

# EU-Russia Energy Relations: Lack of Unity in the Union

Written by Silvia Caneva

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Since the 1990s, the European Union has achieved various successes. A key example is the enlargement to include a large number of Central and Eastern European countries. During this time, the EU has also experienced some failures, such as in the case of energy relations with Russia. This issue is the topic of this essay.

The starting point of this essay is the 2009 Russia-Ukraine dispute, which raised serious concerns about energy security in Europe. Following this crisis, most analysts agreed on the need for the EU to reduce its dependence on Russian energy supplies, by diversifying its energy suppliers and its energy sources. Nevertheless, the EU currently seems to be unable to act as a united actor in the energy field. As will be seen in the essay, this inability is due to several factors: first of all, energy is an area of national competence, therefore the European Commission has a limited power over it; secondly, there are many differences between EU member states in relation to this matter, ranging from the degree of dependence on Russian gas to the perception of Russia by different member states, which has led EU countries to have different interests and priorities where their energy policy is concerned. Last but not least, EU countries tend to pursue their own interests in the energy field, e.g., by signing bilateral deals with Russia, thus weakening the position of the EU as a whole.

The purpose of this work is to show that the competing interests of the EU member states in terms of energy security, their disunity and their consequent failure in developing a joint energy policy contribute to a weakening in the position of the EU in its energy relation with Russia and threaten the EU's long-term energy security.

In order to show this, the essay will describe the differences between the EU member states and the bilateral agreements signed between Russia and individual EU countries. Particular attention will be given to the Nord Stream and South Stream pipeline projects, as well as to the Nabucco project. The essay will also briefly describe some joint steps taken by the EU in the energy sector. Finally, the importance of the unity within the EU will be stressed.

### **EU-Russia energy relations**

In January 2009 the energy dispute between Russia and the Ukraine underscored the problems that exist in the EU-Russian energy relations: the EU's dependence on Russian gas supplies and its inability to develop a joint energy policy in relation to Russia. The energy crisis originated from a pricing dispute: the Russian gas company Gazprom and its Ukrainian counterpart Naftogaz failed to reach an agreement on the price of the Russian gas to the Ukraine as well as on the price of the gas being transited to Europe and on the payment of the Ukrainian debt. After the breaking off of the negotiations on the 1<sup>st</sup> January 2009 Gazprom applied sanctions against the Ukraine by cutting off the gas supply to this country. The situation worsened when Moscow accused the Ukraine of stealing 63.5 million cubic metres of gas in the first four days of the year and consequently decided to halt gas supplies directed to Europe through the Ukraine. The cut off gas flows lasted thirteen days, until the 20 January, after a supply and a transit ten year contracts were signed between Russia and the Ukraine.

It was not the first time that Russia reacted to a dispute with a transit country by cutting off gas supplies. This also occurred, for example, in 2006, when Russia stopped gas deliveries to the Ukraine from 1 to 3 January, causing a drop in supplies to various European countries.

However, several scholars, such as Guillemoles (2009, p. 339) and Pirani, Stern and Yafimava (2009, p. 4), have

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defined the 2009 energy crisis as the most serious crisis ever to occur in the energy sector. It is not difficult to understand why. Unlike what happened during the 2006 crisis, when gas supplies were never totally cut off, in 2009, Russia interrupted gas flows to Europe completely for thirteen days, causing serious problems for many European countries. The dispute not only led to a humanitarian crisis in some of the Balkan countries, but it also brought about severe economic problems in countries such as Hungary and Slovakia, which depend heavily on Russian gas. Even Germany, France and Italy had to draw gas from their existing stocks to make up for the missing gas volumes (Guillemoles 2009, p. 446).

Following the 2009 energy crisis, Russia and its energy giant Gazprom came to be perceived as unreliable partners for Europe. Therefore, the heavy EU dependence on Russian energy supplies started to look increasingly dangerous. The EU, as Kosachev (2008, p. 50) informs us, currently imports over 80% of its oil and 60% of its gas and these amounts are expected rise to 90% for oil and 80% for gas by 2030. According to Eurostat (2010, p. 14), Russia is the EU's major energy supplier, covering 40% of gas imports and 35,6% of oil imports in 2008. Russia is a key actor in the energy sector. As Kosachev (2008, p. 50) reports, Russia owns approximately 27% of the world's natural gas reserves, 10% of its oil reserves and 20% of its coal reserves. Moreover, as Trenin (2008, p. 16) points out, Russia is responsible for about 12% of total oil production and a fifth of global gas production.

Apart from these figures, many experts, such as Morgado Dos Santos (2010, p. 309), argue that Russia can use European countries dependence on Russian energy for political leverage to achieve foreign policy and commercial objectives. According to Brown (2007, para. 3) and Guillemoles (2009, pp. 347-348), this happened in the cases of the gas interruptions towards the Ukraine in 2006 and 2009 respectively, the purpose of which was in their opinion, to ensure the Ukraine remained under Russian influence. As for the EU, Monaghan (2006, p. 3) has highlighted the possibility that EU member states avoid criticising Russia because of their dependence on Russian supplies. This was particularly evident during Schroeder's chancellorship in Germany, when the Chancellor often neglected to deal with ticklish questions such as freedom of expression in the media and the situation in Chechnya because of his strategic and energy interests in relation to Russia (besides his personal friendship with Putin).

Conversely, data concerning the EU's reliance on Russia energy appear less alarming if it is considered that Russia's economy is highly dependent on energy exports and, according to Piebalgs (2008, p. 53), the EU represents its most important export market. The EU is, furthermore, one of Russia's major suppliers of machinery, equipment, telecommunications and chemicals (Morgado Dos Santos 2010, p. 310). Moreover, Russia needs the investments in the energy sector coming from the EU, which are of paramount importance for its economy and for the modernization of the country. The relationship between Russia and the EU is therefore characterized by interdependence.

The EU-Russian energy relations revolve around the concept of energy security. Energy security means security of demand for Russia and security of supply for the EU (Baumann 2010, p. 88). Following the 2009 energy crisis, the importance of reducing the EU dependence on Russian energy supplies became evident in Brussels. Despite this need and the shared goal of security of supply, EU countries seem to be unable to agree on a common strategy and to carry out a common policy to achieve such a goal. This is due primarily to major differences between EU member states and consequently to divisions and competing interests in the energy area. As Baumann (2010, p. 83) observes, EU countries differ in their energy mixes, in their suppliers and not least in their political legacies and perceptions of Russia. The major differences are between Western European countries on the one hand, and Central and Eastern European countries on the other. Neuman (2010, pp. 345-347) identifies three key differences between these two groups of countries. Firstly, Central and Eastern EU member states depend on Russian energy supplies to a far greater extent than Western EU countries. Secondly, while CEECs receive energy supplies through technologically outdated pipelines, which originate in Russia, Western EU countries have at their disposal a highly interconnected grid, which enhances security of supply in case of problems on one of the import routes. Thirdly, due to historical reasons, CEECs have a perception of Russia as a more threatening country than the Western European countries do. This latter point is shared by Faber Van Der Meulen (2009, p. 843), who explains that since Western European countries, such as Germany and Italy, have had good energy relations with Russia in recent decades, their attitude towards Russia is more positive than the attitude of Eastern European countries.

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Differences between EU member states obviously lead to different priorities and different interests in the energy field. For example, Neuman (2010, p. 346) argues that CEECs, being far more worried about their dependence on Russian supplies than Western European countries, try to distance themselves from the Kremlin as much as possible, whereas old EU member states are more interested in securing energy supplies through deals with Russia.

The EU has often been defined as “an economic giant and a political dwarf” (Diez Medrano 1999, p. 155; Morgado Dos Santos 2010, p. 318). This label fits in relation to the energy sector as well. The differences among EU countries and the divergences in their energy policies make the EU unable to “speak with one voice” (Cleutinx and Piper 2008, p. 26) and therefore weaken its position in relations with Russia. As Faber van der Meulen (2009, p. 841) observes, this problem is aggravated by the fact that within the EU, energy policy is an issue of national responsibility and the European Commission has, therefore, limited influence in this field.

Russia is aware that the differences between the EU member states and their disunity tend to weaken the European Union. Therefore, Russia tries to pick off individual EU countries, by signing bilateral agreements with them, which heighten European dependence on Russian supplies and ensure Russia’s gas exports in the long term. During the last few years, as Baran (2007, p. 133) and Trenin (2008, p. 18) report, Gazprom has signed long-terms agreements with Europe’s major gas companies: Germany’s BASF and E.ON Ruhrgas, Italy’s ENI, France’s Gaz de France and the Netherlands’ Gasunie. These bilateral agreements play an important role in securing Russia’s gas exports, as well as the security of individual states’ energy supplies. On the other hand they are dangerous for the EU as a whole, since, by portioning out the EU energy market, they reduce the EU’s leverage in dealing with Russia and threaten long-term EU energy security (Morgado Dos Santos 2010, pp. 322-324). This has been defined a “divide and conquer strategy” (Baran 2007, p. 131).

Among the bilateral agreements signed between Russia and individual EU member states, the one signed in 2005 between Russia and Germany concerning the creation of the Nord Stream pipeline is particularly important. The Nord Stream pipeline will link Russia and Germany via the Baltic Sea. According to the Nord Stream official website, the pipeline will be fully on stream in 2012 and will consist of two parallel lines with a global capacity of 55 billion cubic metres a year. The pipeline has great importance for several reasons. First of all, linking directly Russia and Germany, it will bypass the transit countries. For this reason, gas supplies to Europe will no longer be vulnerable to eventual dispute between Russia and the transit countries, as in the case of the energy crisis in 2009. However, if the pipeline seems to increase Europe’s security of supply, it also increases EU dependence on Russian gas and Russian influence over Europe. Moreover, the transit countries fear losing Europe’s support in the case of any future dispute with Russia and remaining isolated. Central and Eastern European countries are especially worried about the possibility that Russia will increase the price of their of gas supplies, taking advantage of the fact that the Nord Stream pipeline bypasses them (Leal-Arcas 2009, p. 355). Secondly, the Nord Stream pipeline has great strategic importance for Germany. The pipeline will reach the German city of Greifswald and from here gas will be transported onwards to a great number of European countries. The pipeline will, thus, make Germany a hub for the distribution of Russian gas to the rest of Europe. Concerning the role of Germany, particularly significant is the fact that after the election of the *Bundeskanzlerin* Angela Merkel in 2005, Gerhard Schroeder (the former German chancellor who signed the agreement for the construction of the pipeline) became Chairman of the Shareholders’ Committee of Nord Stream. The agreement between Russia and Germany concerning the construction of the Nord Stream pipeline is a clear example of the fact that national interests tend to prevail over common security in relations with Russia, making a common EU energy policy extremely hard to achieve. Brussels has expressed grave misgivings about the project, being worried about the EU’s increasing dependence on Russian gas and the parallel decrease in its own internal gas production. However, the major fears come from Poland and the Baltic states, which defined the deal between Russia and Germany as a new Motolov-Ribbentrop Pact (Grazioli 2008, p. 111). The Nord Stream pipeline can be perceived as even more alarming if considered in the perspective of the “special relationship” that has developed between Germany and Russia, as Rahr (2007, p. 137) has defined it. This special relationship can be traced back to chancellor Willy Brandt *Ostpolitik* of the 1970s. Its backbone is nowadays in the economy field, characterized by German exports towards Russia, mainly consisting of cars, chemicals and electronic products and by Russian oil and gas exports towards Germany, making Germany Russia’s main trading partner, as observed by Del Re (2006, p. 165). However, the importance of the Russian-German relations can also be noticed in the political area, since different analysts (Matthews 2009, para. 2; Grazioli 2008, p. 3) consider Berlin to be Russia’s major advocate in the

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West.

In addition to the Nord Stream, Russia is also committed to the South Stream project, launched in 2007 by Gazprom and the Italian company ENI. The South Stream pipeline is designed to deliver Russian gas to Europe. According to the South Stream official website, on completion of the project, to be realized by 2015, Russia will be linked to Bulgaria via the Black Sea; from this point onwards one of its branches will reach Italy via Greece, which signed an agreement with Gazprom concerning the South Stream pipeline in 2008, while the other branch will go through Serbia and Hungary to Austria. This pipeline, as in the case of the Nord Stream, will increase EU dependence on Russian gas, while the stated EU objective is to reduce it. The agreements for the construction of both pipelines show the tendency of the individual EU countries to sign bilateral deals with Russia to pursue their own national interests, without considering the security implications for the UE as a whole. This is particularly evident in the case of Germany, but it is a common trend.

Until now, the UE has been not only shown disunity in the energy field, but has also not come up with any sort of efficient agreed upon plans to reduce its dependence on Russia gas exports. According to the experts, the keyword in relation to achieving this goal is *diversification*: diversification of suppliers and diversification of energy sources. One of the EU plans to diversify its energy suppliers is the Nabucco pipeline project. The Nabucco pipeline is designed to bring gas “from Central Asia and the Middle East to Europe via Turkey, Bulgaria, Romania, Hungary, and Austria” (Leal-Arcas 2009, p. 356). The aim of this project is clearly to decrease Europe’s dependence on Russian gas, by bypassing Russia, and to contribute to ensuring the security of supply for Europe. According to the Nabucco pipeline official website, the construction of the pipeline will begin in 2012. Since the beginning of the negotiations for the implementation of the pipeline, however, the Nabucco project has been adversely affected by several problems. First of all, it lacks gas. As Brown (2007, para. 17) points out, most Central Asian countries do not have sufficient resources to aliment the pipeline. However, Iran, holding 15% of the world’s gas reserves (Leal-Arcas 2009, p.356), does have enough resources to enable the pipeline to work. Nevertheless, there is a lack of infrastructure linking Iranian gas to Turkey (Brown 2007, para. 17). Furthermore, one wonders if Iran would be a more reliable partner than Russia. Secondly, Gazprom has undermined the implementation of the Nabucco pipeline on several occasions by signing bilateral agreements with individual EU countries. Brown (2007, para. 13-15) provides two examples. One is the deal signed between Gazprom and Austria’s company OMV in 2007, which will allow the former to control the gas delivered to Austria through the Nabucco pipeline. More significant is the memorandum of understanding signed in 2006 between Gazprom and the Hungarian company Mol, to build a rival pipeline into Hungary, Blue Stream II, which would link Turkey to Hungary through the Balkans and would be an extension of the Blue Stream pipeline, connecting Russia and Turkey. Budapest’s support for the Blue Stream II clearly undermined the creation of Nabucco. The Nabucco pipeline project is further weakened by the absence of support from EU countries of the calibre of Germany. Moreover, Goetz (2008, p. 100) claims that Nabucco will not have a great impact on the EU’s diversification strategy, since it will cover only approximately 7% of the EU’s import demand.

With regard to the diversification of suppliers, Leal-Arcas (2009, p. 366) suggests that the EU should cooperate more closely with Middle Eastern countries as well as with Algeria and Nigeria. However, despite the disputes with the transit countries and the past interruptions of gas flows, Russia seems to be a more reliable partner than North African and Middle East countries. Economic relations with these countries could be threatened by various elements: the Iran nuclear dispute, the tricky situation in Iraq and in Afghanistan, the political crisis in Pakistan and not least the Israeli-Palestinian conflict.

As far as the diversification of energy sources is concerned, the importance of developing renewable energy sources has been stressed by several analysts because it would reduce not only the EU dependence on Russian gas, but also the EU greenhouse gas emissions. From this perspective the agreement on the so-called 20/20/20 plan, signed after harsh negotiations, represents a success for the EU. According to the plan, by 2020 the EU will increase the use of renewable energy by 20%, reduce greenhouse gas emissions by 20% and cut energy consumption through a more efficient usage of energy by 20%. These measures, however, are not enough to replace the energy imported from Russia, especially in the short run.

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Besides the diversification of energy suppliers and energy sources, many analysts argue that in order to achieve energy security, it is fundamental for the EU to create a common energy market. As Cleutinx and Piper (2008, p. 27) argue:

For the EU, the key to security of supply is market integration and solidarity. Individual EU countries would worry a lot less about their dependence on Russian supplies if there was an effective integrated EU-wide energy market, with all the necessary physical interconnections to encourage a policy of full solidarity.

In a nutshell, the most important element in ensuring EU energy security is unity. Morgado Dos Santos (2010, pp. 322-323) shares Cleutinx and Piper's view but points out that most EU countries have no intention of ceding control of energy policy, since they consider it essential for their individual economic interests. The creation of an internal energy market, on the other hand, is supported by the European Commission, which in the 2007 action plan 'A policy for Europe' defined it as vital for Europe's competitiveness and sustainability and essential for achieving a greater security of supply.

Among the steps taken by the EU towards energy security and/or a greater unity among EU countries, there are the EU-Russia Energy Dialogue, the Energy Charter Treaty, and the Lisbon Treaty. The EU-Russia Energy Dialogue was established in 2000 and aims to "enable progress to be made in the definition and arrangements for an EU-Russia Energy Partnership" (Leal-Arcas 2009, p. 353). The Energy Charter Treaty, as Konoplyanik (2008, pp.103-105) illustrates, is the only legally binding agreement, which deals with cooperation in the energy field and it covers areas ranging from energy investment to energy efficiency. It has been ratified by a total of 46 countries, comprising all EU member states, but Russia refuses to ratify it. Lastly, the solidarity clause contained in the Lisbon Treaty, which came into force in 2009, is particularly relevant within the EU energy sector because it contains measures apt to provide assistance to EU countries affected by shortages in the energy supplies, as explained by Morgado Dos Santos (2010, p. 315), who highlights that these measures would reduce Russia's leverage.

Despite these steps, the EU still has a long way to go before becoming a united actor in the energy field. Unity is essential in order to strengthen the EU's position towards Moscow and to take greater advantage from the relations with Russia. It should not be forgotten that if the EU is dependent on Russian energy imports, Russia is likewise dependent on energy exports, and the EU represents Russia's biggest market for energy sales. Besides this, Russia needs foreign investments that come from the EU. Unity is considered by Leonard and Popescu (2007 p. 6) "the EU's most powerful tool for dealing with Russia". Despite the importance of unity in the energy sector, the management of the energy policy at a Community level, as well as the creation of a common energy market are goals that are too ambitious for the moment, considering the unwillingness of EU members to cede control over their respective energy sectors, their differences and their competing interests. However, the overcoming of these differences is essential to any future strengthening of the EU. Equally important for the EU as a whole is that the individual EU countries take into account what is good for the EU's long-term energy security while pursuing their own national interests in the energy sector. This is clearly not yet the case.

## Conclusion

Since the creation of the European Economic Community, several areas, which used to be regarded as being under the aegis of national governments, are now dealt with a Communitarian level. Examples are the common agricultural and monetary policies.

Energy policy, on the other hand, remains a national responsibility. Individual EU member states are not willing to cede their sovereignty in this area, since energy is regarded as vital for their interests. Therefore, as it has been previously explained, the European Commission has a limited influence in this field.

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Although energy is not managed at a Communitarian level, Brussels has expressed the need of the EU to diversify its energy suppliers and sources, in order to reduce the dependence on Russian gas exports and consequently Russia's influence on EU countries. The importance of diversification emerged clearly after the energy dispute that occurred in 2009 between Russia and the Ukraine, which left millions of Europeans without gas. Nevertheless, the energy policies pursued by the EU individual member states are more apt to ensure their energy supplies than to diversify their energy suppliers and sources. This has emerged clearly on the occasion of the agreements concerning the creation of the Nord Stream and the South Stream pipeline, which will increase Europe's dependence on Russian gas. As shown in the essay, the main European gas companies signed long-term agreement with Gazprom. These agreements ensure Russia's energy exports for the long term and contribute to depriving the EU of an essential element in its strategy policy: unity. Unity within the EU is fundamental to have balanced relations with Russia and to develop a common energy policy. As long as the individual EU countries remain disunited and concentrated solely on the pursuit of their national interests, regardless of the interests of the EU as a whole, it is extremely unlikely that the EU will strengthen position in its relations with Russia.

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