

## EU energy security and Russia: a re-conceptualization of threats and policy priorities



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#### Introduction

Although the global economic crisis has overshadowed most other problems within the Eurozone, as well as other parts of the world, energy security remains a major issue for European policy-makers. Lack of indigenous resources makes the EU greatly reliant on external suppliers. Amongst them Russia weighs more heavily, not only because it supplies one quarter of the EU's oil and gas needs, but also due to its status as a great power that pursues a multitude of foreign policy goals, as well as its significance in the European and global political scene. All these render Russia an indispensable partner; albeit, from the EU perspective, Russia remains awkward.

Russia's persistence in conventional foreign policy goals, methods and means, as the wars in Chechnya and Georgia attest, and the establishment of a "sovereign democratic" regime, with an emphasis not on civil society but on strong state institutions, form a normative disjuncture with EU's postmodern international posture. In the energy sector, Russia's disinclination to open up its economy to foreign investments and, even more importantly, to break up its oil and gas monopolies, comes in stark contrast with the EU's progressively liberalized and integrated energy market. Furthermore, Russia's determinant stance vis-à-vis the Ukraine and Belarus in the beginning of 2006, 2007 and 2009 with an eye to impose higher prices for the gas these states receive, which also led to supply shortages in some EU member states, was viewed as unnecessarily confrontational and brutal to a European Union that retains a more mild and conciliatory mode of policy-making. Lastly, Russia's grand policy of constructing direct pipelines to Western European soil bypassing traditional transit countries is not well taken in Warsaw, Tallin, Riga and Vilnius. In combination with Gazprom's aggressive stance in the European energy market through the acquisition of a number of distribution enterprises in the EU downstream sector, Russia is now considered both a threat to EU energy security, as well as one of its fundamental pillars.

This paper focuses on natural gas, rather than oil, on the presumption that whilst the oil market is global, natural gas markets are regional. Although LNG creates potential for the creation of a global gas market, gas trade remains basically pipeline-bound and shortages can thus not easily be substituted by other sources. Hence, EU-Russia gas trade carries more weight within their bilateral relationship. The paper examines the discourse in EU policy-making circles with regard to Russia and its role as a natural gas provider. Its aim is to clarify the misperceptions haunting EU energy policy and to suggest a more rational working framework. Such a re-conceptualization carries with it major revisions for EU energy policy-making.

#### Current EU energy policy-making and rhetoric

EU energy policy-making vis-a-vis Russia rests principally on two pillars: energy markets liberalization and diversification. The Energy Charter Treaty crystallizes the Union's wish to create an integrated pan-European energy market based on the rules of the open economy. This process, however, is stalled since Russia refuses to ratify it. Even though Russian policy-makers have made it plain that the Charter will not be ratified since it runs counter to principal Russian interests, and the Duma has withdrawn it from its agenda on the same grounds, the EU continues to consider it the normative milestone of the EU-Russia energy approach. This, however, thwarts any pragmatic hope of the two sides

reaching a consensus on the normative framework of their energy trade. Moreover, the EU insists on Russia mimicking the Union's own organization of its internal market. It preaches Russia on the benefits of breaking up monopolies and opening up the energy sector to private capital (McGowan, 2008). At the same time, however, a handful of European member-states, most prominently among them France and Germany, retain for their leading enterprises a quasi-monopolistic role. In the case of France, the state itself retains significant shares and thus decision-making powers.

Russia is loath to follow the EU's paradigm in order to avert the growth of gas to gas competition between its gas producing companies that will lead to

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lower export prices, and to ward off any loss of control in such a strategic sector for the Russian economy. Although foreign investments could boost Russian production, it is doubtful whether such a development actually fits Russia's preferences. Producing at the margins, in combination with buying and re-selling Central Asian gas at a profit, is enough for Russia to fulfill its contractual obligations without investing huge sums of money on new production schemes (Finon and Locatelli, 2007: 13). At the same time, this serves its goal of preserving giant fields for future use. Although such considerations naturally raise eyebrows in EU policy-making circles, the EU, despite the considerable size of its lucrative gas market, has hardly any leverage to make Russia adopt different policies. It is also not lost in the Kremlin that EU proposals fit more the EU's own, rather than Russia's interests. Constant preaching on which developmental model Russia should follow for its hydrocarbons has become an irritation to Russia. EU rhetoric, and, even more importantly, the European Commission's plans to adopt measures that will reduce Gazprom's share in the EU gas market, actually drives Russian officials to turn to alternative markets.

Secondly, the Commission's Green Papers (European Commission, 2001, 2006), published in 2001 and 2006, highlight diversification as a priority. Member states, and especially the new ones that are heavily reliant on Russian gas, also maintain that diversification away from Russia is a necessary course of action that will enhance EU energy security. Naturally, such rhetoric, although justifiable from the EU perspective, creates doubts in Russia as to the will of the EU to keep importing similar gas quantities from Russia in the near future and propels Russian plans for diversifying its export markets. What is more at fault here, however, is the EU's clumsy approach. Embracing the Nabucco project as the most significant diversification scheme is rather unfortunate, since its prospects for coming into being become all the more distant. With no supplies that will fill the pipeline guaranteed, and no near prospect for any of the Middle East, Caspian, and North African producers to increase their gas output to such an extent that it can contribute significantly to the capacity of the pipeline, it is quite possible that Nabucco will remain on paper since Azeri gas production does not suffice. Azeri state company SOCAR's agreement to sell significant gas quantities to Gazprom complicates the supply of this pipeline even further, although RWE's (a participant in Nabucco) assumption of exploration rights in Turkmenistan raises some hopes for the contrary. Iran could prove a valuable source due to its gas potential. Current disputes concerning its nuclear ambitions and the nature of its regime, however, in combination with the EU's current disinclination to oppose US belligerent stance vis-à-vis Iran, makes any cooperation with Iran seem rather remote. In addition, three out of six

participants in the Nabucco project are also taking part in the competitive South Stream pipeline that will be filled with Russian gas. There is hence little space for optimism that Nabucco will come on stream any time soon. EU enthusiastic support for a project that carries little possibility of actually being built undermines its credibility as an international actor to take up initiatives that will bolster its energy security (Proedrou, forthcoming).

### **A new, rationalized framework: Prioritizing threats**

From energy policy discourse at the EU level one can discern two distinct threats emanating from Russia. The first refers to Russian monopoly Gazprom taking advantage of the EU gas market liberalization and consolidating a quasi-monopolistic position in it. This may allow Gazprom to exercise overt control in it. Such a development can have two negative repercussions. The first one is that Gazprom will be able to sell its gas in higher prices. Secondly, there are fears that it can cut gas supplies to a number of EU member states with which it retains non-friendly relations and gravely endanger their, and consequentially the EU's, energy security. This scenario, however, is disputable for a number of reasons. Firstly, gas prices are tied to a basket of oil products. Although there are differences in the prices different EU members pay for Russian gas, Gazprom lacks the wherewithal to impose arbitrary final prices to European consumers. Moreover, any move towards disaggregating oil and gas prices is for now pure speculation. Anyway, any abrupt rise in gas prices can easily backfire, since it will motivate switch to other, more economic energy sources.

Secondly, while the possibility of gas supplies stoppages cannot be ruled out, this does not seem very plausible, taking into consideration the reputational damage it will inflict on Russia and the outcry it is possible to provoke in solidarity with member victims. Once again Russia may well not prove so imprudent, as to provide the EU with ample reasons to promote its diversification plans. Ceasing supplies can only become a serious consideration in a cold-war like geopolitical environment, where Russia may use energy as a lever to wreak serious damage to US allies in Eastern Europe. This scenario, however, is not very plausible. One has also to bear in mind that even during the Cold war the Soviet Union never took up such measures towards consumers in the hostile western camp.

The second threat lies in the possibility that the European Union may find itself in a situation where it is short of Russian gas. This can happen for two reasons. In the first case, Russia diversifies energy markets to such an extent that it reduces supplies to the EU in order to cater for the needs of eastern markets, most prominently China, Japan and the US. Indeed, Russia is already building two gas pipelines to China. Moreover, its

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first LNG facilities came into operation in 2009 and Gazprom was quick to engage in an agreement with Royal Dutch Shell for the supply of the well-developed US gas market with Russian gas. This marks Russia's entrance into the US downstream sector. Although the quantities contracted are not very high, they pay lip service to Russia's annoyance with European Union market liberalization rhetoric and initiatives to restrict Gazprom's share in the EU market.

Secondly, there is the danger of an actual "gas gap", the situation whereby Russia fails not only to fetch for the European Union's rising gas needs in the following years, but also to sustain similar production levels. Production in the three major gas fields in Western Siberia, Urengoi, Medvezhye and Yamburg, is declining and their output has to be rapidly substituted by fields in Eastern Siberia, principally in Sakhalin, and by the giant Shtokman field in the Russian North (Paillard, 2007). Unless these projects come on stream, the European Union will find itself in the rather unpleasant position either to impose a cut on energy consumption, or find alternative sources from other producers. This, however, is rather difficult to achieve in the short-term, if one takes into account the European Union members' declining energy output, as well as producer countries' current and estimated production capacity. Another option would be the promotion of an extensive nuclear build-up, a scenario, however, that sounds alarming and may well encounter significant domestic opposition.

### Policy prescriptions

Under this conceptualization, what actually should be the gravest concern of European policy makers is how to ensure increased, or at least similar, levels of Russian gas inflows for the coming years. Although a number of contracts are for the time being in place between Gazprom and European enterprises, decreasing production may well make it hard for Gazprom to renew them or sign new ones. This bears important ramifications for the EU energy policy vis-à-vis Russia.

Firstly, EU policy-makers should focus on attempts to foster Russian production capacities. Although Russia may resist any offers of help from the EU, the EU would be wise to offer, through institutions as the European Bank for Reconstruction and Development, financing and loans to new Russian production schemes.

Secondly, the European Union should realize that it is not in a position to demand from Russia to adhere to liberal norms of trade. The European Union's sensitivity and vulnerability to Russian natural gas supplies means that it has to play by the rules Russia co-determines as an equal, interdependent partner.

Thirdly, differences in identity politics should not be left to intermingle with bilateral energy trade, since they only serve to aggravate bilateral disputes. Linking

issues as diverse as energy trade and respect for human rights or democratization in Russia is unproductive. This is not to argue that the EU should deviate from its fundamental values and norms. However, while the EU policy of sticks and carrots is precious in relations with less developed countries, the EU lacks the leverage to impose such reforms on Russia; hence these moves remain futile, at the same time that they frustrate Russia. Anyway, the EU has a foreign policy record where it prioritizes vital material interests against compliance with norms. The Union's enhanced cooperation with Uzbekistan and Tajikistan, two countries notorious for their human rights record but essential strategically in the fight against terrorism, after 9/11 is a case in point.

Fourthly, any talk of diversification, although totally acceptable, should be much more cautious. For example, while helping Algeria upgrade its production capacity and building another pipeline to Europe holds potential, constant mentioning of the Nabucco project as the milestone of the European Union diversification policy only serves to undermine the EU's credibility.

Fifthly, at a time when global competition for declining natural resources is rising, with China, US, Japan, and India striving to sign contracts for more external supplies, EU energy security will be harder, not easier, to achieve. We are moving from a consumers' to a producers' energy market. The EU would be prudent to learn from energy-hungry China's active foreign policy that has brought it invaluable agreements with producer countries, and forego its advocatory stance.

### One Union, two approaches

What is often stressed, but whose repercussions reach further than is argued, is that member states pursue different goals. Diversification away from Russia is a stated rhetorical goal of the European Union as a whole. In practice, however, it is the aim of only a handful of European member states. A number of EU member states follow the exactly opposite approach, namely strengthening interdependence with Russia as a means of achieving energy security, rather than seeing Russia as a threat. Germany, for example, has invested in a number of cooperative schemes these last two decades in order to strengthen its interdependence with Russia. The Yamal-Europe and Nord Stream pipelines, as well as a number of joint ventures formed by German energy enterprises and Gazprom, were initiatives taken up by the German gas industry in order to ensure adequate supplies (Goetz, 2005; Sander, 2007). This policy also entertains support from German political leadership that sees it as the most appropriate for ensuring adequate energy quantities from the major gas producer in an international system that is progressively characterized by scarcity of resources. Germany is not alone, with Italy, France, Greece,

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Bulgaria and Hungary forming equally willing partners for Gazprom.

These policies come in stark contrast with new member states' determination to diversify away from Russia. In the context of their decades-, and in some cases even centuries-long animosity, these states consider Russian energy only another Russian weapon to be used in order to reinforce its hegemony in the region, albeit this time by economic, not military means. Hence, member states have very different starting points and aims in their energy policies. This conveniently suits Russian interests, exacerbates confusion, contradictory signals and lack of coordination, and ends up undermining the EU's credibility (Larsson, 2006).

### Conclusion

The starting point of an ineffective EU energy policy is the different policy goals and strategies member states follow. In fact, EU energy security is the sum of all member states' national energy security. Since energy remains essentially within national competences, it is

natural that member states retain the discretion to choose among a set of policy options to achieve their energy security. This blending of different approaches is a chief cause for an ambiguous energy policy at the European level. In general, the EU appears to feel threatened more by Gazprom's share and leverage in the EU gas market, than by the possibility that Russia will be either unable or unwilling to maintain its exports to the EU. In this vein, it mistakenly directs its attention to efforts to halt Gazprom's penetration of the EU gas market and to force upon it the normative framework of its internal market. This policy not only directs resources away from what should be the main policy object, namely to ensure continuous Russian gas inflows for the near future, but also propels Russia to pursue more vigorously its diversification plans. The EU thus risks facing gas shortages because Gazprom may find itself in a position where it has no gas to cater for both western and eastern markets, or, even worse, where it prioritizes eastern markets against the EU's.

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