

# The price of opulence

## On a constellation of interests in the European market for natural gas

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**T**he question as to whether the preferences and behavior of power elites in the EU member-states are influenced by the Russian power elite by means of implementing a particular energy policy has not yet received a satisfactory answer. Journalistic accounts of this matter outnumber careful scholarly analyses. Specifically, a publication in *The Telegraph* blog section on European power elites' responses to the 2014 Russian military confrontation with Ukraine<sup>1</sup> set a stage for a lively public discussion without yet leading to more systematic studies.<sup>2</sup>

In my reasoning I will use the country as a unit of analysis. By country I mean its power elite – a group of individuals “in positions to make decisions having major consequences”.<sup>3</sup> A conventional definition of power says that the party in a position to impose its will on the other party despite the latter's eventual resistance has power.<sup>4</sup> The power holder changes the behavior of the other parties so they start to further the former's interests. If Russia manages to change the preferences and policies of European countries in a manner beneficial to Russia then de facto this country has power. In particular, a demonstration of Russia's power refers to some desirable reactions of the EU member-states secured by Russia to Russia's role in the 2014 military conflict with Ukraine. The EU member-states' unwillingness to impose severe sanctions on Russia serves the interests of the latter.

The purpose of this article is to explain Russia's upper hand in

relationships with EU member-states by the existence of a constellation of interests of Russia and the EU member-states in the European market for natural gas. The unveiling of Russia's power requires a re-examination of conventional perceptions of the market as a constraint on a power holder's discretion, namely in international relationships. Under particular circumstances that are arguably present in the European energy market (and in the national and regional markets in Russia<sup>5</sup>) the market becomes a pillar of domination instead of being a liberating force. Domination refers to the situation when power is exercised “repeatedly, systematically, and to the detriment of the dominated agent”.<sup>6</sup>

### Techniques of power

Force as a technique of power involves “the creation of physical obstacles restricting the freedom of another”.<sup>7</sup> In international politics the use of force amounts to a direct military invasion. Russia used its military force against Georgia (in 2008) and Ukraine while staying clear of relying on this technique of power in its relationships with the EU member-states.

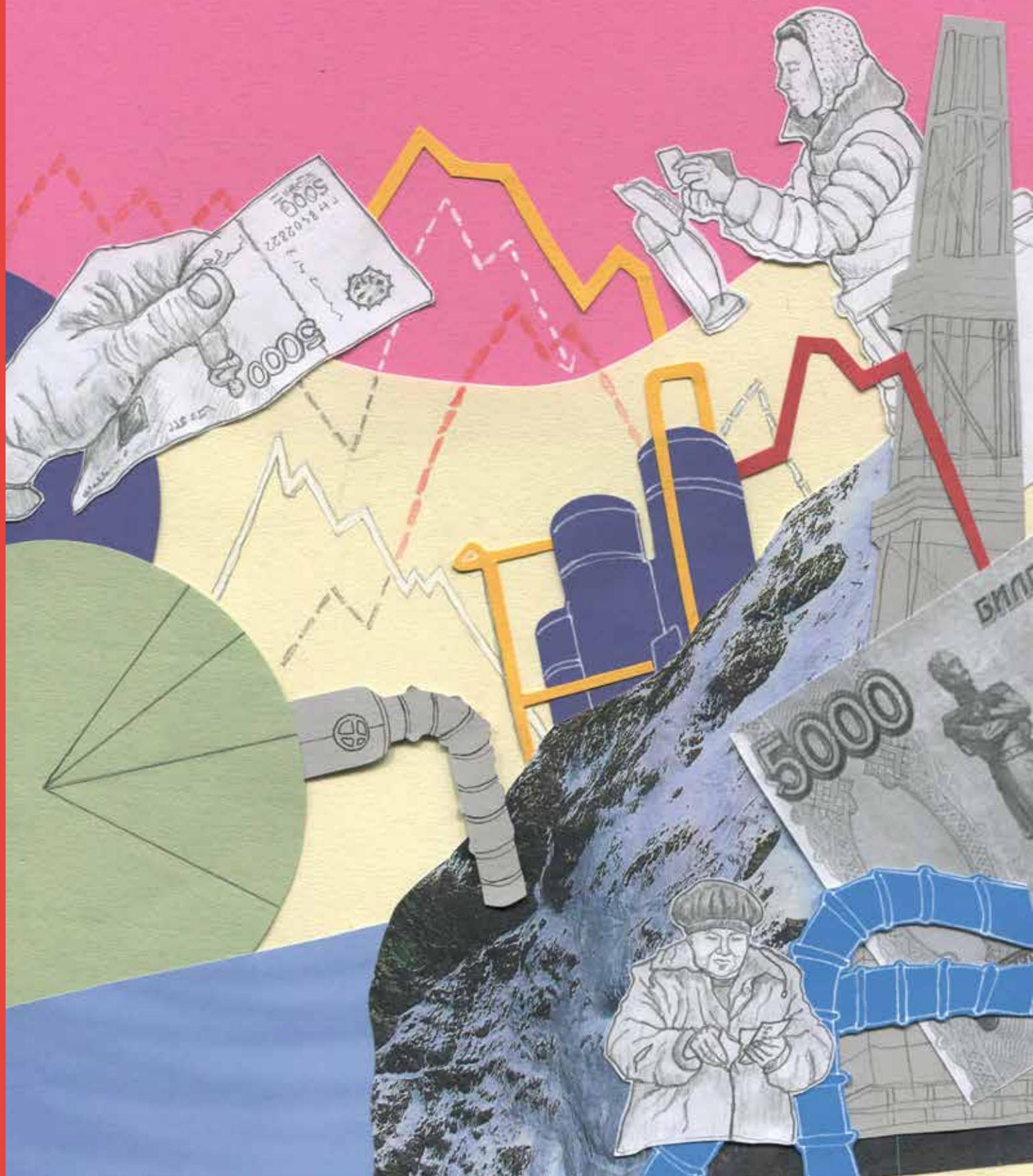
Are the European countries coerced into adapting a softer position with regard to Russia's use of force against Ukraine? Coercion makes the use of force or the other negative sanctions optional. The coerced actor has a choice, however restricted this choice may be: either he or she obeys or the coercing actor applies negative sanctions.<sup>8</sup> Russia's willingness to cut natural gas supplies was demonstrated in January 2009 during unresolved payment disputes with Ukraine. Russia nevertheless values its reputation as a reliable natural gas supplier to the European Union and keeps repeating that it has never cut natural gas deliveries to its Western customers at will.

### abstract

This article discusses the reaction of the EU member-states to Russia's 2014 military conflict with Ukraine. The European countries' lack of united response and unwillingness to apply severe sanctions (restrictive measures) on Russia in a timely manner is attributed to a constellation of interests of the European countries and Russia in the European energy market. Max Weber's concept of domination by virtue of a constellation of interests and the related concept of the power triad set the general theoretical framework for the discussion. Statistical data on the energy dependence of the EU member-states on Russia inform it.

**KEYWORDS:** European energy market, Russia, Ukraine, military conflict, constellation of interests.





Maybe Russia manipulates the EU member-states? The technique of manipulation works through the limitation or selective determination of “the [manipulated] subject’s information supply, e.g. by withholding pertinent information not easily available to the subject from other sources”.<sup>9</sup> The Russian power elite has managed to impose tight control over the mass media, a key vehicle for disseminating information. This control was initially asserted at the national level<sup>10</sup> and, more recently, at the international level too – with the emergence of *Russia Today*, a global TV network heavily subsidized by the Russian government. Russia’s capacity to withhold pertinent information at the international level remains limited, however. *Russia Today* faces competition from a number of other, more established global TV networks.

Does Russia silence criticisms of its internal and foreign politics with the help of corruption? In this context corruption as a particular technique of power involves attempts to cause a decision maker to breach ethical and/or legal rules, which he or she is otherwise expected to follow, in the power holder’s interests.<sup>11</sup> In the case of corruption obedience pays: the corrupt decision maker receives a pecuniary compensation for deviating from the prescribed course of action. In contrast to force, coercion and manipulation, the dominated agent (the decision maker) has positive incentives for aligning his or her interests with those of the power holder (the agent offering the bribe). The use of corruption by members of the Russian power elite to promote their interests cannot be excluded.<sup>12</sup> There are precedents when the Russian power elite hired former high-ranking European officials offering them lucrative jobs, probably in recognition of their contribution to the promotion of Russia’s interests.<sup>13</sup> Nevertheless, the use of corruption can hardly explain the persistent and widespread refusal of the European countries to take a more critical and tougher stance on Russia’s actions. The mean 2013 Transparency International Corruption perception index for the EU member-states is 63.6 out of 100 (Russia has the score of 28; the lower the score, the higher the perceived level of corruption), which suggests a relatively low level of corruption in the operation of government.<sup>14</sup>

**THIS ARTICLE AIMS** to explore whether an often overlooked technique of power, namely, domination by virtue of a constellation of interests in the market, sheds new light on the European response to Russia’s internal and foreign policy, especially in its “near abroad” (Russia’s policy toward Ukraine is considered to be a case in point). Weber sets domination by virtue of authority, a well-researched topic in political sociology and political science, against domination by virtue of a constellation of interests without providing much detail. He simply notes that “because of the very absence of rules, domination which originates in

the market... may be felt to be much more oppressive than an authority in which the duties of obedience are set out clearly and expressly”.<sup>15</sup> I will focus more specifically on a possible constellation of interests of Russia and the EU member-states in the natural gas market.

The use of this technique of power involves reliance on the market but requires that the power holder creates structural imbalances that undermine the principles of free competition. The interests of the parties transacting in the non-clearing market form a constellation, which does not exclude one party having the upper hand and imposing its will on the others. If a rational agent acts under market constraints designed and imposed by

the power holder, then the former has an interest in accepting the latter’s upper hand. The dominated agent’s gain is positive. Its other alternatives prove to be poorer in the circumstances. A similar observation applies to an agent that does not deal with the power holder in a direct manner, but transacts with the first dominated agent. The second agent is dominated by the power holder as well, but also receives a positive gain. At the end of the day all the parties involved have interest in maintaining the status quo, i.e. the domination of one of them. The dominated parties are better off in not criticizing

the power holder than in challenging the latter and the system that it created.

**MY WORKING HYPOTHESIS** is that the stance of an EU member-state on the issue of the imposition of sanctions (restrictive measures) on Russia in the context of this country’s military conflict with Ukraine in 2014 will depend on the scope of the EU member-state’s reliance on natural gas supplies from Russia and the EU member-state’s position in intra-European trade. Natural gas supplies from Russia serve as a proxy for direct contacts between the power holder and the dominated agent. The indirect contacts are operationalized with the help of intra-European trade statistics. A country that does not buy natural gas directly from Russia may nevertheless benefit from having access to goods and services produced by the key customers of Russian natural gas. In other words, the interests of Russia as the key supplier of natural gas, its European customers and customers of products made with the help of Russian energy supplies are expected to form a constellation. This hypothesis will be formally tested using statistical data after I confront the concept of domination by virtue of a constellation of interests with the prevailing accounts of the European energy market at a theoretical level in the two next subsections.

## Markets versus empires

There are two popular approaches to theorizing the situation in the European energy market. The “Markets and Institutions”

## “A PARTY’S BARGAINING POWER REFERS TO ITS ABILITY TO SELECT THE STRATEGY OF NEGOTIATION TO MAXIMIZE THE SHARE OF THE RENT CAPTURED BY THE PARTY.”

approach is derived from economic liberalism; it emphasizes the importance of energy markets and multilateral cooperation in international energy relations. The “Regions and Empires” approach is, in contrast, based on economic nationalist principles. It depicts international energy relations as a competition between blocks of states over the control of energy resources and energy markets”.<sup>16</sup> The first approach places emphasis on the invisible hand of the market and its role in resource allocation. The second approach highlights the visible hand of the people in control of governments, i.e. the power elites.

The scholarly discourse on energy policies in general and European energy policies in particular is currently framed in the “either-or” terms. Either the invisible hand of the market guides energy supplies or the visible hand of government or large corporations’ shareholders<sup>17</sup> takes precedence over the market play. The two hands operate independently from each other. As a matter of fact, the invisible hand of the market is believed to make the visible hand of government unnecessary and redundant and vice versa.

**PREDICTIONS AS TO** the situation in the

European energy market made on the basis of the “Market and Institutions” approach sound overly optimistic. Even if the market falls short of the perfectly competitive ideal, it still has the capacity for self-corrections. The existence of a monopoly or oligopoly<sup>18</sup> (because the European market for natural gas has three key suppliers, Russian Gazprom, Norwegian Statoil and Algerian Sonatrach) does not necessarily mean that a monopolist or an oligopolist is able to impose his or her will on the other market participants.

*First*, all market participants win something: they receive a positive utility. Advocates of the “Market and Institutions” approach consider irrelevant the fact that a rent generated by a transaction might be unequally distributed.

*Second*, agents acting in an imperfectly competitive market develop a significant degree of mutual dependence. The European customers might depend on Gazprom, but Gazprom also depends on them. “Russia... find[s] [herself] substantially financially dependent on Europe, on the revenues generated by [her] export of oil and natural gas. Gazprom receives about 65% of its revenues from Europe, and directly generated 8% of Russian GDP in 2005”.<sup>19</sup> Mutual dependence causes a strategic convergence of interests of Russia and the European countries that even major geopolitical conflicts do not undermine. The European countries continued to supply Russia (in the shape of its predecessor, the Soviet Union) pipes, binding tapes, drills and bits even during the economic embargo following the Afghanistan invasion, and credit terms remained favorable.<sup>20</sup> Advocates of the “Market and Institutions” approach see it as a proof of the prevalence of “win-win” transactions in the market, however imperfect competition might be.

*Third*, in the conditions of restricted supply customers may

also decide to form a countervailing monopsony. Proposals to move in this direction are being actively debated in the European countries<sup>21</sup> without yet leading to practical changes, however. The existence of a bilateral monopoly limits structural preconditions for capturing the rent generated by a transaction and increases the importance of the strategies used by the parties involved. A party’s bargaining power refers to its ability to select the strategy of negotiation to maximize the share of the rent captured by the party.

Dowding differentiates luck and power in this respect.<sup>22</sup> Luck derives from structural factors that enable one party to impose its will on the others. Narrowly defined power refers to a strategic component. The strategic component of power involves selecting a strategy, a technique for imposing one’s will on the others.

Are Russia’s positions of power in the European energy market due to luck alone? I argue that the structural imbalances that currently characterize this market have to be made endogenous to our models. In addition to exploiting its position of power to its advantage, Russia also invests heavily in infrastructural projects that will

further enhance structural components of its power (namely, the *Blue Stream*, *Nord Stream* and *South Stream* pipelines<sup>23</sup>). And European countries seem to be willing to accept Russia’s continuous expansion in the European energy market.

The recent developments in the New Institutional Economics, the NIE, help better differentiate the market for natural gas from the other segments of the European energy market. The NIE add a third element to the dichotomy of the market and the organization (government being one of them): hybrid forms or relational contracting. “The parties to [hybrid modes of contracting] maintain autonomy, but the contract is mediated by an elastic contracting mechanism”.<sup>24</sup> Claude Ménard describes the contracting mechanism in the terms of authority, “that is, the conscious and deliberate delegation of the capacity to make a subset of decisions to a body in charge of coordinating”.<sup>25</sup> The important role that authority as a particular case of power plays in the operation of hybrids deserves mentioning. The visible hand of authority complements the invisible hand of the market.

Transactions between the key oil and gas companies in the European Union and Russia take the form of long-term contracts with in-built mechanisms of adjustments (“authority”) to external shocks. Attempts to increase the share of transactions on the spot market (these transactions involve no long-term commitment of any party) have been unsuccessful so far, especially in the natural gas market. Gazprom clearly prefers signing long-term contracts and strategic bilateral agreements with its European customers.<sup>26</sup>

**THE PREFERENCE** for relational contracting has an economic rationale. The New Institutional economists explain the choice between alternative forms, the market, the firm and relational

## “THE SOVIET UNION LEARNED HOW TO INCREASE ITS POWER AND TO BE LESS DEPENDENT ON THE MARKET.”

contracting, in the terms of asset specificity.<sup>27</sup> Specific assets cannot be redeployed without a loss of value. They produce the most when being employed only in a particular transaction. The specificity of assets has several components: site specificity (bilateral dependency results from location constraints), physical specificity (assets that use specific inputs such as customized computer programs), dedicated assets (large investments made for satisfying the needs of a particular customer), human assets (firm-specific knowledge and skills), brand name capital and temporal specificity (lock-in among parties involved in a technological process).<sup>28</sup>

The three first components are present in the case of the natural gas market (the degree of asset specificity in the market for oil is also high, but tends to be lower than in the natural gas market). Major natural gas fields in Europe are located on Russian territory, which makes its delivery to non-European markets more expensive (“site specificity”). The cheapest way to transport natural gas over the long distances is in compressed form through a large diameter pipeline (“physical specificity”). Its construction requires substantial investments (“dedicated assets”).<sup>29</sup> The development of the market for liquefied natural gas (LNG) also requires investment in specific assets (cargo ships and terminals).

**HYBRID FORMS INCORPORATE** power only in a weak form: they involve delegating a “subset” of decisions, whereas the rest of their activities are still coordinated by the conventional visible hand, i.e. the Russian government in the case of Gazprom. Parties maintain their autonomy and avoid relationships of subordination. So in the end, the concept of hybrids is of little assistance in explaining the eventual transformation of the market into a tool for enhancing power. We observe just the opposite: how authority as a particular type of power relationships helps maximize the output of specific assets in the market environment.

In contrast to the optimism of the “Market and Institutions” approach, the “Regions and Empires” approach leads to mostly pessimistic conclusions. Specifically, the latter approach predicts that power play will take place of market play. In market play, all parties involved win. In power play there is one winner whereas the others lose. The winning party achieves this outcome at the expense of the other parties.<sup>30</sup>

When applied to the European energy market, the “Regions and Empires” framework suggests that Russia will use energy supplies as a lever for securing unilateral gains, pecuniary or geopolitical. “From the perspective of ‘Regions and Empires’, the EU’s energy relations with Russia (and other third states) are understood as a geopolitical power struggle”.<sup>31</sup> Advocates of this approach produce numerous examples that, they believe, confirm its validity. The Soviet Union entered to the European energy market in the 1960s. Initially supplies of oil had an irregular character. For instance, the Soviet Union sold crude oil in exchange for various products that the Soviet economy failed to produce in sufficient quantities. In order to enter the market, the Soviet Union set ask prices sometimes two times lower than

the market price at that time.<sup>32</sup> In other words, the European countries had power over the Soviet Union as a new entrant to the European energy market. The situation later changed. The Soviet Union learned how to increase its power and to be less dependent on the market. Gaidar claims that the Soviet leadership in the 1970s actively participated in manipulating the European crude oil market by contributing to the prolongation of the “oil war” of Arab countries against the Western countries. Relevant operations of its ally, the People’s Liberation Front of Palestine, were instrumental in this regard.<sup>33</sup>

**THE SOVIET UNION** was also an exclusive supplier of oil and natural gas to the East European market (now a part of the European market). This country was able to impose additional – mostly geopolitical and political – conditions for receiving its oil and gas. For example, “in exchange for a guarantee on energy exports the Soviet Union may demand that Eastern Europe as a whole follows a cautious line on economic reform, more in tune with its own conservative program” or limits contacts with the West European countries.<sup>34</sup> At that time, however, the energy weapon played a secondary role in Russia’s repertoire of techniques of power, supplementing rather than substituting for force (military presence and control).

Russia, which succeeded the Soviet Union’s role as a key supplier of oil and natural gas to the European market, strengthened its position of power even further. Now this country imposes conditions for receiving its oil and gas not only on East European countries, but on West European countries as well. An analysis of voting patterns of a Parliamentary Assembly of the Council of Europe (PACE) resolution and a PACE recommendation criticizing Russia’s military conflict with Georgia August 2008 show that Russia succeeded in demanding that customers of its energy products take a more neutral stance.<sup>35</sup> The course of action chosen by Russia less than one year later, in January 2009, further confirms arguments of advocates of the “Regions and Empires” approach. Russia used cuts in gas supplies to Ukraine to strengthen its bargaining position in a dispute with this country.

The representation of the two prevailing approaches in the opposite terms certainly facilitates the understanding of the underlying rationale: the market and power relationships are the alternative foundations of the European energy policy. At the same time this black and white take on the issue does not allow a more nuanced picture: namely, can the two hands, the invisible hand of the market and the visible hand of government, operate in concert instead of one excluding the other? Speaking more practically, can the power elite of a large energy supplier transform the market into a tool for enhancing its power without renouncing the centrality of the market? If the answer to this research and practical question is affirmative, then a combination of the “Regions and Empires” approach and the “Market and Institutions” approach may provide a better fit to the observed patterns in European energy policies.



## Market-based empires

The concept of the power triad paves a way to considering both structural and strategic components of power within a single theoretical framework.<sup>36</sup> This analytical tool aims to highlight the eventual transformation of strategic components of power into its structural components and vice versa. Russia's efforts to embed the European natural gas market into an infrastructure that facilitates the further strengthening of its positions of power result from conscious choices made by the Russian power elite. The European countries' power elites also make conscious choices when accepting Russia's expansion: in 2011 Russia provided 21.23% of total energy supplies (natural gas, crude oil and

solid fuels combined) to the EU member-states, 3.44% more than in 2004 (Table 1). The awareness that a high degree of dependence on energy supplies from Russia can be and actually has been used by this country as a tool for promoting its geopolitical objectives is outweighed by some other considerations, apparently. The concept of the power triad helps unveil these additional considerations.

**THE POWER TRIAD** includes three agents: a gatekeeper (C), an agent enjoying a structural advantage (A), for instance, facing limited competition, and an agent transacting with A, who has no structural advantage (B). C plays a key role within the power

**Table 1: Energy dependence and its stance on sanctions on Russia**

	Coefficients of total energy dependence on total energy supplies (crude oil, natural gas and coal) from Russia, member-countries of the EU*			Average share of natural gas supplies from Russia in total net supplies	Average total trade turnover with Russia as a % of GDP	Open Europe's Dove/Hawk scale (5 refers to a strong support, -5 – to a strong opposition)
	2011**	2006***	2004***			
<b>Austria</b>	23.433	22.312	21.351	60.00	1.7	-1
<b>Belgium</b>	20.081	18.295	16.75	0.30	3.1	4
<b>Bulgaria</b>	62.585	38.705	37.504	88.85	13.8	-5
<b>Cyprus</b>	0.05	n.a.	n.a.	0.00	12.4	-4
<b>Czech Rep.</b>	45.088	26.124	24.653	57.50	7.3	1
<b>Denmark</b>	6.613	5.635	5.67	0	1.7	3.5
<b>Estonia</b>	11.640	15.55****	13	100.00	26.2	4
<b>Finland</b>	44.081	36.896	40.882	100.00	10.2	-0.5
<b>France</b>	13.604	10.614	8.025	16.00	1.3	0.5
<b>Germany</b>	24.679	23.024	21.525	37.30	2.9	-1
<b>Greece</b>	25.968	23.634	23.678	55.60	3.0	-4
<b>Hungary</b>	44.759	51.089	48.699	79.90	10.8	-2
<b>Ireland</b>	0	0	0	0	1.0	3
<b>Italy</b>	17.647	17.145	22.336	28.85	3.1	-3
<b>Latvia</b>	23.396	37.28****	67.701	100.00	47.9	4
<b>Lithuania</b>	136.073	64.191	47.168	166.40*****	22.0	5
<b>Luxemburg</b>	3.958	n.a.	n.a.	24.10	0.4	-4
<b>Malta</b>	0	n.a.	n.a.	0	34.4	0
<b>Netherlands</b>	30.287	13.971	11.3	5.20	14.1	-0.5
<b>Poland</b>	26.318	30.361	27	58.60	7.7	5
<b>Portugal</b>	2.250	0.054	3.791	0	0.6	0
<b>Romania</b>	3.792	19.611	22.28	24.30	3.1	4
<b>Slovakia</b>	77.875	52.56	53.702	83.50	14.7	-1
<b>Slovenia</b>	8.039	6.475****	7.288	60.20	4.6	-3
<b>Spain</b>	10.174	10.968	9.235	0	1.0	-3.5
<b>Sweden</b>	22.858	11.269	8.288	0	2.6	3.5
<b>United Kingdom</b>	6.254	6.343	2.7	0	1.3	4
<b>EU-27</b>	21.23	18.72	17.19	23.43	9.37	0.33

Legend: \* The coefficient of dependence equals the sum of products of the share of a particular source of energy in total energy consumption, the share of import in its consumption and the share of supplies from Russia in its total imports; \*\*\*\* Data on crude oil are missing; \*\*\*\*\* including re-export.

Sources: \*\* European Commission, EU Energy in Figures: Statistical Pocket-book 2013 (Luxemburg: Publications Office of the European Union, 2013), pp. 165-219; Eurostat (<http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>, extracted on July 9, 2014) and the author's calculations; \*\*\* Anton Oleinik, Market as a Weapon: The Socio-Economic Machinery of Dominance (New Brunswick: Transaction Publishers, 2011), p. 9; \*\*\*\* Eurogas, Statistical report 2013 (Brussels: Eurogas, 2013), p. 6; Eurogas, Statistical report 2012 (Brussels: Eurogas, 2012), p. 6; Eurogas, Statistical report 2011 (Brussels: Eurogas, 2011), p. 8; \*\*\*\*\* Open Europe, 'Divided we stand: Where do EU states stand on further sanctions on Russia?' (<http://www.openeurope.org.uk/Article/Page/en/LIVE?id=19876&page=FlashAnalysis> accessed July 10, 2014); \*\*\*\*\* Federal State Statistics Service, Rossiya i strany Evropeiskogo Soyuz – 2013 [Russia and EU member countries – 2013], Table 14.7 at p. 248 ([http://www.gks.ru/bgd/regl/b13\\_65/Main.htm](http://www.gks.ru/bgd/regl/b13_65/Main.htm)); Federal State Statistics Service, Rossiya i strany Evropeiskogo Soyuz – 2011 [Russia and EU member countries – 2011], Table 14.7 ([http://www.gks.ru/bgd/regl/B11\\_65/IssWWW.exe/Stg/14-07.htm](http://www.gks.ru/bgd/regl/B11_65/IssWWW.exe/Stg/14-07.htm) extracted on July 10, 2014) and the author's calculations.

triad. C erects barriers – technical, institutional, geographical or financial – to market entry. With their help C controls entry to the market. To get access to the market, A must accept C’s conditions: either to pay the price of the entry ticket or to further C’s interests in some other manner. In the exchange, A gets the privilege of acting with fewer competitors: only few of them manage to enter the market. Many (A’-type agents) saw their access to the market denied as a result of restrictions imposed by C. B enters the market without restrictions, but has to buy goods or services from A, who either charges a higher price in conditions of imperfect competition or demands from B other favors that further A’s interests. It has to be noted, however, that B has an interest in buying goods or services from A since the available alternatives are poorer in the terms of their utility.

C benefits most from the existence of the power triad. C decides the number of A-type agents to be admitted to the market, maximizing the rent that he or she captures. The barriers represent a structural component of C’s power. C’s decisions with respect to the ratios of the number of A-type agents to the number of B-type agents and to the number of A’-type agents refer to a strategic component of C’s power. A also captures a rent as a result of acting in the conditions of limited competition (a part of A’s profits is subsequently transferred to C in compensation for the latter’s gatekeeping). B buys goods and services that he or she would not otherwise be able to buy at a better price or to buy at all. C, A and B maintain their formal autonomy. Neither A nor B enters into relationship of formal subordination to C. C imposes his or her will on A and B “from behind the scenes”. C’s activities remain mostly invisible for A and especially for B (B does not enter in direct contact with C). As a result of this lack of formalization, A’s and B’s duties of obedience are not set out clearly and expressly, as observed by Weber.

C, A and B all gain from participating in the power triad, however unequal their gains may be. C’s, A’s and B’s interests form a constellation in the market with restricted access, which lays the foundation for C’s and A’s domination by virtue of a constellation of interests. This constellation contributes to the strengthening of C’s and, to a lesser extent, A’s power. C’s power within the power triad is embodied in two hands: the visible hand of the gatekeeper and the invisible hand of the market with structural imbalances created by the gatekeeper. A needs one hand, invisible, to impose his or her will on B. In other words, in order to make sense of how the power triad works, one needs to combine assumptions of both the “Markets and Institutions” approach and the “Regions and Empires” approach.

Compared with more conventional models of power relationships, the power triad may seem to some as an excessively complicated construct. For instance, Dowding insists that by

focusing on “a simple bilateral bargain between state actors and business” we could gain as much insight. According to him, the introduction of a third party into the model is simply unnecessary.<sup>37</sup> Do we really need to take into account all three actors, C, A and B, when discussing power reproduced and enhanced through the market?

If one considers “a simple bilateral bargain”, then the set of options available to its parties remains an exogenous factor to the transaction. Dowding agrees that “changing the choice situation of people is... an important way of altering their individual and collective power” without showing how the choice situation can be subject to a bilateral bargain.<sup>38</sup> To say that we have the available options “by virtue of the circumstances”, as Dowding suggests, is to acknowledge their exogenous character. The concept of the power triad aims to show how the choice situation can be changed and by whom. C, the gatekeeper, determines the choice situations of A and B. This concept also explains the acceptance of C’s and A’s

power despite the unequal distribution of gains from the transaction. Even B, whose gain turns to be the smallest, does not object to the existence of the power triad.

### The 2014 Ukrainian crisis

A study of the reaction of the European countries to the 2014 Russian military confrontation with Ukraine further illustrates the usefulness of the concept of the power triad. The crisis started after Ukrainian protesters in Kiev ousted Viktor Yanukovich, a pro-Russian president, from office in February 2014. Profiting from the weakness of the Ukrainian state at these turbulent times, Russia first seized Crimea and then started to support pro-Russian separatists in Eastern Ukraine (in the regions of Donetsk and Lugansk) supplying them with arms, including heavy, financial and human resources (Russia sent “volunteers” and military personnel to fight on the separatists’ side).

Details of the Ukrainian crisis and its internal dynamics are of no concern here. I will concentrate instead on the reaction of the European countries to Russia’s role in the crisis. One could have expected an immediate and strong condemnation of the violation of Ukraine’s territorial integrity by Russia. *First*, Ukraine is geographically a part of Europe and has land borders with the four EU member-states (Poland, the Slovak Republic, Hungary and Romania). *Second*, one of the reasons behind the 2013–2014 Ukrainian protests refers to the desire for

**“THE BIGGER THE SHARE OF NATURAL GAS SUPPLIED FROM RUSSIA IN A COUNTRY’S TOTAL NET SUPPLIES, THE LOWER THE LEVEL OF SUPPORT FOR TOUGHER SANCTIONS ON RUSSIA.”**



**Table 2: Summary of the result of the regression analysis**

Results of Statistical (Method = Enter) Multiple Regression to predict stance on sanctions against Russia in the first half of 2014 (Y) from Coefficient of total energy dependence on total energy supplies (crude oil, natural gas and coal) from Russia (Lg10), average share of natural gas supplies from Russia in total net supplies (SQRT), average total trade turnover with Russia as a % of GDP (Lg10), average GDP per capita in current US\$ (SQRT), average intra-EU27 trade balance (without raw materials) as a % of GDP and geographical location (dummies for common borders with Russia and Ukraine, for countries of Northern, Southern, Western and Eastern Europe), standardized (Beta) coefficients, 2010–2012.

Model	1	2	3	4	5	6	7
2011 coefficient of total energy dependence on total energy supplies (crude oil, natural gas and coal) from Russia (Lg10)(a)	0.031 (0.155)						
Average share of natural gas supplies from Russia in total net supplies (SQRT)(a)		-0.038 (-0.19)	-0.151 (-0.64)	-0.249 (-1.23)	-0.455 (-2.56)*	-0.533 (-2.22)*	-0.419 (-1.96)*
Average total trade turnover with Russia as a % of GDP (Lg10)(a)			0.213 (0.9)	0.193 (1.)	0.098 (0.54)	-0.103 (-0.44)	-0.130 (-0.55)
Common border with Ukraine (dummy)				0.441 (2.32)*	0.276 (1.7)^	0.042 (0.22)	
Common border with Russia (dummy)				-0.09 (-0.41)	-0.025 (-0.14)	0.255 (1.24)	
Western Europe (dummy)				0.252 (1.02)	0.516 (2.37)*	0.185 (0.62)	0.211 (0.74)
Southern Europe (dummy)				-0.099 (-0.4)	-0.294 (-1.39)	-0.673 (-2.74)*	-0.799 (-3.34)**
Northern Europe (dummy)				0.805 (2.79)*(c)	0.875 (3.7)**(c)	0.297 (1.03) (d)	0.384 (1.42) (d)
Average GDP per capita in current US\$ (SQRT)(b)					-0.761 (-3.25)**	-0.824 (-2.49)*	-0.858 (-2.87)**
Average intra-EU27 trade balance (without raw materials) as a % of GDP(e)							-0.274 (-1.57)^
C (unstandardized coefficient)	0.127 (0.09)	0.485 (0.48)	0.104 (0.09)	-1.791 (-0.91)	7.808 (2.32)*	11.464 (2.78)**	11.577 (3.3)**
R <sup>2</sup>	0.001	0.001	0.034	0.588	0.740	0.568	0.585
R <sup>2</sup> <sub>adj</sub>	-0.039	-0.038	-0.046	0.436	0.625	0.376	0.431
F-statistic	0.24	0.36	0.425	3.876**	6.414***	2.956*	3.818**
Observations	27	27	27	27	27	27	27

Legend: ^ significant at  $\alpha=0.1$ , \* significant at  $\alpha=0.05$ , \*\* significant at  $\alpha=0.01$ , \*\*\* significant at  $\alpha=0.001$ . (c) with the Baltic states, (d) without the Baltic States (they are included in Eastern Europe).

Sources: (a) see Sources of Table 1; (b) World Bank. World Development Indicators (<http://data.worldbank.org/data-catalog/world-development-indicators>, extracted on July 9, 2014); (e) European Commission, Eurostat. Table ext\_lt\_intratrd ([http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext\\_lt\\_intratrd&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en), extracted on July 14, 2014)

greater integration with the European Union.<sup>39</sup> *Third*, the Russian involvement undermined a principle that has historically underpinned the European geopolitical constructions, namely, the balance of Europe. “The balance of Europe primarily meant the impossibility of the strongest state laying down the law to any other state”.<sup>40</sup> *Fourth*, Russia’s role in the crisis highlighted the need for enforcing (as opposed to merely declaring) norms that restrict the use of force in international relationships (namely, Chapter VII “Action with respect to threats to the peace, breaches of the peace, and acts of aggression” of the Charter of the United Nations).<sup>41</sup>

**THE EUROPEAN COUNTRIES** responded by imposing individual sanctions (restrictive measures) on a number of mid-level Russian officials and leaders of the separatists.<sup>42</sup> So called “sectorial” sanctions, i.e. sanctions affecting Russian banking system and industries, were considered at a very advanced stage in the military conflict. The “sectorial” sanctions were not consistently and fully applied, however.

The issue of sanctions was a source of controversies and debates among the European power elites. Instead of producing a united and univocal response to Russia’s seizure of Crimea and her destabilizing role in Eastern Ukraine, the European Union turned out to be divided among a group of countries favoring a “soft” response and a group of countries supporting tougher measures against Russia. Experts of Open Europe, a European think-tank, labelled the former groups as “Doves” and the latter group as “Hawks” producing an ordinal-level assessment of the intensity of support for tougher sanctions on Russia (Table 1).<sup>43</sup> Can the variation in the level of support for tougher sanctions on Russia be explained in the terms of the European countries’ dependency on energy supplies from this country? Does the concept of the power triad shed additional light on this issue?

A power triad exists in the European natural gas market. Within this power triad, Russia, C, controls access to its pipelines delivering gas to the European customers represented by national energy companies. As a condition of access to a reliable source of relatively cheap energy (compared to the other sources), C expects that A will further C’s interests, pecuniary or non-pecuniary, including geopolitical. The European energy companies with privileged

access to the pipeline, A, have a structural advantage over the national companies with no direct access to the pipeline, A'. As a result, the national economies of the European countries with direct access to the pipeline get a competitive advantage over the other European national economies. A produces goods and services at relatively lower costs (the price of gas is directly or indirectly – via the price of electricity – included in cost calculations for most goods and services), which makes them more competitive in the European market. Consumers of these goods and services, B, benefit too: they buy products for a better price (compared with domestically produced goods and services),<sup>44</sup> all other things being equal.

C, A and B all receive a positive gain. Their interests form a constellation in the European natural gas market embedded in the network of pipelines either inherited from the Soviet era or built recently. In these circumstances C's power has both components, structural and strategic (the latter refers to Russia's efforts to set prices in a selective manner in relation to how a particular customer furthers Russia's interests and to promote new infrastructural projects that will further enhance its gatekeeping ability).

If the European natural gas market operates as the power triad so described, then several predictions can be formulated and empirically tested. Namely, the bigger the share of natural gas supplied from Russia in a country's total net supplies, the lower the level of support for tougher sanctions on Russia (in other words, A's and C's interests tend to be positively associated). Also, the bigger the share of natural gas supplied from Russia in a country's total net supplies, the more positive the country's trade balance (C's, A's and B's interests tend to be associated). B buys A's goods and services, thus a negative trade balance serves as a proxy for playing B's role.

**TO TEST THESE PREDICTIONS,** I ran several OLS regressions of a EU member-state's level of support for tougher sanctions on Russia on the coefficient of its dependence on total energy supplies from Russia, the share of natural gas supplies from Russia in net total supplies, the total trade turnover (export and import combined) with Russia as a percentage of GDP, GDP per capita, the intra-European Union trade balance without raw materials as a percentage of GDP<sup>45</sup> and several dummy variables specifying the European country's geographical location.<sup>46</sup> I used 3-year average values of the ratio-level variables (2010-2012) to eliminate possible fluctuations and the impact of the inauguration of Nord Stream's first line in November 2011.<sup>47</sup>

The European country's stance on the sanctions is used as a proxy for Russia's interests as C within the power triad. Only a non-pecuniary, geopolitical dimension of these interests is taken into account in my model. I operationalize the degree of the

European country's dependence on energy supplies from Russia through two variables, the aggregate coefficient of total energy dependence and the share of natural gas supplies from Russia. The higher their values, the more chances that a particular European country plays A's role within the power triad. The European country's trade turnover as a percentage of its GDP represents the other dimension of its economic dependence on Russia. It should be noted that of these three indicators of the European

country's economic dependence on Russia, the share of natural gas supplies refers to the most specific assets (pipelines, storage facilities and the other transport infrastructure) whereas the trade turnover relates to the least specific.

The intra-EU trade balance serves to operationalize A's and B's interests: A's interests if the particular country's balance is positive and B's interests in the opposite case. A's and B's interests have a pecuniary dimension in my model. A and B's motivation is pecuniary and their

choices rational in the circumstances. A control variable – GDP per capita – is also entered to test the assumption of A's pecuniary interests.

**TABLE 2 SUMMARIZES** results of the regression analysis. Models 1 and 2 show that, taken separately, neither the coefficient of total energy dependence nor the share of natural gas supplies from Russia explains the variation in the level of support for tougher sanctions on Russia. The addition of the trade turnover with Russia in Model 3 does not change the situation. Outcomes of the regression become statistically significant with the addition of several dummy variables specifying the European country's geographical location in Model 4: namely, the North European countries and the countries sharing land borders with Ukraine support tougher sanctions to a greater extent than the other countries. The entry of GDP per capita significantly improves the quality of the model (Model 5) and makes the impact of the share of natural gas supplies from Russia significant. The control variable, GDP per capita, "is discovered to be the mediating factor through which an independent variable [the share of natural gas supplies] has its effect on a dependent variable [the stance on sanctions on Russia]".<sup>48</sup> This finding turns out to be relevant to my argument about A's pragmatic interest in accepting C's power.

**THE UNCERTAINTY AS TO WHERE** to place the Baltic States (Lithuania, Latvia and Estonia) – some sources include them in Northern Europe, whereas the other consider them to be a part of Eastern Europe – led me to run regressions using two versions of the dummy variables for Northern and Eastern Europe. Model 6 is identical to Model 5 except in relation

**“THE NATIONAL ECONOMIES OF THE EUROPEAN COUNTRIES WITH DIRECT ACCESS TO THE PIPELINE GET A COMPETITIVE ADVANTAGE OVER THE OTHER EUROPEAN NATIONAL ECONOMIES.”**



to the Baltic States (now included in Eastern Europe). The negative impact of the share of natural gas supplies becomes even stronger. At the same time the positive impact of sharing land borders with Ukraine almost disappears: the original relationship is “shown to be false through the introduction of a test variable”,<sup>49</sup> GDP per capita. In these circumstances I decided not to enter the two dummy variables for countries with common borders with either Ukraine or Russia in Model 7. Instead, I entered the intra-EU27 trade balance. This variable has a negative – and marginally statistically significant<sup>50</sup> – impact on the dependent variable. In other words, the European countries with a positive intra-EU27 trade balance tend to adopt a softer position on sanctions on Russia. A converts its privileged access to Russian gas pipelines into competitive advantages in the intra-European trade. B, a customer of A’s products, has a negative trade balance. B buys more products from A, but receive relatively fewer benefits from the existence of the power triad than C and A. B-type countries tend to concentrate in Southern Europe: Italy, Spain, Portugal and Greece all have negative intra-EU27 trade balances. Model 7 explains slightly more than 43% of the variation in the European country’s stance on sanctions on Russia.

## The price of comfort and opulence

In the final account, the hypothesis about the existence of the power triad in the European natural gas market turns out to be tentatively confirmed (it would be necessary to run more comprehensive tests using a longer list of indicators, especially with respect to B’s interests, before making any definitive claims). Russia, C, provides European countries with relatively cheap natural gas. Compared with the other sources of energy (namely crude oil and coal), the market for natural gas can be manipulated relatively more easily since its infrastructure includes highly specific assets (pipelines and storage facilities) that may possibly be transformed into a structural component of power.<sup>51</sup> Russia’s power elite seized this opportunity by developing a second component of power, strategic. The strategic component of Russia’s power consists in getting the key European markets “wired” to Russian pipelines and in using the strategy of gatekeeping, i.e. providing privileged access to the pipelines only to those customers who willingly further the Russian power elite’s interests.

The reaction of the EU member-states to Russia’s military confrontation with Ukraine in 2014 is a case in point. The Russian power elite got what its members wanted, i.e. the refusal of the European power elites to impose tougher sanctions on Russia. The concept of the power triad shows that fears that Russia will arbitrarily cut gas supplies to European customers or, even worse, use military force against them have little basis. C has an interest in building and maintaining the reputation of a reliable supplier provided that A and B accept C’s rules of the game. C has power by virtue of a constellation of A’s and B’s interests with C’s interests. C does not “buy” or corrupt A in a conventional sense of this word. C simply changes A’s and B’s choice situation in such a manner that they pragmatically decide to support C’s endeavors.

The concept of the power triad also suggests that it would be a mistake to explain the European response to the Ukrainian crisis in the terms of bilateral relationships only. The interests of European countries, including those outside the reach of Russian pipelines (at least so far), form a constellation. Focusing on bilateral relationships overshadows the fact that B-type agents, customers of goods and services produced by the countries with privileged access to Russian pipelines, lose in relative, but not in absolute terms.

Neither A nor B has an interest in changing the status quo, i.e. in taking serious steps undermining the power triad in the European energy market. In these circumstances the considerations of “mutual solidarity”<sup>52</sup> and even duty (the United Kingdom accepted the role of guarantor of Ukraine’s unity and territorial integrity in 1994)<sup>53</sup> become irrelevant. A’s and B’s pragmatic interests turn to be more powerful drivers of their behavior. It means that the power triad will likely continue to exist in the European energy market. ✖

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## references

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- 32 Egor T. Gaidar, *Gibel' imperii: uroki dlya sovremennoi Rossii* [Collapse of an Empire: Lessons for Modern Russia] (Moscow: ROSSPEN, 2006), 109.
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- 51 The entry of the coefficient of total energy dependency into the regression models instead of the share of natural gas supplies from Russia shows that the latter variable has a weaker predictive power: the models' quality decreases.
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