

# The Energy Relationship Between Russia and the European Union

Written by Nemanja Popovic

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NEMANJA POPOVIC, FEB 24 2020

In 2018, around 40% of EU natural gas imports came from Russia (Foy, 2018). In the same year, Gazprom, Russia's state-owned gas monopoly, supplied a total of 200.8 billion cubic meters of gas to European countries, with 81% heading to Western Europe (Gazprom, 2018). Though both sides are dependent on one another, the relationship is far from fruitful. Aside from the obvious historical grievances, particularly between the bloc's eastern member states and Russia, recent geopolitical developments have aggravated relations, namely the Crimean crisis of 2014. The EU, along with the US and several other countries, imposed sanctions on Russia, targeting the financial and energy sectors (Spiegel, 2014). Yet, they were limited to the oil sector, given the EU's dependence on Russian gas. This detail illustrates an interesting dynamic between the two.

The Eastern member states feel particularly vulnerable as a result of pre-existing historical anxieties, as well as a more intense dependence on Russia. Before the launch of the Klaipeda LNG terminal in 2015, the Baltic states imported their entire natural gas consumption from Russia (Chyong & Teherneva, 2015).

With that in mind, the EU-Russia relationship resembles an *uneasy marriage*. At this point in time, Russia needs the European Union, and the European Union needs Russia. Europe meets its energy needs. Russia's hydrocarbon exports generate a substantial amount of revenue for the state, accounting for more than 50% of the consolidated budget (Bogoviz, Lobova, Ragulina, & Alekseev, 2018, p.1).

As for the uneasy element, they are and will remain natural geopolitical rivals. The incorporation of some eastern European states into the union reinforces this friction. Russia sees these states as its natural sphere of influence.

Reliance on Russian gas is considered a threat to the wealth, power and security of the EU. Given Russia's politicized energy policy and the tense state of affairs between the two parties, this is largely true. However, it is argued here that these concerns are inflated. It would not be in Russia's best interest to antagonize its Western partner. I will develop on this shortly.

For the long run, the European Union should aim to diversify its supply routes. But it will remain locked to Russia in the short-term for three reasons: geographical proximity, existing infrastructure and Russia's energy volumes.

Following the Crimean crisis in 2014, there have been growing concerns in the European Union with regards to Russia's reliability as an energy partner. It revived memories of the Russo-Ukrainian gas disputes that took place in the 2000's and early 2010's. Like most post-soviet states, Ukraine depends on Russia for most of its energy needs. This provides the latter with significant political leverage at the negotiation table. In 2014, Russia demanded that Ukraine pay back its energy debts, which, when it failed to do so, led to Russia cutting off gas supplies to the country (Larrabee et al., 2015, p. 13). Though the supply cuts were limited to Ukraine, it led to disruptions that affected several other European countries. Amineh and Crijns-Graus call this "structural scarcity," which is supply induced scarcity by the deliberate action of a major power or non state-actor, such as a major oil company (Amineh & Yang, 2018, p. 149). This is the root cause of the European Union's anxiety. Disturbances in the supply of natural gas can severely distort economic and household operations.

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As a response, the EU adopted comprehensive legislation on the internal energy market for electricity and natural gas, and the regulation on security of gas supplies (European Commission, 2017). Given the centrality of energy to modern economies and households, the EU has taken substantial measures to avoid any supply route disruptions. There are plans for an energy union, which would “give EU consumers – households and businesses – secure, sustainable, competitive and affordable energy” (European Commission, n.d).

Though environmental considerations are a core element behind the EU’s new energy strategy, the most immediate goal is to reduce dependency on one external supplier. Indeed, disruptions in the supply of energy from Russia pose a serious threat to Europe, given the needs of modern economies. However, I suggest that even though this hypothetical scenario is possible, the chances of it occurring are improbable. This does not imply that the European Union should remain complacent, since the very core, at least from a realist perspective, of IR is that states can never be certain of other states’ intentions (Mearsheimer, 2001, p. 100). Therefore, the EU should certainly look to alter its dependency on Russia for energy. The following section will discuss why European fears of a supply route disruption are inflated, and how the EU can overcome this reliance.

Gazprom, a state-owned Russian energy company, is by far the largest supplier of oil and gas to Europe, accounting for just over 5% of GDP (Soldatkin, 2019). In 2014, 71% of Russian gas went to Europe (European Commission, 2014). Given Russia’s structural dependence on energy revenues and the European market, it would be in its best interest to avoid tampering with supply route disruptions. Its social stability rests on its ability to maintain energy exports. Thus, a decision to refuse to sell altogether, particularly to Europe, would constitute economic and, in turn, political suicide.

The energy link between Russia and Europe is fundamentally different from the Russo-Ukrainian relationship. Besides the obvious asymmetries in power between the EU and Ukraine, Russia is financially more reliant on the former. This places the EU in a stronger geopolitical and geoeconomic position relative to Ukraine.

In essence, the threat from Russia exists. There is no doubt about that. But these concerns are inflated. The energy relationship between Russia and the EU is not one-sided. Both sides have something to lose if it disintegrates. A look into the Russo-Ukrainian relationship depicts a much clearer power distribution. Russia holds all the chips. It can literally afford to temporarily suspend supplies. Ukraine is a small piece in Russia’s European gas puzzle, whereas Russia fulfills 60 percent of Ukraine’s natural gas needs (Larrabee et al., 2015, p. 12). With the EU, on the other hand, the relationship is much more balanced. The European Union is Russia’s main customer, a position that elevates its significance to the Russian economy.

However, there is at least one element where the power balance between the EU and Russia is less clear: hard power. The EU lacks the cohesion required to exercise military and economic hard power to secure energy supplies (Goldthau & Sitter, 2015, p. 951). The absence of hard power tools within the EU (absence of an army) places it at a disadvantage relative to Russia. There is an ‘expectations-capability gap,’ a function of both lack of tools as well as political will or consensus (Goldthau & Sitter, 2015, p. 944). If we take a look at the Crimean crisis of 2014, the EU agreed on sanctions but it took time to build the consensus.

Despite that, Goldthau and Sitter suggest that the EU retains its strength from its soft power *with a hard edge*. It can limit the ways the Russian state can use their state-owned firms. Take a look at the *Gazprom Clause*. It allows “national regulators to take security of supply risks into account when certifying third-country firms’ acquisition, ownership, and operation of transmission networks, and ultimately to withhold certification” (Goldthau & Sitter, 2015, p. 955). But at the same time, it cannot alter the geopolitical behavior of the Russian state (Goldthau & Sitter, 2015, p. 960). Simply put, the European single market derives its power from its economic attractiveness, both for those looking to enter it as well as those looking to trade with it (Goldthau & Sitter, 2015, p. 947). This is in spite of an absence of traditional hard power.

Therefore, the EU’s main concern should be its reliance on one major supplier, rather than Russia’s pipeline diplomacy. In other words, given the importance of the EU market to Russia, it is highly unlikely that the latter will tamper with the supply-side. But even so, relying on Russia for the bulk of its energy needs exposes it to regular

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infrastructural failures, which have the potential to paralyze households and stall economic activity. This dependency should catalyze a search for alternatives. By diversifying its imports, it can curtail Russia's influence in its energy markets and limit the severity of potential infrastructural failures.

For example, the European Union can look towards the Middle East for natural gas supply. It holds more than 43% of proven global natural gas reserves (Houshisadat, 2015, p. 17). However, there are political and geographical problems associated with the Middle East. Politically, the Arab states are extremely susceptible to instability, whether it be social unrest or foreign power intervention. This then poses a threat to the security of supply. As for the geography, the distance between the EU and Middle East implies an increase in costs for the former. Russia still remains Europe's cheapest option.

Even so, the EU should look towards the Middle East to diversify its supply, which implies a reduced dependency on Russia. A bulk of the natural gas deposits remain unexploited, around 62%, which implies that Europe could be a substantial destination for LNG in the future (Houshisadat, 2015, p. 18). However, these deposits are yet to be exploited.

Another alternative for the European Union can be found in the Eastern Mediterranean. Gas reserves have been located off the shores of Egypt, Israel, Cyprus and Lebanon. Forecasts of domestic natural gas consumption for the years 2017-2042 show that the large natural gas reserves will be made available for exports, which could contribute to the EU natural gas supply diversification (Ruble, 2017, p. 351).

US LNG should be considered. However, like the previous examples, it comes with costs and politics. US energy cannot meet all of Europe's energy needs. Whether or not its logistically possible is besides the point. A transfer of dependence to the US would leave the EU equally vulnerable.

Though all the aforementioned examples illustrate the availability of other sources, they also suggest that they do not come without political risks and an increase in costs. Therefore, the European Union will remain reliant on Russia for the time being.

Russia can secure demand from the east, China to be specific. The recent construction of the Power of Siberia pipeline reflects this desire. It is the first pipeline to supply Russian gas directly to China, having the capacity to ship 38 billion cubic metres (Gazprom, n.d.).

China and Russia have complementary energy needs. China needs to power its growing economy. Russia needs a new, reliable customer. Its structural addiction to energy revenues, paired with the EU's desire to reduce its dependence on its gas, necessitated a policy reorientation. But even so, the Chinese market will not become a full fledged alternative. Transferring its dependence to China would undermine Russian energy security. Indeed, relations have been warming. However, it remains a pragmatic relationship at its core. China also has an interest in curbing a significant Russian energy presence in its markets.

Despite this reorientation, Russia has gone ahead with more European natural gas projects: Nord Stream 2 and Turk Stream. With that in mind, Russia's reorientation to China is *partial*.

Importers and exporters have different conceptions of "energy security." For example, energy importers place a priority on the security of supply, whereas energy exporters emphasize the security demand as well as the continuous development of their hydrocarbon potential. But diversification is a common denominator. The EU wants and should look to acquire gas from several sources. Russia's petroeconomy moves with global trends and has thus looked to China to meet growing demand. At the same time, it is looking to keep a strong foothold on its European market shares.

In conclusion, the energy relationship between Russia and the European Union can be characterized as an uneasy marriage. Despite being geopolitical rivals, they are dependent on one another. The exit costs for both parties are too high. The EU relies on Russia for its energy needs. Russia depends on the EU for revenues. Its economy relies on

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energy exports, which means that its societal well-being relies on its ability to secure demand for its hydrocarbons. The European market is that security.

It has been argued here that the economic weight of the European Market counteracts a Russian supply threat, despite their being an absence of traditional hard power. The comparison to Ukraine is heavily cited as a reference to the ability and willingness of the Russian state to apply structural pressure (Johnson, 2015; Olearchyk & Belton, 2007; Wiener-Bronner, 2014). However, it has been shown here that the EU-Russia energy nexus is fundamentally different from the Russo-Ukrainian relationship. The former simply holds more economic weight and more geopolitical influence. At the same time, the threat undoubtedly exists. But the chances of it materializing is highly unlikely.

In order to counter such a possibility, the European Union should make it a priority to diversify its supply routes and develop alternative sources of energy. Gas reserves in the Middle East are abundant, although unexploited. There have been discoveries in the eastern mediterranean, although the infrastructure is yet to be constructed.

Russia's pivot to China should not only concentrate minds in Brussels, but accelerate the process of diversification and renewable energy development. At the same time, Russia's reorientation is partial. Most of its revenues still come from the European market and will continue to do so for the foreseeable future. Though it undoubtedly wants to gain substantial shares in China's energy mix, political factors will likely ensure the inverse. China does not want a strong Russian presence in its energy markets. It has probably learnt a thing or two from Russia's energy relationship with Europe.

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