The EU’s energy security dilemma with Russia

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Abstract

This paper examines the EU’s energy security dilemma with Russia in the wider context of their relationship and in the context of their respective approaches to international relations. The EU’s efforts to institutionalise the EU-Russia energy relationship as well as its efforts to construct a common energy security policy are scrutinised and it is shown that the EU remains divided on energy issues. Russian energy policy towards the EU fundamentally clashes with that of the EU’s. The overall highly contradictory approaches to IR of the respective parties are shown to significantly inhibit the creation of a level playing field in energy matters. Whereas the EU views liberalisation as a means of achieving energy security, Russia uses energy as a power political tool and instrumentalises it in undermining the EU’s efforts to reach a common stance on energy security. The overall EU-Russia relationship is characterised by asymmetry: while the EU seeks to integrate Russia into the European system by using normative power, Russia’s realpolitik is centred on the preservation of sovereignty, and, ultimately, on setting itself up as an ideological alternative to the EU.
1. Introduction

With an up to 30% share of the total EU gas consumption, gas from Russia has become a vital necessity, and thus also a strategic burden for the EU. This paper will examine the EU’s energy security dilemma with Russia. It will be shown that, in accordance, with its overall conception of international politics, the EU is attempting to institutionalise the EU-Russia energy relationship, and to align it with market principles. It will be argued that, the origin of the EU as a ‘peace project’ significantly affects and results in the EU’s institutionalist approach to international relations. The normative, ‘soft power’ agenda of the EU explains its use of the interdependence rhetoric in its energy relationship with Russia, as well as its efforts to institutionalise the relationship through the Energy Charter Treaty (ECT). It will be shown, however, that the ECT, which can fundamentally be regarded as an attempt by the EU to export the model of the Common Market, is highly incompatible with Russian energy policy, and in particular, with the политико-economic position of the state-owned Gazprom. Due to Gazprom’s unique position in Russia, and its extremely leverage-producing monopoly position over the gas exports to Europe, there remains little chance that the EU’s effort to institutionalise the energy relationship through the ECT will be successful.

The EU’s market-approach to energy security is also undermined from within the Union. In essence, because the European Commission has no formal legitimacy over their energy policies, member states pursue energy policies that best serve their national interests. In this context, it will be argued that, key EU countries are pursuing policies of ‘economic nationalism’, where the commercial interests of their respective national energy champions, override the common EU energy security interests. Indeed, the extensive bilateral deals between these countries’ national energy champions and Gazprom are one of the main obstacles for a cohesive EU-wide energy security policy. In this context, the wider divide among EU countries’ approaches to Russia will be examined. Russian energy policy will then be examined, and will be put into the wider context of the country’s foreign policy. It will be asserted that, Russia is, in essence, trying to regain its lost position in the international political arena, and is doing so with a distinctly realist approach. In accordance with the core values of realism, and in contrast to the EU’s institutionalism and multilateralism, state-centrism and the pursuit of national interests dominate Russian foreign policy thinking.
Energy policy is also an integral part of Russian foreign policy. As will be shown throughout this paper, Russia uses energy as a foreign policy tool, particularly in its ‘near abroad’, in countries within Moscow’s sought-after sphere of influence. Russian geopolitical realism comes into conflict with EU policies in the ‘common neighbourhood’, but also in the Caspian, where EU is trying to establish new energy relationships to reduce its dependence on Russia. To protect its own energy security – the security of demand – and to maintain its strategically highly advantageous position as the dominant supplier of gas to Europe, Russia is actively undermining the EU’s efforts to diversify the sources of its energy supply. Indeed, rather than being a ‘strategic partnership’, it will be argued that, the overall EU-Russia relationship is characterised by strategic rivalry. The ‘special relationships’ that Russia cultivates with key EU countries are an integral component of Moscow’s ‘divide and rule’ strategy towards the EU; a conscious effort to exacerbate the energy and overall divide between member states while securing further deals for Gazprom, in essence, tightening the ‘energy grip’ around the EU. The Russo-German relationship, the closest bilateral relationship, and a prime example of how ‘economic nationalism’ combined with Moscow’s ‘divide and rule’ strategy undermines the EU’s efforts to construct a cohesive energy security policy, and its most significant outcome – the Nord Stream gas pipeline – with potentially extremely significant geopolitical consequences, will then be examined in detail. Finally, and most quintessentially, this paper will argue that, the EU’s most underlying problem in its energy, and overall, relationship with Russia, is a fundamental misperception of the nature of Russia. It will be asserted that the EU seems to fail to view Russia in realistic terms, as the rising power and strategic and ideological rival that it is, and instead seems to cling to the ‘end of history’ utopia, where the norms and values of the EU are universal.

2. Background

The European Union (EU) is the world’s largest energy importer. The share of natural gas in the energy consumption of the EU has increased significantly during the last decades, and the demand is projected to further increase as natural gas has become the fuel of choice for electricity generation in the EU (Barnes et al. 2006: 3; Constantini et al. 2007: 220; Helm 2007: 13; Umbach 2006: 66-67, 2010: 1236; Weisser 2007: 1). According to IEA estimates, the EU gas demand will increase from the present 540 billion cubic meters (bcm) to an
approximate 800 bcm by 2030 (Goldthau 2008: 686). This figure suggests that the domestic gas production of EU countries, which in 2005 covered 43% of demand, will satisfy less than 25% of demand by 2030 (Finon & Locatelli 2008: 424). Therefore, the EU’s dependence on gas imports will rise dramatically and is expected to reach 80% in 2030 (Goldthau 2008: 686; Lucas 2008: 164; Umbach 2010: 1236). Currently, three countries – Russia, Norway, and Algeria – supply 88% of the total gas imports, and about half of the total gas consumption of the EU. Of these, by far the most important source of supply is Russia with a 40-50% share of imports, and a 22-28% share of the total consumption of the EU (Aalto & Westphal 2007: 7; Baran 2007: 132; Leal-Arcas 2009: 356; Reymond 2007; Spanjer 2007: 2890; Umbach 2010: 1236). Russia has by far the biggest proven natural gas reserves in the world, with a total share of approximately 26%, and is also the world’s biggest producer and exporter. Over 60% of the total Russian gas exports go to the EU (Aalto & Westphal 2007: 13; Bilgin 2009: 4485; Grigoryev 2007: 3036; Helm 2007: 11). Unlike oil, natural gas is a regional commodity, as by contrast to oil, gas is extremely difficult and costly to transport via tankers, making its supply dependent on pipeline infrastructure. As a result, the gas market is also markedly bilateral in character, with contracting parties at each end of the pipeline (Goldthau 2008: 686; Leal-Arcas 2009: 354). Gas from Russia to the EU flows exclusively through the Russian state-owned energy company Gazprom’s pipelines (Goldthau 2008: 689; Heinrich 2008: 1544). The high dependence on Russia as a source of gas and the monopoly of the supply infrastructure by Gazprom are at the core of the EU’s energy security dilemma with Russia.

3. The ‘Gas War’ of 2006 and the EU’s response

Although Russia and its predecessor the USSR had been reliable suppliers of energy to Europe for nearly 30 years (Morozov 2007: 48), the forceful takeover of its private competitors by the state-owned Gazprom between 2004 and 2005 and the resulting strong centralisation of the energy sector in Russia led to worries in the EU “that the Russian government was seeking state control of Russia’s energy resources to use as a political lever” (Light 2008: 16). Since the early 1990s, Russia had indeed used energy supply disruptions on numerous occasions as political tool (Smith 2008: 4), according to Morozov (2007: 54), “during the recent years nearly any crisis in Russia’s relations with its neighbours has
invariably led to the deployment of the energy weapon, which also sometimes affects EU consumers”. Regardless, the EU awakened to its excessive dependence on Russia for gas only after the December 2005 - January 2006 gas conflict between Russia and Ukraine (Umbach 2010: 1230). With about 80% of the EU-bound gas flowing through pipelines crossing the country, Ukraine is the vital transit country for Russian gas flowing to Europe (Aalto & Westphal 2007: 1; Baran 2007: 142; Spanjer 2007: 2890; Victor & Victor 2006: 145). The conflict between Russia and Ukraine culminated in the reduction of pressure in the pipelines by Gazprom, resulting in a decrease of supply, which also affected EU member states. According to Spanjer (2007: 2889) “the gas supply to France decreased by 25-30%; supply to Austria decreased by 33%; and Italy received approximately 25% less gas than normal”. While the immediate causes of the ‘Gas War’ were Ukraine’s chronic difficulties in paying for the Russian-supplied gas, the siphoning off of gas bound for Europe and the proposed quadrupling of the price of Ukraine’s gas by Gazprom in March 2005 (Bilgin 2009: 4482; Helm 2007: 23; Light 2008: 16; Stern 2002: 16), the underlying reasons for the conflict lie elsewhere.

Russo-Ukrainian relations have been volatile ever since the collapse of the USSR. Even before the gas conflict of 2006, Russia had, in the early to mid-1990s, used gas-supply cuts as a means of getting Ukraine to hand over full control of the Black Sea Naval fleet to Russia and to force the country to join a customs union with Russia and other Commonwealth of Independent States (CIS) members (Morozov 2007: 53). Having been a country of importance, only second to Russia, in the USSR, and being a CIS member, Russia sets certain limitations to Ukraine, significantly reducing its freedom of manoeuvre in the international political arena. In the field of energy, CIS countries, including Ukraine, have been able to take advantage of Russia’s dual pricing policy. The dual pricing policy of Gazprom is designed to benefit domestic households and manufacturers. In essence, Russian domestic gas consumption is subsidized by the revenues from the higher-priced sales of gas to Europe, which also permits Russia to sell gas to CIS countries at lower prices (Heinrich 2008: 1566; Spanjer 2007: 2891). Having access to subsidized gas prices sets, however, certain conditions on the receiving countries. In the case of Ukraine, after the Orange Revolution, which ended in January 2005, the country’s newly-elected President Vladimir Yuschenko distanced
himself from Russia and started to move the country systematically toward the West. These developments were considered directly hostile by the Russian government. Russia responded by proposing the quadrupling of the gas prices paid by Ukraine, as mentioned above, knowing that Ukraine could not afford to pay higher prices. The ‘Gas War’, with its widespread, Moscow-orchestrated media coverage, and the personal involvement of the Russian President Vladimir Putin, is widely considered to have been a calculated move to punish the Orange government of Ukraine for its pro-Western policies and to promote the pro-Russian political opposition forces in the upcoming Parliamentary elections of March 2006 (Baev 2008: 124-125; Helm 2007: 23-24; Light 2008: 16-17; Lucas 2008: 168). By taking this demonstrative action against Ukraine (Belyi & Klaus 2007: 218), Moscow made it clear that it did not hesitate to use the energy weapon as a punitive tool against countries which it considers to be within its sphere of influence. After the gas conflict of 2006, this type of Russian behaviour, has become the norm, rather than the exception, with the ‘gas weapon’ having been used to apply political pressure on the Baltic States, Belarus, Georgia, Moldova, and Ukraine (Baran 2007: 132-133; Leal-Arcas 2009: 337; Riley & Umbach 2007: 83).

Although the actual supply cut of gas to Ukraine lasted for only three days in January 2006, it resulted in energy security being strongly put on the table in Brussels (Baran 2007: 132; Helm 2007: 23; Leal-Arcas 2009: 354). The EU swiftly responded to the gas crisis with the March 2006 Green Paper on energy security. The realisation of the severity of the energy security dilemma that the EU was facing is well portrayed by the document’s opening line: “Europe has entered into a new energy era” (EC 2006: 3). The Green Paper clearly recognised the energy security threat resulting from the excessive dependence on few suppliers, mainly Russia, and consequently set out a number of policy recommendations. It recognised the need for securing new sources of energy through a diversification of suppliers. The establishment of new energy relationships with producers in the Caspian region, the Middle East, and North Africa, as well as the construction of new pipelines connecting these directly to the European markets was recommended. The monopoly of Gazprom, although not explicitly named, over the existing pipelines to Europe was recognised as a clear imbalance in the existing energy supply infrastructure, therefore the transit rights and third party access to these through the promotion of the Transit Protocol and the Energy Charter
Treaty (ECT) were also recommended (EC 2006: 15). Acknowledging the centrality of the EU’s energy relationship with Russia, the Green Paper called for a fundamental transformation of the relationship into a “true partnership [which] would offer security and predictability for both sides” (EC 2006: 15). Emphasising the interdependence of the EU-Russia energy relationship, recognising the fact that while the EU needs Russian gas, Gazprom is highly dependent on the revenues from gas exports to the EU, which make up around 70% of its total revenues, and consequently finance more than 20% of the Russian federal budget (Finon & Locatelli 2008: 424; Heinrich 2008: 1567), and the resulting need for a level playing field, the document strongly recommended the legalisation and institutionalisation of the relationship, again, through the increased efforts of the EU to get Russia to ratify the ECT and its Transit Protocol (EC 2006: 15). Interestingly, however, apart from those shown above, the majority of the policy recommendations set out in the Green Paper were in fact internal rather than external. Increased competitiveness and investment and the importance of open markets, the completion of a common internal energy market, and the moving “towards a more sustainable, efficient and diverse energy mix” (EC 2006: 9), were all higher on the list of recommended actions than those tackling the energy security issue at its core. Indeed, as Helm (2007: 1) points out, “rather than concentrate on the external challenges and develop a coherent response to Russia and Gazprom, for the past two decades the EU focus has been largely internal”. The European energy policy agenda has since 1980s focused almost exclusively on the completion of an internal energy market. Due to the continued strong sense among EU member states, that energy policy belongs to the field of sovereignty and national security, the EU’s efforts to build a Union-wide energy market have failed, with the EU remaining to be characterised by a series of bilaterally-linked national markets (Helm 2007: 38; McGowan 2008: 95). Having failed in creating an internal energy market as a source of strength, the European energy policy has, by default, been poorly prepared when confronted by the external challenge of Russia.

The Green Paper of March 2006 was followed by the European Commission’s (EC) ‘January Package’ of 2007. The ‘Package’, being truthful to its name, was above all an attempt to meet the varying political interests of the different Directorate-Generals in the fields of competition and liberalisation, climate change, and security of supply. The Package reaffirmed many of
the recommendations of the Green Paper with a continued strong emphasis on the importance of a functioning internal market (Helm 2007: 42-43). While reaffirming the need to build new energy relationships with other regions, it recommended the enhancement of the EU-Russia relationship through “the negotiation of a new robust, comprehensive framework agreement, including a fully-fledged energy partnership benefiting both parties...[that] should emphasize the mutual long-term benefits to both Russia and the EU and based on market principles and those of the Energy Charter Treaty and draft Transit Protocol” (EC 2007). Most importantly, however, the January Package called for the EU to ‘speak with one voice’ in energy matters (EC 2007). Only an effectively coordinated common policy on energy would provide the EU with some weight in the field of energy internationally. However, reflecting the unwillingness of member states to fully cede over control of their energy policies to Brussels, the Package states that “the EC and its Member States should be a key driver in the design of international agreements” (EC 2007, emphasis added).

4. The EU’s institutionalist approach

The EU’s approach to energy security, as seen in the documents discussed above, is characteristic of the values and origin of the Union itself. Fundamentally, the European Union can be characterised as a ‘peace project’: “[t]he central underlying value in the construction of the EU was, from the outset, the establishment of a form of ‘civic statehood’ in Western Europe” (Laffan 2001: 714). It is a community with a socially constructed reality and values. Social constructivism and its theory of the ‘social construction of reality’ assume that, rather than having an inborn ‘reality’ and existing independently from their social environments, actors are created and refined by their cultural environment and construct and reproduce their reality through interactions in their cultural and social environments (Barnett 2005: 256; Risse 2009: 145). According to Barnett (2005: 259), “[t]he social construction of reality concerns not only how we see the world but also how we see ourselves, define our interests, and determine what constitutes acceptable action”, leading to the creation of normative structures (Barnett 2005: 259, 265). Indeed, being at its most abstract a “social construction” and a community of values (Laffan 2001: 709, 714), normative structures establishing the framework for behaviour have a central role in the functioning of the EU. As norms “evolve through a political process” (Barnett 2005: 265), their institutionalisation has
been a core feature of the integration process of Europe. Norms are institutionalised by creating legal regimes. “Rule setting is particularly important to the EU because it lacks many other sources of traditional power” (Laffan 2001:711). As the EU was “born of international diplomacy and law” (Jupille & Caporaso 1999: 429), it has a distinctly multilateral and legalistic conception of international relations (Belyi & Klaus 2007: 211; Finon & Locatelli 2008: 426). Accordingly, the EU adheres to the institutionalist approach to international relations.

Institutionalism asserts that, institutions – sets of rules negotiated by states stipulating the norms and rules of inter-state behaviour typically formalised in international agreements – are the key means of promoting stability and world peace (Mearsheimer 1995: 5-8). The EU’s institutionalist approach to international relations can also be attributed to its lack of “classical attributes of a State and the means of geopolitical power”: The EU tries to make up for its limited scope of traditional ‘hard power’ by resorting to ‘soft power’ in its external relations (Finon & Locatelli 2008: 426). A term coined by Joseph Nye Jr., soft power refers to resources such as institutions, values, culture, and policies being mounted to attract wanted outcomes through co-optation rather than intimidation or coercion (Nye 2004: 5, 8). Related to the prevalence of soft power, and the lack of hard power in its dealings with other world players, the EU conceptualises its dependence in terms of interdependence (Finon & Locatelli 2008: 426 citing Laidi 2006). Interdependence creates an increasing need for policy coordination between the involved parties and thus requires and results in the creation of institutional settings in the form of international regimes regulating the relationship (Keohane 2005: 8-9). In effect, the EU “projects onto its relations with other states the type of inter-state relations that its own members have succeeded in setting up with one another” (Finon & Locatelli 2008: 426). Energy policy is no exception. The EU’s reliance on soft power; the attractiveness of its values, institutions, and policies explains the central importance for the EU to “establish clear and predictable institutional relations with energy producing countries” (Belyi & Klaus 2007: 211). As the EU emphasises the interdependent nature of its energy relationship with Russia (EC 2006, 2007), it is only natural that the relationship should, according to the EU, be brought under the auspices of a strong institutional framework, in the form of the Energy Charter Treaty.
The ECT “provides a multilateral framework for energy cooperation” (Leal-Arcas 2009: 358), and is, in effect, designed to “create a basis for the rule of law in this sphere” (Aalto & Westphal 2007: 11). Agreed upon in 1991, it was originally an attempt by the EC, to integrate the energy sectors of the countries of the former communist bloc and the USSR to European and wider world markets (Aalto & Westphal 2007: 11; Helm 2007: 48; Light 2008: 18). At its core, “[i]t is designed to promote energy security through the operation of more open and competitive energy markets” (Leal-Arcas 2009: 358) by providing legally-binding protection for foreign investors “against key non-commercial risks, such as discriminatory treatment, direct or indirect expropriation” (Helm 2007: 48). Signed by 52 states, including Russia, in 1994, the Treaty entered into force as a legally-binding treaty under international public law in 1998 (Aalto & Westphal 2007: 11). The ECT can be characterised as an attempt by the EU to export its model of the Common Internal Market into its external energy policy (Belyi & Klaus 2007: 211). From the outset, however, the ECT’s aims were severely undermined by the non-ratification of the Treaty by the region’s most important energy supplier, Russia. The Russian refusal to ratify the ECT is mainly due to the Treaty’s Transit Protocol (Aalto & Westphal 2007: 12; Baev 2008: 122; Helm 2007: 48; Light 2008: 18; Smith 2008: 7). By agreeing to the principles of the Protocol, Russia would commit itself to the implementation of “the principles of freedom and transit without distinction of the origin, destination, or ownership of energy, and non-discriminatory pricing” (Aalto & Westphal 2007: 12). In effect, Gazprom would be forced to give up its monopoly position over the physical supply infrastructure of gas deliveries to Europe. By opening up its pipelines to third party access and permitting, for example, the transit of market-priced Caspian gas to Europe, Russia would give up not only its pricing monopoly over EU-bound gas, but also its extremely advantageous and leverage-producing position as the main seller and supplier of natural gas to the EU (Aalto & Westphal 2007: 12; Helm 2007: 49; Light 2008: 18; Van Der Meulen 2009: 850). By demonopolising its pipeline networks, Russia would also directly jeopardize its own energy security, which, in contrast to the EU’s, is not based, as Heinrich (2008: 1539) points out, on the security of supply, but rather on the security of demand. Therefore, the Russian refusal to ratify the ECT and its Transit Protocol must be seen in the light of protection of national interests and maintenance of its strategic position as the chief supplier of gas to Europe.
Liberalisation of the Russian gas market, as called for by the ECT and the Transit Protocol would spell the end for Gazprom’s special position in the Russian domestic and export market, and would also directly affect the Russian State itself. As Tkachenko (2007: 184) points out, “Gazprom occupies a unique position in Russian politics and economy”. Accordingly, in contrast to the assumptions and agenda of the EU’s market-based liberalisation approach, “Gazprom cannot be understood in strictly conventional economic terms” (Van Der Meulen 2009: 847). In the political sphere, although the Russian State owns not more than 51% of the company (Heinrich 2008: 1545; Light 2008: 16; Tkachenko 2007: 185), Lucas (2008: 165) is not far off the mark when arguing that Gazprom is, in effect, “the gas division of Kremlin”. Gazprom “has always been run like a completely state-owned company” (Heinrich 2008: 1545) due to the Kremlin’s ability to assert influence and control over the company’s management. The Siloviki, ‘the people of force’, consisting largely of politicians, including former president Putin, with backgrounds in and strong ties to the security or military services, constituting the decision-making elite of Russia, occupy key positions in Gazprom (Baran 2007: 133; Grigoryev 2007: 3037; Helm 2007: 21; Smith 2008: 12). The current Russian President Medvedev also has a past as the Chairman of the Board of Gazprom (Baev 2008: 119). The strong presence of the Siloviki in Gazprom ensures that the interests of the Russian Federal State are strongly merged to the agenda of the company. In the economic sphere, Gazprom’s hard currency earnings are unmatched in Russia, while its tax payments on profits account for more than 20% of the Federal budget (Finon & Locatelli 2008: 424; Spanjer 2007: 2892; Tkachenko 2007: 185). Gazprom is therefore a vital money-maker for the Russian government, one whose privatisation would plunge the State into severe budgetary deficits, requiring a major reorganisation of the whole economy. Secondly, Gazprom occupies a vital societal role in Russia as it is used by the government to supply the population with the basic energy needs at subsidised prices (Van Der Meulen 2009: 847). Gazprom’s monopoly over the export of gas from Russia, and its profits from the gas sales to Europe, are vital for the Russian consumer, and the country’s economic growth as a whole. The export monopoly of Gazprom, and, in particular, the profits from its sale of gas to the EU, constituting, as mentioned earlier, around 70% of the company’s total revenues, is the fundamental prerequisite for the dual gas-pricing policy of Russia, allowing Russian domestic consumers to buy gas at significantly lower, state-subsidised, prices (Heinrich 2008; Spanjer 2007). Should Russia acquiesce to the EU’s market-based liberal approach and ratify the
ECT, its domestic consumers would pay the price. Severe socio-economic problems would arise from increased domestic gas prices as private consumers would, in effect, be deprived of a form of a social safety net provided for by the State. Arguably the biggest problem would, however, arise from the deleterious effects on Russian energy-intensive enterprises. They would see their competitive advantage vis-à-vis their European counterparts eroded, with increased production costs resulting in lower production levels and in increased unemployment, which would, on the whole, result in a slowing-down of economic growth in Russia (Spanjer 2007: 2894). Recognising the overall unique strategic position of Gazprom within the Russian State system, Putin clearly stated in 2006 that “[w]e intend to retain state control over the gas pipeline system and over Gazprom...the European Commission should not have any illusions. In the gas sector, they will have to deal with a state” (quoted in Lucas 2008: 164; Morozov 2007: 51).

As highlighted in the wording of the EC’s January Package of 2007, opposition to the EU’s market-led approach on energy security is not confined only to Russia; it is also clearly visible internally among EU member states. Paradoxically, even though the whole integration process of Europe started with cooperation in the field on energy, with the 1952 European Coal and Steel Community (ECSC) and the European Atomic Energy Community (EURATOM) of the 1957 Treaty of Rome (Aalto 2007: 31; McGowan 2008: 93), article 175 of the 1992 Maastricht Treaty on the European Union (TEU) explicitly specifies that the member states retain sovereignty in the energy field (Van Der Meulen 2009: 842). This is the central weak-point in the EC’s efforts to construct a common energy security policy and to ‘speak with one voice’ in energy matters. The EU and the Commission lack formal authority and legitimacy over energy security issues. As a result, the EU consists of 27 member states with independent interests and varying agendas in energy matters (Berg 2007: 149; Finon & Locatelli 2008: 426). According to Light (2008: 842), “[m]any European leaders prefer to deal with Russia on a bilateral basis rather than via the EU, pursuing their own energy interests, even when those interests conflict with the interests of the EU as a whole or with the interests of other member states”. This tendency results from and reinforces the general split among EU member states on the approach to Russia, as recognised in the European
Council of Foreign Relations’ Power Audit of EU-Russia relations (Leonard & Popescu 2007).

The report asserts that “Russia has emerged as the most divisive issue in the European Union since Donald Rumsfeld split the European club into ‘new’ and ‘old’ member states” (Leonard & Popescu 2007: 1), or, as formulated by Trade Commissioner Mandelson in 2007: “[n]o other country reveals our differences as does Russia” (quoted in Leonard & Popescu 2007: 16). The EU is split between two opposing approaches to Russia: there are those who “view Russia as a potential partner that can be drawn into the EU’s orbit through a process of ‘creeping integration’” while at the other extreme are those member states “who see and treat Russia as a threat...[whose] expansionism and contempt for democracy must be rolled back through a policy of ‘soft containment’” (Leonard & Popescu 2007: 2). The report recognises four countries - France, Germany, Italy, and Spain – as ‘strategic partners’ “who enjoy a ‘special relationship’ with Russia which occasionally undermines common EU policies” (Leonard & Popescu 2007: 2). Not surprisingly, the same four countries constitute the core internal opposition to a common EU energy strategy “whether it pertains to dependency on one major import source for energy or support for greater competition within EU countries” (Smith 2008: 16). McGowan (2008) argues that, this approach exemplifies the overall shift to ‘economic nationalism’ that has taken place in Europe. As Smith (2008: 15) notes, knowing that the EU has been unable to agree upon a common energy strategy - partly due to the very resistance to it by these countries themselves (McGowan 2008) – in particular, France, Germany, and Italy – are now seeking separate deals, favouring their own national energy companies, with Russia. ‘National champions’ (McGowan 2008) such as the German E.ON Ruhrgas’ and the French EDF’s strong opposition to a common internal market, due to their desire to retain monopoly positions, is one of the main reasons why the EC was unable to complete an internal market during the 1990s (Helm 2007: 38-39). Now, however, as McGowan (2008) argues, these national champions along with Italy’s ENI are, with the support of their countries’ governments, severely undermining the EU’s attempts to build a common external energy policy, by signing bilateral deals with Gazprom on future energy supplies. This economic nationalism and bilateralism by three of the EU’s ‘Big Four’ is clearly contradictory to the EU’s multilateral and market-based approach to Russia in the
field of energy, and is severely corrosive of the EU’s credibility as a serious actor in the world’s energy markets.

For EU member states at the other extreme of the two approaches to Russia, as recognised by Leonard & Popescu (2007: 2), the increasingly cordial relations between key member states and Russia are a source of frustration and of an increasing feeling of insecurity. The prevalence of seeing Russia as a threat is particularly strong among the new, former-communist bloc countries of Eastern Europe, for example, the Baltic States, Czech Republic, and Poland, who have experienced firsthand the Russian use of energy disruptions for political ends (Aalto 2007: 38; Leonard & Popescu 2007: 2; Smith 2008: 16). With the lack of a coherent common EU strategy, these smaller and poorer countries are, to a large extent, on their own in their efforts to counter Russian energy pressures (Smith 2008: 16). Not surprisingly, these member states are also the main advocates of a stronger common EU policy on energy security. However, with only the quiet support of the UK, Finland, and Sweden, the Baltic and Central European countries’ efforts have little overall weight in the EU (Smith 2008: 16). Quintessentially, the European Commission’s effort to set up “a real supranational power to govern energy relations, and primarily to balance the market power of the Russian seller and jointly negotiate gas contracts” (Finon & Locatelli 2008: 428), would require “a transfer of decision-making power and sovereignty to the EU level” (Westphal 2007: 98). Centralising decision-making powers to Brussels also goes to the very heart of the long-standing, and fundamentally, the most basic underlying debate on the future nature and function of the European Union between the federalists and the intergovernmentalists. As most of the EU member states, particularly those key members discussed above, share the view of energy policy issues as “critical for national security and the economy” (Milov 2008: 15), the prospects for a Brussels-led common external energy policy remain weak: “[s]overeignty transfer in such a national sensitive policy has...failed to materialize...[,] energy policy is still defined as a prerogative of the nation state” (Westphal 2007: 98).

In addition to sovereignty issues, a common EU-wide stance on energy security is undermined by a general non-securitisation of energy issues, particularly in Italy, France, and
Germany, whose policies are centred on promoting the interests of their national champions through bilateral relations with Russia, rather than promoting EU-wide long-term security of supply. As national security in the field of energy in these key member states seems to be interpreted as maximising the market-shares and profits of their respective energy companies, their policies are invariably affected by the corporate, profit-driven agendas of their national champions. Indeed, rather than discussing them in terms of geopolitics, energy portfolios are delegated to the countries’ economic ministries who, in turn, formulate policies favouring their national champions (Baran 2007: 131; Umbach 2006: 65). This interest-driven ‘economic nationalism’ with its strong emphasis on bilateralism, by key EU member states, has a significant two-fold effect. Firstly, this markedly state-centric neorealist approach has a severely deleterious effect on international governance – in this case the EU – and on multilateral cooperation in the field of energy based on legal institutions and market mechanisms (Westphal 2007: 112). It is corrosive to the EU’s overall institutionalist approach to international relations, and, in energy issues in particular, it undermines the credibility of the EU because of its underlying contradictions to the main principles of the Energy Charter Treaty. Secondly, the bilateral policies pursued by the big member states put smaller states between a rock and hard place. They can either continue to call for a stronger common EU energy security policy while witnessing their own energy security undermined by the bilateral deals between the bigger members and Russia, or they can acquiesce to the trend of negotiating bilateral deals with Russia. Importantly, however, the latter option is not available for those member states who consider Russia to be a threat rather than a potential partner. This can result, as is exemplified by the Finnish decision to build new nuclear power stations, in unilateral actions to promote energy security. While, for example, Germany is pursuing a complete phase-out of nuclear power by 2020, the Finnish parliament approved in 2002 the plans to build a fifth nuclear reactor in Finland, followed by the 2010 approval of the construction of further two new reactors. At the core of Finland’s policy choices lay the fear of being too dependent on imported Russian energy and the resulting pursuit of self-sufficiency in electricity production (Aalto & Tynkkynen 2007; BBC 2010a, 2005; DW 2010). While such policies offer individual countries a means to strengthen their energy security, they are not conducive with the European Commission’s proposed common external energy policy. In sum, “[t]he European nations have failed to subsume their own national interests – and those of the national champions – for the greater European good” (Helm 2007:
leaving the EC as a mere spectator of the developments in the European gas markets (Berg 2007: 149).

5. Russian geopolitical realism

The current Russian approach to international relations is in stark contrast to that of the EU’s. Throughout the 1990s, European leaders grew accustomed to Russia’s internal disarray and its resulting retreat from the international arena (Leonard & Popescu 2007: 7; Rumer 2007: 7). The rise to power of Vladimir Putin in 2000, however, marked the start of a strong revival of Russia and the beginning of a conscious process of gradually returning the country to the highest levels of international politics. Particularly during Putin’s second term, a general, deep-rooted perception emerged, that Russia was entitled to ‘greatness’, comparable to the De Gaullist idea of *grandeur* (Baev 2008: 32-33), an idea that, to significant degree, dictates the manner in which Russia practices its foreign relations, including its energy policies. Indeed, according to Rumer (2007: 23), “the Putin era [saw] the development of an international posture primarily focused on interests and the balance of power”. Accordingly, as a rising power, Russia sees international politics as a zero-sum game in which the preservation of sovereignty, territorial integrity and independence are accorded the highest value (Light 2008: 15). In Russian terms, Russia ‘owns its own future’ and has thus taken a pragmatic view to international relations, based on the upholding of national interests (Lavrov 2007, 2008 cited in Van Der Meulen 2009: 846). Russia, therefore, subscribes to the realist approach of international relations.

Rather than being a single theory, realism is paradigm – ‘a family of theories’ – all of which share a number of basic core assumptions on the nature of international politics (Legro & Moravcsik 1999: 9; Walt 1998: 31). Roughly simplified, all realist theories subscribe to *statism, self-help, and survival* (Dunne & Schmidt 2005: 172). According to realists, nation-states are the principal actors in international politics. They are rational actors seeking to maximise utility while minimising the costs (Glaser 1995: 54; Legro & Moravcsik 1999: 12). According to Waltz (1979: 102), the leading structural- or neorealist, “[a]mong states, the state of nature is a state of war”. In the lack of a higher supranational authority to regulate the
actions of states, anarchy is by default the organising principle of the world order (Waltz 1979: 114-115). This leaves states in a ‘self-help’ system, in which they “must rely on the means they can generate and the arrangements they can make for themselves” (Waltz 1979: 111). The very lack of a higher regulatory authority to limit the actors’ use of force makes self-help “necessarily the principle of action in an anarchic order” (Waltz 1979: 111). Survival is the overarching *raison d’état* and the regulator of the *modus operandi* of nationstates in a self-help system (Mearsheimer 1995: 11; Waltz 1979: 105). As national security and survival are at the top of the hierarchy for international issues (Mearsheimer 1995: 10-11), “considerations of security subordinate economic gain to political interest” (Waltz 1979: 107). International politics is, then, in essence, a “competitive realm” (Waltz 1979: 127), in which states pursue policies that best serve their national interests, and thus “at a minimum, seek their own preservation and, at a maximum, drive for universal domination” (Waltz 1979: 118). Anarchy and rivalry in the international political realm inhibit, according to realists, cooperation between states. As international politics is considered a zero-sum game – one’s gain necessarily reduces that of the others’ – states try to maximise their relative power vis-à-vis their adversaries (Glaser 1995: 50, 70-71; Mearsheimer 1995: 12), as Waltz (1979: 105) points out, states “ask not ‘Will both of us gain?’ but ‘Who will gain more?’”. Rather than being focused on absolute gains in a ‘prisoners’ dilemma’ situation, a realist world concerned about the balance of power motivates states to think in terms of relative gains, making sure that they do better, “or at least, no worse, than the other state in any agreement” (Mearsheimer 1995: 12).

During the Putin era, particularly during his second term in office, several qualities of *realpolitik* became apparent in Russian foreign policy thought (Rumer 2007: 23). Putin himself confirmed in 2007 that, “interest has been the main principle in the international arena and international relations between states throughout history” (quoted in Rumer 2007: 23). Apart from the overall revival of Russian influence and power in international affairs, the most frequently and clearly articulated Russian foreign policy interest has been the consolidation of a sphere of influence in the country’s ‘near abroad’, among the former countries of the USSR in the Caucasus, Central-Asia, as well as in Eastern Europe. A sphere of influence in the lands bordering Russia is considered to be vital for the country’s national
security (Helm 2007: 21; Rumer 2007: 25; Smith 2008: 1). Geopolitical realism thus predominates in Russian foreign policy thinking (Light 2008: 15). This produces very unfavourable circumstances for closer EU-Russia relations as the approaches to international relations of the two parties are highly incompatible. As Mearsheimer (1995: 7) points out, institutionalism directly challenges the underlying logic of realism, indeed, “institutionalist thinking has focused its critical fire on realism” (Keohane 1993 quoted in Mearsheimer 1995: 7). The role of institutions is the most central point of disagreement between the two approaches. While institutionalists see institutions as the key to peace and stability, realists remain highly sceptical of their potential. Indeed, the very basis of the EU, “European integration [...] challenges the realist assumption of an international society of independent states governed by the principle of anarchy” (Wiener 2006: 36). Realists recognise that states do operate through institutions, however, they assert that institutions “reflect state calculations of self-interest based primarily on the international distribution of power” (Mearsheimer 1995: 13), they are essentially “arenas for acting out power relationships” (Evans & Wilson 1992 quoted in Mearsheimer 1995: 13). Indeed, as Keohane (2005: 7) notes, institutionalism, “because of its adherents’ emphasis on the functions performed by international institutions, runs the risk of being too naive about power and conflict”. The Russian adherence to geopolitical realism and the EU’s institutionalist approach to international relations are fundamentally contradictory. The respective approaches of the two parties dictate the means by which they pursue their energy relationships with other players, as well as the ends that they seek to serve.

The geopolitical nature of Russian realism with its need for a sphere of influence directly undermines the policies and interests of the EU. Firstly, the assumed Russian sphere of influence covers a number of EU member states in Eastern Europe. It also comes into direct conflict with the European Commission’s ‘Eastern Partnership’, the eastern dimension of the European Neighbourhood Policy (ENP) (EC 2010a, 2010b) in a number of countries. Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine, all ex-USSR countries considered by Moscow to be within Russia’s sphere of influence, are also part of the ENP, designed to strengthen “the prosperity, stability and security of all...building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance,
market economy principles and sustainable development)” (EC 2010a). Strengthening energy security is explicitly named as one of goals of the Eastern Partnership (EC 2010b). In contrast, the creation of a Russian sphere of influence in these countries is based on Moscow’s realpolitik of maintaining the balance of power in its ‘near abroad’ resulting in a direct hostility towards the EU’s normative agenda, through, for example, the support of pro-Russian political forces (Haukkala 2009: 1757; Leonard & Popescu 2007: 1-8; Light 2008: 23). Secondly, as the Russian sphere of influence covers the Caucasus, but also Central Asia, it comes into conflict with the EU’s energy interests in the regions. Russia has actively undermined the EU’s efforts to establish new energy relationships with the regions’ producers (Helm 2007: 32; Leonard & Popescu 2007: 1; Rumer 2007: 32). As “Russia wants to expand its sphere of influence and achieve control of economic interests and energy assets in neighbouring countries and the EU” (Leonard & Popescu 2007: 8), the EU-Russia relationship, in contrast to the ‘strategic partnership’ rhetoric often used by both parties’ officials is, to a large extent, characterised by strategic competition and rivalry (Light 2008: 15, 25).

Energy resources play a central role in the revival of Russia. Putin, the main architect of Russia’s drive for ‘greatness’ (Helm 2007: 17), saw the potential and strategic value of natural resources in strengthening Russia’s economy and its international weight years before he became president. In his 1997 doctoral thesis Putin asserted that, natural resources, in particular, fossil fuels play a vital part in the restoration of Russia’s post-Soviet economy. Economic growth, in turn, was seen by Putin as the basis for political power and influence in the international arena (Heinrich 2008: 1542; Tkachenko 2007: 171). The thesis saw natural resources, or the “‘strategic sector’ not only as a key to economic renaissance but also or even primarily as an instrument of Russia’s geopolitical reascendance as a future superpower in energy” (Umbach 2006: 68). Thus, the control of the ‘strategic sector’ was, according to Putin, too important for the national interest to be left to private business (Lucas 2008: 163). Accordingly, during Putin’s time in office, the natural resource sector of Russia was heavily nationalised. The nationalising process was part and parcel of Putin’s strategy of “restoring state capacity and the independence of state authority from economic interest groups”, and of the effort “to rebuild the central state and to establish the presidential administration as the
dominant political institution in Russia” (Heinrich 2008: 1542). This, in effect, led to a wide-scale neutralisation of the energy oligarchs who had enjoyed a marriage of convenience with the presidential authority during Yeltsin’s time in office. Arbitrary accusations were made against several prominent figures, most importantly Mikhail Khodorkovsky of Yukos, leading to his imprisonment and the running down of one of the biggest companies in Russia (Helm 2007: 19-20). However, rather than outright nationalising other energy companies, the Russian government staffed these companies’ highest leaderships with prominent figures from the president’s inner circle, thus establishing control over their decision-making (Tkachenko 2007: 167-168). This politicisation process was, by far, taken furthest in the case of Gazprom, resulting in a situation where, as Van Der Meulen (2009: 849) points out, “the Russian state as majority shareholder directly controls supply and transmission of gas in Russia in accordance with its geopolitical objectives”. Putin’s concept of ‘energy superpower’ and the politicisation of Gazprom epitomises, according to Baev (2008: 118), the “blending of energy business and power politics, where the aims of profit maximisation and building positions of power are barely distinguishable”.

The Russian effort to secure strategic sectors is dubbed by commentators as ‘resource nationalism’ (Grigoryev 2007: 3037; Umbach 2010: 1229). Resource nationalism is not only a Russian phenomenon, rather, it has become a trend among energy-rich nations, with state-owned companies controlling up 85-90% of the world’s oil and gas reserves (Umbach 2010: 1232; Helm 2007: 24). In general terms, resource nationalism is interpreted as government-pursued policies aimed at nationalising oil and gas assets while limiting the access of international energy companies, thus providing clear competitive advantages for the country’s national champions (Milov 2008: 3). If access is given to international companies, it is done in a “totally non-transparent, arbitrary, and politically charged manner” (Milov 2008: 4). As an example, Russia has given limited access to its strategic sectors to German, French, and Italian energy companies – these countries, as mentioned earlier, maintain ‘special relationships’ with Russia thus their access to the Russian energy resources is clearly politically-motivated. At the same time, US, UK and Dutch energy companies have seen their licenses revoked on arbitrary grounds (Milov 2008: 4; Smith 2008: 13). By default, resource nationalism creates a very unfavourable atmosphere for multilateral cooperation in the energy
field (Milov 2008: 4). The politicisation of the Russian energy sector, and particularly, the tight control that the Kremlin exerts over Gazprom, are a significant obstacle for a closer and more institutionalised energy relationship between the EU and Russia. The state-centric Russian policy and the EU’s institutionalist and neoliberal approach are highly contradictory. Russian resource nationalism contradicts in every aspect the Energy Charter Treaty, upon which the EU is trying to build its energy relations with Russia. While the EU is seeking to bring energy relations under international law through the ECT in order to promote a more liberal and stable energy market, the very same discriminatory treatment of foreign investors that it is trying prevent, is the norm, state-practised, *modus operandi* in Russia. In accordance with its realpolitik approach to international relations, the Russian leadership has a fundamental reluctance to partake in legally-binding international agreements that would limit the country’s freedom of manoeuvre and the pursuit of its national interests. Considering the clearly articulated strategic importance of natural resources for Russia’s economic revival and the re-establishment of its position in the international arena, it is very unlikely that Russia would sign any legally-binding international agreements in the field of energy (Milov 2008: 14-15).

Although officials of the administrations of Putin and of his successor Dmitri Medvedev have constantly denied that Russia uses its energy resources as a political instrument (Smith 2008: 1), there remains little doubt that energy has become one of the most important tools of Russian foreign policy (Leal-Arcas 2009: 355; Morozov 2007: 54, 58; Riley & Umbach 2007: 83; Umbach 2006: 68). Indeed, “energy, especially natural gas and oil, now represents the most effective and ‘civilised’ power political instrument for the Russian government in the international arena” (Tkachenko 2007: 163). The latest instance of the Russian use of energy as a foreign policy tool is the June 2010 cut-off of gas deliveries to Belarus. Gazprom, acting on the order of President Medvedev, reduced the deliveries by 30%, in an effort to compel Belarus to settle a debt of $200m. Belarus responded by threatening to suspend the transit of Russian gas to Europe, potentially affecting 6% of the EU’s gas consumption, claiming that Gazprom owed the country $260m in transit fees (BBC 2010b, 2010c). Although the dispute was quietly settled before it escalated and affected EU supply, with both parties settling at least a part of their respective debts (Euronews 2010), it was another
textbook example of Russia using energy as foreign policy tool. As in the 2006 ‘Gas War’, the underlying reasons for the dispute were political. In May 2009, the EU reopened its relations to Belarus – ‘the last dictatorship in Europe’ – after a period of frozen relations due to for example severe human rights violations in the country, and invited Belarus to become part of the EU’s ‘Eastern Partnership’ (BBC 2009). Although, Belarus maintains the closest relations to Russia of all the ex-USSR countries, with for example a joint defensive pact between the countries, the increased cooperation between Brussels and Minsk resulted in the souring of Belarusian-Russian relations (BBC 2009). The June 2010 gas dispute was first and foremost a Russian power political show of force and a means to reconsolidate Moscow’s influence over Belarus. Less than two weeks after the dispute Belarus agreed to join Russia and Kazakhstan in a customs union (BBC 2010d). From the EU’s point of view, the dispute obviously had an unwanted outcome as Russia was able to undermine Brussels’ influence in Belarus, while strengthening its own. However, the long-term implications of Moscow’s actions in this case exceed by far the policy setbacks to the Eastern Partnership: Russia clearly demonstrated its continued preparedness to jeopardize its economic interests – the smooth flow of gas to Europe through Belarus – in order to promote its political and security interests – the consolidation of its sphere of influence – in a distinctly realist manner, as asserted by Waltz (1979: 107).

To protect its own energy security – the security of demand – Russia is actively trying to undermine the EU’s efforts to diversify its sources of energy. To maintain its leverage-producing and strategically extremely important role as the dominant supplier of natural gas to Europe, Russia is pursuing a twofold strategy: It is either setting up joint ventures with- or buying shares of other producer-countries’ national champions, as for example in Algeria – the third biggest source of EU gas imports with a share of 10% – effectively increasing Gazprom’s share of the total Italian gas supply to 69%, or it is forging closer political and economic ties with producer-countries, this strategy being particularly prevalent in the Caucasus and Central Asia (Bilgin 2009: 4483; Helm 2007: 21; Lucas 2008: 182; Smith 2008: 9). The Caucasus and Central Asia, due to their vast energy reserves, have become an arena of geopolitical competition between Russia, the EU, The United States, and China (Rumer 2007: 34). These regions are of central importance to Moscow because of their
proximity to Russia, putting them within the sought-after Russian sphere of influence, but also because of the Russian dependence on these regions’ energy sources. Indeed, a significant degree of the gas that Russia exports to Europe originates from the Caucasus and Central Asia, making them vital for the Russian position in Europe. Russia has, at the cost of the EU’s diversification efforts, been able to secure long-term contracts with the regions’ most significant producers Kazakhstan, Turkmenistan, and Uzbekistan giving Russia control over gas that was available for European exports under alternative pipeline schemes. A monopoly over these countries’ gas-exports enables Russia to maintain its growing export-commitments to Europe and ensures the maintaining of the status quo in the EU’s gas supply (Baran 2007: 135-138; Bilgin 2009: 4487; Finon & Locatelli 2008 :426; Heinrich 2008: 1561; Helm 2007: 33; Leonard & Popescu 2007: 18; Rumer 2007: 31). Partnership with Russia is an attractive alternative for energy-rich countries in the Caucasus and Central Asia, because, in contrast to partnership with the EU, which would predicate the acceptance of the EU’s ‘common values’ - democracy and human rights, rule of law, good governance – (EC 2010a), the Russian model of ‘sovereign democracy’ does not necessitate wide-spread political reforms undermining the power of the highly authoritarian leaders of these countries (Leonard & Popescu 2007: 18).

6. Divide and rule
In accordance with its state-centric realist approach to international relations, Russia prefers to deal with its partners on a bilateral basis. The preference for bilateralism is one the most underlying structural problems of the EU-Russia energy relationship (Leonard & Popescu 2007: 13; Light 2008: 24-25). As a result of its view of international relations, Russia circumvents Brussels in its energy dealings with Europe; the chair of the Duma’s committee on international relations stated in 2007 that, “[w]e are sick and tired of dealing with Brussels bureaucrats...[t]he EU is not an institution that contributes to our relationship, but an institution that slows down progress” (quoted in Leonard & Popescu 2007: 14). The Russian preference for bilateralism is strengthened by the EU’s inability to construct a common energy security policy, something that the Kremlin interprets as a “manifestation of its systemic weakness” (Smith 2008: 2). Importantly, Moscow has seized the opportunity presented to it, to further exacerbate the divide on energy issues between EU member states.
In what commentators have dubbed as the ‘divide and rule’ strategy, Moscow instrumentalises Gazprom in setting up bilateral deals with individual EU countries, further driving a wedge between member states, while increasing the overall European dependence on Russian-supplied gas (Baran 2007: 131; Finon & Loccatelli 2008: 430; Leonard & Popescu 2007: 13-16; Lucas 2008: 166; Smith 2008: 2-3; Umbach 2010: 1237). The combination of the lack of a cohesive EU approach, and the ‘divide and rule’ strategy have allowed Moscow to pre-emptively block any European diversification attempts in the form of construction of alternative pipeline-routes from the Caspian and Central Asia directly to Europe (Baran 2007: 131). The most poignant example of the Russian strategy of directly challenging EU-planned alternative pipelines is Moscow’s attempt to torpedo the Nabucco pipeline project, which is designed to transport gas from the Caspian, in particular Azerbaijan and Turkmenistan, directly to Europe through Turkey, Bulgaria, Romania, Hungary, and Austria (Baran 2007: 138; Lucas 2008: 176). As the project was threatening Gazprom’s monopoly in Europe, Moscow launched an extensive campaign on undermining the project and offering an alternative pipeline mimicking the route of Nabucco. The Russian-proposed alternative, the South Stream pipeline runs under the Black Sea and through the Balkans, to Italy, Hungary, and Austria, and would be jointly built with the Italian national champion ENI. Due to its crossing of the Black Sea, the project is estimated to cost at least twice as much as the Nabucco, suggesting, again, that the project is based on geopolitical rather than commercial interests (Helm 2007: 33; Lucas 2008: 177; Umbach 2010: 1237). The importance for Moscow of eliminating the Nabucco alternative was reflected by the fact that Putin personally visited his counterparts in the proposed transit countries to lobby for the South Stream (Baran 2007: 138). In this context, Austria and Hungary, the two countries where the Nabucco is planned to terminate, played a decisive role. Hungary was the first to give its backing to the South Stream in 2007 after Russian promises of making the country a hub for Russian-exported gas in the region (Baev 2008: 123; Lucas 2008: 179-180). In an unintentionally insightful remark of the overall dynamics of the EU-Russia energy relationship, the Hungarian Prime Minister was quoted saying in March 2007 that while the Nabucco remained a mere plan, the Russian alternative was “backed by a very strong will and a very strong organisational power...We don’t need dreams. We need projects” (quoted in Baran 2007: 140; Lucas 2007: 179). Austria followed suit in early 2008 by signing extensive long-term energy deals with Russia, including an agreement to sell Gazprom a 50% stake in
the Baumgarten gas hub - a transit terminal for approximately one third of all Russian gas supplies to the EU (Lucas 2008: 179-180; Smith 2008: 6). However, in 2009 both Austria and Hungary also gave their backing to the Nabucco, resulting in the current situation where both of the pipelines are likely to be built.

map 1. Gas pipelines from Russia (The Economist 2008)

The most important aspect of the Moscow’s divide and rule strategy has, however, been the bilateralisation of relations with three of the EU’s ‘Big Four’ (Light 2008: 25). Through Putin’s efforts at maintaining close personal relationships with the leaders of France, Germany, and Italy, Moscow was able to build an exclusive club consisting of countries who all regarded themselves as ‘small great powers’ and thus had an ‘innate right’ to negotiate deals outside the auspices of the EU. Indeed, as Smith (2008: 3) points out, the troika of the leaders of France, Italy, and Germany, in a rather self-indulgent manner, “met frequently with President Putin to decide among themselves key Russian-European policies, thus reinforcing Europe’s inability to create a unified policy toward Moscow”. These special relationships routinely overlooked common agreed agendas of the EU, in favour of national gains. In the
energy field, in addition to having the support of French, Italian, and German governments, for increased bilateral deals between Gazprom and the countries’ respective national energy champions, Moscow was able to secure, through the cultivation of ‘friendly’ interest groups benefiting financially from their formal and informal ties to Gazprom, the support of financially and politically influential circles, for its energy policies (Baev 2008: 123; Smith 2008: 9).

By far the most significant of the Moscow-maintained special relationships, is the relationship between Russia and Germany, with roots in the long-established economic ties between the countries. Germany was Russia’s most significant trading partner from before the First World War, throughout the inter-war period, and during the Cold War (Leonard & Popescu 2007: 32; Lucas 2008: 171-172). Currently, “Germany is Russia’s biggest trading partner, its biggest international creditor, and a major source of accumulated investments” (Westphal 2007: 97). The countries’ energy relationship started in the 1970s and was an integral part of the German Ostpolitik and a strategic element in the détente (Helm 2007: 35; Westphal 2007: 93-94). The post-Second World War German approach to the USSR was characterised by a degree of guilt and the resulting desire to assume the role of a mediator between the West and East, but it was also characterised by Sonderweg – an approach that has led Germany to follow a unique path in European history, whose continuance can still be seen today in the unilateral way that Germany pursues its relations with Russia (Lucas 2008: 171; Riley & Umbach 2007: 89; Westphal 2007: 94). In the 2000s, the political and economic dimensions of the Russo-German energy relationship have become increasingly intertwined as “German energy policies have [increasingly] accommodated specific business interests” (Westphal 2007: 93), rather than security political interests, reflecting the overall non-securitisation of energy security in Germany (Duffield 2009: 4285; Umbach 2996: 65).

The German energy sector has by far the closest relationship with its Russian counterpart of any EU member states (Smith 2008: 14). Germany’s national gas champion E.ON Ruhrgas, is the largest foreign shareholder of Gazprom, controlling 6.5% of its shares with the companies’ executives sitting in each other’s boards (Lucas 2008: 173; Westphal 2007: 102).
E.ON Ruhrgas and other German energy companies have been granted access to the ‘strategic sector’ of Russia, where few other Western companies are allowed to operate (Smith 2008: 13). This special treatment accorded to German energy companies is a direct result of the very close personal relationship between President Putin and the German Chancellor Gerhard Schröder. A win-win relationship - dubbed by Lucas (2008: 166) as “the most notorious diplomatic alliance in Europe’s modern history” - it served Schröder’s desire to take the leading role in the West’s relationship with Russia, while granting Putin close channels to Germany, which is seen as the ‘gateway’ to Europe, and securing him the support of the German government for Moscow’s broader policies toward Europe (Smith 2008: 12).

According to Westphal (2007: 105), the Schröder government functioned as an interlocutor in the EU-Russia relationship, moving cooperation in the sphere of economics and trade higher up on the agenda. The German policy toward Russia reflected the fact that domestic economic interests determined the overall policy approach of the Schröder governments, in effect, German ‘economic nationalism’ (McGowan 2008) dictated not only the bilateral Russo-German relationship, but also the approach to Russia that Germany wanted the EU to adopt (Westphal 2007: 106). At the core of the German economic nationalism lay the interests of German national energy champions. E.ON Ruhrgas, has a strategic interest in close relations with Gazprom as, with comparatively more extensive access to Russian energy resources, it is able to strengthen its positions domestically as well as internationally as the distributor of Russian-supplied gas (Westphal 2007: 102). Because of its governments’ strong backing of the interests of its national energy champions, Germany is generally considered to be the leading opponent and obstacle to the adoption of an cohesive EU energy security policy (Smith 2008: 14).

The most significant outcome of the close Russo-German energy relations, and, indeed “the crown of the personal relationship between Schröder and Putin” (Westphal 2007: 107), is the Nord Stream gas pipeline. Running on the bed of the Baltic Sea, the 1200-kilometre pipeline, with current cost-estimates at around €7.4bn, is the most expensive project yet of its kind. Currently under construction, the Nord Stream, a joint venture between Gazprom, controlling 51% of shares, the German energy giants BASF and E.ON Ruhrgas, with a 20% share each, and the Dutch Gasunie with a 9% share, is estimated to be operational by 2012, annually
pumping approximately 55 bcm of gas to Germany and further to other EU markets. (Baev 2008: 123; BBC 2010e; Lucas 2008: 167; Umbach 2006: 67; Westphal 2007: 107; YLE 2010). The project serves the increased need of gas in Germany, resulting partly from the Schröder governments’ pursued closure of the country’s nuclear power plants (Smith 2008: 13). Indeed, the German dependence on Russian-supplied natural gas has increased markedly during the past decades, from an overall share of 17% of total imports in 1980, to approximately 42% in 2007, making Germany the single biggest export market for Russian gas exports (Duffield 2009: 4285; Leonard & Popescu 2007: 32; Umbach 2006: 67; Westphal 2007: 96). These developments are particularly concerning due to the fact that, Germany does not maintain a strategic gas reserve, making it extremely vulnerable to disruptions in supply (Smith 2008: 13). With the Nord Stream operational, German dependence on Russian-supplied gas could theoretically increase to over 50% (Umbach 2006: 67).

At the most basic, Nord Stream ensures the continued and increased dependence on Russian-supplied gas of the biggest economy of Europe, thus also securing close long-term economic and political cooperation between the countries. More importantly, however, it rids the EU-bound Russian gas of its dependence on transit countries, with which, as has been discussed, Russia has variably volatile relations. A direct pipeline connecting Germany and Russia also decreases, to an extent, the importance of the transit countries to the EU, as gas will flow regardless of potential strained relations between these and Russia. As Baran (2007: 135) points out, by divorcing the gas supplies of Western and Eastern Europe, Nord Stream will enable Moscow to manipulate the European gas market more effectively. As a result, Russia will, arguably, be able to assume a more assertive stance on Belarus and Ukraine and tie them more closely to its sought-after sphere of influence, significantly altering the geopolitical environment on the EU’s eastern borders (Baev 2008: 123-124; Helm 2007: 35-36; Leal-Arcas 2009: 355; Lucas 2008: 167; Westphal 2007: 109). Similarly, the Nord Stream pipeline directly affects the energy security of a number of EU member states, in particular Poland and the Baltic trio. They fear that they will see their own gas supplies decreased in the future in favour of increased volumes transited through Nord Stream (Westphal 2007: 109). The increased dependence of these countries’ energy security on Russian benevolence and the resulting strengthened Russian policy leverage are also direct consequences of Nord Stream.
Accordingly, reflecting their omission from the negotiations and planning of the pipeline – which was done bilaterally by Germany and Russia – the project has been dubbed in Poland and the Baltic States as a new Molotov-Ribbentrop Pact, which, before the outbreak of the Second World War, divided Northern and Eastern Europe into German and Soviet spheres of influence (Berg 2007: 149-150; Helm 2007: 35; Lucas 2008: 168-169; Westphal 2007: 109). Although using this kind rhetoric has been judged an overreaction by many commentators, Nord Stream, undeniably, serves a central purpose in the Russian divide and rule strategy towards Europe. It significantly facilitates the conscious Russian effort of exacerbating the energy divide between Western and Eastern, as well as, big and small, EU member states, therefore undermining the EU’s efforts at constructing a common energy security policy (Baran 2007: 131; Smith 2008: 14-16; Westphal 2007: 113).

At the core of the EU’s energy security dilemma, and indeed its wider relationship with Russia, lay a fundamental misperception of the nature of Russia. The EU sees Russia as a ‘normal state’, which is gradually evolving into a Western-style liberal democracy and adopting the ‘common norms and values’ and the legal, institutional, and market principles of the EU (Helm 2007: 47). In its relationship with Russia, the EU seems to cling to the immediate post-Cold War optimism about the universal victory and applicability of liberal democracy and capitalism, as famously argued for by Francis Fukuyama (Finon & Locatelli 2008: 424; Helm 2007: 47). However, quintessentially, in contrast to Fukuyama’s (1992) argument, and the EU’s apparent approach, there was no “end of history”. After a period of chaotic attempts at embracing these ‘universal’ values during the Yeltsin era, it had become clear that, “Russia did not completely evolve into the institutionalised climate of the liberal market economy” (Van Der Meulen 2009: 843), and that, particularly after Putin became president, democracy in the country would have a distinctly Russian character to it. Indeed, as Light (2008: 19) asserts, Putin transformed the Russian political system into “at best, a ‘regulated democracy’”, which lacks the institutional climate of the EU. “Whereas the EU represents a complex balance of power between various players in the institutional climate of European society, the Russian institutional climate is much more focused on a single element of the institutional structure, the presidential administration” (Van Der Meulen 2009: 844). Due to this severe lack of institutionalism, Russia can be regarded, in Western terms, as an
abnormal state (Van Der Meulen 2009: 843-844). The rise of Russia poses a significant challenge to the foreign policy objectives of the EU. Its economic growth, driven largely by its vast energy resource sector and the significant rises in energy prices in the world markets, has given Russia a degree of self-confidence, which translates into assertiveness, and an increasingly belligerent stance towards the EU’s normative agenda, particularly in the ‘common neighbourhood’ (Haukkala 2009: 1757; Light 2008: 18, 22-23). In effect, the assertive Russian stance “creates a political atmosphere in which it is increasingly difficult or even impossible to promote the ideas of mutual engagement and cooperation with the West” (Milov 2008: 14). Whereas the EU’s institutionalist approach “stands for an idea of order based on consensus, interdependence and rule of law”, the Russian realist approach “is motivated by a quest for power, independence and control” (Leonard & Popescu 2007: 8). As has been exemplified in the Russian efforts to undermine the EU’s attempts to establish closer energy relations with producers in Central Asia, Russia sees the Western liberal democracy model as a competitor to ‘putinism’ (Milov 2008: 14), and is actively trying to undermine the imposition of Western norms and values in what it regards as its sphere of influence. To counter the EU’s ‘soft power’, Russia is using tools of ‘hard power’. In essence, “[i]t is setting itself up as an ideological alternative to the EU, with a different approach to sovereignty, power and world order” (Leonard & Popescu 2007: 1).

As a result of the EU’s misperception of Russia, its attempts to construct a common energy security policy have “failed to address the realities and realpolitik of the relationship with Russia (Helm 2007: 45). Accordingly, the EU has persistently tried to institutionalise its energy relationship with Russia by trying to align it with market-principles through the Energy Charter Treaty (Riley & Umbach 2007: 83). What the European Commission does not seem to understand is, that “[b]y solely focusing on liberalisation, the EU is effectively asking Russia to give up its status as an independent sovereign power and conform to the rules of the EU’s single market” (Van Der Meulen 2009: 850). The Russian response – a clear refusal to align its legislation with EU market principles that would limit its sovereignty (Finon & Locatelli 2008: 427, 436) - has, in effect, “exposed the limits of engaging a government that refuses to respect European norms” (Leonard & Popescu 2007: 26). In order to come to terms with the realities of the energy relationship, “[t]he EU must “acknowledge
that Russia is a state in a class of its own and in particular will not liberalise its oil and gas industry” (Finon & Locatelli 2008: 437). As has been discussed, the EU’s market-led approach to energy security is confronted by resurgent economic nationalism in Russia, but also among EU countries themselves. As Finon & Locatelli (2008: 427) argue, “[t]he EU wants to manage the growing gas dependence of its member states, but...it lacks the institutional and geopolitical means of a joint foreign policy”. In essence, “[i]n a world still organised in terms of geopolitical balance of power, based on diplomatic and military power, the EU is trying to be a de facto super-state with the traditional attributes of power, despite the fact that it lacks the means to enforce its own sovereignty” (Finon & Locatelli 2008: 426).

According to the EC, interdependence is a key aspect of the EU-Russia energy relationship. However, as Keohane & Nye (1989: 10, emphasis in original) point out, interdependence should not be defined strictly in terms of settings of “evenly balanced mutual dependence”. The EC’s interdependence rhetoric suggests that the EU has certain leverage-producing ‘energy response’ tools available to it in its energy relationship with Russia (Milov 2008: 17). In reality, however, this rhetoric remains mostly virtual. An EU-wide coordinated cessation to, for example, pay for Russian gas imports seems close to impossible (Milov 2008: 17). Therefore, the EU has, in effect, no means to convert its dependence on Russian-supplied gas into real political strength and power. Russia, on the other hand, controls the gas supply-infrastructure as well as the most significant sources of gas within its borders and in its sphere of influence. Although, Gazprom, and therefore, the Russian federal state, are to an extent, dependent on the incomes from gas sales to Europe, Moscow has on several occasions proved its willingness to stop the flow of gas in an effort to attain foreign policy objectives. Also, as the Russian dependence on European export markets will decrease in the future due to the rising demand in the emerging gas markets of Asia, it seems likely that Gazprom will realise its occasional threats of redirecting supplies elsewhere (Constantini et al. 2007: 217; Golthau 2008: 686; Lucas 2008: 185). According to Keohane & Nye (1989: 10-11), “[i]t is asymmetries in dependence that are most likely to provide sources of influence for actors in their dealings with one another”. Russia, as the less dependent actor, is using its position as a source of power and is, indeed, consciously “trying to establish a relationship of ‘asymmetric interdependence’ with the EU” (Leonard & Popescu 2007: 1, emphasis added). Particularly
in the energy sector, it is trying to create a situation in which “the EU needs Russia more than Russia needs the EU” (Leonard & Popescu 2007: 1). The Russian establishing of an ‘energy grip’ over the EU is facilitated by the EU’s liberalisation agenda, and indeed the EU’s failure to change its approach to counter the Russian resource nationalism. While the European markets are open to Gazprom-acquisitions, the Russian energy sector remains largely closed for EU companies. A particularly poignant example of the asymmetry is Gazprom’s asset-swapping with various European national energy champions, securing positions in the ‘downstream’ markets of the EU, while in return giving a small number of EU companies ‘upstream’ access to Russian gas fields (Leonard & Popescu 2007: 23; Milov 2008: 6). The Russian state, however, has retained its monopoly over the domestic and international gas pipelines, giving it the ultimate power to decide over the time and place of gas exports, a position it is already taking advantage of (Leonard & Popescu 2007: 23). By pursuing energy policies based on the commercial interests of their national energy champions, individual EU member states are exacerbating the asymmetry of the EU-Russia energy relationship. The extensive bilateral deals that Gazprom has secured with EU countries, shows that these countries have failed to comprehend the fundamental nature of Gazprom as a power political tool of the Russian government. As long as this status quo remains, the EU will not be able construct a common energy security policy.

7. Conclusion

This paper has examined the EU’s energy relationship and its energy security dilemma with Russia. The EU’s efforts to reduce its dependence on Russian-supplied gas have been discussed and it has been shown that, in accordance with its origins and core values, the EU gives central importance to the institutionalisation of the EU-Russia energy relationship. Indeed, it has been suggested that, the EU’s common energy policy is, to large extent, based on an effort to export the normative and political values of the Union, in order to create a level-playing field for all parties involved. The EU’s institutionalist approach is, however, facing strong opposition from Russia. A country reviving its lost power in the international arena and pursuing a realist foreign policy, Russia refuses to embrace the EU’s values and to align its legislation with European norms. In its realpolitik approach, with the protection of
sovereignty and national interests at the forefront, there remains little room for the institutionalist and multilateral policies promoted by the EU.

In contrast to liberalisation as called for by the EU, the Russian energy market is, and will remain, under close government regulation. This is due to the fact that, the interests and agendas of Gazprom and the Russian government are closely intertwined. Indeed, it has been shown that, Russia frequently uses energy as foreign policy tool and instrumentalises Gazprom in this. In this context, the geopolitical aspirations of Russia have been examined. As a measure of national security, Russia is seeking to establish a sphere of influence over bordering countries, a policy that comes into direct conflict with EU interests and policies in energy-producing countries where the EU is trying to establish new energy relationships, but also in the ‘common neighbourhood’ as well as in the eastern-most EU member states.

In the energy field, the EU’s position vis-à-vis Russia is weak due to diverging energy interests of member states and the resulting pursuit of national interests. At the core of this problem is the EU’s lack of legitimacy over its member’s energy policies. This weakness is exacerbated by a general divide among member state’s overall policies toward Russia, ranging from the frosty approaches of some of the new Eastern member states, to the close ‘special relationships’ maintained by three of the EU’s ‘Big four’. It has been shown that, Moscow is taking advantage of this disunity and pursuing a ‘divide and rule’ strategy based on the establishment of bilateral relations with key member states, of which the Russo-German relationship has been examined in detail, thus undermining the EU, while securing the continued overall European dependence on Russian-supplied natural gas. Finally, it has been argued that, the EU’s energy as well as its wider policy approach to Russia is significantly weakened by a fundamental misperception of the nature of Russia. In accordance with Keohane’s (2005: 7) argument on the naivety of institutionalism about power and conflict, the EU fails to see Russia in realistic terms as a strategic rival and an ideological alternative. Similarly, many member states fail to see Gazprom as a power political tool of the Russian government. Overall, the EU-Russia energy relationship has been portrayed as one where two fundamentally opposing approaches to International Relations
meet. It has been suggested that the EU and its institutionalist approach and its normative, soft, power, is facing significant difficulties, in the field of energy as well as in the wider context of international politics, when confronted by a realpolitik-pursuing and hard power-using Russia.

**Bibliography**


