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THE CONFLICT IN UKRAINE AND ITS IMPACT ON RUSSIA'S ENERGY POLICY

Martin Horemuž*

ABSTRACT
For Russia, the energy policy is the key as well as one of the most effective power political tools for her foreign policy, proclaimed also in the conceptual and foreign-political documents. Moreover, the energy raw materials have a significant share in the income of the state budget and so create the economic basis for the Russian political power. In this context, Ukraine is a notable example of the application of the energy policy by Russia, which is at the same time highlighted by the ongoing conflict in the Eastern regions of the country. Russian long-term objective with respect to Ukraine remains the weakening of its political and economic position by means of energy. The aim of this article is to clarify possible outcomes of the Ukrainian crisis and the conflict in the East Ukraine on the energy policy of the Russian Federation. This article analyses not only the Russian energy policy from the point of view of direct ramifications of the Russian-Ukrainian energy relationships, but also focuses on the external agents and environment connected to the reaction of the international community in the form of sanctions imposed against Russia for the annexation of Crimea and support of pro-Russian separatists. The main methodological approach is empirical-analytical approach based on the analysis and interpretation of events directly related to the chosen thematic frame. Actually in the context of Ukraine the author comes to a conclusion that the energy became an important political power and economic instrument for Russia and at the same time it is an integral part for achieving foreign policy and security objectives.Similarly on the basis of the acquired knowledge the author concludes that Russia's aim is the transformation of energetics and its potential.

Key words: conflict, energy policy, Russia, soft power, Ukraine

Introduction

The current dynamics and the state of international relations are increasingly gaining more of a character characterised by the intensive growth of uncertainty in its crucial areas: political, security, economic, socio-economic, military, as well as environmental one. The reanimation and the return to the power politics

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associated with more aggressive defending of national interests is becoming an equally important feature of international relations, especially as exemplified by the Russian Federation. The disintegration of the Soviet Union led to a severe weakening of the position of Russia as the successor state, however, the historical and imperial traditions, but above all the geopolitical ambitions predispose Russia to gain the lost international political and regional positions. This process is significant precisely in the relation to Ukraine, not only in the context of the recent developments after the "Euromaidan" and the military conflict in eastern Ukraine. The actual solution to the Ukrainian crisis will have far-reaching and profound impact on other countries of the so-called "near abroad", as well as on the future power configuration of this vast geopolitical space. For a long period, Russia was in fact the primary moderator of the development in the post-Soviet space, while at the same time it certainly would not want to give up the given position considering the power and political ambitions, which is currently already creating a conflict potential. It is in connection with Ukraine that in a number of analytical studies and works, the assessment of the current situation as so called New Cold War (Lucas, 2008) between the East (Russia) and the West (USA, EU) is mentioned. Under this approach, the Cold War has, in fact, never ended but in varying intensity and some transformed form it persistently continued even after the collapse of the USSR. Another group of theorists within the international relations indicates the presence and the continuation of the great power politics of the 'most powerful' actors (USA, Russia), which is permanently based on the power principle and the prevailing political (neo) realism in the practice of international relations (J. Mearsheimer, 2014). According to several authors (Sakwa, 2007; Orban, 2008), the actual appearance of president **V. Putin** is associated with the onset of the so-called "New realism" in Russian foreign as well as security policy, a return to the power politics (Tsygankov, 2013). This new realism is characterised by intensive efforts of Russia to regain position of the big power ("great power"), and international recognition by the key players. In this attempt, Russia is assisted precisely by her possession of energy and energy resources, which underwent the passage from the purely economic factor to the economic-strategic factor (economic policy), the security factor (energy security), and especially the political one (energy diplomacy). In that context and specifically in relation to the Ukraine, the energy sector represents a tool that Russia used in the past (2006, 2009), and continues to properly use also nowadays.

1 Objectives and methodology

The aim is to explain the possible effects of the Ukrainian crisis on the energy policy of the Russian Federation. The basic starting premise is that energy is a key and at the same time an effective instrument of the foreign policy of the Russian Federation, which serves to promote foreign policy, security and economic interests. This premise is based on the document entitled "The Energy Strategy of the Russian Federation until 2020" from August 2003, or, more precisely, on its revised version from November 2009 (Energy Strategy…, 2010).[1] Energy policy as an instrument of foreign policy has been appropriately incorporated into multilateral and multi-vector diplomacy, which is the basic starting premise of the current Russian foreign policy, highlighting the multipolar character of the international-political system (Zagorski, 2009, pp. 47-54).[2]

The mentioned starting position also confirms that within the Russian perception of international relations the energy is part of the realistic, (neo-realistic) paradigm that emphasizes its power and strategic nature. According to the realistic paradigm, the energy resources and raw materials are deemed the necessary condition for the functioning of economic and military sectors, i.e. the sectors forming two main components of the so-called hard power. On the other hand, the submitted analysis reflects on the transformation of energy (energy policy) from purely hard to more soft power, as demonstrated in the case of Russia by the offer of preferential energy prices for the political loyalty, or participation in the integration processes undertaken by Moscow (EurAsEC, CSTO). Within the current Russian soft power approach, the energy is one of its most important components, and in respect of its scope, it represents one of its most complex and structured parts (Popescu, 2014). It is commontly referred to also as Soft Coercive (Sherr, 2014) Coercive Diplomacy / Coercive Energy Diplomacy and Policy (Maness – Valeriano, 2015).

1 Currently, the Energy Strategy of the Russian Federation until 2035 is being prepared, and was presented as a working version on the website of the Ministry of Energy of the Russian Federation in February 2015.

2 Recent documents of foreign and security policy (Foreign Policy Concept of the Russian Federation from 2016, as well as the National Security Strategy of the Russian Federation from December 2015, speak of a "polycentric (multipolar) system of international relations". International relations are in the process of transition, the essence of which is the creation of a multipolar system of international relations. That process is not an easy one. It is accompanied by increased economic and political turbulence at the global and regional levels. International relations become increasingly complex and unpredictable (Concept…, 2016).

The article in the mentioned context monitors the implications of the Ukrainian crisis on the energy policy of Russia, not only in terms of the direct impact on the Russian-Ukrainian energy relations, but also with reference to the external international environment. The basic methodological approach is the empirical-analytic approach based on the analysis and interpretation of events directly related to the chosen thematic framework. The text is, in its descriptive and retrieval part, the connection of the theoretical (normative) and the practical part (empirical), also based on concrete steps in the foreign policy of Russia, which are regarded as 'undoubtedly' the use of energy as a foreign policy instrument (Ukraine).

2 Ukrainian crisis

Failure to sign the Association Agreement between the EU and the Ukraine President **V. Yanukovych** at the EU summit in Vilnius, in November 2013, led to riots and demonstrations in the Ukrainian society. These ultimately led, in February 2014, to the rejection of **Yanukovych** and his "escape" into Russia, where he later sporadically, through several press conferences, spoke up. Although **Yanukovych** and his political grouping "Party of Regions" were in the EU media politically often perceived and portrayed as pro-Russian, it is not possible to assess and identify his activities and actions as exclusively pro-Russian. Even though **Yanukovych** largely took into account and respected Russian foreign policy, economic and security interests, in certain key questions he was able to withstand political pressure from Moscow. During the period of his presidency, in 2010, Ukraine announced that it would not seek to join NATO. This statement was accompanied by the enactment of the neutrality of Ukraine, as well as the approval of the extension of the stay and the military presence of the Russian Black Sea Fleet in Sevastopol until 2042, in exchange for a "discount" on the imported Russian gas (The so-called Kharkiv agreements). **Yanukovych** temporarily appeased Moscow with these steps, eased Russian foreign political pressure and at the same time gained time for further foreign policy manoeuvring and balancing between Russia and the EU.

On the other hand, **Yanukovych** has refused a full participation of Kyiv in the Kremlin "managed" project of the Eurasian economic integration, finally accepting the participation of Ukraine in the format 3+1 (Russia, Belarus, Kazakhstan + Ukraine). Yet, with the exception of the media, the choice of Ukraine and her positioning in the escalating relations between Russia and the

EU has never been strictly established: neither the association with the EU or the integration within the framework of EurAsEC. **Yanukovych** has actually used such a black and white perception for the pragmatic foreign policy manoeuvring to ensure maximum benefits from both sides. He equally vaguely, even dismissively, opposed the divestment of equity shares (de facto privatisation) of Ukraine's Naftogaz, to which Moscow often responded in exasperation. In fact, during **Yanukovych** presidential period Gazprom intensively strived for the long-term capital investment in the Ukrainian distribution system. **Yanukovych's** offer of creating a tripartite consortium (Ukraine, EU, Russia) to modernise Ukrainian pipelines, however, was unacceptable for Russia (Gazprom). Conversely, in 2012, Gazprom's management finally decided to go ahead, or rather accelerate the construction of South Stream gas pipeline. With the completion of this pipeline, the importance of Ukraine as a transit country would be marginalised, while the value of its entire distribution system necessarily requiring reconstruction and modernisation would be more on the theoretical than practical level. Finally, with a great unwillingness **Yanukovych** decided to proceed with the privatisation and to allow the entry of the Russian capital not only the gas industry, but also into other key areas of the economy (Odesskij priportovij zavod, Turboatom, Energoatom)., During the years 2010-2013 several Russian companies unsuccessfully attempted their capital investment in nuclear, chemical and processing industry of Ukraine. The Ukrainian oligarchs, clans and influential lobby groups coming straight from the Party of Regions or politically and economically linked to the political entity, or to the political institutions and structures of the regime were undoubtedly behind this **Yanukovych**'s reluctance to support the entry of Russian capital and business.

The onset of a new political representation in Kyiv in the first half of 2014, which from the beginning did not conceal the change of the foreign policy course of the country, sparked a wave of resentment in Moscow. Moscow declared **Yanukovych**'s removal a coup and denounced the new political representation as illegitimate and anti-Russia oriented. Russia immediately demonstrated a clear determination not to let the development of events in Ukraine to run their free and unrestrained course, although, as stated by **M. Galeotti**, it itself did not have any scenario ready. Russia only ad hoc responded to the political errors of the new government, and tested how far it may proceed in its pressure on Kyiv. Russia herself was taken by surprise with the turn of events; it showed herself, at that moment, as politically weak to immediately reverse the political development in the country or turn it into its advantage. On the other hand, as confirmed by the events in the eastern regions of Ukraine, Russia had sufficient resources and tools to destabilise Ukraine politically, to weaken it economically and to systematically and intentionally disrupt it as a functioning state. The facts such as the relatively high political and ideological fragmentation of Ukrainian society, the presence of strong Russian-language minorities, especially in eastern regions of Ukraine, strong energy import dependency on Russian gas, and, last but not least, the exports heading for Russian market have actually played in favour of this disruption. Moscow, aware of these facts made use of the chaos, political inexperience and power weakness of Kyiv's centre in relation to the regions, and before the new political elite in Kyiv might get a chance to re-evaluate relations and review contractual arrangements, annexed the Crimean peninsula. As a next step, it decided to legitimise its actions in the referendum, which not only Kyiv, but also the international community led by the EU and the US proclaimed to be illegitimate. Moscow, encouraged by the Crimean scenario and particularly with its outcome, supported a destabilising scenario in the form of creating "independent republics" (Donetsk and Luhansk People's Republic), and in May 2014, recognised the results of the referendum on their formation and declaration of independence. Moscow has provided both of these political "bodies" (so called "New Russia"), in particular various armed and paramilitary formations operating within their territory, with consultants, weapons, as well as diplomatic support in the international arena, although officially it obviously did not admit, respectively, refused to acknowledge such support. In relation to the central government in Kyiv, Russia continued in the systematic political, but also psychological pressure. Large army groupings gathered at the Ukrainian borders and executed a large-scale military exercises and manoeuvres close to them. At the same time, **V. Putin** also threatened Kyiv and the international community with a military intervention. This, after all, in March 2014, was legitimised by the Federation Council (upper house of the Russian parliament) in response to **Putin**'s request for deployment of the Russian Armed Forces in Ukraine, in order to normalise the situation and protect Russian citizens. The central government in Kyiv, in relation to the breakaway republics of Donetsk and Luhansk, responded by declaring a military, so called anti-terrorist operation. Although it revealed poor technical, fighting, as well as organisational readiness of the Ukrainian armed forces, it confirmed direct and obvious military engagement and support of Russia in this conflict. Conflicts have been transformed into positional conflict that has claimed many victims on both fighting sides among civilians, as well as extensive material damage. Peace talks, initially the so-called Geneva round (April 2014), and later on talks in Minsk, the so-called Minsk I (September 2014) and Minsk II (February 2015), all failed to produce any tangible progress in resolving the conflict. Given the commitment, quite clear attitude and legible Russia's position, it is more than likely that, for the moment, it is impossible to resolve the situation and the entire conflict will acquire the character of a frozen conflict, as it was in other conflicts in the post-Soviet space, in which Moscow was more or less involved (for instance in Transnistria).

3 Russia's energy policy and its development

The political and economic significance of mineral resources of Russia are often documented by published and presented data. Russia is the world`s largest non-OPEC producer of oil and second overall after Saudi Arabia, producing about 12 % of the world`s supply. It is the world`s leader in natural gas, accounting for 22% of the world-wide gas consumption. Russia also holds the world`s second-largest coal reserves and has one of the world`s most highly developed atomic energy industries. Natural gas production is concentrated in the hands of the state-controlled firm Gazprom responsible for more than 90% of Russia`s oral output. Gazprom alone is responsible for generating 10 % of Russia`s current GDP. Novatek is the country`s largest private natural gas producer. The oil sector in Russia is divided between private and public firms. Rosneft and Gazprom-Neft (oil subsidiary of Gazprom) are state-controlled companies. Private firms include LUKoil and Surgutneftegaz. The republic of Tatarstan holds a controlling interest in Tatneft (Gvosdev – Marsh 2014, pp. 44-45).

The energy policy is an integral part and at the same time one of the key instruments in the current foreign policy of Russia. Basic parameters and contours of the energy policy of the Russian Federation were established back in 2003, in the document *"Energy Strategy of the Russian Federation to 2020"*. It is actually this document that for the first time openly declares their political significance, when it emphasized that the rich mineral resources which Russia has together with the extensive fuel-energy sector are not only the basis of economic development, but also a tool for the implementation of internal and foreign policy. Although the updated energy strategy from November 2009 formulates new direction development of the energy sector within the transition of the Russian economy to an innovative path of development, its diction and the very essence - the importance of energy for the economy and the energy as the political instrument of the state remain unchanged. The National Security Strategy of the Russian Federation to 2020, adopted in the same year, highlights the increasing competitive struggle for the future control of energy resources and raw materials in the geographical areas and regions crucial for Russia: Barents Sea shelf, the Caspian Sea, Central Asia and Arctic. In fact, the strategy highlights the security dimension and the importance of the energy and raw materials, their reliable and secure transit (the energy security). Energy security dimension finds its reasoning and justification also in the military sphere, which is manifested in some military exercises, which are increasingly focused on protecting the transport of energy carriers, but also on protecting the infrastructures themselves (Ušiak – Lasicová, 2012). Another dimension is represented by gradually renewed military presence and building of new military bases in the Arctic, which is defined by the military doctrine from December 2014, which defines the Arctic as an area, where the security of national interests is becoming one of the main tasks of the Russian armed forces. According to some estimates, in the large areas of the Arctic Ocean there is up to 30% of all available reserves of oil and gas. It is actually in the Pechora Sea (Prirazlomnoe oilfield), where Gazprom-Neft started, in December 2013, oil extraction trial, while in April 2014, first 70 thousand tons of oil was taken away by a tanker, which launched the industrial operation of the entire project. 300 thousand tons of oil was extracted from the Prirazlomnoe oilfield during the entire year of 2014, with a planned doubling of production in 2015, with the peak production in the amount of 5 to 5.5 million tonnes a year planned after 2020 (Starinskaja, 2015). From the perspective of Russia, it is a ground-breaking launch of mining, not only in terms of technology used in the mining field of Prirazlomnoe, but especially in fulfilling the strategy of exploitation and extraction of energy resources from the sea shelf of the northern Arctic Ocean. Moreover, in January 2015, the company Gazpromneft - Sakhalin, which is a subsidiary of Gazprom Neft announced the start of work on two sites in the Arctic area. Likewise, in September 2014, Rosneft has successfully completed the extraction and exploratory drillings at the northernmost site in the world Universitetskaya 1 in Kara Sea. These drillings were carried out by the US Company ExxonMobil, however, they were terminated after the introduction of US sanctions against Russia in connection with the crisis in Ukraine (V Rossii zajavili…, 2014).

The overall political and economic importance of energy is finally confirmed also by the updated Foreign Policy Concept of the Russian Federation from February 2013, which highlights the global fundamental changes in the energy sector (Concept…, 2013).[3] The economic expansion of Russian energy companies into foreign markets goes on in accordance with the above-mentioned basic documents on the internal, foreign and security policy. Moscow, aware of its positions of monopoly supplier of gas, started to raise (politically determine) prices and the use of energy and material capital expansion in strategic sectors of other countries, particularly in the former Soviet republics. The most common form of this expansion has been the capitalisation of debts and financial obligations incurred as a result of non-payment for previous deliveries of energy. Gazprom, for example, using such form entered, respectively, bought out the controlling shares or the entire companies dedicated to the distribution or sale of gas. These were concretely Belarus, where, from 2011, Gazprom owns 100% of Beltransgaz (from 2013 renamed to Gazprom Transgaz Belarus), in January 2014 Gazprom bought out 20% of shares in the company ArmRosgazprome (renamed to Gazprom Armenia), thus becoming the 100% owner of this company and de facto the owner of the gas infrastructure in Armenia. In April 2014, Gazprom acquired 100% of shares in the company Kirgizgaz (renamed to Gazprom Kirgizstan) (Gazprom priobrel…, 2014; Kompanii s dolevym…, 2015). Since 1999, Gazprom owns 50% of Moldovagaz. On the basis of concluded bilateral agreements several joint ventures have been created with other post-Soviet countries or companies (especially in Central Asia) for the purpose of research, extraction and sale of gas or oil (Kompanii s dolevym…, 2015). Ukraine has actually a specific position and role in this energy expansion, where Russia despite several efforts and long-term attempts failed to significantly penetrate into the energy sector of the country. An exception regarding this is the action and activity of Gazprom sbyt Ukraine, the ownership of some refineries for oil

[3] Foreign Policy Concept of the Russian Federation from November 2016 actually replaced the Concept of 2013. However, the emphasis on the economic dimension of foreign policy, including energy and soft power remained unchanged. In addition to traditional methods of diplomacy, "soft power" has become an integral part of efforts to achieve foreign policy objectives (Concept..., 2016). The Concept highlights the technological shift in the economic sectors, which leads to a redistribution of power, but also to qualitative changes, which are taking place in the sphere of energy. At the same time, groundless restrictions and other discriminatory measures in this area are being strengthened despite the fact that States need to diversify their presence on global markets to ensure their energy security.

processing, contracts for the fuel supply for the Ukrainian nuclear power plants worth about 1 billion USD per year and by 2014 also the operation of several LUKoil fuel stations. Gazprom sbyt Ukraine has a license to sell gas on the domestic market of Ukraine and may sell up to 7.5 billion m^3 in addition to the regulated tariff. In 2008, Gazprom sbyt Ukraine effectively replaced the company UkrGazEnergo which had the license to sell 30 billion m^3 of gas, and in which Gazprom had a 25% shareholding. Naftogaz is constantly trying to limit the growth of Gazprom sbyt Ukraine, even through legal proceedings. This is the result of the fact that the subsidiary of Gazprom, based on contractual agreements, supplies the selected industrial customers (e.g. Mariupol Metallurgical Plant, ArcellorMittal Krivoy Rog, Grupp Eurocement) with gas with more favourable price conditions and thereby effectively pushes Naftogaz out of lucrative business with gas (Naftogaz Ukrainy…., 2013).

Rosneft owns the refinery Lysychansk, which is in the processing volume (8 mil. tonnes of oil) the second largest in Ukraine. It is located in the Luhansk region, and in the summer of 2014 the refinery was badly damaged due to the conflicts between the Ukrainian army and the pro-Russian separatists. It was actually in the summer of 2014, when the plant was supposed to be put into full operation after almost two years-long modernisation. In August, Rosneft estimated the losses caused by the damage to the plant during the conflicts at 140 million USD, while a month later Rosneft management decided to conserve the refinery (Rosneft zakonservirujet…., 2014). The situation around the Odessa refinery, which in 2013 LUKoil sold to the Ukrainian company VETEK Group, remains unclear. Odessa refinery is owned by the young Ukrainian oligarch **S. Kurchenko**, who is considered to be close to the ex-president **Yanukovych**. Russian state bank VTB gave the offshore Cypriot company Empson Ltd. the finances of more than 300 million USD to purchase the Odessa refinery, and the refinery's property was transferred to in the form of a loan. This offshore company does not repay the loan from VTB, but its guarantee is the property of the refinery. The new Ukrainian government is trying to get the Odessa refinery under the control of the state on the grounds that the transfers of assets that occurred were not in compliance with the law (Ukraina arestovala…, 2014). LUKoil also decided, in mid 2014, to sell a network of 240 fuel stations in Ukraine.

For Russia, 2014 was a year of a number of radical events having a direct impact on its energy policy. In particular, there has been a sharp drop and the decline in oil prices; the main export and income commodity. If this trend continues, it will also affect the prices of gas, which copy the oil prices with some time delay. The conflict in Ukraine meant the cooling of political relations with the EU and USA and the introduction of economic sanctions that target also companies operating in the energy sector. In addition, the year 2014 also confirmed the known fact that Moscow is becoming increasingly more intensively confronted with the EU energy policy that, due to the conflict in Ukraine, got in Brussels and some European countries into the spotlight. In the practical area, this was, for example, reflected in the decision of the Bulgarian government to suspend the construction of a part of the South Stream pipeline on its territory until the settlement of the question whether the construction of this pipeline is in line with European energy legislation. Not even in 2014, Gazprom received from the European Commission's (EC) long-awaited exception with EU energy legislation in connection with the use of 100% transport capacity of OPAL (annual volume of 36 billion m^3). This pipeline is currently used to 50%, while the remaining 50% is due to the "lack of interest" left in the long term for alternative suppliers. The access to this pipeline is actually crucial due to full utilisation of transport capacity of the Nord Stream (55 billion m^3), as the OPAL pipeline allows the transport of Russian gas into other countries, mainly the Czech Republic.[4] The European Commission has repeatedly postponed a decision to grant an exemption on grounds of resolving "technical issues" and leaving the decision on the new incoming Commission, which Moscow, in the autumn of 2014, proclaimed political decision motivated by the crisis in Ukraine. Already in 2011, Lithuania was the first country of the EU to adopt new legislation in line with the third energy package of the EU prohibiting gas suppliers to own or run a distribution system in the country. In response to the law adoption, Russia, owning a 37.1% share in the Lithuanian distribution Lietuvos Dujos, filed for the international arbitration in the matter of investments protection. After long negotiations, however, in June 2014, Gazprom finally has sold its entire share to the Lithuanian operator of Amber

[4] In October 2016, after a lengthy consideration, the European Commission (EC) allowed Gazprom access to the additional capacity of 12,8 billion m^3 within the gas pipeline OPAL which is the actual continuation of gas pipeline Nord Stream. Although in December 2016, based on the instigation of the Polish gas company PGNiG the European Court suspended the decision of the EC, cancellation of the capacity restrictions from the EC undoubtedly creates the space for the controversial project Nord Stream 2 which was protested against in form of an open letter to the president of the EC by the Central and Eastern parts of the EU, Slovakia included.

Grid system for the sum of 164 million EURO (Gazprom to Sell…, 2014). The same fate may befall also the 6.83% share that Gazprom owns in the Estonian company, as Estonia and Latvia informs to also adopt similar legislation. Back in 2012, Gazprom was forced to sell 99.5% share in the Lithuanian heating company KTE (Kaunas Combined Heat and Power Plant). The reason for the divestment of the heating plant KTE supplying heat to the second largest Lithuanian city of Kaunas was the decision of the Lithuanian Court, according to which Gazprom breached the obligation to invest into the plant, which it has undertaken under the privatisation terms in 2003. Gazprom argued with the low heating cost, which due to the regulation it did not allow them to make enough profit to invest (Gazprom prodal…, 2013).

4 Russian energy policy in the context of the armed conflict in Ukraine

The issue of Russian gas supplies to Ukraine and their transit through its territory was one of the major conflicting issues in mutual relations in 2014 and in the first months of 2015. After the protests on the Maidan, the change of the political regime and the annexation of the Crimean Peninsula in March 2014, Moscow cancelled a discount of 100 USD/1000 m³ agreed in so-called Kharkiv agreements. Subsequently, due to non-payment of funds for already delivered gas, Gazprom set the price of this commodity to 485 USD per 1000 m³. Kyiv demanded the original price of 268 USD, (because the new price was considered as politically motivated) and stopped paying for the gas supplies. For this reason, in June 2014 Gazprom completely stopped gas supplies to Ukraine or switched to the regime of payments in advance consisting in the delivery of the commodity paid by the other Contracting Party in advance. This, however, did not end up disputes over price and the total debt for delivered (used) gas. Both Moscow (Gazprom) and Kyiv (Naftogaz) have decided to settle the dispute in the Arbitration Institute in Stockholm. The EU has been also involved in the dispute, because they began to perceive the real concerns about disruption of transit of Russian gas to EU countries during winter 2014 upon the deteriorating political relations and trade disputes. It is the EU's position as a mediator that helped to make an agreement called Winter Package at the end of October. It consists of two documents: a binding trilateral protocol between the European Commission, Russia and Ukraine and amendments to the existing contractual relationship for the gas supply concluded between Russia and

Ukraine in 2009. According to the agreement, whose validity was limited to March 31th 2015, Ukraine had to pay the advanced payment for gas supplies in amount of 378 USD/1000 m³ (up to December 31th 2014) or 365 USD/1000 m³ from January 1st 2015. Part of the agreement was the payment method of the Kyiv debt in the amount of 3.1 billion USD for previous gas supplies, in two instalments by the end of 2014. Despite the prevalent belief that after the expiry of the Winter Package the situation returns to the same point as it was before October 2014, at the beginning of April 2015 the agreement was prolonged for the supply of Russian gas to the II.Q 2015. Under the new agreement, Moscow has reduced the price of gas to 248 USD/1000 m³, which is price acceptable for Kyiv and also lower than the price of gas bought by Kyiv since mid-2014 called reverse supply from "Western" direction. The problem remains, however, securing of the deliveries to areas of Ukraine controlled by separatists as well as payments for the gas.[5]

Notwithstanding the above "ad hoc agreements" it is the ultimate declared objective of Kyiv to completely replace gas imports from Russia. Ukraine hoped or still hopes to build its own energy self-sufficiency and independence, but the today's reality is not very favourable. Most of the potential natural gas deposits located in the Black Sea was lost by annexation of the Crimean Peninsula. Initial unsuccessful geological surveys of shale gas and oil, as well as the current low oil prices in global markets, together with large and time-consuming investment in technology infrastructure associated with the extraction and processing of gas and oil in the short term does not give a real chance to significant change. Possibilities that are more favourable are offered by diversification of sources or gas suppliers. Yet under President **Yanukovych** it was decided to build a LNG terminal at Yuzhny near Odessa with a total capacity of 10 billion m³ of gas per year. Work on the construction of the terminal began in 2014. Its funding is provided through foreign companies holding ownership interest in the whole investment project. In the future, however, it can be problematic to transport the LNG via tankers through the Bosporus Straits, as expressed by the Turkish ambassador in Ukraine in February 2015. The Russian gas amounted to 36% of Ukraine's total consumption, while gas from domestic sources made up 51%, according to the Ukrainian state company Ukrtransgaz. The remaining 13% is gas imported from

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5 In November 2015 Ukraine suspended the purchase of gas from Russia. Ukraine began importing gas through reverse flows from Poland, Slovakia and Hungary.

the EU. Ukraine gets gas from Poland, from Slovakia and Hungary through the reverse-flow of Russian gas supplies. In the second half of 2014, these reverse-flow gas supplies were subject to disputes between Russia, Ukraine and also some EU countries including Slovakia. Russian Energy Minister **A. Novak**, as well as representatives of Gazprom have repeatedly stressed that so-called re-export of Russian gas is considered illegal. In response to the agreements on gas import to Ukraine from "the West", Moscow responded in relation to Slovakia with decrease of gas daily supply, but also with its own "energy" diplomacy. Hungary, which has agreed to supply Ukraine with 6.1 billion m³ of gas a year, interrupted gas supplies to Ukraine for "technical reasons" and because of filling their own tanks for the upcoming winter season in September 2014. The attitude of Budapest, strongly criticised by Ukraine and EU leaders was appreciated in the context of Putin's visit to Hungary, which took place in February 2015. During this visit, several treaties between Hungary and Russia in the energy sector were signed, including the extension of the existing gas supply agreement, but also the agreement on 80% of Russia's financial participation in the completion, or expansion and rehabilitation of the Hungarian Paks Nuclear Power Plant.

Kyiv will also have to reconsider the initial Energy Strategy until 2030, updated version of which was prepared under former President **Yanukovych**. Just some of its objectives, particularly in the area of increasing coal production, as a result of the events in the east of Ukraine and the socio-economic situation already seem unrealistic and outdated. In November 2014, due to the ongoing conflict in eastern Ukraine, there were problems with coal supplies. It is worth noting that Ukraine was Europe's second largest coal producer after Germany before the conflict in the east of the country. The armed conflict has seriously disrupted the supply of coal to thermal power plants, which produce about 40% of electricity in Ukraine. This created the need for imports of coal during the winter months in the amount of about 1 million tons of coal per month mainly from Russia, but also on the basis of a commercial contract (later cancelled) from South Africa, what proved further weakness in energy policy (security) of the country in relation to Russia. Specially Donetsk and Luhansk region, which became the subject of intense fighting, are important centres of coal mining in Ukraine and the fights and related activities have led to a reduction or complete halt to production. In addition, of the more than 200 coal mines located in the east of Ukraine at the epicentre of the fighting only 35 remained under the control of the Kyiv government. In February 2015 the Ukrainian Energy Minister

V. Demchyshyn announced that as a result of signing association agreements closing of the shafts would follow (Kyiv načinaet…., 2015). Most coal mines in Ukraine are due to unreformed mining industry still financially subsidised by the government in Kyiv, in turn depending on IMF's current financial situation with regard to IMF loans, which are subject to reform, market liberalisation, and removal of subsidies. Other social and political problem becomes non-payment of wages to miners. This, together with the announced intention of **Demchyshyn** to close the mines, has become the impetus for a demonstration of miners directly in Kyiv, demanding among other things the minister's resignation. In contrast, the separatist Donetsk People's Republic plans to export coal to Iran, Turkey and North Africa, and thus ensure funds for financing their own military operations, or "civil" administration area.

In mid-January 2014, Gazprom announced at a meeting with the representative of the EC that in 2019 Russia will stop to supply gas through Ukraine. Plan of total interruption of transit through the territory of Ukraine and its replacement by other transit routes is part of the long-term strategy of Russian energy policy. The intention to replace Ukraine as a transit country for Russian gas was reaffirmed by the head of Gazprom **A. Miller** in March, as well as by the Energy Minister **A. Novak** in April 2015 in Berlin at the Valdai Club Conference on European energy security strategy. In 2019, the contract for the transit of Russian gas through Ukraine by Gazprom concluded in 2009 ends. In the case of realisation of this scenario, Ukraine would lose not only negligible revenue from transit fees, but especially important tool for correcting the energy policy of Russia liability against itself. There was 59.4 billion m³ of gas transited through Ukraine to EU countries in 2014. Compared to 2013, when the transit amounted to 86.1 billion m³, this represents a decrease of 29.1%.[6] Although the decline was caused undoubtedly also by a milder winter and the associated stagnating or declining consumption, long-term trend of overall decline in transit through the territory of Ukraine is unquestionable. In 2010, Russia transported 104 billion m³ through Ukrainian transit system. The decline in the following years was related to the commissioning of Nord Stream Gas Pipeline in

[6] The downward trend in gas flows through Ukraine continued in the first two months of 2015 when compared to the same period of the previous year fell to 38.8%. In 2015, the volume of gas transit to Europe amounted to 67.1 billion m^3 of natural gas. In 2016, the transit of natural gas through the Ukrainian gas transport system destined for European consumers grew 23 % and came to 82.2 billion m^3 of natural gas (Ukraine increases…, 2017).

2012/2013.[7] The decrease in the transportation of gas through Ukrainian territory can be seen also in financial terms, since as early as 2011, the income from the transit of Kyiv was 3.23 billion USD, and now is lower by approximately 40%. Kyiv responded to the situation back in October 2014, when Ukraine turned to the Arbitration Institute in Stockholm to review a contract from 2009 for gas transit and not transited gas compensation. According to this contract, Russia contracted transport capacity through Ukraine in the amount of 110 billion m³ per year, which it does not fulfil, for what Kyiv claims financial compensation. In March 2015, **Demchyshyn** before Brussels negotiations about the price of gas for Ukraine in 2nd quarter 2015 declared that Kyiv does not rule out a review of the transit tariffs and its increase by 30%. Russia pays for the transit of 2.88 USD per 1000 m³ and 100 km transport route now. The total annual transport capacity of the Ukrainian gas main system output achieves up to 178.5 billion m^3, so the concern about its future use by Kyiv is more than justified (Antonova, 2015). Moreover, the legitimate concerns are raised by the technical condition of the entire transit system requiring renovation and modernisation, for which neither Naftogaz, nor Kyiv government has funds.

The sanctions of the EU, USA and other countries in connection with the crisis in eastern Ukraine against Russia have an impact not only on the Russian economy, but also on energy policy. The situation is more complicated and worse for Moscow, because a change in the attitude of the stronger and deeper impact of sanctions comes always with a certain time lag. Nowadays, however, the most notable form of sanctions for Russian energy companies is the ban on exports from the EU and the US to Russia, above all facilities for deep wells on the seabed in the Arctic, as well as equipment for the extraction of oil from shale deposits. Another problem is undoubtedly the loss of access to financial and capital markets, which definitely is not beneficial for refinancing of Russian

[7] There are still many uncertainties surrounding the Gas pipeline Nord Stream 2. From the point of view of Ukraine as well as some EU member states, it faces many serious political and regulatory obstacles. In the summer 2016, the Polish anti-monopoly authority rejected the request for the establishment of the consortium Nord Stream 2 AG (Gazprom, BASF/Wintershall, Engie, OMV, Shell, Uniper), planning the construction of the Nord Stream 2 gas pipeline. As a consequence of this decision, in December 2016 and February 2017, Gazprom became the exclusive owner of Nord stream 2 AG. In October 2016 Gazprom announced that it is considering abandoning the plans to construct the pipeline. In spite of that, in the autumn 2016, preliminary contracts for the production of steel pipes and building of the first stage of the pipeline (December 2016) were signed.

companies and their investment and development projects. In addition to the Ukrainian crisis, strained relations between the EU and Russia, Moscow also announced cancellation of the South Stream Pipeline construction in December 2014 ("Turkish Stream"). The new pipeline with identical capacity transmission is planning to use the existing infrastructure already built for the South Stream pipeline. Part of the gas (about 14 billion m3), currently exported into Turkey via Ukraine and so called Balkan corridor (Romania, Bulgaria), will be, after the completion, delivered to Ankara directly. Along with this decision Gazprom announced construction of "alternative" gas pipeline to Turkey, called Turkish Stream.[8] The head of Gazprom **A. Miller** stated in this regard that European consumers have several years to prepare for the re-routing of gas, since gas, which is currently transited through the territory of Ukraine, will be supplied to Europe via Turkey. **Miller** even said that it is a task of European partners to provide the necessary gas infrastructure on the Turkish-Greek border, which shall become a new point of gas sale. Although nowadays just a Memorandum of Understanding on the Turkish Stream construction is signed, Moscow began a "diplomatic offensive" in relation to countries involved in order to ensure transit and distribution of gas supplied to the border of Turkey and Greece in the future.

In the medium term, the contract for gas exports to China will have the impact on Russia's energy policy. Moscow has duly used the signing of this contract in May 2014 in the context of EU policy on sanctions for the conflict in Ukraine. Although the conclusion of the contract has been negotiated for almost 10 years, it can be assumed that together with the decision of the Turkey "selection" as an important export gas hub for Europe, it will mean not only a significant diversification of export routes and markets on the side of Russia, but in particular the creation of stronger bargaining position, not only in the field of energy to the EU countries. Many statements of Gazprom, which stressed that investment will strengthen the so-called "Eastern agenda", i.e. redirect part of its production to the markets of Asia, can also be regarded as part of energy policy. In connection with the pipeline to China, it is also important to note that the ceremonial start of construction at the beginning of September 2014 cleared the

[8] In November 2015 Moscow suspended the Turkish Stream gas pipeline project in response to Turkey shooting down a Russian jet in Syria. Political relations between Russia and Turkey successfully normalised in summer 2016 and in October the same year an intergovernmental agreement about the building of a gas pipeline was signed. However, since the incident with the Russian warplane and the conflict in Syria, the future of Turkish Stream has been unclear.

question marks over the dates for its completion. In April 2015, Gazprom announced that it probably will postpone launching of the pipeline from the original date of 2019 to 2022. This notice may indirectly be related to the drop in profit for the year 2014 by 70% over the previous year, but can also be a foreshadowing of some problems to keep long-term stable company's funding and managing. It is likely that Gazprom's efforts to diversify gas consumers strengthened even more after the EC in April 2015 decided to initiate proceedings against Gazprom for breach of competition rules and abuse of dominant market position. Gazprom then several times informed that it would limit its exposure and business involvement in EU countries. For example, in April 2015 Gazprom announced that it plans to sell 10.52% stake in the German company Verbundnetz Gas (VNG), which acts as a gas supplier. Gazprom's decision followed the company Wintershall Holding also selling its stake in VNG, by which Gazprom lost a real ability to participate in the management of VNG. Gazprom and Wintershall jointly owned 26.31% stake in VNG. The emphasis on diversification of markets and focus on the Asia-Pacific region and the establishment of a common energy market within the Eurasian Union is contained also in the forthcoming Energy Strategy of Russia until 2035, which was presented by the Ministry of Energy of the Russian Federation at the beginning of 2015. As the greatest challenges and problems in the energy sector is considered the high level of wear and tear of infrastructure, low level of energy efficiency, high level of dependency on the import of technology and the necessity of the transport infrastructure development.

Conclusion

Energy resources have increased and strengthened the international position of Russia, but also the (geo) political potential of Moscow's post-Soviet space. High prices for energy resources and their importance in today’s economy have dramatically altered options for Russia in the system of international relations. After 2012, it is possible to trace purposeful, systematic and conceptual Russia's ambition to transform energy and its potential to power-political, economic and security dimension. Energy plays a critical point in preserving and restoring the position of power and influence of Russia in the post-Soviet space, especially in Ukraine. For Russia, the energy policy is the key as well as one of the most effective power political tools in its foreign policy, proclaimed also in the conceptual and foreign-political documents (Concept of the Foreign Policy of the Russian Federation, Energy Strategy of Russia for the Period up to 2030).

Russia already for a long time gives particular importance to the energy sector, not only because of the key source of budget revenues, but mainly because of the possibility of using energy as an instrument for more vigorous enforcement of foreign policy and pursuing of security objectives. Such an approach could be observed also during the years 2014 - 2016, when Moscow used several times the power industry to pressurize the internal destabilisation of Ukraine, ravaged by military conflict. Energy policy of Russia in relation to Ukraine is one of several, yet effective tools which should help to weaken the Kyiv government and indirectly support the separatists in eastern Ukraine. This inappropriate and unacceptable involvement of Russia in the conflict in the eastern regions of Ukraine led to the introduction of sanctions by the EU and the USA. These sanctions, in case of their continuation and in combination with long-term low oil prices, could seriously harm Russian energy sector and companies operating in it, and thus the entire Russian economy, which is highly dependent on exports of energy raw materials. Even more serious challenge to Russia's energy policy will be the EU's Energy Union, formation of which, it seems, can by accelerated by the Ukrainian crisis and Russia's approach to its resolution. However, certain actions and reactions of Moscow – the abolition of South Stream Gas Pipeline and its replacement by Turkish streams, continuation of the project Nord Stream 2, efforts to diversify export markets and focus on the Asia-Pacific region, consolidating power positions in the countries of post-Soviet Union, but also in the politically "close" countries (Hungary, Serbia, Greece) – largely allow to model and predict future scenarios.

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