer through its pipelines to the European partners. Furthermore, in Kiev, the state company Naftogaz underlines that it used some of its own reserves so it can provide transit to the West.

➤ **January 5th** — EU does not suffer from «gas dispute» between Russia and Ukraine, the European Commission believes;

- Hungary is informed that it will receive eight million cubic meters less from the Russian gas that it deserves according to the contracts;
- The Russian giant Gazprom asks Europeans to use their political influence to lead Ukraine to meet its duties as a transited country. However, Gazprom warns that it will sue Kiev for breaching its commitments;
- Russian Prime Minister, Vladimir Putin, demands Gazprom to immediately reduce the volume of gas delivered to Ukraine, in response to the theft of gas of which Moscow accuses Kiev.

- **January 6th** — Press statements from the Prime Minister and Romanian Minister of economy on gas supplies;
- Romania's population won't be affected by the cut in Russian gas deliveries to Romania through the Isaccea station, says the Prime Minister Emil Boc;
 - SC District Heating 2000 Pitesti reduces in the morning, to more than a half, the gas flow to the two power plants of the city, due to lower gas rate which Romania is importing from Russia;
 - Meeting between the Minister of Economy, Videanu, and the operators of the transit and distribution systems for natural gas;
 - In Romania, the gas supply is reduced for the power plants capable of running on oil fuel;
 - The Czech Presidency of the European Union does not exclude the possibility of organizing a joint summit with Russia and Ukraine, although, for now, it urges both parties to solve the gas crisis by bilateral means;
 - Gas deliveries from Ukraine to Hungary are suspended in the afternoon and the Budapest government makes initial steps to limit a crisis;
 - Gazprom vice-president, Alexander Medvedev, is in Berlin for talks with a delegation of the Czech presidency of the European Union and the German minister of Economy, the discussed theme is the Russian-Ukrainian conflict on gas supplies;
 - All deliveries of Russian gas to Bulgaria, Turkey, Greece and Macedonia cease;
 - In Sofia, the Bulgarian Minister of Economy announces that his country is in a crisis situation;
 - Greece doesn't have an immediate problem caused by interruption of Russian gas supply, because it can call on its own reserves, according to Chairman of the Hellenic Public Company;
 - Russian Prime Minister, Vladimir Putin, calls on Gazprom to reduce the amount of gas delivered to the EU through Ukraine, which jeopardizes the supply of gas to several European countries. Subsequently, a representative of Gazprom informs that Russia will compensate for lack of the gas supplies by using other routes;
 - The European Union requires both parties to solve their commercial disputes without delay and immediately resume the distribution of gas to the Member States.
- **January 7th** — The flow of gas imported from Russia to Romania is completely turned off. President Traian Băsescu speaks with Prime Minister Vladimir Putin, but without any results;
- Press Statement of Prime Minister Emil Boc, after meeting with President Traian Băsescu at Cotroceni;
 - The Romanian authorities assure that the population will not be affected by Russian Ukrainian gas dispute;
 - Press Conference of Minister of Economy, Videanu;
 - Videanu declares a state of emergency at the end of the Committee meeting on the gas issue;
 - The Ministry of Foreign Affairs closely monitors developments in the Russian Ukrainian gas dispute;
 - The issue of gas supply, discussed by Czech Prime Minister, representative of the EU Presidency, with the European Commission President;
 - The Czech Republic, the country holding the EU presidency, calls for an urgent resolution of the Russian-Ukrainian conflict gas;

- The use of gas for the large industrial customers in Hungary was limited;
- Gazprom and Naftogaz Ukraine continue to accuse each other for the cut of the deliveries of Russian gas to Europe;
- Vladimir Putin says that Gazprom will resume deliveries to Europe via Ukraine.
- **January 8th** — Emergency Committee meeting on the problem of gas;
 - Russian Prime Minister, Vladimir Putin holds a special press conference for the journalists of the countries affected by the gas crisis;
 - Vladimir Putin says that Russia agrees with eliminating intermediaries in the relations with Romania;
 - Energy Security in Europe, debated in Prague and Brussels;
 - Czech Foreign Minister's statements on the gas crisis;
 - In Hungary, the restrictions on the use of gas by some industrial customers have been removed;
 - Dimitry Medvedev: Russia resumed gas supplies after an agreement with Kiev.
- **January 9th** — Putin makes offers to Romania for a direct contract of Gazprom with the Romanian gas company;
 - Negotiations in Brussels end without the desired result;
 - Measures developed by the Steering Group in Brussels, in the gas crisis, with the objective of helping the most affected countries;
 - Negotiations between Gazprom and Naftogaz continue;
 - The conditions set by the "Gazprom" company to resume gas supplies to Europe;
 - The monitoring teams of the European Commission arrive in Ukraine;
 - Prime Minister Putin suggests that the countries affected by the interruption of gas transit by Ukraine request compensations from Kiev in a special court;
 - Czech Prime Minister announces that he will participate to the signing by the Ukrainian part of the agreement on control and monitoring of the Russian gas transit through Ukraine.
- **January 10th** — Moscow: the meeting between Mirek Topolánek and Vladimir Putin;
 - Russia and the EU sign the Protocol Agreement for Russian gas transit control through Ukraine;
 - In Kiev the document establishing the International Commission for the control of supplies and natural gas transport from Russia via Ukraine is signed.
- **January 11th** — The Russian gas could reach the European countries in the next 36 hours;
 - Medvedev accuses the Ukraine again;
 - President Medvedev declares non-valid the document which sets out the arrangements of monitoring the gas transit through Ukraine.
- **January 12th** — President Traian Băsescu and Prime Minister Emil Boc have a meeting in Brussels with the President of the European Commission;
 - Joint Press Conference Traian Băsescu — Jose Manuel Barroso;
 - Guarantees offered by the representatives from Russia and Ukraine, the gas supply to Europe will resume tomorrow;
 - The Czech Presidency of the European Union calls on Russia and Ukraine to meet its obligations;
 - Russia and Ukraine reaches an agreement on the composition of the monitoring teams;
 - European Commission President, Jose Manuel Barroso says that gas supply will be resumed to Europe;

- The Gazprom’s vice-president said the Russian gas supplies to Europe via Ukraine could be resumed tomorrow;
- Russia will not impose agreement with the European Commission and Ukraine.
- **January 13th** — Romania supports the development of alternative energy supply projects of Member States;
 - Phone conversation between Romanian President, Traian Băsescu, and Russian Prime Minister, Vladimir Putin;
 - Vladimir Putin announces President Traian Băsescu that Ukraine does not provide the access to its system to the Russian gas sent for European consumers;
 - Natural gas supply to Europe will be resumed;
 - Moscow resumes the gas pumping into Ukrainian system;
 - Meeting of the Foreign Affairs Committee of the European Parliament with representatives of Russia and Ukraine;
 - The Czech Presidency of the European Union welcomed the deliveries of gas from Russia to Europe;
 - Gazprom announces that Ukraine has blocked the Russian gas transit to Europe;
 - European experts do have not access to the stations where they must do the monitoring in Ukraine and Russia;
 - EU could impose sanctions for Russia and Ukraine, if the gas supplies are not resumed immediately.
- **January 14th** — Republic of Moldova, Slovakia and Bulgaria discuss gas imports with Russia;
 - Russian-Ukrainian negotiations in deadlock;
 - European Parliament calls for an immediate resumption of Russian gas deliveries through Ukraine;
 - The project of a new agreement on the transport of Russian gas to the European customers through the territory of Ukraine;
 - Dmitri Medvedev offers the organization of a summit with the participation of the Ukraine, Russia and EU countries consuming Russian gas;
- **January 15th** — A meeting between Russia and Ukraine is urgent, said President of the European Commission;
 - Restrictions for the use of gas to industrial consumers in Hungary are canceled;
 - Meeting of the German Chancellor, Angela Merkel, British Prime Minister, Gordon Brown, and Russian Prime Minister, Vladimir Putin;
 - Yulia Tymoshenko and Vladimir Putin agree to meet Saturday in Moscow.
- **January 16th** — Meeting between Angela Merkel and Vladimir Putin, in Berlin;
 - Moscow — International Conference of the States consuming and supplying of gas in Europe.
- **January 17th** — Yulia Tymoshenko and Vladimir Putin will try to find a solution for the gas crisis;
 - Statement of the President Dmitri Medvedev, after the end of the International Conference in Moscow on gas supplies for the European consumers.
- **January 18th** — Delivery of Russian gas to European consumers via Ukraine is resumed;
 - Agreement between the Russian Prime Minister Vladimir Putin and Ukrainian counterpart, Yulia Tymoshenko, for ending the “gas crisis”;

- Press conference of the President Dmitri Medvedev after the International Conference in Moscow on the issues of the Russian gas delivery to the European consumers.
- **January 19th** — Special Session of the Gas Coordination Group in Brussels;
 - Gazprom and Naftogaz sign a technical agreement on resuming the Russian gas supplies to Europe;
 - Russian and Ukrainian prime ministers' statements on the gas supplies to the European consumers.
- **January 20th** — The declaration of Ioan Rusu, General Director of Transgaz, on the gas supplies coming from Russia;
 - Balkan monitoring of Gazprom officially announces Transgaz that the gas deliveries resumed at the Ukrainian-Russian border;
 - Speech of the President of the European Commission, Manuel Durao Barroso on energy policy;
 - Russian gas reaches Slovakia's territory;
 - Bulgaria asks the European Commission for an agreement in order to restart the reactors 3 and 4 of the Kozlodui nuclear power plant;
- **January 21st** — Low gas requirements from the industrial users in Romania;
 - European Union is still concerned about its energy independence.
- **January 22nd** — Ukraine President and proxies continue the attacks on the Russian-Ukrainian agreement signed at the end of the gas crisis;
 - Romanian Foreign Minister, Cristian Diaconescu visited Ukraine.
- **January 23rd** — Nabucco pipeline project, in the attention of the EU;
 - International Conference on Nabucco project, next week in Budapest;
 - Agreements Putin-Tymoshenko, the subject of a controversy between Ukrainian President and Prime Minister.
- **January 24th** — Gazprom offers to supply more gas for its Hungarian counterparts, at the same prices set in the contracts already concluded;
 - Meeting between Ferenc Gyurcsány — Viktor Zubkov.
- **January 26th** — General Affairs and External Relations council meeting begins in Brussels.
- **January 27th** — Nabucco project — theme of the conference taking place in the Hungarian capital, Budapest, with the participation of Cristian Diaconescu;
 - The Romanian Minister for Economy, Adrian Videanu, takes part in the Conference on energy issues in Budapest;
 - Partner States in the Nabucco project adopted a common declaration;
 - The representative of Ukraine at the European Commission stated that his country will respect the agreement with Moscow on gas supplies.
- **January 28th** — In the opening of the Davos Forum, the Russian Prime Minister, Vladimir Putin delivers a speech.
- **January 29th** — The meeting of the European Ministers on Development and Cooperation begins in Prague.

February 2009:

- **February 2nd** — The Committee for Industry, Research and Energy of the European Parliament propose a revising of the gas supply Directive(2004) and negotiate a new energy agreement with Russia to replace the one from 1997.

- **February 3rd** — final decision of the Hague International Court of Justice of the case Romania versus Ukraine.
- **February 5th** — signing in Moscow of energy agreements between Russia and Bulgaria on the construction of the Belene nuclear power plant and the Bourgas-Alexandroupolis oil pipeline.
- **February 6th** — in Moscow takes place the 3rd meeting European Commission -Russian government; Medvedev shows that the responsibility for the recent gas crisis belongs to Ukraine and that this proves the inefficiency of the EU legal mechanisms in the energy sphere, and that new such mechanisms are required.
- **February 9th** — Gazprom announces its intention to accelerate the construction of the South Stream gas pipeline, the Ukrainian presidency has accused Tymoshenko government for holding secret negotiations with Russia on granting a loan to cover the budget deficit.
- **February 11th** — At the Russia-EU troika quarterly meeting, Javier Solana refused to blame Russia or Ukraine for the recent gas crisis, saying that the EU need secure and long term energy partnerships with the both, while seeking to diversify energy sources and transport routes; The Russian Minister of Foreign Affairs, Sergei Lavrov, says that, despite the different positions, Russian and the EU can address the core of the energy problem and called for the normalization of relations with NATO.
- **February 12th** — In an article published in «Vedomosti», George Soros proposes to Europe to embrace a united energy policy against Russia.
- **February 18th** — Romanian-Ukrainian Consultations in Bucharest, at the level of the Ministries of Foreign Affairs, reiterating the support for Ukraine's accession to NATO.
- **February 20th** — Informal meeting of the Defense Ministers of the NATO member states to Krakow, concludes that the disruption of energy supplies, among others, can have a serious impact on security.
- **February 27th** — Visit to Moscow of the Romanian foreign minister, Cristian Diaconescu; the main subjects of the talks with the Russian counterpart are energy security and economic relations, Lavrov shows that there are no impediments to Russian-Romanian cooperation in the gas projects (South Stream project).

March 2009:

- **March 4th** — The representatives of the Ukrainian security service SBU, flanked by masked fighters of the special forces, enter during the morning in Ukraine's Naftogaz state company to find documents and to conduct research in a criminal investigation triggered the day before, investigation in which the leadership of Naftogaz was accused of stealing a quantity of over 6 billion cubic meters of gas worth about 950 million dollars.
- **March 5th** — Ukrainian Foreign Ministry announces its intention to expel two Romanian diplomats as a *qui pro quo* for the movement made by Romania in a spy affair; The two were part of a Russian network making military espionage against NATO, with the support of a Romanian officer and a Bulgarian former military intelligence officer who were arrested in Bucharest;
 - the Ukrainian company Naftogaz announces that it has paid all the debts to the Russian gas company Gazprom for the import of gas in the month of February. This information was confirmed by Gazprom;

- **March 6th** — Sources close to the diplomatic circles in Kiev, quoted by one of the main publications in the neighboring country, «Ukrainskie Pravda», claim that Ukraine announced its intention to expel from its territory two Romanian diplomats;
 - During a visit to Poland, President Traian Băsescu says that Romania supports Ukraine on its way to the EU and NATO accession and that it is interested to have as a neighbor «a consolidated democracy»;
 - NATO decides to resume its dialogue with Russia, suspended after the Russian Georgian conflict, in August 2008.
- **March 7th** — The President of the Parliamentary Committee for European Integration of Ukraine, Boris Tarasiuk, confirms the expulsion of two Romanian diplomats from Ukraine, in response to similar action of the Romanian side.
- **March 13th** — The Russian giant Gazprom is ready to act at Poland's request to sent more gas in the condition that Poland will renounce at the intermediary RosUkrEnergo.
- **March 23rd** — The International Conference of Investors is held in Brussels designed to improve the transit of gas network of Ukrainian pipelines, the key transit country for 80% of the Russian gas to Europe; the conference ended with a joint declaration of the European Commission, the Ukrainian authorities and the representatives of three international financial institutions — the European Investment Bank, the European Bank for Reconstruction and Development and the World Bank — which will be involved in the modernization of Ukraine's gas transit. The condition for this involvement is more transparency. Russia attends the conference at ministerial level, without voicing a desire to invest in the transit system of Ukraine;
 - The Russian energy minister Sergey Shmetko, leaves the conference in Brussels, saying that Russia was virtually excluded from these discussions, President Putin warns that Russia will be forced to review its relations with the European Union if it ignores Moscow's interests.
- **March 26th** — A spokesman for the Russian Foreign Ministry, Andrei Nesterenko, qualifies the final document of the International Conference of Investors as an «unfriendly act against Moscow» coming from both the EU and Ukraine.

5. DECISION MAKING OCCASIONS

The decision making occasions are divided in two main parts: a direct one, held by the Romanian leadership, and an indirect one, taken through the Romanian leadership in the EU. Both mechanisms are equally important and have an important impact on the crisis, but we will not focus on the second part which can be seen in the big picture of the gas crisis, but only on the first one, related to the Romanian leadership and its reaction to the internal crisis.

As we have already mentioned, the gas crisis was a minor one for Romania, with a limited impact, because of the fact that Romania produces the biggest part of the gas used for its own consumption and that production covers the domestic needs completely and its close to covering the industrial demand as well because the economic and financial crisis diminished the production of those factories due to a fall of the demand for several products. This helped the management of the crisis.

There were three main decision making occasions for the Romanian leadership:

First, it was the moment of the decision on the day of announcing the cut of the Romanian gas. The Romanian leadership had to deal with the announcement and the consequences, and had to act to preventing any type of hysteria or panic for the population.

Second, we had the moment when the Romanian Minister of Economy took the decision of announcing the “state of emergency” instead of the “situation of emergency”. This two–three hours’ worth of confusion between the initial decision and the explanation of the previous decision and the content of the second one needed some explaining.

Third was the moment of the statement of Prime Minister Vladimir Putin during the conference in Moscow and his direct address to the Romanian President. The fact of presenting a phone discussion that was not convened for public disclosure was an unfriendly gesture, as were the innuendos and assumptions that the presentation implied for a listener who was not use with this type of approach. This created problems especially in the relations with Ukraine, who could feel that Romania is playing games above its head.

At the same time, we have to mention four secondary decisions, the two phone calls of the Romanian president, Traian Băsescu, to the Russian prime Minister, Vladimir Putin, on the 6-th and the 13-th of January, the first one undisclosed publicly but presented on the conference of the 8-th of January and the second on the 13-th of January, a public one. And for that matter, we also had the two moments of the visits by the Minister of Foreign Affairs Cristian Diaconescu in Kiev and Moscow, on the 22-nd and 27-th of January.

Here we also have to mention the visit of President Traian Băsescu, together with the Prime Minister Emil Boc, on the 12-th of January in Brussels, at the extraordinary Council of the European Union. His presence and the level of representation of Romania, together with the common press conference of the Romanian President and the President of the European Commission, Jose Manuel Durao Barroso, made a difference and showed the importance that Romania allocates to this gas crisis, to the energy security and to a sustainable solution for that crisis.

Romania’s crisis mechanism reacted effectively

On the 3rd of January, the Romanian national gas transport company Transgaz received from Gazprom an official communication saying that the gas volumes entering Romania in Isaccea will be reduced with 3,1 million cubic meters on a 7,1 million daily supply until the 11-th of January. The Minister of Economy, Adrian Videanu, together with Transgaz representative announced, in a public statement, that the quantity that Romania did not receive represented 32% of the imported gas. Romania use to consume at that moment — after New Year Eve holidays — 58,5 million cubic meters of gas per day, 33 million coming from the internal producers, specially Romgaz and Petrom, and 26 million from the storages, and the imported gas remaining was 4 million from Isaccea(South- Eastern border with Ukraine) and 2,5 million from Medieșu Aurit(northern border of Romania with Ukraine). At the beginning of the year, Petrom announced the closure of Doljchim chemical company, with a consumption of 1,2 million cubic meters of gas per day, so there were no problems in dealing with the crisis.

On the 6-th of January, at 3.05 a.m., the import of gas in Isaccea stopped. At 10 a.m. the general director of Romgaz Company, Ioan Rus, announced that the Isaccea point and 75% of the Russian gas deliveries to Romania were cut off. The same day, one hour later, the Romanian Prime Minister, Emil Boc and the Minister of Economy, Adrian Videanu, presented, in a press conference, the possibilities of compensating this loss of gas, after a meeting with the Coordination Commission in the field of gas supplies: on a consumption of 61,5 million cubic meters per day — full working day

after the end of New Year Eve holidays — 33 million from internal production, 26 million the production from storages and 2,5 million from the other entering point, in Medieșu Aurit.

The only vulnerability announced was if the 2,5 million cubic meters per day imported in Medieșul Aurit would be cut. The Minister of Economy announced that the system has been balanced after the gas cut off in Isaccea. With a daily consumption of 61,5 million cm³/day, the population was consuming at most some 34 million. The solution for the complete gas cut off was to use the thermo-electric power plants that heat the cities other alternative fuel than gas, and all those plants had reserves for 10-12 days at that time, but there were reserves in the National extraction companies who could be bought.

The next day, January the 7th at 9 a.m., the imports of gas in Romania were stopped completely due to the Russian-Ukrainian gas crisis. Prime Minister Emil Boc met with President Traian Băsescu in Cotroceni and announced after the meeting, that the situation was under full control, that the consumption was down at 58.9 million cubic meters per day and that Romania lost 7 million cubic meters of imported gas from Russia via Ukraine. The prime Minister announced that if there were not problems of maintenance of the pipeline and distribution system and if the winter would not go under 15 degrees Celcius, Romania could cross the winter until the end of March, without problems. The Minister of Economy announced that Romania renounces the use of gas in Thermo-electric power plants, as it was mentioned in contingency plans, a situation that could last for 10 to 12 days on their existing alternative fuel. Needed fuel existed in Romania so it only needed to the funds to be bought.

Romania in an unconstitutional “State of Emergency” for two hours

On the 7th of January, after a meeting in the Committee of Emergency, The minister of Economy announced the “state of emergency”, at 13.08, due to the gas crisis and the canceling of Russian deliveries of gas through Ukraine. Priorities were established in order to balance the system and to compensate the possible transit or distribution problems that could appear as well as priorities of cutting the gas according to the contingency plans, if the temperature goes lower — diminishing the pressure of the gas — or if some unexpected technical cuts would appear.

The Minister failed to realize that it had made a confusion between the “state of emergency”, a normative situation included in the Constitutional provisions, and that only the President could declare, and the “situation of emergency”, a legal instrument that was in his hands and that allows the companies involved in heating and cold water, like the thermo-energy power plant, to buy on the market in Romania alternative fuel in order to cover the current use of their 10 days storages and to grant the activity more than the 10-12 days granted through their contingency plans.

This situation lasted for two hours, and the Minister of Economy came back to rectify his previous statements on the state of emergency. The population was badly informed but the confusion lasted only two hours and the mistake was sanctioned only by the media. The new Minister of Economy assumed the fault and tried to compensate this through an over-communication behavior, going to shows at all the television stations and radio stations in order to give all the insurances to the population and to prove that he knew the details of the issue, so that he regain credibility and public support.

Putin's show

On January the 8th, at 6 pm Romanian time, Russian Prime minister Vladimir Putin took part in an extraordinary press conference with the foreign media from the countries affected by the gas crisis. He presented his version of the gas crisis and had a very unpleasant exchange of words with the Romanian National Television Correspondent on Moscow, Liviu Iurea. The discussion went into a possibility that Romania joining South Stream, Putin saying that "Russia has nothing against this", that Russia would accept to eliminate the intermediary in the contract for gas exports to Romania.

But the most extraordinary discussion came when Prime Minister Vladimir Putin revealed that he had a long talk by phone with President Traian Băsescu, "three days ago", undisclosed by the Romanian President, and claimed that Traian Băsescu asked for the elimination of the intermediaries in the bilateral relations. But at the same time, Putin had a strong reaction related to another part of the discussion, which was not presented as such. He told looking to the journalist and inside the camera: *«I have for Romania an offer that, I believe, would be difficult to refuse for you. Please transmit this to President Băsescu. All the Russian gas volumes that Ukraine needs in a year time we agree to sell to the Romanian state company, so that you are selling it to Ukraine. Is it a good offer? I hope you write it down!»*

This aggressive repartee had numerous of interpretations in Bucharest, but also in Kiev and in Europe. The statement of Prime Minister Putin and his aggressiveness let the listener understand that the discussion with the Romanian President was not very pleasing for the Russian Prime Minister. The disclosure of the phone conversation was an unfriendly gesture, undiplomatic since the two parts did not convene to make this public.

Than the discussion let us understand that the President was defending Ukrainian position and, in return, Prime Minister Vladimir Putin proposed as a sarcastic gesture, to sell all the gas needed by Ukraine to Romania and let it deal with the Kiev unreliable partner, that does not pay for the gas it consumes. The final aggressive address to the journalist and through the TV to the Romanian people, addressing the "proposal" directly to the Romanian president was a clear unfriendly gesture and an act of disapproving the previous phone discussion

But the most costly message from this discussion proved to come in the interpretation of this gesture. Prime Minister Vladimir Putin let everybody understand that, at some point in the phone discussion, President Băsescu was proposing a deal which will mean revenues for Romania. The message passed to the Ukrainian authorities and to EU partners, could have been (and was) read in the sense that Romania tried to make a deal on the crisis, possibly at the expenses of Ukraine.

This unpronounced but underlined accusation put Romania in a bad position, especially after the previous episode of this kind when in Tbilisi, after the Russian-Georgian war, in public, President Băsescu recommended president Saakashvili to clarify and negotiate with Russia — in a moment when the Russian troops were at the gates of Tbilisi. This public statement and the previous absence of President Băsescu from the EU Eastern leaders reunion in Tbilisi for supporting Saakashvili and the Georgian People, was seen as an unfriendly gesture toward Georgia and even as a moment used in order to make signals to Russia, at the expenses of Georgia.

The Romanian Presidency refused to disclose the discussion, but only confirmed that this phone discussion took place on January the 6th and that it lasted for some 40 minutes.

The episode with the visibility that Vladimir Putin had during this press conference made important problems of credibility and communication to the Romanian President.

Romanian diplomacy at work

As we have seen, the Russian-Ukrainian gas crisis was subject to an active period for the Romanian diplomacy, lead by Cristian Diaconescu, a former diplomat arrived at the level of State Secretary of the MFA between 2001-2004 then MP for two terms — 2004 and 2008. His experience and good knowledge of the Ministry, as well as his effectiveness and modesty, without too much visibility, made the difference.

On January the 12th Romanian President Traian Băsescu and the Romanian Prime Minister, Emil Boc, had a working lunch in Brussels with the President of the European Commission, Jose Manuel Durao Barroso. The energy security of the EU and the gas crisis were between the subjects discussed. It was the first visit and the presentation of the new Romanian Prime Minister, running a Government supported by some 72% of the Parliament, a huge majority.

In the common press conference held at 15.24, The President of the Commission stated that in his direct telephone discussions, Prime Minister Tymoshenko agreed to put aside the Russian-Ukrainian agreement for the year 2009 and the monitoring process of the EU, and the Russian President agreed to open the gas deliveries once the European monitors were in place. President Yushchenko made the same commitment that the gas will flow towards Europe, in spite of the absence of the bilateral agreement and the cut of the gas for Ukraine.

On the 13th of January, Romanian President Traian Băsescu had a new phone discussion with Prime Minister Vladimir Putin, disclosed to the public this time. The conversation took place after the agreement reached was not put in place, because on the one hand the conditions of transit were unacceptable for Naftogaz, the Ukrainian company, and on the other hand because Russia used a different gas pipeline that would enable the domestic transit of gas.

This time Prime Minister Vladimir Putin called all the Presidents and prime Ministers of the countries affected to blame on Ukraine for this new interruption of the gas deliveries — which actually never resumed. This time the Russian Government announced that, for the first time, “Moscow is satisfied that Romania shares Russia’s position on the responsibility of Ukraine for blocking the gas flow. The Russian media printed and publicized titles like “Romania takes Russia’s part in the dispute with Ukraine”.

Two days after the crisis was solved, with the resuming of the gas supplies to Europe on the 12th of January, international press agencies announced that Ukrainian President Viktor Yushchenko was challenging the agreement signed by Prime Ministers Putin and Tymoshenko. On the 23rd of February, Romanian Minister of Foreign Affairs made an official visit in Kiev, the first after the gas crisis and some two weeks in front of the International Court of Justice decision on the shelf and economic maritime exclusive zones dispute between Romania and Ukraine.

The Romanian Minister of Foreign Affairs met with President Viktor Yushchenko and Foreign Minister, Volodimir Ogrizko. The public statements were very reserved but a visit from the Romanian president Traian Băsescu in Ukraine was on the way of being scheduled for the end of February.

At the same press conference, a question was targeting the previous episode of the statement of Prime Minister Vladimir Putin. The Ukrainian Minister of Foreign Affairs said that any statement made in Moscow could not harm the bilateral Romanian-Ukrainian relations, that there is a pragmatic relation and the two parts discussed the mutual issues as well as the common projects.

Budapest energy reunion on Nabucco

On the 27th of January in Budapest, the reunion on energy focused on the Nabucco project. Romania was represented by a delegation lead by the Energy Minister, Adrian Videanu. The main aim of the conference was a final discussion on the intergovernmental agreements needed for obtaining the financial resources for the gas pipeline Nabucco, suppose to bring Caspian and Central Asian gas to Europe via Turkey, Greece, Bulgaria, Romania, Hungary and Austria. Germany was also involved in the project.

The gas is supposed to come from Azerbaijan, Kazakhstan, Turkmenistan, Iraq and Egypt on a 3300 km long pipeline with 31 billion cubic meters per year. The purpose was to obtain an alternative route bringing gas from alternative sources other than linked to Russia and out of Gazprom control. The costs of the pipeline are estimated around 8 billion Euros and the flow of gas expected in 2013.^s The only unsolved problem was Turkey's demand for 15% of the gas to be sold by Ankara. No later than June 2009, the intergovernmental agreement was supposed to be signed.

6. THEMATIC ANALYSIS

Now we will move to the thematic analysis according to our methodology, described in the theoretical part.

• Crisis preparedness, prevention, and mitigation

Romania has contingency plans for gas, energy or oil disruption of the supplies. In the gas case, the crisis was a light one, with only local or regional random disruptions from technical motifs. At the national level, the contingency plan allows, the disconnection of the main consumers, especially the steel industry, aluminum industry, chemical industry so that the domestic consumers would not be affected.

Moreover, according to EU provisions related to the energy security, each EU member country, Romania included, has storages at the level of the medium consumption for 90 days, so that in any case, all EU countries should face the disruption without problems, except for the completely dependent countries which are on the process of building storages for fulfilling the requirements of the directive issued after the previous gas crisis, in the winter 2006/2007.

The mitigation of the issue was properly done according to the degrees of the problem: first at the level of the Ministry of Energy, then at the level of the Prime Minister and, when things got even worse, at the level of the President. There has been mitigation at the European level, but we will underline here the Romanian part of the crisis. In this respect, both the diplomatic side and the leadership reacted with phones and direct links to other EU states, to Russia and to the EU, including a trip of the President in Brussels. In spite of the

fact that Romania was the less exposed to the crisis, the reaction of the authorities, including the Ministry of Foreign Affairs and its diplomacy was very timely.

In the part related to prevention, the Romanian Minister of Foreign Affairs paid a visit to Kiev and Moscow each in order to mitigate a possible future crisis but also to prevent any type of reaction for the announcement of the decision in Hague or any misinterpretation in Kiev of the Russian Prime Minister Vladimir Putin statements.

- **Leadership**

Here we can talk of a proper European leadership, with a President in place for 4 years already with accused of being excessively voluntary, entering his election year for a new mandate, and a Government just installed with large public support and Parliamentary majority, with ministers who good professionals — like the Minister of Foreign Affairs — with a lot of experience, and some new Ministers who even made mistakes, i.e. the Minister of Economy.

But the mistake of declaring the State of emergency was well managed, at the end of the day, with a quick coming back with new declarations and a good communication strategy at that moment, so that the bad impression was erased in due time, with minimum of effects for the public, the political responsibility or the juridical one.

- **Decision making units**

As we have seen, the decision making units at the national level were the Ministry of Foreign Affairs, the Ministry of Energy, Transgaz and Romgaz national companies, the Government and the President. Since the crisis happened just after the appointment of the new Government, there was a fully cooperative approach between the decision making units.

The fact that the Minister of Economy and the President were from the same party and friends helped the mistake degenerate in a public dispute, and all that was said was behind closed doors and, for sure, with a lower level than in other conditions, due also to the fact that this happened after New Year's Eve and the lunch offered by the president to all the members of the Government in Sinaia, the first day of the year, so that the new year spirit played its part in the misunderstanding.

- **Problems with perception and framing**

The gas crisis was well managed. In this respect, the real problems were the Putin declaration and the bilateral Ukrainian-Romanian relations. At the same time, it was a good problem framing for the future possible crises that could occur linked to both of these events and the consequent mitigation and discussion bringing closure to any possible misunderstanding.

It wasn't the case with the Russian-Romanian relations that were in a bad period, quite frozen, firstly, because of the Russian-Georgian war and the consecutive "business not as usual" EU and NATO approach. Second because the President Băsescu canceled his scheduled visit to Moscow, in September. Third, because of the pro-Ukrainian Romanian view during the crisis, including in the Putin-Băsescu phone discussion on the 6-th of January.

- **Conflict of values**

The most important moment for Romania was the one between the need to maintain Ukraine closer to Europe versus having bad relations with Russia, who saw Romania as a potential unfriendly partner, if not an enemy. The second conflict of values was between the need of EU unity and the different behavior of the EU countries towards Russia, including the huge propaganda made by Russia in this conflict. And third was in the territorial dispute taken to the International Court and the possibility that this position of defending its rights could harm the bilateral relations with Ukraine, especially during the gas crisis.

- **Politico-bureaucratic cooperation and conflict**

As we have seen, we are talking about a newly installed Government, days after the appointment of the ministers. In the case of the Minister for Foreign Affairs, Cristian Diaconescu — a recognized professional. The Minister of Energy had good support from his party and, anyway, didn't arrive in the position of firing people —due to the crisis- or changing the top management according to the new majority at the time of the crisis.

Here a conflict appeared between the political and technical part especially because Adrian Videanu accused his subordinates for the mistake he had done. But if such a conflict was real, it never went public and nobody realized that this happened. Another event which covered this probable conflict was the fact that changes and new appointments in the Ministry took place due to the change of the Government, so nobody realized or perceived as a political bureaucratic conflict coming from the crisis these changes that happen.

- **Crisis communication and credibility**

The mistake made by the Minister of Economy was well managed by the communication staff and the fact that the Minister Videanu accepted to appear at numerous TV and radio shows taking the responsibility for the mistake and proving that he is hands on the gas crisis, knowing all the details was a good point for his credibility.

The only failure in this respect could be seen in the Putin Show moment, when President Traian Băsescu didn't disclose the content of his discussion to the media by the Prime Minister Putin. Here the President was facing a conflict of values: either disclosing a private/non public conversation with Prime Minister Putin, joining him in unfriendly gesture and non observance of the diplomatic and procedural rules, risking an escalation of the tensions between the two parts, either choosing not to disclose this phone discussion, and allowing media interpretations, innuendos or misinterpretations that could harm his credibility or even raise a problem with Ukraine. He choose the second option, asking the Romanian diplomacy and Romanian Minister of Foreign Affairs to deal with the bilateral explanations in the relation with Ukraine.

- **Trans-nationalization and internationalization**

The gas crisis was a typical trans-border crisis — Ukraine and Russia, Ukraine and the Republic of Moldova, Ukraine and Romania — but also an international crisis because of the 18 countries cut from the gas supplies and the involvement of the EU, at the level of the president of the Commission and the Czech Presidency.

Romania acted in the two tracks, bilaterally with Ukraine and Russia, with Serbia and its other EU neighbors, trying to help them during the crisis, but also at the EU level, through the EU mechanisms but also in a bilateral meeting with the president of the European Commission, on the 12-th of January, during the crisis.

- **Temporal effects and crisis management**

The crisis raised important questions related to the gas crisis and here Romania took the opportunity to promote its approach to the energy security, meaning alternative sources and alternative routes, which was contrary to the other approach of some EU countries, interdependence with Russia, involvement in the downstream of Russian companies and in the upstream of the EU companies, engaging Russia.

The vivid result was a huge push for the Nabucco project and the achievement of the intergovernmental agreement after the Budapest reunion on the 27-th of January. European banks joined the club to finance the investment and all the countries took their share of the burden and succeeded in granting to the financiers governmental guarantees on the security and feasibility of the project.

- **Lessons learnt**

Romania had its own lessons learnt during the crisis: first that gas deliveries could be cut at any moment. Second that the Ukrainian domestic rivalries could put Ukraine-EU relations at stake and could harm them. Third that EU should take the lead and create alternative routes and sources in order to avoid the cut of gas supply from Russia via Ukraine. Fourth, that Ukraine should be assisted in repairing its network of pipelines and maintenance of its system in order to diminish losses. Then it should take control on its storages and have a proper monitoring of the gas pressure and quantities entering the country.

In that respect, the EU monitors for gas came to Ukraine and were in place, as a full system of monitoring. Then an Early Warning system of EU officers came in place in Russia and on the transit countries to look at the gas perspectives, the level of extraction and production, so that any disruption could be anticipated.

For President Băsescu, the lesson learnt was linked to his discussion with Vladimir Putin, and could be translated in the words that any such relation should be well managed so that it would not come against him.

3. GAS CRISIS: A VIEW FROM CHISINAU

The current energy system of the Republic of Moldova was formed as part of the energy system of the USSR. In terms of electricity and natural gas, Moldova was part of the transportation and distribution system of energy resources in the USSR. With Soviet-style economy, when the price for energy consumed was very low, waste of energy resources has become the norm. Therefore, when Moldovan independent state was established, the yield of the national economy in terms of efficiency of consumption of energy resources was very low and obviously incompatible with the concept of competitiveness in the conditions of a market economy. Following the policy promoted by USSR center, about 30% of the industrial potential of the MSSR, including major energy objectives were concentrated on the left bank of Nistru river (Transdnistria). All these factors had and continue to have a substantial impact on the energy security of the Republic of Moldova after the collapse of the USSR.

The achievement of state independence by Moldova has coincided with the transition to a market economy. This meant that a principled change of the policy of energy resources' use and approaching energy security as an independent state was required. Solving these problems requires expertise, political will and attracting substantial investments. In the case of Moldova all these factors were absent altogether. The governances in Moldova, during all these years, were concerned about the energy security problem only in declarative form. In conditions when Moldova was and is totally dependent on supplies of natural gas from the Russian Federation, the governments of Moldova had sought to exchange the demonstration of political allegiance to Russia on low prices for gas delivered by the Russian Federation. With the Gazprom company monopoly on the pipelines on Russian territory, however there have been projects to purchase natural gas for example, from Turkmenia, with subsequent transportation to the Republic of Moldova. But, these ideas were not brought to practical completion stage.

The issue of the energy security for the Republic of Moldova

There are many aspects of energy security, and an important role is played by local conditions and political priorities. However, despite the existence of an impressive number of studies and publications on the subject, there isn't an equivocal definition of this important concept.

The very concept of "energy security" appeared after the oil embargo imposed in 1973 to Western countries by the Persian Gulf states.

Typically, definitions of this concept were given only in the context of national energy security, which was defined as ensuring an adequate supply of energy to the nation and its economy. Frequently this term is reduced to the ensurance of energy independence, which so far no state in the world has achieved.

President of CERA (Cambridge Energy Research Associates), Daniel Yergin gives the following definition: "to energy security is ensuring energy supplies at reasonable prices and so are not jeopardized national core values and goals. Yergin has identified 10 key principles of energy security (see box below):

Ten Key Principles of Energy Security¹²

- Diversification of energy supply sources is the starting point for energy security.
- There is only one oil market.
- A “security margin” consisting of spare capacity, emergency stocks and redundancy in critical infrastructure is important.
- Relying on flexible markets and avoiding the temptation to micromanage them can facilitate speedy adjustment and minimize long-term damage.
- Understand the importance of mutual interdependence among companies and governments at all levels.
- Foster relationships between suppliers and consumers in recognition of mutual interdependence.
- Create a proactive physical security framework that involves both producers and consumers.
- Provide good quality information to the public before, during and after a problem occurs.
- Invest regularly in technological change within the industry.
- Commit to research, development and innovation for longer-term energy balance and transitions.

A shorter and more concise definition belongs to Paul Leiby of U.S. Oak Ridge National Laboratory¹³ — energy security is “energy available when and where needed, at a predictable price”.

Russian Federation, in its Energy Strategy until 2030, uses to define energy security the definition given by the World Energy Council — “a condition in which a nation and all, or most of its citizens and businesses have access to sufficient energy resources at reasonable prices for the foreseeable future, free from serious risk of major disruption of service¹⁴”.

As for Republic of Moldova, in the Energy Strategy until 2005, approved by the Government on June 11, 1997, we can’t find any definition of the term “energy security”. But the Strategy sets out the main factors that influence the energy security and the objectives to ensure it, which are also perfectly valid for the current situation.

According to the Strategy there are 5 factors that have a negative impact on the energy security of the Republic of Moldova:

- Dependence on imported energy, amounting to 98%;
- Large-scale dependence on one or a limited number of fuel suppliers;
- Natural gas share in total energy consumption balance, which exceeds 50% and keeps consumers in the danger of reduced reliability and security when access to gas for various reasons is limited, especially taking into account that this type of fuel is imported from a single country;

¹² The New Energy Security Paradigm, World Economic Forum in partnership with Cambridge Energy Research Associates, Spring 2006 <http://www.weforum.org/pdf/Energy.pdf#search=%22The%20New%20Energy%20Security%20Paradigm%22>

¹³ P.Leiby. Summary of Discussion in Workshop: Security, Economic and Environmental Benefits. Conference on Estimating the Benefits of Government R&D. March 4 and 5, 2002.

¹⁴ http://www.opec.ru/library/article.asp?d_no=583&c_no=3&c1_no=

- 85% of electric power is installed on the left bank of the river Nistru. Currently, the undetermined character of political settlement of the Transnistrian problem maintains in a constant strain the reliability to supply electric power and provide fuel to consumers located on the right bank;
- Almost all import routes of fuel pass through one country (Ukraine)¹⁵.

The Energy Strategy of the Republic of Moldova until 2010, adopted in 2000, comprises a definition of energy security, but it tells only how energy security will be ensured — “through diversification of import of electricity, petroleum products, solid and gaseous fuel, through developing own capacities to produce competitive electric power, through creating strategic reserves of fuel, as well as extending energy resources import routes¹⁶.”

1. EARLY WARNING SIGNALS

The analysis of the structure of the energy resources imported and consumed in the Republic of Moldova shows a steady increase in the share of natural gas. Since 2000 the use of fuel oil and coal has decreased dramatically and currently natural gas dominates the energy balance. In such conditions the Republic of Moldova becomes extremely vulnerable, depending on the stability of gas supply from Russia. This means that the Moldova’s “gas industry” is guided from abroad, being dependent of a single supplier — Gazprom and a single route of transit — the territory of Ukraine.

Although the price for the gas from Russia set for the Republic of Moldova in the early years of independence was far below the price paid by Europeans, during several years the Republic of Moldova has accumulated substantial debt to Gazprom, which positioned it in a extremely vulnerable setting. After a series of non-transparent procedures, Gazprom took control over the whole distribution and gas transit network on the territory of Moldova. According to the Agreement of September 20, 1994, 50% plus one share of the “Moldovagaz” company were ceded to the Russian monopolist, because of the debts of the Republic of Moldova.

The situation was further complicated by the conflict in Transnistria, following which the central government in Chisinau lost control over a number of localities in Transnistria. As a consequence of this, the distribution and transit system of natural gas on the territory of Transnistria separated and formed a distinct structure — the “Tiraspolitransgaz” company. “Tiraspolitransgaz” holds 13.43% of the “Moldovagaz” company. But, according to recent statements of officials in Tiraspol, these shares were handed over for management to Gazprom on a delegacy. This means that Gazprom fully controls the distribution network of natural gas on the territory of the Republic of Moldova. Even more serious is the fact that in such conditions the discussions on seeking alternative sources of natural gas are meaningless.

Also after the conflict in 1992, the central government in Chisinau has lost control over the Thermo-Electric Power Plant in Cuciurgan. The vulnerability of Moldova in terms of energy has been proven as early as 1992, when, in conditions of an armed conflict, the natural gas supply to Moldova through gas pipelines passing Transnistria territory was cut off.

¹⁵ Official Gazette of the R.Moldova no.49-50/515 from 31.07.1997

¹⁶ Official Gazette of the R.Moldova no.42-44/443 from 20.04.2000

2. DEFINITION OF THE CRISIS

The collapse of the Soviet Union gave birth to a number of problems in the relations between the Republic of Moldova and Ukraine in the energy sector. For instance, southern Odessa region can only be supplied with electricity through the territory of the Republic of Moldova. In winter electricity consumption in the Odessa region reaches 1200 MWt, of which about 850 MWt are delivered through the territory of the Republic of Moldova. When Moldova and Ukraine couldn't agree on the price of electricity delivered to the Moldova, additional risks for secure delivery of electricity in Odessa region appeared. However, in terms of natural gas supply, Ukraine is Moldova's strategic partner simply because Moldova receives its entire volume of gas through gas pipelines that pass through the territory of Ukraine. Moreover, unlike Moldova, Ukraine has its own sources of natural gas and an underground storage system which can store substantial amounts of gas. The fact that Moldova consumes (compared to Ukraine) negligible amounts of gas, allows Moldova to rely on gas supplies from Ukraine, when there are problems with gas deliveries from Russia.

During the last years Russian Federation promoted a policy of expansionism, using Gazprom company and energy resources as a strategic weapon. Taking advantage of its position of supplier of energy resources, the Russian Federation tried to gain control over natural gas distribution networks in different countries. First of all this policy was directed towards Ukraine, because Ukraine has the strategic position as regards the transit of natural gas delivered from Russia to EU countries. Russia repeatedly tried to take control over the system of pipelines in Ukraine. To achieve this goal, Russia has tried to undermine Ukraine as a country able to ensure the transit of Russian gas to EU countries.

These events have been named the "gas war" and put Moldova in an extremely difficult situation. A situation that met all the three elements of a crisis:

Uncertainty — Moldova had no levers to influence the situation. Everything depended on the decisions and the actions of the two actors: Ukraine and Russia. Even EU's reactions and interventions have failed to prevent the serious consequences of this crisis, during which several countries ended up in an extremely difficult situation. The tone of the political discourse of the both sides of the Russian-Ukrainian dialogue was so hard that it was impossible to predict the evolution and the outcome of the crisis. The uncertainty amplified because before the gas crisis relations between Russia and Ukraine were channeled through intermediaries, which gave reasons for accusations of corruption, untransparency and the presence of certain interests aside from those publicly announced. The uncertainty further amplified when even the calls from a major player like EU didn't brought the normalization of the situation.

Limited time available — time became a key factor in the gas crisis. In winter conditions, Moldova could count only on the volume of gas contained in the pipeline system and gas supplies from Ukraine. In some cases, energy units could be transferred to fuel oil instead of natural gas. However, fuel oil reserves were limited, while fuel oil procurement, in terms of a regional energy crisis, became virtually impossible. In the Transnistrian region all the opportunities to save natural gas were used up in a few days; apartment buildings heating was stopped, people panicked and started making bread reserves etc. Therefore, even with drastic measures to save gas, time available was very short.

Important values at stake — in the situation when the Republic of Moldova depends completely from the gas supplies from the Russian Federation, an extended gas crisis would inevitably lead to national economic collapse, paralysis of the entire infrastructure and extremely serious social consequences. In part, this happened in Transnistria, where the daily losses due to gas crisis were announced at 3 million U.S. Dollars. Also, the gas crisis represented a challenge to President Vladimir Voronin and the ruling party (CPRM). If the gas crisis had more serious consequences, then it would have been a severe blow to the idea of the “strategic partnership” between the Republic of Moldova and Russia, which was exploited by CPRM to mobilize their voters.

3. THE CONTEXT OF THE CRISIS

Moldova’s energy security depends in a crucial way on a number of factors of political, economic and other nature. Certainly, the safety of natural gas supply depends on the relations between Moldova and Russia, and the relations between Russia and Ukraine, through whose territory the natural gas is transported. In late 2005 Russia announced the change of its energy policy towards “near abroad”, triggering a crisis that culminated with the disruption of gas deliveries to Ukraine in January 2006.

Furthermore the relations between Russia and Moldova are overshadowed by a number of problems. First, it refers to the conflict in the eastern districts of Moldova (Transnistria). Russian Federation is violating the territorial integrity and sovereignty of Moldova, refusing to withdraw its troops and munitions from Transnistria. Russian private and public capital has illegally privatized major economic targets in Transnistria etc. The situation complicates furthermore because on the right bank of the Nistru river (territory controlled by the government in Chisinau), where about 80% of the population live and 60% of economic potential is concentrated, only about 15%–16% of the capacity of power plants is located.

Despite these obvious realities, governments in Chisinau tried to seize the supplies of gas from Russia at lowest prices possible, without being concerned about the reintegration of the state. Accordingly, such kind of political position made impossible any efforts toward demonopolization of Russia’s role as a supplier of natural gas to Moldova. Currently there are no record points on the territory of Moldova of the gas flow transported through main pipelines. Such stations are located only on Ukrainian and Romanian territory.

Energy sector developments in the Republic of Moldova

It would not be properly said that the question of country’s energy security was never raised in Moldova. In 1997 the Energy Strategy of the Republic of Moldova until 2005 was adopted. Only after three years, in 2000, a new Energy Strategy of the Republic of Moldova until 2010 was adopted. However, an actual analysis of the actions of governments in Chisinau towards carrying out the provisions of these strategies demonstrates that virtually none of the objectives was fulfilled. No investments have been made to change the situation in the energy sector. Furthermore, several studies demonstrated with arguments that many problems in the energy sector were preserved due to massive corruption of the decision makers in Chisinau.

The Energy Strategy until 2005 provides inter alia technical rehabilitation of the power plants CET-1 in Chisinau and CET-Nord in Balti, ensuring an increase of their capacities, from 46 to 60 MWt and from 28 to 48 MWt respectively. At the same time, a capacity increase was to be conducted in Chisinau's CET-2 from 240 to 585 MWt. The thermo-electric Cuciurgan power plant was to be modernised and generating capacity increased. All these were to be completed by 2005, and would have led to the increase of domestic energy production and ensure over 80% of domestic consumption.

Moldova's energy sector can be described as follows:

Institutional Setup

Since mid-nineties Moldova's energy sector underwent a series of institutional reforms that resulted in following setup:

National Agency for Energy Regulation (ANRE) is an independent permanent public authority. The agency is authorized to establish tariffs, settle disputes, issue licenses and apply their provisions.

Moldelectrica, transport system operator, is a state enterprise, which manages fixed assets of the electricity transport system and operating center.

Moldovagaz is a mixed Moldovan-Russian company, with 50%+1 shares owned by Russian Gazprom. As of 2006 it is sole importer of gas in Moldova. It owns 2 pipeline systems passing Moldova with a total length of 580.8 km.

Main production capacities:

3 co-generation power stations (CET-1 Chisinau, CET-2 Chisinau, CET-Nord Balti), 1 Hydro-electrical power station (CHE Costesti) as well as 10 small co-generation power stations at the local sugar plants. General installed power: 440MWt; General available power: 408 MWt¹⁷.

Electricity distribution network:

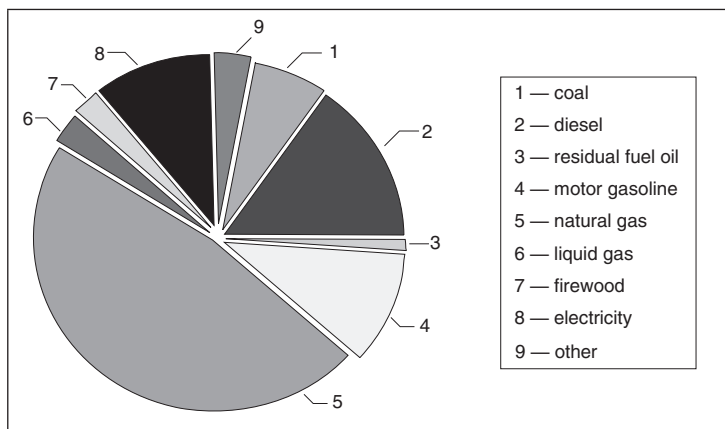
5 distribution companies: RED Sud, RED Centru, RED Chisinau (all bought by Spanish Union Fenosa in 2000), and state-owned RED Nord and RED Nord-Vest.

Energy consumption

Economic recovery started in 2000 and determined considerable growth in energy consumption. Thus, in 2000-2005 as GDP grew more than 45%, energy consumption per capita expanded by 37,7%. The most important share in consumption are represented by natural gas, petrol and its derivatives, and electricity (see Chart 1).

¹⁷ As of 1990 the joint production capacity of electricity in the Republic of Moldova (Transnistria included) was estimated at 3000 MW and was sufficient both to cover its own necessities and to supply considerable volume of energy for exports. However, over 80% of capacities are situated in Transnistria region and are not under the jurisdiction of Moldovan authorities. For example, Cuciurgan cogeneration power station (Moldavskaya GRES) which is situated on the left bank of Nistru river has enough production capacity to cover Moldova's local needs. It was privatized in 2005 by Russian state-owned company RAO EES International. Although this privatization is not legally recognized, there are discussions between Moldovan and Russian governments on gaining access to electricity transportation from Cuciurgan to South-East Europe.

Chart 1. Structure of main energy resources, 2005



Almost all its energy needs Moldova covers through imports. Thus, according to official statistics, in 2005 Moldova imported 3123 thousand t.c.e. out of 3520 thousand t.c.e. used¹⁸. As of 2006 most of electricity is consumed by households (38.8%) and industrial consumers (35.6%), while most of gas is consumed by CETs (33.6%), enterprises (29.8%) and households (27.3%)¹⁹.

According to ANRE (National Agency for Energy Regulation), local power plants provide only 25% of domestic consumption, the rest of electricity is imported from Ukraine or from the thermo-electric power plant in Cuciurgan. The Republic of Moldova is the worst case in terms of energy security in the region. None of the provisions of the Energy Strategies, adopted in 1997 and 2000, were fulfilled and there wasn't any reference to them when the long-term Energy Strategy of the Republic of Moldova (until 2020) was developed, in accordance with EU energy objectives. The budget for carrying out the provisions of the National Energy Strategy until 2020, for over 13 years, is about 800 million euros, or about 65-66 millions euros per year. In reality, this Energy Strategy lacks funding (only a few percents of the sum being covered).

Gas sector

The gas sector of the Republic of Moldova includes strategic main pipelines and the republican gas distribution network. The input of gas to the republic is possible from two directions: (a) through main pipelines Ananiev-Cernauti-Bogorodceni (ACB), Ribnita-Chisinau (RC) and the deriving pipeline Oliscani-Saharna (OS) with interconnection to the main international pipelines Progress, Soyuz, Urengoi-Pomar-Uzhgorod and natural underground reservoir Bogorodceni; (b) through the pipeline Odessa-Chisinau interconnected with main international pipelines Razdelinaia-Ismail (RI), Sebelinca-Dnepropetrovsk-Krivoi Rog-Ismail (SDCRI) and Ananiev-Tiraspol-Ismail (see scheme 1).

Meanwhile, there is a principled difference regarding access to natural gas when compared to other energy resources. If the oil market, for example, is quite liberalized and the petroleum can be brought in Moldova in various ways and from differ-

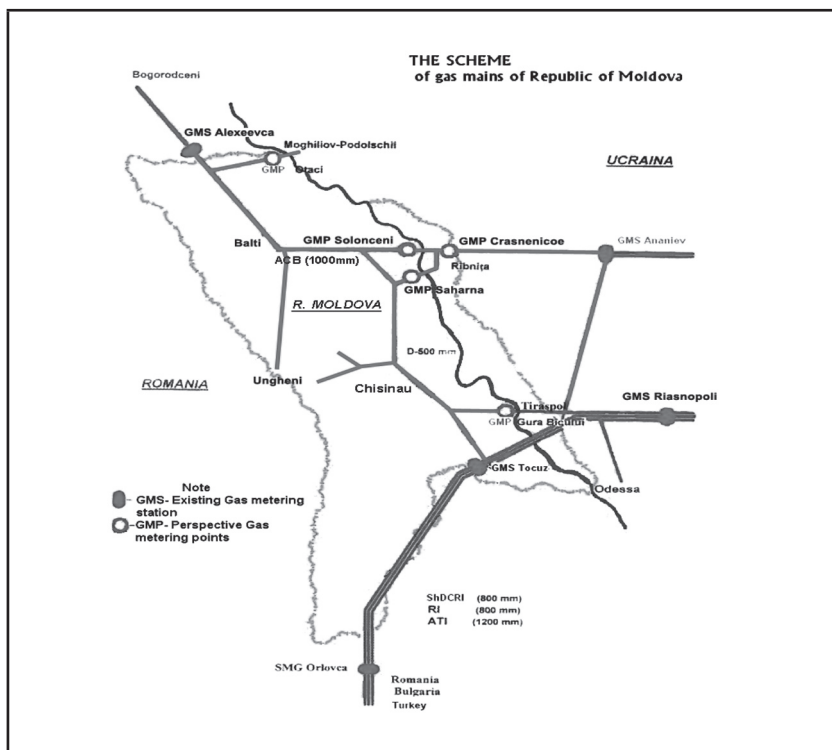
¹⁸ Energy and Fuel Resource, Statistical Yearbook of the Republic of Moldova.

¹⁹ ANRE, Annual Report 2006.

ent suppliers, then natural gas may be brought only in one way and from a single supplier.

From Chart 1 we can conclude that natural gas supplies are vital for energy security of the Republic of Moldova and the functioning of national economy. Gas sector development in Moldova is determined by the National Program for Gasification of the Republic of Moldova and the National Program “Moldovan Village”. Looking ahead, until 2010, 1088 localities were to be provided gasification. Gasification level would have increased 5.1 times than that of 2002.

Scheme 1. Main pipelines of the Republic of Moldova.



Strategically, steps were to be taken towards building new gas pipelines to secure supply and towards studying the issue of storing natural gas, on the territory of the Republic of Moldova, as well as in neighboring countries, to meet reliably the daily and seasonal peaks of consumption. In order to avoid monopoly and to increase the efficiency of the sector it was announced that a competitive gas market would be set up, where consumers will have the right to independently choose their suppliers. To ensure energy security of the republic measures were to be taken to research and use the possible gas supply options, including Central Asia and the Middle East and the use of Giurgiulesti terminal for liquefied gas imports Giurgiulesti. Unfortunately, all these intentions remained unfulfilled, inclusively because the leadership of Moldova (2001-2009) tried to show the maximum possible loyalty towardst Russia, which automatically meant docile acceptance of Russia's monopoly on the energy sector of Moldova.

Russia's behavior

It is well known that Gazprom strategic vision implies its transformation (and, implicitly, that of Russian Federation) into a global player of the energy market. This vision was promoted in a quite aggressive manner inclusively through specific arrangements with the key persons from European political class. But to achieve this grand strategy Gazprom needs to control the transit networks (Georgia, Ukraine, Turkey) and to penetrate into distribution systems of the Western Europe. The control over transportation routes is vitally important for Gazprom to maintain monopoly over the effective export of Russian and Central Asia gas and to avoid economic blackmail exercised by transit countries. As for the control of distribution networks in Western Europe, Gazprom wants to take them over to seize the profits from gas distribution (currently, distribution companies in Western Europe make an important part of their profits from the import and distribution of Russian gas in the EU).

From this point of view, both Gazprom's attempts to penetrate the European markets of distribution and to force concession of the transit networks by some countries in the "near abroad" are framed in a single strategic approach. The differences consist only in the degree of diplomatic courtesy. Thus, the increase of prices for former Soviet republics was only one step in the assertion of Gazprom on the European and Eurasian energy market.

Specific situation in the Transnistria region

The regime in Transnistria benefits from a very special treatment from the Kremlin administration in terms of energy. Mainly it is about the fact that economic enterprises from Transnistria are paying for the consumed natural rates at least twice lower than the officially announced price of Russian natural gas. Because of this practice Transnistria has a permanently growing debt towards Gazprom.

A very specific situation can be noticed when talking about the payoffs of the population of Transnistria for the consumed gas. All financial resources gathered from the population of Transnistria for the consumed gas were deposited on Gazprombank (Tiraspol) accounts. Even though the official rates in Transnistria did not cover the actual price of gas from Russia, more than that, for several years the money from Gazprombank accounts didn't reach Gazprom. The head of this bank is Oleg Smirnov, the younger son of Igor Smirnov (president of self-proclaimed PMR). By 2009 the debt of Transnistria to Gazprom reached 2 billion U.S. Dollars. However, the Kremlin administration is not raising the issue of immediate disconnection of Transnistria from Russian gas deliveries. It can be assumed that this situation, obviously abnormal, has two explanations. First — important people in Moscow are involved in some corruption schemes and they receive profits as a result of nonpayments by Transnistria for Russia's natural gas. The other — Russian Federation consciously causes the increase of the fabulous sum of debt of Transnistria to Gazprom to use this debt as an instrument of pressure on Moldova.

Anyway, Transnistria proved to be extremely vulnerable to the gas war between Russia and Ukraine. Unlike Moldova, Transnistria has more rapidly consumed the natural gas from the distribution network. Additionally, Transnistria had no other access routes to the gasification system of Ukraine than the main gas pipelines, passing on its territory. It is these pipelines that were closed during the gas war and therefore, the consequences of the gas war for Transnistria proved to be more serious than the rest of the Republic of Moldova.

4. CHRONOLOGY OF THE CRISIS

- **December 30, 2008.** Naftogaz and Gazprom were not able to agree the price for 2009. Ukraine proposed a price of \$201 and later \$235, while Gazprom demanded \$250 per 1,000 cubic meters.
- **December 31, 2008.** Negotiations between Gazprom and Naftogaz were interrupted.
- **January 1, 2009.** Deliveries of 90 million cubic meters of natural gas per day, destined for Ukraine, were cut off in full at 10:00 MSK. Transit deliveries to the EU continued at a volume of 300 million cubic meters per day.
- **January 2, 2009.** Hungary, Romania and Poland reported that pressure in their pipelines had dropped. Bulgaria also reported that supply was falling and that transit to Turkey, Greece and Republic of Macedonia was affected.
- **January 5, 2009.** Naftogaz accused “MoldovaGaz” of siphoning off of a part of the natural gas supplied to the Balkan countries. “Consumers in Moldova for no apparent reason and without coordination with the Ukrainian side, starting January 1, 2009, began to consume almost in full natural gas from the “Ananiev — Tiraspol — Ismail” transit pipeline «which partly runs through this country,» — says a press-release of Ukraine’s Naftogaz.
- **January 6, 2009.** The Prime Minister of the Republic of Moldova, Zinaida Greceanîi, has convened a special meeting of the Committee for exceptional situation in relation to the cessation of the Ukraine’s gas supplies to the Republic of Moldova and the Balkan countries. Gas supplies have been ceased through Orlovca and Grebeniki pumping stations and the pipelines contain gas that will be sufficient for southern and central parts of the republic only for several days. Meanwhile, through the “Ananiev-Cernauti-Pogoroceni” pipeline located in the north of the Republic of Moldova gas supply was doubled, so that to ensure gas supply to the north of republic and to some industrial facilities in Chisinau. The Committee for exceptional circumstances has decided to release 21 thousand tons of fuel oil from state reserves to power the CET-1 and CET-2 and save gas. Thus, if the supply of gas through Ukraine will be totally ceased, the two thermo-electric plants could provide heat for Chisinau for a period of two weeks. At the same time, schedules were developed to save gas for industrial consumers of natural gas, which were warned by “MoldovaGaz” of supply limitation starting January 7.
- **January 6, 2009.** Zinaida Grecianii sent two telegrams to her counterparts in Ukraine and Russian Federation, Yulia Tymoshenko and Vladimir Putin. The Prime Minister has requested the resumption of the natural gas supplies, since Moldova covers its long-term contractual commitments with Russian Gazprom, and its dispute with Ukraine should not affect Moldovan consumers.
- **January 6, 2009.** Ukraine ceased the flow of gas to Transnistria. “The Ukrainian side has turned off the Grebeniki station, which is located on the border with Transnistria. The regions has gas reserves for less than 48 hours” — said Transnistria’s “Tiraspoltransgaz”. On the morning of January 6, the supply of hot water to population of Transnistria was cut off and the buildings’ heating systems were gradually lowering the temperature.
- **January 6, 2009.** “Foreign Minister” of Transnistria sent a statement addressed to Russia and Ukraine, as well as to the head of the OSCE mission in Moldova and to the Special Representative of the European Union in Moldova, in which he warned of an impending humanitarian catastrophe because of the cease of gas supplies to the region.

- **January 6, 2009.** The representative of “MoldovaGaz” called unfounded the accusation of the Ukrainian “Naftogaz” of siphoning off natural gas supplied to Balkan states and said that this situation was triggered by the dispute between Gazprom and the Ukrainian company.
- **January 7, 2009.** Moldovan Prime Minister, Zinaida Greceanii, launched an appeal to the consumers to continue to save energy resources.
- **January 7, 2009.** First Deputy Prime Minister, Igor Dodon, Minister of Economy and Trade, said that the reserves for the supply of the north of the republic are sufficient for 48 hours. The pipe Ananiev-Cernauti-Pogoroceni supplies the northern part of the Republic of Moldova, including Ribnita region, Chisinau and Mogilev-Podolsk region of Ukraine. In the area of Causeni district natural gas reserves are sufficient for 2 days and in southern Moldova — Gagauz autonomy, the districts from Cahul to Hincesti — for 7 days.
- **January 7, 2009.** Igor Smirnov discussed the problem of gas supply to Transnistria at a meeting with the Ambassador of Ukraine in the Republic of Moldova Sergei Pirozhkov. Igor Smirnov asked Ambassador to pass on the information to the top level officials in Ukraine and assist in solving the problem.
- **January 7, 2009.** All Russian gas flow through Ukraine was stopped by Russian party amid mutual accusations between the two parties. Several countries reported a major fall in supplies of Russian gas; the worst affected were Bulgaria, Moldova and Slovakia.
- **January 8, 2009.** Talks between Naftogaz and Gazprom were resumed overnight.
- **January 9, 2009.** The gas supply to Slobozia district (Transnistria) was stopped. Thus, there is no “blue fuel” in Pervomaiskoe, Frunze, Vladimirovka, Blijnii Hutor, Parcani, Ternovka villages. In the next few hours the gas will be cut off in the villages of Krasnoe, Sukleia, Nezavertailovka, Chobruchi and Corotnoe.
- **January 10, 2009.** In the course of a telephone conversation, the President of Moldova Vladimir Voronin and the President of Ukraine Viktor Yushchenko have reached an agreement to resume gas supply from Ukraine to Moldova in the amount necessary to maintain the gas transportation system and the social facilities of the country, as well as for the emergency support for ordinary consumers.
- **January 10, 2009.** Given the friendly relationship between Ukraine, Bulgaria and Moldova, President Viktor Yushchenko decided to supply gas to these countries from Ukraine’s own resources, at an optimal level. This represents approximately 2 million cubic meters of gas per day to Bulgaria and 1.5 million cubic meters of gas per day to Moldova. With regard to payments, the price of gas and so on, President Viktor Yushchenko proposed that these issues be settled once Russia will resumes full gas transit through Ukraine.
- **January 12, 2009.** “MoldovaGaz” company works in usual conditions, the consumers continue to receive gas from remaining gas reserves in the pipeline and also the gas that is coming in the last days from Ukraine. Of the three thermo-electric power stations, only one is fully transferred to fuel oil, the remaining two continue to receive gas at half volume.
- **January 14, 2009.** Prime Minister, Zinaida Greceanii, has discussed in Moscow with her Russian counterpart, Vladimir Putin, the management of GAZPROM and Russian president, Dmitri Medvedev, the possibility to resume natural gas supply to Moldova.
- **January 14, 2009.** At 15.55 Ukraine began filling the gas pipelines which supply gas to the south of Odessa region, south of the Republic of Moldova and Transnistria. Transn-

istria received the “blue fuel” through Grebeniki gas metering station. The amount of the supplied gas allowed to partially restore gas supply to Slobozia, Grigoriopol and Dubasari districts of the region.

- **January 15, 2009.** Kiev began to supply gas in accordance with the agreements reached between Vladimir Voronin and Viktor Yushchenko. Natural gas from domestic reserves of Ukraine was supplied to Moldova starting January 11 through the pipeline in Alekseevka in the north of the republic. Starting with the evening on January 14, Moldova also received gas through the Grebeniki metering station, which enabled to supply gas to the districts in the south of Moldova and Transnistria, which did not have the technical capacity to receive gas from the northern branch. In general, Republic of Moldova and Transnistria consume through both pipelines about 8 million cubic meters of gas per day. The volume of gas and its origin were strictly tracked in the customs documents.
- **January 15, 2009.** At night Tiraspol received heating. During the night time, the gas was supplied to the Tiraspol bread-baking plant — to ensure Transnistria with bread.
- **January 16, 2009.** Prime Minister of the Republic of Moldova, Zinaida Greceanii, had in Kiev a meeting with Ukrainian President Victor Yushchenko and Prime Minister Yulia Tymoshenko. Both meetings took place at the initiative of the Ukrainian side, who invited the delegations of Moldova, Slovakia and Poland to discuss issues related to energy security. Victor Yushchenko stressed that the main purpose of the meetings is the need to resume deliveries of Russian gas. “Ukraine has been and will always be a reliable executor of its obligations as a transit country” concluded the President of Ukraine.
- **January 17, 2009.** Prime Minister, Zinaida Grecianii, attended the International Conference on ensuring European countries with natural gas, which was held in Moscow. The EU was represented by the Presidency (the Czech Minister of Industry and Trade Martin Říman) and European Commission (the EU Energy Commissioner Andris Piebalgs), so that the EU could speak with one voice. Ukraine was represented by the Prime Minister Yulia Tymoshenko. The summit did not achieve any solution to the crisis and the negotiations continued bilaterally between prime ministers Putin and Tymoshenko.
- **January 18, 2009.** Early morning after five-hour talks Putin and Tymoshenko reached a deal on restoring gas supplies to Europe and Ukraine. The Government of the Republic of Moldova welcomed the consensus reached by Ukraine and Russia on the terms of delivery and transit of gas to Moldova and European countries.
- **January 19, 2009.** The head of Gazprom Alexei Miller and the head of Naftogaz Oleh Dubyna signed the 10-year agreement on natural gas supplies to Ukraine for the period of 2009-2019.
- **January 20, 2009.** Gas supplies restarted.
- **January 21, 2009.** Gas supplies fully restored

5. DECISION OCCASIONS

The gas crisis has taken by surprise Moldovan ruling class. To change the existing situation in the energy sector and ensure energy security of the country a lot of time and substantial investments are required. Unfortunately, governments in Moldova have missed many opportunities to reform the country’s energy sector, in terms of efficiency

and safety. In such circumstances the leadership of Moldova could only passively assist at the unfolding crisis.

The situation could be changed if the provisions of the Activity Program of the Government for the years 2009-2013, approved on September 25, 2009, regarding energy security will be implemented. It is certain that the Government of Moldova will have to return to and revise the provisions of the Energy Strategy until 2020, taking into account the experience of the gas crisis.

6. THEMATIC ANALYSIS

• Crisis preparedness, prevention, and mitigation

As already mentioned, the energy system of the Republic of Moldova was created during the time when it was a part of the USSR. Accordingly, this means that the technological level of this strategic branch has been conditioned by the technologies of the 60's in the USSR. From the proclamation of independence of Moldova and until the gas crisis about 17 years have passed. Normally, this time should have been spent for ensuring energy security of the Republic of Moldova, with actions oriented in three directions:

- establish a national program of transition to modern technologies to substantially reduce the loss of energy resources and respectively the consumption of imported energy;
- build at least one underground natural gas storage (depending on geological conditions) for accumulation of strategic reserves of natural gas to offset spontaneous temporary interruptions;
- connect to the natural gas distribution network of Romania.

In fact, the governments of Moldova were not able to achieve anything in order to ensure energy security and reduce dependence from the delivery of natural gas from the Russian Federation through the territory of Ukraine. As a result, Moldova has proven to be completely unprotected from the consequences of Russia's expansionist policy. This means, that Moldova hasn't been prepared for the gas crisis, couldn't do anything to prevent it and only to a certain extent succeeded in reducing the negative effects of the crisis.

• Leadership

Following the cease of supply of natural gas by Russia, the Moldovan government had no leverages to influence the situation. The actions of the government were reduced to a decision to release some modest fuel oil reserves and launching appeals to the population of Moldova for calm and the necessity to save energy resources.

CPRM propaganda machine has tried to give an special importance to the telephone conversation between Vladimir Voronin and Victor Yushchenko, trying to present it as a turning point after which Ukraine took the decision to resume gas supplies to Moldova in a limited volume. It is obvious that Ukraine's decision was prompted not by this phone call, but by the awariness of the Ukrainian leadership of the seriousness of the situation created after the cease of gas supply by Russian Federation, including in Moldova. The settlement of the crisis was possible thanks to full involvement of EU and a principled position of the leadership of Ukraine

• Decision units

There are serious flaws in the decision making process in Moldova. Gazprom's new strategy for the "near abroad" has been announced as early as 2004. After the rejection in 2003 of the "Kozak memorandum" it was clear that following the worsening diplomatic relations with Russia Moldova will have to expect economic problems. The fact that the government and the producers entered completely unprepared this new phase in the relationship with the Russian Federation was downright shocking, the economic restrictions imposed by Russian authorities had a very serious impact on the national economy.

In the context of energy dependence these deficiencies are developing at maximum. As mentioned before, the gas market is a very rigid market and in the near future Moldova won't be able to diversify gas supply sources. Moldova has not used the period in which it benefited from low gas prices to reduce the energy-consumer nature of the economy, primarily through restructuring and modernization of the industrial system. This would have significantly minimized the impact of the higher prices.

Therefore, it can be concluded that the Moldovan society at large, former parliaments and governments of the Republic of Moldova, did not meet the challenges created by the Russian behavior in ex-Soviet space. The fact that on January 10, 2009 Vladimir Voronin spoke by phone with Ukrainian President Viktor Yushchenko in fact does not mean anything. Since Ukraine would have adopted anyway the decision to supply gas from internal resources not only to Moldova, but also to other countries connected to the Balcan gas pipeline. Therefore, the gas crisis has proved that the decision makers in the Republic of Moldova didn't have the capacity to influence the conduct of the crisis and its settlement.

• Problem perception and framing

At first view, the gas conflict was a conflict between the supplier of natural gas (Russia), the carrier (Ukraine) and the consumers (Ukraine, Moldova with Transnistria, including the other consuming countries). This was a way how it was perceived by the RM leadership at that time. In reality it was a geopolitical conflict, when Russia tried to use energy resources as a tool to increase geopolitical influence to control the behavior of the countries consuming natural gas from Russia. Russia consistently promotes policies to gather control over natural gas distribution networks in different EU countries. First of all, it refers to the national gas transportation network of Ukraine which technically and geographically is the most secure and efficient network of transportation of Russian natural gas to Europe. Russian Federation consistently promotes policies to disrupt EU countries on Russia's expansionist policy. In the last years Russian Federation has launched a series of gas pipeline projects to Europe bypassing Ukrainian territory (North Stream, South Stream). There is no economic justification for these projects, only geopolitical ambitions and the desire to deprive Ukraine of important revenues.

The gas crisis has intensified the discussions within the EU on the issue of energy security and EU dependence on Russian gas supplies. This can be seen also by the growing interest in the gas pipeline Nabucco, which is meant to ensure the transportation of natural gas from Caspian Sea basin to Europe, bypassing Russian territory.

The gas crisis has had an impact on domestic political competition in Ukraine. The crisis was accompanied by charges on the involvement of key leadership figures from Ukraine

in fraudulent schemes of natural gas supply from Russia. This was manifested also by the commitment of Ukraine's Prime Minister, Iulia Timosenko, to exclude any intermediary between Gazprom and Ukraine's Naftogaz.

The Republic of Moldova played a passive role in this crisis because it was caught totally unprepared and had no instrument to influence the situation.

- **Value conflict**

The gas crisis is not a simple conflict between two or several economic subjects. This crisis is an expression of Russia's policy, which aims to induce Ukraine's geopolitical behavior, respectively that of Republic of Moldova, and take over Ukraine's national natural gas transportation network. It is well known that Russian Federation is very negative about Ukraine's intentions to join NATO and EU. Russian Federation avoids taking a responsible attitude towards its commitment to withdraw the Russian fleet from Krim by 2017. In contrast, Russian Federation is using all possible leverage to influence domestic political processes in Ukraine and to complicate the Ukraine's euro-atlantic space rapprochement process. In this context, it is enough to note that Russian Federation delayed the demarcation of the Russian-Ukrainian border and instigated artificial conflicts in the Azov Sea, etc. Also, the gas crisis has clearly proved that highly important persons from Russian Federation took advantage of certain untransparent schemes, involving artificial intermediaries, of gas supply to Ukraine. Russia's aberrant attempts to instantly increase the price for natural gas delivered to Ukraine to 450 U.S. Dollars and even more, represented an obvious blackmail attempt, trying to cause a large-scale economic and political crisis in Ukraine and subsequently to restore there the influence of the Russian Federation.

The Republic of Moldova has played a passive role in this conflict, especially because Russia already took control of the gas distribution network in Moldova and the energy sector of Transnistria.

We can mention here that, according to credible sources, in 2000 a major U.S. investor specializing in energy has shown interest in privatization of Cuciurgan power plant. If that would have taken place, it would have meant a more active U.S. involvement in the settlement of the Transnistrian problem. However, according to the same sources, representatives of government in Chisinau quickly alert Kremlin and, therefore, the transaction desired by the U.S. investor was torpedoed. Instead, in 2005, Russian public company "Inter-RAO ES" in an obviously illegal manner privatized the Cuciurgan power plant.

Therefore, we can conclude that the gas crisis was a reflection of a conflict of values existing in the former Soviet space initiated by the Russian Federation which wants to maintain its role of regional super-power at the expense of the sovereignty of former Soviet countries.

- **The communication crisis and credibility**

The gas crisis was prefaced by an aggressive media war by Russia. During the crisis it became obvious that Russia is trying to camouflage the real purposes (geopolitical) by submitting aberrant requests from Ukraine. We can observe the lack of sincerity from the part of Russia if we compare its attitude towards Ukraine and the regime in Transnistria. Russia gets hysterical every time when Ukraine's debt for the consumed gas reaches 1 billion U.S.

Dollars. Immediately after that tough statements from important persons follow, Russian TV channels demonstratively show how the faucets of the gas pipelines that go to Ukraine are closed etc. At the same time Russian leadership and Gazprom slur the steady increase of the debt of the regime in Transnistria, which has reached 2 billion U.S. Dollar in 2009. It is obvious that by starting the gas crisis Russia intended to take over Ukraine's national gas transportation system. These double standards applied in ex-Soviet space by Russia which have caused a crisis in communication with Ukraine and with EU right from the beginning, have induced the severity of the crisis, both in terms of length and the consequences for consumers.

• Lesson Learned

The gas crisis has shown that Moldova is highly vulnerable to the policies promoted by the Russian Federation in the energy sector. It became obvious that Moldova needs to implement a realistic program to enhance energy security of the country. The required technologies and investments can be attracted only if Moldova will follow responsibly the EU energy policy. Ensuring Moldova's energy security is impossible without a viable solution to the Transnistria conflict and restored control by the authorities in Chisinau over the energy sector infrastructure in the entire country. The problem of ensuring the energy security of the Republic of Moldova can be solved only when Moldova will have a competent and responsible government, when the government will become a trustworthy partner for the neighbors and the EU.

Generally speaking, it became obvious for all Russian gas consuming countries that the Russian Federation can not represent a credible partner in terms of a stable and predictable supply of energy resources. The risk of political dependence from Russia, through dependence on natural gas supplies from Russia, is a real one.

Conclusions

The gas crisis encountered by the Republic of Moldova was a consequence of the fact that Moldova, during its existence as an independent state, has failed to ensure its energy security by diversifying the sources and routes of transportation of natural gas.

Inclusively, the question of **building underground gas storage deposits on the territory of the Republic of Moldova** which could have mitigated the temporary disruptions of natural gas supply from abroad has never been raised. Without adequate financial resources and with a small volume market it is unlikely that the issue of ensuring energy security in terms of natural gas can be addressed by building a liquefied gas terminal in the Giurgiul-esti;

A very negative role in terms of energy security of the Republic of Moldova is played by Transnistrian conflict. The issue of energy security of the Republic of Moldova can not have a viable solution without the government in Chisinau exercising full control over the entire country;

The relations of the Republic of Moldova with Ukraine have a strategic importance for the security of gas supplies — Ukraine has internal resources of natural gas and storage deposits with sufficient capacity to provide natural gas (in limited quantities) to the Republic of Moldova in times of crisis;

The consequences of the gas crisis would certainly have been far worse for Moldova if EU wouldn't have fully engaged in the settlement of the crisis;

Crises similar to that of January 2009 can be avoided in the future only if Moldova will manage to identify and establish new sources and new routes of natural gas supply. Republic of Moldova should actively involve in connecting itself to the EU natural gas distribution network;

At the same time, hopes that were invested in "Nabucco" project seem to be overly exaggerated. In the latest version of "Nabucco" Moldova's connection seems almost impossible.

The national economy of the Republic of Moldova can become more competitive and viable only if modern technologies to use and save energy resources will be applied;

Accession to the Energy Community Treaty. Moldova became observer at the Energy Community Treaty in the end of 2006. Theoretically, accession to the Treaty would mean participation in the biggest energy market in the world. Indeed, it may also help attract investments in the energy sector of Moldova, decrease dependence on imports and diversify supply markets. Nonetheless, it may well prove difficult to do that in the gas sector. Moldova has so far failed to include itself in any regional project.

4. GAS CRISIS: A VIEW FROM KYIV

Unlike Romania and the Republic of Moldova, Ukraine during the gas crisis 2009 was not a witness who had to get involved at some point but a full-fledged participant. The conflict with the Russian Federation over conditions of the natural gas supply to Ukraine for 2009 including transit costs and a debt issue (real or virtual) triggered an unprecedented crisis, which deprived 18 European countries of a vital energy resource — a confrontation unbelievable even at the times of the Cold War. At the moment, there is no common approach to definition of Ukraine's role in this crisis — some regard it as the first and the most affected victim, other as a main culprit, and the rest — as a co-organizer that evenly shares responsibility with the Russian Federation for emergence and consequences of the crisis.

Anyway, the crisis's origin, its driving forces, flow, mechanisms applied, consequences and lessons learned vividly showed systemic features of Ukraine's political and business organization, they provided "textbook" contents on interests compliance system, and a decision-making process in a face of the crisis that challenged "the late orange leadership".

Obviously, Ukraine's performance during the conflict and the crisis management deserve to be comprehended and systematized in an un-politicized manner. CRISMART methodology allows us to do this. Although, while not aiming at providing an ultimate verdict on the performance of the Ukrainian leadership before, during and after the peak of the gas crisis 2009, we still hope to produce analysis in order to help defining the crisis's causes on Kyiv's side (if such exist at all) and produce a vision of future opportunities to minimize such crises.

1. EARLY WARNING SIGNALS

Signals for early warning of the possible gas crisis recurrence were much better seen from Kyiv than from Bucharest or Chisinau. Recurrence risk of a crisis, reminiscent of the events in early 2006, is embedded in the very formula of the gas settlement that has been achieved by Ukraine and the Russian Federation in January 2006. It should be reminded, that then, despite obvious needs to ensure transparency and accountability in the gas sector, a scheme involving intermediary companies (RosUkrEnergo) inherited from the previous leadership was not only preserved but even enhanced. Gas pricing mechanisms weren't actually established in case of Ukraine, meaning that the price remained to be subject to the politics. Instead, the transit rate was set once for 10 years, while the gas price for Ukraine must be systematically correlated with global trends, however without a peg to clear formulas. In such a way, gas prices, which were the most sensitive issue for Ukraine, could trigger an extensive turmoil probable to occur any year due to inevitable gas price hike initiated by the supplier.

New Year holidays in 2007 and 2008 haven't presented any unpleasant surprises only because, in the first case, Ukrainian government was chaired by the loyal to Kremlin PM Victor Yanukovich and Moscow was not willing to impede his work. In the second case, Yulia Tymoshenko just returned at the helm of the government leaving no much time for Moscow to rigidly react and use its traditional "hard weapon" such as energy in order to rein Kyiv in.

It is not much surprising, that since September 2008 Russia launched extensive media campaign aimed at accusing Kyiv in the inability to pay its bills and fully honor its acknowledged

commitments. The governments got involved soon producing a provisional resolution on October 2, 2008 entitled the Russian-Ukrainian Memorandum, which envisaged signing a long-term agreement on gas supplies to Ukraine by November 1, 2008. The parties agreed to remove an intermediary company RosUkrEnergo from the deal under a condition of transferring debts of Naftogaz Ukraine toward Gazprom. However, the actual debt amount, which caused further allegations and manipulations leading to the crisis, wasn't defined.

Later, at the end of November, the Russian side claimed debt payments in a completely unreasonable and shocking amount of \$2.4 billions, thus warning that the contract for 2009 will not be finalized if the quoted amount is not to be paid in full. This signal for early warning was finally produced as a final point by Gazprom's spokesman Sergei Kupriyanov on December 1, 2008. Ukraine didn't recognize such debt amount (it only agreed on some \$1.5 billions outstanding by the end of the year.)

Another signal that followed was a lack of readiness to agree upon a gas price for Ukraine for 2009. The parties failed to introduce a transparent formula and continued talks on fixed prices for the entire 2009, which looked quite strange in terms of the global economic crisis that affected many national economies. According to realistic forecasts the market price for natural gas was expected to plunge, decreasing in several times due to the economic downturn.

2. DEFINITION OF THE CRISIS

Undoubtedly, events of the late 2008 and early 2009 were a large-scale crisis affecting both economic (energy) security and the state's decision-making means.

Sudden change of the existing situation implied by expectations that both Russia and Ukraine learned their lesson after the beginning of 2006 and won't risk damaging their reputation again. Despite the abovementioned early warning signals, the parties were still expected through continued negotiations to reach understanding "in the last moment" and to avoid disruption of supplies to both Ukraine and countries of the European Union.

Conflict of values pertained to a country's ability to honor its commitments first of all, to its own citizens in the midst of winter and a heating season, including supply of necessary resources to heating networks, secondly, to prudent industrial consumers, which have a biggest share in natural gas consumption in Ukraine, and thirdly, to European consumers of the Russian gas. Despite the fact that Ukraine does not have any directly established obligations towards the European consumers, since all their formal relations are directly set with Gazprom and the RF, Ukraine's reputation in Europe depends on its ability to avoid complications in fulfilling its task of delivering gas.

Perception of **an emergency** situation. Ukraine faced unusual challenges: firstly — to secure gas for the national consumers, primarily the utilities sector all over Ukraine under conditions when the Russian supplies were suspended and main gas storages with emergency resources were located in the west of the country. In an urgent manner, Ukraine had to temporary reverse the main gas flow. Secondly, the emergency situation was substantiated if not with legitimate but actual responsibility towards the European consumers left deprived of gas supplies in severe conditions of the cold winter.

Institutions involved to tackling the problem were undermined by escalated uncertainty. In case of Ukraine the situation was complicated with the personal rivalry between President Viktor Yushchenko and his apparatus on one side, and Prime-Minister Yulia Tymoshenko with her government on the other. Naftogaz Ukraine chaired by Oleh

Dubyna was torn between two decision-making centers. In terms of the government's stability, it was undermined in the autumn period due to a high probability of early parliamentary elections after the ruling coalition broke in September. Nevertheless, it was later saved after accession of Lytvyn's Block consisting of 20 MPs. Still, the coalition only had a visible majority at the parliament, since almost half of NUNS faction (Our Ukraine-People's Self-Defense) didn't support the government and didn't vote accordingly. In fact, Ukraine then was managed by a minority government that adversely affected its institutional capacity.

The aforementioned events were a crisis also according to criteria established by the European Commission. According to the Directive of the European Commission issues in 2003, the gas crisis occurs when gas is not received by 20% of consumers in the EU states. In this case, the European Commission has to call a Coordination Group in order to resolve a problem with gas supplies. Bearing in mind that in January 2009 Europe was spared from almost one-third of its usual supply amount for internal consumption, the fact of the crisis is unquestionable.

3. THE CONTEXT OF THE CRISIS

The Gas Transportation System of Ukraine

Ukraine's gas transportation system consist of a range of main and supplementary gas pipelines, representing four out of five existing routes for transporting Russian gas to countries of the European Union (the fifth goes through the territory of Belarus), thus providing 80% of Russian gas transit to the EU (map below is taken from the Fuel and Energy Ministry website).



Relations with Parties Involved in the Crisis

Russian-Ukrainian relations in terms of the natural gas supply and transit can be described as long-lasting and not very comfortable for each other. It should be mentioned here, that in first several years of Ukraine's independence it was a stiff dependence on the Russian energy supplies that caused a systemic Kyiv's dependence on its northern neighbor. Ukraine's insolvency at the time of the transformation crisis in the beginning and mid-nineties coupled with a lack of the political will to reduce energy dependence and raise the sector's efficiency, torpedoed accumulation of gas debts. The raising debt figures served the Russian Federation in exerting constant pressure directly through gas or energy means, or even economic or commercial matters.

The most vivid example of acquiring political dividends through gas debt claims was a decision on concession of the major part of the former Soviet Black Sea Fleet to the Russian Federation, while the rest of the Soviet army deployed on the territory of Ukraine automatically became subordinated to Kyiv. The Agreement signed by the Russian Federation and Ukraine on Status and Conditions of the Black Sea Fleet of the Russian Federation on the territory of Ukraine represents the major success of the Russian "gas diplomacy". Consequently Ukraine had to agree to obviously discriminative conditions of the Fleet's division, as well as it had to agree that the base's rent, which anyway was significantly depreciated to \$97,75 millions per year, will be counted against reducing Ukraine's gas debts.

For a long time, gas relations between Ukraine and Russia were based on specific, opaque and ambiguous for western partners preferential approaches. These relations envisaged bilateral discounts both for gas consumers in Ukraine and the Russian supplier for the gas transit though the Ukrainian territory. Such situation enabled Russia to talk about alleged subsidizing of Ukraine through relatively low gas prices. The situation has only changed in a period of 2009-2010 after the crisis as a result of establishing a formula for calculating a price and departing from a practice of "special relations" in the gas dimension:

- 2005: gas price \$50, transit rate \$1,09
- 2006: gas price \$95, transit rate \$1,6
- 2007: gas price \$130, transit rate \$1,6
- 2008: gas price \$179,5, transit rate \$1,7
- 2009: gas price (year average) \$259, transit rate \$1,7
- 2010 — gas price in the first quarter \$305, transit rate \$2,78

The last example of the "special relations" is a gas agreement 2006 signed between the Russian government and the Cabinet of Ministers chaired by Yuriy YYekhanurov . The agreement was later endorsed by President Victor Yushchenko.

These gas agreements, as assessed by Prime-Minister YYekhanurov provided guarantees for an immunity of the Ukrainian gas transportation system, a gas balance for the Ukrainian consumers and transit to Europe, among other. But mainly, the agreement set a transition period, which Ukraine should use as efficiently as possible in order to modernize its industries and install energy-saving technologies. As of the PM YYekhanurov's statements, in the beginning of 2006, further confrontation could have caused disruption in gas transportation as well as a possible anthropogenic disaster. The agreements signed on January 4 enshrined establishment of a joint venture Ukgazenergo with an intermediary

company RosUkrEnergo and set a gas price for Ukraine at the level of \$95 per a thousand cubic meters until 2010.

The agreement's content was highly charged in Ukraine and became subject to tough criticism from the opponents. The former Deputy Minister for Foreign Affairs of Ukraine Oleksandr Chaly referring to the agreement as "Pearl Harbor of Ukraine's energy diplomacy" lamented that the gas agreement violates the Ukrainian legislation and pursues a goal that obviously contradicts to interests of the state and society²⁰.

One of the key elements in the legal rationale for this conclusion is that Oleksiy Ivchenko, Naftogas Chairman of the Board, signed the gas agreement in the absence of the annual intergovernmental gas protocol for 2006. The latter, according to Article 2 of the Agreement between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation on Additional Measures to Ensure Transporting Russian Natural Gas via the Territory of Ukraine, dated 4 October 2001 (hereinafter referred to as the "2001 Intergovernmental Agreement"), was to adjust the volumes of transited gas and transit dues (set either in monetary terms or in terms of gas volume to be supplied as payment for transporting services) to the 2006 levels. The signed gas agreement is at odds with the terms of cooperation laid down in the 2005 Protocol between the Cabinet of Ministers of Ukraine and the Government of the Russian Federation, supplementing the 2001 Intergovernmental Agreement and signed on 2 July 2004, as well as in Addendum #4 to the effective contract between the National Joint Stock Company Naftogas Ukrainy and Public Joint Stock Company Gazprom on Volumes and Terms of Russian Natural Gas Transit via the Territory of Ukraine for 2003-2013, dated 21 June 2002. Meanwhile, the Ukrainian-Russian gas agreements now in effect stipulate that these terms should apply if there is no annual intergovernmental protocol in place. Naftogas and Gazprom are not entitled to amend those agreements independently, with no previous authorization from their respective governments.²¹

Adoption of the agreement provoked a governmental crisis, when in 10 days after the agreement, the Parliament with a majority of 250 votes expressed no confidence to Yekhanurov's government on January 10, 2006. Nonetheless, the bilateral agreement was active until 2009, specifically until the new crises exploded, which is to be analyzed further.

With regards to relations with the European Union and its gas consumers, Ukraine never held any established de-jure commitments towards them. The commercial ties system inherited from the Soviet Union implied a scheme, where Gazprom was responsible for supplying gas to the European partners at the western borders of Ukraine, and the Ukrainian parties that provide the transit formally had to report only to Gazprom.

Energy Consumption and Energy Efficiency

Ukraine did and continues to consume an disproportional share of natural gas in terms of GDP. **As of 2008, Ukraine consumed about 3% of total global consumption of natural gas, thus being among top ten biggest gas consumers (ranked 6-7th). In the meantime a share of Ukraine's economy is almost 5 times lower than this indicator (a little bit over 0,6% of the world's economy).**

Ukraine's dependence on the Russian gas became threatening not that much because of the Russian monopoly on gas and its routes to Ukraine, but due to excessive energy con-

²⁰ Chalyi O. Ukrainian-Russian Gas Treaty: A Guide to Resistance <http://www.dt.ua/1000/1030/52316/>

²¹ *ibid*

sumption of the Ukrainian economy and many years of opaque commercial relations, leading to emergence of specific pricing both for gas supplies and transit fees.

For instance, statistics of a pre-crisis year 2005 could be used as an evaluation point, when Ukraine's gas consumption skyrocketed, while the energy efficiency and energy-saving technology failed to become a national priority policy just remaining on discussion agendas.

In 2005 Ukraine consumed 76.4 billions cubic meters of gas, including the population share of 18.0 billions cubic meters, and the volume of 7.5 billion cubic meters for technological service of gas extraction and gas transportation enterprises. As reported in the balance of natural gas supply and distribution, in 2005 Ukraine imported 55.9 billions cubic meters from the Russian Federation and countries of Central Asia.

According to the American Energy Administration report 2006, Ukraine was ranked among the biggest energy consumers in Europe. For \$1 of its GDP, Ukraine consumes energy twice as much as Germany²². In the total energy composition in 2005 the natural gas has almost 50% share and 75% of it was imported from the Russian Federation.

Since the end of 2008, the economic crisis caused a decrease in gas consumption in Ukraine, primarily through significant contraction of industrial output that is traditional source of enormous gas consumption in Ukraine.

According to calculations provided by Naftogaz, Ukraine's total consumption of natural gas in 2009 was 55.9 billions cubic meters, where:

- 33 billions cubic meters imported,
- 20.6 billions cubic meters extracted,
- 2.3 billions cubic meters from underground storages.

Domestic consumption structure:

- 17.8 billions cubic meters private consumption
- 10.5 billions cubic meters heating utilities enterprises
- 1.05 billions cubic meters state budget organizations
- 19.3 billions cubic meters industrial consumption

Internal sources of natural gas: status-quo and prognosis

According to Energy Strategy of Ukraine till the year 2030, approved by the Cabinet of Ministers on March 15, 2006, more than 75% of gas fields have initial recoverable reserves less than 10 billion cubic meters. Only 4 gas fields had initial recoverable gas reserves over 100 bcm (Yablunivske, Yefremivske, Zahidno-Khrestyshchenske, and Shebelynske). It is important that today too, these 4 gas fields provide for more than 25% of current natural gas production²³.

Ukraine's gas production is facing problems also due to the fact that more than 15% of its gas reserves fall under the 'hard-to-recover' category by such criteria as reserves depletion degree and reservoir properties of the rock. They are categorized as low-permeable reservoirs, multipay fields, with high lithologic heterogeneity, both in terms of area and pay zone thickness. Virtually all reserves in the Precarpathian fields are hard to recover. The development of hard-to-extract reserves require specific, scientific-intensive and high-cost processes and technology be employed.

²² Is Ukraine — the World's Monster of Gas Consumption? <http://www.unian.net/ukr/news/news-209361.html>

²³ Energy Strategy of Ukraine till the year 2030. mpe.kmu.gov.ua/fuel/doccatalog/document?id=50369

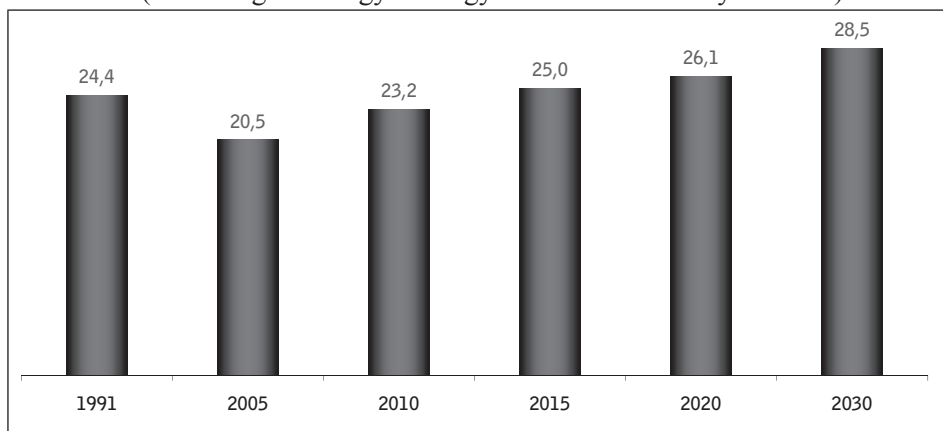
Based on data regarding forecast changes in efficiency of geological-geophysical studies and prospect drilling, a preliminary estimate of possible increment of explored gas reserves was made for the forecast period. It was assumed that gas-well prospect drilling will achieve the levels provided for under the National Program 'Oil and Gas of Ukraine until 2010', i.e. 415,000 meters/year, which is 2.5 times more than the actual scope of gas-well prospect drilling operations in 2004. The calculations show that given such conditions over the forecast period (2006-2030), the explored reserves can be incremented up to 1,022.7 bcm based on the best-case scenario, and up to 670 bcm based on the pessimistic scenario.

According to above mentioned Energy Strategy of Ukraine till the year 2030, gas production levels over the short- and long-term period will be determined by the following factors:

- enhancing efficiency of hydrocarbon production from fields currently under operation;
- accelerated development of new reserves;
- bringing gas prices to economically justified level for all consumer categories²⁴.

Given the gas production history of fields brought into development, and forecast changes in explored hydrocarbon resources, gas production volumes over the forecast period have been calculated (internal sources, base-case scenario).

Gas Production in Ukraine, bcm
(according to Energy Strategy of Ukraine till the year 2030)



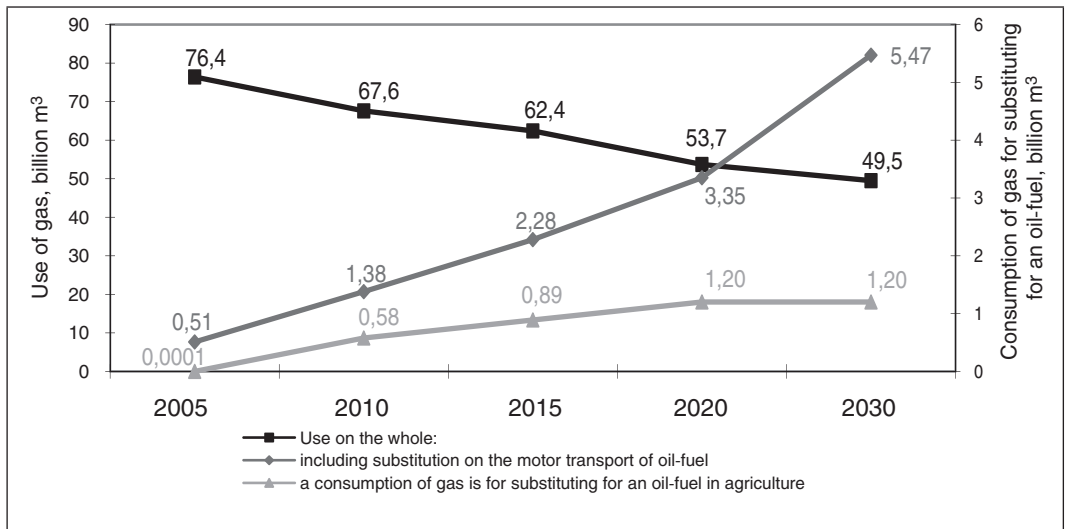
Based on the best-case scenario, natural gas production in Ukraine is expected at 23.5 bcm in 2010, 25.5 bcm in 2015, 26.6 bcm in 2020, and 30.1 bcm in 2030; and based on the worst-case scenario, 20.8 bcm in 2010, 23.0 bcm in 2015, 24.6 bcm in 2020, and 26.9 bcm in 2030²⁵.

Obviously such forecast allows to hope that in case of coherent policy of increasing energy efficiency and energy-saving, Ukraine has a chance to lower its gas dependency on Russia in the mid-term perspective, as the forecast provides for reduction of the share of imported gas from 75% of consumption to relatively secure level of 30-35%. Authors of Energy Strategy of Ukraine however consider such a possibility to be achieved only up to 2030.

²⁴ Energy Strategy of Ukraine till the year 2030 mpe.kmu.gov.ua/fuel/doccatalog/document?id=50369

²⁵ *ibid*

Forecast of Gas Consumption Dynamics in Ukraine, billion cubic meters (according to Energy Strategy of Ukraine till the year 2030)



“Information War” Context

Even before the crisis exploded, Ukraine has already been under a large-scale information attack exerted through various Russian, foreign and even Ukrainian media.

There has been said a lot about a synchronized, well coordinated and orchestrated work of Russian media, which wasn't a comprehensive but totally biased information campaign featuring strictly Russian position. Some Ukrainian TV channels and newspapers surprised to be among those, which alongside Russian media participated in anti-Ukrainian campaign.

According to the quantitative content analysis of Ukrainian TV stories conducted by *Telekrytyka* internet source, the Russian company Gazprom was the most quoted subject during 1-17 January 2009 (682 stories)²⁶. Such robust campaign results in enhancing Gazprom's assertiveness in highlighting its stance. From this position it was much easier to feature information on the conflict's developments, produce information causes and provoke the Ukrainian party into situations where it would have to defend and justify itself. Naftogaz Ukraine was only present in 417 TV stories, depicted as an object dependant on exogenous factors and as an instrument of interests' fulfillment — by Gazprom or Ukrainian political actors.

If Gazprom's spokesman was cited 156 times, his Naftogas counterpart — 31 time only. It should be emphasized that such a skewed balance could have been observed on the Ukrainian television²⁷. Undoubtedly, that presence of Gazprom's position has been even more dominant in the Russian TV.

²⁶ Burkovskyi P, Chernenko C. Ukrainian-Russian Gas Conflict: news content review of top TV channels in both countries <http://telekritika.ua/telenovini/2009-01-20/43214>

²⁷ Ibid

With regards to the Russian TV channels, in a period January, 1-17, 2009 there were at least ten stories on Russia's First channel and 5 stories on NTV, which are broadcasted in Ukraine, harshly accusing Ukraine in siphoning Russian gas

Other issues complementing the siphoning allegation on the Russian TV were such subjects as domestic and professional incapacity of the Ukrainian authorities, leadership's personal interests and moral hazard in the gas sector as well as an issue of severe economic crises in Ukraine and gas crisis as its consequence.

The latter was targeted on the Russian audience, who would perceive Ukraine as a completely economically failed state, where the gas siphoning is the only possible salvation.

Therefore, many Ukrainian experts agree that the integrity of Russian media interpretations of the gas crisis, which is common for the authoritarian regime, could have been very convincing, however for the Russian audience only²⁸.

The Russian position has also dominated in the international media. While Gazprom deployed the entire envoy of commentators and experts capable to convincingly deliver the client's position in the relevant language and style, the Ukrainian response was very weak.

Very often top world and European TV channels failed to find a Ukrainian expert, a state or Naftogaz representative capable to explain the rational behind the Ukrainian actions in a language that could be understood by the Western audience (both in literate and figurative sense).

Ukraine's failure in the international media environment was very vividly assessed by the well-known British expert James Sherr on the press-conference in Kyiv organized by the Democratic Initiatives Foundation:

"The recent economic crisis clearly showed that the profile authorities in Kyiv simply do not understand the importance of establishing communication on the state and media level. As the Ukrainian voice, that was so necessary for Western Europe, couldn't be heard. The Russian speakers on a daily basis attended official meetings, TV programs and public gatherings. They represented their vision of what is going on, quoting names, volumes, prices and conditions.

In Ukraine you wouldn't find a single expert able to explain what is really going on. During the crisis Ukraine did technically correct and well planned moves. When Russia accused Ukraine in stealing the gas, Ukraine responded: "We are not stealing the gas but taking it for technical needs". No explanations followed. The Europeans couldn't get such answer this, as the first impression you get from it is that you are not being told the truth. When on January 13 Russia announced: "We resumed gas deliveries to Europe" but nobody in Europe received it, the Russians said: "that is because Ukraine is siphoning it again". And what was Ukraine's reaction? Silence, again.

But actually, there was an answer. Your main gas pipelines were temporary reversed in order to provide gas for South and East of Ukraine. And if the direction insisted by Gazprom had been chosen, the significant part of Ukraine would have been deprived of gas. Naftogaz requested the Russian side to choose other routes for gas transportation, however Gazprom insisted on the route, which was vitally important for Ukraine.

*If the Ukrainians managed to enlighten the European audience on these facts, they would find the understanding. We would realize that Russia plays a pretty cynical game. And one of main goals pursued by Russia in this crisis is simply punishing Ukraine and ruining its reputation"*²⁹.

²⁸ Ibid

²⁹ Democratic Initiatives Foundation <http://dif.org.ua/ua/events/kek>

Later the Russian officials admitted that there were no actual facts proving that Ukraine was stealing gas or committing violations of other kinds, that clearly demonstrates artificial nature of the allegations. On December 20, Head of the Accounting Chamber of the Russian Federation Sergei Stephashin talked to the journalists about “gas revisions” conducted jointly with their Ukrainian counterparts, particularly saying: “we didn’t find any unprecedented theft in this situation. Ukraine didn’t siphon gas from the pipeline”.³⁰

Speaking at the radio station “Ekho Moskvyy” on December 31, Gazprom’s official representative Sergei Kupriyanov said that the gas giant has withdrawn its claim from the Stockholm Arbitrary Court against Ukrainian Naftogaz on violation of the contract on gas deliveries to the Central and Western European states in January 2009. Kupriyanov noted that “we declared an emergency. And all clients agreed to that”. In the same time he added, that the European consumers hasn’t submitted a single claim regarding the gas crisis against Gazprom.³¹

Therefore, in such a way Russia dismissed its own accusations in gas theft against Ukraine. However, the bitter taste remained, as Ukraine’s reputation was severely harmed.

Ukraine’s defeat on the media field was demonstrated by the fact that, if in the crisis 2006 the factors that shaped the EU public opinion were in solidarity with Ukraine and condemned Russia, in 2009, despite even more arrogant Russian behavior, Europe concluded about **the joint responsibility** of Kyiv and Moscow on the gas disruption.

4. CHRONOLOGY OF THE CRISIS

- **October 2, 2008.** Russian Prime Minister Vladimir Putin and his Ukrainian counterpart Yulia Tymoshenko signed a Memorandum of Understanding under which price increases for gas imports will be spread over three years. According to point 3.3 of the aforementioned Agreement, “the parties are to sign a long term contract on gas transit through Ukraine before November 1, 2008. The transit tariffs were defined by the parties at the level of the year 2008 and were to be correlated by a reduction coefficient for the price of 6.4 cubic meters of natural gas necessary for normal functioning of the gas transportation system of Naftogaz”. The parties agreed that intermediary company RosUkrEnergo will be liquidated under the condition that the debt of Naftogaz to RosUkrEnergo for the supplied gas is transferred as debt of Naftogaz to Gazprom. The size of debt was not mentioned in the Agreement which later became one of the founding stones of the crisis. Later in December Russia refused to follow the provisions of the memorandum.
- **December 1, 2008.** Gazprom spokesman Sergei Kupriyanov said he cannot reveal how much of the debt is outstanding, but that Ukraine has «not paid in full, and has asked for a postponement.» He said that as of December 1, Ukraine was scheduled to have paid \$550 million. He said talks on whether to postpone the repayment schedule would continue on Wednesday. A spokesman for RosUkrEnergo said that Naftogaz had transferred to gas intermediary RosUkrEnergo \$268.7 million of the \$550 million. Gazprom claimed Ukraine a debt of \$2.4 billion for consumed gas, and Gazprom asked this amount be repaid before the commencement of a new supply contract. Although in December 2008 more than \$1 billion was paid by Ukraine to reduce its debt, Gazprom remained committed to cut

³⁰ Accounting Chamber of the Russian Federation: Ukraine Wasn’t Siphoning Gas <http://www.rosbalt.ru/print/701143.html>

³¹ Radio Svoboda <http://www.radiosvoboda.org/content/article/1925638.html>

supplies to Ukraine on 1 January 2009, if Ukraine did not redeem its \$1.67 billion debt for gas supplies and \$450 million in fines.

- **December 30, 2008.** Naftogaz paid \$1.522 billion, but parties were not able to agree the price for 2009. Ukraine proposed a price of \$201 and later \$235, while Gazprom demanded \$250 per 1,000 cubic meters.
- **December 31, 2008.** Negotiations between Gazprom and Naftogaz were interrupted.
- **January 1, 2009.** Deliveries of 90 million cubic meters of natural gas per day, destined for Ukraine, were cut off in full at 10:00 MSK. Transit deliveries to the EU continued at a volume of 300 million cubic meters per day.
- **January 2, 2009.** Ukrainian delegation including Fuel and Energy Minister Yuriy Prodan, Deputy Foreign Minister Konstantin Yeliseyev, President's representative for energy issues Bohdan Sokolovsky, and Deputy Head of Naftohaz Vadym Chuprun visited Czech Republic as the EU Presidency and a number of the EU other member states in the first week of 2009 to hold consultations on the gas crisis. President Yushchenko sent a letter to President of the European Commission Jose Manuel Barroso proposing the European Union's involvement in the settlement of the dispute.
- **January 2, 2009.** Hungary, Romania and Poland reported that pressure in their pipelines had dropped. Bulgaria also reported that supply was falling and that transit to Turkey, Greece and Republic of Macedonia was affected.
- **January 4, 2009.** Lawsuits were filed both by RosUkrEnergo (against Ukraine) and Gazprom (against Naftogaz) with the Stockholm Tribunal of the Arbitration Institute of the Stockholm Chamber of Commerce, Sweden. Ukraine has also filed in lawsuits there. According to Naftogaz, RosUkrEnergo owes the company \$40 million for services in transportation of natural gas.
- **January 5, 2009.** Kyiv's economic court decided to ban Naftogaz from transiting Russian gas in 2009 at a price of \$1.60 per 1,600 cubic meters per 100 kilometers. The court declared ineffective contracts on Russian gas transit via Ukraine because they were signed without being empowered by the Cabinet of Ministers of Ukraine.
- **January 5, 2009.** Prime Minister Putin instructed the head of Gazprom Alexei Miller to reduce supplies via Ukraine to Europe by the amount of gas Ukraine had allegedly taken since deliveries ended on 1 January 2009.
- **January 7, 2009.** All Russian gas flow through Ukraine was stopped by Russian party amid mutual accusations between the two parties. Several countries reported a major fall in supplies of Russian gas; the worst affected were Bulgaria, Moldova and Slovakia.
- **January 7, 2009.** Jose Manuel Barroso criticised Ukraine. "Ukraine says it wants to be closer to the EU. If it wants to be closer, it should not create any problems for gas to come to the EU," European Commission President Jose Manuel Barroso said at a press conference in Prague
- **January 8, 2009.** Talks between Naftogaz and Gazprom were resumed overnight. Ukraine agreed to guarantee the unimpeded transit of natural gas on the condition that Gazprom would guarantee and supply technical gas for Ukraine's gas transit system to function; this was denied by Russia. Although the European Union, Ukraine and Russia agreed the deployment of the international monitoring group on the gas metering stations between Russia and Ukraine, the supplies to Europe were not restored.
- **January 10, 2009.** In the course of a telephone conversation, the President of Moldova Vladimir Voronin and the President of Ukraine Viktor Yushchenko have reached an agree-

ment to resume gas supply from Ukraine to Moldova in the amount necessary to maintain the gas transportation system and the social facilities of the country, as well as for the emergency support for ordinary consumers.

- **January 10, 2009.** Given the friendly relationship between Ukraine, Bulgaria and Moldova, President Viktor Yushchenko decided to supply gas to these countries from Ukraine's own resources, at an optimal level. This represents approximately 2 million cubic meters of gas per day to Bulgaria and 1.5 million cubic meters of gas per day to Moldova. With regard to payments, the price of gas and so on, President Viktor Yushchenko proposed that these issues be settled once Russia will resumes full gas transit through Ukraine.
- **January 13, 2009.** Russia resumed pressure on the entry point to the Ukrainian transit system and offered to partially resume deliveries — in Romanian and Balkan directions (through Orlovka pumping station). The Ukrainian side technically couldn't implement this option, therefore the delivery failed to resume. The position of Naftogaz was supported by the fact that the main Ukrainian route was currently working on reversing gas deliveries from the underground storages located in the Western part of the country to consumers on the East. Implementation of Gazprom's request without halting gas reverse towards big cities in Eastern Ukraine was impossible. At that moment the only acceptable option was to resume deliveries in full volumes.
- **January 13, 2009.** Issue of the gas crisis is on agenda in the Parliament of Ukraine. Prime-Minister of Ukraine Yulia Tymoshenko is present at the Parliamentary session. The Minister of Energy and Fuel Resources Yuri Prodan reports. Leader of the opposition Party of Regions Victor Yanukovych urges the active Cabinet of Ministers to resign and embark on the procedure of impeaching the President. The Party of Regions actually joins the Russian side in the gas conflict accusing the Ukrainian government in the anti-Russian policy. President Yushchenko, despite his persistent conflict with the government, doesn't support its resignation. The Parliament establishes the Temporary Investigation Commission.
- **January 17, 2009.** Russia held an international gas conference in Moscow. The EU was represented by the Presidency (the Czech Minister of Industry and Trade Martin Říman) and European Commission (the EU Energy Commissioner Andris Piebalgs), so that the EU could speak with one voice. Ukraine was represented by the Prime Minister Yulia Tymoshenko. The summit did not achieve any solution to the crisis and the negotiations continued bilaterally between prime ministers Putin and Tymoshenko.
- **January 17, 2009.** Leader of the Communist Party Petro Symonenko, accused President Yushchenko in personal loyalty to RosUkrEnergo: "RosUkrEnergo and its owner Dmytro Firtash only knows how to launder money to accounts of the president's family... Thus family business Yushchenko-Firtash has to be stopped and judged". These allegations are widely cited by the Russian media. President Yushchenko, in his turn declares his intention to take Symonenko to court for the intentional spread of wrong information.
- **January 18, 2009.** Early morning after five-hour talks Putin and Tymoshenko reached a deal on restoring gas supplies to Europe and Ukraine. Parties agreed that Ukraine would start paying "European prices" for its natural gas, less a 20 percent discount for 2009, and would pay the full European market starting from 2010. In return for the discounts Ukraine agreed to keep its transit fee for Russian gas unchanged in 2009. The two sides had also agreed not to use intermediaries therefore to remove RosUkrEnergo from the market. Naftogaz is to make payments for monthly supplies by the seventh of the following month.

- **January 18, 2009.** The Government of the Republic of Moldova welcomed the consensus reached by Ukraine and Russia on the terms of delivery and transit of gas to Moldova and European countries.
- **January 19, 2009.** The head of Gazprom Alexei Miller and the head of Naftogaz Oleh Dubyna signed the 10-year agreement on natural gas supplies to Ukraine for the period of 2009-2019.
- **January 20, 2009.** Gas supplies restarted.
- **January 21, 2009.** Gas supplies fully restored
- **February 6, 2009.** Ukraine fully paid in time for gas consumed in January. However the portion of gas consumed is substantially lower than fixed in the agreement signed on January 19 (due to evident drop of consumption caused by economic crisis). The concern expressed that in the future it may lead to large fines as stipulated by the agreement. The situation of this kind will be repeated each month since that.
- **February 10, 2009.** Ukraine's Council for National Security and Defense (CNSD) under supervision of President Yushchenko adopts a decision "*on urgent measures to ensure energy security of Ukraine*", which criticizes Russian-Ukrainian gas agreements signed in January 2009. The CNSD states that the government implemented only 72 (47.7%) out of 151 gas sector objectives defined by the CNSD decisions in 2008-2009 and failed to implement other 79 (52,3%). With regards to the CNSD evaluation, all these objectives were aimed at enhancement of the governmental policy in the energy security of Ukraine and had to prevent crisis escalation in this sector.
- **March 23, 2009.** Following the International Investment Conference on the Modernisation of Ukraine's Gas Transit System, in Presence of President Victor Yushchenko and President of the European Commission Jose Manuel Barroso, the Joint EU-Ukraine Declaration was signed. For Ukraine, the instrument was signed by Prime Minister Yuliya Tymoshenko, for the European Commission by Commissioner for External Relations and European Neighbourhood Policy Benita Ferrero-Waldner and Commissioner for Energy Andris Piebalgs, for the EIB by President Philippe Maystadt, for the EBRD by First Vice President Varel Freeman, and for the World Bank by Martin Raiser. According to the declaration, the Ukrainian government pledged to secure independence of the gas transit operator, in particular, through implementing the EC Directive of 2003 on the common rules for the internal market in electricity. The Ukrainian government promised to enable the gas transit operators to act on a commercial basis in order to fulfill their business plan in a long-term perspective. Ukraine also pledged to ensure an access of third parties to underground gas storages on transparent commercial conditions. At the same time, Ukraine must complete formation of gas sector till 2011 that will be also reflected in an association agreement between Ukraine and the EU, as well as in an agreement on Ukraine's joining the Energy Community. Yuliya Tymoshenko noted that the final declaration of the conference includes a clear provision that the GTS will remain in Ukraine's state property and is seen as an integral part of a common European energy infrastructure.
- **March 24, 2009.** Russian Prime Minister Vladimir Putin has dismissed an EU-Ukraine gas deal as "unprofessional", saying Russia — the main supplier — had not been consulted. "If Russia's interests are ignored, then we shall also be forced to start reconsidering the principles of our relations with partners," he warned.
- **April 23, 2009.** Russia and Ukraine may be close to a new gas crisis as Kiev faces difficulties making payments, an official accompanying Prime Minister Vladimir Putin to

Kazakhstan was quoted. "If things are that bad in the financial sphere... We could conclude that we could be on the brink of a new gas crisis," news agencies quoted the official as saying, referring to Ukraine's poor economic situation. But a Naftogaz spokesman in Kiev denied the claim.

- **April 29, 2009.** Vladimir Putin and Yulia Tymoshenko held talks in Moscow. Tymoshenko is certain that tensions in relations with Moscow, first and foremost, those over gas supplies, have been ultimately resolved. "The days when confrontation was felt between Russia and Ukraine are a bygone," she said. "The gas supply system has been fully stabilized and we have been trying to do our utmost every single month to ensure the settlements for the gas consumed should be posted on time and in full." She thanked Russia for the permission not to pay fines for underusing gas quotas. Putin noted positive trends in the development of Russian-Ukrainian economic cooperation. Putin said that "coordination has been getting stronger between various industries and Russian and Ukrainian enterprises, and our key task is to support them."
- **May 22, 2009.** Russian Prime Minister Vladimir Putin and his Ukrainian counterpart Yulia Tymoshenko did not take any decision regarding financing for gas due to be pumped into Ukraine's underground storage facilities, agreeing to continue talks. Russian President Dmitry Medvedev at the end of last week said Russia had doubts over Ukraine's ability to pay its gas bills, urging the European Union to contribute to a loan Russia is contemplating to help Ukraine.
- **May 26, 2009.** Russia's Gazprom CEO Alexei Miller sees the situation with Ukraine's payment for gas supplies in May as "very, very difficult," he said. Gazprom will have to switch to 100% advance payments if it sees disruptions in the payment of the May bill, he said following a meeting with Naftogaz chief Oleh Dubyna.
- **November 15, 2009.** American experts conclude on high probability of the artificial recurrence of the gas crisis, as announce by the former Prime Minister of the Czech Republic Mirek Topolánek on the Forth Energy Forum in Budapest.
- **November 25, 2009.** Head of the Committee of the European Parliament on Industry Research and Energy in the Deutsche Welle interview concluded that the EU states have to be prepared to further disruptions of gas deliveries.
- **November 19, 2009.** During negotiations in Yalta, Ukrainian and Russian Prime Ministers agreed to omit a penalty provision for insufficient purchase of the Russia gas by Naftogaz Ukraine in 2009, on 60% increase of a transit tariffs for gas transportation through the Ukrainian territory and on reducing provisional gas volumes for Ukraine in 2010 without penalties for insufficient gas volume purchased. In this respect, Representative of Ukraine's President on international issues of energy security Bohdan Sokolovskyi noted that PM Yulia Tymoshenko fulfilled only a certain part of directives provided by President Yushchenko..
- **November 25, 2009.** Official representative of Gazprom Sergei Kupriyanov commenting to Ekho Moskvyy Radio Station stated that recurrence of the gas conflict could not be totally excluded. Moreover, if something goes wrong, it will be "definitely" Ukraine's fault.
- **December 20, 2009.** Head of the Russian Accounting Chamber Sergei Stepashin told the journalists about "gas revisions" jointly conducted with their Ukrainian counterparts saying that "we didn't find any unprecedented theft in this situation. *Ukraine wasn't siphoning gas from the pipeline.*"

- **December 31, 2009.** Official representative of Gazprom Sergei Kupriyanov commenting to Ekho Moskvyy Radio Station informed that the gas giant has withdrawn its claim from the Stockholm Arbitrary Court against Ukrainian Naftogaz on violation of the contract on gas deliveries to the Central and Western European states in January 2009. Kupriyanov noted that “we declared an emergency. And all clients agreed to that”.

5. DECISION OCCASIONS

Before, during and in the aftermath of gas crisis 2009, the Ukrainian side faced several situations, which required making respective decisions.

First — in December 2008 the Russian side issued an ultimatum regarding reconsideration of gas prices accompanied with non-payment accusations. There was a need for an acceptable for both sides solution. The solution must have embraced all spectrum of gas relations — gas price, transit price, timely payment mechanism, participating institutions (including intermediaries), and the internal gas market structure.

Second — during January 1-2, 2009 the Russian side had significantly decreased gas supply to Ukraine demanding at the same time an uninterrupted gas transit to the European countries via Ukraine with no appropriate contract signed.

Third — on January 7, 2009 the Russian side had completely stopped gas supply to Ukraine, including the technical gas need to ensure gas transit to Europe. A technical solution, preventing collapse of Ukrainian economy and communal sector, was urgently needed. An additional solution for the international gas crisis was also sought.

Fourth — on January 17-19, 2009 an intensive top-level political and technical negotiations concerning formation of the long-term gas supply and gas transit agreement were held.

Fifth — beginning on January 2009 and up till now (February 2010) Ukraine faces a challenge of securing the gas contract payments (every 7th of each month) and prospective penalties.

The first case had failed resulting in aggravating the international crisis.

The second case appeared to be inaccessible due to inability of Russian side for a compromise and its determination to punish Ukraine even at a price of gas supply to Europe.

Nevertheless, in the other three cases decision centres worked out the following solutions:

- a. secure a reverse functioning of Ukrainian gas system at times of absence of full supply of gas
- b. reach the new gas supply agreements flagging the transition to formula-based formation of gas prices removing non-transparent intermediaries
- c. secure timely payment and at least temporary removal of penalties

At the same time a relative success in the above cases is not irreversible. Gas contracts concluded in the beginning of 2009 had appeared under severe critique for the basic price of gas at USD 450, exaggerated purchase requirements at 52 bln cubic metres with the real need of around 30 bln cubic metres in 2009-2010, system of penalties for lesser or larger take-out of gas, and finally a low transit rate at a level of USD 1,7 with an average European price of USD 3.

6. THEMATIC ANALYSIS

• Crisis preparedness, prevention, and mitigation

On the verge of crisis Ukraine found itself in a difficult institutional situation since only few weeks ago a serious confrontation between Parliament and President was overcome. The confrontation had almost led to the second during last two years early parliamentary elections. Despite the confrontation was formally through, the Government was in a fragile situation since there was de-facto no parliamentary majority.

On one side, the absence of strong parliamentary majority did not allow the Government to count on parliamentary support of decisions, including the anti-crisis ones. The situation resembled the one when the Parliament had dismissed the Government of Yury Yekhanurov on January 10, 2006 when he signed a gas supply contract which was assessed by many politicians and experts as not appropriate.

On the other side the problem was intensified by the strong clashes between the Prime Minister Yulia Tymoshenko and the President Victor Yushchenko who was not satisfied with formal reanimation of coalition and failure of project of early parliamentary elections.

At the same time in spite of obvious institutional challenges, Ukrainian side had made several moves on technical level which allowed for a significant minimisation of possible technological or even humanitarian catastrophe caused by interrupted gas supply during winter.

First, already during June-September had pumped into underground gas storages a quantity of gas sufficient for uninterrupted gas transit in a regular mode as well as for three months strategic reserves in case the gas supplies were entirely cut off. This had placed Ukraine in a much more advantageous situation comparing to a number European customers as Slovakia, Bulgaria or Serbia.

Second, Ukrainian technocrats learned the lesson of 2006 crisis and created a technical scheme of a temporary reverse of major gas pipelines which allowing for an interrupted supply of gas from *underground gas storages*, located mainly in Western Ukraine, into the Central and Eastern regions with the major mass of consumers. The scheme worked during the gas crisis surprising the Russian side by the fact that no Ukrainian households were affected by the crisis.

• Leadership

Leadership quality in Ukraine during the gas crisis is a mirror reflection of political system with its institutions and peculiarities of power. Overall Ukrainian institutions held all legitimacy necessary — democratically elected and formed President, Parliament, and Government, as well as subordinated to the Government management of Naftogaz.

The Government of Yulia Tymoshenko was formed after October 2007 elections, which delivered a weak majority to the “democratic” political forces — winners of Orange Revolution. Unity of the forces was ruined already in 2005. Level of mistrust among the key political players of the forces grew steadily and despite the high popularity of Prime Minister in 2008, her leadership was not accepted without conflicts.

At the same time the mixed constitutional model, installed as a result of 2004 reform, left a lot of leeways and de-facto installed a duality of executive power with a parallel existence and conflict of President and Prime Minister.

• Decision units

The President of Ukraine does not have a direct authority over the energy sector. Article 106 of the Constitution of Ukraine describing President powers does not empower the President to exercise authority over the energy sector and respective state companies. From the other side, the Constitution empowers the President to exercise authority over the state foreign policy and sphere of national security. With no doubt, questions of supply and transit of gas relate to sphere of energy security as well as to the sphere of national security. The President, therefore, has legitimate grounds for being one of the centre of decision making in the sphere.

The respective powers President Yushchenko has exercised through the two institutional channels. The first one is a respective department of the Secretariat with a created institute of the *Representative of President of Ukraine for International Issues of Energy Security*. The position was taken over by former diplomat Bohdan Sokolovsky who during the times of crisis became the major spokesman of the President of Ukraine in the matter of mitigating the crisis and further politics in the sphere. The second institution was the *National Security and Defence Council (NSDC)* where the President held the chair. According to the Constitution decisions of the Council were obligatory for the Government and other bodies of executive power.

Comparing to the President, the Cabinet of Ministers of Ukraine has at its disposal many more legitimate instruments which directly influence the decisions in questions of gas purchase, transit and related policies. Government with a majority of votes can adopt any international or intergovernmental gas supply agreements. State energy monopoly Naftogaz is subordinated to the Government and the Cabinet of Ministers appoints its top management. Conducting necessary negotiations is an exclusive prerogative of Government and the Ministry of Fuel and Energy, headed by Yury Prodan, a trusted by Yulia Tymoshenko counterpart.

At the same time, at the eve of crisis not entire range of government institutions was manned accordingly. The position of Deputy Prime Minister for Energy, meant for , a political and business heavy weight Vitaly Hayduk, was still vacate.

Availability of two powerful political centres competing with each other was the major peculiarity defining behaviour of Ukraine on the verge, during and after the gas crisis. During the events a negotiation and executive ability of business entity of Naftogaz was deteriorated by double subordination.

According to not officially confirmed it was an order of President Yushchenko to the head of Naftogaz Oleh Dubyna to stop further negotiations on terms agreed by the government was a main condition of the crisis moving into the active fase.

It is worth to mention the role of the Ministry for Foreign Affairs which was granted a function of delivering of position of Ukraine to its international partners. The Deputy Minister for Foreign Affairs Konstantyn Yeliseev was made responsible for the process of communication.

During the apogee of crisis the Parliament of Ukraine had become one more decision making centre in the matter. On January 13, 2009 the government delivered its explanations of crisis before the Parliament. Parliamentary opposition, particularly the Party of Regions, called for a vote of non-confidence to the government and initiate the procedure of impeachment to the president. The parliament did not support the motions. Further developments in the parliament had exposed a deficit of unity of Ukrainian political class in front of externally provoked crisis.

• Problem perception and framing

Gas crisis in Ukraine is perceived through the lens of deeply rooted belief of fundamental dependence on Russian energy resources. The feeling of being dependent is exaggerated in most of the cases as there is no dependent side in the seller-buyer relations. Even monopolist under conditions of full liquidity of buyer cannot exercise an infinite power over the latter.

Nevertheless, decades of “special relations” constructed on the mutual discounts, mergers of gas business elites from both sides and low transparency of gas market made their imprint on perceptibility of the problem. The perception was often decreased to the necessity of acceptance of unavoidable dependence and, consecutively, to process of securing the long-term discounts or other specific conditions.

For almost two decades the major criteria of “success” of Ukraine in gas questions was perceived to be “*a reached agreement on cheap gas price*”. That means the solution was sought, secured in an agreement or annual protocol, which could deliver a formal gas price to be significantly lower than the price for Western neighbours of Ukraine. For a long time the question of “hidden price”, appeared as a result of symmetrical discounts on transit as well as in political step-backs (Black Sea Fleet), was not paid any significance.

A separate factor forming a specific understanding of the problem in Ukraine was and still remains an absence of any contracted obligations towards EU on transit of gas. The absence made the gas problem to be treated solely as an element of bilateral Ukraine-Russia relations.

• Value conflict

The most important value conflict for Ukraine, exposed by the gas crisis, was the conflict between the officially declared choice for the full membership in the EU and the extremely slow reforms in the energy sector, which is still remaining one of the most non-transparent components of national economy. Majority of difficulties, connected to the complex solution of gas supply and transit, conditioned by preservation of non-transparent post-soviet practices. The practices confirm the deep merger of political and business interests and existence of trans-national business groups interested in mechanisms of transferring the energy super-profits and laundering them outside Ukraine and Russia.

Another important conflict is the argument between short-term interests of business groups in low gas prices and strategic interests of Ukraine in decreasing the volume of consumed energy resources and increasing energy efficiency.

• Politico-bureaucratic cooperation and conflict

As was noted earlier, the government was relying on a fragile support of elusive parliamentary majority. The Cabinet of Ministers could not force the appointment of Vitaly Haiduk as the Deputy Prime Minister for Energy, what negatively influenced the institutional ability of government.

Relations in triangle of President-Cabinet of Ministers-management of Naftogaz is the classic example of bureaucratic “stretch” conditioned by double subordination. This fact has led to break up of negotiations on January 30, 2008 and further aggravating of crisis.

Within the government, the Prime Minister Yulia Tymoshenko was relying on support of existing, although incomplete, “energy block” represented by the Minister for Fuel and Energy Yuriy Prodan.

Presidential administration, in majority of cases, did not render its support to the Government, most of the time taking the stand of an external critic. Only during the highest peak of crisis one could observe a temporary cooperation, what helped to reach the consensus and pass “the hottest period” of gas crisis.

- **Crisis communication and credibility**

Crisis communication missed coordination resulting in misunderstanding on one player of the actions of others.

A problem of setting up of horizontal lines of communication between different levels of power exists. All communication is done at the level of the head of institution. There is a lack of practice of delegated authority.

In a number of cases a leakage of information took place, jeopardising entire process. At the same time according to some experts due to the conditions of lack of transparency of power it were the leakages which played a positive role attracting attention of public to the possible agreements which could harm national interests.

Besides that, a number of problems in delivering the necessary information to the public and international community existed as a result of absence of qualified press-secretaries and commentators.

- **Transnationalisation and internationalisation**

Originated as a bilateral, the gas crisis had quickly transformed into multilateral encompassing a maximum number of participants, whose interests were affected. 18 European countries had suffered from stopped gas supply. A number of influential international players, and the EU first of all, took part in resolving the crisis.

For the first time for its history as an independent state Ukraine created a large-scale problems to its international partners, although Ukraine cannot be accounted for creating it willingly and deliberately.

After the active phase of crisis passed away, its consequences linger on being highly international. The EU projects a high interest in creating conditions preventing this sort of crisis in the future. It has expressed its readiness to provide the necessary aid for Ukraine to conduct the vital reforms.

- **Temporal effects and crisis management**

The temporal effect came as a temporary improvement in cooperation between president and government turning into a line of coordinated actions aimed at solution of crisis at a time of its apogee. Ukrainian side demonstrated both political and technical ability to manage critical situation (during organisation of reverse of major gas pipelines on January 7-17, 2009).

• Lessons Learned

Gas Crisis 2009 forced Ukrainian politicians to re-think the state of national energy security making certain consolidated decisions towards its improvement. A concern by the EU became a certain accelerator in the matter.

A consequence of re-thinking became a proposal pack expressed in a form of Joint EU-Ukraine international conference on modernisation of Ukrainian gas transportation system, signed on March 23, 2009 in Brussels. The Proposal contains a number of actions increasing Ukrainian energy security as well as decreasing potential propensity for crisis between Ukraine and Russia.

Regretfully, the situation did not move beyond forming the propositions. During 2009 and the beginning of 2010 the Government of Yulia Tymoshenko did not project enough of political will for implementation of propositions.

At the beginning of 2010 due to consequences of presidential elections perspectives for realisation of Brussels declaration significantly decreased. A danger of re-animation of old non-transparent schemes as well as concealed privatisation of Ukrainian GTS (international gas consortia) instead of gas sector reform still persists.

Under these conditions, realisation of Joint Declaration of March 23, 2009 obligations is the most optimal solution for protection of national interests of Ukraine in gas sphere and together with the EU pre-empt possible Russian moves aimed at limitation of gas transit to Europe.

Ukraine is not secured from “gas wars” repetition until its gas sector remains unreformed and until questions of gas supply remain politicised and used as an element of game of grand neighbour for “sphere of privileged interests” with Ukraine supposedly being a part of it.

According to the expert of Nomos Centre Mykhaylo Honchar, one of the systemic causes of last gas crises is a non-transparency of functioning of gas sector in Russia and Ukraine, absence of access to the wider public to the respective contracts of Gazprom with its partners in Europe, and absence of reliable information on real state of affairs in gas sector in Russia ³².

Current situation in gas relations tends to improve yet it is too early to say that all problems which caused 2009 crisis are removed.

• Positive moves:

- a. Non-transparent intermediaries removed. Introduced direct contracts between Gazprom and Naftogaz.
- b. Introduced the European-like formula principle of prices formation for Ukraine. The price is re-evaluated every quarter of the year according to the energy market prices dynamics.
- c. Gas transit rate increased to USD 2,7 what is closer to the average European rates

The formula principle indicates that Ukraine gets rid of dependence on politically motivated price discounts from Russian side. Russia does not have a possibility for blackmail with price increase in case of absence of political loyalty from Kyiv.

³² Transparency as a preventive measure for gas crises. Glavred. <http://ua.glavred.info/print/articles/15393.prm>

At the same time the introduced formula as well as some of its components are not optimal. Among other issues experts from NSDC of Ukraine point out on the following risks³³:

- a.** Price-related risk: basic price of gas for Ukraine, introduced into the formula, is one of the highest prices in Europe. Indicated in the contract price of USD 450 per 1000 cubic metres of gas bound to the comparable parameters of gasoil and mazut has no economic grounds and is inappropriate for Ukrainian realities of energy resources substitution.
- b.** Risks connected to asymmetric responsibility of sides of contract, especially in terms of penalties. Ukraine bears responsibility for lower take-out of gas while Russia does not bear any responsibility decreasing the transit volumes.
- c.** Risk connected to obligations of Ukrainian side to buy gas in quantities (52 bln cubic metres) exceeding its forecasted annual imported gas consumption.
- d.** Risk of losing by Naftogaz its status of an independent player due to loss of liquidity.

Vulnerability of Ukraine in gas crises was determined by:

- a.** Personal conflicts between the top level officials and resulting insufficiency in institutional capability of executive power, low level of coordination and executive discipline
- b.** Availability of non-transparent business interests on all levels of state power
- c.** Absence of reforms of national economy, especially non-transparency of energy sector which preserved a great deal of soviet (administrative regulation) and post-soviet (corruption) features.
- d.** Low unity of political class in the face of external threats, ability of opposition to play on the other side of the conflict
- e.** Weakness in waging “information wars”, inability to deliver a clear and understandable interpretation of events to key groups in Ukraine as well as abroad. Absence of respectful and recognisable “speakers” who could present the national position.

³³ Analysis of threats to national interests in gas sphere (by NSDC experts) <http://zamkova.info/index.php?newsid=4606>

ANNEXES

The discussion between the Romanian journalist and Vladimir Putin

«**Liviu Iurea, TVR(Romanian National Television):** You know that we are receiving Russian gas intermediated by a company? And Bucharest is trying to obtain contract of delivery of gas directly with Russia. How real is it? This is the first question. The second question — is there an alternative to include Romania in the South Stream project?

Vladimir Putin: First, we are not against the fact that Romania took part in the South Stream project. Second, I will refer to the first question you asked — the intermediary companies on the Romanian market. The Romanian President raised this issue in a discussion we had (on the 6-th of January). We do agree to pass to direct relations (or gas deliveries) with state companies. By the way, we do agree to do that in the case of Ukraine. I will tell you a surprising thing: I have the impression that they don't allow us to do that, because the Ukrainian state company refused our conditions — 250 dollars for 1.000 cubic meters. Then, the intermediary companies told us: «We will sign for them and we will solve everything. That's why I can say that in Ukraine there is too much corruption. But «I have for Romania an offer that, I believe, would be difficult to refuse for you. Please transmit this to President Băsescu. All the Russian gas volumes that Ukraine needs in a year time we agree to sell to the Romanian state company, so that you are selling it to Ukraine. Is it a good offer? I hope you write it down!»

Documents

1. Council of the European Union EU Declaration on the Russia/Ukraine Problem and Energy Security

(Prague, January the 8th 2009)

1. The present situation caused by interruptions of gas supplies from Russia via the Ukraine creates serious difficulties for a number of EU countries. Given the importance attached to solidarity within the EU, this is a problem for the EU as such. It is unacceptable for the EU to see its citizens and enterprises suffering from gas shortages due to the non respect by both partner countries of their contractual obligations.

2. With the first evidence of gas supply reductions in early January 2009, the EU has undertaken concerted efforts to facilitate the dialogue between Russia and the Ukraine. Both sides have to date shown insufficient determination to solve the problem, which damages their credibility. The EU, however, expects that the current negotiations will bring a quick solution. It urges Russia and the Ukraine to honor their obligations as supplier respectively transit country and to immediately resume normal deliveries to the European market.

3. The EU calls on both parties to accept independent monitoring of the actual flows of gas through the pipelines.

4. A special Energy Council will take place on 12 January the 12th in order to look at the situation on the energy market, including monitoring, and to discuss the concrete measures to be taken.

5. The EU also insists on the necessity to create the conditions for a long term solution, based on internationally recognized principles, thus putting an end to regularly occurring crises in the midst of winter.

6. Security of energy supply is a priority for the EU. It involves the responsibility and solidarity of all the Member States. Therefore, the EU will speed up work on the various energy security initiatives mentioned under paragraph 17 of the October EC conclusions. Particular emphasis will be put on priority interconnections both within the EU and with supplier and transit countries, increased transparency, and the developing of crisis mechanisms to tackle temporary supply disruptions. Energy security will be on the agenda of the upcoming General Affairs Councils with a view to reaching decisions at the Spring European Council.

2. Council of the European Union Conclusions on Energy Security in Relation with the Russia/Ukraine Gas Dispute (Brussels, January the 12th 2009)

The Council adopted the following conclusions:

«The extraordinary Energy (TTE) Council met in a critical moment caused by the current unprecedented interruption of gas supplies from Russia via Ukraine to the EU. The Council urges both parties to resume gas deliveries to the EU immediately in order to rebuild the credibility of both parties and avoid further economical harms and suffering to the citizens of the EU and of neighboring countries.

The Council evaluated the situation of gas supplies in relevant Member States and appreciates domestic and solidarity measures already undertaken, which — despite the limited possibilities in the short run — have helped to mitigate the impact on European citizens and national economies. Member

States are encouraged to sustain and deepen solidarity measures until the supplies are restored.

The Council welcomes the steps undertaken by the Presidency and the Commission with the aim to facilitate the dialogue between Russia and Ukraine in order immediately to restore gas deliveries and appreciates that the EU and its Member States coordinated their approach towards third parties.

The Council appreciates the steps taken towards the establishment of the technical monitoring mission, which should be maintained as long as necessary, and expects all parties to facilitate prompt results from its work. The Council will follow up closely the information provided by this monitoring mission.

Furthermore, the Council calls on both parties to develop lasting solutions that would prevent the recurrence of such dispute, and in any case ensure they will honour their obligations and guarantee the continuity of gas supply to the EU.

The present crisis has documented the importance of urgently reinforcing the energy policy in Member States and at EU level in order to be able to prevent possible future major supply disruptions or cope with their consequences. In this respect and building on the 2nd Strategic Energy Review, the Council agrees on the necessity urgently to develop and strengthen medium and long-term measures along the following priority axes: transparency regarding physical gas flows, demand and storage volumes must be enhanced in both Member States and their industry, and in supply and transit countries, including by installing reliable metering systems where appropriate. In this framework, the Council recalls the contribution of long term contracts to the reliability of both countries towards European final customers.

The Council invites the Commission to present a report on this issue in time for the March European Council. The functioning of the Early Warning Mechanism must be assessed as well.

Regional or bilateral solidarity arrangements, including on a commercial basis, addressing disruption of supplies must be enhanced. The Commission is invited to suggest possible forms of such agreements. The Commission is also invited to speed up the revision of the Security of Gas Supply Directive 2004/67/EC by the end of 2009, notably with respect to the definition of the “major supply disruption” indicator and the related Community and national mitigating measures in crisis situations. Access to and investment in gas storage must be improved and strategic gas stocks could also be considered by Member States as well as other means to improve security including the capacity of each Member State to free up security margins.

In order to identify missing interconnections and accelerate the relevant work, the Commission is invited to carry out a thorough assessment of network interconnection, identify gaps, suggest action and to speed up the revision of the TEN-E framework with a view to considering the development of a comprehensive EU Energy Security and Infrastructure Instrument as suggested in the 2nd Strategic Energy Review. Member States are urged to speed up the implementation of network planning provisions foreseen in the 3rd internal energy market package and inform the Commission of the planning and realization of their most urgent projects.

The contribution of diversified transport routes and sources to the energy security of the EU and its Member States, including by LNG terminals suitably connected to the internal market to be of use to all Member States, must be a major criterion for selecting projects eligible for Community co-financing and other instruments such as those managed by the EIB. In this context the Council calls for mobilizing potential resources under the Community budget and other financing instruments to strengthen investment in vital energy infrastructure, and calls also for urgent progress on the European Economic Recovery Plan as agreed by the European Council conclusions of December 2008.

The Council recalls that early implementation of measures and commitments related to the internal market, energy efficiency and renewable energy also contribute to energy security.

The Council invites the Commission to identify with the Member States affected, the economic and social consequences resulting from the crisis and to map out the relevant measures, including State aid rules where necessary, in assisting those Member States. The Council will review the situation and progress made and will decide on further concrete medium and long-term measures envisaged in the 2nd Strategic Energy Review as well as in these Council Conclusions. The Council invites the Commission to report on the progress reached at the 19 February Energy Council in order for the Spring European Council to agree on the necessary responses on energy security.”

3. Gazprom’s statement on the Agreement of 19 January 2009 with Ukraine

Speaking to journalists during a conference call today Gazprom’s Deputy CEO Alexander Medvedev confirmed that contracts had been signed with Ukraine for both the supply of gas to the Ukraine and transit of Russian gas to Europe:

- The signing of the contracts, both of which cover 10-year terms, is a major achievement

- 2009 is the last year of discounted prices for natural gas as well as special transit rate for transit via Ukraine. In 2010, Ukraine will pay European prices for supply and Gazprom will pay European prices for transit.
- Assuming Ukraine's future compliance with the contracts, there should never be a repeat of this winter's situation (interruption of transit supplies to Europe). Both contracts contain internal mechanisms to prevent non-compliance, including a clause covering advance payment in the event of lack of payment by Ukraine for the gas it receives.
- Today, in accordance with the agreements, the flow of natural gas from Russia to Europe started at 10am. Today, the volume should reach 423.8 million cubic metres of gas.
- Gazprom reserves the right to claim for any damages suffered over the last month, but in respect of the supply and transit contracts and outstanding debts, Gazprom and Ukraine have found a solution to settle the dispute.
- Following the agreement of new contracts, there is no need for the monitoring system to continue. Unfortunately the function of the international monitoring system was not performed in full, with monitors unable to enter Ukraine's underground storage facilities to assess the situation.
- In 2009 the average price paid by Ukraine will be below \$250/1000cm, given the falling price of crude oil and oil products. European customers are likely to pay around \$280/1000cm. In 2010, the transit rate will increase to a level of around \$2.50 per 1000cm per 100km, so Ukraine's transit revenues of Ukraine will increase by about 50%, given the current forecast of natural gas prices.
- Over the period of the dispute Gazprom lost approximately \$100m per day as a result of not being able to supply its European customers, but the company believes that a substantial part of these losses will be covered over the coming days and months due the need to refill underground storage facilities and the high level of demand from customers. Gazprom's investment programme has not been affected and projects such as Nord Stream, Shtokman and Yamal will continue as planned.
- The dispute has emphasized the need for South Stream — it is clear that the sooner this diversification of transit routes takes place, the better for Europe. This is not only in respect of political risk, but also technical risk.

Source: <http://www.gazpromukrainefacts.com>

4. EU External Relations Council Conclusions on Ukraine/Russia (Brussels, 26 January 2009)

Over lunch, Ministers debated bilateral relations with Ukraine and Russia. The Presidency and the Commission presented events planned with Russia and Ukraine during the next six months, in particular as regards ongoing negotiations on successor agreements to the partnership and cooperation agreements with both countries, as well as political dialogue meetings.

In the case of Ukraine, negotiations on a new agreement are already well advanced. As for Russia, the negotiating process is at its beginning, following an interruption of meetings following the Georgia conflict last summer. The presidency hopes that the negotiations can make real progress during the course of its tenure over the coming six months.

As regards political dialogue, a summit meeting with Russia is planned in May. There will also be two meetings at foreign ministers' level with Russia, one next month in Moscow and a second in April in the margins of the General Affairs and External Relations Council.

With Ukraine, a foreign ministers' troika meeting is planned next month in Prague and a meeting of the Cooperation Council in June.

5. EU General Affairs Council Conclusions on Energy Security

(Brussels, 26 January 2009)

The presidency briefed the Council on how it plans to handle the issue of energy security, following the crisis stemming from the recent interruption of gas supplies from Russia via Ukraine to the EU.

The presidency outlined areas where it intends work to be speeded up and given the highest priority. The Commission confirmed its intentions regarding interconnection and infrastructure projects to be proposed for EU funding under the economic recovery plan approved in December by the European Council.

The Council held an exchange of views, emphasizing urgency in seeking solutions to problems that were highlighted during the gas crisis.

The presidency identified four areas on which it intends to focus:

- Internal energy market: reaching an agreement by the end of March on a proposed package, including on market transparency.
- Interconnection and infrastructure projects: reaching an early agreement on the Commission's proposals.
- Supply crisis response mechanisms: adjustments to directives on the security of supply of oil and gas, and measures to improve access to and investment in gas storage.
- External energy policy: developing policy so as to reduce the EU's vulnerability and avoid new disruptions of supply. [...]

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