

Working Paper No 43/2014

# Dependencies & Vulnerabilities: The Energy Parameters of the Evolving Crisis between Russia, the EU and Ukraine

By

Dr. Theodoros Tsakiris

Assistant Professor, Geopolitics of Energy, University of Nicosia  
& Head of ELIAMEP's Energy Programme

April 2014

Copyright © 2014

HELLENIC FOUNDATION FOR EUROPEAN AND FOREIGN POLICY (ELIAMEP)

49, Vassilissis Sofias Ave., 106 76 Athens, Greece

tel: (+30) 210 7257110-1, fax: (+30) 210 7257114, e-mail: [eliamep@eliamep.gr](mailto:eliamep@eliamep.gr),

url: [www.eliamep.gr](http://www.eliamep.gr)

All rights reserved

**Working Paper Nr 43/2014**

## **Energy Dependencies & Vulnerabilities:**

### **The Energy Parameters of the Evolving Crisis between Russia, the EU and Ukraine**

by

**Dr. Theodoros Tsakiris**

Assistant Professor, Geopolitics of Energy, University of Nicosia & Head of  
ELIAMEP's Energy Programme

As of March 2014, Dr. Tsakiris has been appointed as a Member of the Board of Directors in the Cyprus Hydrocarbons Company (CHC). He also works on a part time basis as an ELIAMEP Research Fellow and the Head of the Institute's *Geopolitics of Energy Programme* (<http://www.eliamep.gr>). ELIAMEP (Hellenic Institute for Foreign & European Policy) is Greece's Seminal Foreign Policy Think-Tank. From September 2010 to December 2011 Dr. Tsakiris was the Director of the Observatory for European Energy Policy (<http://www.ekemeuroenergy.org/en>) at the *Hellenic Centre for European Studies* (EKEM) which is attached to the office of the *Greek Minister of Foreign Affairs*.

Dr. Tsakiris is an Associate of the South East Europe Programme at the LSE Ideas think-tank of the London School of Economics as well as a member of the Global Matters Programme of the Center for Global Politics at the Free University of Berlin. Dr. Tsakiris also participates in the High-Level Expert Group on the Geopolitics of Energy in the Eastern Mediterranean that was established in 2013 by the U.S. Atlantic Council and Egmont-the Royal Institute of International Affairs of Belgium. His most recent publications on the Politics & Economics of East Med Gas include occasional papers that will be published in the Spring of 2014 by the *Atlantic Council of the United States*, the *Royal Institute for International Affairs of Belgium Egmont* and the *London School of Economics (LES Ideas)*.

From January to June 2010 Dr. Tsakiris worked with the *Office of the Deputy Minister for Energy of Greece* as a special scientific advisor focusing on international oil & gas projects. In 2008-2009 he served as the *Head of the Policy Making Unit* at the *Special Secretariat for International Energy Policy* of the *Hellenic Ministry of Development*. In this capacity he participated in over one dozen official missions abroad and represented the Greek Minister of Energy and Development at the Governing Board of the *International Energy Agency (I.E.A.)*. Dr. Tsakiris has also worked (2004-2007) for the Greek Parliament's Foreign Affairs & National Defense Committee as a scientific advisor to a Senior M.P. who participated in the abovementioned Permanent Committee and was also (2004-2007) a Research Fellow at the Defence Analysis Institute, the in-house think-tank of the Hellenic Ministry of National Defence.

Dr. Tsakiris is also lecturing on issues of International Energy Policy at the Diplomatic Academy of the Greek Ministry of Foreign Affairs, the National Defense College of Greece and the National Security College of the Greek Police Academy. He is the author of nine monographs and over 35 book chapters and articles in English and Greek including publications in peer-reviewed journals such as *Comparative Strategy, Foreign Affairs (Hellenic Edition), Perceptions, Agora Without Frontiers and Geostrategy*. Dr. Tsakiris is a regular commentator on energy policy issues for *SKAI TV & SKAI Radio, SBC Channel 7 and Athens 9.84 Radio*. He has also been interviewed by or written op-eds on issues of international energy for *Le Monde, Deutsche Welle, El Mundo* and Gazprom's bi-monthly publication *Blue Fuel*.

### **Abstract**

The recent events in Eastern Ukraine, including the occupation of official buildings from pro-Russian militia during the first weeks of April 2014, suggest that a new round of destabilization has begun for Europe's most volatile nation. While it is not clear if a new Russian military intervention is under preparation the European Union appears to be examining a new so-called "third wave" of sanctions in order to both deter and –should deterrence fails- penalize Russia's actions in Ukraine. An EU boycott against Russian oil & gas exports to Europe is reportedly among the most important proposals considered by EU Foreign Ministers.

What can the EU do to help Ukraine financially and in terms of energy security? How significant could EU/US assistance be regarding the immediate need of reducing Ukraine's dependence on Russian energy exports? This paper attempts to answer these questions. It also assesses the likelihood of the EU introducing energy sanctions against Russia and the impact of those potential sanctions on the Union's energy security as well as the global oil market. The paper concludes with a few policy proposals regarding the constructive role the EU could play in de-escalating the Ukrainian crisis.

### **Key Words**

Ukraine, Russia, Energy Security, Oil & Gas Exports, Sanctions, Boycott

## **Dependencies & Vulnerabilities:**

### **The Energy Parameters of the Evolving Crisis between Russia, the EU and Ukraine**

By Dr. Theodoros Tsakiris

The decision of Russia's President to officially annex the Crimean Peninsular constituted an unnecessary move of escalation on the part of Vladimir Putin that is galvanizing European support for the flinching interim Ukrainian government. Putin could have offered the Crimea the same level of de jure integration to the Russian Federation it has extended to South Ossetia and Abkhazia since 2008 but the temptation proved too difficult for him to resist.

In an emotional address to the two Houses of Russia's Parliament on 18 March, Putin felt that he was correcting "a historic mistake". Regardless of how legitimate or illegitimate this claim is, the fact of the matter remains that the ultranationalists of Euro-Maidan provided Mr. Putin with the necessary pretext to take over Crimea in a very effective and essentially bloodless operation.

Voices in favor of Russia's diplomatic isolation from the international scene and the belief that the freezing of Russia's participation in the G-8 organization would convince the Russian President to withdraw from Crimea are indicative of a severe absence of analytical comprehension regarding Putin's motives and methods.

It is impossible to isolate a permanent member of the UN Security Council whose role is crucial for the resolution of the two most important security dilemmas in the Middle East, namely Syria's civil War and Iran's alleged pursuit of nuclear weapons. Moreover it is also counterintuitive to suggest that the EU states and the EU as a whole, to the [limited] extent there is a unified foreign EU policy, can isolate their principal energy supplier.

The important questions we need to answer now are (1) what Europe can do to dissuade Russia from correcting other "historical mistakes" Mr. Putin may find in the eastern and southeastern provinces of Ukraine? Can it use its financial resources to boost Ukraine's economy and redirect its trade towards Europe so as to increase its ability to resist Russian aggression? (2) how feasible are the proposed economic sanctions against Russia, especially those pertaining to the energy sector, and (3) what is their potential backlash effect on Europe?

With regards to the first question it is crucial to understand Putin's mindset. The Russian President has redrawn the political map of eastern Europe, secured the permanent residence of the Russian Black Sea Navy in the Crimea and gave a clear warning to the pro-Western Ukrainian government, backed-up by a serious build-up of his military forces across Ukraine's borders, that he could strategically destabilize the entire Ukrainian territory from the Trans-Dniester river and Odessa to the Donbass region, which is also the industrial heartland of the country.

As a consequence of those actions Mr. Putin will not get the chance to host the G-8 leaders in Sochi, Russian officials who had minimal -if any- financial assets in Europe and the USA will be refused access to those funds and will be denied travel visas. At the same time Ukraine will receive a €11 billion financial boost from the EU plus €720 million from the US of which only €3,720 billion will be immediately available.

More importantly on 21 March, the EU and Ukraine signed the association agreement which Mr. Yanukovich had rejected back in November 2013 in exchange of a \$15 billion Russian loan which would have saved Ukraine from the danger of bankruptcy. This should apparently cause Mr. Putin considerable concern and boost the Ukrainian economy against Russian pressures, but as it will become perfectly clear it is the Ukrainian leaders who should be concerned by their overwhelming energy dependence on Russia.

**What Kiev's current leaders seem to underestimate is that whatever financial assistance they can get from the West, including the \$14-\$18 billion IMF loan, Russia can undermine by increasing the cost of Ukraine's energy imports. In essence what the EU and the US are offering Ukraine is a drop in the ocean of Russia's energy dominance over Ukraine's entire energy consumption and economic development.**

In November 2013 Mr. Yanukovich had also secured a major reduction of the cost of its gas imports from Russia for which it would have paid \$268,5 per 1.000 cubic/meters instead of the nearly \$400/1.000 c/m Ukraine would have to pay now. Now that the -austerity free- \$15 billion loan has been removed from the table and the cost of Ukrainian gas imports will no longer be subsidized, **the US and Ukraine's EU allies do not seem to be putting their money where their mouth is.**

Even if Ukraine receives an IMF bail-out the terms of the financial programme are not going to be as attractive as the Russian offer and contrary to fallacious misperceptions, **there are no short-term to medium-term alternative gas supplies** which could fuel the Ukrainian economy which remains hopelessly dependent on Russian oil, gas and nuclear fuel exports.

**Natural Gas:** According to the latest updated edition of the Ukrainian Brief published on 4 March 2014 by the *U.S. Energy Information Administration*, an agency of the U.S. Department of Energy, Ukraine imports 67% of its gas needs from Russia. Since gas accounts for 40% of the country's total energy consumption **Gazprom effectively controls 26,8% of the country's entire energy demand.**<sup>1</sup>

In 2013 Ukraine signed two major shale gas agreements with Shell and Chevron that could develop these potential reserves but all of them are located in Eastern Ukraine near the Donbass region and will not be producing any gas before the early 2020s at the earliest. Ukraine cannot get LNG supplies via the Turkish Straits, it has no regasification facility, there is no pipeline connecting it to Europe and there are no European supplies that could be exported to Ukraine even if the pipeline existed. Even if some EU states reverse the flow of their soviet-era built pipelines so as to export some gas from their strategic reserves in order to help Ukraine, the effect would be minimal and they would likely be confronted by a Russian gas embargo.

**Petroleum:** Ukraine also consumes around 319.000 barrels/day (b/d) of crude oil of which it imports 238.600 b/d equal to 74,79% of final demand.<sup>2</sup> 100% of these imports come from Russia and *via* Russia. According to the *International Energy Agency* in 2010 oil accounted for 9,96%<sup>3</sup> of Ukraine's energy consumption so Russia's **Transneft and Russian oil companies control an additional 7,45% of Ukrainian energy demand.** Ukraine has limited access to Azeri oil exports that arrive at the Georgian port of Supsa but these amount to less than 5%-10% of Ukrainian needs.

**Nuclear Fuel:** More importantly though, one of the less evident but extremely important parameters of Ukrainian energy dependence on Russia can be traced in the fueling of Ukraine's 15 nuclear reactors. According to the *International Atomic Energy Agency (IAEA)* and the *World Nuclear Association*, Ukraine produces around 43,58% of its electricity from nuclear plants while nuclear energy amounts to around 18% of Ukraine's energy demand.<sup>4</sup>

All 15 reactors operating in Ukraine's 4 nuclear plants are different types of the Russian VVER reactor model. <sup>5</sup> Russia also supplies around 958

---

<sup>1</sup> *U.S. Energy Information Administration (U.S. E.I.A.), Ukraine Country Note*, (March 4, 2014), <http://www.eia.gov/countries/country-data.cfm?fips=UP&trk=m>

<sup>2</sup> Ibid.

<sup>3</sup> *International Energy Agency (I.E.A.), Ukraine: Balances for 2010*, <http://www.iea.org/statistics/statisticssearch/report/?country=UKRAINE&product=balances&year=2010>

<sup>4</sup> *World Nuclear Association, Nuclear Power in Ukraine*, (March 2014), <http://www.world-nuclear.org/info/Country-Profiles/Countries-T-Z/Ukraine/>

<sup>5</sup> *International Atomic Energy Association, Power Reactor Information System: Ukraine*, (March 2014), <http://www.iaea.org/pris/CountryStatistics/CountryDetails.aspx?current=UA>

tones of uranium per year to Ukraine, close to 51% of its total needs, but what is crucial to note is that 100% of Ukraine's nuclear fuel is produced in Russia. Uranium is useless unless it is enriched enough to produce nuclear fuel that is then inserted into the nuclear plant's core to produce electricity.

Russia's TVEL produces the totality of Ukraine's nuclear fuel and in essence controls the entire supply of Ukraine's nuclear power that is another 18% of Ukraine's energy demand.<sup>6</sup> Ukraine could substitute TVEL for US based Westinghouse which also bid in 2010 for the \$295 million contract to build the fuel generation facility but this would take years and cover only part of its fuel needs.

**Table 1: Russian Exports as a share of Ukraine's Total Primary Energy Supply (TPES)**

Russian exports account for 52,25% of Ukraine's T.P.E.S.	Oil	Nuclear Fuel	Natural Gas
Ukrainian T.P.E.S.	9,96%	18%	40%
Domestic Production	25,21%	0%	33%
Net Import Dependence	74,79%	100%	67%
Imports from Russia and via Russia as a share of Total Imports	100%	100%	100%
Imports from Russia as a share of Final Consumption (per energy source)	74,79%	100%	67%
<b>Russian Exports as Share of Ukrainian T.P.E.S.</b>	<b>7,45%</b>	<b>18%</b>	<b>26,8%</b>

If one adds these statistical data provided by the most authoritative U.S., European and international sources, he would draw the conclusion that *Russia's strategic arsenal which could be mobilized against Ukraine is far deeper and more extensive than its considerable military power. Russia essentially controls 52,25% of Ukraine's energy consumption. This is a hard reality which seems to have escaped Ukraine's interim leadership.*

Even if the IMF manages to finance Ukraine's needs for the next 6 months and even if it could concentrate the \$35 billion required for Ukraine's financial survival until late 2016, Russia can easily increase the cost of Ukraine's bail-out. **A simple increase in Ukraine's energy bills can derail any International aid programme engineered to save the nation's economy from the brink of collapse.**

<sup>6</sup> It is notable to add that TVEL was about to begin the construction of a Fuel Production Plant in Ukraine that would provide up to 200 tones per year close to 20% of its demand but it is highly unlikely that the project will continue under the current condition. World Nuclear Association, *ibid.*

Consequently if the EU cannot reduce Ukraine's energy dependence and cannot finance the long-term needs of a Ukrainian bail-out program which Russia can make increasingly more expensive to sustain, what can the EU do to dissuade a future Russian attack in Eastern and Southeastern Ukraine? Given the fact that on 20 March 2014 even the US have formally ruled out<sup>7</sup> the use of military force as a deterrent against any future Russian incursion into Ukraine, what are Europe's options?

Europe has essentially two strategic options that do not contradict the necessity of assisting Ukraine from an economic point of view through the IMF mechanism provided of course the country can live up to its obligations. What Kievan authorities will soon find out is that these changes will prove to be extremely unpopular. Already the interim government has conceded to a long-standing IMF demand to increase the domestic gas prices by 50% starting from 1<sup>st</sup> May 2014.<sup>8</sup> **Few things would guarantee a negative political backlash other than the elimination of long-standing indirect subsidies to a population hovering on the edge of bankruptcy.**

#### **1- The Obstructive Strategy: The efficiency of the EU's military and energy sanctions**

Europe's first strategic choice is to introduce military and economic sanctions in case Russia intervenes in Eastern Ukraine. These sanctions would freeze all military cooperation between Russia-NATO and between Russia and any individual EU & NATO state. These sanctions may also include the non-fulfillment of procurement agreements such as the two *Mistral* amphibious assault and helicopter carriers that are being constructed by the French Navy under a \$1,7 billion contract. The French Minister of Defense already alluded to that possibility on 19 March in case of a second Russian intervention into Ukraine.<sup>9</sup>

Although such a cancellation will certainly enrage the Russians, its negative economic impact will be primarily felt in France not Russia. Moreover the cancellation of the *Mistral* contract will also not change the balance of power between the Russian Navy and the essentially non-existent Ukrainian Navy. Such a policy would inflict economic hardship on France and more generally Europe without seriously affecting Ukraine's ability to defend itself. It is also important to note that contracts relating to the

---

<sup>7</sup> "Obama Rules Out Military Force Over Ukraine", *The New York Times*, 20/03/2014, [http://www.nytimes.com/2014/03/21/world/europe/obama-ukraine.html?\\_r=0](http://www.nytimes.com/2014/03/21/world/europe/obama-ukraine.html?_r=0)

<sup>8</sup> "Naftogaz: Ukraine plans from May 1 to increase gas price for public by 50%", *Kyiv Post*, 26/03/2014, <http://www.kyivpost.com/content/ukraine/naftogaz-ukraine-plans-from-may-1-to-increase-gas-price-for-public-by-50-340998.html>

<sup>9</sup> "Cancellation of Carrier Sale to Russia an 'Extreme Measure'", *DefenseNews*, 19/03/2014, <http://www.defensenews.com/article/20140319/DEFREG01/303190028/French-DM-Cancellation-Carrier-Sale-Russia-an-Extreme-Measure->



service of older Russian weaponry already used by the armed forces of certain EU states would need to be exempted from potential sanctions on the basis of each member-state's national security.

Therefore if an EU boycott on the selling or buying of Russian military equipment is not enough to dissuade Russia from launching a second intervention in Ukraine, would an EU energy boycott be more effective?

**Assessing the Oil Boycott “Weapon”:** Despite the popularity of an EU energy boycott in the US and in some EU states, no policy option would be more counterproductive and self-defeating for Europe and indeed the global economy than a boycott of Russian oil & gas exports to Europe. Indeed a potential oil embargo against Russia will have grave negative repercussions for the global economy because it would provoke a major oil price crisis that would lead to a rapid increase of the world's most precious and necessary commodity.

In 2012 Russia exported to European destinations 3,95 million barrels per day (mb/d)<sup>10</sup> and also allowed for the transit to Europe of approximately 614.000 b/d of Kazakh crude oil through the Caspian Pipeline Consortium (CPC) that connects the Tengiz field with the Russian Black Sea port of Novorossisk. According to *Eurostat* the EU covered around 34% of its import needs from Russia. If, according to the latest *BP Statistical Review of World Energy*, EU imports amounted to 11,258 mb/d in 2012, then Russia's EU exports are estimated at 3,872 mb/d of which only 310.000 b/d are exported via Ukraine to Slovakia, Hungary, the Czech Republic and Bosnia.<sup>11</sup>

Most of Europe's imports from Kazakhstan estimated by *Eurostat* at approximately 6% of total imports are exported via CPC. *In case of an EU oil boycott on Russia all of Kazakhstan's exports via CPC -which primarily belong to US and EU oil companies- are very likely to be negatively affected.* In total, Russian oil exports to the EU and oil exports to the EU that are dependent on the Russian export system amount to at least 4,44 mb/d that are equal to 34,71% of the EU's oil consumption.

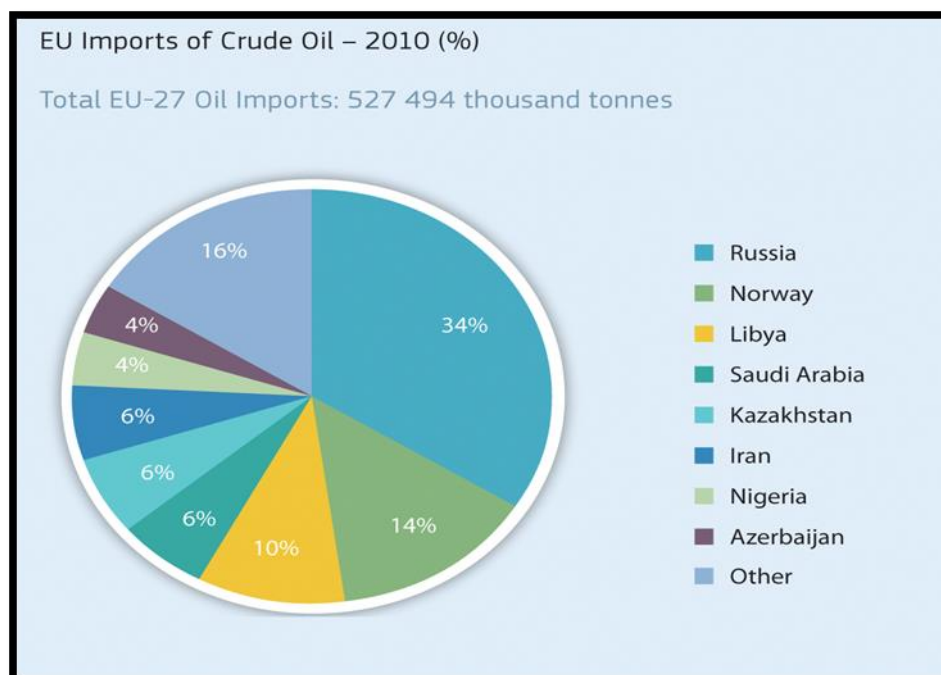
---

<sup>10</sup> U.S. E.I.A., *Country Analysis Brief: Russia*, (Washington D.C.: 12/03/2014), <http://www.eia.gov/countries/cab.cfm?fips=RS>.

<sup>11</sup> U.S. E.I.A., *Country Analysis Brief: Kazakhstan*, (Washington D.C.: 28/10/2013), <http://www.eia.gov/countries/cab.cfm?fips=KZ> & *BP Statistical Review of World Energy 2013*, pp.8-9, [http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical\\_review\\_of\\_world\\_energy\\_2013.pdf](http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf).

For the 310.000 b/d to Eastern Europe, see International Energy Agency, *Facts in Brief: Russia, Ukraine, Europe, Oil & Gas –* 4 March 2014, <http://www.iea.org/media/news/20140304UkraineRussiaEuropegasoilfactsheet.pdf>

**Graph 1: EU Imports of Crude Oil by Sources<sup>12</sup>**



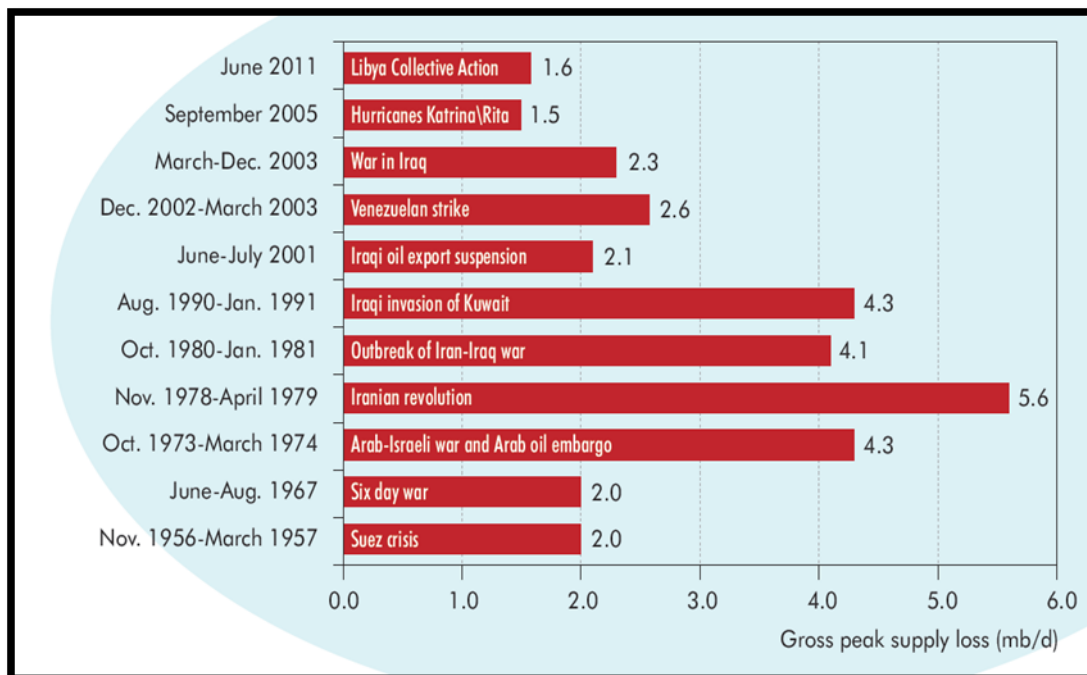
In the USA where the idea of an EU oil boycott against Russia is more popular than in the EU, Russian oil companies export minimal volumes of crude oil although the US buys around 376.000 b/d of Russian oil products.<sup>13</sup> The US and any of the EU states that do not import any oil from Russia need to understand that there is a simple precondition for any successful boycott to work:

**That the amount of oil boycotted out of the international oil market needs to be replaced from increased production by other producers because the oil price is global and fungible. This means that a disruption of supply anywhere leads to a price increase everywhere, unless production is increased from alternative sources and balances out the volumes of oil lost as a result of the disruption. Otherwise the boycotted volumes of oil will become a self-inflicted supply shortage.**

**That shortage will most likely lead to a major oil disruption, a “mega-crisis” the likes of which we have not witnessed since the Arab Oil Embargo of 1973 when the total amount of oil physically withdrawn from the international markets was estimated at 4,3 mb/d, 100.000 b/d less than the amount of oil which could be affected by an EU boycott on Russia.**

<sup>12</sup> European Commission, *EU Energy in Figures: Statistical Pocketbook 2012* (Brussels: 2012), p.22.

<sup>13</sup> U.S. E.I.A., *Country Analysis Brief: Russia*, (Washington D.C.: 12/03/2014), <http://www.eia.gov/countries/cab.cfm?fips=RS>

**Graph 2: Physical Shortage of Oil (in mb/d) per Incident of Oil Crisis<sup>14</sup>**

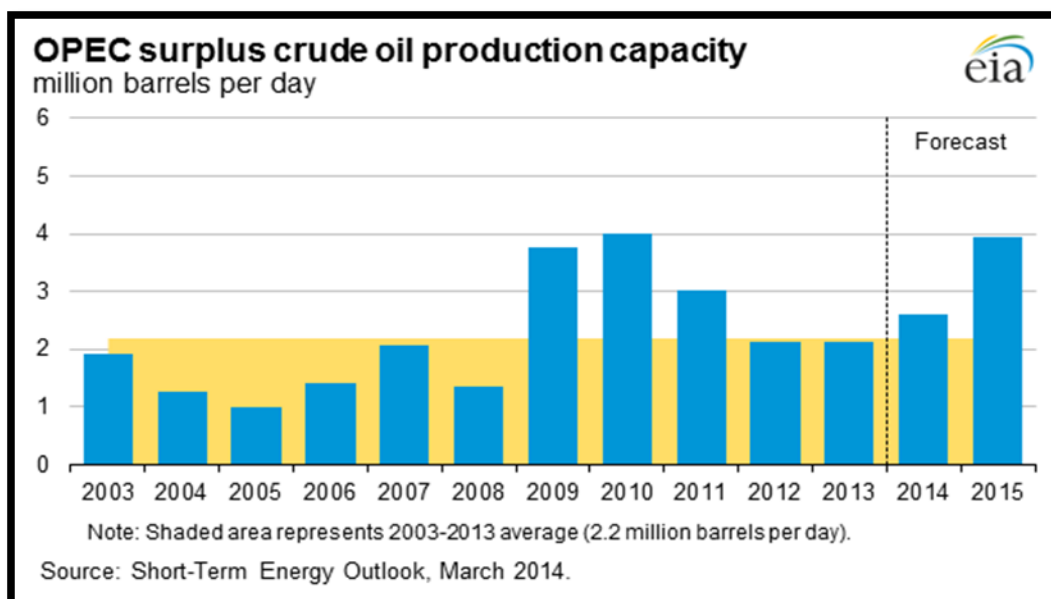
When the US and the EU engineered a successful oil boycott against Iran in the first half of 2012 they had the prior assurance of Saudi Arabia that it would mobilize its surplus production capacity in order to cover any supply shortage provoked by the loss of Iranian exports. As the US-led sanctions tightened, Iran lost around 1,5 mb/d in exports throughout 2012 and 2013 but there was no oil crisis and no price hike since Iranian exports were substituted by increased Saudi and other Arab Gulf exports.<sup>15</sup>

A strong public commitment from OPEC's largest producers that they will increase their output in order to offset an EU oil boycott against Russia, could have lent some credibility to US diplomatic efforts but the Saudis have taken such a decision and they have no reason whatsoever to strategically antagonize Russia especially since a Saudi declaration of economic war against President Putin will further empower two of Riyadh's principal geopolitical adversaries: Iran's mullahs and Syria's Assad regime.

<sup>14</sup> International Energy Agency, *IEA Reponse System for Oil Supply Emergencies 2012*, (Paris: 2011), p.11.

<sup>15</sup> Mehmet Kinaci, "Tightening Oil Sanctions on Iran", *Journal of Energy Security*, (August 2012), [http://ensec.org/index.php?option=com\\_content&view=article&id=372:tightening-oil-sanctions-on-iran &catid=128:issue-content&Itemid=402](http://ensec.org/index.php?option=com_content&view=article&id=372:tightening-oil-sanctions-on-iran&catid=128:issue-content&Itemid=402)

**Graph 3: Global Surplus Production Capacity<sup>16</sup>**



According to the U.S.' E.I.A., in 2013 the world's total surplus production capacity was estimated at 2,14 mb/d and could rise to 2,4 mb/d by the end of 2014. Saudi Arabia controls around 90% of the world's surplus production capacity<sup>17</sup> while the remaining 10% is owned by OPEC's principal Arab Gulf producers mainly Kuwait and the U.A.E. **As it can be easily concluded even if OPEC decided to support an EU/US boycott on Russia its entire surplus production capacity would not suffice to even cover 50% of the 4,4 mb/d that could be lost from the international oil market.**

The lack of Saudi diplomatic support for such a drastically hostile action against Moscow and the insufficiency of OPEC's surplus production capacity to avert a major oil crisis even if it were mobilized, lead us to conclude that there is no oil boycott "weapon" against Russia. If someone attempts to use it, it will most certainly backfire. Moreover Russia could help Iran break out of the Saudi-supported international oil boycott that has limited its oil exports to around 1 million barrels per day.

Moscow was instrumental in securing a six-months lifting of the oil boycott for Iranian crude oil exports but it can also be instrumental in severely undermining the boycott if it chose to offer an intergovernmental barter agreement that would increase Iranian oil exports to Russia in exchange for weapons, industrial, engineering and manufacturing goods. On 2 April 2014 *Reuters* reported that Moscow and Tehran are closing in on a \$20 billion oil-for-goods agreement. Talks on this deal had started in

<sup>16</sup> U.S. E.I.A., *Short-Term Energy Outlook 2014*, [http://www.eia.gov/forecasts/steo/report/global\\_oil.cfm](http://www.eia.gov/forecasts/steo/report/global_oil.cfm)

<sup>17</sup> U.S. E.I.A., *Country Analysis Brief: Saudi Arabia*, (Washington D.C.: 26/02/2013), <http://www.eia.gov/countries/cab.cfm?fips=SA>

January but are reportedly making significant progress a few days after the IMF announced its support for Ukraine and the Ukrainian parliament voted to conduct joint air and naval exercises in the Black Sea with NATO.<sup>18</sup>

**Assessing the Natural Gas Boycott “Weapon”:** If a boycott on Russia’s oil exports would not work, would a boycott on Russia’s EU gas exports be more efficient? Gas prices in Europe are regional, so there would be no immediate negative price impact on the EU states which do not import any Russian gas such as Spain, Portugal, Ireland and the UK, although Britain will start to import around 2,4 bcm/y from Russia in the second half of 2014 under a 2012 contract signed between Centrica and Gazprom. It should also be noted that the UK imports around 15% of its demand during peak-consumption seasons from German strategic storage facilities that primarily contain Russian gas.<sup>19</sup> Most of EU states also have large strategic storage installations that could be counted on in case of a major supply crisis, as long as this is not self-inflicted.

A closer look at the situation of EU gas dependence also discredits the argument supporting an EU boycott against Russian gas. According to the European Commission in 2012 the EU imported around 35% of its gas imports from Russia. Given an estimated net import dependency of 62.4%, Russian gas exports account for 22% of EU gas demand. Around 50% of EU’s gas consumption is transited via the soviet-made Ukrainian gas transmission system that amounts to approximately 60% of Greek demand, 90% of Bulgarian demand, 20% of Romanian demand, 20% of Italian demand, 52% of Austrian demand and 49,5% of Hungarian demand.<sup>20</sup> On 14 March 2014, the U.S. E.I.A. estimated that around 16% of EU gas consumption is transited via Ukraine but the US estimate includes all European-OECD states, most notably Turkey.<sup>21</sup>

---

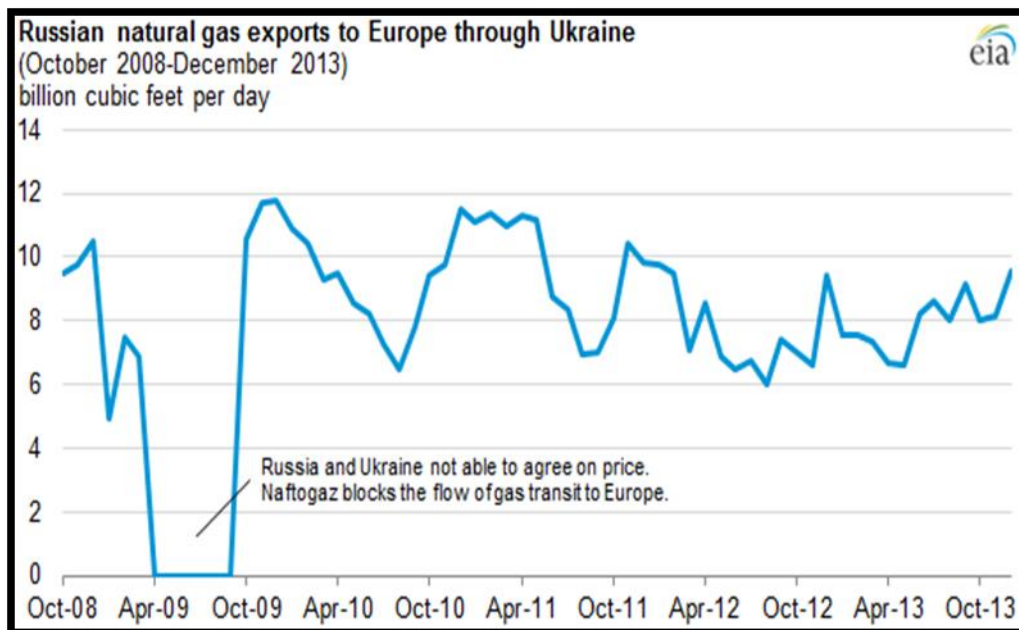
<sup>18</sup> “Iran, Russia working to seal \$20 billion oil-for-goods deal”, *Reuters*, 02/04/2014 <http://uk.reuters.com/article/2014/04/02/iran-russia-oil-idUKL5N0MN4UT20140402> & “Iran and Russia negotiating big oil-for-goods deal”, *Financial Times*, 11/01/2014, <http://www.ft.com/cms/s/0/6c33013c-7ab4-11e3-80ff-00144feabdc0.html#axzz2xpI4Nvby>

<sup>19</sup> “UK to Import Russian gas under 2012 deal as tensions mount”, *Reuters*, 21/03/2014, <http://uk.reuters.com/article/2014/03/21/uk-ukraine-crisis-energy-britain-idUKBREA2K16N20140321>

<sup>20</sup> Authors’ estimates based on *BP Statistical Review of World Energy 2013*, *ibid*, p.28.

<sup>21</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=15411> (accessed on 24 March 2014).

**Graph 4: Russian and European Transit Dependence on Ukraine<sup>22</sup>**



Although there is probably enough LNG supply available in the spot-markets to secure EU supplies for 6-8 weeks, a potential boycott against Russia is self-defeating for European powers including those who are not dependent on the transit of Russian gas via Ukraine. Germany and France will not push for a boycott against EU gas imports from Russia not only for political reasons but also because their own gas imports are fully secured via Nord Stream, a major pipeline system that bypasses Ukraine.

Otherwise they would be embargoing themselves. Despite their anti-Russian rhetoric the Baltic States and Poland might also be reluctant to penalize Russian gas exports since all three Baltic states are 100% dependent on Russian exports. Poland in 2012 imported from Russia 54% of its needs. The Baltics and Poland should remain mindful of their dependence on Gazprom and of the fact that their imports completely bypass Ukraine's transit corridor.

In case Ukraine implodes or in case Russia invades, around 50% of total EU imports will be lost amounting to around 55 bcm that are almost impossible to substitute on a long-term basis despite the fact that on 13 March E.U.-O.E.C.D. strategic storage facilities were filled at 46% of capacity.<sup>23</sup> U.S. assurances of voluminous L.N.G. exports are highly debatable, and even if they arrive in competitive prices and at significant volumes they are not germane to the immediate gas import security situation of Europe.

<sup>22</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=15411> (accessed on 24 March 2014).

Even the most optimistic estimate does not project the start of U.S. L.N.G. exports to Europe before 2016 at the earliest and the near totality of these initial future exports are already sold to Japan and India. As Dr. Edward Chow, the former head of Chevron's International Relations department and currently a senior fellow at the Center for Strategic and International Studies, told *The Guardian*, "No amount of US exports can begin to replace Russia...Export of LNG is not a silver bullet for Europe".<sup>24</sup>

**Varried EU vulnerabilities:** Italy, Austria Hungary, Romania have major strategic stockpiles and could also tap into the stockpiles of non-affected states since they are very well inter-connected. The potential for the eruption of ethnic violence remains very significant especially if the Kiev government attempts to go ahead with the 25 May presidential election that would be impossible to hold in the Eastern provinces of the country *unless some genuine and serious gestures of political reconciliation* are made vis-à-vis the *Party of the Regions*.

If there is a supply disruption, Greece and Bulgaria will be the two most severely affected EU states since they are not interconnected either with each-other or with any other EU-state despite the fact that the IGB (Interconnector Greece Bulgaria) should have been originally completed in 2012 according to its original timetable. Bulgaria has very limited strategic gas reserves amounting to 10%-15% of demand and no alternative import sources. For Bulgaria Russian imports account for almost 90% of final demand. Greece has no strategic gas reserves, will probably lose its Azeri imports via the ITG (Interconnector Turkey-Greece) since Turkey will also lose around 6 bcm/y of its Russian imports that are dependant on the Ukrainian transit and will be left only with Revythousa's regasification capacity to confront the crisis.

---

<sup>23</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=15411> (accessed on 24 March 2014).

## **2- The Constructive Strategy: Isolating Ukraine's Far-Right Extremists**

If there are no energy boycott “weapons” available to the EU how can the world’s largest energy market and the principal trading partner of Russia affect the evolution of the Ukrainian crisis? The only realistically available choice for the EU is to exercise its unique economic and diplomatic influence over the interim governing coalition in Ukraine so as to **strip away from Russia any pretext for a second intervention** by making absolutely clear to Kiev that:

- (i) It will not support any attempt on the part of Kiev to threaten or restrict the civil rights and liberties of Ukraine’s ethnic Russian minority that numbers at least 9 million people.
- (ii) It will ask of Kiev’s Parliament, *the Rada*, to reinstate the Russian language as the second official language of Ukraine as soon as possible after the presidential elections of May 25<sup>th</sup> are completed as a gesture of good will and national reconciliation
- (iii) It will demand a clear political statement from Ukraine’s interim authorities backed up by credible action that will reinsure the protection of all minority rights in the country. The recent conciliatory statements, made in Russian, by interim Prime Minister Arseniy Yatsenyuk on 18 March are commendable in the sense that they signaled the beginning of the road towards a political settlement with the East of Ukraine while underlining that there is no NATO accession option for the *Fatherland* party, a proposition that neither Klitchko, nor *Svoboda* have so far accepted or are they likely to accept.<sup>25</sup>

Such a settlement would further decentralize power from Kiev on to the regional governments, re-assure ethnic Russians of their minority rights and isolate the western-based ultranationalists hopefully leading to a National Unity Government that will include the Party of Region without, of course, Yanukovych and without the *Svoboda* and *Right Sector* extremists. It is also very important to note at this point that the role of Mrs. Tymoshenko is unclear although she often appears to be as vitriolically anti-Russian as some of the *Svoboda* officials.

---

<sup>24</sup> “US expands gas exports in bid to punish Putin for Crimea”, *The Guardian*, 25/03/2014, <http://www.theguardian.com/environment/2014/mar/25/us-expands-gas-exports-in-bid-to-punish-putin-for-crimea>.

<sup>25</sup> “Ukraine Government Tries to Defuse Tension with Russia, Pledges It Won’t Join NATO”, *The Washington Post*, 18/03/2014, [http://www.washingtonpost.com/world/ukraine-government-tries-to-defuse-tension-with-russia-pledges-it-wont-join-nato/2014/03/18/15663a32-ae8e-11e3-96dc-d6ea14c099f9\\_story.html](http://www.washingtonpost.com/world/ukraine-government-tries-to-defuse-tension-with-russia-pledges-it-wont-join-nato/2014/03/18/15663a32-ae8e-11e3-96dc-d6ea14c099f9_story.html)



- (iv) It must also demand the rapid disarmament of several ultra-right wing militia that are proliferating in the Western and Central part of the country which Kiev does not necessarily control. These armed militia can very easily provoke a military confrontation with Russia that will prove catastrophic for Ukraine and the EU's energy security. It is positive that the Ukrainian Parliament voted for the complete disarmament of all Euro-Maidan militia, including the Right Sector extremists, on 1<sup>st</sup> April.<sup>26</sup> It remains to be seen whether the ultranationalist militia will actually be disarmed and by whom.
- (v) The EU must also push in close consultation with Russia for an expanded OSCE mission that would initially monitor the situation across Ukraine's borders but also oversee the disarmament of the abovementioned militia. An OSCE mission could also help Ukrainian authorities to enhance the security of the country's 4 nuclear power plants, the critical junctions of the national gas transmission system and Ukraine's principal strategic gas storage locations.
- (vi) Russia also needs to officially condemn the actions of pro-Russian armed militia who have taken control of several public buildings in Eastern Ukraine and take steps to de-escalate the situation.

If Kiev's moderate nationalists are not able to reign in the ultranationalist militia and isolate *Svoboda* and its political allies, the possibility of a second Russian intervention will remain high and will increase as we approach the deadline of the Presidential elections set for the 25<sup>th</sup> of May.

Unless some sort of political settlement is reached which will provide considerable concessions to the Party of the Regions, the Presidential elections are not likely to be held in the Eastern and Southeastern Ukraine and even if they are held their result will be continuously resisted on the ground.

---

<sup>26</sup> "Ukraine vote to disarm militias puts Right Sector in spotlight", *Euronews*, 01/04/2014, <http://www.euronews.com/2014/04/01/ukraine-vote-to-disarm-militias-puts-right-sector-in-spotlight/>

Το ΕΛΛΗΝΙΚΟ ΙΔΡΥΜΑ ΕΥΡΩΠΑΪΚΗΣ ΚΑΙ ΕΞΩΤΕΡΙΚΗΣ ΠΟΛΙΤΙΚΗΣ (ΕΛΙΑΜΕΠ) ιδρύθηκε το 1988 και λειτουργεί ως ένα ανεξάρτητο, μη κερδοσκοπικού χαρακτήρα ερευνητικό και επιμορφωτικό ίδρυμα. Μέσω του πολυετούς έργου του έχει αναδειχθεί σε σημαντικό φορέα πληροφόρησης, μελέτης και σχεδιασμού θεμάτων εξωτερικής πολιτικής, και θεωρείται ένα από τα πιο έγκριτα σε διεθνές επίπεδο κέντρα μελετών της Ελλάδας στον τομέα των Ευρωπαϊκών υποθέσεων και των διεθνών σχέσεων.

Το ΕΛΙΑΜΕΠ δεν εκφράζει, ούτε εκπροσωπεί συγκεκριμένες πολιτικές απόψεις. Επιχειρεί μόνο να λειτουργήσει ως θήμα ελεύθερου διαλόγου και ως κέντρο παραγωγής και ανταλλαγής ιδεών.

*The HELLENIC FOUNDATION FOR EUROPEAN AND FOREIGN POLICY (ELIAMEP) was founded in 1988 and operates as an independent, non-profit, policy-oriented research and training institute. It functions as a forum of debate on international issues, as an information centre, as well as a point of contact for experts and policymakers. Over the years, ELIAMEP has developed into an influential think-tank on foreign policy and international relations issues.*

*ELIAMEP neither expresses, nor represents, any specific political party view. It is only devoted to the right of free and well-documented discourse.*