

Energy resources as the tools of foreign policy: the case of Russia

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Abstract

The article provides an explanation of how energy resources become instruments in Russia's foreign policy towards countries-consumers at the same time indicating elements determining the efficiency of energy instruments to reach Russia's foreign policy goals. The article argues that Russia expanded its state power in energy sector through direct and indirect mobilisation. There are two types of energy instruments - sway and compel. The effectiveness of energy instruments depends on barriers country-consumer has. Instruments may have positive targeted and foreseen as well untargeted and unforeseen negative consequences for Russia and countries-consumers in Post-Soviet space especially focusing on Belarus and Ukraine.

Keywords

Energy, foreign policy, Russia, economic statecraft, neoclassical realism, post-soviet space

Introduction

Energy resources have become an integral part of foreign and national security policies and according to Hadfield "states now desire energy security in the same sense that they desire military or economic security".¹ Wenger claims that energy

¹ Amelia Hadfield, "Energy and Foreign Policy: EU – Russia Energy Dynamics", in *Foreign Policy: Theories Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dune (Oxford: Oxford University Press, 2008), 323.

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policy has become inseparable from foreign policy and states that “producers and consumers can no longer separate their energy policies from their foreign and security policies”.² In his definition of the energy security of countries-consumers Yergin emphasizes the links between stable supply at reasonable prices and foreign policy and states that “the objective of energy security is to assure adequate, reliable supplies of energy at reasonable prices and in ways that do not jeopardize major national values and objectives”.³ Because energy resources can be used to affect consumers, their values and objectives, for energy resources producers the resources became instruments of foreign policy or *energy weapons*, to affect consuming countries in order to reach foreign policy goals.⁴

Energy resources as instruments for achieving foreign policy objectives have been used since 1973 when OPEC proclaimed the oil embargo against countries-consumers which supported Israel in the war with the Arab countries with the aim to reduce their support for the Jewish State. Goldman argues that in 1984 the U.S. President Ronald Reagan opposed the construction of the natural gas pipeline connecting the Soviet Union and the Federal Republic of Germany claiming that the Soviet Union might use energy resources against Western European countries with the aim to achieve its foreign policy objectives.⁵ After disintegration of the Soviet Union use of energy resources with the aim to achieve foreign policy objectives was the most frequent in the post-Soviet space with Russia trying to affect domestic and foreign policies of countries-consumers. According to the former U.S. Vice President Richard Cheney (2006) Russia’s energy resources “become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation”.

The intensity of use of energy resources in foreign policy has constantly increased, but scientific analyses in most cases remained limited to descriptive case analyses avoiding any in-depth analysis. Analysts have identified a lack of systematic researches and comprehensive analyses that deal with energy resources in foreign policy.⁶ The researchers refrain from revealing how energy resources become elements of foreign policy and how they are used, do not classify them

² Andreas Wenger, “Russia’s energy power: Implications for Europe and for transatlantic cooperation”, in *Russian Energy Power and Foreign Relations*, eds. Jeronim Perovic, Robert W. Orttung, and Andreas Wenger (Routledge, 2009), 226.

³ Daniel Yergin, “Energy security in the 1990s”, *Foreign Affairs*, 67 (1) (1988): 111.

⁴ Karen S. Stegen, “Deconstructing the “energy weapon”: Russia’s threat to Europe as case study”, *Energy Policy* 39 (2011): 6505-13, DOI: 10.1016/j.enpol.2011.07.051

⁵ Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (Oxford University Press, 2010), 48.

⁶ Michael A. Levi, *Energy Security: An Agenda for Research* (Council on Foreign Relations, 2010), 5.

and only episodically discuss the effectiveness of their application to achieve the foreign policy objectives. Shaffer, who analysed the links between natural gas supply stability and foreign policy between Russia and countries-consumers in the post-soviet space, could be mentioned among the researchers who tried to analyse energy resources in foreign policy.⁷ Robert R. Larsson tried to classify energy resources in the foreign policy of Russia according to the impact of the use of energy resources on countries-consumers.⁸ However, his classification is not full or consistent. Oxford Institute for Energy Studies published a number of books on energy policies of Russia and countries in Post-Soviet space. Pirani, Stern, Yafimava and others provided in-depth presentations of energy relations between Post-Soviet states as well as identified connections with foreign policies. However, descriptive analysis dominates these publications.^{9,10} A number of articles on Russia's energy policy were published in the edited volume monograph by Perovic, Orttung and Wenger (2009), though articles provided some interesting statistics and insights, but suffered from the same problem – descriptive approach.¹¹ Balmaceda provides in-depth analysis of Russia's energy policy towards Ukraine, Belarus and Lithuania since 1990's, but author focuses on the domestic elements of mentioned countries and their impact on energy policy and broader political relations, basing her arguments on resource-rents approach.¹²

Stegen has presented the “energy weapons” model, but this model could be improved, because in Stegen's model energy resources are exclusively treated as elements to force countries-consumers to do something.¹³ The model lacks consideration that energy resources also can be used for persuasion. Because the concept “energy weapons” is used in the model it is incomplete and should be changed to the concept “energy instruments”. In this article the concept “energy instruments” is used, because it is wider and reflects the complexity of the use of

⁷ Brenda Shaffer, “Natural gas supply stability and foreign policy”, *Energy Policy* 56 (2013): 114-25, DOI: 10.1016/j.enpol.2012.11.035

⁸ Robert L. Larsson, *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier* (FOI, 2006), 177.

⁹ Simon Pirani, ed., *Russian and CIS Gas Markets and Their Impact on Europe* (Oxford University Press, 2009).

¹⁰ Katja Yafimava, *The Transit Dimension of EU Energy Security. Russian Gas Transit Across Ukraine, Belarus, and Moldova* (Oxford University Press, 2011).

¹¹ Jeronim Perovic, Robert W. Orttung, and Andreas Wenger, eds., *Russian Energy Power and Foreign Relations*.

¹² Margarita M. Balmaceda, *Politics of Energy Dependency: Ukraine, Belarus and Lithuania between Domestic Oligarchs and Russian Pressure* (University of Toronto Press, 2013)

¹³ Karen S. Stegen, “Deconstructing the “energy weapon”: Russia's threat to Europe as case study”, *Energy Policy* 39 (2011): 6505-13, DOI: 10.1016/j.enpol.2011.07.051

energy resources in foreign policy of Russia better. It includes not only aspects of force but also persuasion and, therefore, is more accurate considering the practice.

The aim of the article is to fill in the aforementioned shortcomings of studies by providing explanation of how energy resources become instruments in Russia's foreign policy towards countries-consumers, and what determines the efficiency of energy instruments in Russia's foreign policy. This article has number of objectives to reach the aim stated previously. First – to present roles of energy resources in foreign policy. Second – to present types of energy instruments in Russia's foreign policy towards countries-consumers. Third – to identify variables determining effectiveness of energy instruments on different countries-consumers. Finally, to discuss consequences for countries-consumers as well as Russia when different energy instruments in foreign policy are applied.

Theoretical approach of the article is based on economic statecraft assumptions adjusted to the energy sector. These assumptions are combined with the assumptions of the neoclassical realism theory and the model of foreign policy instruments developed by Christopher Hill.¹⁴ The model of energy instruments in Russia's foreign policy and arguments of the article also include the results of empirical research of Russia's domestic and foreign energy policies towards Belarus and Ukraine, as well as other countries in the Post-Soviet space in 2000-2015. This approach provides broader explanations and illustrations.

Energy resources in foreign policy

Energy resources in foreign policy may be both objects of it as well as instruments for achieving certain fixed objectives which are different in each individual case and are identified by carrying out an analysis of foreign and national security policy strategies, speeches and actions of the governmental officials. As a result of energy resources' strategic significance, which has civilisational consequences, they are not only the objects of free trade but also the objects of power in international relations.¹⁵ In the international system energy resources are the elements of power which enable to influence system and its individual actors, and lie within the characteristic of national power.¹⁶ National power in energy sector is determined

¹⁴ Christopher Hill, *The Changing Politics of Foreign Policy* (Palgrave Macmillan, 2003), 134-37.

¹⁵ Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy* (Blackwell Publishing, 2003), 67.

¹⁶ Hans J. Morgenthau, *Politics among Nations. The Struggle for Power and Peace* (New York: Alfred A.

by geographical and technological determinism, economic capacities and political decisions of the state:

- The state must have energy resources within its territory;
- The state must be able to extract them economically rationally by using available technologies;
- The state must have economic resources for developing the extraction, production, refining and export;
- Responsible decision makers¹⁷ of a state must have a political will to exploit and export resources.

Such determinism divides states into consumers and suppliers. It should be stressed that geographical, technological and economic determinism changes positions of states and allows their movement from one group into the other, i.e. suppliers can become importers and *vice versa*.¹⁸ Such dualism naturally presumes that for countries-consumers energy resources are the objects of foreign policy, to gain them they transfer their economic power through trade (by paying in currency, goods or services). Other transfer of power in exchange for energy resources is possible – political, economic, military or technological cooperation and other various forms and combinations of transfer of power. In other cases a country-consumer may try to acquire resources by using forms of power with which suppliers do not agree and which are considered as illegitimate: threats, blackmail and military actions (were evident just before and during the World War II when Nazi Germany and Imperial Japan tried to get access to oil production regions).

As a result of the dichotomy of states in the global energy system it is only natural that for countries-suppliers energy resources become instruments that enable to convert power in energy sector into economic or any other types of power and gain or increase influence over other subjects of the international system and the system itself. The importance of energy resources as the instruments of foreign policy is increasing as they fill in the niche which occurs when the military instruments of foreign policy are replaced with other instruments. According to Nye “many states, particularly large ones, find it more costly to use military force

Knopf, 1948), 82-6.

¹⁷ The most important governmental institutions – the institutions of the president and government

that shape domestic and foreign policies and their interactions. For more:

^Norrin M. Ripsman, Jeffrey W. Taliaferro, and Steven E. Lobell, “Conclusion: The State of Neoclassical Realism”, in *Neoclassical Realism, the State and, Foreign Policy*, eds. Norrin M. Ripsman, Jeffrey W. Taliaferro, and Steven E. Lobell (Cambridge University Press, 2009), 280-281.

¹⁸ China from net oil exporter in the 1990’s became net oil importer, the same happened to Indonesia in 2000’s, while US has an opportunity to become net oil exporter.

to achieve their goals that was true in earlier times".¹⁹ Due to the civilisational importance of energy resources the use of energy instruments in foreign policy may have a huge impact on the states against which they are used.

The pursuit of foreign policy objectives when using energy resources may be called energy statecraft and considered to be equal to economic statecraft hence the formulated basic assumptions of economic statecraft can be applied to energy statecraft. Holsti defined economic statecraft as "organized actions governments take to change the external environment in general or the policies and actions of other states in particular to achieve the objectives that have been set by policy makers".²⁰ The definition given by Holsti can be directly transferred and adjusted to explain energy statecraft.

The potential of energy statecraft, as is also the case with economic statecraft, directly depends on the relative power of a state within the system, which is also emphasized by Hirschman who identified factors that allow for the use of economic power against other actors of the international system.²¹ According to Mastanduno economic statecraft will be used only by "powerful states with strong economies and many economic instruments which will use economic policy in their foreign policies much more often than weaker states will".²² The combination of the aforementioned assumptions with Gilpin's assumptions that only rich states may act according to preferences, i.e. pursue territory control or shape the behaviour of other states, may be widely used to explain why energy statecraft is mainly used by the largest exporters of energy resources.²³ The claims of Keohane and Nye about "asymmetric interdependence" explain why energy instruments are used against certain countries-consumers more intensively and more often than against other countries.²⁴

The dichotomy between countries-consumers and countries-suppliers is not as strict as it seems and adherence to it oversimplifies the interaction between the actors of the global energy system while not revealing the complexity of the relations between suppliers and consumers which also covers other areas of the

¹⁹ Joseph S. Nye, *The Future of Power* (BBS Public Affairs, 2011), 28.

²⁰ Kalevi J. Holsti, "The Study of Diplomacy" in *World politics: An introduction*, eds. James N. Rosenau, Kenneth W. Thompson, and Gavin (New York: Free Press, 1976), 29.

²¹ Albert O. Hirschman, *National power and the structure of foreign trade* (University of California Press, 1945)

²² Michael Mastanduno, "Economic Statecraft", in *Foreign Policy: Theories Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dune (Oxford: Oxford University Press, 2008), 178.

²³ Robert Gilpin, *War and Change in World Politics* (Cambridge University Press, 1981), 23-5.

²⁴ Robert O. Keohane, Joseph S. Nye, *Power and interdependence: world politics in transition* (Boston: Little, Brown, 1977), 8-10

interaction between the actors of the international system. According to the realist paradigm states always try to expand their power in respect of other actors of the international system.²⁵ Based on this assumption it can be stated that countries-suppliers also try to expand control of energy resources and energy infrastructure beyond their borders and in such a way to increase their influence over the subjects of the international system and the system itself. Energy resources and energy infrastructure also become the objects of the foreign policy of countries-suppliers for the acquisition of which energy instruments may be potentially used. Due to their power advantage in the energy sector, countries-suppliers of energy resources can expand their influence much easier than countries-consumers and this leads to the greater accumulation of their power.

The expansion of control of the extraction, production and transit infrastructure of resources transforms the regional and global geo-energetic context and increases possibilities to shape and transform the geo-energetic system. The increasing concentration of power makes it easier to use energy instruments in foreign policy. Hence, the power in the energy sector may be divided into two types of power in the international system. The first type – power as currency, when this power is transformed into or exchanged for other types of power. The second one – power as a context and structure which make other actors of the international system to some extent act according to the parameters set by the state which dominates in the global or regional energy system.

Russia's national power and state power in energy sector

As control of energy resources and their infrastructure is the object of foreign policies of countries-consumers and countries-suppliers and energy resources are at the same the instruments of foreign policy, it is necessary to reveal how energy resources or infrastructure become instruments of foreign policy. Therefore the presented case of Russia explains how a state extracts power from its national power in the energy sector, i.e. transforms its national power into the state capabilities in the international system, and uses those capabilities in its foreign policy to achieve its objectives.

Neoclassical realism theory argues that there two types of power that are important in the international relations and foreign policy – national power and

²⁵ Morgenthau, *Politics among Nations. The Struggle for Power and Peace*, 13.

state power.^{26 27 28} First of all, it is necessary to highlight the essential differences between national power and state power, which is a derivative of national power but is not directly proportional to national power, although correlates with it. National or relative power in the energy sector defines a state's positions in the global or regional geo-energetic systems. National power in the energy sector consists of energy resources within a country's territory exploited by national or private companies as well as of infrastructure controlled by national or private companies. However, this does not mean that the whole national power in the energy sector may be transformed into capabilities in the international system. National power is still a fundamental force which draws the patterns of the impact on the international system and a state's ambitions.²⁹ A state does not necessarily have to implement the foreign policy the patterns of which are drawn by the dynamics of national power because the choice of foreign policy depends only on the perception of state's responsible decision makers.³⁰ There is only limited possibilities to identify their perceptions, usually form strategies and public statements, but only actions show these perceptions precisely.

A state has only limited control of national power, including in the energy sector, which is referred to as state power. According to Zakaria "State power is that portion of national power the government can extract for its purposes and reflects the ease with which central decision-makers can achieve their ends".³¹ Because state has a limited access to national power in the energy sector, it cannot use its whole national power to achieve its foreign policy objectives.

Russia's national/relative power in the energy sector is one of the biggest in the world, but the Russian state cannot use this whole power to achieve its foreign policy objectives. According to BP "Statistical Review of World Energy" (2013) in 2012 in Russian territory was 5.2 % of world's oil reserve, 17.6 % of natural gas reserves and 18.2 % of world's known coal reserves, Russia produced 12.8 % of

²⁶ Steven E. Lobell, "Threat assessment, the state, and foreign policy: a neoclassical realist model", in *Neoclassical Realism, the State and, Foreign Policy*, eds. Norrin M. Ripsman, Jeffrey W. Taliaferro, and Steven E. Lobell (Cambridge University Press, 2009), 56.

²⁷ Thomas J. Christensen, *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958* (Princeton University Press, 1996), 22-5.

²⁸ Fareed Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role* (Princeton University Press, 1998), 35-41.

²⁹ Hill, *The Changing Politics of Foreign Policy*, 136.

³⁰ Gideon Rose, "Neoclassical Realism and Theories of Foreign Policy", *World Politics*, Vol. 51, No. 1, Oct. (1998): 144-72.

³¹ Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role*, 9.

oil, 17.6 % of natural gas and 4.4 % of coal in global energy production.³² The Russian state can only use the part of national power only as big as state can get access to national power, and only this part can be turned into its capabilities in the international system.

A state gets access to national power in the energy sector through legal regulation functions, control of national energy companies and cooperation with private energy companies. Legal regulation (regulation of energy companies, setting production, ecology, tariff and other requirements) and control of the implementation of the legal regulation depend on the objectives of domestic and foreign policies of responsible decision makers. National energy companies must also ensure the achievement of the objectives of domestic and foreign policies. With legal regulation and legal control state also dominates over private companies enabling to influence their activities. If a state does not have sufficient capabilities to achieve its objectives of domestic and foreign policies, it will potentially try to expand its state power and increase its access to national power. The expansion of state power can be achieved through both direct and indirect mobilisation.

Direct mobilization is when a state directly increases control of the sector “through planning, nationalization and other means”.³³ Direct mobilization occurs when resources and energy infrastructure controlled by private energy companies are taken over into control of national energy companies or regulation of private companies is increased. State power of Russia in energy sector was increased through legal and regulatory functions as well as increased state control and law enforcement authorities, to strengthen national energy companies. In the period of 2000-2006 Russian state at first tried to maintain and later to expand dominance in the transit and export sectors. In 2001 Russia rejected ratification Energy Charter Treaty and Transit Protocol, what might have led to building of alternative pipelines, so *Transneft* (*Транснефть*) might have lost its domination in transit sector.³⁴ In 2006 *Gazprom*'s (*Газпром*) gas export monopoly was established by the law, so this eliminated possibilities for other companies to ensure transit and export of gas via pipelines.³⁵ Finally, in 2008 investments of foreign companies

³² “Statistical Review of World Energy, July 2013,” BP, http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf.

³³ Michael Mastanduno, David A. Lake, and John G. Ikenberry, “Toward a Realist Theory of State Action, International”, *Studies Quarterly*, Vol. 33, No. 4, Dec (1989): 457-7

³⁴ “Экспорт газа и внутренние госпоставки должны остаться за “Газпромом”” [Natural gas export and domestic natural gas supply will remain after Gazprom], Newsru.com, 6 April 2001, <http://newsru.com/finance/06apr2001/kutovoy.html>.

³⁵ “Федеральный закон Российской Федерации от 18 июля 2006 г. N 117-ФЗ Об экспорте газа” [Federal law of Russian Federation since 18 July 2006, N 117-FZ On gas export], Rg.ru, 20 July 2006, <http://www.rg.ru/2006/07/20/gaz-export-dok.html>.

were legally restricted and Russian companies were included into already developed energy projects in a compulsory way.³⁶ At the same time, state increased ownership of national energy companies. In 1995 state controlled 38,4 % of *Gazprom*'s shares, but by 2005 it expanded control of the shares to more than 50 % (*Gazprom* 2005).³⁷ Also share of energy market controlled by national energy companies was increased at the expense of private energy companies because *Yukos* (*ЮКОС*) was taken over by *Rosneft* (*Роснефть*), while *Sibneft*'s (*Сибнефть*) shares were sold to *Gazprom*. State owned *Rosneft* and *Gazprom* were significantly strengthened. At the same time these companies broadly represented state's interests domestically and abroad and can be argued that companies became state institutions and acted as ones'.

Indirect mobilization also increases state's capabilities to use national power in its foreign policy. Indirect mobilization occurs when the links between public authorities and private energy companies are strengthened thus creating an environment in which private energy companies act in accordance with the state interests and politics – become so called state “ambassadors”.³⁸ However, indirect mobilization is not as efficient as direct mobilization because use of energy resources as instruments in foreign policy requires a complex partnership between public and private spheres.³⁹ State has to establish conditions for private energy companies to develop or maintain their business and receive other benefits which enable the companies or their managers to gain advantage over other companies that do not seek for the representation of the state interests. As a result it is not that efficient and time and cost consuming required to persuade private companies to act in accordance with the state's interests. Indirect mobilization Russia's energy sector was evident in the case of *Lukoil* when the company pursued an adaptation strategy, which was defined as “[avoiding] any separation between company interests and national ones”, so that the state would not use legal means against it and would

³⁶ “Федеральный закон № 57-ФЗ “О порядке осуществления иностранных инвестиций в хозяйственные общества, имеющие стратегическое значение для обеспечения обороны страны и безопасности государства”, 29 апреля 2008 года” [Federal law No.57-FZ “On procedures of foreign investments in business entities of strategic importance for national defence and state security”, 29 April 2008], Federal Antimonopoly Service of the Russian Federation, 29 April 2008, http://www.fas.gov.ru/legislative-acts/legislative-acts_20103.html.

³⁷ “Заключены сделки между ОАО «Роснефтегаз» и дочерними обществами «Газпрома»” [Deals between Rosneftegaz and Gazprom's subsidiaries clinched], *Gazprom*, 24 June 2005, <http://www.gazprom.ru/press/news/2005/june/article55331/>.

³⁸ Isabel Grost, *Lukoil: Russia's Largest Oil Company* (Rice University, 2007), http://bakerinstitute.org/media/files/page/993b42c4/noc_lukoil_gorst.pdf.

³⁹ Hill, *The Changing Politics of Foreign Policy*, 148-49.

not limit its operation.⁴⁰ The increasing state power through expansion of national companies reduced the need for indirect mobilization for Russia's state and this can be illustrated by the decreasing possibilities for *Lukoil* (*Лукойл*) to operate in Russia's energy sector since 2007 and the way that the state forces the company to coordinate its activities with and adjust them to national companies. *Lukoil* could develop new fields only with participation of *Gazprom Neft* (*Газпром нефть*). In 2012 *Rosnedra* (*Федеральное Агентство по Недропользованию*) (Federal Agency for the Subsoil Use) recalled *Lukoil's* license to develop new oilfields together with *Bashneft* (*Башнефть*). *Lukoil* and *Novatek* (*Новатэк*) in the memorandum of 2012 agreed to jointly develop gas production and LNG export projects where *Gazprom* dominated.

Direct mobilization through the expansion of national companies is more efficient as national energy companies are a part of a state and their actions can be easily directed towards the achievement of foreign policy objectives, when compared to indirect mobilization. Because in most cases when Russia used energy instruments in its foreign policy these instruments were provided by the national companies. What is interesting is that the achievement of certain foreign policy objectives, as an example of control of gas transit pipelines in Belarus by *Gazprom* in the end of 2006 enables not only the potential increase of a state's influence and establishment of its interests (the companies which expand control of resources and infrastructure abroad are a prerequisite for the ability to influence the states in which that infrastructure or resources are controlled, in this case in Belarus) but also in parallel strengthens national energy companies.

Types of energy instruments in Russia's foreign policy

The elements of national power available to a state in the energy sector become the state capabilities in the international system to achieve its foreign policy objectives. The accumulated state's capabilities when they are used in foreign policy become instruments of foreign policy. Approach of conversion of national power in energy sector to state's capabilities is based on the logic presented in the theory of neoclassical realism.^{41 42}

⁴⁰ Roy Alison, "Strategic Reassertion in Russia's Central Asia Policy", *International Affairs*, Vol. 80, Issue 2 (2004): 277-293.

⁴¹ Zakaria, *From Wealth to Power: The Unusual Origins of America's World Role*, 9.

⁴² Jeffrey W. Taliaferro, "Neoclassical realism and resources extraction", in *Neoclassical Realism, the State and, Foreign Policy*, eds. Norrin M. Ripsman, Jeffrey W. Taliaferro, and Steven E. Lobell (Cambridge University Press, 2009), 210-14.

The actions and decisions in energy sector when country-supplier tries to reach certain foreign policy goals in country-consumer may be classified as foreign policy instruments according to their impact on it. The classical definition of power relations presented by Dahl suggests that energy resources, just like any other instruments of foreign policy (military forces, diplomacy, economics), can act as a factor in compelling a country-consumer to do something, because “A has power over B to the extent that it can get B to do something that B would not otherwise do”.⁴³ Energy resources may also be used to sway countries-consumers to voluntarily implement the policies desired by countries-suppliers. Energy instruments of foreign policy can be divided into two kinds of compel instruments (try to force not/do something) and sway instruments (try to persuade not/do something). Compel instruments are used as “a sticks” and case analysis showed that they can be further divided into the following five types, according to their impact on a country-consumer. The types of energy instruments in foreign policy have been indicated and classified to some extent basing on the universal pyramid model of foreign policy instruments developed by Hill, supplementing Russia’s energy instruments indentified by Larsson and analysis of Russia’s energy policies towards Belarus and Ukraine in the period of 2000-2015 and in some cases of other Post-Soviet countries.^{44 45} This allows introducing generalised unified scheme of energy instruments, their types, how they are obtained and used (see Figure 1 below).

Further the types of instruments are explained starting form compel instruments. First type of instruments – threats to reduce energy supplies and reduction of supplies of resources (from minimal reduction to complete cut-off). Threats to reduce or cut-off the supplies were always made before the reductions and cut-offs’ of the supplies of natural gas or oil. Belarus was threatened with the cut-offs’ of the supplies of natural gas or oil in 2002, 2003, 2010 and 2011. Ukraine was threatened with the cut-offs’ of natural gas in 2005, 2008-2010, 2013 and 2014 and with the cut-off of oil in 2008. In 2002 the supply of natural gas to Belarus was reduced, in 2004 the supply of gas was cut-off, in June of 2010 the supply of gas was reduced. In 2006 the supply of gas to Moldova was cut-off for 16 days. In 1990 the supply of oil to Lithuania was cut-off for 2 months. The supply of natural gas to Ukraine was cut-off in 2006, 2009, 2014 and 2015, and the supply of oil – in 1999-2000.

⁴³ Robert Dahl, “The Concept of Power”, *Behavioral Science*, 2:3, July (1957): 201-15.

⁴⁴ Hill, *The Changing Politics of Foreign Policy*, 134-37.

⁴⁵ Larsson, *Russia’s Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Supplier*, 177.

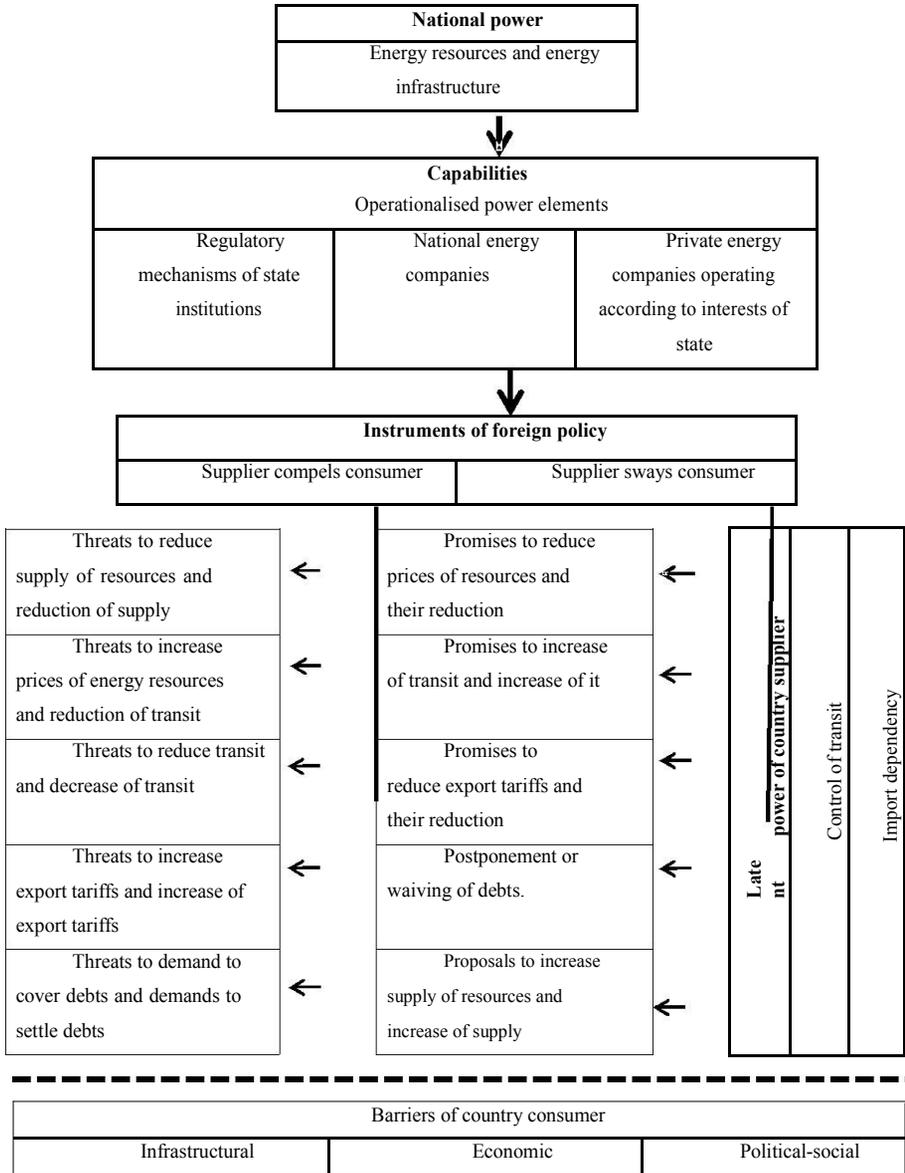


Figure 1: Energy instruments in foreign policy of Russia (or countries suppliers) **Source:** made by author

Second type of instruments – threats to increase prices of energy resources and their increase. The instruments to apply threats to increase the price or its increase are greater when a country-consumer pays a lower price compared to other consumers in the region. A lower price to Belarus is applied up to now and subsidies on gas prices are also given to Armenia. Subsidies were given to Ukraine until 2009 and to Georgia until 2006. Price discounts and subsidies makes it easier to argue for the use of such instrument. The possibilities to increase the price also depend on the terms and conditions laid down in agreements – a formula for calculating the price and discounts applicable.⁴⁶ Before major energy conflicts with Belarus and Ukraine Russia threatened to increase natural gas prices. Belarus was threatened in 2003, 2007, 2009 and 2010. Ukraine was threatened with the increase of the gas price in 2005 and 2008. In 2006-2008 the prices of natural gas were rapidly increased for Armenia, Georgia and Ukraine. The gas price was also increased for Belarus in 2007 and for Ukraine in 2009. After annexation of Crimea in March 2014 *Gazprom* increased price of gas for Ukraine, because it abandoned the agreement on the reduction of gas price which was negotiated in 2010, which foresaw exchange gas price discount in exchange for the lease of Black Sea naval base in Crimea.

The third type of instruments – threats to reduce transit of energy resources and reduction of transit (from minimal reduction to complete cut-off). Russia threatened to reduce the transit of gas through Ukraine if it refused to sell 50 percent of the shares in the company controlling the system of the main pipelines in 2002 and in 2010 Russia did the same when the project South Stream was under development. In 2006 and 2009 the transit of gas through Moldova and Ukraine was cut off and the oil and transit through Ukraine has been reduced since 2012. The transit of gas and oil through Ukraine has been almost consistently reduced since 2005. According to *Naftogaz of Ukraine (Нафтогаз України)* in 2014 natural gas transit via Ukraine was only 62,2 billion m³ compared to 136,4 in 2005.

The fourth type of instruments – threats to increase export tariffs and increase of export tariffs increase. In 2009 threats to increase the export duties on oil for Belarus were made. In 1995 Russia increased export duties on oil exported to Ukraine in order to press it to take certain foreign policy decisions – join the Customs Union.⁴⁷ In 2007 Russia increased export duties on oil exported to Belarus.⁴⁸

⁴⁶ Until the mid-year of 2014 the price of gas supplied for Lithuania was by 20 % higher on average than for other countries of the region which enjoyed discounts, but this was the result of price setting in the agreements.

⁴⁷ Margarita M. Balmacaeda, “Gas, Oil and the Linkages between Domestic and Foreign Policies: The Case of Ukraine”, *Europe-Asia Studies*, Vol. 50, No. 2 (1998): 257-86.

⁴⁸ “Agreement between the Government of the Russian Federation and the Government of the Republic of Belarus on measures to regulate trade and economic cooperation in the field of oil petroleum

Finally, the fifth type of instruments – threats to demand to cover debts and demands to settle debts. Threats are usually made before making demands for the settlement of debts. Threats to demand or demands for the settlement of debts depend on whether or not a country-consumer is indebted and how much a country-supplier is willing to tolerate those debts. The cases of Belarus, Moldova and Ukraine show that Russia differently tolerated the level of indebtedness. Russia also had different tolerance towards Belarusian debts at different periods, depending on the interests of its energy and foreign policy. Until 2006 Russia has been more tolerant to Belarusian debts for energy resources, though occasionally (in 2002) required to cover debts. In 2006 President Putin signed an order for changes in trade and economic and fiscal policy towards Belarus, which allowed to decrease support for Belarus and would expand market approach in economic relations.⁴⁹ Moscow was tolerating Transnistria's debts for gas, but not Moldova's. In June of 2005 *Gazprom* demanded the settlement of the debt resulting from the disappearance of gas from the storage facilities in Ukraine in the autumn of 2004, it is worth noting that issue has not been raised for more than half of year, and raised only after “Orange revolution”. After the parliamentary elections in Ukraine in October of 2007, when it was obvious that Government will be formed by Yulia Tymoshenko, *Gazprom* demanded for the settlement of debts. Since January of 2008 *Gazprom* demanded that Ukraine cleared its debts which had resulted from the increased supply of gas from the Central Asia, though Ukraine was not previously informed about changed natural gas mix. The demands in 2008 and Ukraine's debts gave a pretext for the gas conflict in 2009. The possibility that Ukraine will delay the clearance of its debts for the whole year of 2009 served as a pretext for cutting off gas supply. In 2010 Belarus was demanded to settle its debts for gas and a short term gas supply disruption occurred. In November 2013 *Gazprom* and Russian government demanded Ukraine to settle the debts for natural gas, this way pressing Ukraine not to sign DCFTA (Deep and Comprehensive Free Trade Area) and Association Agreements with the EU, but later Russia changes its position when Ukraine rejected to sign mentioned agreements. In July 2015 *Gazprom* disrupted natural gas supplies to Ukraine because Ukraine did not make an “advance payment”.⁵⁰

products”, Ministry of Foreign Affairs of Russian Federation,
http://mid.ru/BDOMP/spd_md.nsf/0/08A786A687F6EA5544257C3C003D353A.

⁴⁹ “Кремль готовит аншлюс Лукашенко: высокие цены на газ должны заставить Белоруссию войти в РФ”, [Kremlin is preparing anschluss for Lukashenka: high prices for gas should force Belarus to join Russian Federation], Newsru.com, 12 May 2006, <http://newsru.com/russia/12may2006/belgas.html>.

⁵⁰ “Russia halts gas supplies to Ukraine after talks breakdown”, BBC, 1 July 2015, <http://www.bbc.com/news/world-europe-33341322>.

The last three types of identified instruments depend on the conditions in the relations between a supplier and a consumer. Threats to reduce transit or reduction of transit can only be used against a country-consumer, which is also a transit country. Threats to increase export duties and their increase depends on the energy trading conditions between countries exporters and consumers. If country exporter had exemptions from payment of export duties for particular countries and decided to abandon such exemptions following not economic, but political interests, this can be assessed as a compel instrument. On the other hand, higher prices of energy resources may be charged to a certain country, if exemptions from duties are applied to other countries in the region, this can also be perceived as foreign policy instrument.

The analysis of Russia's relations with post-soviet countries shows that the use of energy instruments is selective as responsible decision makers freely interpret the conditions that determine the use of instruments. For instance, in 2006 gas supply to Ukraine was halted due to the lack of agreement, whereas in 2007 gas was supplied to Belarus without an agreement being formally signed. This free interpretation by the decision makers of when, what and how to use energy instruments does not allow to move forward and to introduce some kind of model explaining what particular and when energy instruments are used by the country-supplier. Rational approach would suggest that it is within the interests of countries-suppliers at first to use less strict instruments which potentially lead to less negative consequences for the country which applies those instruments. However, the choice of instruments is not necessarily consistent, i.e. responsible decision makers do not necessarily start from the instruments which have less serious consequences and move to the instruments which have more serious consequences. The choice of instruments depends only on the assessments made by responsible decision makers and the decisions based on those assessments.

Sway instruments, just like compel instruments, are related to active actions of a state of country-supplier in order to affect a country-consumer. From the previously mentioned analysis sway instruments are identified and divided into the following five types according to their impact on a country-consumer.

The first type of instruments – promises to reduce prices of resources and their reduction. Natural gas price for Ukraine was reduced in 2010 when it signed the agreement on the extension of the deployment of the Black Sea Fleet in Sevastopol. Russia introduced discounts for natural gas in order to ensure its military presence in Ukraine and maintain position to project military power in broader geographic space. This discount was abandoned after Russia annexed Crimea. The gas price for Belarus was reduced in 2006, when it sold 50 percent of the shares in *Beltransgaz*

(*Белтрансгаз*). When in 2010 Belarus decided to join the Customs Union, the reduction of the oil price was extended. When in 2012 Belarus decided to join the Eurasian Economic Union, the gas price was reduced. After Ukraine had not signed The Deep and Comprehensive Free Trade Area and Association Agreements with the EU Russia provided big discounts for natural gas.⁵¹ With discounts Russia paid for favourable policies of Ukraine and Belarus.

The second type – proposals to increase transit and increase of it. After *Gazprom* purchased *Beltransgaz*, the transit of gas through Belarus was increased. *Gazprom* promised that if 50 percent of the shares in *Naftogaz* which controlled the main pipelines in Ukraine were sold, the transit of gas through Ukraine would be increased.

The third type – proposals to reduce export tariffs and their reduction. Until 2007 Russia did not put export duties on oil exported to Belarus, despite the fact that the latter failed to observe the bilateral agreement and transfer a portion of collected export duties to the budget of Russia. Belarus enjoyed the exemptions from export duties even before it joined the Customs Union.

The fourth type – postponement or waiving of debts. Russia did not demand that Ukraine paid its debts for gas, when the campaign of presidential elections was taking place in Ukraine in 2004 and when Russia supported the Prime Minister Victor Yanukovich before the parliamentary elections in 2007. *Gazprom* tolerated the debts of Transnistria for a long period of time but did not tolerate the debts of Moldova. In November 2013 there were clear connections between Ukraine's decision not to sign DCFTA and Association Agreement with the EU and *Gazprom's* decision to postpone the coverage of debts for natural gas.

Finally, fifth – proposals to increase supply of resources and increase of supply. In 2010 Russia offered to increase the supply of gas to Ukraine in exchange for selling 50 % of *Naftogaz's* shares to *Gazprom*. However this instrument is more limited, as countries-consumers usually import the needed amount of energy resources, and without possibilities to re-export for profit there is no incentives to import more resources. At the same time countries-consumers import energy resources from countries-suppliers suggesting best prices, so the price is more important and more broadly applicable instrument.

The possibilities to use the outlined instruments depend on the latent power of country-supplier on countries-consumers. This latent power naturally develops as a result of the dependency of country-consumer on country-supplier – a certain

⁵¹ “Украина добилась снижения цены на российский газ в полтора раза” [Ukraine has reached an agreement to decrease Russian gas price for 1.5 times], Newsru.com, 17 December 2013, <http://www.newsru.com/russia/17dec2013/vstrecha.html>.

geo-energetic space. Latent power develops through control of supply and transit. Latent power determines how intensively country-supplier is able to use energy instruments in foreign policy in order to affect the behaviour of countries-consumers. Russia dominates in the geo-energetic space of Eastern and Central Europe and Central Asia (domination is decreasing), it alone can ensure the required supply of natural gas to Belarus, Ukraine, Moldova, Central European states, Baltic States (until 2015), Balkans, Finland, Slovakia, Greece and Turkey. At the same time, Russia controls alternative transit from Central Asia to Europe and is implementing projects allowing limiting access of other suppliers to Europe. Shambaugh IV observes that the greater the dependence, the greater the probability that the use of instruments will have the expected result.⁵² The level of the dominance of a country-supplier on country-consumer determines the strength of its negotiating positions and possibilities to use instrument, so the more domination the Russia has in energy sector on country's-consumer's energy sector the more possibilities it has to implement is foreign policy applying energy instruments.

Manifestations of the latent power of countries-suppliers cannot be avoided by countries-consumers. However, the most important thing for countries-consumers is the market concentration as it influences the impact of energy instruments. Latent power is not static, it changes, but this depends on countries-consumers. At the same time their decisions are influenced by countries-suppliers, on how they exploit their positions. The impulsive use of compel instruments will force countries-consumers to oppose the dominance and strengthen their energy barriers

– reduce possibilities of suppliers to use energy instruments. Sway instruments will not create incentives for countries-consumers to create barriers. The disuse of energy instruments will result in the development of the energy sector under market conditions in country-consumers in certain geo-energetic space (which will not necessarily match with the global energy market conditions). Good example here is the positions of Lithuania and other Baltic States, being dependent on single supplier - Russia they had higher natural gas prices, especially Lithuania, and experienced energy supply disruptions for number of times. These were the reasons Baltic States started projects that would increase supply diversification (first LNG terminal in Klaipėda became operational in 2015 as well as interconnections with Poland and Sweden, Estonia developed interconnection with Finland), as well as decrease of natural gas imports focusing on domestic and renewable resources. This changes Russia's possibilities to use energy instruments in its foreign policy towards the Baltic States.

⁵² George E. Shambaugh IV, "Dominance, Dependence, and Political Power: Tethering Technology in the 1980s and Today", *International Studies Quarterly*, 40, (1996): 559-88.

Factors determining the effectiveness of energy instruments in foreign policy

The energy instruments of foreign policy are used to achieve certain foreign policy objectives that are documented or can be identified from the actions of a state. However, they are different for each analysed case (state) or period. The effectiveness of energy instruments depends on the following three variables: foreign policy objectives of country supplier; strictness and intensity of the instruments used (inflicted consequences for a country-consumer); barriers that country-consumer has.

The effectiveness of the use of energy instruments directly depends on the objective. The more ambitious the objective, i.e. the greater the political and/or economic demands, the harder it is to achieve the objective. Country-consumer will be more willing oppose and tolerate the instruments having negative impact longer. At the same time more ambitious objectives will force the country-supplier to apply stricter instruments. In this perspective the objective would tend to affect the choice of instruments to some extent.

In the 1990's in order to persuade Belarus to increase cooperation and to sign "Treaty of Friendship, Good Neighbourhood and Cooperation" (*Договор о дружбе, добрососедстве и сотрудничестве между Российской Федерацией и Республикой Беларусь*) or an agreement on the Commonwealth of Russia and Belarus, Russia provided discounts on the prices of energy resources to stimulate Belarusian economy. Belarus was willing to cooperate and sign nonbinding agreements the fulfilment of which it then avoided. To achieve more ambitious foreign policy objectives (take over the infrastructure of natural gas transit, create and the Eurasian Customs Union) Russia used instruments which had a smaller impact, at first, but they had not provided the expected result as Minsk avoided carrying out required policies. As a result, stricter instruments were introduced, sway and compel instruments were combined, supply disruptions occurred, officially discounts were abandoned, threats to stop subsidies for economy were voiced, as a ways to press Belarus. At the same time discounts on energy resources were increased when Belarus accepted Russia's demands. The supply disruptions in 2006 and political pressure in energy sector allowed for Russia to take over 50 percent of *Beltransgaz* shares in 2007. Discounts, threats to abandon them, threats to increase exports tariffs, and oil and natural gas supply decrease and disruptions in 2010 increased pressure for Belarus to become member of Eurasian Customs Union the same year, and *Gazprom* took over remaining 50 percent of *Beltransgaz* shares.

The achievement of foreign policy objectives with the help of energy instruments depends on the choice and intensity of the instruments. When country-consumer uses stricter instruments or more intensively, a country-consumer has more limited possibilities to reject political or economic concessions required by the country-supplier. At this point it is important how long a country-supplier is able to use certain instruments. The longer a certain instrument with negative impact on country-consumer is used, the greater the damage thus increasing the need to make policy changes more in line with country-supplier positions. As an example can be provided interruptions of gas supply, especially during the cold season. Interruptions will have different consequences for countries-consumers with no import alternatives which will depend on the duration of interruption.⁵³

However, countries-suppliers cannot constantly use energy instruments which have the biggest impact and they rationally use instruments which have a negative impact on countries-consumers for the shortest possible period of time to avoid negative consequences for themselves that will be discussed further in the text (see section 6). As states seek to carry out rational policy, in order to get the expected results they should rationally tend to choose instruments which are most cost efficient and have the smallest negative impact. However, the case analysis Of Russia's actions towards Ukraine does not suggest that this rational approach dominates the decisions. Contrary to what might be expected, the importance of particular countries-consumers for the transit of energy resources (importance of transit should reduce the asymmetry of power in energy sector between country-producer and country-consumer) in fact does not result in the choice of instruments. The case analysis of Russia - Ukraine energy relations in 2000 - 2014 shows that instruments towards Ukraine had not been less strict and the duration was not shorter either. The cut-off of gas supply in 2009 affected 17 more European countries and was the biggest and longest in the history of energy diplomacy until 2014.⁵⁴ At the same time it had negative consequences for Russia - mobilised the EU and had negative consequences to its image.

Though Russia sometimes almost identically used energy instruments in foreign policy to achieve similar foreign policy objectives, but the outcome were

⁵³ The interruption of the supply of natural gas will have a small impact on economy and citizens if it lasts 1 day, the impact will be greater if the supply is interrupted for up to 10 days and it will be very big if the interruption lasts more than 10 days. The size of damage made in each country-consumer will be different and it will grow differently in respect of the duration of the interruption as it depends on the economic structure of and infrastructural barriers in the country.

⁵⁴ The interruption of the supply of gas affected the following countries: Austria, Bosnia and Herzegovina, Bulgaria, the Czech Republic, Greece, Italy, Croatia, Poland, Macedonia, Moldova, France, Romania, Serbia, Slovakia, Slovenia, Hungary and Germany.

different in the cases of Belarus, Ukraine, Georgia, Armenia and the Baltic States. The efficiency of energy instruments was determined by barriers in the countries-consumers. Barriers allowed to avoid the energy instruments to be used or reduce their impact. These barriers can be divided into the following three types: infrastructural, economic and political-social.

Infrastructural barriers ensure geographical diversification of supply of energy resources and electricity as well as diversification of sorts of energy resources. Infrastructural barriers, through the establishment of a reserve and its size, also determines how long a country-consumer can tolerate cut-offs. Energy infrastructure has a great impact on geo-energetic positions because the development of infrastructure changes latent power of major country-supplier and allows reduce its dominance, thus reducing the possibility to use energy instruments, as well as diminishes the effectiveness of instruments. Geographical diversification requires alternative pipelines, terminals and interconnection as well as infrastructure for producing and extracting own resources (if any exists). For the purposes of energy diversification it is important to adjust the industry of electricity and heat generation to use various sorts of fuel and to have sufficient reserves. The geographical positions of a country limits possibilities of geographic energy diversification, like absence of access to sea in case of Belarus, does not allow to build LNG terminals. A country-consumer not always can use its infrastructural barriers or create new ones even under favourable geographical conditions as its capabilities to do so is determined by its economic capabilities and decisions of the responsible decision makers.⁵⁵

Economic barrier and financial capacity depends on the state's existing assets, availability of external financial assets, its national budget and the available surplus budget capacity (Rondinelli D.A. & Cheema G.S. 2003). Economic barriers determine a country's-consumer's capabilities to tolerate the use of the energy instruments and secure alternatives that require higher costs (develop infrastructure or securing imports). Economic barriers also are important for the accumulation of a reserve, as well as duration of toleration of the increased prices of energy resources.

The nature of the conditions of the trade in energy resources determines the possibilities to use energy instruments. When a country-supplier provides subsidies to a country-consumer, the country-supplier can use the increase of the price of resources to the market level or regional price level as a compel instrument. On the

⁵⁵ Although Ukraine developed limited geographical diversification infrastructure in the oil sector – Odessa–Brody oil pipeline, – it did not use it to diversify the import of oil. Since the 1990s there were plans to develop infrastructure that would allow for the diversification of the import of gas but the project was not implemented. Ukraine was also unsuccessful in constructing LNG terminal.

other hand, the reduction of the price to the market level or regional price level can be considered as the use of sway instrument. The trade in energy resources at the market price strengthens barriers of country-consumer delegitimizing the instruments of price increase. The application of a market price and market principles in the trade in energy resources are the best tools for creating economical barriers in the trade of energy resources and ensuring the optimal development of industry and economy, decreasing vulnerabilities from artificial price increase. The possibilities to use energy instruments legitimately to some extent depend on the signed trade agreements. Here good examples are the agreements on supply and transit of gas signed by *Gazprom* and *Naftogaz* on 19 January 2009. The supply agreement made it possible to demand for *Gazprom* Ukraine to pay a higher price for gas when compared to other countries-consumers in Europe and selectively impose penalties for unconsumed gas, whereas the signed transit agreement enabled Russia to reduce transit unilaterally.^{56 57} These agreements became important elements for Russia to legitimize the use of energy instruments against Ukraine in the period of 2009 – 2019.

The relations between Russia and Belarus in the energy sector have never been transparent. This reduced the possibilities for Belarus to create economic barriers against energy instruments. Nearly all the agreements in energy sector between Russia and Belarus were based on the bilateral political decisions. This limited possibilities for Belarus to create barriers, so Russia was more successful in using energy instruments towards Belarus. The possibilities to create economic barriers depend on the positions of the state's responsible decision makers, on the allocation of financial resources and settings of the nature of the trade in energy resources.

Political-social barriers determine how successfully infrastructural and economic barriers can be created and used and how much a country-consumer will be willing to take into account the demands of a country-supplier when it uses energy instruments. Political-social barriers consist of three elements the most important of which is the positions of responsible decision makers, second the positions of the actors of the international system in respect of a country-consumer

⁵⁶ “Контракт между ОАО Газпром и НАК Нафтогаз Украины купли-продажи природного газа в 2009-2019 годах, 19 января 2009 г.” [The contract between *Gazprom* and *Naftogaz* sales of natural gas in the years 2009-2019, 19 January 2009], *Pravda.com.ua*, 22 January 2009, <http://www.pravda.com.ua/rus/articles/4b1ab16443461/>.

⁵⁷ “Контракт между НАК Нафтогаз Украины и ОАО Газпром об объемах и условиях транзита природного газа через территорию Украины на период с 2009 по 2019 годы, 19 января 2009 г.” [The contract between *Naftogaz* and *Gazprom* on the amounts and terms of transit of natural gas through the territory of Ukraine for the period from 2009 to 2019, 19 January 2009], *Pravda.com.ua*, 22 January 2009, <http://www.pravda.com.ua/rus/articles/4b1ab1647362c/>.

and country-supplier and, finally, the positions of interest groups in a country-consumer.

The positions of responsible decision makers play the greatest role in determining the strength of infrastructural and economic barriers as responsible decision makers allocate state's financial capabilities for the development of infrastructural barriers. It should be underlined that responsible decision makers has the biggest influence on the formation of the structure of a state's economy which has impact not only on the state's economic capabilities but also on the needs of energy resources. Responsible decision makers also determine how state will respond to energy instruments used against it, whether it will agree with demands of a country-supplier and how soon, or will it try to reject demands and for how long, will it search for alternatives? Responsible decision makers determine that there is not linear relationship between inflicted damage or created opportunities while applying energy instruments in foreign policy to country-consumer and changes in its policies. According to Nye the state's choices are determined not only by its power but also by its preferences.⁵⁸ The preferences of responsible decision makers is an intervening variable which has the biggest importance in determining the effectiveness of various energy instruments. Because preferences of the responsible decision makers are not necessary defined by the energy instruments (compel or sway) it is impossible to accurately predict the decisions of those responsible decision makers. However, probable decisions could be indicated by identifying the priorities of responsible decision makers that are more or less manifested in countries-consumers with different political regimes. Mastanduno argues that democracies are more vulnerable because state is more sensitive to political pressure, in contrast to authoritarian regimes.⁵⁹ However, the analysis of the cases of Belarus and Ukraine do not confirm such a statement. The use of the energy instruments in foreign policy against states with an authoritarian regime or with a regime which has authoritarian elements is more effective than against democratic states. In authoritarian states the most important objective of the state becomes to keep leader and his inner circle in power, whereas in democratic states keeping a leader in power is not considered to be the primary objective of the state. The use of energy instruments directly affects the economics of the country and thus stability of the state upon which the ability to keep a leader in power and survival of authoritarian regime depends. Although economic stability is important for the democratic regime as well, but in democratic regime the changes of responsible

⁵⁸ Joseph S. Nye, *Bound to Lead: The Changing Nature of American Power* (Basic Books, 1991), 26.

⁵⁹ Michael Mastanduno, "Economic statecraft, Interdependence, and national security: Agendas for research", *Security Studies*, 9:1-2 (1999): 288-316.

decision makers is acceptable therefore the use of instruments that cause changes in governments or parliaments is tolerated. Belarus and Ukraine (during the presidency of Viktor Yanukovich in 2010-2014) provide good examples of the aforementioned dynamics in authoritarian countries or countries with authoritarian elements. Alexander Lukashenko and Viktor Yanukovich were more willing to accept Russian demands when energy instruments were used. On the other hand, countries with democratic regimes like Baltic States illustrate that responsible decision makers in these countries had not associated energy instruments with maintaining in power certain responsible decision makers. Governments accepted investments to natural gas sectors from *Gazprom*, to a certain level, but not made political concessions when *Gazprom* introduced higher prices (compared to other consumers in Europe) they tolerated negative Russia's energy instruments and developed barriers.

Political-social barriers by the country-consumer to tolerate energy instruments are also influenced by the positions of different actors of the international system in respect of a country-consumer and a country-supplier. Energy instruments will have a greater impact on a country-consumer which does not have the support of other actors of international system. A country-consumer expects that if a country-supplier uses energy instruments against it, its partners will ensure at least partial supply of resources (if geographical diversification infrastructure is available), as in case of Ukraine in 2014-2015, will provide economic support (loans will make possibilities to cover debts or develop alternative energy infrastructure) and, finally, provide political support or oppose the country-supplier using energy instruments. Such cooperation can be observed in the EU, where the EU provides political and financial support for the Baltic States to integrate into the EU energy market when Baltic Energy Market Interconnections Plan was proposed - to connect Baltic States to the Nordic and Central European countries in natural gas and electricity sectors. Because of the isolation of the Euro-Atlantic community Belarus was less capable to withstand energy instruments used by Russia compared to Ukraine, which received financial support for coverage of its debt, renewal of infrastructure, and supply Russian gas from European consumers (Slovakia, Poland and Hungary in 2014).

Finally, for political-social barriers influences of interest groups are also very important as they influence the decisions of the responsible decision makers which determine the effectiveness of counties-supplier's energy instruments. The pressure from various interest groups is different. Responsible decision makers will face greater pressure from business groups that are willing to accept the demands of a country-supplier when it uses compel type instruments. The business groups are interested in profit, and they are willing to press country-consumer to accept

some political concessions if only compel instruments hurting business would be abandoned. On the other hand the society can be more willing to tolerate compel instruments by country-supplier and encourage state of doing the same, but this depends on how strong negative perception is about that country in the society. Moscow's oil embargo in 18 April 1990–July 1990 and political pressure forced Lithuania government to announce the moratorium on the declaration of the Act of Independence, this was the outcome of a huge negative economic consequences, but despite these compel instruments the public supported the strive for independence. Later repeated cut-offs of oil supply and reduced gas supply in 1992, together with the economic crisis, affected the choice of the citizens in the parliamentary elections in October of 1992.⁶⁰ This shows that that energy instruments affects the public of democratic states only if the most important interests are not involved. This argument is also confirmed by the revolution in Ukraine in 2014. At the same time it is necessary to acknowledge that in authoritarian regimes responsible decision makers are less influenced by the public until it strongly suffers a huge negative impact, but after the line is crossed public strives to change the regime, what is the biggest threat from the point of view of responsible decision makers in Belarus.

To summarize, it can be stated that political-social barriers are the most important and determine the creation and strength of other barriers. The most important elements that decide a political-social barrier are responsible decision makers whose positions are shaped by their perceptions and goals, positions of the international system actors and pressure of interest groups. Unfortunately, it is impossible to accurately identify how a country-consumer will respond to application of different energy instruments, but the goals of the country-supplier, instruments it chooses and their intensity, existing infrastructural and economic barriers and finally preferences of the responsible decision makers in countries-consumers allow indicating probable decisions and thus efficiency of energy instruments in foreign policy of country-supplier.

⁶⁰ Giedrius Česnakas, 'Energy Security in the Baltic-Black Sea Region: Energy Insecurity Sources and their Impact upon States', *Lithuanian Annual Strategic Review*, Vol. 10, Issue 1, (2012): 155-97.

Consequences of using energy instruments in foreign policy for countries-consumers and countries-suppliers

The use of the energy instruments have unavoidable consequences both for a country against which they are used and a country which uses them. The consequences may be targeted and foreseen, on the other hand consequences might be untargeted and unforeseen. Compel and sway instruments must ensure that country-supplier achieves its foreign policy objectives - targeted consequences as well as foreseen impact to its actions. Irrespective of specificity foreign policy instruments they must affect the following areas of countries against which they are used:⁶¹

1. processes of domestic policy;
2. foreign policy behaviour;
3. economic and military capabilities.

Energy instruments of compel kind can be equated with sanctions as they must have unwelcomed consequences for countries-consumers and force them to change their domestic and foreign policies. According to Mastanduno the change of domestic and foreign policies may also be achieved through the change of responsible decision makers caused by struggle of political groups or social pressure.⁶²

Russia used compel kind instruments in its foreign policy extremely widely in the case of Ukraine. The changes in Ukraine's domestic policy can be assumed to be linked with its positions on handing over the natural gas transit system to *Gazprom*. To achieve this objective, Moscow threatened to reduce the transit of gas and oil and in fact reduced it, threats to increase the prices of natural gas were made and they were increased and the supply and transit of gas were halted. While using those instruments Russia also insisted that Ukraine changed its foreign policy: join the Customs Union and the Eurasian Economic Union; extend the period of the deployment of the Black Sea Fleet in Sevastopol; maintain pro-Russian orientation; reduce the intensity of its cooperation with the West; limit participation in opposing international organizations e.g. GU(U)AM.

The use of compel instruments was also observed when Russia tried to create a favourable environment for the change of the responsible decision makers in

⁶¹ Michael Mastanduno, "Economic Statecraft", in *Foreign Policy: Theories Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dune (Oxford: Oxford University Press, 2008), 174–75.

⁶² Michael Mastanduno, "Economic Statecraft", in *Foreign Policy: Theories Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dune (Oxford: Oxford University Press, 2008), 176.

Ukraine as the cut-off of the supply of gas in 2006 contributed to the decreasing stability of Ukraine's Government. The cut-off of the supply of gas and tensions in the energy relations in 2009 contributed to the decreasing support for the president Viktor Yuschenko just before the presidential elections at the beginning of 2010. Sway instruments were used in parallel with the aim to have responsible decision makers oriented towards Russia elected and established in the executive positions, thus Viktor Yanukovych and his *Party of Regions* (Партія регіонів) were supported by discounts for gas prices, and the demand for the settlement of debts was postponed in 2004.

It is a paradox, but sway instruments, which might have seem to have a positive impact on countries-consumers, also have a long-term negative impact on them. Although the positive impact sway instruments is foreseen, they also have an unforeseen long-term impact on consumers as the influence of a country-supplier potentially increases at the same time. According to Baldwin not all influence is manifested in terms of immediate changes of policy [in a country-consumer] and instruments are also effective when they weaken the opponent in a long-term perspective and enable to influence it.⁶³ Sway instruments increase countries-consumers' vulnerabilities as they increase both the probability of using compel instruments and sensitivity to their use. The use of compel instruments becomes possible because of the reduction of sway instruments, so country-consumer might obtain the dependence on sway instruments.⁶⁴ The instance of Belarus is a perfect illustration of such case. By constantly subsidising energy resources Russia supports Alexander Lukashenko's regime the survival of which directly depends on the economic stability of the state, whereas the country's economic competitiveness depends on low prices of resources. In exchange for Moscow's subsidies Minsk maintained its pro-Russian foreign policy, carried out integration into the Customs Union, the Common Economic Space and the Eurasian Economic Union, it also allowed Russian companies to expand their ownership rights in the energy and other economic sectors. As early as 1994 Brzezinski stated, that "In Belarus, Russian economic subsidies were translated into political subordination", and this has been constantly increasing.⁶⁵ As Belarus depends on subsidies on energy resources, it lost its possibilities for major changes in its foreign policy as Russia's decision to abandon subsidies would cripple its economy and thus the stability of the regime. The similar case is with Armenia, which relies on Russia's security guarantees and cheaper energy resources to stimulate economic growth. Armenia

⁶³ David A. Baldwin, *Economic Statecraft* (Princeton University Press, 1985), 132–3.

⁶⁴ Baldwin, *Economic Statecraft*, 134.

⁶⁵ Zbigniew Brzezinski, "The Premature Partnership", *Foreign Affairs*, Vol.73, No.2 (1994): 67-82.

also lost the possibility to carry out domestic and foreign policies independent from Russia and joined the Customs Union and the Eurasian Economic Union. The example of Ukraine illustrates how the use of sway instruments weakens a country politically and economically and does not create preconditions for the transformation of economy and reduction of energy intensity, leaving the country sensitive to the abandonment of sway instruments. The case of the Baltic states show that although at the initial stage the abandonment of sway instruments causes economic recession (growing energy prices in 1991-2009), this creates preconditions for the transformation of economy and diversification this way reducing impact of some compel instruments through the establishment of markets conditions and decreasing market concentration in the geo-energetic space.

The use of energy instruments to achieve foreign policy goals has consequences not only for countries-consumers but also for countries-suppliers. When a country-supplier uses compel instruments it may face negative responses and actions of countries-consumers that force the country-supplier to stop using those instruments, reduce the impact the instruments or have other unpredicted consequences. When a country-supplier uses compel instruments, it cannot be sure that:⁶⁶

1. a country against which those instruments are used will not find other markets of energy resources or increase the extraction of own resources, though their competitive advantage may be lower;
2. the instruments used will not have an opposite result, i.e. a country-consumer will not start implementing a policy which contradicts the objectives of the country-supplier;
3. will not form an opposing coalition;
4. will not create problems political and public relations problems in the international system.

The case of Russia shows that the use of compel instruments led to the aforementioned negative consequences for it. These unforeseen and negative consequences not necessarily started instantly after it used mentioned instruments and the response not necessarily originated in countries against which compel instruments were used. As starting from 2005 Russia rapidly increased the price of natural gas for the Baltic States and reduced or suspended the supply of natural gas to Belarus and Ukraine a number of times. This encouraged the Baltic States to search for possibilities to diversify the supply of natural gas and develop liquefied natural gas terminal projects. The previous cut-offs of the supply of oil to Lithuania in 1990

⁶⁶ Michael Mastanduno, "Economic Statecraft", in *Foreign Policy: Theories Actors, Cases*, eds. Steve Smith, Amelia Hadfield, and Tim Dune (Oxford: Oxford University Press, 2008), 176-78.

and 1992 encouraged it to create an alternative to oil import – to build Bütینگè oil terminal.⁶⁷ The interruptions of the supply of natural gas to Georgia in 2005 and the increase of price encouraged Tbilisi to start import natural gas from Azerbaijan. The increase of the natural gas price for Ukraine in 2009-2010 encouraged Kiev to increase the extraction of local coal, according Ministry of Energy and Coal Industry of Ukraine (*Міністр енергетики та вугільної промисловості України*) in 2009-2012 the extraction of coal in Ukraine increased by 56.83%. Coal became economically viable option, at the same time to reduce natural gas imports from Russia and search for alternative supplies.

The cut-offs of natural gas transit through Ukraine in 2006 and 2009 had an extremely negative impact on Russia's image as a reliable supplier.⁶⁸ This encouraged the European Union to increase the protection of its energy infrastructure and energy market from Russian *Gazprom* and the third countries, the introduced Third Energy Package limits operation and investment possibilities for Russian energy companies in those EU member states where the Third Energy Package was transferred into legislation.⁶⁹ The cut-offs also encouraged the EU to develop a common energy policy by expanding links among its member states: The Baltic Energy Market Interconnection Plan, and Energy Union project (introduced in February 2015). It also encouraged EU cooperation with third countries as well as finances for the Projects of Common Interest.⁷⁰ The EU member states are increasing cooperation and strengthening the role of the EU Commission through Energy Union as well as developing cooperation with Ukraine in the energy sector since 2009. This can be considered as the formation of a certain coalition of consumers against Russia.

The use of sway instruments also has a negative impact on a country-supplier. The use of sway instruments like price discounts directly reduces the revenue of a country-supplier as this has negative impact on budget collection. The failure to receive the potential of increasing economic power determines that state cannot develop other types of power as much as it could. When countries-suppliers use compel instruments they also demonstrate that they are able to pay for a desirable behaviour of countries-consumers in the longer term a country-supplier becomes subjected to constant requirements to continue the use of such instruments as they

⁶⁷ Oil is imported from Russia but the terminal provides import alternatives. It became extremely important when supply via Druzhba II pipeline stopped after spill off in 2006, and has not been renewed.

⁶⁸ Brenda Shaffer, *Energy Politics* (University of Pennsylvania Press, 2009), 44.

⁶⁹ Andrei V. Belyi, "Reciprocity as a factor of the energy investment regimes in the EU–Russia energy relations", *Journal of World Energy Law & Business*, Vol. 2, No. 2, (2009), 117-28.

⁷⁰ "Energy, Energy infrastructure, Projects of Common Interest", European Commission, http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm.

became perceived as normal policy of country-supplier by countries-consumers. Countries-consumers might feel less motivated to implement the requirements of countries-suppliers if they do not expect that sway instruments might be abandoned or compel instruments might be introduced. The logic would suggest that the situation is created where a supplier fails to receive exploit its potential and to increase its economic power and thus does not increase other types of power thus wasting its power potential arising from the energy sector.

Russia's subsidies on gas and oil supplied to Belarus are an example of such a situation. The subsidies have been given since 1991, so Minsk, in time, began to consider them as Russia's natural policy and ignored the interests of the latter. In 2000-2003 Belarus did not fulfil the assumed obligations to establish a joint company which would control natural gas transit through Belarus and ignored the bilateral agreements with Moscow. All members of the Commonwealth of Independent States considered Russia's subsidies on natural gas which have been given since the 1990s' as Russia's natural policy. This was one of the reasons that prevented Russia from effectively using energy instruments for the purposes of integration within the CIS. Despite it provided subsidies for natural gas Russia faced the increased opposition after the Rose Revolution in Georgia in 2003 and the Orange Revolution in Ukraine in 2004. Therefore the State Duma of Russia addressed the Prime Minister with a request to increase the price of natural gas for the CIS members (except Belarus) and the Baltic States.⁷¹ Russia increased the specificity of the use of the energy instruments in foreign policy when it started implementing foreign policy outlined by the chairman of the State Duma Foreign Affairs Committee Konstantin Kosachev, who argued that: "We [Russia] simply suggest applying market principles while doing business with those countries with which we don't have an alliance-type relationship".⁷² It should be noted that the use of compel instruments strengthened the effectiveness of sway instruments

⁷¹ "Постановление Государственной Думы Федерального Собрания РФ от 8 июля 2005 г. N 2149-IV ГД "Об обращении Государственной Думы Федерального Собрания Российской Федерации "К Председателю Правительства Российской Федерации М.Е. Фрадкову о цене на природный газ, поставляемый из Российской Федерации в Грузию, Латвию, Литву, Республику Молдова, Украину, Эстонию, и о взыскании задолженности Грузии, Республики Молдова и Украины перед Россией за поставленный им природный газ" [Resolution of the State Duma of the Federal Assembly of the Russian Federation of 8 July, 2005N2149-IV DG "On the inversion of the State Duma of the Federal Assembly of Russian Federation "To the Prime Minister of the Russian Federation M.E. Fradkov on the price of natural gas supplied from Russia to Georgia, Latvia, Lithuania, Moldova, Ukraine, Estonia], Lawrussia.ru, 2007, http://www.lawrussia.ru/texts/legal_427/doc427a781x941.htm.

⁷² Igor Torbakov, "Kremlin Uses Energy to Teach Ex-soviet Neighbors a Lesson in Geopolitical Loyalty", *Eurasia Daily Monitor*, Vol. 2 Issue 224, 2 December 2005, http://www.jamestown.org/programs/edm/single/?tx_ttnews%5Btt_news%5D=31169&tx_ttnews%5BbackPid%5D=176&no_cache=1.

because Russia increased the credibility that discounts are not for granted. The use of sway instruments and the threat that they might be abandoned enabled Russia to achieve the most important objective of its foreign policy in respect of Belarus – to make it join the Customs Union, the Common Economic Space and the Eurasian Economic Union and increase control of Belarusian energy infrastructure and economy.

The application of energy instruments in foreign policy create positive as well as negative foreseen and unforeseen consequences to countries-consumers and countries-consumers. Introduction and expansion of market principles, as well as greater transparency limit possibilities to use energy instruments in foreign policy what could lead to more independent development of relations between countries as well as economies in them. However, it is obvious that energy resources are and will continue to be objects of foreign policy and state power, will continue to have an important role in Russia's foreign policy.

Conclusions and discussion

The article goes beyond the dominant descriptive literature on energy resources in Russia's foreign policy with the aim to demonstrate that energy resources should be assessed as independent foreign policy instruments, to identify their types and show that the efficiency of energy instruments depend on number of variables. Article discusses what foreseen and unforeseen consequences the use of different types of energy instruments can have for countries-consumers and Russia. The article combines the economic statecraft assumptions with the assumptions of the theory of neoclassical realism, including the model of foreign policy instruments and finally empirical research of Russia's energy and foreign policy towards Belarus and Ukraine in the period of 2000-2015 and in some cases of other Post-Soviet countries. This allows providing a figure how energy instruments of foreign policy in Russia originate, what are their kinds and types and present barriers of countries-consumers to energy instruments that in most part determine their efficiency.

The article is a step towards the formation of more coherent studies on energy resources in foreign policy going beyond the descriptivism and at the same time providing suggestions for further studies. The need for a more precise classification of energy instruments also requires researchers' attention as only a research of a larger number of cases can result in the identification of the most common energy instruments. Finally, the explanation and specification of the effectiveness of

energy instruments deserve more detailed studies. Taking into consideration the global context it is important to analyse why some countries-suppliers use energy instruments in their foreign policies more intensively, like Russia, compared to others that consider energy resources more as trade elements rather foreign policy instruments. In this context the comparative analysis of Russia and other countries-suppliers would be of great significance. The studies of the mentioned problems would allow moving to a new type of the analysis of energy resources in foreign policies.