Controversial Issues in the EU-Russia Energy Relations

Lukáš Tichý

Abstract

Energy has become one of the most debated topics in the current relations between the European Union and the Russian Federation. The aim of this paper is to explain why controversial issues in the energy relations between the European Union and the Russian Federation occur and what their character is. This paper is based on the assumption that the main aspects that negatively influence the mutual energy relations and limit the energy cooperation can be defined as (1) the differences in the degree of interdependence in the energy relations between the EU and Russia, (2) the different interests and goals of the EU and the Russian energy policy, and (3) the divergent approaches of the EU and Russia towards their mutual energy relationship.

Keywords: energy security, energy policy, European Union, interdependence, natural gas, oil, Russian Federation.

Introduction

The EU-Russia Energy Interdependence

The Russian Energy Policy towards the EU

The EU Energy Policy towards Russia

The different approaches of the EU and Russia to their energy relationship

Conclusion

Introduction

Energy security\(^1\) is currently one of the most important and most disputed issues in the mutual relations between the European Union and the Russian Federation. On the one hand, energy has been a key factor in the intensification of the formal and informal relations between the EU and Russia. Already in the late 1960s, the Soviet Union began delivering energy supplies (oil and natural gas) to Western Europe on the basis of long-term contracts. On the other hand, the issue of sustainable and reliable supplies of oil and gas is a cause of the tensions between the European Union and the Russian Federation and contributes to the deterioration of their relations (Petrovic-Ortung-Wenger 2009, p. 91).

\(^1\) The term "energy security" – as a specific sector or dimension of security – is relatively new. It was brought to the theory of international relations and security studies by the so-called Copenhagen School, represented mainly by Barry Buzan, at the beginning of the 1990s (Kovačovská 2007, p. 6). Daniel Yergin defines energy security simply as “the availability of sufficient supplies at affordable prices” (Yergin 2006, p. 76), although there can also be other definitions of the term.
This paper analyzes the different approaches of the EU and Russia to energy security and policy, as these differences have a negative influence on the EU-Russia energy relations (Skurbaty 2007; Romanova 2009, 2010; Proedrou 2007, 2010). The author's intention is to discuss and provide a deeper understanding of the major contradictions between the EU and Russia in their relations as energy partners (Badalov 2012, p. 5). This analysis of the causes of the conflictual issues in the EU-Russia energy relations contributes to a better understanding of their mutual relations and may lead to a possible improvement in the energy cooperation between the EU and Russia (Milatchew 2012).

The main aim of this paper is to explain why controversial issues in the EU-Russia energy relations occur and what their character is. To achieve this goal, the following questions have to be addressed: (1) How can we define the EU-Russia energy relations? (2) What are the main objectives of the EU energy policy towards Russia? (3) What are the main objectives of the energy policy of Russia towards the EU? (4) How is the EU-Russia mutual energy cooperation perceived in Russia? (5) How is the EU-Russia mutual energy cooperation perceived in the EU?

The basic assumption of the article is that the main aspects that negatively influence the EU-Russia energy relations can be defined as (1) the differences in the degree of interdependence in the EU-Russia energy relations, (2) the different interests and goals of the EU and the Russian energy policy, and (3) the divergent approaches of the EU and Russia towards their mutual energy relationship. The first part of this article deals with the theory of interdependence and its application to the EU-Russia energy interaction in order to define the framework of their energy relations. The second and third part analyze the divergent interests and goals of the EU and the Russian energy policy. The last section emphasizes the implications of these differences on the perceptions of energy policy in the EU-Russia mutual relations.

**The EU- Russia energy interdependence**
The concept of interdependence\textsuperscript{2} argues that energy ties between states located in close geographical proximity consequently intensify the degree of security interdependence between the actors included in this regional complex. “The central idea in Regional Security Complex Theory (RSCT) is that, since most threats travel more easily over short distances than long ones, security interdependence is normally concentrated into regionally based clusters: security complexes. […]” (Buzan 1991, p. 190). According to Mikko Palonkorpi, in order to determine the supplier’s dependence on exports of oil and natural gas, the following indicators have to be measured: the proportion of export revenues (oil and gas) to the GDP, the share of revenue from the export of energy raw materials in the state budget, and the share of the export revenue from oil and gas in the total export revenues. On the other hand, the relative strength of the energy interdependence can be measured by such factors as the energy trade balance, the level of (domestic) energy resources, possibilities of energy-supply diversification and the specific total energy consumption in the country (the ratio of the raw material to the total primary energy consumption). This serves to identify the interdependence of consumer energy resources (Palonkorpi 2006).

In 2010, the EU27 had to import approximately 53.1\% of its total consumption of fuels, i.e. 41.2\% of its solid fuels, 82.6\% of its oil and 60.3\% of its gas. For the gross inland consumption of the EU27, see Figure 1.

Figure 1: Primary energy consumption in the European Union

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{primary-energy-consumption-eu27.png}
\caption{Primary energy consumption in the European Union}
\end{figure}

Source: Paillard 2010, p. 71

\textsuperscript{2} The notion of interdependence is a widely used concept in political and economic studies of international relations that attempts to analyze the complexity of issues of cooperation and conflict in the interaction between states (Proedrou 2007, p. 332).
The EU currently imports about 30% of its oil from Russia, which represents approximately 28% of the EU oil consumption, while the 40.8% of natural gas imported from Russia to the EU represents more than 25% of the total gas consumption of the European Union (Paillard 2010, pp. 71-72).

In contrast, the Russian exports of crude oil and gas account for over 65% of all Russian exports. Over 60% of Russian crude oil and 90% of Russian gas are designated for export to EU countries. Between 75% and 80% of Russian export revenues are directly linked to the EU energy market. The energy sector contributes about 25% to the total output of the economy. In the last few years, the energy sector alone has generated approximately 30% of Russia’s GDP. In 2010, revenues from the export of oil and natural gas accounted for about 20% of the Russian GDP (Paillard 2010, p. 72).

The energy interdependence between Russia and the EU can be described as asymmetrical as Russia is more dependent on the EU energy market than the EU is on Russian energy supplies. As a consequence of this, the vulnerability\(^3\) of the EU in relation to Russia (in the sense that an interruption of the imports of crude oil or natural gas from Russia might occur) is relatively low because the EU is capable of replacing its energy supply by turning to different energy sources (nuclear energy, renewables, LNG) or other suppliers (via increased imports of Norwegian and North African gas or increased imports of Libyan or Saudi oil). In contrast, the vulnerability and sensitivity\(^4\) of the Russian Federation in relation to the EU is far more pronounced as Russia does not have real alternatives of diversification of natural resources (natural gas or oil) in the short and medium term (Proedrou 2007, pp. 340-341).

The information stated above is particularly valid for the old EU member states. On the other hand, though, Russia has a rather favorable position vis-à-vis most of the new EU member states. These are, in the long run, dependent on the supply of energy resources from Russia (this is particularly true for gas). There is an asymmetrical interdependence to the detriment of

\(^3\) Vulnerability can be defined as “an actor’s liability to suffer costs imposed by external events even after policies have been altered” - i.e. if the framework of policies could be changed and new and very different policies were possible, what would be the costs of adjusting to the outside change? (Keohane-Nye 2001, p. 9)

\(^4\) Sensitivity involves degrees of responsiveness within a policy framework - i.e. “how quickly do the changes in one country bring costly changes in another”? (Keohane-Nye 2001, p. 9)
The new EU member states as these countries would suffer catastrophic consequences in the case of a complete interruption of Russian energy supplies (Monaghan 2006).

The Russian energy policy towards the EU

Since 2003, the Russian energy policy\(^5\) has paradoxically combined two opposite tendencies: the development of competitive market elements and the intensification of state influence (Kaveshnikov 2010, p. 595). On the one hand, both the energy policy and security have gained strategic importance. Russia is using energy policy as a tool to achieve equality with other important actors of international relations, such as the United States, China or India. At the same time, Russia is using its energy resources as a means of defending its sovereignty and promoting its influence, particularly in countries that used to be part of the former Soviet Union (Romanova 2010). On the other hand, the primary economic objective of Russia’s energy policy is to reinforce the Russian presence in the lucrative energy markets of the EU. One of the main instruments of Russia’s energy strategy is its gas monopoly Gazprom, which exports gas predominantly to Europe and the CIS countries. Gazprom gets more than 60% of its revenues from sales to European markets and contributes 20% of its revenues to the Russian state budget. At the same time, Gazprom contributes approximately 10% of its revenues to Russia’s GDP. The export markets of the EU member states are the main source of income for Russia, and Russia therefore seeks to strengthen Gazprom’s expansion in European markets (Bilgin 2011).

Russia intends to achieve this goal by employing several means. The first instrument is signing long-term contracts, which are helpful in safeguarding specific markets. With these

\(^5\) All the major priorities and major tasks of Russia’s energy policy were formulated in the former “Energy Strategy of the Russian Federation until 2020” (hereinafter referred to as “the Strategy”) in August 2003. The Strategy rightly stated that the energy sector “has a determining influence on the state and prospect of development of the national economy” (Министерство промышленности и торговли 2003, p. 3). Energy has been gaining weight in Russian security thinking since Putin’s second term in office. What was indicative of the crucial importance of energy (security and resource) for Dmitry Medvedev’s policy as well was that the “Foreign Policy Concept of the Russian Federation”, approved in May 2008, expressed considerable attention to energy due to the sky-scrapping revenues of energy resources and the status of energy of a power instrument (Министерство иностранных дел Российской Федерации 2008). Similarly, the “Russian National Security Strategy until 2020”, approved by President Medvedev in May 2009, described energy as a power instrument to strengthen Moscow’s influence in the international arena and plans to use energy resources as strategic deterrents (Совет Безопасности Российской Федерации 2009). In November 2009 the Russian Government published the new “Energy Strategy of Russia until 2030” (hereinafter referred to as “the Energy Strategy”). The main purpose of the Energy Strategy is the “most efficient use of natural resources and the potential of the energy sector for sustainable growth of the domestic economy, improving citizens’ quality of life in Russia and strengthening Russia’s positions in the foreign policy arena” (Министерство промышленности и торговли 2009, p. 1).
agreements, Gazprom is looking for access to the final consumer, and these long-standing contracts increase the confidence of the company so that it would invest more resources in large mining projects. The strategy of Gazprom faces the difficult issue of the sustainability of resources extraction and exports without billions in additional investment. Long-term contracts are usually signed for a period of 25 years in order to optimize spending on gas exports to the EU (Laryš 2010).

The second instrument is to establish joint-venture projects. Gazprom offers co-operation in the form of a share in Russian strategic projects for the largest energy companies in the EU on the condition that the latter will enter into joint-venture projects with them. In this way, Gazprom wants to gain access to new technologies that are necessary for the long-term development of mining at greater depths, coastal sites and the processing of liquefied natural gas. Another aim of Gazprom is to exchange the cooperation with western energy companies in its joint-venture projects for the opening of the EU energy markets and its increased presence on these markets. At the same time, Gazprom is now operating in the market by buying up shares of companies operating in the final gas market through its subsidiaries and also through joint ventures, and sometimes Gazprom also uses companies that are indirectly or informally linked to it (Gazprom) (Proedrou 2010, p. 89).

The third Gazprom instrument for serving the EU gas market can be traced in the construction of two new pipelines that will carry Russian gas to the European market while bypassing transit countries. Since November 2011, the Nord Stream pipeline has been carrying Siberian gas under the Baltic Sea to the German market, and it would possibly carry gas to the British and Swedish markets as well. Nord Stream carries an initial 27.5 billion cubic meters per year (bcm/y); the second branch with equal capacity that will run parallel to the first one is being built at the moment. The South Stream pipeline will carry Russian gas under the Black Sea to a number of EU states, namely Greece, Bulgaria, Romania, Italy, Austria, Hungary, Slovenia, and the potential EU candidate states. South Stream is planned to deliver 63 bcm/y of natural gas. The start of its construction is planned for December 2012, with a projected completion in 2015. The successful implementation of the Russian pipelines, however, could seriously increase Europe’s dependence on Russian gas and thus endanger the energy security of the EU (Bilgin 2011).
The basic political and economic goal of Russia is to maintain the position of Russian energy companies directly in the EU through the involvement of Gazprom in pipeline networks and pipeline projects in the EU member states. Presently, Russia is trying to maintain control over the exploitation of energy resources on its territory and to gain a monopoly in the transit of gas and oil, in particular in the post-Soviet countries. By gaining access to distribution networks and transit pipelines, Russia is trying to gain direct control over markets (Kuchynková 2010).

The EU energy policy towards Russia

The effort to ensure energy security and reduce dependence on imported energy resources lies at the very core of the EU energy policy, which is divided into an internal and an external dimension. One of the main goals of the internal dimension of the EU energy policy is to create a fully liberalized internal market in electricity and gas. Governments not only play an important regulatory role in the internal energy market, but also provide support for national companies worldwide. Although the deregulation of the gas sector was initiated already in the 1980s in order to enhance the energy security and economic competitiveness within a unified energy market, and it is therefore clearly incorrect to argue that the deregulation is directed against Gazprom, it is now considered as a significant barrier against the Russian energy giant's practices and high market share (Proedrou 2010; Eikeland 2011).

The most important aim of the external dimension of the EU energy policy is to ensure its energy security by diversifying its natural gas supply. The EU plans to create a number of new gas pipelines as part of the so-called "fourth" or "southern" energy corridor. These

---

6 An important attempt towards shaping the Common Energy Policy was the document “European Council Action Plan - Energy Policy for Europe”, adopted by the European Council on 8 and 9 March 2007. The EU gained de facto for the first time a comprehensive set of energy policy at the European level, albeit in the context of secondary legislation (European Commission 2007). Other initiatives, including strategic directions for the European energy policy, include a set of documents that the Commission has published in November 2008. The “Second Strategic Energy Review” (SEK II) stressed the need to protect EU citizens from an excessive reliance on Russian energy supplies (European Commission 2008). On 10 November 2010, the European Commission adopted the Communication “Energy 2020 – A Strategy for competitive, sustainable and secure energy”, which identifies five policy priorities: energy efficiency, the single energy market, technological progress, external relations, and protection and satisfaction of consumers (European Commission 2010). On 7 September 2011, the Communication on security of energy supply and international cooperation – “The EU Energy Policy: Engaging with Partners beyond Our Borders” - was adopted. It sets out a comprehensive strategy for the EU's external relations in the field of energy (European Commission 2011). Without a doubt, the most important step towards a more coherent and united EU energy policy is the Lisbon Treaty, which came into force on 1 December 2009. The Lisbon Treaty, which ensures a new legal framework for energy cooperation, lists energy policy under the shared competences of the EU and its Member States (Council of the European Union 2007).
pipelines are supposed to supply the EU with gas from the Middle East, the Caucasus and the Central Asian Region. A number of projects are included in this energy corridor: the Trans-Adriatic gas pipeline (TAP); a pipeline connecting Turkey, Greece and Italy (ITGI); a pipeline connecting Azerbaijan, Georgia and Romania (AGRI); the Trans-Caspian gas pipeline and a recently unveiled project – the South-Eastern European Pipeline (SEEP) (Lussac 2010; Sierra 2010).

However, the flagship project of the southern corridor still remains the Nabucco pipeline, which is supposed to supply Central Europe with 31 bcm of natural gas annually without ever crossing Russian territory. Presently, the realization of this pipeline is very often being questioned and experts are of the opinion that a shorter version of Nabucco, the so-called "Nabucco-West" (which would transport gas from the border of Turkey and Bulgaria to Baumgarten in Austria), is more likely to be constructed. Currently, the most promising project is the TANAP pipeline (Trans-Anatolia Gas Pipeline). This pipeline would start at the border of Georgia and Turkey and deliver gas to the border of Turkey and Bulgaria. From there, the "short" Nabucco could then transport the gas to Central Europe (see Map 1).

Map 1: Southern gas corridor competitors

Moreover, the availability of gas reserves in North Africa (with 7.100 bcm) and the Middle East (with 61.000 bcm) fosters EU diversification policies. After the building of the Galsi gas pipeline (8 bcm/y), which will link Algeria and Italy (via Sardinia), and whose completion is expected to take place by 2014, the opening of the MedGaz pipeline (8 bcm/y) and a possible extension of the Green Stream gas pipeline, the total capacity of the Mediterranean corridor will increase from the current 67.5 bcm/y to 100.5 bcm/y (Youngs 2009).
The European Union's effort to diversify transport routes could possibly endanger Russia’s position as the largest exporter of oil and natural gas to the EU. Looking beyond the economic losses, there are also geopolitical aspects of the implementation of the European projects, as they can lead to reducing Russia's impact in the areas of interest of its foreign policy. In the case of a successful implementation of the mentioned EU projects, Russia’s vulnerability would be enhanced due to a partial reduction of its geopolitical influence in vital areas of its interest. At the same time, Russia’s sensitivity would be severely affected by the loss of revenue stemming from the transit of oil and gas to the European market. In turn, the construction of the new EU-sponsored gas pipelines would reduce the dependency of the EU on Russia (Kaveshnikov 2010).

**The different approaches of the EU and Russia to their energy relationship**

The different goals of their energy policies and their asymmetrical interdependence prevent closer energy cooperation between the EU and Russia. At the same time, their different perceptions and views on cooperation present a deeply rooted problem. From the point of view of the EU, the energy policy of the Russian Federation is perceived with a mix of fears and consent. However, the positions of individual EU member states are very different, which is very convenient for Moscow since the EU is unable to reach a common position and implement a coordinated energy policy. Some EU member states have voiced concerns that the EU will come under Russian domination, and these states are fearful of an ever growing dependence on Russian energy supplies. The EU itself then primarily stresses the inability of Russia to act as a reliable supplier. From the EU perspective, Russia uses its energy resources as a political tool (this viewpoint became prevalent mainly due to the energy crises of 2006, 2007 and 2009). Also, the mutual perception of the EU and Russia is substantially negatively affected by a certain level of mutual mistrust caused by diversification plans and efforts by both actors that lead to a deterioration in finding common positions. In this case, diversification may actually undermine EU-Russia relations since it may weaken their interdependence (Laryš 2010).

However, while the EU is not afraid of interdependence, Russia does not tolerate the idea that it itself would be dependent on anyone else in any way. Moreover, Russia prefers a state of affairs where others are dependent on Russia while Russia remains free of any dependencies.
Russia perceives energy policy as a zero-sum game (Larsson 2006). In the context of the mutual energy relations, Russia particularly rejects the Energy Charter Treaty (ECT)\(^7\) and the Energy Charter Protocol on Energy Efficiency and Related Environment Aspects. The aim of the ECT is to provide countries with a secure and stable access to natural resources, to attract investment, to protect their interests and to guarantee a reliable transport of their energy resources to their consumers. For countries that import energy resources, the ECT provides protection of their investments and mechanisms for the promotion of the security of supply (Grošelj 2007). Russia has never ratified the Energy Charter Treaty and Transit Protocol\(^8\) for several reasons: first of all, the ratification would undermine Gazprom’s position on the European markets by forcing Russia to open up its network for cheaper gas from Central Asia, and secondly, the ratification would jeopardize the system of long-term contracts for supplies of Russian gas to Europe that Russia relies on (Skurbaty 2007).

The EU-Russia energy relations are also affected by a conflict of values – i.e., the idea of a "liberal" EU consumer-market versus the "monopoly" Russian producer that focuses on political control rather than on mutual benefit and prosperity (Monaghan 2006). Almost immediately after the gas crisis of January 2009, Gazprom's management and Prime Minister Putin started talking about the creation of a new transit framework which should replace the ECT.\(^9\) In the context of the above-mentioned "clash of values," Milov speaks about the growing asymmetry in the two sides' power relationships (the increasing liberalization of European markets versus the increasing monopolization of the Russian energy resources) (Milov 2008).

Milov sees the future energy relations between Russia and the West as developing into three basic scenarios: (1) a broader cooperation with the involvement of new mechanisms specifically developed to fit the realities of Russian resource nationalism (the best-case scenario); (2) a low-trust cooperation without any real confrontation (the business-as-usual scenario); (3) a large-scale confrontation between Russia and the West on energy-related

\(^7\) The Energy Charter Treaty (ECT) was signed in December 1994 and it entered into force in April 1998.

\(^8\) Although Russia signed the ECT in 1994, it has steadily resisted its ratification. In October 2009, Russia unilaterally withdrew from the ECT.

\(^9\) During the EU-Russia summit in Chabarovsk in May 2009, President D. Medvedev presented his proposal for a "New Legal Framework for Energy Cooperation", which deems it inevitable to create a new international and universally applied treaty that would include – contrary to the ECT – all major producers, consumers and transit states on the energy market and cover all important aspects of the global energy cooperation.
subjects (the worst-case scenario). The probability of the third scenario materializing is rather low, however. The relations between the EU and Russia are more likely to move in the direction of the first or second scenario (Milov 2008, p. 18-20).

**Conclusion**

The EU-Russia energy relationship is the result of a complex interplay of forces, some of which are primarily geopolitical in nature and others economic, while still others are responses to energy-specific factors. On the one hand, energy contributes to strengthening the EU-Russia partnership. On the other hand, energy causes rivalry in the relations between the EU and Russia. The aim of this paper was to explain why the controversial issues in the energy relations between the EU and Russia occur and what their character is. The main factors that negatively influence the energy relations and limit the energy cooperation are as follows:

First of all, as the EU and Russia depend on the other partner in energy-related matters to different degrees, the situation can be described as an asymmetrical interdependence between the EU and Russia. The concept of interdependence can be used as a framework for the EU-Russia energy relations, and this leads to two conclusions: (1) Both the Russian Federation and the European Union are highly sensitive to interruptions of their energy trade. (2) The “new” Europe’s over-dependence on Russian oil and gas makes these countries vulnerable to both Russia’s potential decision to interrupt supplies and acts of political blackmail (Proedrou 2010).

Secondly, the divergent interests and goals of the energy policies of the EU and Russia tend to have a negative impact on the energy security of both actors. The threats to EU energy security are insufficient investment in exploration as well as the rising domestic energy consumption and demand in Russia, the diversification of Russia's energy exports, and the possibility of a disruption of energy supplies to the EU. Russia’s energy security is threatened by EU’s efforts to ensure the effective functioning of the internal market, the import diversification efforts of the EU, and the construction of new transport routes and pipelines.

Thirdly, the EU and Russia have divergent approaches towards their mutual energy relations. The EU as an organization represents itself as a value-based actor spreading its “market ethos” and values around the world. This value-based approach effectively conceals the fact
that the EU is actually trying to change the existing international rules in the energy sphere. As a net exporter, Russia opposes the current international energy trade regime, which generates more competition among consumers who are trying to find alternative sources and suppliers.

A solution to the problem of energy security cannot be found in any of the egoistic policies employed by the consumer, transit or supplier countries or in the doctrine of energy independence. However, some optimism about the future EU-Russia energy cooperation can be derived from the fact that the EU and Russia managed to harmonize – at least at the level of political declarations – the basic principles of a future energy regime that might be a part of the new agreement that is currently being negotiated (Kaveshnikov 2010).

References


**About the Author:**

Mgr. et Mgr. Lukáš Tichý (1982) earned a Master's Degree in European Studies and Public Administration and a Master's Degree in International Relations and European Studies from Metropolitan University Prague, where he is currently a PhD candidate. He teaches courses on EU-Russia relations and also courses on energy security at Metropolitan University Prague since the academic year 2010/11. He works as a researcher at the Institute of International Relations, Prague, which is associated with the Czech Ministry of Foreign Affairs. His field of interest includes EU-Russia relations, energy security and the theories of international relations. He has published several articles in domestic and foreign journals, conference proceedings and monographs.