

**IMPACT OF ENERGY SECURITY ON GEOPOLITICS OF
RUSSIA AND EUROPE:2000-2008**

Dissertation submitted to Jawaharlal Nehru University

in partial fulfillment of the requirements

for the award of the degree of

MASTER OF PHILOSOPHY

SAURABH PRAKASH



CENTRE FOR RUSSIAN AND CENTRAL ASIAN STUDIES

SCHOOL OF INTERNATIONAL STUDIES

JAWAHAR LAL NEHRU UNIVERSITY

NEW DELHI-110067

INDIA, 2011



JAWAHARLAL NEHRU UNIVERSITY

School of International Studies

New Delhi - 110067

Tel. : 2670 4365

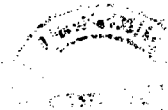
Fax : (+91)-11-2674 1586

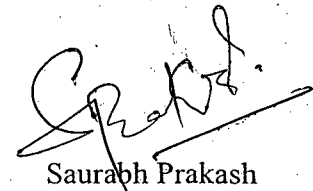
Centre for Russian and Central Asian Studies

Dated: 23 July 2010

DECLARATION

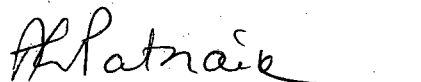
I declare that the dissertation entitled "IMPACT OF ENERGY SECURITY ON GEOPOLITICS OF RUSSIA AND EUROPE:2000-2008", submitted by me in partial fulfillment of the requirements for the award of the degree of Master of Philosophy (M.Phil), is my work and has not been previously submitted for any degree to this or any other university.




Saurabh Prakash

CERTIFICATE

We recommend that the dissertation be placed before the examiners for evaluation.



Prof. Ajay K. Patnaik

(Chairperson, CRCAS)



Prof. Anuradha M. Chenoy

(Supervisor)



Chairperson
Centre for Russian & Central Asian Studies
School of International Studies
JNU, New Delhi - 110 067



PROFESSOR
Centre for Russian & Central Asian Studies
School of International Studies
Jawaharlal Nehru University
New Delhi - 110067

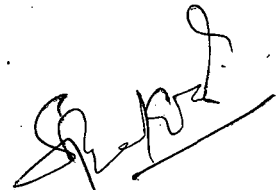
Acknowledgements

First and foremost, I express my sincere gratitude to my supervisor Prof. Anuradha M. Chenoy for her invaluable guidance and advice in the course of writing this dissertation which helped me a lot in setting the right perspective towards this academic endeavor. Without her critical comments, suggestions and constant support this work would not have been possible.

I am thankful to the Centre for Russian and Central Asian Studies, School of International Studies, Jawaharlal Nehru University and all the faculty members who directly or indirectly shaped my understanding and personality. I am also thankful to Prof. S.K.Panday who has always inspired me to go for research and academics since I was pursuing my Masters in International Relations in the same University.

New Delhi

23 July, 2011



Saurabh Prakash

To My Parents

Contents

| | |
|--|-----------|
| <i>Acknowledgements</i> | <i>i</i> |
| <i>Contents</i> | <i>ii</i> |
| <i>List of Charts, Diagrams, Figures, Graphs, Maps etc</i> | <i>iv</i> |
| <i>Abbreviations</i> | <i>v</i> |
| <i>Chapter I: Introduction</i> | <i>1</i> |
| <i>Energy Security</i> | <i>2</i> |
| <i>Historicity of Russia-Europe Energy Ties</i> | <i>4</i> |
| <i>Chapter II: Importance of Energy in Russia-Europe Relations</i> | <i>9</i> |
| <i>Energy Situation in the EU</i> | <i>10</i> |
| <i>The 2007 Energy policy for Europe</i> | <i>11</i> |
| <i>Russian Energy Policy</i> | <i>12</i> |
| <i>Oil</i> | <i>14</i> |
| <i>Gas</i> | <i>14</i> |
| <i>Electricity</i> | <i>16</i> |
| <i>Russia's Energy Strategy 2003-2020</i> | <i>17</i> |
| <i>Energy Strategies of the EU and Russia towards each other</i> | <i>18</i> |
| <i>Role of Energy Dialouge</i> | <i>20</i> |
| <i>Conflictual Issues of the ED</i> | <i>22</i> |
| <i>The Energy Charter Treaty</i> | <i>27</i> |

| | |
|--|-------|
| <i>Chapter III: Russia's Energy Foreign Policy</i> | 31 |
| <i>Rutland's Paradigm</i> | 31 |
| <i>Energy Foreign Policy under Soviet Union</i> | 33 |
| <i>Gazprom and Russian Politics</i> | 34 |
| <i>Liberalisation modal</i> | 37 |
| <i>Pipeline Control and Russian Energy Foreign Policy</i> | 38 |
| <i>Political Implications of EU-Russia Relations</i> | 41 |
| <i>Issues of Conflict</i> | 42 |
| <i>EU: prioritization of Concerns</i> | 46 |
| <i>Chapter IV: Contemporary Events in EU-Russia Energy Relations</i> | 49 |
| <i>Differing National Policies Within the EU</i> | 49 |
| <i>2009 Ukraine Gas Crisis</i> | 50 |
| <i>Crisis Aftermath</i> | 51 |
| <i>Alternative Suppliers</i> | 52 |
| <i>Chapter V: Conclusion</i> | 57 |
| <i>References</i> | 65-74 |

List of Charts, Diagrams, Tables and Maps

- *Table 1: 2005 Gas imports into the EU in Terajoules.....06*
- *Bar Diagram: 1 Showing Russian Natural Gas as % of Domestic Consumption (2006).....15*
- *Pie Chart: 1 Showing Major Recipients of Russian Natural Gas Export.....16*
- *Map: 1 Nord Stream Gas Pipeline.....36*
- *Map: 2 The 2008 South Ossetia War.....45*
- *Map: 3 Nabucco Gas Pipeline.....55*
- *Map: 4 South Stream Gas Pipeline.....55*

Abbreviations

CIS: Commonwealth of Independent States

EC: European Community

EU: European Union

ED: Energy Dialogue

ECT: Energy Charter Treaty

EPE: Energy Policy for Europe

ESDP: European Security and Defense Policy

ESMAP: Energy Sector Management Assistance Program

FOC: Foreign Oil Company

IEA: International Energy Agency

LNG: Liquefied Natural Gas

MS: Member States

NATO: North Atlantic Treaty Organisation

NOC: National Oil Company

OECD: Organisation for Economic Cooperation and Development

OPEC: Organisation of Petroleum Exporting Countries

PCA: Partnership and Cooperation Agreement

TP: Transit Protocol

UES: Unified Energy System

Chapter One

Introduction

With the coming of industrialization, the past decades have seen a brisk rise in the consumption of energy. The growth and sustenance of the modern society is essentially dependent on energy in the form of fossil fuels. Consequently, global energy demand will levitate drastically in the future. Thus, the energy related issues such as the reduction of fossil fuel reserves, global warming and other environmental risks, geopolitical and military conflicts and the rising prices of fuel tend to easily create conflicts between the consumer, producer and transit countries (Muneer,2005). Therefore, energy security is of vital significance to states on the international political scene.

Energy is strategic for both producer as well as consumer countries. Governments of both consumer and producer countries have been concerned with security of supply and demand in the last couple of years, the policies to fulfill their strategic interests differing significantly for both parties since producer countries rely predominantly on government intervention, while consumer countries rely mainly on a market-based approach with certain government incentives(CIEP Report, Jan2004). The energy policy entails three important elements in consumer countries: low supply costs, security and continuity of supply and the importance of environmental aspects (Ciep Report,Jan2004). These fundamental factors are shared to a large extent among the governments and international organizations of the consumer country. But, the producer countries rely on energy exports for a considerable part of their GDP, placing themselves in the group of resource-based economies, which are defined as “economies where natural resources account for more than 10 per cent of GDP and 40 per cent of exports” (Ahrend,2005).

Besides, the consumer countries are interfering with the ‘internal’ affairs of the producer countries. Also, subsidies, taxation, as well as the costs or revenues of state-owned companies play a crucial role in shaping the country’s budget. Usage of energy policy as a political or economic lever especially by producing

or transit countries can be achieved through several tools like supply interruptions (total or partial), threats of supply interruptions (covertly or explicit), pricing policies, usage of existing energy debts, creating new energy debts and hostile takeovers of companies or infrastructure (Larsson,2006). Thus, energy is not only a strategic economic good but also a political good.

Energy security

The concept of energy security evolved in the 70's during the oil crisis when the OPEC oil embargo and the Iranian revolution threatened to cause price increases and quantity shortages for the United States. Since then energy security has been viewed in terms of reliable and affordable access to oil by western countries that were dependent on oil imports for their energy needs. With natural gas becoming more important in the energy mix, it was included within this ambit. Energy security is still predominantly a western concept due to the dominance of OECD (Organization for Economic Co-operation and Development) countries as consumers of the world oil and natural gas production (ESMAP 2004).

The European Commission and the International Energy Agency define energy security as the provision of reasonably priced, reliable and environmentally friendly energy (Muller-Kraenner 2008: 1-2). The International Energy Agency (IEA) defines energy security primarily in terms of stability of supplies of oil and natural gas (IEA 2006). This would certainly be acceptable as a general definition. However, energy security can also be defined in the following terms: 1) enabling a certain percentage or number of countries to sustain the provisioning or availability of energy services for poverty reduction and economic growth, 2) enabling a certain percentage or number of households, businesses and communities to meet their energy needs for consumptive, productive or socially productive uses (ESMAP 2004).

The above stated definition of energy security implies that a theoretical

framework must provide understanding of both the demand and supply side of the issue. Security of supply may be defined as the guarantee that all the gas volumes, demanded by non-interruptible (firms or protected) customers, will be available at a reasonable price. The following points should be noted: 1) security of supply is primarily a concept of physical availability – the gas must be there when required, 2) nevertheless, the security of supply is also tied to contractual arrangements. Some customers may elect to give up security of supply and take the risk of not getting the gas when required, 3) finally, security of supply is also, albeit more loosely, tied to a concept of price. Gas must be available at a ‘reasonable’ price – not at any price. By definition, if the price is allowed to increase without a limit, there will always be a sufficiently high price at which demand will equate to available supplies – but it does not mean that in this case that the security of supply is guaranteed. If to lift any restriction on the movement of prices, the issue of security of supply simply evaporates. Yet how far is it acceptable to allow prices to move in order to restrict demand and allocate scarce supplies is a question that can only be decided politically, by the government or regulator, or contractually, by the parties accepting limits to price increases – not by a theoretical discussion (Luciani 2004:2).

Foreign policy analysts are convinced that the increasing nationalisation of energy resources and the politicisation of energy management by resource rich countries have made energy security – as in the 1980s – a matter of national security (Yergin,2000). According to them, the market alone is not able to deal with the mounting and multi-faceted challenges that energy-consuming countries face in a globalised world. Energy security therefore requires international cooperation, government intervention and at times military control. Neither of the above two interpretations can be sidelined, but neither of them even capture the whole picture of the security of supply. In fact, the economic as well as the political interpretations are two sides of the same coin; they complement each other and both are equally important to explain the challenges as well as the solutions in dealing with the security of energy supply in Europe (Checchi et al

2009).

HISTORICITY OF THE RUSSIA-EU ENERGY TIES

Historically, the energy deals between Soviet Union and then Russia with Europe was primarily based on geopolitical relations. The slogan of a “common European home” was stressed for the first time by Gorbachev and he tried to improve relations with Western Europe in 1987. But the major process began in 1988, when large scale disarmament programs and Moscow changed role were introduced in Central-Eastern and South-Eastern Europe. Gorbachev gave a speech at the Council of Europe in Strasbourg in 1989 where he emphasized the economic, political and cultural identity of the ‘common European home’. Russia emphasized on the European integration process and wanted to get closer to EU in the early 1990s. In later period, Russian foreign policy shifted from the economic arena to a wider comprehensive arena. Experts basically categorize three stages of the Russia-E.U relationship. These are; between 1994-1999: Formal contacts established; between 1999-2001: Period of transformation of the EU, emergence of the European security and defense policy (ESDP), and expanding agenda and changing nature of the bilateral relationship; and third 2001-current: step-by-step institutionalizing of Russia-E.U ties.

In 1994 the partnership and co-operation agreement (the PCA) was signed and was operationalised on 1st December of 1997. Under this format, relationship was basically based on economic and political issues. Here EU tried to be an observer of the Russian democratic structures. A major turn came under the German EU presidency in 1999 when Russia and European Union discussed a policy of stability and security and integrating Russia into a common European economic and social space. When Putin became the president at the end of 1999, the course of the relationship changed from economic to wider spheres.

One of the major geostrategic concerns of Putin was to incorporate Russia into the European process under the philosophy of a common European home. After economic crisis of 1998, Putin tried to strengthen the Russian economy. For that Russia used mineral resources like oil and natural gas supply to European countries as an option of revitalizing the Russian economy. Putin indeed used natural resources as a foreign policy tool.

The world has lately witnessed two episodes of acute severing of ties between the European Union (EU) and Russia, with the latter snapping off all its gas supplies to the former for a period of twenty days owing to a commercial clash with its transit associate Ukraine. Consequently, civilians in the Eastern European countries underwent a harsh winter. This issue raised questions on European energy security as well as the underlying intentions of Russia. Another affair was the criticism by EU, of the 'Russian aggression' in backing South Ossetia in its war against Georgia, infringing upon its territorial integrity forcefully and giving its unilateral recognition to Abkhazia as well as the seceded autonomous republic South Ossetia (Europa, 2008a). French Foreign Minister Bernard Kouchner even went to the extent of labeling Russia an 'international outlaw' (BBC News, 2008b).

In spite of the differences and contradictions between EU and Russia, there have been many endeavors like bilateral trade agreements to build up mutually advantageous association between the two. Though each of the two superpowers realizes the indispensability of the other in meeting the existing local and international problems, the recent events have made their relationship more complex and multi-faced. The Russian president feels the need to upgrade its military force to check expansion of North Atlantic alliance close to its borders (Russia Today, 2009). Moreover, Russia's political assertion and economic independence is growing rapidly due to rising energy prices and thus inviting displeasure of many national Foreign Ministers. Contrarily, EU is highly

dependent on energy imports for almost 80% of its oil supplies and 2006 witnessed importing of 62% of its gas supplies. According to the 2007-08 review of the European Commission, 45.1 % of EU's gas and 29 % of its crude oil is supplied by Russia alone. Also, Russia is in a way dependent on EU as a purchaser of its energy exports. **Table 1** demonstrates how energy has long been a key factor in strengthening ties between both the countries (Johnson, 2005, p. 256).

Table 1: 2005 Gas imports into the EU in Terajoules

| Origin | Share % |
|----------------------|----------------|
| Russia | 45.1 |
| Norway | 24.1 |
| Algeria | 20.6 |
| Nigeria | 4.0 |
| Libya | 1.9 |
| Egypt | 1.8 |
| Qatar | 1.8 |
| Oman | 0.7 |
| Total imports | 100.0 |

(Source: EUROSTAT, December 2007)

This dissertation will try to establish that energy security and the conflicts surrounding it are the key issues in the EU-Russia relations and also the fact that the supply of energy to Europe has been used by Russia as a bargaining chip to counter geopolitical moves by NATO and its members, who are in essence mostly EU members. It will also reveal how the relationship between EU and Russia is one of collaboration as well as competition and can be viewed from different perspectives that clearly demonstrates its complexity. The energy supply issue has become much more significant and politicized with the increasing diminution of world oil and gas reserves. The EU-Russian energy discourse thus began in 2000

and the energy relationship between both the countries has assumed growing importance since then.

Chapter 1 of this dissertation deals with the importance of energy in international relations and elaborates upon the concept of energy security. It will also throw light on the historicity of the Russia-EU energy ties.

Chapter 2 deals with the importance of energy in Russia-Europe relations. It explores the energy policies of Russia and EU individually as well as towards each other. It also deals with the ED (Energy dialogues) between the two stakeholders and the conflicts surrounding the ED and the ECT (Energy Charter treaty).

Chapter 3 considers Peter Rutland's paradigms, which provides analysis for explaining energy foreign policy of Russia vis-à-vis the use of its energy exports. Russia's foreign policy aims need to be considered to gain more laconic insight into how it approaches its relationship with the EU regarding energy trade. It also assesses the structure of EU-Russia relations and the main points of discord between the two. The core political issues which unite the two partners have also been discussed along with their implications, focusing on the influence of one on the other.

Chapter 4 provides a review of the more contemporary events in EU-Russia energy relations. The EU's energy policy is outlined along with the recent conflicts between EU and Russia regarding gas supplies. The question as to whether the recent events involving Russian actions warrant Europe to seek alternate suppliers of energy is has also been analysed.

Finally, Chapter 5 offers insightful conclusions into Europe and Russia's energy relationship and how this promises to continue into the future. It aims to seek informed answers to the implicit questions like how and to what extent the factors

of interdependence overshadow the disagreements and opposing political views between the two countries and the political implications for future energy supplies to Europe.

Chapter Two

Importance Of Energy In Russia-Europe Relations

2. Importance of Energy In Russia-Europe Relation

The later 60s saw long term agreements between the Soviet Union and Western Europe in the field of energy supply. Today, 50% of Russia's natural gas exports move out to the EU, representing over 40% of total EU natural gas consumption. Also, 60% of Russia's oil exports are taken up by the EU, representing over 25% of total EU oil consumption. Furthermore, Russia is a principal provider of nuclear fuels to the EU (International Herald Tribune). The establishment of the bilateral 'Energy Dialogue' (ED) in 2000 was the upshot of the recognition of this interdependency, and intended to deal with the "issues of common interest related to the energy sector" (Johnson and Robinson,2005,p.27). Though this initiative appears very promising, the progress has been very modest if not sluggish; the energy links being still limited to plain producer-consumer relations.

EU's energy policy towards Russia is guided by issues such as its degree of reliance on the latter in energy supplies, security of these supplies, environmental concerns and liberalization of energy sector. As for Russia's national security and economic development, its critical relationship with the transit countries (Belorussia, Ukraine), security of markets for energy supplies and the nationalization of the energy sector is of paramount significance.

EU and Russia continue to disagree on economic and geo-political issues, whose termination is reflected in the negotiations on the ratification of the Energy Charter Treaty (ECT). The ability of the two parties to find common solutions appropriate for both sides will decide the future development of the energy security issues.

The Energy Situation in the EU

The EU is increasingly growing to be dependent on imports for oil, gas and coal supplies at a time when renewable and nuclear power is not being able to meet this deficit. Energy supply security has been a primary political and economic concern in international relations since the 70s (Johnson,2005). The EU is coping with continued deterioration of its energy security as a result of waning indigenous production and the extent to which the problem will grow depends on the degree to which renewable energy supplies will build up. The forecasts of the European Commission state that the EU's energy import dependency might rise to 70% by 2030 since dependency on oil and gas will persist because even though the alternative (sustainable) energy sources will be growing, they will still not be able to meet with the growing energy demand of the EU(European Commission Report,2002). Moreover, the distribution of proven oil and gas reserves in the world and the advantage of their exploitation indicate that future EU oil and gas supplies will increasingly become more geographically concentrated on Russia, the Caspian Sea region and the Persian Gulf. Therefore, security of oil and gas supplies will continue to be an important issue in the coming decades (Ibid Report, Jan2004).

This point can be exemplified by the fact that the EU relies on imports for almost 80% of oil supplies and in 2002 the import came mainly from OPEC, Norway and Russia (38%, 24% and 22% respectively). Thus, as the EU's dependence on oil imports rises, it is estimated that it can reach 90% by 2020 with imports coming from unstable and hostile areas. The gas reserves of EU are quite limited and calculations show that at current production rates they will last another 20 years. In 2001, the EU had to import around 43% of its gas consumption. The same year 39% of imports came from Russia, 26% from Norway, 25% from Algeria and 10% from other sources. In contrast to oil and gas, the EU has large coal reserves but production has been to a large extent stopped in several MS due to the large cost of coal extraction which is three to four times the world market price of coal

(EU energy and transport figures document,2003). Therefore, the governments of the MS do not subsidize domestic production.

The 2007 Energy Policy for Europe

The EU took a firm stand on the fight against global warming at the 2007 Spring European Council. The European government and the heads of state have agreed to adopt an Energy Policy for Europe (EPE) which goes further than only having the target of boosting competitiveness and securing energy supply. It adds strong commitment to save energy and advocate for climate-friendly energy sources(European Commission,2007). Other important initiatives include: the move to open European electricity and gas markets that would enhance reasonable energy prices and savings if the right policy would be implemented; increasing the use of renewable energy with the aim to multiply the share of renewable energy threefold, from under 7% currently to 20% in 2020. It also aims to develop new technologies that will help in replacing the oil and gas dependency for the future as they deplete with time or become too expensive; promoting solidarity among the MS in case of an energy crisis, improving the EU emergency oil stock system, making sure that nuclear power if used in MS is safe and secure in keeping up the highest standards of non-proliferation(Council of EU document, Mar 2007).

As the EU faces increasing import dependency, rising energy prices and the after-effects of climate change, the leaders of the EU are stressing that a common European position and the ability to speak with one voice on international energy issues is crucial in ensuring a sustainable, secure and competitive energy supply by actively combating climate change, improving coordination of EU's supply of and demand for energy within an international context and enhancing the efficiency of the European energy grid by creating a truly competitive internal energy market(EU council, Mar 2007). The present European energy market has undergone the 'paradigm shift' from being fully state controlled sector to a sector

with an increasing presence and domination of market forces. However, there are differences regarding the degree to which EU countries have liberalized and deregulated their energy sectors, which renders it difficult to reach a common understanding on how to deal with energy related issues especially concerning the security of energy supplies (Spruds,Andris;2006). Therefore, the MS traditionally prefer to consider these security issues as part of their national security.

The issue of the security of energy supplies is so vital to the EU that it is identified in the EPE as well. Studies show that energy trends and policies remaining as they are, the EU's reliance on imports will increase from half to almost two thirds in 2030. In this scenario around 84% of gas would have to be imported, compared to 93% of oil(European Commission,2007). However, it is a matter of concern that several EU MS are basically dependent on one single gas supplier i.e. to the most part Russia and; the EU realizes that this contributes to the growing vulnerability of its energy security.

Russian Energy Policy

Today Russia is the world's leading exporter of natural gas and the second exporter of oil(Johnson,2005). Therefore, energy is undoubtedly the most important sector in the Russian economy, playing a central role in its foreign trade. Despite the evident advantages of possessing huge amounts of natural resources, there are problems with the structure of the Russian economy as it has struggled to raise its economy from the post-Soviet Union slump and at the same time it reminds of other resource-based economies (such as most African, Latin American countries) which have been unable to turn their natural resources to sustainable economic growth (Ahrend,2005). Russia's economic dependency on the energy sector can be illustrated by the fact that the energy industry accounts for almost one-third of industrial production and makes up more than 50% of export revenues (Christian von Hirschhausen in Gavrilenkov et al. (eds), Economic Opening Up and Growth in Russia, 2004).

The economic performance is generally very poor in resource-based economies because in many of these countries, the natural resource field has been largely dominated by state-owned or state-controlled enterprises which are evidently inefficient compared to private owned enterprises (Ahrend,2005). This observation is true when applied to Russia, as in 2004-2005, the state tightened its grip on the key strategic sectors, especially natural resources like gas and electricity.

However, according to the energy analysts, nationalization of the world's oil and gas reserves has been a dominant theme, where nationally-owned oil companies now control over 90% of the world's proven oil reserves (Helm D. Russia's Energy Policy: Politics or Economics?; 2006). Furthermore, the Russian energy sector is facing serious technical problems of energy infrastructure e.g. the pipelines are in worst condition. Another problem is the inappropriate pricing strategies which largely subsidized in Soviet times, resulting in the distortion of the structure of demand. Besides, another important factor is that even in the years when Russia has high energy revenues as at present, they are not being re-invested in the gas or oil industry (Johnson,2005).

To add to the problems in the energy sector there is a strong domestic political resistance to foreign involvement in oil and gas which impedes the investment and technology transfer that is greatly needed in the energy sector in order to rehabilitate the damaged wells and introduce advanced techniques to extract oil and gas from difficult terrain. All these factors mentioned above indicate that although Russia has a great amount of potential as an energy supplier there are significant obstacles before Russia can realize its full potential (Ibid,Jhonson;2005).

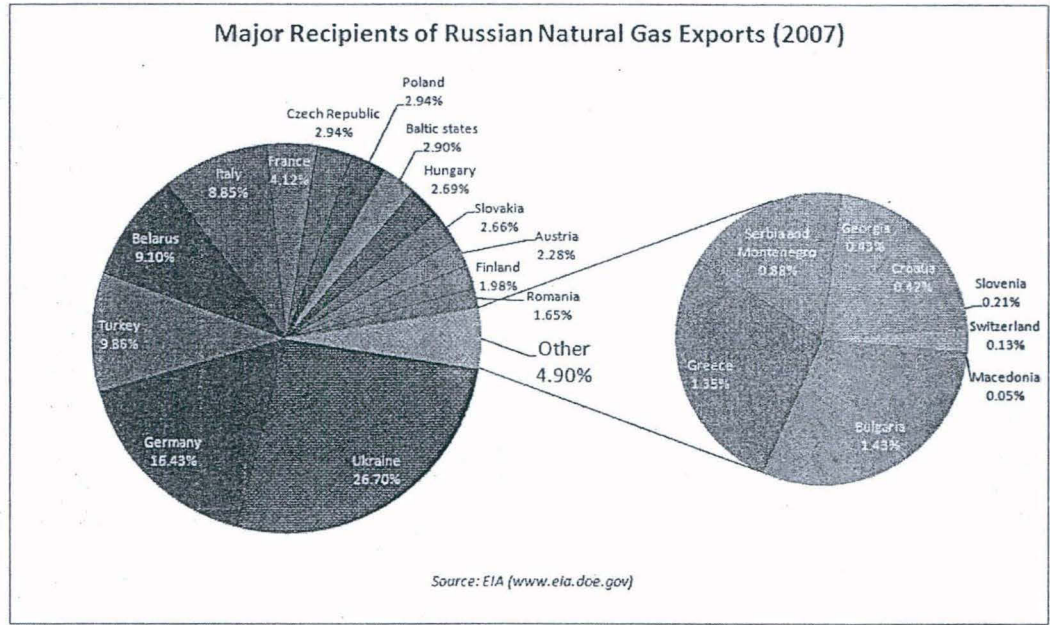
OIL

Russia possesses 5% of proven world oil reserves and in the year 2002, produced 11% of the world's crude oil thus becoming the second producer of crude oil in the world. The revenues from oil exports exceeded \$ 13 billion in 2000 and continued to increase (Gert Ziener in Gavrilencov et al. (eds), *Economic Opening Up and Growth in Russia*, 2004). However, as discussed above, certain significant problems plague the Russian oil industry, like the absence of greatly needed resources and investment, ageing equipment, poorly developed fields and limited transport infrastructure. According to the Russian Ministry of Energy, 5% of crude oil output is lost through various leakages. Other specialist organizations put the figure at 7%. This means that huge amounts of Russian oil are lost due to the inefficiency of infrastructure in this field (Johnson,2005). Therefore investment of technology in the oil industry is crucial but the position of the government and large oil companies has been to optimize returns while world prices are at a high and not paying the required attention to the long-term investment needs of the oil field(Lo.B,2003). Russian crude oil reserves had a length of an estimated 21.4 years by the end of 2005 production and consumption rates (Official site of BP, Oil Reserves).

GAS

The Russian gas industry represents the strategic aspect in Russia's approach for economic development and international integration. Russia has the world's largest gas reserves concentrated mainly in Western Siberia, which is estimated to comprise around one-third (32%) of the world's proven reserves ahead of Iran (16) and Qatar (8%) (Christian von, 2004). Despite the huge amounts of gas reserves, observers are cynical about the future levels of production from new fields due to the low investment.

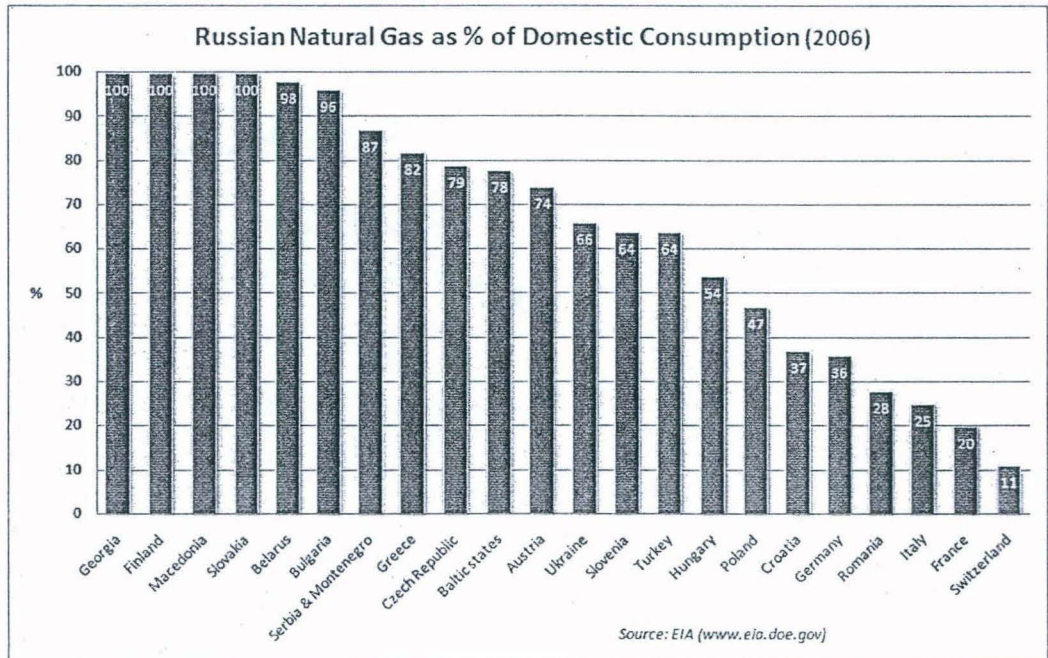
Pie Chart: 1 Showing Major Recipients of Russian Natural Gas Export



Source: Wikipedia

The most important gas company in Russia is Gazprom, which is state owned and has over 300,000 employees, making it the largest single business employer in Russia as well as the world's largest gas company. The shares of Gazprom in the global and Russian gas stocks makes up 17% and 60% respectively and provides about 20% and 90% of the global and Russian gas production(Gazprom website). Generally, Gazprom plays a decisive role in Russian domestic and foreign economics and politics due to its size and importance. Analytics stress that the dominant position of the near monopoly of Gazprom, along with the restrictions on foreign investment in it have contributed to the slowing down of the development of the gas industry (Johnson,2005). In the last decade, when there were proposals to demonopolize, the Russian gas industry did not resort to concrete measures as higher priority was given to extracting immediate dividends from Gazprom's existing export contracts with mainly European markets. Currently there are no plans in the Russian government to carry out reforms of Gazprom which would let the company become privatized (Lo.B,2002).

Bar Diagram: 1 Showing Russian Natural Gas as % of Domestic Consumption (2006)



Source: Wikipedia

ELECTRICITY

Russia's electricity supply industry is mainly dominated by the state-owned RAO Unified Energy Systems (UES). The negative trend of Russia's electricity generation and consumption has been reversed since 1999. The electricity industry is still owed large amounts in payments. Lack of fuel supplies at power stations has led to periodic blackouts especially in the Russian Far East. In 2003, new laws were initiated and passed, which were aimed at the eventual transformation of the electricity industry by separating UES's generation and distribution arms, where it was decided that the distribution will be divided into smaller units before privatization (Johnson, 2005). However, the transmission grid would continue to be owned by the state.

RUSSIA'S ENERGY STRATEGY 2003-2020

The national energy policy that was formulated in Russia's Energy Strategy regards improving energy efficiency as a top priority for the entire national economic policy. The Energy Strategy stresses that the export of energy resources will remain a key factor for the development of the national economy as well as for the strengthening of the economic and political position of Russia in the world community in the coming years.

The main priorities of the Energy Strategy include secure supplies of energy for Russian household needs as well as the industrial sector by offering affordable and stimulating energy saving prices; risk management of crisis situations in the energy security; usage of energy saving technologies and equipments; reduction of losses in the processes of extraction, processing, transportation and realization of energy production.

Significant attention is paid to decrease polluting risks that energy related processes are causing to the environment. In this respect the Energy Strategy calls for minimizing such harmful effects on the environment (Ministry of energy and industry website). The set goals can be reached through the creation of a civilized energy market that can be regulated by non-discriminatory economic interrelations between private actors and the state government. The Energy Strategy also stresses that the functions of the government are limited to the creation of market infrastructure and legal framework including fiscal, customs, and antimonopoly and tariff regulations. The Energy Strategy furthermore defines the objectives of the Russian foreign energy policy stressing on the importance of Russia's integration into the global energy resource system, cooperation with foreign investors in the field of development of the energy resources and enhancing the efficiency of their utilization and acquiring new energy markets. In addition, the Russian energy foreign policy is aimed at changing the role of Russia from predominantly being a supplier of raw energy resources to an

independent member of the world energy market pursuing its own autonomous energy policy on global energy markets.

Energy Strategies of the EU and Russia towards Each Other

The EU is increasingly becoming reliant on Russian gas and in the light of the gas struggles between Russia and Ukraine and later Belorussia, the EU's response towards such events have indicated the crucial importance of the security of supplies for overall energy security (The Economist, april 2007). The EU, on account of such changes, is trying to enhance its relations in the energy field with Russia through intensive bilateral energy dialogue and the multilateral cooperation in energy (ECT). Three most important drivers of the EU's energy strategy towards Russia, like security, environment and liberalization can be singled out effortlessly. Due to declining energy production and continued increases in demand, the long-term security of energy supplies is a major concern for the EU and has become a significant component of its overall Russian policy. Larsson in his analytical research on Russia's reliability as energy supplier, points that even though Russia is a reliable supplier (as most of its energy exports have reached its destinations and the risk for supply interruptions for European countries is presently very low), there is a very high risk to be affected by interruptions aimed at other non-EU countries (as a result of the political and economic tensions). His observation says that out of the 55 cut-offs by Russia since 1991, only 11 had no political underpinnings that underline the usage of energy lever tools in the Russian foreign energy policy (Larsson,2005). In this connection, the EU is urgently looking for new possibilities to diversify its energy supplies. The experts mention the following as possible solutions: increased supplies from Algeria, and the possibility to import Iranian gas to Europe via Azerbaijan and/or Armenia via Georgia to Turkey (Larsson).

The environment and liberalization factors also contribute to the security agenda. Experts suggest that greater energy efficiency in Russia will release more supplies

for export to Europe and European energy savings will reduce the need for Russian imports. As for liberalization of the Russian markets, Johnson argues that it will “utilize market signals to stimulate domestic energy savings and release resources to modernize the industry and make it more efficient which in turn should enhance Europe’s energy security.”

It is important to agree on a set of realistic and mutually beneficial commitments with Russia that will facilitate EU-Russia energy cooperation and to identify concrete steps to rapidly improve the investment climate. Since the fundamental task of Russia’s energy strategy is to ensure national security, it continuously tries to utilize its energy policy to prevent geopolitical and macroeconomic threats and risks of being blackmailed (four blackmailing cases by transit countries Ukraine, Moldova, Belorussia and producer countries such as Turkmenistan and consumer country Turkey are known) (Larsson,pg 256-8). Larsson stresses that Russia strives to be a reliable supplier in the eyes of the EU at the same time and it shows willingness to play by the international rules but if national security requires, it puts limit on the extent to which it can give up its independence (Larsson,Ibid,2005).

In connection to the relations with the EU, Russia’s most important energy policy driver is the security of the demand or security of the consumer markets. The Russian government realizes the importance of having an image of a reliable supplier. This motivates Russia to construct new pipeline routes which bypass the transit countries and deliver energy products directly to the EU countries (Sydsvenskan,Ekonomi,2007). The major planned projects are Nord Stream (the northern trans-European gas pipeline) and Burgas-Alexandroupolis pipeline (transporting Russian and Caspian oil to Bulgaria and further to Greece).

In spite of the growing attempts to diversify Russian economy in order to find alternative ways for the economy to grow and ideas of diversification of the consumer markets (with recent increased interest in China as possible energy

market) in the foreseeable future, EU will remain the only consumer of the Russian energy since the above mentioned diversification will require time and substantial financial investments. Another important issue of the energy policy is the attraction of investment to increase its oil and gas exports, to rehabilitate and upgrade its energy infrastructure and to use knowledge and technology transfers as a means of enhancing economic growth.

Role of the Energy Dialouge

As it was underlined previously, the EU and Russia have mutual interests in energy field more than in any other area. For the EU, Russia is the main supplier of the hydrocarbons: 25% of its gas (50% of its imports) and 25% of its oil (over 30% of all its imports) comes from Russia (Euroactive website). Some 63% (130 billion cubic meters) of Russia's natural gas exports of 205 bcm were delivered to European countries in the year 2000, with contractual requirements to increase deliveries to around 200 bcm by the year 2008 (European commission's Delegation to Russia). Dependence on Russian gas is considerable within the EU: Finland's shares are 99%, Greece- 76%, Germany- 39%, Italy- 34%, France- 24% (Varlden, Sydsvenskan, 2007). Energy dependence is especially high the in the new EU's MS. Apart from Slovenia, the shares are 70-100% for natural gas and oil: Estonia imports 100%, Poland- 87%, Slovakia- 86%, the Czech Republic- 80%, Hungary- 76%, Lithuania- 71%, Latvia- 57% (Hamilton, 2005).

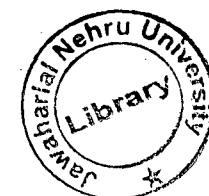
As for Russia, the importance of the EU as a main energy consumer market cannot be underestimated. Since the EU is the final destination for more than half of Russian oil and gas and taking into consideration the revenues that the Russian government gets from the energy trade with the EU (oil and gas exports for 74.0 USD billion, accounting for 20-25 % share of GDP growth) (Bonanza), the EU market is of vital importance for Russia. Besides, Russian energy sector is in acute need of investment and expertise. The scale of investment required in Russia's energy sector is considerable. According to Russia's Energy Strategy

2001 - 2020, need for new capital in the sector has been estimated at between € 560 and € 650 billion over the period to 2020 (EU Russia energy dialogue website).

It can be summarized that the EU and Russia are energy interdependent in different ways: the EU needs to import increasing quantities of energy, and Russia needs markets for its natural resources and the European capital to modernize and expand its energy sector (Johnson). Acknowledging the importance of interdependence, the two sides launched a bilateral Energy Dialogue at the EU-Russia Summit in Paris in 2000. The ED is aimed at providing a wide and stable partnership between the EU and Russia and to enhance the reliability of energy supplies in both. The Joint Declaration of the Summit recognized the mutual dependence:

“to institute, on a regular basis, an Energy Dialogue which will enable progress to be made in the definition of an EU-Russia energy partnership and arrangements for it. This will provide an opportunity to raise all the questions of common interest relating to the sector, including of cooperation on energy saving, rationalization of production and transport infrastructures, European investment possibilities, and relations between producer and consumer countries. The planned ratification of the Energy Charter Treaty by Russia and the improvement of the investment climate will be important aspects in this context.”

The energy partnership aims “to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues of mutual concern in the energy sector can be addressed whilst, at the same time, ensuring that the policies of opening and integrating energy markets are pursued.”(EU-Russia energy dialogue website)



A number of common and complementary interests have been identified by the EU-Russia ED against this background, for which concrete actions for the short and medium-term will be implemented: ensuring reliable energy supplies in the short and long-term future, increasing energy efficiency, securing long term investment, opening up energy markets, diversifying the range of imports and exports of energy products, enhancing the technological base of the energy sector of the economy, improvement of the legal basis for energy production and transport in Russia, ensuring the physical security of transport networks(Europa website). Apart from these issues, the ED also aims to reduce the impact that Russia's energy infrastructure causes on the environment. The ED is managed through the institutions set up by the Partnership and Cooperation Agreement (PCA) where the Industry and Energy Minister Viktor Khristenko leads the Dialogue on the Russian side and European Commissioner for Energy Andris Piebalgs is his EU counterpart. Different support structures such as the Technology Center and sub-committees have been recently created to maintain the work of the ED (EU-Russia ED Website).

Conflictual Issues of the ED

TERRITORIALITY CLAUSES

The EU has been firmly dedicated to liberalizing its energy markets both for industrial users as well as for households. However, the conflictual issue lies in the fact that Russian gas supplies to the EU countries are delivered under long-term contracts, some of which contain the controversial so-called 'territorial clauses'. According to these clauses, if MS receives more gas than it needs, it is not allowed to sell it on to its neighbours. As the European side insists, such clauses are against the EU single-market rules and prevent the EU from developing a functioning EU gas market as the clauses allow Gazprom to sell gas to various MS at different prices (Barysch k,2005).

Although long term gas contracts have been having an important role in the development of the European gas market like providing a risk-sharing arrangement between the producer and the buyer, and play a crucial role in the energy security of the EU, the EU stresses that these contracts must proceed with the disappearance of restrictions within the EU. EU's firm stand on this issue has led to a settlement with the Italian oil and gas company ENI and Gazprom concerning a number of restrictive clauses which exist in their contracts. There were other investigations of breached contracts of EU single-market rules in Austria and Germany and the Commission is confident that it will reach an agreement leading to the deletion of the remaining clauses (Europa website,ED).

ELECTRICITY GRID

At the EU-Russia Summit of 2001, both the parties recognized the interconnection of the Russian and continental EU electricity grids as one of the projects of 'common interest', considering that full integration of the electricity markets will lead to significant benefits in the development of a free competition, improvement electricity supply security and the creation of new possibilities for business cooperation in the electricity sectors of both EU and Russia (Europa website,ED).

However, there have been conflictual positions regarding the process of realization of the above mentioned initiatives. Russia is strongly pursuing an effort to link its own electricity grid to that of the EU. As Katinka Barysch points out, this would enable the electricity monopoly of Russia namely Unified Energy Systems (UES), not only to sell surplus electricity to the EU consumers but also to make up for temporary shortages in its own market by importing power from the EU. The EU believes here that Russia must adopt the standards of the EU for competition, nuclear safety and environmental protection as well as the end of subsidies that Gazprom offers to UES in the form of cheap gas. According to the EU, Russia does not fulfil these requirements. It has been a difficult task to find

an agreement on these issues and therefore the two parties have established an expert dialogue panel with the task of determining the extent to which Russian and the EU rules and policies diverge in these areas (Barysch).

DUAL GAS PRICING Vs UNIFIED GAS PRICING

Russia has a dual gas pricing policy in which low revenues from domestic gas prices are subsidized by much higher European- and to a lesser extent Commonwealth of Independent States (CIS)- gas prices (Spanier,2006). According to this policy, Russian federal authorities have substantial legal power over the natural gas sector at its disposal to improve the social and economic environment. The main reason for dual pricing has been to provide a natural gas subsidy to the Russian economy, including for household needs and large industry enterprises. Three main clauses can be identified within this system: domestic sales are priced very low, sales to countries of CIS are priced higher; and sales to Europe are priced the highest. In 2003, 65% of Gazprom's revenues were from European sales, and European prices were six times those of domestic consumers(Spanier,2006). These are the circumstances in which the conflictual issue between the EU and Russia occur.

Such policy of dual gas pricing has led the European side to take a tough position and to argue that low prices on the home market act as a trade barrier by providing unfair advantages to Russian energy intensive companies over their European counterparts. Such energy prices are therefore illegitimate and gas prices must be unified in order to eliminate such unfair advantages. As the European experts underline, the pricing at European level does not mean that Russian domestic users should pay the same as Europeans for their gas. Instead unified pricing refers to equalizing Russian domestic prices to European export netback prices- that is export prices adjusted for transport costs, taxes, and import duties.

As for Russian counterparts, they argue that by declaring the low home prices illegitimate, the EU tries “to deprive Russia of its rights to avail itself of its natural competitive advantage”(Grinberg). As Ruslan Grinberg stresses that while demanding to decrease the price gap, the EU partners do not consider the peculiarities of the structure of Russian economy known for its extremely high energy consumption, severe natural conditions, difficulty of access to oil and gas fields and extraordinarily high share of transportation in the total production costs. He further points out that the unification of the prices in an abrupt manner would inevitably result in an economic collapse and deep social crisis (Grinberg). The social problems will rise as the energy intensive companies are confronted with higher costs. Thus, this situation can lead to rising unemployment and the possibility of bankruptcy of a number of energy intensive companies (Spanier). For Russian government these problems pose serious risks that significantly diminish the incentives towards unified prices.

Nevertheless, experts estimate that the unified gas prices can be beneficial for Russian government through revenues gained from dividend and tax payments. In this connection, as Spanier observes, the Russian government is showing the signs of will to change the policies in connection to domestic prices. The Energy Strategy of Russia for up to 2020 had doubled the prices in 2006 and planned to triple them by 2010, but still the government insists that the increase should not be so large that the price is increased up to the netback European export level (Spanier).

PRODUCTION SHARING AGREEMENTS

As Barysch observes, the dialogue on oil is not politically charged to the same degree as the gas industry since it is already privatized and liberalized to a high degree. However, the important issue in this matter is the process of attracting EU investors to the Russian oil sector. The PSAs play a fundamental role in the attraction of foreign capital and investment (Barysch). Specifically, PSAs act as a

contractor that provides technical and financial services for exploration and development operations between a mineral resource-owning state and a foreign oil company (FOC). The state is usually represented by the government or one of its agencies such as the national oil company (NOC). PSAs are mainly used to establish the share that the private company will obtain of the natural resources (oil extraction) extracted from the country where the investment takes place. Besides, the entity that invests in a development project is the first to capture the investment from revenues generated by the forthcoming output (Bindemann, 1999). However, as Kirsten Bindemann underlines, the state remains the owner of the energy sources only to the contractor's entitlement to its share of production. The government or its NOC usually has the option to participate in different aspects of the exploration and development process.

The PSAs became part of the legislation in Russia in 1998. The Russian authorities have decided in the 2003 to keep only a limited number of PSAs because they consider that the current reforms contribute to an attractive investment climate under more standard forms of investment. The Russian government bases such approach on the BP's decision to commit more than \$6 billion to its Russian ventures and other giant offshore operations financed mainly by Royal Dutch/Shell and ExxonMobil (Barysch). In addition, this approach has led to a more difficult procedure to conclude new PSAs. Due to these actions, future PSAs would be suitable only for projects which failed to attract investors (Europa website, ED).

The EU stresses the need for Russia to establish a workable framework for PSAs as they are the principal means for foreign firms to invest in Russia and for the Russian government to maintain a degree of control over valuable resources. The EU points out that there has been remarkably little foreign investment in the Russian energy sector besides the mentioned investment projects. The reason for such low foreign investment is considered to be the absence of a functioning PSAs, uncertain property rights and prevalent public rejection in Russia to selling

its national recourses to foreign investors (Barysch). The EU position on this matter is that it considers PSAs to continue being a necessary legal framework for projects in environmentally challenging areas that are capital intensive (Europa website,ED).

The above mentioned conflictual issues between the EU and Russia pose significant difficulties for the further development of the EU-Russia energy partnership. Noticeably, these conflictual issues are different in nature; some of them identify the divergence of EU and Russian positions in terms of technical standards, whereas others recognize different positions on how to regulate foreign investment into Russia, as also different visions on energy pricing as well as the importance of long term contracts within the energy sector.

The Energy Charter Treaty

The European Community (EC) initiated the cooperation in energy field with the Eastern European countries in 1990. Such political initiative has found its realization in the creation of the Energy Charter Treaty, dictated by the mutual realization that in the conditions of growing interdependence between the consuming, producing and transit countries, international cooperation can be more effectively regulated by multilateral rules than by bilateral agreements alone. In this connection the role of the ECT was seen as to build a legal foundation for energy security based on principles of open competitive market and sustainable development.

The objectives of the ECT are to provide means to invite investment to the countries with natural resources, protect their interests and to guarantee reliable transportation for their energy exports to their consumers. For the energy importing countries, the ECT provides protection of their investments and mechanisms to promote the security of supply.

A core principle of the Treaty (ECT Article 18) is national sovereignty over energy resources where each member country is free to decide whether to develop its natural resources, and if yes, then how. Besides, the government also decides the extent to which its energy sector is open to foreign investors (ECT website). The European Energy Charter was adopted in 1991 and was followed by the legally binding ECT signed in 1994, which entered into force in 1998. Since its creation, 51 states have signed the Treaty plus the EU which signed it collectively as well in the name of the European Communities and therefore the total number of the signatories is 52. However, out of these, 5 states have still not ratified the Treaty, including Russia, but it has agreed to apply the provisions to the extent that it is consistent with Russia's own constitution, laws and regulations (ECT website). Such provisional application is provided by Article 45(1) which states that "Each signatory agrees to apply this Treaty provisionally pending its entry into force... to the extent that such provisional application is not inconsistent with its constitution, laws or regulation."(text of 1994 ECT)

CONFLICTUAL ISSUES OF THE ECT

The underlying reasons for Russia's non ratification of the ECT are the provisions of the so called Transit Protocol (TP) of the ECT which reflect the incompatibility of the EU's and Russia's positions on the freedom of transit. The TP of the ECT obliges the participating states to take the necessary measures to facilitate transit of energy guarantee in harmony with the principle of freedom of transit, and to secure established energy flows. The transit countries are also under a compulsion not to disrupt or slash down the existing transit flows, even if they have disputes with another country concerning this transit (ECT website). Such provisions of the Protocol are aimed at diminishing risks and costs related to transit; increasing competitiveness of transit supplies and improving energy security which includes security of supplies, security of demand and security of infrastructure (Konoplyanik,2006). Since for Russia, the issue of transit of energy recourses is more important than for any other country where the proportion of transit of gas

across third countries amounts to 95% when compared with Netherlands, Norway, and Algeria (24 %, 32% and 55% respectively), the fair TP provisions are of high importance (Konoplyanik,2003).

Russia finds several aspects in the present formulation of the TP provisions, which do not take into account Russia's strategic interests as the major transit country within the ECT. Russia justifies its stand against ratification of the ECT by saying that ratification would undercut Gazprom's position on European markets by forcing Russia to open up its network for cheaper gas from Central Asia, and also, it would require that Central Asian states be given accesses to the Russia pipeline system at subsidized internal tariff levels. Russia also says that ratification would place the system of long-term contracts for supplies of Russian gas to Europe in jeopardy (Konoplyanik,2003).

In addition, Russia stresses that it regards the Article 20 of the TP on Regional Economic Integration Organization (initiated by the EU Commission) as unfair, because it states that the provisions of the TP are not applicable on the territory of the EU since the transit of the energy recourses on the territory of the EU is regulated by the EU internal market mechanism. This can mean that the tariffs for transit of Asian gas will be lower that that of Russian gas to Europe.

Vladimir Milov points at the double standard approach that is present in the construction of the energy transit in relation to Russian interests. The disagreements and the difficulty to find consolidated position has resulted in Russia's passiveness in negotiations and at times Russia even failed to attend them without explaining the reasons. As Konoplyanik stresses, such refusal to participate in substantive discussions in the framework of negotiations and consultations "...is the worst possible strategy of all...which subscribes to a different tactic 'counter-acting through inaction'."

EU advocates the development of energy framework of the TP in line with the so-called British model which is based on a competitive and liberalized market with open accesses to pipelines and networks (which at the same time rejects long-term contracts in favor of spot deals). In this connection, the EU insists on the ratification of the ECT by Russia in order to get free access to Gazprom's pipelines and networks, which will lead to the break up of Gazprom's monopoly and the state's firm grip on the pipelines, and will further enhance European security of energy supplies. The EU tries to force Russia to let go its 'strategic obsession' in energy relations and to ratify the ECT if it wants to convince Europe of its reliability as energy supplier (Larsson). Such European energy policy becomes especially important and understandable in the light of recent Ukrainian and Belorussian energy disputes with Russia and subsequent disruptions in the delivery of energy resources (D. Helm,2006).

In spite of its non-ratification of the ECT, Russia continuously reconfirms its commitment to the Energy Charter process by emphasizing that it "views the Energy Charter as an important instrument for international cooperation" (A. Denisov). Russia stresses that it does not seek unilateral advantages but common benefits such as insuring the stability and security of energy supplies.

Having examined the conflictual issues identified in EU-Russia energy relations, it can be concluded that these issues present difficulties for further EU-Russia cooperation and partnership in the energy field.

Chapter Three

Russia's Energy Foreign Policy

3. Russia's Energy Foreign Policy

The collapse of Communism can be acknowledged for the development of foreign policy in Russia. The environment was one of economic and political instability and multiple identities had made Russia a state without an identity of its own (Lo, 2003, p. 113). Thus, anarchy, petty politicking and mixed feelings of dependency, disparagement and disgust resulted in the formation of Russian foreign policy (ibid, p. 15). Moscow couldn't take a strong decision regarding specific issues like NATO enlargement and the strategic disarmament agenda (Lo,2003, p.19). Thus, Russian credibility and capabilities as the once-world power were tremendously reduced with the collapse of communism.

Russia has never appreciated interference in matters of its foreign policy. It practices influence over other states by using its energy exports as a foreign policy tool. Kremlin continues to assert itself and maintain influence on its immediate borders because of energy supplies only. The Nord Stream Pipeline visibly demonstrates how important it is for the Russian state to maintain full control over its gas exports and transit of gas into EU. Thus, this chapter will discuss how Russian energy foreign policy is based on maintaining gas dependency of Eastern Europe on Russia, while entertaining its client states from Western Europe as well.

RUTLAND'S PARADIGMS

Peter Rutland provides the much useful analytical and explanatory framework to effectively assess Russia's energy export strategies:

1. **KUWAITISATION:** According to this model, the exploitation of Russia's vast natural resources would provide it a comparative advantage in the international division of labour (Lane, 1999, p. 179). This paradigm is

based on the idea of reducing Russia's over-reliance on the energy sector by developing its hydrocarbon industry and using the money to diversify its economic activity.

2. **RUSSIAN BEAR:** This model suggests that Russia, as a great power, stretches its geo-political interests around its borders.
3. **LIBERALISATION:** According to this model, the only way forward for Russia to economically develop itself is through the removal of state restrictions on the energy sector.
4. **RENT-SEEKING:** This model argues that a few elites were able to amass massive personal wealth by exploiting the Soviet collapse and exercising monopoly over oil and gas exports. But the validity of this model in analysing Russia's energy foreign policy is questioned today because Vladimir Putin has consolidated his power base by removing the oligarchs (ibid, p. 182).

This chapter will analyse how the first two paradigms help explain Russian energy foreign policy and the liberalisation model can help understand the future role of Russia's energy sector in its foreign policy and further the political implications of the EU-Russia relations will be analysed.

The Government of Russian Federation issued The Energy Strategy in August 2003, which outlines Russia's official energy policy. It runs up to 2020 and was approved by Decree No. 1234-p in the State Duma. It highlights the Kuwaitisation model to energy foreign policy, emphasizing on using energy resources and natural fuel most effectively, and to improve quality of life in Russia by harnessing the potential of the energy sector for economic growth (Ministry of

Energy of the Russian Federation, 2003, p. 2). It clearly lists Russia's aims regarding its energy sector, in relation to the EU, in a section titled 'External Energy Policy'. Russia aims to be an influential and substantive member of the world energy market, moving on from being just a mere supplier of raw resources.

ENERGY FOREIGN POLICY UNDER THE SOVIET UNION

Moscow's energy exports in 1975 were substantially less than 150 million tons. 100 million tons of these were accounted for by oil exports, of which nearly half were sold to Western countries. The greatest quantity of Russian gas, oil and electric energy was exported to the Eastern European countries which were seriously energy-deficient, with the exception of Romania (Evans, 1976, p. 107). But Russia is ambivalent in its energy policy in that, it has unofficially committed itself to meeting the energy import requirements of the six Eastern European countries, though it repeatedly expressed its reluctance to do so indefinitely. Communist Russia had a long standing policy of creating vital economic links by tying the economies of its satellite states to its own, thereby keeping a tight rein on them. Here, Russia can be said to be following the Russian Bear model in trying to maintain its neighbouring client states by being their provider of energy.

Today, the Kremlin cannot exercise the same levels of influence and control over its satellite states as it could under its Communist empire. The transition phase saw the weakening of the military and economic muscle of Russia as well as the reduction of its international capabilities (Lo, 2003, p. 103). While domestic problems and inefficiencies were endemic by the end of Yeltsin's presidency, Putin came to power in 2000 with the aim of putting the Russian Federation on a different path by improving relations with the West. Three attributes of Communist Russia's foreign policy (a messianic ideology, raw military power and the imperative of territorial expansion) have been dropped in the present day by the Kremlin (Lucas, 2008, p. 258). Putin ratified the strategic arms reduction

treaty and signalled that there would be no objection from Russia on the enlargement of NATO (Bluth, 2008). But his attempts to improve relations with the West, coupled with events such as the recent war in August 2008 highlight the contradictory and complex nature of Russian foreign policy.

GAZPROM AND RUSSIAN POLITICS

Gazprom is the world's single largest energy company in terms of output, having the greatest control in Russia as compared to other energy companies (Lane, 1999, p.1). Particular members of the Russian Parliament were sponsored by certain companies in the past commonly. Though this hasn't been the case since post-Soviet reforms, Gazprom occupies a unique position in Russian politics by exercising some links with certain politicians and with its company officials getting as powerful as Russian government officials and diplomats, to the extent that it has been tagged as 'Russia's Ministry of Foreign Affairs for the 21st Century' (Aalto, 2008).

Active support from Putin has been the key element to the unique stability and growing power of Gazprom for the past decade. While speaking at a conference, he said that 'Russia's social stability is directly dependent on its energy stability' (Gorowski, 2000, p.12). Therefore, though there has been immense pressure from the US and the EU to divide Gazprom into several smaller companies, Putin has rejected all such proposals. Gazprom controls the whole grid of pipelines and gas fields. It has been granted direct access to the Italian distribution network, as have the Italian companies been allowed to operate in Russian fields. It is believed to help diversify Gazprom's business and reduce the vulnerability associated with dependence. While working to gain direct access to European consumers, Gazprom's strategy to acquire gas infrastructure clearly displays elements of Kuwaitisation policy as it aims to gain increasing revenues from its own Russian fields through the operation and exploitation by other states (Andres, 2007, p. 5).

NORD STREAM PIPELINE

Russia's intentions of minimising problematic reliance on its traditional gas transit routes (via Belarus, Ukraine and Poland to Western Europe) and maintaining full control over its gas exports is clearly understood through the construction of the Nord Stream Pipeline, running under the Baltic Sea, from North Western Russia directly to North Eastern Germany. The deal was signed on 18 September 2005 between the largest companies in Europe, i.e. Germany's BASF, E.ON and Italy's ENI as well as Russia's Gazprom (Aalto, 2008, p.107). Russia is always accused by its neighbours of constructing politically motivated energy transportation routes while Russia perceives its moves as strictly technological, depoliticised and dictated primarily by economic rationale. It is true that Russia treats most of its neighbours as security challengers (Makarychev, 2006, p.2).

This NSP Deal allows Gazprom to bypass Ukraine, which owes Russia a sum of over \$2 billion for gas imports. This massive debt of Ukraine is in sharp contrast to the highest paying West European market for Russian gas, Russia being Europe's cheapest supplier, given the lower cost of transport when compared to Asia. Though key EU members like Germany and France appear to appreciate factors such as long-term political benefits of an established economic relationship with Russia, economic motivations are central to both Europe and Russia (Jaffe and Manning, 2001, p.138).

Map: 1 Nord Stream Gas Pipeline



Source: Wikipedia

Vladimir Putin's regime has seen greater centralised control and a reversion to statism (Sagers, 2006, p.314). That the Russian Bear Model lacks credibility in terms of Russia maintaining aggressive geopolitical interests is provided for by Tkachenko, who states that neither Putin nor any of his close political allies have ever argued for the restoration of Russia within Soviet era borders, or for any other form of aggressive power politics for that matter (Aalto, 2008, p.166).

LIBERALISATION MODEL

This model of Rutland posits that the only way forward for Russia is through economic liberalisation by unleashing market forces and removing state restrictions on economic activity, as elsewhere. Consequently, the hydrocarbon industry has been largely handed over to the private sector, but the approach to energy is far from liberal. As for instance, domestic energy prices are way below world market prices. Such distortions limit Gazprom's investment capabilities and thus, have hindered the Industry's development (Johnson, 2005, p.259).

Russia's current economic development and its inefficient manufacturing sector shows all classical symptoms of the 'Dutch disease' (Russia in Global Affairs, 2005), a term originating in the Netherlands in 1960s, when the high revenue generated by its natural gas discovery led to a sharp decline in the competitiveness of the other non-blooming tradable sectors. The Netherlands experienced a drastic decline in economic growth despite the revenue windfall. This economic paradox has since been recognised as the situation in which a booming sector adversely affects the performance of other sectors in the economy and strangles manufacturing industries (World Bank group, 2006). Russia's currency is rapidly appreciating against foreign currency that has overfilled its coffers, due to huge inflow of export proceeds. Cheap foreign currency means cheap imports, giving importers a competitive edge over domestic producers who thus get into trouble.

It remains to be seen how Russia develops its energy sector and effectively liberalises it in the long run. To ensure that money continues to flow into the sector to enable it to modernise itself continually, a policy needs to be agreed upon. Medvedev appears more aware than Putin of how much foreign investment is required to keep the energy supply flowing and to diversify Russia's economic dependence on energy (Russell, 2009).

PIPELINE CONTROL AND RUSSIAN ENERGY FOREIGN POLICY

The more recent events of pipeline control make the Russian Bear Model clearly more relevant. 20 % of Russia's GDP and roughly 50-60 % of its total hard currency earnings are represented by energy exports (Jaffe and Manning, 2001, p.134). Thus, understanding the contribution of energy exports to the economy, the Russian government maintains careful policies over its energy exports to ensure that sovereignty is not relinquished to the EU. Johnson argues that the battle to secure ratification of the Energy Charter Treaty (ECT) demonstrated the tension between different energy policy paradigms in Russia (Johnson, 2005, p.273).

The ECT, first discussed in 1991 with the purpose of enabling the integration of the former Soviet Union and Eastern Europe into broader markets, was established in December 1994 (Com 94, 2952) and further amended in 2000 (Com 00, 4671). Russia refused to ratify the ECT due to its protocol on transit, dealing a severe blow to the treaty's aim of creating a pan-European framework. Against the economic interests of Russia or Gazprom, the treaty aimed at obliging Russia to implement the principles of freedom of transit without distinction of the origin, destination, or ownership of energy (Aalto, 2008, p.12). Critics say that the ECT allows other countries easier access to Russia's natural resources (Johnson, 2005, p.273). Thus, Russia's refusal to ratify the ECT characterises its desire to maintain full control over its energy supplies and network.

Putin expressed Russia's new approach in this area very directly to the German Chancellor Gerhard Schroder in the October 2003 summit, that it's not going to divide Gazprom in any case and,

'The gas pipeline network is the creation of the Soviet Union, and it is only the Russian Federation which can keep it in a functioning

order, even those parts of the system that are beyond Russia's borders' (Central-Asia Caucasus Institute, 2003).

This declaration was clearly against the interests of the politicians in Washington and the European capitals, who wanted to open up the Russian energy market for transnational companies that would then dominate Russians energy sector (Aalto, 2008, p.169).

— Replacing Europe as the main customer for Russian gas exports is not a very viable option since constructing pipelines to the other regions of the world would be very costly; moreover, pipelines already exist from Russia to Europe. The current Russian gas pipeline system consists of 46,800 kilometers of trunk pipelines (Sadri and Volkov, 2004, p.383). The Russian Bear Model is applicable here since the Russian state controls its pipelines and also those abroad. The Gazprom uses its control of the domestic pipeline grid to restrict third party access and prevent independent producers from exporting gas, thus leaving the private gas companies little incentive to invest in upstream projects (Goldthau, A, 2008, p.61).

The Kremlin was driven to develop more projects to minimise its transit dependence on foreign countries due to successful implementation of Russia's plan to develop its energy export infrastructure as an alternative to port facilities in foreign countries and pipelines through the Baltic States (Aalto, 2008, p.191). But Russia is additionally taking steps to find new major purchasers of its gas. A project named Sakhalin 2 in the Russian Far East, has been labeled as the largest oil and gas project in the world (Sakhalin Energy, 2006). It was planned by Russian and foreign investors to tap hydrocarbons from the north-eastern shelf of Sakhalin Island in the Okhotsk Sea and sell them on energy-hungry Asia-Pacific markets (Rianovosti, 2009). The 9.6 million metric ton per year capacity of the new Liquefied Natural Gas (LNG) plant opened in February 2009 will make Sakhalin a major new source of fuel for Asia-Pacific region. Japanese, South

Korean and U.S. companies have already purchased its output for the next 25 years.

Thus, it can be concluded that Moscow has never viewed oil and gas as just an ordinary commodity, but as Russia's strategic assets employable for foreign policy purposes as well as for bargaining with leading nations of the world on all issues relating to Eurasian economics and security policy (Jaffe, A and Manning, R, 2001, p.167). As compared to the Kuwaitisation model, the Russian Bear approach has proved overwhelmingly convincing in explaining Russia's energy foreign policy of using gas to maintain a strong influence, particularly in Eastern European states and by reducing its own dependency on transit states. To a certain extent, the Kuwaitisation model has been able to explain Russia's behaviour in developing the export of its energy resources.

Though Russia no more exercises the same levels of influence on the international system that it did some years ago, it still considers new ways of maintaining power by refusing to subordinate itself to the wishes of other states. Simultaneously, it also appears from the contradictory nature and evolving foreign policy of Russia, that it is not exactly clear of its policy intentions (Bluth, 2008). Deep interest among academic researchers has raised question as to whether Russia's political institutions are becoming more democratic and can cause Russia to come into conflict with the West. Russia does not wish to change its institutions in the face of scrutiny for their lack of democratic accountability. Achieving substantive progress regarding the domestic reform agenda while convincing the West of Russia's essential like-mindedness is the greatest challenge for Putin in these circumstances.

A real divide opens up at this point between concepts of shared interests and values (Lo, 2003, p.107). If the West's political, security and economic interests are now better served under a Putin administration the same cannot necessarily be said about many of its political and civil values. This disjunction between

interests and values, between the EU and Russia, is an un-ending source of frustration to the Russian leadership (ibid).

Political Implications of the EU-Russia Relations

This part of the chapter will consider the structure of EU-Russian relations, areas of conflict as well as cooperation and the political issues in their relationship and the analysis drawn from this chapter will be used in the final chapter to assess the extent to which factors of interdependence outweigh the opposing political views between the two actors.

STRUCTURE OF EU-RUSSIA RELATIONS

EU had begun funding Russia substantially in the beginning of the 1990s, through its vast programme of Technical Assistance for the CIS as well as Food Aid (Gower and Timmins, 2007, p.250). Bilateral relations were upgraded by signing the Partnership and Cooperation Agreement (PCA) in June 1994 and enforcing it in December 1997, which stated that the EU committed itself to supporting Russian accession to the World Trade Organisation and promised to consider a free-trade zone in 1998, as also to remove most quotas on Russian exports. The aims of the partnership are to provide a suitable framework for political dialogue, to support the efforts made by Russia to strengthen its democratization process and develop its economy to accompany its transition to a market economy in order to encourage trade and investment (Europa 2007).

The 'EU-Russia Common Spaces' is another agreement based on four projected spheres of cooperation between the two, covering Economic issues & the Environment; Freedom, Security & Justice; External Security; and Research & Education (European Commission External Relations, 2009). It also creates a framework for EU's relations with all neighbouring Eastern countries, consisting of six CIS countries; including Georgia and Ukraine, which have been a constant

source of friction in relation to both EU and Russia, as states are divided over the issue of future enlargement. Due to overlapping peripheries between Russia and EU, there have been problems in terms of cooperation.

ISSUES OF CONFLICT

WESTERN INTERFERENCE

Russia and certain EU member states differ over US plans to build an anti-ballistic missile system in Europe, consisting of missile interceptors in Poland and a radar base in the Czech Republic. It has been established as a defensive measure against any aggressive moves by countries such as Iran. However, the Kremlin complains that the new system threatens its security. Russia objects to the missile defence bases saying that it will, if necessary, target its nuclear weapons on European countries involved in the project (Lucas, 2008, p.250). The Kremlin feels that the US is encroaching in a geographical area which has been traditionally more aligned with Russia and its interests.

NATO/EU ENLARGEMENT

The twin imperatives of reuniting Europe following communism's collapse and reinventing the Trans-Atlantic Alliance for the post-Cold War era resulted in the democratic enlargement across the eastern half of the continent by anchoring Central and Eastern European countries to the West (Asmus, 2008, p.86). The beginning of 1990 thus saw the opening up of NATO and the EU.

The bilateral relationship between Russia and EU is described as a "strategic partnership". However, their relationship grew weaker in 2004 (Tassinari, 2005, p.45). Russia believed that the proposed enlargement of the EU would damage the traditional economic ties that it enjoyed with countries of Central and Eastern Europe, which formerly belonged to the Warsaw Pact (Gower and Timmins,

2007, p.151). Moscow felt that US-led NATO would prove to be an expansionist military threat to Russia.

The two documents of the European Parliament and the EU Commission released in February 2004 denounced Russia's latest domestic developments and the subsequent worsening of bilateral relations (European Parliament, 2004). The EU Commission praises Russia's economic growth and Moscow's multilateral commitment in the UN context and in the Middle East. Both documents, however, are plainly critical of, among other things, relations with other countries of the former Soviet Union, domestic developments regarding democracy and rule of law, and the conduct of the war in Chechnya (Tassinari, 2005, p.46). The political implications of these criticisms however only had a minimal negative impact on EU relations with Russia.

UKRAINE/GEORGIA POTENTIAL EU MEMBERSHIP

EU and NATO policies have changed since the early 1990s, with reference to enlargement. This is significant when discussing the possible membership of Ukraine and Georgia to the EU and the political implications that this could have on EU-Russia relations. Consolidating democracy in Central and Eastern Europe along a north-south axis from the Baltic's to the Black Sea was a challenge in 1990s. In the present day, stabilizing the countries of Eurasia, along a new axis extending eastward from the Balkans including Ukraine and Georgia seem to be a greater challenge. Asmus however argues that countries such as Georgia and Ukraine are weaker, poorer and more politically problematic than the Central and Eastern European countries that NATO and the EU sought to integrate earlier (Asmus, 2008, p.96).

The term 'spheres of influence' explains the implications of EU enlargement for Russia and how these impact energy relations with the EU. With regards to EU's new eastern neighbourhood, Ukraine, Belarus and Moldova – Russia has sought

to reinforce its ties to the detriment of Brussels inclusion (Tassinari, 2005, p.52). Nevertheless, the overarching question of NATO enlargement, and the interest in NATO membership by Caucasian and Central Asian states, continues to generate considerable concern in Russia (Gower and Timmins, 2007, p.150).

The main reason behind Ukraine and Georgia's non-membership to the EU is that there is no EU-wide agreement on them becoming members. It can be concluded that for the time being this is not a sphere of serious conflict between Russia and the EU as there is no realistic possibility in the near future that either country will become an EU member. Further points of conflict exist around topics such as the wars in Chechnya and the very recent Russian-Georgian war in South Ossetia in August 2008. The implications of these fall outs will be assessed here.

HUMAN RIGHTS AND CHECHNYA

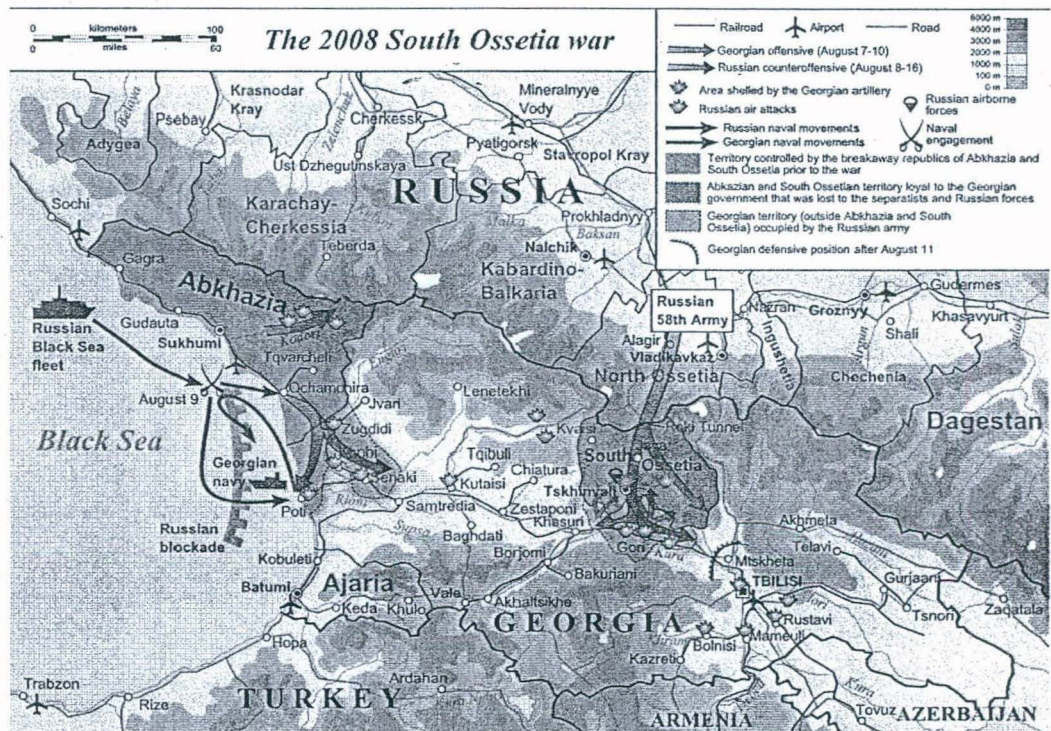
The issue of Human Rights has been prominent in international criticism of Russia and its treatment of civilians affected by the first and second Chechen wars. It is important here, to analyse the political implications of this criticism on the interdependent relationship between the EU and Russia.

The European Commission stated in 2005 that concerns over the 'deteriorating human rights situation in Russia' remain and this implies that member states should actively defend the 'core values of the EU' and insist on Russia's respect for the rule of law and human rights (European Commission, 2005, p.32, quoted in Forsberg et al, 2005, p.456). One might reasonably assume that the well-documented human rights violations in Chechnya would have been a source of major concern for the EU, because the EU has consistently highlighted the importance of human rights in its external relations, evidenced most recently by Article III-193(1) of the draft EU Constitution (ibid, p.456). However, a number of writers argue that the EU hasn't allowed alleged human rights violations within Russian borders to affect its relations with its energy trade.

Member states and EU institutions debate on the undesirable trade-offs being made by individual states, acting in pursuit of their deep-seated economic and political interests, which undermines any effective EU level response to the ongoing anti-democratic developments in Russia. Schmidt-Felzmann argue that divergent policies pursued in this regard symbolize the respective importance of Russia for their economies, and in particular the supply of natural gas and crude oil (Schmidt-Feizmann,2008,p. 178).

2008 GEORGIAN-RUSSIAN WAR

Map: 2 The 2008 South Ossetia War



Source: Wikipedia

The Georgian-Russian war in South Ossetia in August 2008 and its aftermath became a serious point of conflict between Russia and the EU. Georgia and Russia-backed South Ossetia, have been at war intermittently for many years, over 'who' controls the area of South Ossetia. The Georgian government wishes

to bring the region back under its control whilst South Ossetia wishes to have greater autonomy over its region. After the war, the EU held back its relations with Russia and highlighted the actions Russia had undertaken which were reckoned unacceptable: 'the violation of Georgia's territorial integrity with the use of force, and Russia's unilateral recognition of Abkhazia and South Ossetia remain unacceptable, while the principles of foreign policy recently articulated including the resurgence of spheres of influence, is a cause for concern. The European Council has condemned Russia's unilateral decision to recognise the breakaway regions of Georgia and expressed grave concern about the disproportionate Russian reaction in the conflict' (Europa, 2008b).

In the aftermath of the war, Russia still perceived its actions as genuine, which caused the EU to reconsider its relations with Russia in the november annual EU-Russia summit. However, the extent to which these issues of conflict between the EU and Russia seriously affect EU-Russia relations is negligible. The European Commissioner, Benita Ferrero-Waldner said that dialogue with Russia had merely been delayed rather than permanently suspended. She added that developing bilateral relationship would be difficult, but was inevitable, as the EU and Russia are reliant on one another (Russia Today, 2008).

EU: PRIORITISATION OF CONCERNS

EU is passive over human rights abuses in Russia and the war in South Ossetia because of its distinction between first and second order concerns – which helps us in understanding the interplay of individual national policies and EU policies towards Russia. First order concerns relate to a country's national security, economic prosperity and security of energy supplies while second order concerns can be described as 'ethical' concerns reflecting the normative values of the respective state. States will essentially forfeit second order concerns if they are at odds with the 'first order' core national interests. Consequently, there is an apparently ambiguous bilateral relationship between member states and Russia

and disinclination to espouse for the ethical principles that EU policy is based upon. States guarantee that bilateral ties with Russia remain unaffected when disputes over human rights violations erupt at the EU level, by getting the EU to take on the second order issues (Schmidt-Felzmann, 2008, p.179).

Romanova notes the year 2000 as a turning point for EU-Russian relations. At the Feira European Council meeting, political conditionality and economic cooperation with Russia were decoupled, providing huge potential for political implications for EU-Russian relations and allowing the intensification of economic links (European Council, 2000). There is a lack of collective action on the part of the EU in responding to alleged Russian human rights violations due to economic reasons. Schmidt-Felzmann argues that the contention is that the protection of economic interests overrides any concerns for human rights and the rule of law in Russia (Schmidt-Felzmann, 2008, p.178). Highly dependent member states will seek to protect existing bilateral agreements and maintain favourable relations with Russia to ensure prosperous trade relations and security of their energy supplies.

The war in Chechnya and Russian human rights abuses against civilians have continued to peter out as priorities on the EU-Russia agenda in the post-September 11 world. The EU has emphasized the importance of “strategic partnership” and “energy dialogue” and avoided criticism of Russia’s human rights abuses in Chechnya. EU leaders resolved not to forgo political capital by raising the issue of Chechnya and human rights, which would have undermined the probability of building up better relations with Russia. The member states do not need anything apart from the Russian market (Schmidt-Felzmann, 2008, p.180). Similar reasoning can be adopted when considering the outcomes of the Georgian-Russian war. Official discourse from the EU stated that ‘the EU’s relationship with Russia is one of the most challenging of our times consisting of a complex web of joint activities and interwoven interests’ (Europa, 2008c).

Clearly, collective European action is lacking for reasons of not wanting to lose or upset economic relations. The significance of energy in the lack of EU action over alleged human rights abuses by the Russian government is summed up well when Fosberg states that 'never, for example, was Russian policy in Chechnya tied to the EU's willingness to import Russian energy' (Forsberg, 2005, p.474).

Thus, when examining the main issues of conflict between the EU and Russia it is clear that the economic energy relationship takes priority as potential conflicting attitudes towards Chechnya, for example, are ignored. The tensions which exist over areas of NATO/EU Enlargement, potential EU membership of Ukraine/Georgia and the August 2008 war do not have far reaching consequences to seriously bring either party into a serious conflict, because political and economic ties cause Russia and the EU to have a strong intertwined relationship. It can be concluded that contentious issues between the EU and Russia, such as human rights violations, can be insignificant in risking or tarnishing EU-Russia relations as energy supplies and economic concerns can take priority.

Chapter four

*Contemporary Events in Russia
Europe Energy Relations*

4. Contemporary Events in EU-Russia Energy Relations

EU scholars debate on the limitations of EU energy policy, emphasizing on the number of distinctions that have to be made when considering it. This is because individual members like France, Germany and Italy, who have their own national energy policies and contracts with suppliers, also dictate their own energy policy within EU.

Competencies and institutions overlap when dealing with energy security. The EU can bring a number of instruments to bear on energy negotiations with other partners, the size of its market giving huge leverage (Grevi, 2006, p.7). The first legislation put in place for an energy policy was in 1994 (Com 94, 659). The White Paper on Energy Policy, considered as the policy starting point emphasizes on the diversification of security of supply, competitiveness, and environmental protection (Com 95, 682). A number of directives and proposals have been implemented to promote the internal energy market since the adoption of the White Paper (Com 98, 571), as also to liberalise gas and electricity trade, to integrate sustainable development into energy policy and to support renewable energy sources (Com 02, 488).

DIFFERING NATIONAL POLICIES WITHIN THE EU

The cases of Italy and Germany provide an example of the varying policies employed by individual states within Europe. While policy at the overall EU level is being carried out, individual states are also taking matters into their own hands and securing bilateral deals with the Russian government in receiving energy imports.

The most significant measures taken by Italy, Germany and France have been to reduce their individual vulnerability by signing long-term bilateral gas supply agreements with Gazprom. National energy choices being diverse, the place of

natural gas is very different from one EU country to another. Some European countries are producers of gas; others use coal or have invested heavily in the nuclear sector. The disparities observed in the structures of energy balances are the product of history and the consequence of strong differences of opinion concerning the role of the nuclear sector. This is why there is no real common energy policy in Europe but a simple consensus on three priorities: competitiveness, security and sustainability (Percebois, 2008, p. 35).

2009 UKRAINE GAS CRISIS

The very beginning of 2009 saw a severely testing time with regard to EU-Russia relations. A substantial amount of Russian gas was not transported to Europe for twenty days in January 2009 due to commercial dispute between Ukraine and Russia. After much sufferings of Europe, an agreement was struck between both the parties to resume gas supplies to Europe. It is important to consider the implications and effects of the disagreement from both Russia and Europe's perspectives to gain an understanding of contemporary Russia-Europe energy relations.

EU called for an urgent solution to the commercial dispute on gas supplies from the Russian Federation to Ukraine on 2 January 2009, and for an immediate resumption of full deliveries of gas to the EU member states (Europa, 2009a). Gazprom had turned off gas supplies because it believed that Ukraine was breaching contract by siphoning off its gas and selling it illegally (Gazprom, 2009a). Since then, several EU countries, especially Bulgaria and Slovakia, reported shortfalls in their supply of gas from Russia. Moscow accused Kiev of 'stealing' while Kiev countered that it was only trying to make up for willful Russian supply shortages (Emirates Business 24-7, 2009). and his Ukrainian counterpart, Julia Tymoshenko, said after negotiations on the 20th January, that they had agreed on the price Ukraine would pay for its gas, enabling transit to continue to Europe. An agreement was reached between Russia and Ukraine

based on both parties agreeing that the price of the gas would be controlled using European gas pricing rules. For the first time the generally accepted European price formula, already applicable for all consumers of Russian gas, had been agreed with Ukraine (Gazprom, 2009c).

CRISIS AFTERMATH

This crisis established the necessity for a coordinated European response and emergency plan as already highlighted by the Commission in November 2008, in its Second Strategic Energy Review advocating an EU Energy Security and Solidarity Action Plan (Europa, 2009c). To minimise the chances of another similar crisis, the Gas coordination group considered measures to be taken. The group concluded that long term structural measures need to be established and that 'the need for diversification is more important than ever' (ibid).

Russia's neighbours had complained of being 'bullied', with embargos being placed on their exports of goods to Russia and the cutting off of energy supplies from Russia. These states have extensive bilateral trade links with Russia as vestiges of the 'old regime', and are thus vulnerable to the application of political pressure by means of trade (Schmidt-Felzmann, 2008, p.172).

The risk of dependence on one energy supplier was already highlighted by a similar dispute between Russia and Ukraine over natural gas prices in January 2006. In early 2005 the Russian state monopoly Gazprom revealed plans to start applying 'market rules' in its gas dealings with former Soviet republics, which meant that buyers would lose the heavily subsidized prices they had previously been given and instead, would have to pay similar prices to those charged to Western European customers (Bahgat, 2006, p.961). Gazprom reduced gas supplies going through Ukraine in response to Kiev's refusal to pay the new high price.

There are two main gas export routes from Russia to Europe. The route traveling through Ukraine transfers around 80 % of sold gas and that through Belarus transfers the remaining 20%. The 'gas war' between Russia and the Ukraine at the beginning of 2006 and between Russia and Belarus at the beginning of 2007 represented a threat to EU supplies. Traditionally, Russia sold gas to its 'friendly' ex-USSR countries at an 'amicable price' either at around 50 USD for 1000 m³ as compared to around 250 USD for the EU. Later, Russia asked them to pay the market price because these countries showed Occidental leanings, and, accepted a very interesting compromise after certain political conflicts, that the price would be temporarily set at \$105 which will be eventually increased to \$130 (Percebois,2008,p.147). These events have led the EU energy experts to reassess the serious need to diversify energy imports and to move step away from an over reliance on Russian gas supplies.

ALTERNATIVE SUPPLIERS

The future of EU energy supplies need to be considered in the light of the outcomes of the Ukraine gas crisis, which makes the EU more reliant on external sources in years to come and thus exposes the EU to greater competition for supplies (Johnson, 2005, p.257).

The Commission figures forecast that EU energy imports will rise from 50% to over 70% by 2030 (Lynch, 2004, p.2), and that it will become increasingly dependent on oil and gas imports from a turbulent neighbourhood. The EU will rely on importing 80% of its gas requirements by 2030. Most speakers present at the EU conference stressed that dependency regarding energy imports could be confronted with the diversification of the energy mix, suppliers and transport routes (Grevi, 2004, p.3).

The pipeline network carrying Russian gas to Europe is a unified system built at a time when Russia and Ukraine were united as a single, gas-exporting state – until

the fall of communism (Emirates Business 24-7, 2009). EU has become cautious of being excessively dependent on energy supplies from Russia, reflecting its belief on the 'supply security' doctrine that it should not put itself in a situation where it could be pressured by any one supplier.

The EU is aiming to reduce import dependency and to stabilize imports, which has an important political significance for the EU. The dependency on Russian oil and gas imports is increasingly seen to be affecting policy choices in a large number of EU member states; other states remaining vulnerable to possible outright Russian manipulation. The European Commission President Barroso noted that eight EU member states are dependent on Russia as their single energy supplier. To decrease Russian influence, the EU is trying to secure direct access to the massive gas and oil reserves in the Caspian Sea region, cutting out the Russian middle man. EU efforts to diversify its gas imports have existed around the possibility of developing two pipelines which would provide gas from sources other than Russia: the Trans-Caspian and Nabucco pipelines.

TRANSCASPIAN, NABUCCO AND SOUTH STREAM PIPELINES

TRANS-CASPIAN GAS PIPELINE

Proposed from Turkmenistan, across the Caspian Sea seabed to Azerbaijan, this pipeline will carry gas supplies ultimately destined for Europe. This idea was initially put forward in 1996. However, initial plans in manufacturing the pipeline seemed to lose momentum in 2000 as gas purchase contracts and means of financing were not identified for the project. But the idea has been put forward again recently, to create the pipeline as a means of diversifying gas sources to Europe. In 2007 the new leadership in Turkmenistan took a renewed interest in this pipeline as it would enable central Asian gas producers to have access to alternate export routes other than through Russia (Crandall, 2007, p.17). However the project lacks financial backing and an agreement by all six nations in the

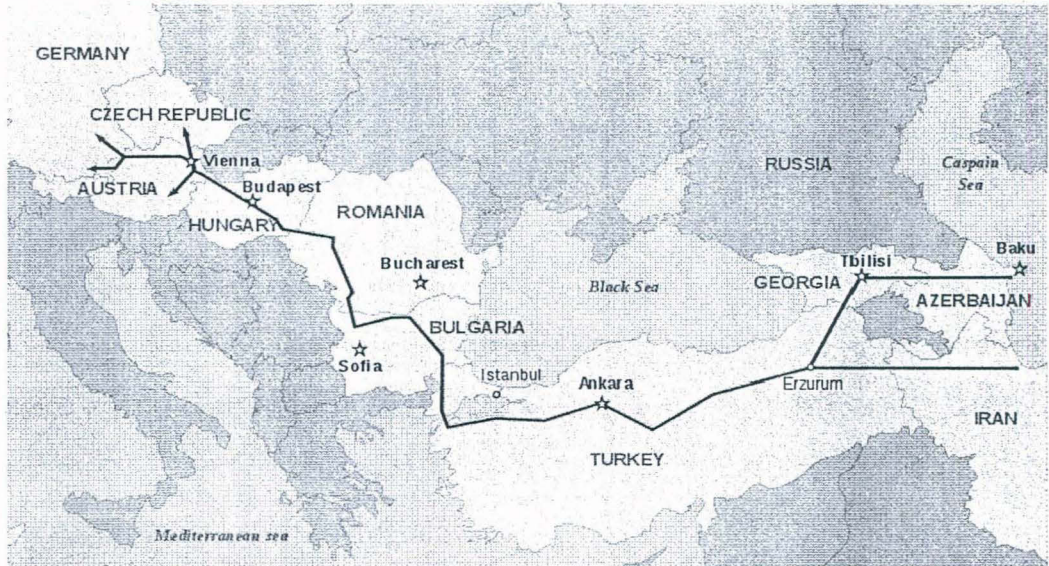
Caspian over ownership of the seabed, meaning the likelihood of a pipeline is all but minimal in the near future.

NABUCCO PIPELINE

This pipeline is to transport gas from the Caspian basin along 3,300-kilometer-long route which would start at the Eastern Turkish border and transport gas to Austria (Today's Zaman, 2009). This project is conducted by a consortium including an Austrian firm OMV, a Hungarian firm MOL, a Turkish firm Botas, a Bulgarian firm Bulgargaz, and a Romanian firm Transgaz (Percebois, 2008, p.48). The plan to build the Nabucco pipeline was proposed in 2000. The project is planned to become operational by 2013 and would reach its full capacity of 31 bcm per year by 2020. However, not a single segment of pipe has been laid till date. At current prices, construction costs would amount to approximately 7.9 billion Euros, which some critics have said is too high a price during the difficult economic period for too little gas to reach Europe. The amount of gas estimated to be imported through the pipeline represents less than 10 percent of Europe's needs. Nabucco is increasingly seen as a 'solidarity project' serving Turkey and some southern Europeans more than it would financially serve Europe in general. Symbolically, though, it would help to loosen Russia's strengthening grip on European gas imports.

At the moment there is no guarantee that the pipeline will receive the gas that it needs to transport. Azerbaijan, Turkmenistan and Kazakhstan are the three Caspian countries which the EU will be looking for clear signals that construction on Nabucco will start soon and that there is the financial backing needed to see it through to completion. This backing is not apparent at the moment. The reality is that all three can just as easily export their gas through Russian pipelines - Turkmenistan and Kazakhstan already have such long-term contracts in place. Until Nabucco can show visible progress on construction, it is unlikely that any of

the three would risk damaging their ties with Russia by committing to the European project (Radio Free Europe, 2009).



Map: 3 Nabucco Gas Pipeline

Source: Wikipedia

SOUTH STREAM PIPELINE



Map: 4 South Stream Gas Pipeline

Source: Wikipedia

Russia is undertaking efforts to complete a 'South Stream' pipeline, in addition to the Nord Stream pipeline, that would rival the Nabucco Pipeline project. This is a Russian-Italian project that aims to transport gas from Bregovaya, Russia, across the Black Sea to Bulgaria and then to Italy and Austria. In May 2009 A deal was signed with Italy, Bulgaria, Greece and Serbia to build the pipeline with the aim to complete the pipeline by 2015 (Reuters UK, 2009). However it is still necessary for Austria to become a partner in the project for it to be fully realised. The significance of this pipeline is that if the project goes ahead then the prospect of filling the Nabucco pipeline up with gas will become even more problematic as South Stream will potentially use these gas supplies, thus possibly taking away an alternative for the EU to diversify its energy imports beyond that which it already has. Moreover, even though Nabucco might cost less, it could never fully compete with the planned capacity and supply which South Stream is expected to provide (Russia Today, 2009a).

Chapter five

Conclusion

The EU and Russia are inter-reliant partners, both dependent on each other. Even though points of variance exist between them, this does not impinge upon their energy interdependent relationship thus leading to the conclusion that their interdependence is the principal binding factor between them in their relations. It is evident that the Europe's energy supplies aren't as susceptible as has been pointed out by some expert's, due to strong interdependency between the two partners though with the situation being slightly in favour of Russia, it being the principle supplier. But Russia also profoundly relies on the EU as an importer of its gas. Therefore, it is not necessary for the EU to radically substitute its gas supplier but surely a deliberate introduction and increment of alternative sources would be better for the future.

During the Cold War, the US felt that the Soviet Union was an enemy, which should be destroyed by economic means; but Western Europe in fact thought that they should ensnare the Soviet Union in a web of interdependence (George, 1998, p.140). The construction of an East-West energy bridge has been a European premeditated goal since Russian gas first entered Western Europe in the course of the Cold War. But the politics of interdependence does not inevitably lead to cooperation. From a foreign policy standpoint, the problem confronting individual governments is how to profit from international exchange while maintaining as much autonomy as possible (Keohane and Nye, 1987, p.730).

EU and Russia are energy dependent in different ways: the EU needs to import increasing quantities of energy, just as Russia needs markets for its natural resources and European capital to modernize and expand its energy sector (Johnson, 2005, p.272). From the perspective of the EU, the question of dependence on Russian gas imports should be framed in the broader context of interdependence. The security of supply and the security of demand should be

regarded as the two faces of the same coin in the relations between producers and consumers. The EU needs Russia as an exporter as much as Russia needs the EU as an importer. The trade is one of mutual interdependence, and beneficial to both. Russia earned \$35-38 billion from gas sales to the West in recent years, with revenues of oil and gas making up close to half of the Russian government budget. In order to generate revenues, Gazprom has to exploit foreign markets. Most of the easily accessible markets, such as those in Western Europe, are highly profitable. In fact, to date, Gazprom earns virtually all of its profits from exports to Western Europe, although this market only accounts for 25 percent of total production. Hence Gazprom needs the Western European market as much as Europe needs its gas supplies.

If either the producer or the consumer wants to opt to exit from the bilateral ties, and start dealing with an alternative contractual partner, he has to make a high additional investment, i.e. build a new pipeline, which becomes very costly. This demonstrates the interdependence between the purchaser and supplier (Goldthau, 2008, p.2). Critics argue that those member states whose representatives have spoken out in defence of developments in Russia are simply misjudging Russian actions due to their close personal ties with the Russian presidents (Schmidt-Felzmann, 2008, p.178).

This issue is demonstrated most notably through the strong German-Russian bilateral ties. The perception of energy dependence has arguably caused muted criticism from Germany when responding to negative foreign policy actions from Russia. The good personal relationship between former chancellor Schröder and Putin surely brought economic, political and military cooperation forward. Policy analyst Overhaus argues whether German and European foreign policy is well advised to exclusively focus on Putin while muting criticism concerning the devaluation of democratic institutions or human rights abuses in Russia (Overhaus, 2004, p.6). This muting of criticism towards Russia's foreign policy stems from the importance of energy relations and of a country's desire to not

disrupt their supply; as suggested in chapter three with the explanation of the EU's prioritisation of concerns.

The issue at the heart of heated debates among member states and EU institutions regarding Russia is a concern about undesirable trade-offs being made by individual states, acting in pursuit of their strong economic and political interests, which undermine any effective EU level response to the ongoing anti-democratic developments in Russia.

Chapter three considered the political implications for this relationship with regards to Russia being responsible for alleged breaches of human rights in Chechnya, which is just one of the many issues which create conflict between the two 'strategic' partners. Russia detests being told by the EU, and other Western organisations, that it needs to further democratize its institutions and it further creates tension. Western influence in regions traditionally under Russian influence, such as NATO enlargement and the planned US Missile Defence Systems in Central and Eastern Europe clearly provokes Russia and irritates it that other powers have a presence near its borders. The Russia-Georgia war in August 2008 has only increased Western scrutiny of Russia's foreign policy. Chapter three demonstrated that Russian foreign policy making is complicated and at times contradictory as it developed out of the chaotic collapse of communism. Present day Russian foreign policy can also, at times, reflect this contradictory, multi-faced approach which provides for so much discussion to the Western analysts on Russia.

The European perception of dependence has certainly enabled Russia to avoid a stronger level of international condemnation with regards to human rights abuses in Chechnya and its lack of implementation of further democratisation reforms within its political system. Since energy from Russia does not flow in equal amounts to the entire EU, the problem of mutual dependency is particularly complex. How this issue is focused will depend on the strategies adopted by each

country in the Union. Given this situation, it is not hard to understand why the European Commission has been unable to coordinate a common vision, nor why some countries, including Germany, France and Italy, have been trying to develop their own relationships of mutual dependence (Andres, 2007, p.15).

Russia, however, has one great weakness: gas is transported only through pipelines. This introduces significant geographical limitations and, in fact, determines which countries can be its customers. As a result, not only are its customers dependent on Russia, but the reverse is also true: Russia is dependent on its customers as well. Rather than considering the EU to be vulnerable to Russia, it is more reasonable to understand the relationship as one of mutual energy dependence. The future dynamics of this relationship will depend on the capacity of each partner to develop its respective energy alternatives over the medium and long term (ibid).

The Ukraine gas crisis in January 2009 led many to believe that the EU-Russia energy relations were at stake and that the EU must find an alternate energy supplier so that it moves away from over reliance on Russian gas exports. However, EU and Russia are far too inter-dependent on one another for European gas supplies to be at risk. In an official statement from Gazprom it was said that:

‘Gazprom was and is the main supplier of natural gas to Europe. We understand our responsibility and henceforth will remain the guarantor of energy security for our European consumers. All the contacts signed to supply gas will be implemented. There are not any doubts at all’ (Gazprom, 2006).

Whilst Gazprom’s sentiments were questioned over the Ukraine gas crisis, it has been highlighted that the issue was mainly over pricing and that Russia wanted to use the normal pricing system which it used with its other purchasers of gas. It has

been concluded that mutual dependency on both parties means gas supplies aren't largely at risk as some writers have suggested.

The alternate pipeline proposals to enable diversification from Russian supplies have already been concluded to be doubtful in being made into a reality due to lack of financial backing, like Nabucco and TransCaspian. Whilst it has already been concluded that Europe is not at great risk of not receiving its gas supplies, there are further reasons of it not being financially viable for Europe to access gas from alternate suppliers. Firstly, since exploration of gas fields and pipeline construction are extremely expensive and time-consuming, producers and consumers engage in long-term contracts that usually cover 20 years or more and entail destination clauses prohibiting secondary trading. Based on these take-or-pay contracts, the producer is able to invest in a multibillion-dollar project, as there is a constant and reliable return on investment. The consumer enjoys a guaranteed supply for several decades, thus reducing uncertainty and costs.

Secondly, gas production and its supply is a regional issue, as it is almost exclusively transported via pipelines. Hence, if either the producer or the consumer wants to opt for exit and start dealing with an alternative contractual partner, he has to make a high additional investment, i.e. build a new pipeline. Given the extremely high upfront costs, it becomes very costly for either involved party to leave an established bilateral contractual gas relationship. A quick look at the dense pipeline grid connecting Europe and Russia reveals that neither side can be interested in dumping all the money that each has invested; nor do they have a real choice (Goldthau, A 2008).

It is not financially wise or practical for the EU to be looking to drastically change its gas supplier. However, in the long term, consideration should be made to enable slow increment and introduction of alternative sources. This would be better as a long term future goal for the EU and its still evolving energy policy. Long term options possibly lie with increasing Algerian gas supplies which

currently supply more than 10 per cent of the EU's natural gas needs, i.e. around 18 per cent of the EU's gas imports (Percebois, 2008, p. 50). In addition to this there is potential from Middle East suppliers, which provides another option for the EU to diversify its gas supplies (Bahgat, 2006 p.967). Already the EU is the main trading partner for several Middle Eastern states; with oil and increasingly natural gas representing a large and growing proportion of this trade volume (ibid, p.973).

Therefore, interdependence is clearly visible in the EU-Russia energy relations, determining the incentives of both sides for cooperation and partnership which aim at enhancing the energy security, a vital aspect for the well-functioning of any state. Having examined the empirical context of the EU-Russia energy interdependence, it is evident that this interdependence is asymmetric since it reflects the uneven distribution of the benefits and costs in EU-Russia energy relation. In the recent years the EU perceives itself as more dependent on the supplies of Russian gas than Russia depending on the EU energy market. This understanding is derived from the fact that demand for energy consumption is increasing, especially gas, where Russia is the main supplier to the EU and the production of alternative energy resources is becoming relatively expensive. Also, the possibility for diversification of suppliers is not an easy task for the EU since most of the alternative suppliers are located in politically adverse and unstable environments. Domestic difficulties to liberalize the EU market where there is growing divergence in positions of the member states on how to enhance the security of energy supplies is also another factor. They consider the security of supplies as a crucial aspect of their national security agenda and therefore are hesitant to let such issues be considered at the EU level.

Taking the above-mentioned factors into consideration, it can be concluded that this is a kind of defenseless interdependence which metes out sizeable costs for the EU and underlines the difficulty to adjust the EU's policies on the occasion of undesirable changes within the Russian energy policy.

It can be argued that Russia is but dependent on the EU energy market to a lesser extent. Russia has bilateral long-term contracts with the EU Member States which secures Russia's energy exports. Russia is a major transit country which owns the important pipeline networks without which the Asian gas cannot be transported to the EU. Besides, Russia is continuously strengthening its positions by signing to new pipeline projects with Kazakhstan and Turkmenistan (Website of ministry of Industry and Energy of Russian Federation) . Russia enjoys a steady status of being a major gas supplier, possessing one-third of the world's proven gas reserves. Thus, in the conditions of growing gas consumption in the world, Russia will continue to be one of the few viable suppliers of gas.

On the other hand Russia is dependent on the EU energy market as a substantial part of Russia's energy exports go to the EU at high prices which constitutes a large part of state revenues. This can be characterized as sensitivity interdependence where Russia has the ability to adjust its policies as a response to the changes in the EU's energy policy. This conclusion derives from the fact that even if the EU limits its imports from Russia, the non-EU states (Former Soviet Republics) which are dependent on Russian energy to a high degree will continue to be a viable market for Russian energy products. Gradually increasing the domestic price levels is another way of compensating for the loss in case of EU limited imports of Russian energy, which already takes place.

According to the theory of interdependence, such asymmetries can grant a source of power to a less dependent actor in a bargaining process and put it in a more advantageous position in the negotiations where it can influence the bargaining outcomes. In the context of EU-Russia interdependence, there are adequate grounds to regard Russia a less dependent side which provides it with a powerful source in the bargaining process over disputable issues in energy relations which have been examined previously.

In several issues it gives Russia the ability to withdraw from the negotiations without any particular loss as a result of its non participation (as it is the case of conflictual issues of the ECT). Concerning the Production Sharing Agreements, Russia itself decides how the process of investment is carried out i.e. it uses its favorable position of being the owner of the natural resources who makes the decisions without particular consideration of the EU's interests on these issues. In the territoriality clauses and dual gas pricing issues this asymmetric interdependence gives Russia further incentive to continue to pursue its own policies. This situation contributes to further intensification and deepening of the conflictual discourse and makes it difficult to manage such conflictual issues. In addition, some of the achievements in the EU-Russia energy relations as well can be attributed to the manipulation of the asymmetric interdependence by Russia i.e. Russia secured long-term contracts as the basis for energy cooperation and the clarification of the question on the alleged restriction on imports in favor of Russia.

Thus, it can be convincingly concluded that energy security and the conflicts surrounding it are the key issues in the EU-Russia relations and the fact that the supply of energy to Europe has been used by Russia as a bargaining chip to counter geopolitical moves by NATO and its members, who are in essence mostly EU members.

References

References

Books and Articles

- Aalto, P (2008) *The EU-Russian Energy Dialogue, Europe's Future Energy Security*, Aldershot, Ashgate Publishing Limited.
- Evans, D (1976) *The Politics of Energy*, London, The Macmillan Press Ltd.
- George, S (1998) *An Awkward Partner; Britain in the European Community*, Oxford, Oxford University Press.
- Gower, J and Timmins, G (2007) *Russia and Europe in the Twenty-First Century - An Uneasy Partnership*, London, Anthem Press.
- Lane, D (1999) *The Political Economy of Russian Oil*, Maryland, Rowman & Littlefield.
- Lo, B (2003) *Vladimir Putin and the evolution of Russian foreign policy*, London, Blackwell.
- Lucas, E (2008) *The New Cold War: How the Kremlin Menaces with both Russia and the West*, London, Bloomsbury.
- Ahrend, Rudiger, 2005. "Sustaining Growth in a Resource-based Economy: The Main Issues and the Specific Case of Russia". Occasional Paper No. 6. Geneva: United Nations Publication
- Antonenko, Oksana – Pinnick, Kathryn, (eds), 2005. *Russia and the European Union*. Oxon: Routledge
- Bindemann, Kirsten, "Production-Sharing Agreements: An Economic Analysis," (1999), Oxford Institute for Energy Studies, <http://www.oxfordenergy.org/pdfs/WPM25.pdf> (accessed on 1 May)
- Bordachev, Timofei, 2002. "Rossija i Evropejslij Sojuz: Trebuetsja Departament", Briffing Moskovskogo Centra Carnegie, Volume 4, Issue no 3. Moscow: Carnegie Centre (translated from Russian) find internet source
- Denisov, Andrei, in Kemper Ria "Russia Re-States its Commitment to the Energy Charter", http://www.gasandoil.com/ogel/samples/freearticles/article_26.htm
- Ellman, Michael, (ed), 2006. *Russia's Oil and Natural Gas: Bonanza or Curse?*

Lon- don: Anthem Press

- Gavrilencov Evgeny - Welfens, J.J. Paul – Wiegert Ralf, (eds), 2004. *Economic Opening Up and Growth in Russia*. Germany: Springer
- Hamilton, B. Carl, 2005. “Russia’s European Economic Integration. Escapism and Realities”, *Elsevier*, *Economic Systems* 29. pp. 299-300.
- Helm, Dieter, 2006. “Russia’s Energy Policy: politics or economics? p. 3. Open De- mocracy Free thinking for the World <http://www.opendemocracy.net/debates/article.jsp?id=6&debateId=28&articleId=4004#>
- Johnson, Debra - Robinson, Paul, (eds), 2005. *Perspectives on EU-Russia Relations*. Great Britain: Routledge
- Keohane O. Robert - Nye S. Joseph, 2001. *Power and Interdependence*. Third Edi- tion. United States: Longman
- Konoplyanik, Andrei, 2002. “Energy Charter: Counter-Acting Through Inaction”, *Oil, Gas&Energy Law Intelligence*. Volume I, Issue 2. http://www.gasandoil.com/ogel/samples/freearticles/article_34.htm
- Konoplyanik. Andrei, 2006. “Emerging Energy Security Risks and Risk Mitigation: The Role of International Legal Framework”, Geneva, UNECE Committee on Sus- tainable Energy, 15th Annual Session
- Khudolei, Konstantin, 2003. “Otnoshenia Rossii I Evropeiskogo Soyuza: Novye Vozmozhnosti, Novye Problemy” in Moshes Arkadi *Rossiya I Evropeiskiy Soyuz: Pereosmyslivaya Strategiyu Vzaimootnosheniy*. Moskva: Gendalf
- Larsson, Robert, 2006. “Russia’s Energy Policy: Security Dimension and Russia’s Reliability as an Energy Supplier”, Stockholm: FOI – Swedish Defence Research Agency
- Lo, Bobo, 2003. *Vladimir Putin and the Evolution of Russian Foreign Policy*. Lon- don: The Royal Institute of International Affairs
- Muneer, T – Asif, M, 2005. “Energy Supply, its Demand and Security Issues for De- veloped and Emerging Economies”, *Elsevier Ltd, Science Direct*,
- Milov, Vladimir, 2003. “Proigrannaja Khartija”, (Lost Charter) translated from Rus- sian, Institute of Energy Policy, <http://www.energypolicy.ru/pres.php?id=1002286>

- Narochnitskaya Natalya, 2004. "Rossiya I Zapad v Novyh Geopolitichaskix Real- nostyah", <http://www.rodina.ru/article/show/?id=16>, Translated from Russian
- Neuman, William Lawrence, 2003. *Social Research Methods: Qualitative and Quantitative Approaches*. Fifth Edition. United States of America: Pearson Education Inc
- Patton, Quinn, Michael, 1987. *How to Use Qualitative Methods in Evaluation*. Cali- fornia: Sage Publications
- Prozorov, Sergei, 2006. *Understanding Conflict between Russia and the EU: The Limits of Integration*. New York: Palgrave Macmillan
- Pursiainen, Christer, 2006. "EU-Russia Cooperation - Challenges for the EU", pp.100-115 in Knudsen F. Olav, (ed), *Russia and the New Europe: Borderlands and Integration*. Conference Papers 37. Stockholm: The Swedish Institute of International Affairs
- Roman, M, 1998. *The Implementation of International Regimes: The Case of Amazon Cooperation Treaty*. Uppsala
- Spanier, Aldo, 2006. "Russian gas price reform and the EU-Russia gas relationship: Incentives, Consequences and European Security of Supply", Elsevier Ltd, Energy Policy
- Spruds, Andris, 2006. "The EU CFSP Towards Russia: The Partnership and Coopera- tion Agreement as a Test Case", Riga: Latvian Institute of International Affairs
- Stubbs, Richard - Underhill R. D. Geoffrey, 2006. *Political Economy and the Chang- ing Global Order*. Oxford: Oxford University Press
- Sydsvenskan, Ekonomi, "Oljekonflikten har skadat Ryssland". Issue 2007.01.15
- Sydsvenskan, Världen, "Ryska Gasen Väg till Västeuropa". Issue of 2007.02.05
- *The Economist*, "How Europe is hooked on Russian Gas: A Bear at the Throat". Issue from April 14th -20th 2007. pp.27-29
- Trenin, V. Dmitri, 1999. "The Changing Geopolitical realities in Europe", pp. 181-184 in Arbatov G. Aleksei - Kaiser, Karl – Legvold, Robert, (eds), *Eurasia in the 21st Century*. Volume 1 *Russia and the West: The 21st Century Security Environment*. United States of America: EastWest institute

Journals

- Andres, A (2007) 'Russia and Europe: Mutual Independence in the Energy Sector', Elcano Royal Institute of International and Strategic Studies, vol. 2007, no. 25, pp.1-15.
- Asmus, R (2008) 'Europe's Eastern Promise; Rethinking NATO and EU Enlargement', Foreign Affairs, vol.87, no.1, pp.95-106.
- Bahgat, G (2006) 'Europe's energy security: challenges and opportunities', International Affairs, vol.82, no.5, pp.961-975.
- Belyi, A (2003) 'New dimensions of energy security of the enlarging EU and their impact on relations with Russia', European Integration, vol.25, no.4, pp.351-369.
- Forsberg, T and Herd, G (2005) 'The EU, Human Rights and the Russo-Chechen Conflict', Political Science Quarterly, vol.120, no.3, pp.455-478.
- Gorowski, R (2000) 'Russia's Energy Future: Chubais vs. Kalyuzhny', The Current Digest of the Post-Soviet Press, vol.52, no.10, pp.12-14.
- Jaffe, A and Manning, R (2001), 'Russia Energy and the West', Survival, vol. 43, no.2, pp.133-152.
- Johnson, D (2005) 'EU-Russian Energy Links: A Marriage of Convenience?', Government and Opposition, vol.40, no.2, pp.256-277.
- Keohane, R and Nye, J (1987) 'Power and Interdependence. Revisited', International Organization, vol.41, no.4, pp.725-753.
- Overhaus, M, Maull, W and Harnisch, S (2004) 'German Foreign Policy in Dialogue', Deutsche Aussenpolitik, vol.5, no.12, pp.1-43.
- Lucciani(2009)- Security and supply for natural gas markets what is it and what is it not, Indices working paper no.2/mar 2004.
- Muller-kranner (2008), Energy security:remeasuring the world; pg xi,earthscan,2008
- Percebois, J (2008) 'The supply of natural gas in the European Union – strategic issues', OPEC Energy Review, vol.32, no.1, pp.33-53.
- Sadri, A and Volkov, A (2004) 'The Russian Pipeline system between globalization and localization', East European Quarterly, vol.38, no.3, pp.383-393.
- Sagers, M (2006) 'Russia's Energy Policy: A Divergent View', Eurasian Geography and Economics, vol.47, no.3, pp.314-320.

- Schmidt-Felzmann, A (2008) 'All for one? EU Member States and the Union's Common Policy Towards the Russian Federation', *Journal of Contemporary European Studies*, vol. 16, no.2, pp.169-187.
- Tassinari, F (2005) 'A Riddle Inside an Enigma: Unwrapping the EU-Russia Strategic Partnership', *The International Spectator*, vol.40, no.1, pp.45-57.
- Yergin,D (2000) 'The Commanding heights:The Battle between Government and the marketplace that is remaking the modern world.

Internet Sources

- Study on Energy Supply Security and Geopolitics, Final Report, January 2004. Hague: Clingendael International Energy Programme (CIEP), found at the EU official site, http://ec.europa.eu/energy/green-paper-energy-supply/doc/studies/2004_lv_ciep_report_en.pdf
- European Commission, 2003. "The EU Energy and Transport in Figures Official Document", Directorate-General for Energy and Transport, http://www.senternovem.nl/mmfiles/111333_tcm24-124309.pdf
- Checchi et al,(2009) <http://www.lup.lup.lu.se/luur/download?func=download>
- European Commission, 2007. "Energy for a Changing World: An Energy Policy for Europe, the need for action", Directorate-General for Energy and Transport, Brussels
http://ec.europa.eu/energy/energy_policy/doc/2007_03_02_energy_leaflet_en.pdf
- Council of the European Union, Presidency Conclusions, 9 March 2007. Brussels, Official Document, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/93135.pdf
- Official site of British Petroleum, Oil Reserves, http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2006/STAGING/local_assets/downloads/pdf/table_of_proved_oil_reserves_2006.pdf
- Official site of Gazprom, <http://www.gazprom.ru/eng/articles/article8511.shtml>
- The Ministry of Industry and Energy of the Russian Federation website, Russia's Energy Strategy for the period 2003-2020 translated from Russian,

- <http://www.minprom.gov.ru/docs/strateg/1>
- EuroActive website, Energy Dialogue, <http://www.euractiv.com/en/energy/eu-russia-energy-dialogue/article-150061>
 - European Commission's Delegation to Russia, http://www.delrus.cec.eu.int/en/p_217.htm
 - EU-Russia Energy Dialogue website, "Why such a partnership" http://ec.europa.eu/energy/russia/overview/why_en.htm
 - EUSMP, (2004) <http://www.esmap.org/esmap/sites/esmap.org/files/AR-2004.pdf>
 - European Commission website, EU-Russia Summit of October 2001 http://ec.europa.eu/external_relations/russia/summit_30_10_00/statemen_en.htm
 - Europa, website, Press Release: "Energy Dialogue Results". <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/04/1467&format=HTML&aged=1&language=EN&guiLanguage=en>
 - European Commission's website, Communication from the Commission to the Council and the Parliament, http://ec.europa.eu/energy/russia/reference_texts/doc/2004_0777_en.pdf, p.6
 - Speech of President Putin, 2002.04.10, <http://www.ln.mid.ru/bl.nsf/8bc3c105f5d1c44843256a14004cad37/9023225327e0382043256b9800315b98>
 - European Commission, EU-Russia Energy Dialogue, http://ec.europa.eu/energy/russia/issues/gas_en.htm
 - Energy Charter Treaty website, <http://www.encharter.org/index.php?id=18&L=0>
 - Text of the 1994 Energy Charter Treaty, http://www.encharter.org/fileadmin/user_upload/document/EN.pdf
 - International Herald Tribune, <http://www.iht.com/articles/ap/2007/04/13/business/EU-FIN-EU-Energy.php>
 - BBC News (2008a) Alarm bells in Ukraine, <http://news.bbc.co.uk/1/hi/world/europe/7584576.stm>
 - BBC News (2008b) Georgia Crisis Tests EU, http://www.bbc.co.uk/blogs/thereporters/markmardell/2008/08/s_1.html
 - Central-Asia Caucasus Institute Analyst (2003) Putin says Russia will keep control of CIS pipelines, <http://www.cacianalyst.org/?q=node/1585>

- Checchi, Arianna – Behrens, Arno – Egenhofer, Christian 2009. “Long-Term Energy Security Risks for Europe: A Sector-Specific Approach”, CEPS Working Document No. 309, January 2009. Retrieved April 26, 2009 from: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1334620
- Directorate-General for Energy and Transport (2008) EU energy and transport in figures statistical pocketbook 2007/2008, http://ec.europa.eu/dgs/energy_transport/figures/pocketbook/doc/2007/2007_pocketbook_all_en.pdf
- Emirates Business 24-7 (2009) In gas crisis, aftershocks of Soviet collapse rumble on, <http://www.business24-7.ae/articles/2009/1/pages/ingascrisis,aftershocksofsovietcollapserumbleon.aspx>
- Europa (2007) Eastern Europe and Central Asia Partnership and Cooperation Agreements, <http://europa.eu/scadplus/leg/en/lvb/r17002.htm>
- Europa (2008a) Declaration by the Presidency on behalf of the European Union on the deterioration of the situation in South Ossetia (Georgia), <http://europa.eu/rapid/pressReleasesAction.do?reference=PESC/08/99&format=HTML&aged=0&language=EN&guiLanguage=en>
- Europa (2008b) Review of EU-Russia relations, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/678&format=HTML&aged=0&language=EN&guiLanguage=en>
- Europa (2008c) EU/Russia: a challenging partnership but one of the most important of our times, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/545&format=HTML&aged=0&language=EN&guiLanguage=en>
- Europa (2009a) Declaration by the Presidency on behalf of the EU on interruption of Russian gas supply through Ukraine, <http://europa.eu/rapid/pressReleasesAction.do?reference=PESC/09/1&format=HTML&aged=0&language=EN&guiLanguage=en>
- Europa (2009b) Joint statement by the Czech EU Presidency and the European Commission, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/4&format=HTML&aged=0&language=EN&guiLanguage=en>
- Europa (2009c) The Gas Coordination Group evaluates the current gas crisis and confirms measures to assist countries in need,

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/30&format=HTML&aged=0&language=EN&guiLanguage=en>

- European Commission External Relations (2009) EU-Russia Common Spaces, http://ec.europa.eu/external_relations/russia/common_spaces/index_en.htm
- European Council, (2000) Presidency Conclusion of the Santa Maria da Feira European Council, No. 2001/00, 19 and 20 June, 2000, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/00200-rl.en0.htm
- European Parliament (2004) Report with a proposal for a European Parliament recommendation to the Council on EU-Russia relations 2/2/04 (2003/2230(INI), <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A5-2004-0053+0+DOC+XML+V0//EN&language=EN>
- Gazprom, (2006) On Results of Alexey Miller's meeting with ambassadors of the European Union countries, <http://www.gazprom.com/eng/news/2006/04/19363.shtml>
- Gazprom, (2009a) Gazprom reduces gas volume supplied to gas transmission system of Ukraine, <http://www.gazprom.com/eng/news/2009/01/33513.shtml>,
- Gazprom (2009b) Gazprom has to stop deliveries to entry point of gas transmission system of Ukraine, <http://www.gazprom.com/eng/news/2009/01/33519.shtml>
- Gazprom (2009c) Russian gas deliveries towards Ukraine initiated, <http://www.gazprom.com/eng/news/2009/01/33736.shtml>
- Goldthau, A (2008) Resurgent Russia? Rethinking Energy, <http://www.hoover.org/publications/policyreview/14931716.html>
- Makarychev, A (2006) Russia's Energy Policy provided by the Centre for Strategic and International Studies, http://www.csis.org/media/csis/pubs/pm_0425.pdf
- Ministry of Energy of the Russian Federation (2003) The Summary of the Energy Strategy of Russia for the period of up to 2020, http://europa.eu.int/comm/energy/russia/events/doc/2003_strategy_2020_en.pdf
- Radio Free Europe (2008) EU unveils plans to battle vicious cycle of energy dependency, http://www.rferl.org/content/EU_Unveils_Plans_To_Battle_Vicious_Cycle_Of_Energy_Dependency/1348868.html,
- Radio Free Europe (2009) Nabucco Summit Opens Amid Questions Of Funding Supply, http://www.rferl.org/Content/Nabucco_Pipeline_Conference_Opens_Amid_QuestionsOf_Funding_Supply/1375273.htm

- Reuters (2009) Russia seeks to speed up South Stream with new deals, <http://uk.reuters.com/article/idUKTRE54E1ZL20090515?sp=true>
- Rianovosti (2009) LNG puts Sakhalin on the map, <http://en.rian.ru/analysis/20090219/120216520.html>
- Russia in Global Affairs (2005) Dutch Disease hits Russia, <http://eng.globalaffairs.ru/engsmi/922.html>
- Russia Today (2008) Russia & EU prepare to bargain, http://www.russiatoday.com/Top_News/2008-11-14/Russia_and_EU_prepare_to_bargain.html
- Russia Today (2009) Russia to upgrade army in response to NATO expansion, http://www.russiatoday.com/Top_News/2009-03-17/Russia_to_upgrade_army_in_response_to_NATO_expansion.html
- Russia Today (2009a) Russia Kick Starts South Stream Project, http://www.russiatoday.com/Top_News/2009-05-15/Russia_kick_starts_South_Stream_project.html
- Sakhalin Energy (2006) Sakhalin 2 Project – Recent Key Mile Stones, http://www.sakhalinenergy.com/en/aboutus.asp?p=working_with_us_home
- Today's Zaman (2009) Nabucco: pipeline or pipe dream?, <http://www.todayszaman.com/tz-web/detaylar.do?load=detay&link=167869>
- World Bank Group (2006) The Dutch disease theory and evidence, http://pgpblog.worldbank.org/the_dutch_disease_theory_and_evidence

***Command Papers**

- GREAT BRITAIN. Science and Technology (1994) Final Act of the European Energy Charter Conference with Decisions, Energy Charter Treaty and Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects: Lisbon, 17 December 1994, (Cmd 2952), London, HMSO.
- GREAT BRITAIN. Science and Technology (2000) Energy Charter treaty and Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects: Lisbon, 17 December 1994, (Cmnd 4761), London, HMSO.

***E.U.COM Documents**

- Final Report for the Green Paper 'Towards a European Strategy for the Security of Energy Supply', COM (02)321, final.
- For a European Union Energy Policy, COM (94)659, final.
- White Paper for a Community Strategy and Action Plan, Energy for the Future: Renewable Sources of Energy COM (98) 571, Directives of the Council and the Parliament 96/92/EC on internal electricity market and 98/30/EC on internal gas market, Communication from the Commission to the Council and the Parliament, Completing the internal energy market; COM (2001) 125 final, European Commission Proposal to the European Parliament and the Council, The internal market in energy: Coordinated measures on the security of energy supply, COM(2002) 488 final.
- White Paper for Energy Policy, COM (95) 682, final.

Conference papers and proceedings

- Crandall, M. 2007. Prospects for New Caspian Natural Gas and Oil Export Routes. The Restoration of Russian Power: Toward an Energy-based Deterrence, 30th November 2007, Paris, Paris The French Institute of International Relations (IFRI), pp.1-37.
- Grevi, G. (2006) CFSP and Energy Security, The EU strategy on energy security, 23rd October 2006, Paris, Paris, EU Institute of Security Studies, pp.1-9.
- Lynch, D. (2004). Energy as a Security Challenge for the EU, The Energy Supply Horizon, 15th October 2004, Paris, Paris, EU Institute for Security Studies, pp.1-6.

Newspaper Articles

- Walker, S. (2009) Russia and Ukraine agree gas price deal, The Independent, 19/1/09, p.21.
- Bluth, C. (2008) Putin will still be in Russia's driving seat, Yorkshire Post, 29/2/08, p.13.

