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Pipeline politics: Russian energy sanctions and the 2010 Ukrainian elections

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ABSTRACT

In early 2010, the 'Orange Revolution' in the Ukraine came to an end. The pro-Western President, Viktor Yushchenko, was replaced by the pro-Russian Viktor Yanukovych. This paper argues that Russian energy sanctions helped pave the way for Yanukovych's election. The Kremlin undermined the Ukrainian economy by exploiting the country's dependence on Russian oil and gas, imposing harsh price increases and financial terms and even cutting off supplies in 2006 and 2009. In the end, I argue, these measures fit the 'classic model' of economic sanctions: impose pain until the population turns against its government and removes it. Uniquely, however, this paper links sanctions to the long-standing literature on elections in the U.S. and other democracies which shows how economic decline influences voting behavior. A certain level of sanctions may cause a *predictable* change in election outcomes in the targeted state. This opens, I believe, an important new potential avenue in research on sanctions.

1. Introduction and theory

A large literature in International Relations has focused on economic sanctions. The 'classic model' of sanctions asserts that they usually work by causing economic pain to the target state's population.[1] The population then reacts by pressuring the country's leaders or overthrowing them outright, thus changing the target state's international behavior.

Surprisingly, the extensive literature on economic sanctions and their effectiveness has not made use of another key literature in Political Science: the numerous studies in the fields of American and Comparative Politics linking economic performance and electoral outcomes. Many detailed quantitative studies have shown that economic performance is one of the best predictors for electoral results in the United States and other democracies.[2] For example, in one classic article Gregory Markus estimates that each 1% rise in per capita disposable income in the year before an election raises the vote for a US Presidential incumbent by 1.9% (Markus, 1988:146). Similarly, Robert Erickson asserts that a 1% income increase results in an increase of 2.77% in an incumbent's vote (Erikson, 1989:568). The relationship is

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[1] See for example Baldwin (1985) and Hufbauer et al. (2007). This is of course not the only possible mechanism for sanctions success; recently, for example, many authors have focused on 'smart sanctions,' which target a country's ruling elite more narrowly, aiming to spare the general population from unnecessary suffering. See for example O'Sullivan (2003).

[2] For an overview of this extensive literature see the bibliography on electoral forecasting at http://forprin_old.dev.zoe.co.nz/Political/bibliography.html.

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remarkably similar in many other countries. In Germany, for example, a recent study of post-WWII election results shows that a 1% change in income produces a 2% change in party vote in national elections (Bartool & Sleg, 2009). A 2006 article on Turkish elections between 1950 and 2004 shows similar results (Akarca & Tamsel, 2006). Innumerable other studies could be cited, analyzing elections from Britain to Japan.

Yet the sanctions literature, which as noted also relies on the idea that "economic pain will lead to leadership change," has generally ignored such studies, which could offer important insights on the crucial question of how much pain is needed to effect change. It may be that this failure to link to well-established models is due to the fact that IR scholars do not read literature from other subfields of Political Science. Yet there is a more legitimate reason: most past economic sanctions have been imposed against non-democratic regimes. The USSR, North Korea, Cuba, Libya, Iraq under Saddam Hussein—none of these regimes permitted free elections, so influencing elections was not a realistic mechanism for sanctions success. The aim of sanctions was instead to weaken the target state, and if possible provoke a revolution. However, with democracy now far more common in the world than in previous decades, it is well worth considering how fully (or even partially) free elections can be influenced by the economic pain inflicted by sanctions. This is potentially a rich area for future research, especially for researchers with a quantitative bent, since this literature suggests that economic decline will damage an incumbent leader's re-election chances in specific, predictable ways.

This paper will attempt to apply these insights to a recent case of economic sanctions: Russia's efforts to influence the Ukraine by using energy sanctions. First, it will briefly review the situation in the country when the pro-Western leader of the Orange Revolution, Viktor Yushchenko first took power. As we shall see, his rule seemed precarious from the start. The country was highly vulnerable to Russian sanctions, and Yushchenko's victory had been so narrow—and his own coalition was so fragile—that even a modest economic downturn would seem likely to put his re-election in doubt. As we shall see, he instead faced an economic tidal wave. Predictably, his poll numbers—and re-election chances—plunged. Finally, the paper will briefly examine the resulting 2010 electoral victory of Russia's champion, Viktor Yanukovych. As we shall see, the country's economic decline was related to the election results almost exactly as elections theorists such as Markus and Erickson would predict. The link between sanctions and the election results was further confirmed after the election, when Yanukovych promptly rewarded the Kremlin for its support by changing many of Yushchenko's key policies. In return, Russian energy sanctions were greatly eased.

2. Ukraine and Russia: a legacy of dependence

Russia's ability to use energy to sanction Ukraine is rooted in the Soviet period, as was noted by analysts well before the Orange Revolution.[3] The USSR was designed to bring together its various component parts, the nationalities represented in the Union Republics. The Soviet leadership was well aware that Ukraine had declared its independence during the 1917–21 Civil War which followed the Russian revolution. It was also well aware that many Ukrainians had initially welcomed the German invaders in WWII as liberators. Accordingly, many measures were taken to bind the Ukraine to the Soviet state. As part of the effort to build a unified national economy, all of the Union Republics were linked to Russian oil and gas pipelines. Since most, such as Ukraine, lacked their own resources, this effectively made them totally dependent on the Kremlin.[4] This dependence was deepened since each Republic came to specialize in the production of certain goods for sale to the all-Union market. Such products were often uncompetitive on the world market, meaning that if Russia failed to buy them, no one else would. And with the availability of cheap oil and gas, these producers were encouraged to specialize in energy-intensive products—such as petrochemicals and heavy industrial products.

After the fall of the USSR, such industries would obviously be highly vulnerable to Russian energy price increases: even a modest increase could make them uncompetitive. This could easily throw many thousands of Ukrainians out of work. Furthermore, consumers in Ukraine also became accustomed to cheap Russian energy. For example, like most apartment buildings in the former 'socialist' bloc, those in Ukraine were often built with no individual gas meters or thermostats. This has led to huge waste, as individual users have no ability—and no financial incentive—to control their energy use. Yet despite this inefficiency, the energy flow must continue, especially considering the brutal cold of a Ukrainian winter. Again, this deepens Ukraine's dependence on Russian oil and gas.

The Ukraine's reliance on Russian natural gas was a particularly strong form of dependence. With very limited domestic supplies, Kiev typically receives about three-quarters of its natural gas from Russian pipelines.[5] Worse yet, there are no good substitutes for this gas. Oil is a much more fungible product, with a clear world market price. It can be imported in tankers relatively cheaply from anywhere in the world. This limits Russia's ability to use oil as an energy weapon. Gas, in contrast, is difficult to ship except through pipelines. It is possible to produce liquefied natural gas (LNG) for transport, but this demands specialized LNG production facilities and port facilities and is

[3] See for example Bamaceda (1998) and D'Anieri (1999). For a more general overview of Moscow's 'energy power,' see for example Stulberg (2007), Goldman (2008), and Newnham (2011).

[4] For decades, the USSR used a similar strategy to bind Eastern Europe to the Warsaw Pact, offering cheap oil and gas in return for political loyalty. See for example Marrese & Vanous (1983).

[5] In typical years between 2000 and 2011, Ukraine produced about 18 Billion Cubic Meters (BCM) of natural gas, while importing about 60 BCM. Thus its import percentage was usually about 77%. Statistics from U.S. Energy Information Agency (www.eia.gov) and author's calculations.

relatively expensive. Thus, for all intents and purposes, Ukraine found itself forced to rely on Russian gas. And the Kremlin was well aware of this.

In the years before the Orange Revolution of 2004, the Kremlin began to use its energy supplies as incentives, to support the relatively friendly government of President Leonid Kuchma. For years Russia kept gas prices absurdly low, charging Ukraine only about $50 per thousand cubic meters (TCM) until 2004, far less than the $235/TCM it then charged its customers in Western Europe. Furthermore, Moscow allowed Ukraine other advantages. It let Kiev buy even cheaper natural gas from Turkmenistan through the Russian pipeline system—something it had no obligation to do. It also allowed Kiev to take a large amount of gas as payment for allowing Russia to ship gas through the country to Western Europe. In all, on the eve of the Orange Revolution, Moscow was sending 60 billion cubic meters (BCM) of gas to Ukraine yearly. Yet of that, 37 BCM was Turkmen gas and around 17 BCM was provided free as a 'transit fee,' meaning that Ukraine had to pay Russia for only ten percent of the gas it received (about 6–8 BCM) (Russia, 2005). And on top of generous pricing and supply policies, Russia offered generous credits to cover even this modest cost. For years Moscow complained only weakly as Kiev piled up unpaid gas debts.

The fact that this generous policy was politically motivated was clear behind the scenes. For example, in August 2004, shortly before the end of his term, President Kuchma was able to negotiate an agreement with Moscow confirming the heavily subsidized gas deal. In return for a one-time Ukrainian payment of $1.62 billion, to settle past debts, Gazprom agreed to continue exporting gas for only $50/TCM for five more years, the duration of the next Presidential term in Ukraine (Stern, 2006:37–38). Many regarded this as just one part of Russia's overwhelming effort to ensure that Kuchma's designated successor, Viktor Yanukovych, would win the upcoming election (Kuzio, 2005). However, unfortunately for the Kremlin this plan went awry.

3. The Orange Revolution: a tempting target

As the end of President Kuchma's second term in office neared in 2004, his increasingly heavy-handed rule led to rising opposition. A prominent opposition journalist was murdered, and the President was recorded covertly as he joked about the case. Leaders of the emerging Orange Coalition, former Premier Viktor Yushchenko and Yulia Tymoshenko, were relentlessly harassed. Tymoshenko was arrested on trumped-up charges and her husband was forced to go into hiding for two years. Yushchenko faced an even harsher fate: he was poisoned with dioxin during the election campaign and nearly died. His face remains disfigured by the poisoning attempt, believed by many to have been carried out by Kuchma's secret service, possibly with the help of the Russian FSB.

The 2004 election campaign in Ukraine was, not surprisingly, bitter and tumultuous. The country was closely divided; Yushchenko, candidate of the Orange Coalition, was intensely popular in Western Ukraine and among the youth and intelligentsia. Yanukovych, head of the Party of Regions and Kuchma's designated successor, was strongly supported by Eastern Ukraine and the Crimea (regions historically tied to Russia) as well as many older and blue-collar voters. In the climactic runoff election of November 21, 2004, the Central Electoral Commission of Ukraine initially announced a Yanukovych victory. Russia rushed to support this claim, although Western observers had documented widespread fraud. The Orange forces, refusing to accept this result, called on their supporters to occupy the capital. Up to 500,000 protesters braved the bitter Ukrainian December weather for weeks, until Kuchma finally gave in and consented to a second runoff election, held on December 26, 2004. This time, with much less fraud, Yushchenko emerged triumphant, by a fairly decisive margin of 51.99% to 44.20% (Central). He officially began his five year term on January 23, 2005.

Russia was bitterly disappointed. Not only had its chosen candidate lost, but the opposition victory had come in a way which deeply worried the Kremlin. It saw a series of "Color Revolutions" sweeping the world between 2000 and 2005, including the defeat of its ally Slobodan Milosevic in Yugoslavia, the 'Cedar Revolution' in Lebanon, 'Rose Revolution' in Georgia, and 'Tulip Revolution' in Kirghizstan. In each case a massive popular mobilization, supported by the West, had swept away undemocratic regimes, many of them closely tied to Russia. These revolutions not only diminished Moscow's clout in the world; they also served as a possible model for the overthrow of President Putin himself. This existential fear helped to motivate a harsh crackdown on critics within Russia at the time, and also helps explain Moscow's extreme reaction to the election of Yushchenko.

After Yushchenko's victory, the Kremlin's fears were realized. On issue after issue, the new leader moved the Ukraine into sharp political conflict with the Kremlin.

Some of the disputes were little noticed in the West, yet of great significance for Moscow. For example, Yushchenko often denounced the famine of the early 1930s as a case of genocide against the Ukrainian people.[6] When Stalin imposed collectivization on Soviet agriculture, the country's breadbasket, the Ukraine, suffered millions of deaths—an event known in the country as the *holodomor*.[7] Even today elderly survivors can recall events out of a nightmare, with widespread cannibalism and corpse-laden wagons clearing out peasant houses where all the inhabitants had died. The Ukraine was hit harder in these events than other regions of the USSR, a fact which led many nationalists to believe it was being punished for its past disobedience to Moscow (such as its short-lived independence during the post-1917 Russian Civil War). Resentment over the *holodomor* helped fuel the Ukrainian Insurgent Army (UPA), founded with German help during WWII, an anti-Soviet guerilla movement which held on in the forests of the Western Ukraine for a decade

[6] Shortly before leaving office, he even arranged for the Ukrainian Court of Appeals to formally investigate Soviet leaders of the 1930s on charges of genocide. See Yushchenko (2010).

[7] This word is controversial, and is often rejected in Russia, as it literally means "killing by hunger," and thus implies that some deliberate agency was at work in the deaths.

after the war.[8] An accusation of genocide carries heavy weight in international affairs. This accusation was especially resented by the Kremlin, since Russia has historically seen itself as a victim of genocide (during the WWII German invasion), not a perpetrator.

Similarly, in a related historical controversy, Yushchenko sided with hard-line Ukrainian nationalists in honoring the memory of Stepan Bandera, the leader of the UPA. Statues of him were put in place throughout Western Ukraine, a postage stamp was issued for his 100th birthday in 2009, and in January 2010 Yushchenko awarded him the title "Hero of Ukraine" (Levy, 2010a). All of these steps infuriated the Kremlin leadership, which saw Bandera as a brutal terrorist who had killed many Russians and collaborated with the Nazis.

More importantly, though, Yushchenko sought to turn his country away from Russia in geopolitical terms. Yushchenko lobbied hard throughout his term for Ukraine to be admitted to NATO and the EU, often in cooperation with Georgia, the Kremlin's other *bête noir* among the ex-Soviet states. The Orange leader added insult to injury in the Kremlin's eyes by rushing to the side of the Georgian President, Mikhail Saakashvili, when Russia attacked Georgia in the summer of 2008.

Finally, an especially divisive issue between Kiev and Moscow was the huge Russian naval base at Sevastopol in the Crimea. The base was a thorn in the side of Ukrainian nationalists, which saw it as a form of military occupation and a threat to their national sovereignty. This was particularly true since Moscow seemed to be encouraging the many ethnic Russians in the Crimea to try to return the region to Russia—which had ruled there until 1954, when Nikita Khrushchev (a Ukrainian) had transferred the peninsula to the Ukraine. For the Russians, on the other hand, the base is a vital strategic asset. It is the main base of the Russian Black Sea fleet, important for projecting Russia's power not only there—as seen during the war against Georgia—but beyond the region, into the Mediterranean and Middle East.[9] Russia's role as a world power thus depends in an important way on the Crimean base.

Unfortunately for the Kremlin, after years of wrangling in the aftermath of the collapse of the USSR, the Ukraine had agreed to only a short-term Russian lease on the base. The agreement was set to expire in 2017. While this may have seemed fairly distant when Yushchenko took office in early 2005, it loomed ever closer as his term progressed and he remained firmly opposed to extending the lease. It would be very difficult for Russia's smaller ports on the Black Sea—Sochi and Novorossiysk—to accommodate the fleet's many large vessels and repair yards. Relocating the Russian Black Sea fleet would cost billions and take many years; Moscow would need to start a huge building project immediately if the lease was not renewed.

Yet Moscow also saw that their strident opponent, Yushchenko, was highly vulnerable. In addition to his country's economic vulnerability, noted above, Yushchenko had personal political weaknesses that could be exploited. He was genuinely unpopular with half of the country, having only narrowly defeated Yanukovych in the two tightly contested 2004 runoff elections. And his own coalition was very delicate. His key partner, Yulia Tymoshenko, was an important leader in her own right and had clear ambitions to run the country. When the Orange Movement installed him as President and her as Premier, this seeming 'dream team' was in fact highly contentious. Within months of their victory Tymoshenko resigned as Premier, splitting the Orange Coalition. Thus, even modest economic sanctions had the potential to harm Yushchenko politically, encouraging the strong rivals both inside and outside of his movement.

4. Russian energy sanctions

The threat of Russian energy sanctions dogged Yushchenko from the moment he took office. In fact, such sanctions had been threatened during the 2004 election campaigns. As one pro-Russian Ukrainian leader said at the time "what else but gas could convince the people of Ukraine that it's better to be a friend of Russia than the EU and NATO?" (Yasmann, 2006). Similarly, Vladimir Putin himself said in September 2004 that Yushchenko was welcome to seek a closer alliance with the West and turn his back on Russia, but he should understand that if he did so, Russia was under no obligation to continue to subsidize its energy exports to Ukraine (Goldman, 2008:144).

With the victory of the Orange forces, such threats soon became real. As noted above, Ukraine had enjoyed generous energy subsidies from Moscow for years. This ended abruptly. After fifteen years of stable prices Moscow suddenly demanded that Kiev pay the same amount it charged its West European customers, then about \$235/TCM as compared to \$50/TCM. This would have more than quadrupled Ukraine's natural gas bill overnight. The Kremlin also took a hard line with the Ukrainians on the payment of energy debts, which it had previously often ignored.

When Ukraine's annual contract for Russian gas expired at the end of 2005 and a new agreement had not been reached Moscow decided to play hardball. It simply cut off all gas shipments to the country on January 1, 2006, a sudden act which shocked the world. In the past Russia had never dared to cut off gas shipments, since fully 80% of Russian gas flowing to Western Europe went through the Ukraine (Ukraine, 2006:204, 220). However, the Kremlin's hatred of Yushchenko trumped even this consideration. For three days Europe held its breath as, in the depths of a frigid winter, millions of Ukrainian households lost their heat, factories ground to a halt, and West European gas supplies also began to plummet. The exercise in brinksmanship paid off, as Ukraine was forced to agree to pay \$95/TCM for gas in 2006.[10]

[8] Perhaps not surprisingly, this region is the heartland of the Orange Movement today.

[9] For example, the Black Sea fleet is vital in maintaining Russia's presence at its only remaining naval base outside the former USSR, at the port of Tartus in Syria. Russia's presence there was of great importance when the Syrian revolt against the Assad regime erupted in 2011–12.

[10] In fact, the deal was even more beneficial to Moscow: the higher price was arrived at by officially 'mixing' cheap gas from Central Asia, costing only about \$65/TCM, with gas brought from Russia at the \$230/TCM figure demanded by the Kremlin. Source: Country (2007:6).

The crisis of 2005–06, however, was not the end of Russian pressure on Yushchenko—it was only the beginning. For the rest of his term tension was constant. Every year the natural gas agreement brought new problems, as Russia demanded ever higher prices. Prices shot up from $77/TCM in 2005 to $95 in 2006, $130 in 2007, and $160 in 2008 (Pirani, 2011:26). Yet even between these yearly negotiations there were new threats, seemingly on an almost daily basis. There were always new demands about payments for past gas debts. When to pay, how much, under what conditions? Similarly, there were constant demands for more control of key industries in Ukraine, and especially for a Russian role in running the Ukrainian gas pipelines, the lifeline to Europe.

In March, 2008, for example, Russia cut gas shipments to Ukraine by 50% over another dispute (Gazprom, 2008). Analysts generally regarded this action as retribution for the return of Yulia Tymoshenko as Premier of Ukraine in December, 2007. As noted above, she had broken with Yushchenko in 2005. By returning to an alliance with Yushchenko, she was again strengthening the Orange Movement, which angered the Kremlin.

Later in 2008, yet another dispute over pricing and credit terms threatened to cause a second complete shutdown in gas shipments to Ukraine—and to Western Europe. This dispute was particularly bitter due to Yushchenko's decision to openly back Georgia in its war with Russia in summer 2008. The Ukrainian leader did not merely support Georgian President Saakashvili with words. He helped organize several other leaders–including the Presidents of all three Baltic States and Poland—to fly to Tbilisi in the midst of the conflict to stand demonstratively at Saakashvili's side as he stridently condemned Moscow (Yushchenko, 2008).

As a result, the Russian leadership again decided to punish Ukraine harshly. As in 2006, it cut off all gas shipments promptly on January 1, 2009. This time, though, it maintained the embargo for much longer. Further alienating the Kremlin, Yushchenko openly appealed to the European Union and other Western leaders to intervene. The conflict was not finally resolved until January 19, almost three weeks later.

In the end, Russia finally achieved the result it had been seeking since Yushchenko took office. The Ukrainians were forced to agree to pay the same price for their gas as Western Europe from 2010 onwards, although Russia did allow a 20% discount for 2009 (Russia, 2009). With this agreement, Kiev went from paying $180/TCM in 2008 to $233 in 2009 and $257 in 2010 (Pirani, 2011:26). In all, then, from 2005 to 2010 the price paid by Ukraine for Russian natural gas had quintupled—risen by over 500%–from $50 to $257/TCM.

In fact, Ukrainian leaders alleged, the "European" price used in the 2009 agreement was actually sometimes higher than that charged to Western states such as Germany. Ironically, Kiev recently negotiated an agreement with the German gas supplier RWE, which allows it to buy back Russian gas from Germany when the price that country pays is lower than the Ukrainian price (Ukraine, 2012).

The impact of the years of Russian energy sanctions against Ukraine was clear, both psychologically and physically. First, factories and homeowners could never be sure when their energy lifeline would be cut. This had an enormous demoralizing effect, especially in the depth of an East European winter. Fear of winter cold rests deep in the peoples of the former USSR, rooted in the privations of WWII and the harsh years that preceded it. The demoralizing effect extended to foreign investors. Who would want to invest in a country that seemed unstable, that might even be attacked by its powerful and hostile neighbor?

The immediate economic effects of the energy sanctions, both short and long term, were just as dramatic. During the 2006 and 2009 shutdowns factories across Ukraine stopped production, costing the national economy dearly (Nesterov, 2009). Even when gas flowed, the vastly higher costs rippled through the economy in a dangerous way. The Ukrainian government faced a difficult choice: should it pass on the huge price increases to the people and the factories? This could lead to immediate rioting. Instead, Kiev chose to mask many of the costs by borrowing more, thus greatly harming the government's fiscal stability. By the end of Yushchenko's term, Kiev was frantically begging the IMF for loans. One key condition the IMF demanded was that the government greatly increase the retail price of gas to Ukrainian consumers, a politically unpopular step which Yushchenko had been avoiding. Yet even in the face of bankruptcy, today the Ukraine continues to refuse to raise household gas rates, clearly showing the extreme political sensitivity of gas prices.

Finally, of course, there was the direct drain on the Ukrainian government and economy posed by the increased cost of gas payments. The exact amount paid is difficult to measure: many of the deals were complex and opaque, with both sides working through intermediary companies and with cheaper and more expensive gas being officially 'mixed' in the pipeline. Also, the Ukraine often was behind on its payments, with the amount owed constantly in dispute. Perhaps the best estimates available are from the Oxford University Institute for Energy Studies (Pirani, Stern & Yafimeva, 2010:9). These analysts calculate that Ukraine paid Russia $3.2 billion for natural gas in 2005, and that this rose to $5.1 billion in 2006, $6.5 billion in 2007, and $8.6 billion in 2008. With the sharp decline in the Ukraine's economy is 2009, imports fell slightly in 2009, with payments declining to about $6.2 billion. However, even with the economy still in recession, costs rebounded to a record $9.3 billion in 2010. Considering that, by comparison, the Ukraine's entire government budget amounts to only $40 billion, this suggests that Russian gas costs are a major drain on the country (CIA, 2010).

During Yushchenko's last year in office, the Ukrainian economy went into a steep nosedive. This was not, of course, due entirely to the effect of Russian sanctions; the entire world faced a challenging economic climate at the time. Yet Ukraine fared far worse than others; in 2009 its GDP plummeted by 15%.[11] Its per capita GNP fell from about $7400 to $6300. Only one country in the world saw a steeper decline in national GDP than Ukraine that year—Lithuania—and it, not coincidentally, was also

[11] Figures in this paragraph from CIA (2010).

affected by Russian energy sanctions. The ruinously high amounts paid for Russian gas clearly played a notable role in Ukraine's economic problems. For example, as the IMF struggled to put together a rescue package for Ukraine, it factored in the amount the government had to pay to cover the operating deficit of the national gas company, Naftogaz. In 2009 this amounted to 3.2% of Ukraine's GDP, higher than the country's official budget deficit (2.3% of GDP) (IMF, 2009).

By comparison, states favored by Russia did much better. Belarus, for example, a loyal supporter of Moscow, had benefitted from years of Russian economic incentives.[12] It weathered the world economic downturn relatively well, with its GNP falling by only 0.2% in 2009. Its per capita GNP actually rose, from an estimated $12,400 to $12,500. This performance has certainly helped the generally pro-Russian leader of Belarus, Alexander Lukashenko, to remain firmly in the saddle.

In contrast, as the literature cited above would predict, a leader who is in power when the economy is weak will suffer at the polls. This has been demonstrated again in the U.S. since 2008, as President Obama's popularity has waxed and waned in tandem with the ups and downs of a fitful economic recovery. And it was clear that the situation President Yushchenko faced in 2009–10 was even more serious than that faced by Obama. Thus, as one would expect, the popular reaction against his rule was correspondingly strong. If we use Markus' figure, cited in the theory section above, we would expect that each 1% economic decline in the year before an election would cause the incumbent to lose 1.9% of the vote; Erickson saw an even larger effect, 2.77%. This would mean that, with Ukraine's disastrous 15% economic plunge in 2009, President Yushchenko could expect to see his share of the vote fall by between 28.5 and 41.5%–or about 35%, if the two predictions are averaged together. As we shall see, this was in fact exactly what happened.

5. 2010: Regime change

The results of the 2010 Ukrainian Presidential elections seemed to vindicate Moscow's harsh policy against Yushchenko's government—and to confirm the accuracy of this study's theoretical predictions. As the first round of the election approached, commentators were unanimous in their view that the incumbent had absolutely no chance to prevail. Opinion polls derided his management of the economy and showed his popularity in the single digits. The first round results confirmed this, with Yushchenko mustering a meager 5.45%, finishing fifth in a crowded field of candidates (Central). Clearly the incumbent's former popularity was long gone, and observers agreed that the Clinton-era maxim "It's the Economy, Stupid" had played a large role in this. Compared to his performance in the multicandidate first round of the 2004 elections, Yushchenko had fallen by an extraordinary 34.45% (from 39.9 to 5.45%). This is almost exactly the average of Erickson and Markus' predictions noted above (35%).

An easy victory for the opposition candidate, Yanukovych, was prevented, however, by the presence on the ballot of Yulia Tymoshenko, Yushchenko's former partner in the Orange Coalition. Although Tymoshenko had served as Prime Minister twice under Yushchenko, she had distanced herself from the President, enabling her to try to pose as a force for change, albeit a safer one than Yanukovych. Tymoshenko was able to inherit many of the Orange Coalition's former supporters and give Yanukovych a spirited fight in the second round (runoff) election, although most observers believed she had little chance of prevailing. Indeed, in the end Yanukovych won a fairly decisive victory, 48.95% to 45.47%, outpolling Tymoshenko by almost a million votes (Central).

With the victory of Yanukovych, Russia could reap the rewards of its successful efforts to destabilize the Ukrainian regime. Within weeks the new President made concessions to Moscow on all of the important controversies discussed above, completely changing the country's geopolitical orientation. The importance of energy in this reorientation was again made clear when Moscow rewarded Yanukovych with a sharp drop in natural gas prices.

Some of the new leader's concessions dealt with symbolic historical issues—yet they were much appreciated by Moscow. The Russians were pleased when President Yanukovych withdrew the accusation that the *holodomor* had been a form of genocide, noting instead that all the peoples of the USSR—including Russians—had suffered from Stalin's collectivization drive (Ukraine, 2010a). Similarly, when Yanukovych took office, his administration swiftly canceled the "Hero of Ukraine" award which Yushchenko had given to the anti-Soviet guerilla leader Stepan Bandera (Levy, 2011).[13]

Most important to the Kremlin, however, were Yanukovych's two major geopolitical concessions to Moscow: halting Ukraine's attempt to reorient toward the West (especially the effort to enter NATO) and allowing Russia to retain its important naval base in the country.

Shortly after taking power Yanukovych traveled to Brussels and Strasbourg to announce his country's geopolitical reorientation. As noted above, Yushchenko had lobbied hard to support Ukraine's admission into NATO, along with the Kremlin's sworn enemy, Georgia. Yanukovych now abruptly announced that this effort was over (Ukraine, 2010b). Similarly, although he did not officially renounce joining the EU as an eventual goal, for all intents and purposes that effort was ended as well. Certainly Yanukovych's decision to arrest Tymoshenko on what are widely regarded in the West as bogus charges has made it impossible for Brussels to even consider accession negotiations with Kiev (Reaction, 2011).

Finally, however, perhaps the most important concession made by the new President to Moscow concerned the highly controversial issue of the Russian naval base in the

[12] Like Ukraine before 2004, it receives gas at lower prices and also is able to sell its uncompetitive products to Russia, as it did before the breakup of the USSR. In January 2010 Belarus entered into a customs union with Russia and Kazakhstan.

[13] The decree was suspended by court order in spring, 2010, although appeals dragged out the formal annulment of the award for almost a year.

Crimea. On April 21, 2010, only weeks after taking office, Yanukovych signed the Kharkov Agreement with President Medvedev of Russia. This pact granted the Russians a 25 year extension on the lease of their Sevastopol base. Slated to expire in 2017, the lease would now run until 2042, with an additional five year renewal option (Levy, 2010b).

The role of 'petro-diplomacy' was glaringly obvious in the negotiations on the new treaty. In fact, the treaty talks had begun when Yanukovych sent his Prime Minister and Energy Minister to Moscow to ask for a cut in gas prices (Big, 2010). Moscow decided to reward Yanukovych for his loyalty by cutting the price the Ukraine would pay for Russian natural gas by thirty percent for the next 10 years (a benefit which could save the Ukraine about $40 billion) (Barry, 2010). Including this provision openly in the new agreement was galling to the Orange forces, who felt that their country was being sold out for the proverbial 'thirty pieces of silver.' They protested vehemently in the Ukrainian *Rada* (Parliament), pelting the Speaker with eggs and smoke bombs. Despite this, Yanukovych's party was able to rush through ratification of the Kharkov Agreement only six days after it was signed (Protests, 2010). Russia's decision to directly link the base lease and gas prices, while perhaps crass, fits the classic theory of economic sanctions: if the target state concedes, sanctions can quickly become economic incentives, to reward the target's 'improved' behavior.

All in all, the result of the 2010 elections and the concessions made by the new government make Russia's policy of energy sanctions look quite successful in this case. Of course, many in the West—and in Ukraine—are critical. Even in Russia, some opposition figures have questioned the policy. For example, Boris Nemtsov of the Union of Right Forces criticized the Kharkov Agreement for costing Russia an estimated $40 billion over 10 years. The main reason for maintaining the Sevastopol base, he argued, was the war with Georgia. Was keeping Georgia in check, he asked, really worth $40 billion? (Boris, 2010). However, it could be argued that Nemtsov's view was too narrow: the Kremlin was not paying that amount just to maintain its naval base. It was paying to maintain a pro-Russian President in Ukraine, which resulted (in the Kremlin's view) in a fundamental improvement in Russia's geopolitical position in the world.

6. Conclusion

As we have seen in this paper, Russia has clearly used its energy resources to carry out a series of economic incentives and sanctions designed to combat the Orange Revolution in Ukraine and bring a more pliant leadership to power. First it used economic incentives to support the friendly Kuchma regime and try to bring his chosen successor, Yanukovych, to power. When that failed, the Kremlin turned to sanctions, systematically undermining the Ukrainian economy during the Yushchenko years. In the end, this effort seemed to succeed, leaving the Ukrainian President deeply unpopular and helping to bring Yanukovych to power in the 2010 elections. At that point, Russia could resume its policy of economic incentives, rewarding Yanukovych for his cooperation with lower energy prices.

This case seems to fit well with the existing literature on economic sanctions and on the role of economics in elections, as described briefly at the start of this study. As predicted by Hufbauer and others, economic sanctions can cause 'pain' to the population and turn them against their rulers, leading to new policies. And as shown by authors such as Erickson and Markus, economic decline has a specific, measurable negative impact on an incumbent leader's chance of re-election, as Viktor Yushchenko found out–to his regret.

The relevance of this conclusion for real-world politics is clear. The U.S. and others are constantly using various forms of economic leverage. Often, as for example with the sanctions imposed against Iran, the state targeted has some sort of democratic or quasi-democratic system. In Iran there have often been important contested elections between anti-Western fundamentalists and reform candidates. This paper has shown that sanctions do not have to force the country to collapse: they just have to cause enough economic 'pain' to force the Islamic hard-liners to lose elections.[14] This is an important point: a major criticism of sanctions has been that if they are designed to target a country's entire economy, they can cause a humanitarian disaster, as took place in Iraq from 1991 to 2003, when harsh sanctions targeted Saddam Hussein's regime. Yet this paper argues that sanctions do not have to bring economic collapse to be effective; they may only have to lower a target state's GNP by a few percent, enough to cause a leader to lose an election.

Alternatively, as the EU has shown in its relations with countries like Serbia, states can follow the more positive tactic now being used by the Russians in Ukraine: rewarding favored leaders by boosting their states' economies to try to help them win elections.[15] Again, this could potentially be a relatively 'cost-effective' tactic. One does not have to totally rebuild a country or flood it with billions of dollars in aid–just boost the target state's economy by a crucial few percent when an election is near. In either case, as this paper has attempted to show, such tactics can potentially be effective. Ideally, future research will be able to show that they can be effective in measurable and predictable ways.

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[14] Of course, as the 2009 elections in Iran showed—like the 2004 elections in Ukraine—in some cases ruling groups may try to find ways to falsify election results. However, such efforts sometimes fail, as President Kuchma discovered in 2004. In any case, such manipulation carries a heavy price in lost legitimacy.

[15] The pro-western President of Serbia, Boris Tadić, elected in 2004, was widely believed to owe much of his success to the huge economic boost Serbs can expect to receive if they join the EU. Serbs were rewarded for their support of Tadić by being granted visa-free travel to EU states, and Serbia was officially accepted as a candidate for EU membership in March 2012. Interestingly, as the Eurozone –and Serbia–struggled economically after 2008, Tadić lost support, and was denied another term in May 2012.

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