

Challenges and prospects in Russia: EU energy relations

Jaggu Dan Ratnoo

PhD Scholar, JNU, New Delhi, Delhi, India

Abstract

This paper will cover the hurdles in a relationship by the exports of oil and gas through different companies of Russia and Europe, bone of contention involves around the price mechanism involved, feasibility of pipelines and transit routes. In this paper, I will explain possibilities and prospects to Russia-EU energy relationship in detail. From EU point of view, diversification of energy supply has been a major challenge through searching internally as well as externally. I will discuss an importance of renewable sources of energy in European countries owing to inadequate oil resources.

Keywords: prospects, mechanism, European, possibilities, relationship

Introduction

This paper tries to explain the numerous challenges which Russia and the European Union have mutually faced ever since the end of the cold war till 2012. During the aforesaid period, the relationship has gone through several ups and downs. In this context, the paper is further sub-divided into three parts. The first part will focus on the challenges from a European Union's perspective viz-a-viz ensuring the security of energy at affordable prices. In contrast to this, the second part will explore the challenges from Russian perspective regarding unhindered access to the market at stable prices for its energy supplies. Finally, the last part will delve into the prospects and possibilities of energy as being at the core of strengthening Russian-EU relations.

The European Union has consistently attempted to analyse and identify the challenges posed by Russia and possible ways to mitigate them in a much-concerted manner. As part of several policy documents, it has published one vision document titled 'Green Paper', wherein the issues of concern to the member countries have been thoroughly analysed. Likewise, Russia has also consistently tried to use its vast oil and gas resources as a strategic tool to strengthen its relationship with EU. Accordingly, many Russian documents were published during post-cold war times with an aim to push oil resources as the core of Russian foreign policy ensuring Russia to regain its lost superiority in global affairs. The Russian obsession with the 'Great Power' status has received a very strong backing from its burgeoning energy sector.

Problems from European point of views

1. Energy Supply Security-Related Challenges

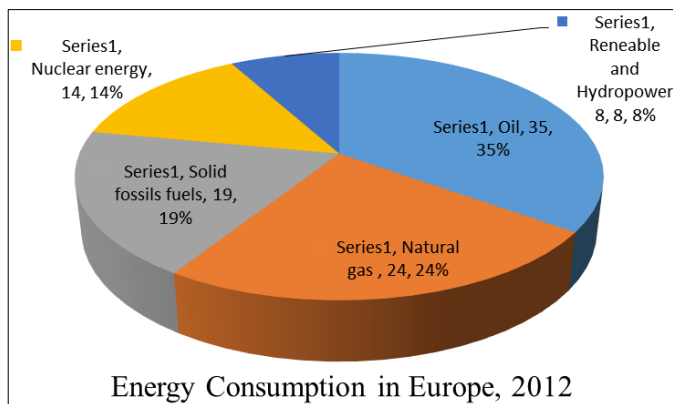
Historically European Union's overdependence upon external actors for the supply of energy had shown its vulnerability throughout the cold war, a period in which it had fulfilled its energy requirements from the Soviet Union. The Cold War ended with the disintegration of USSR; the Russian Federation has become a partner for EU to meet its requirements of energy. From 1991 Europe has imported its energy supply (oil and gas) from Russian Federation. Several times European Union's states have faced supply of energy problems from its immediate neighbouring country, Russia. The European Union

has accorded major priority to the security of energy supply, but it has been confronted and threatened because it is energy dependent on other countries. The fact is that the major pipelines pass through Ukraine's territory. Therefore, Ukrainian regime has been taking on a pro-Western stand. That resulted in the Orange Revolution and other activities to hold onto other Western institutions, like NATO. This has not been well received by the Russian political oligarchy. That is why Russian Federation has imposed higher prices for energy. That had endangered energy supply to Ukraine. Before that Russian share in the Ukrainian pipeline network was high in accordance with agreement supplying gas significantly when the global prices were below. The gas dispute of 2006 exposed inescapable Ukrainian dependence on Russia's energy supply. Nevertheless, some member states to the EU possess oil and gas but are capable of fulfilling only a very small portion of the total energy demand. Then Russia becomes the sole option to import energy to meet its requirements. So Russia has several times used energy as a political weapon vis a vis the importing countries. Russia had put severe pressure on Moldova and Georgia because they have pursued policies of disentangling themselves from Moscow's influence and moved toward Western countries. This resulted in an increase in the energy prices by the Russian state-controlled Gazprom. This has demonstrated the unity of EU member states regarding energy requirement questions. These events have also shown their vulnerability to take independent decisions because of alliance with the EU. Russia has also increased gas prices to Poland and the Baltic countries as well.

Historically, these four states have maintained the predominantly anti-Russian stand in achieving their aims and objectives of their respective foreign policies. Same thing happened in the case of Lithuania the increase in gas prices by Gazprom.

Russia's displeasure with Belarus President Lukashenka's regime was reflected in their ending of subsidies on its energy supply. However, the disputes did not rouse the cold war atmosphere. These actions have marked by a more aggressive policy towards European states. As Keith C. Smith has argued that since the disintegration of USSR, Russian political elites have attempted to put forth influence on their instantaneous

neighbours through threats to withholding vital oil and gas delivery. “Stabilisation of energy security is necessary in order to achieve economic development and “well-being of citizens” of the EU” (Commission, 2008) [1].



Sources: US Energy Department, 2012

Fig 1: Energy consumption In Europe, 2012

These cases mentioned above of energy being cut off to Europe have shown the vulnerability of the EU to consolidate its energy supply. Russian Federation has played its energy card and imposed a severe burden on their economies in order to castigate them for fastening themselves to the Western group.

The Monopolistic Actions by Gazprom

The Gazprom has important role in the determining of EU market relations with Russian. It showed its intention to secure its presence and try to restrain competition in European countries' market. Outside Russian political development, it has reduced flexibility and motivated severe misery amongst the EU member's states. In contrast, the European Commission considered anti-monopoly methods against Gazprom. These obligations have some implications for reducing its charges. In particular, the British government has considered amendments relating to its national legislation. Britain has prevented Gazprom from buying 10 percent share from its gas company Centrica. The Gazprom's structure was privatised after the disintegration of the USSR. “While routine management and its estimated almost 170 subsidiary companies remain with the managers rather than bureaucrats, strategic decisions are decided at the higher political level” (Westphal 2006) [17]. The energy giant Gazprom claims to be entirely commercial, but as illustrated by critics it like a “parallel government” (Tkachenko, 2008) [16]. The Kremlin has brought under state control 51 percent of the company's shares, effectively. During Putin presidency, it furthermore changed its leadership and appointed Aleksey Miller friend and Chief Executive Officer (Tkachenko, 2008) [16]. The state control over company's monopoly over extraction and transportation of gas as well played a very significant role. It provided Moscow with strategic an effective foreign policy tool.

European Unity under energy umbrella in transition

The most of EU states from the Western side have been most resistant to a legally binding energy policy. The countries

from Eastern and Central Europe have fewer alternatives to meeting their gas and oil needs from a single market. Not unexpectedly, they tended to favour a common EU energy market. Despite of their greater dependency on and vulnerability to Russian supplies, Central and Eastern European countries receive less than EU. It is a fact that the ECE states' greater dependency has repeatedly been used by Kremlin over the previous twenty years to attempt to intimidate or blackmail governments over a range of political and commercial issues. Several times disruptions have happened in the past four years. It can be expected that the Central and Eastern European countries have been worried more than others states. The fact is that imperial tendency of eastern neighbour is compounded by their immense amount of energy dependence on Russia. It is well recognised that the comparatively greater Central and Eastern Europe dependency has constantly been used by the Russian political elites over the previous twenty years. The Russian gas company Gazprom attempted to intimidate or blackmail and punish governments over a range of political and commercial disputes. Western European countries were directly affected by the Russia-Ukraine gas dispute of 2009. Russia's image in these nations has been ‘always one of a reliable source of energy and ‘good sense.’

2. Related to Political challenges

Nadia Arbatova has underlined some challenges which hamper their progress toward energy security and cooperation. First is the political context of Russia-West relations. Further, she explained in detail that, within EU, integration is still in its transition phase. Some countries in an Eastern part of Europe have not been keen on being integrated with Europe where energy supplies are concerned.

Some EU countries, particularly from Western Europe, were not keen on signing a binding treaty with Russia because they have alternative sources of energy supply from the non-Russian side. However, those states situated on the boundary between Eastern Europe are more dependent upon Russian supply for fulfilling of their energy requirements; favour a common EU energy market. However, some countries fulfil their needs by other means like renewable sources e.g. Germany. Despite that, the fact remains that the European Union has taken some enterprise to create an institutional and legal structure for East-West energy cooperation. Its strategy to integrate Europe through institutional and market base has not yet been completed, and it is not yet clear both regarding deepening and widening of EU. How much diversity it can meet before it explodes? In this direction of integration, one initiative of EU has been the European Neighbourhood Policy (ENP), but it was only a temporary solution.

The adoption of the reform treaty is a step forward in the strengthening of European integration. On the one hand, energy has been very a significant factor to the coming close of all countries, to some extent. Despite this, Russian-EU relations are still abiding by the post-Soviet syndrome. On the other hand, EU allocation of resources to NATO forces itself creates suspicions in their relations with Russia. This type of dichotomy in the EU will persist and will constitute there a primary impediment in its own military support since the EU, and the enlargement processes have been presented as complementary processes (Arbatova, 2008). When the Energy Charter Treaty (ECT) was signed by the majority of European

1. European Commission Report, 2008 Page No-12

countries, it has raised hope for an integrated energy sector across the European continent. The treaty aimed to encourage competitive rules and the flow of Western capital and information. However, Russia has not signed the ECT because of its clause which called for the liberalisation of the energy market.

It has been realised at EU institutional level to build projects regarding energy infrastructure and exploration schemes as well. Thus they can meet its energy supply with the cooperation of USA and Middle East countries. These requirements can be improved by the Transit Protocol, in accordance with which, the flow of energy would continue despite any probable disagreement between states concerned in the energy cycle.

Politically EU predictions and plans have not been very successful so far, because the Russian stand has no clarity and Russia is reluctant to sign the treaty, mainly owing to the terms '*Transit Protocol*'. The sensitivity of EU thus has not made any sense to them. Some scholars have clarified the risks in their relations not on conditions of gas supply or vice versa, but more as a dependence on a strong monopolistic supplier who might put mounting pressure of prices.

The EU acknowledged the importance of liberalisation policies of the gas market. It has realised that it needs to defend itself from impending hostile Russian steps. There has been some planning to integrate older and newest gas suppliers to European market which will go ahead to reciprocally set up contracts for long term like take-or-pay to boost energy security of the European Union. In the upcoming period, that type of policy might also present as a lever of force over Russia to break its monopoly over Gazprom and diversifying its gas needs from the world market.

3. Challenges Recognition at Institutional level by both of parties

In addition to categorization challenges or risks defined by distinguished scholars, European Union has acknowledged some challenges at the institutional level. The problems relating to short term are generally, to supply shortfall, for instance, terrorism attacks whether technical difficulties. Reports of green paper regarding challenges and hurdles faced by EU concerning supply of energy the EU Green Paper (2000) pointed out in its report four major risks.

First, physical risk, as an alternative of short and long term risk the Commission divided them temporary and permanent as well. Permanent risks "can occur when an energy source is exhausted, or production is stopped". This was what the European Union addressed in the past decades. Declining native energy production in European states has augmented its reliance on non-indigenous sources of supplying of energy. The provisional risk stemmed from "geopolitical crisis or a natural disaster" (2000). The dispute relating to gas between Russian Federation and Ukraine in 2006 was an apparent case of physical risk.

Second, there have been economic risks and they have been a big challenge to energy security supply. In this classification energy prices have been a major factor in so far as changing prices have a depressing impact to consumers. Price changes moreover influenced energy-exporting states. For example, Russia earning incomes from energy plays a central role in the country's budget (Commission 2000).

The last two problems have been related to social and environmental risks. The European Commission stated that "energy was an important factor. Therefore, any trouble in energy supply, influences the countries politics, social life, environment and economy" (Commission, 2000).

The European Council (EC) has underlined several challenges "Problematic situations concerning gas and oil markets, the continuing the increasing dependency on import and inadequate diversification options achieved so far, volatile, and high energy prices, growing global energy demand, security risksaffected producing and transit countries as well as transport routes".

The EU's Member States pursued independent policies in possession of national interests and external affairs, but in real sense EU sincerely requires constructing a synchronised European external energy policy. The EU requires a universal external energy policy and "speak with a single voice" (Commission, 2006). "Strategic Energy Review" (2008) and European Commission (EC) consider the construction of Southern Gas Corridor to be documented as an energy security preference for the EU ^[2].

4. The Role of USA as an obstacle in Russia-EU energy relations

The strategy that the USA has applied in this region is to diversify its energy sources to European countries. The Obama Administration is considering plans to build a transatlantic oil pipeline in order to strengthen the NATO alliance and to reduce European dependence on Russian oil. An unnamed American official has revealed the strategic efforts of the United States to curb the prestige of Russia, bent on competing and eroding the American influence and interests on the European Continent.

Pipelines are one of the most apparent manifestations of Georgia's Western alignment, tangibly connecting the Caucasus region with Europe, and the end of the twentieth century observedsubstantial developments in its strategic direction, as the government drove forward the controversial Baku-Tbilisi-Ceyhan pipeline project, a US-backed plan to export Caspian oil without transiting Russian territory. Both pipelines have considerable symbolic significance, providing a direct link between the Caspian region and Europe.

The BTC has been described by one observer as an 'umbilical cord', anchoring Azerbaijan and Georgia firmly within the European perspective. It also gives Europe direct access to Central Asia. Pipelines are the most tangible manifestation of the growing connections between the Caucasus region and Europe, but they are fraught with geopolitical significance. Construction of the BTC was heavily backed by the US, which wants east-west export routes from Central Asia and the Caucasus to bypass Iran and Russia, thereby weakening their influence in the region. Georgia plays a key role in facilitating the transit of oil and gas from the producers in the Caspian region to international markets without the need to rely on Russia. Not only does Moscow lose out on transit tariffs, the BTC, BTE and Baku-Supsa links also represent export supply routes to Europe that are not under Russian control. This has prompted some observers to postulate that the 2008 Russian military intervention in Georgia was motivated by a desire to

²"EU Energy Security and Solidarity Action Plan: Second Strategic Energy Review", 2008.

take control of the pipeline infrastructure, and rumours abound that the pipelines were deliberately targeted.

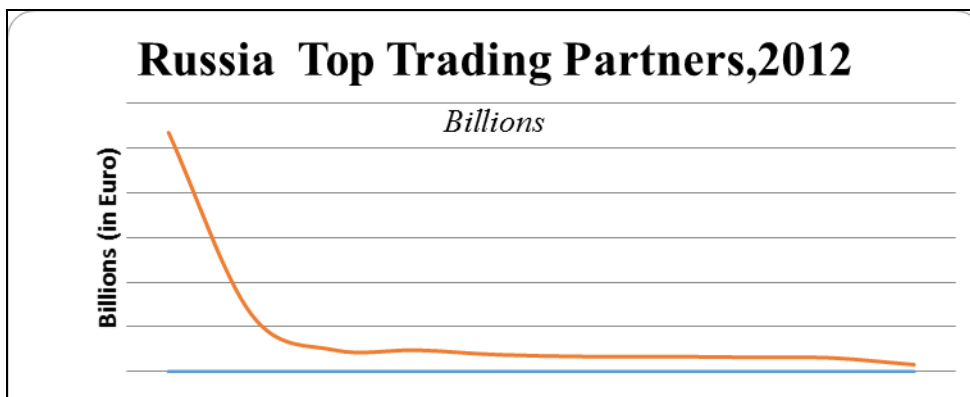
Challenges to Russia Regarding Energy Relation with EU

1. Security of Market to sell energy

For Russian economy largely dependent upon European market. Russian economy largely depended upon energy resources, which are supplied to European countries. Since the previous years, USA has developed shale gas production. This has reduced the Russian energy supply to other countries. That

is why Russian companies have some compulsions to sell energy at market prices to EU member’s states. Russia’s political oligarchs have been trying to search for alternatives partners to sell energy.

The below figures showed that Russian top trading partner is the European Union more than 260 billion (in Euro) has traded after that Russian Federation has moved toward China and Ukraine status has been very high in the eyes of Russian political oligarchs.



Source: Eurostate, 2012

Fig 2: Russia top Trading partners, 2012

2. The US sponsored alternative pipelines to the European Union–

The United States of America has supported financially several pipelines which fulfilling energy requirements of European states which are Baku-Tbilisi-Ceyhan, Baku-Susaand Baku-Tbilisi-Erzurum pipelines have provided direct links to connect Central Asian region. While the BTC has been transporting 1 percent of the whole global oil supplies, it nonetheless played an important role in Western energy security by improving the diversity of supply. The constructions of these pipelines have changed the balance of power in that region. After the Cold War, the US was always motivated to sustain a unipolar world order. However, it had also tried to lessen the dominance of Russia over its neighbouring states viz. Georgia and Azerbaijan through building pipelines bypassing the Russian territories. “The US–Georgia Charter on Strategic Partnership, signed at the beginning of 2009, stressed that deepening cooperation between the two countries was based on ‘common interests’, which included ‘bolstering Eurasian energy security [3]. The BTC was connected to Georgia and Azerbaijan. It gave Europe direct access to Central Asia. The Georgia’s development of ‘Caucasian Corridor’ helps Georgia along with Europe. These steps have diversified Europe’s energy supply from the Caspian region. Bypassing Russia [4] Kremlin has become increasingly concerned about growing US influence in areas traditionally perceived as Russia’s ‘strategic backyard’, that is, in former Soviet states such as Georgia, Ukraine and the Central Asian republics. Putin’s critical speech at the Munich Security Conference in 2007 was an unambiguous expression of Russia’s increasingly negative

attitude towards the US and its international role. He launched a fierce attack on US foreign policy and the impact of the country’s dominance on international security. Russian efforts to influence events in Georgia and the country’s development as an autonomous actor on the international stage can be seen as an extension of a desire to counterbalance US dominance.

3. Divergence of approaches to Energy Cooperation

Energy contribution to Russian GDP is about 33 percent, and a large part of it is exported to European countries either by the mechanism of EU or bilateral cooperation agreements. Recently as result of the politicisation of Russian energy sector in the Russian political system specifically led to an increasing role of gas companies in interfering into decision making at top levels. Russia has used energy as ‘political weapon’, a diplomatic tool in order to chase its basic aims. On the other hand, European Union has acknowledged in documents its efforts to diversify its energy requirements e.g. to lessen its overdependence on Russian imports of energy supply.

4. The production of sources of renewable Energy

Germany is leading in the production of renewable energy in Europe. Some others members to EU viz Austria. Germany’s initiative to increase the wind and solar power is producing so much electricity that it is spilling over into neighbours’ grids and increasing the threat of blackouts. Poland and the Czech Republic have been spending \$180 million on equipment to protect their systems from German power surges, while Austria is curbing some trading to prevent regional networks from collapsing. In the previous decade, Germany has increased investment in green energy to move toward energy self-sufficiency. Electricity is looping through Poland and the Czech Republic to reach southern Germany. German Chancellor Angela Merkel has shut down the production of

3. “United States-Georgia Charter on Strategic Partnership”, signed at Washington, January, 2009.
4 ibid.

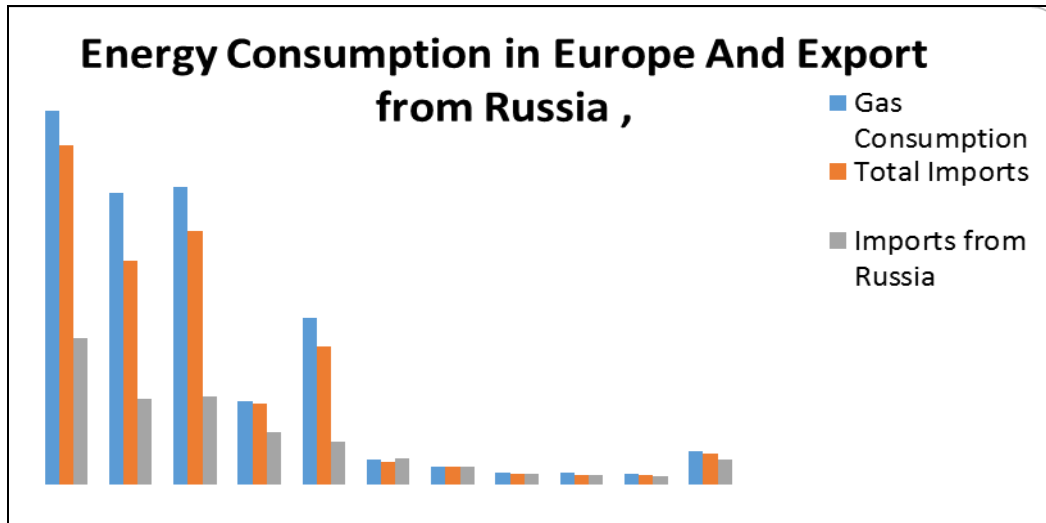
nuclear energy after 2011 Fukushima disaster in Japan. The disruptions show the limits of the European Commission’s vision of a single power market.

Prospects and possibilities in Russian Federation-European Union

1. Diversification of the Energy Supply Source and the Transit Routes.

In the diversification of energy supply to the European Union, United States of America, Turkey has played a very significant role in fulfilling EU requirements. However, its

objectives have not been fulfilled yet. Constantly in it, official documents like second Strategic Energy Review (2008) EU has addressed the challenge to its energy security. The EC will have the construction of Southern Gas corridor comprising the Nabucco pipeline. For the EU the energy security can be met by Russian cooperation in the long term. The importance of new pipeline routes for energy can be achieved collectively by the EU machinery. They must agree with Turkey and have to go along with transit states as welland Turkey’s legitimate concerns with regard to its own energy needs.



Source: International Agency for Atomic Energy, 2005-10

Fig 3: Energy consumption in European States and its export from Russia From 2005-10

2. Energy Strategy and Policy of Russia

Member states of EU have been entirely against “to speak with single voice” as mentioned in the official document ‘Green Paper’ (Commission 2006). However, the Members countries have divergent approaches to the shared external energy policy, some countries vigorously. The lack of rational energy policy has an unconstructive influence on secure energy supply. The Members States of Union are more inclined to fulfilling their national interests rather than as a whole. In addition to that, parties to EU have been improving bilateral affairs with Russia Federation, which is undermining EU’s attitude towards decreasing its dependency on Russia’s energy supply, as well as a realisation of some potential alternative pipelines.

For instance, Germany has excellent bilateral relations with Russia; there has strong cooperation between German energy companies and Russia. Ruhr gas’s major German gas company imports approximately 60 percent of Germany’s overall gas consumption”. Furthermore, Ruhrgas has focal foreign shareholder to Gazprom with 6.4 % shares, and Wintershall is a main 49 partner of Gazprom in exploration and production (Westphal 2008). Gazprom dealt with Wintershall and acquired more stakes in “Wingas and exploration fields in Libya” (Ibid). The major goals of Gazprom became more active “midstream and downstream sector by buying a share of RWE”, which is one of the major shareholders of Nabucco gas pipeline project (Westphal, 2008).The absence of coherent energy policy is one of the big challenges on the diversification policy priorities of the EU

and makes the energy situation in the EU more vulnerable, as well as, provide an opportunity for Russia to realise its energy policy towards the EU.

3. Improving the Energy supply through Diversification of Resources

The Commission launched a series of coherent, comprehensive measures part of the energy and climate change package, to attain aims for 2020 in respect of climate change and renewable energies. The Regulatory energy security implications to nuclear energy would be safety and cost-effective low carbon technologies. The 2050 Roadmap too simplified that global GHG emissions must lesson by 80% until 2050. The present energy combining EU members nevertheless be tranquil mostly characterised by carbon-intensive fossil fuels that made up 79% of Gross Inland Consumption in 2005(Commission 2010).Policy efforts have so far been concentrated on ‘clean coal’ technologies, nuclear energy safety and the increase in renewable energy production.

Conclusion

The European Union has susceptible energy condition, notwithstanding its economic and political assets. The challenges in EU’s energy security originated from a plenty of home-grown and non-indigenous matter. In the post-Soviet space and regain its leverage, is attempting to counterbalance Western influence. It has adopted a strategy of coercive diplomacy towards more neighbouring countries in the ‘Near

Abroad'. Socor has recognised as the Russian policy paradigm 'controlled instability' in the Caucasus region. The European Union has an abundant vulnerability in the area of energy situation which comes from a number of factors. These are limited local energy reserves, increasingly dependence on imported fossil fuel owing to economic development. The idea of energy security for EU and from the Russian perspective is very essential to booming its economy and politically as a strategic and diplomatic tool. Very few countries in Europe possess oil and gas have their United Kingdom, Netherlands, and Denmark. These countries fulfil their domestic demands, to some extent but the rest of the EU has outstandingly dependent on oil and gas import. Growing Global Demand, unpredictability, rising energy prices and, nationalisation of energy are factors have complicated the world economic cooperation.

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