

Book Review

Balmaceda, Margarita M.

Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarch's Profits and Ukraine's Missing Energy Policy, 1995-2006

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Jack Sharples

University of Glasgow, UK

In this study Balmaceda explores the domestic factors that may help to explain the continued dependency of post-Soviet states on Russian energy. Although the title of the book refers to the region of the Former Soviet Union as a whole, this book actually focuses very specifically on Ukraine as a case study: It explores both Ukraine's continued energy dependency on Russia, and Ukraine's failure to construct a consistent, coherent energy policy, more than sixteen years after the dissolution of the Soviet Union.

In doing so, Balmaceda takes a 'modified institutional approach', which entails a close consideration of Ukraine's domestic institutions and the behaviour of its domestic interest groups. During the course of this study Balmaceda introduces several key concepts. The first is 'energy dependency'. The second key concept introduced is that of 'rents of energy dependency'. By 'rents of energy dependency' Balmaceda is referring to benefits which an economic group or actor may receive from the continuation of energy dependency relationships, such as Ukraine's relationship with Russia. The third key concept Balmaceda refers to is that of a Business-Administrative Group (or BAG, commonly referred to as 'clan'). BAGs are significant to Balmaceda's approach, as their strength is drawn from a combination of economic resources and administrative or political decision-making power.

The book itself may be divided into three parts. The first part provides a frame of reference for the book as a whole. In this first part, Chapter Two discusses the role of energy in Ukraine's state-level foreign policy relations, particularly those with Russia, the EU and other international institutions. Chapter Three examines the characteristics of the Ukrainian political system between 1995 and 2004, and in particular the impact of several strong interest groups being balanced by a strong President in the role of 'arbiter'. Chapter Four goes on to evaluate the effects of the Ukrainian political system (and the actors therein) on the Ukrainian energy market between 1995 and 2004.

The second part of the book explores the concept of 'rents of dependency' and the influence of 'the Russian factor' in Ukrainian energy policy under President Kuchma between 1995 and 2004. Chapter Five considers how Ukraine managed its energy dependency relationship with Russia between 1995 and 2004 in terms of domestic and external diversification; the former being on the basis of reduced consumption, and increased production and efficiency, and the latter being in terms of geographical and contractual diversification of energy sources. Chapter Six considers the role of domestic institutions in Ukraine's responses to energy dependency. The three institutions focused upon here are; the system of energy market organisation, the system of interest articulation, and the system of energy policy making. The conclusion drawn in this chapter is that the combination of powerful interest



groups (i.e. BAGs), a strong President, and less-than-transparent policy formation resulted in the BAGs and President pursuing their own short-term interests (rent-seeking) at the expense of Ukrainian energy security. Chapter Seven defines 'rents of dependency' as a concept, discusses the possibilities for profiting from such rents of dependency between 1995 and 2004, and examines how these possibilities were used. This chapter concludes that the combination of corruption and rent-seeking has perpetuated Ukraine's energy dependency and worsened relations with major suppliers.

The third part of the book considers energy policy and energy dependency in Ukraine under President Yushchenko. Chapter Eight considers Ukrainian energy dependency between January 2005 and August 2006 (i.e. from the ascension of Viktor Yushchenko to the post of President of Ukraine, to the return to power of Viktor Yanukovich as Prime Minister of Ukraine). The main focus of this chapter is the Russian-Ukrainian energy dispute of January 2006, and more specifically, the impacts of the agreements which resolved the dispute thereafter. In the concluding chapter Balmaceda re-asserts that the key factors in Ukraine's post-Soviet energy policy development (or lack thereof) are; Ukraine's particular path of post-Soviet political development (namely a strong President and the dominance of BAG's relative to elected political parties), the widespread availability of opportunities for 'rent-seeking' in the corrupt energy sector, and the ability of Russia not only to co-operate with domestic rent-seekers within Ukraine, but also the role of Russia in fostering new aspects of Ukrainian energy dependency. When discussing the likelihood of Ukraine freeing itself from a situation of energy dependency, Balmaceda concludes that unless there are deep, structural changes in Ukraine to reduce the opportunities and rewards for corruption and rent-seeking, then the chance of real, energy-related, economic and political reform will remain slim to none.

Overall, this book provides an excellent insight into the role of domestic politics and economics in shaping the energy policy of Ukraine. Balmaceda's argument that high levels of post-Soviet energy dependency are not inherent and inevitable for Former Soviet Union states such as Ukraine, but are significantly influenced by the levels of corruption, economic transparency and development of democracy in such states, is certainly compelling. A minor point to note is that the issue of how Ukraine may serve as a model for other post-Soviet states is somewhat underdeveloped in the conclusion of this book, and it perhaps would have been beneficial to more explicitly discuss this issue. However, as a study of Ukrainian energy policy between 1995 and 2006 this book provides a good-quality consideration of an interesting topic.

James D.J. Brown

University of Aberdeen, UK

Although very different from the preceding volumes, the final of these three books is also highly relevant to European energy security. Margarita M. Balmaceda offers an authoritative, well-structured, and balanced account of corruption in the Russian-Ukrainian energy trade. The book quickly assumes that Russia is indeed using energy for political leverage over its neighbour, yet takes a nuanced view of the relationship and impressively deconstructs the simplistic characterisation of Russia as villain and Ukraine as victim.

This book begins by describing how Soviet disintegration left Ukraine in the inimitable position of being hugely dependent on Russian gas, whilst also becoming Europe's primary gas-transit state. This situation is generally detrimental to the Ukrainian economy, but is shown to offer domestic actors, especially those near the apex of power, the opportunity to use corrupt means to accrue vast fortunes. Consequently, it is in the interests of Ukrainian political figures to maintain the country's intensive energy dependency and so perpetuate a state of affairs that generates lucrative rents. Indeed, Balmaceda argues that these rents of dependency have become thoroughly ingrained in the system and serve as a major political

tool with which the president may shore up his own position or buy-off and bargain with Ukraine's powerful business-administrative groups. Moreover, the continuation of this arrangement allows Russia to maintain political influence over the country.

As the author catalogues the astonishing array of dishonest practices employed – ranging from simple theft to complex kick-backs – the extent to which 1990s Ukraine developed into a rats' nest of corruption becomes clear. However, while venality may have peaked during the premiership of Pavlo Lazarenko, the book's most startling revelation relates to the depth and durability of this maladministration. The majority of Ukrainian politicians appear to be tainted and it does not seem an exaggeration for the author to claim, in quoting the former head of Ukraine's national gas company, that "all major political fortunes in post-independence Ukraine were made on the basis of Russian oil and gas" (p. 106). What is more, Balmaceda considers this statement to apply equally to the post-Orange Revolution period. Avoiding the temptation to take too rosy a view of its achievements, Balmaceda claims that very little changed after the Orange coalition took power. In fact, both of its key protagonists receive hefty criticism. Yulia Tymoshenko is revealed to have been heavily involved in the endemically-corrupt Ukrainian gas trade during the 1990s, and comes across as a ruthless and vengeful operator. More surprising, however, are the criticisms and allegations levelled at President Viktor Yushchenko, who is somewhat of a darling of the west.

Balmaceda is particularly critical of the President's role in the Russian-Ukrainian gas stand-off of January 2006. In what must be one of the best accounts of the crisis, the author comprehensively debunks the myth that Russia somehow lost this battle. In fact, it is convincingly argued that the January 4 agreements are highly favourable to Russia in terms of both gas pricing and transit terms, but were a "Pearl Harbor" (p. 126) for Ukrainian diplomacy. Throughout the negotiations, Yushchenko is said to have shown no leadership and to have appeared ignorant of developments. Indeed, such was his ineptitude, that Balmaceda is inclined to see foul play, rather than mere incompetence (p. 128). The suggestion is that Yushchenko and associates profited from the introduction of an intermediary - RosUkrEnergo - into the trading relationship. This is an extremely serious allegation for which Balmaceda has little solid evidence. However, the author does intriguingly establish an apparent connection between Yushchenko and Dmytro Firtash, the enigmatic gas trader later revealed to be RosUkrEnergo's main Ukrainian owner (p. 128). In making this bold claim, Balmaceda's wider argument is re-emphasised: corruption is so deeply entrenched in post-Soviet Ukraine that it is almost impossible for politicians, irrespective of political colour, to remain on the moral high ground.

In terms of downsides, some may consider that very nearly 50 pages of endnotes are excessive for a book totalling little over 200 pages. However this is easily forgiven due to the fascinating supplementary information that they contain; for example that Ukraine was the third-largest recipient of US aid during much of the 1990s (p. 153), or that Tymoshenko's husband was arrested for embezzlement whilst a board member for United Energy Systems of Ukraine, a corporation for which his wife was general director (p. 164).

Additionally, the author's last-minute efforts to generalise from Ukraine to the wider post-Soviet area seem rather contrived. As the book so successfully shows, Ukraine's energy situation is unique and thus there are real limits to the extent to which the knowledge gained here can be applied elsewhere. In any case, this seems unnecessary. As a superb monograph on Ukrainian energy dependency and corruption, this book is in itself a major achievement. It will be of great benefit to those studying European energy security and is surely a must for all researchers concerned with the intriguingly murky politics of post-Soviet Ukraine.