

SELECTIVE SOLIDARITY: RUSSIA'S DIVIDE AND CONQUER STRATEGY AND THE  
IMPACT ON EU ENERGY SECURITY.

BY

ELIZABETH A. STEGEMAN

THESIS

Submitted in partial fulfillment of the requirements  
for the degree of Master of Arts in Russian, East European, and Eurasian Studies  
in the Graduate College of the  
University of Illinois at Urbana-Champaign, 2014

Urbana, Illinois

Advisers:

Professor David Cooper, Chair  
Professor Edward Kolodziej, Director of Research

### **Abstract**

Russian hydrocarbon resources are a major source of energy for the European Union, natural gas in particular. Controlling energy flow gives Russia powerful leverage and Russia continues to use this to its geo-political advantage. Although the Russian economy is heavily dependent on revenue from EU consumers, this has not prevented energy monopolies from becoming involved in diplomacy. Since President Vladimir Putin ascended to power in 2000, Russia's energy giants have been used by the State to play a more aggressive role in influencing politics in neighboring countries. Since Poland joined the European Union in 2004, it has been vocal and influential on energy policy. Despite Poland's contributions, a unified response to threats to European energy security is still lacking. On the contrary, Russia's use of energy giants like Gazprom has been much more successful and in providing President Putin with a strategic advantage. This advantage has not only manifested itself in successful energy monopolies abroad, but also in Putin's reshaping of Russian nationalism.

## TABLE OF CONTENTS

INTRODUCTION: RUSSIA, THE EU, AND HYDROCARBON RESOURCES.....	1
CHAPTER 1: RUSSIAN SUPPLY AND EUROPEAN DEMAND.....	2
CHAPTER 2: PROPERTY OWNERSHIP AND STATE-RUN COMPANIES.....	8
CHAPTER 3: EU ENERGY OBJECTIVES AND PIPELINE POLITICS.....	12
CHAPTER 4: GAZPROM, GAS CRISES, AND DIPLOMACY.....	20
CHAPTER 5: NABUCCO AND SOUTH STREAM ‘PIPE-DREAMS’.....	31
CHAPTER 6: EASTERN PARTNERSHIP, POLAND’S PUSH FOR SOLIDARITY, AND THE FUTURE OF RUSSIAN-EU ENERGY RELATIONS.....	39
CONCLUSION.....	57
BIBLIOGRAPHY:.....	59

## INTRODUCTION

### RUSSIA, THE EU, AND HYDROCARBON RESOURCES

Hydrocarbon resources are a crucial source of revenue for the Russian economy, but over the last quarter of a century they have not only supported critical growth and recovery, paid off foreign debt, and contributed to developing financial reserves, but they have also morphed into a tool for diplomacy.<sup>1</sup> Energy relations with Europe, which has its roots in post-World War II 1950's, have increased in scale and relevance with each passing year.<sup>2</sup> After the dissolution of the Soviet Union, the Russian Federation and the European Union (EU) launched another series of agreements and have cooperated on many large-scale energy projects, such as Nord Stream. For both Russia and the EU, energy independence is unlikely, mutual dependence is acknowledged, and over-dependency is avoided. The goal is to secure not only energy or revenue, but also an economic and geo-political advantage. For Russia, a series of bilateral agreements with European nations is natural, but conversely, the European Union continues to struggle to achieve real convergence when it comes to energy policies from Member States. Since its 2004 accession, though, Poland has made some valuable contributions toward 'energy solidarity' within the EU. Though the EU has made enormous progress in cultivating cooperation in Europe, there are still some fundamental inconsistencies, which have become more obvious as the conflict in Ukraine has escalated. This work will discuss the relationship between Russia and Europe as it relates to natural gas, Russia's energy strategy, Europe's energy goals, and the implications of energy trade between the EU and Russia.

---

<sup>1</sup> Jeronim Perovic, Robert W. Orttung, and Andreas Wenger. *Russian Energy Power and Foreign Relations: Implications for conflict and cooperation*. (New York: Routledge, 2009), 1.

<sup>2</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 91.

## CHAPTER 1

## RUSSIAN SUPPLY AND EUROPEAN DEMAND

Since the 1950's Russia has been engaged with Eastern European nations in the Council for Mutual Economic Assistance (CMEA) as an energy supplier, and then starting in the 1960's as a supplier of gas and oil to Western Europe. Germany and the Soviet Union established the foundation of their energy relations with the "Gas for Pipes" program in the early 1970s that capitalized on German production efficiency and the rich natural resources in Russia and the Soviet Union.<sup>3</sup> As the EU continued to expand, the need for a more unified vision of energy strategy became clear. The 1997 Partnership and Cooperation Agreement (PCA) signed between the EU and Russia included a focus on energy. This section under Article 65 provides: "The cooperation shall include among others the following areas: the improvement of the quality and security of energy supply, in an economic and environmentally sound manner, [...]"<sup>4</sup> This was also the year that industrialized countries across the globe signed and adopted the United Nations Kyoto Protocol on December 11, 1997, which called on developed nations to reduced carbon emissions; Russia signed two years later.<sup>5</sup>

Although the ethics of a responsible energy policy are kept in mind, Russia and the EU clearly recognize the other benefits from this supply and demand relationship. Russia's economy depends on the revenue generated by state-owned energy giants to keep the economy afloat, while Europe simply does not possess enough hydrocarbon resources to generate sufficient power on its own. Christophe-Alexandre Paillard, head of the Industrial and Technological

---

<sup>3</sup> Nina Poussenkova, "The Global Expansion of Russia's Energy Giants." *Journal of International Affairs* 63:2 (2010):104. ('Gas for Pipes' was an agreement between West Germany and the USSR that was an exchange of German steel pipes for Soviet gas exports.)

<sup>4</sup> European Council and Commission. "Partnership and Cooperation Agreement: Decision 97/800/EC," *Official Journal of the European Communities* 40 (1997): 22.

<sup>5</sup> United Nations Framework on Climate Change, "Kyoto Protocol," (1997).

Trends Section of the Strategic Affairs Directorate in the French Ministry of Defence, projected that by 2025 the EU will not even be able to supply 25% of its natural gas demand with European resources.<sup>6</sup> Despite the fact that the EU invests in many renewable energy initiatives, it is not yet a total replacement for traditional hydrocarbon energies. Nuclear energy is currently the only option, but it would be expensive to implement, not to mention the fact that it is so hotly debated.<sup>7</sup>

In addition to providing stabilizing revenue for the Russian economy, hydrocarbon revenue has allowed for a certain shaping of the Russian mentality. Jeronim Perovic, senior researcher at the Institute of History at the University of Basel and scholar at the Center for Security Studies at ETH Zurich, takes this one step further and claims that “this new wealth marks a very significant development, since it means that Russia feels it is no longer beholden to the West and can pursue a more ‘independent’ foreign policy line.”<sup>8</sup> His colleague, Philip Hanson, who served as an Economic Affairs Officer for the United Nations and has published extensively on the Russian economy, warns that this may also cause an overly optimistic view of the Russian economy in that this increase in wealth could cause entities like the Russian Ministry of Economic Development and Trade to take too much of a ‘Pollyanna perspective’ and fail to recognize the overdependence on natural gas and oil and lack of economic diversity in other sectors.<sup>9</sup> Though he avoids calling Russia a ‘petro-state,’ Hanson points out that more than any increase in real production, the increased revenues result from charging non-CIS states higher and higher prices. He notes that in 2006, oil and gas production compose “a quarter of Russia’s

---

<sup>6</sup> Christophe-Alexandre Paillard, “Russia and Europe’s Mutual Energy Dependence,” *Journal of International Affairs* 63:2 (2010): 69.

<sup>7</sup> *Ibid.*, 65.

<sup>8</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 1.

<sup>9</sup> *Ibid.*, 23.

GDP, three-fifths of its exports, and half of the federal budget respectively.”<sup>10</sup> Nina Poussenkova, chair of the Carnegie Moscow Center's Economics and Energy Policy Program, though, does not hesitate to proclaim Russia as a petro-state, and furthermore claims that some of these energy monopolies play the role of “petroleum ambassador of Russia.”<sup>11</sup>

Russia has been criticized for the perceived use of gas and oil to influence neighboring countries, especially those that belonged to the former Soviet Union. Paillard states that “Russia has the means and the political will to create new routes and to make countries favorably disposed to its economic and political interests, regardless of European policy.”<sup>12</sup> At the same time, though, it cannot be ignored that there is a very real mutual dependency between Russia and Europe. Europe depends on Russian gas, and Russia depends on the revenue from gas exports to Europe. Domestic gas prices in Russia are much lower than world market prices. Charging a market price to Russian consumers in the near future may not be feasible. There are several theories why Russia continues to subsidize domestic energy, especially gas, such as that from Robert W. Orttung, the author of *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation* (2009), who proposes, “[...] high oil and gas revenues allow states to spend more money on direct subsidies to the population, thereby reducing the demands for democratization.”<sup>13</sup> Orttung suggests that the Russian government not only uses Russia’s hydrocarbon resources for influencing foreign policy goals, but to mollify its own population and possibly even to dissuade full and open democratic participation, which is possible through government purchase and control of major media outlets and selective funding

---

<sup>10</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 27.

<sup>11</sup> Poussenkova, “Russia’s Energy Giants,” 104.

<sup>12</sup> Paillard, “Russia and Europe’s Mutual Energy Dependence,” 70.

<sup>13</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 61-2.

of pro-government initiatives.<sup>14</sup> An additional benefit of charging higher energy prices to European customers is that a portion of the revenue is directed to the Russian government's Stabilization Fund, which fairly successfully utilizes a reserve of energy profits as a tool to manage inflation and the fluctuation of world energy prices.<sup>15</sup>

With these propositions in mind, it would seem that Russia has a need to diversify its risk of over-dependence on a single customer base just as much as Europe needs to diversify the risk of over-dependence on a single supplier.<sup>16</sup> Paillard presents a 2008 statistic that illustrates the relationship, more clearly: Russian exports may be only 25 to 30 percent of Europe's gas imports, but that this is around 90 percent of Russia's exports.<sup>17</sup> By 2013, though, the EU decreased that percentage to 17.5%.<sup>18</sup> Hanson offers that Russian policy makers are more inclined to push for the development of more domestic nuclear energy and coal usage as oil and gas production slow, because gas exports to high paying customers in Europe are the main driver in the Russian economy.<sup>19</sup> Reducing domestic gas consumption would free up revenue-generating resources for export. Furthermore, he suggests that the threat of Russia's use of energy as soft power might be over exaggerated. He writes,

[...] Russia is unlikely to seek deliberately to curtail oil or gas exports to Europe for foreign-policy reasons, short of an acute crisis in relations. The risk to revenues and to business reputation would be very great. The greater problem for Europe, almost certainly, is Russia's future capacity to deliver more.<sup>20</sup>

---

<sup>14</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 60.

<sup>15</sup> Ibid., 63.

<sup>16</sup> Ibid., 2.

<sup>17</sup> Paillard, "Russia and Europe's Mutual Energy Dependence," 70.

<sup>18</sup> European Council, "Natural gas consumption statistics." Last modified August 10, 2014.

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Natural\\_gas\\_consumption\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Natural_gas_consumption_statistics).

<sup>19</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 39.

<sup>20</sup> Ibid., 40.

This refers to the challenges that Russia faces developing additional reserves such as those located in Siberia and the Arctic, where extraction is complicated by the extreme climate and lack of existing infrastructure. Beginning in the 1990s, though, Russia has exerted its influence in Central Asia to purchase gas from countries with existing infrastructure, such as Kazakhstan and Turkmenistan, at low prices, which it later sells on European markets at significantly higher prices.<sup>21</sup> This is unlikely to be a secure long-term strategy, but may function as long as Russia's influence prevails in that region.<sup>22</sup>

Natural gas is a major part of the European energy mix, and continues to gain popularity because it is cleaner than coal or oil, thereby aiding European Union Member States to achieve their ambitious carbon emissions standards. Unfortunately, the EU itself does not possess sufficient natural gas reserves and is heavily reliant upon imports. This makes the EU both a valuable customer and a vulnerable customer. The EU imports a considerable amount of natural gas from Russia, but in order to achieve diversity in supply as well as the EU goals of “20-20-20 by 2020”, which stands for a 20% reduction in carbon emission, a 20% increase in renewable energy, and a 20% improvement in energy efficiency by the year 2020 from the levels in 1990, the EU needs to seriously re-evaluate its energy strategy.<sup>23</sup> The EU has made steps toward these targets and reduced their gas imports from Russia from 2012 to 2013 from 30.9% down to 17.5% of total gas imports.<sup>24</sup> During this same time the percentage of total natural gas consumption fell by 0.4% and production fell by 0.7%.<sup>25</sup>

---

<sup>21</sup> Poussenkova, “Russia’s Energy Giants,” 104.

<sup>22</sup> Ibid., 107, 117.

<sup>23</sup> European Commission. “Energy 2020: A strategy for competitive, sustainable and secure energy,” (2010): 2.

<sup>24</sup> European Council. “Natural gas consumption statistics.”

<sup>25</sup> Ibid.

A notable element of the energy relationship between the EU and Russia is that they do not operate off of one agreement with the EU as one entity; rather it consists of numerous bilateral agreements with EU nations, their energy companies, and Russian energy giants such as Gazprom. These EU Member States possess varying levels of energy dependence and vulnerability.<sup>26</sup> The development of contemporary Russian energy giants like Gazprom has a history of progress and regress that creates an additional layer of complexity.

---

<sup>26</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 46.

## CHAPTER 2

## PROPERTY OWNERSHIP AND STATE-RUN COMPANIES

Energy companies in Russia were not always so successful. After the disintegration of the Soviet Union, privatization of state-controlled entities allowed for citizens to use a voucher system to purchase shares of companies, or in some cases entire entities, often at very low prices. At the same time, though, many of those same companies had been loss-producing during the Soviet Era. Many required serious restructuring in order to make any returns, especially after the prevalence of asset stripping by managers and officials in a ‘bank run’ fashion that many Soviet enterprises suffered at the uncertainty of the future of the Soviet Union.<sup>27</sup>

Some of the most profitable enterprises included Russian raw resources, most notably hydrocarbons. Cases of successful turnaround created a new elite class of ‘oligarchs.’<sup>28</sup> Dr. Anders Aslund, world-renowned economist specializing in post-communist economic transitions, recounts that, “opinion polls show that oligarchs are the most hated people in Russia. As a consequence, the public condoned the Kremlin’s lawless confiscation through taxation of Russia’s biggest and best oil company, Yukos [...]”<sup>29</sup> This small, educated group of almost exclusively men were able to, as Aslund puts it, “[make] their fortunes on the reanimation of existing Soviet mastodons rather than developing new enterprises.”<sup>30</sup> Privatization was critical in the survival of these companies, but during the presidency of Vladimir Putin, there has been an increase in the re-nationalization of these enterprises, including the ‘acquisition’ of companies such as Yukos, Sibneft, the Kovykta gas fields, and Gazprom. Oligarchs, not limited to the

---

<sup>27</sup> Steven L. Solnick, *Stealing the State: Control and Collapse in Soviet Institutions* (Cambridge: Harvard University Press, 1998), 7.

<sup>28</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 54.

<sup>29</sup> Anders Aslund, *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*. (New York: Cambridge University Press, 2007), 257.

<sup>30</sup> *Ibid.*, 259.

energy sector, who opposed Putin's actions were stripped of their assets, and were forced into exile or imprisoned include Boris Berezovsky, Vladimir Gusinsky, and Mikhail Khodorkovsky.

<sup>31</sup> Furthermore, Orttung claims that Putin's logic behind this trend that, "whoever controls the oil, controls the country. And therefore, whoever controls the country inevitably tries to gain control over oil."<sup>32</sup> Obviously, Putin was not ready to share power with these entrepreneurial businessmen. From 2003 to 2007, world market prices for oil continued to rise, which also meant that natural gas prices, which are pegged to oil prices, also rose. As a result, there was a consistent increase in revenue to the Russian government that in turn became increasingly more authoritarian as political support for a price increased, President Putin reclaimed privatized industries, and as Orttung further explains it, "In this sense, the high oil prices have facilitated the existing predilection away from political freedom."<sup>33</sup>

### **Property Rights and the Russian Energy Sector**

The development of the energy sector in Russia deserves more attention. Heiko Pleines, researcher and author of numerous pieces dealing with the energy sector and CIS, as well as the Head of the Department of Politics and Economics at University of Bremen, has an interesting position on the topic of state-run energy companies, believing that the ownership is actually less influential on the company than many might argue. He acknowledges Norway's nationalized and highly productive energy sector and attempts to account for its success. He states,

If there is a functioning market with clear rules and property rights, companies are likely to operate efficiently. If not, they tend to engage in asset-stripping rather than long-term development. The role of the state is thus crucial: the state can work to improve the efficiency of private and state owned companies by

---

<sup>31</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 58.

<sup>32</sup> Ibid., 54.

<sup>33</sup> Ibid., 55.

subjecting them to market pressure through the establishment of clear rules of the game and secure property rights, or it can become a factor of instability itself.<sup>34</sup>

This correlation between weak property rights and instability has also been studied by Steven L. Solnick in his book *Stealing the State: Control and Collapse in Soviet Institutions* (1998). His analysis characterizes Soviet style property rights with the following observation: “ In the absence of clear legal or procedural norms for third-party resolution of property rights conflicts (and the Soviet system clearly lacked these), the principle of ownership could only be demonstrated by the fact of control.”<sup>35</sup> The post-Soviet Russian state has used several tactics to regain control of companies including making claims of tax evasion, selectively enforcing the rule of law, and by using coercive methods against their targets and their supporters, such as threats, fines, frozen assets, and revoked visas.<sup>36</sup> The Yukos Affair exemplifies these tactics, where Mikhail Khodorkovsky and other top managers of Yukos were investigated for tax evasion and as a result, they were either arrested or fled the country. Other energy companies experienced similar accusations, but some avoided the consequences by negotiating and acquiescing to takeovers by state-controlled energy monopolies.<sup>37</sup> Khodorkovsky was only released in December 2013, just weeks before the start of the Winter Olympics hosted by Russia in Sochi, in what seems to have been more of a publicity stunt than a result of the due process of law.

### **Russia’s “Gas Giant”: Gazprom**

Russia’s largest energy giant is Gazprom. Gazprom is a state-owned and operated company that, after the 2006 Federal Law on Gas Export, became the only Russian natural gas

---

<sup>34</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 72.

<sup>35</sup> Solnick, *Stealing the State*, 30.

<sup>36</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 77-8.

<sup>37</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 76-7.

company with the legal right to export Russia's natural gas supplies.<sup>38</sup> Though the company was the result of the privatized energy sector, by the early 2000s, the Russian government reacquired the majority of the ownership.<sup>39</sup> It is the world's largest natural gas producer, a company with nearly 350 subsidiaries.<sup>40</sup> Gazprom established working relationships with European nations including Germany, France, Finland and Italy by the mid-1990's. Nina Poussenkova calls Gazprom's relationship with Germany's energy giant Wintershall, "Gazprom's greatest breakthrough in Europe," and Germany continues to be a preferred partner in Europe.<sup>41</sup> She describes the ties between Gazprom and the Kremlin as initially having more business-focused relationship in developing foreign markets for Russian hydrocarbons, but that this changed and "in the 2000s Gazprom has become the Kremlin's faithful servant and dangerous sword, and the Kremlin has become Gazprom's protector."<sup>42</sup> Poussenkova notes, however, that sometimes "Support provided by Russia's leadership to the international expansion of Russian energy companies, however, has sometimes backfired, as even pure business initiatives were perceived as being Kremlin-controlled."<sup>43</sup> Stefan Bouzarovski and Marcin Konieczny state that, "The Russian energy sector has been transformed from a supporting factor of the Soviet military-industrial complex into a mechanism of soft power that allows this country to extend its influence over the states which source their hydrocarbons from it."<sup>44</sup> Many of those key states are in the EU.

---

<sup>38</sup> "Strategy Implementation," Gazprom, [www.gazprom.com](http://www.gazprom.com)

<sup>39</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 54.

<sup>40</sup> "Subsidiaries List," Gazprom. [www.gazprom.com](http://www.gazprom.com)

<sup>41</sup> Poussenkova, "Russia's Energy Giants," 107.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid., 121.

<sup>44</sup> Stefan Bouzarovski and Marcin Konieczny, "Landscapes of Paradox: Public Discourses and Policies in Poland's Relationship With the Nord Stream Pipeline," *Geopolitics* 15:1-21 (2010): 4.

## CHAPTER 3

### EU ENERGY OBJECTIVES AND PIPELINE POLITICS

The flagship goal of the EU in the energy sector is the “20-20-20 by 2020.” This target was originally included in the 2007 Treaty of Lisbon, and adopted through the EU Energy Security and Solidarity Action Plan, which was presented by the Commission in 2008.<sup>45</sup> This was followed by the Commission’s “Energy 2020” in 2009, which provides a detailed plan. Energy 2020 even looks forward to the goals of “Energy 2050”, including a 95% reduction in carbon emissions from the 1990 level by 2050.<sup>46</sup>

As a major energy importer, the EU intends to decrease its need for fossil fuels, which will not only help to achieve the environmental results of 20-20-20 but also, more importantly, will push the EU to diversify its energy sources, and ultimately strengthen energy and national security. In 2006, the EU as a whole imported 61% of its natural gas, with 42% of that coming from Russia; 24% from Norway; 18% from Algeria; and 16% from other various countries.<sup>47</sup> The EU Energy and Solidarity Action Plan draws attention, though, to the fact that several member states are 100% reliant on one energy provider outside of the EU, namely Russia. This is a major concern, especially when considering the impacts of past disruption of energy supplies due to political events, accidents, and natural disasters. The Commission states that, “While each Member State is responsible for its own security, solidarity between Member States is a basic feature of EU membership. [...] National Solutions are often insufficient [but] the combined

---

<sup>45</sup> European Commission, “An EU Security and Solidarity Action Plan,” (2008): 2, accessed November 1, 2013,

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EL:PDF>

<sup>46</sup> European Commission, “Energy 2020,” 3.

<sup>47</sup> European Commission, “Energy Security and Solidarity,” 4.

weight of the EU in world affairs can be more effective.”<sup>48</sup> It allows for latitude for Member States to pursue individual energy policies, but simultaneously urges all Member States to uphold a common vision for Europe.

The Five Points of the EU Energy Security and Solidarity focus on: 1. Infrastructure needs and diversification of energy supplies; 2. External energy relations; 3. Oil and gas stocks and crisis response mechanisms; 4. Energy efficiency; and 5. Making the best use of the EU’s indigenous resources.<sup>49</sup> In addition, the EU and Member States must continue to work with suppliers and transit countries, but keeping in mind that real security will be achieved when the EU will be able to generate more domestic energy through wind, solar, hydro, biomass, and marine resources, while continuing to develop indigenous fossil fuels.<sup>50</sup>

### **Innovative New Route: Nord Stream**

Although the EU advocated the cultivation of new energy supplies and suppliers, it has also endorsed the expansion of supply routes. The Nord Stream Pipeline is the premier example of this in the Northern Corridor. One of the first projects of its kind, Nord Stream is a natural gas pipeline that runs beneath the Baltic Sea and supplies Germany with Russian natural gas. Nord Stream includes two gas pipelines originating from the Yuzhno-Russkoye field, exiting at Vyborg, Russia, and then traveling through the Baltic Sea and entering Germany at Greifswald. Nord Stream has two key partners, Russia and Germany, but it is also supported to a much lesser extent by the Netherlands.<sup>51</sup>

---

<sup>48</sup> Ibid., 3.

<sup>49</sup> EU, “Energy Security and Solidarity,” 3.

<sup>50</sup> Ibid., 13.

<sup>51</sup> Robert L. Larsson, “Security Implications of the Nord Stream Project,” A briefing paper to European Parliament’s Committee on Foreign Affairs published by the European Parliament, Brussels, (2008): 2.

Russian energy giant, Gazprom, spearheaded this large-scale project. Gazprom is the majority stakeholder with 51%, German company, Wintershall Holding 15.5%, German company, E. On 15.5%, Dutch Gasunie 9% and French GDF Suez 9%. The first natural gas supplies from Russia to Germany via this route began November 8, 2011, through the first of the two 1224 km long pipelines and the shipments through the second began a year later. If both lines run at full capacity, Nord Stream would have the potential to supply 55 billion cubic meters of natural gas per year and drafts for possible third and fourth lines are under consideration.<sup>52</sup>

The idea of an underwater pipeline became more and more attractive to the partners because it eliminated the need to pay to pass through transit countries, as most traditional land-based pipelines require. According to the Gazprom website, “Nord Stream will provide customers in Western Europe with the most reliable gas deliveries.”<sup>53</sup> It connects the resources directly to the customers and bypassing intermediaries. Although avoiding transit states may seem like a simple solution, the underwater pipeline was not only technically challenging, but also triggered heated discussions on the economic, political, and environmental implications.

Baltic Member States opposed the pipeline under the Baltic Sea for the potential risks. Some feared that the scale of the construction might have upset the ecosystem, which supports the fishing industry, and is also used for shipping and recreation. Also during this time, Estonia was in the midst of a political controversy with Russia following the relocation of a Soviet Era monument. Moving the ‘Bronze Soldier’ resulted in backlash from Estonia’s large Russian population and Russia as well. This contributed to Estonia’s refusal to cooperate to allow the

---

<sup>52</sup> “Nord Stream,” Gazprom, last modified June 27, 2014, <http://www.gazprom.com/about/production/projects/pipelines/nord-stream/>.

<sup>53</sup> Ibid.

pipeline to run along its coast.<sup>54</sup> Sweden also had its own reservations about Nord Stream and was not convinced that having a Russian underwater gas pipeline or service station within its waters was beneficial. Sweden indicated that having a pipeline with a staffed service platform near its coast might create the potential scenario that “Russian intelligence would use the platform.”<sup>55</sup> President Putin had already advised that he would deploy Russia’s Baltic Sea Navy to provide security for the project, but other than collecting geospatial, subsurface, and various technical measurements, there is no indication that it would ever be used as a ‘spy base.’<sup>56</sup>

Nord Stream allows for Russian gas to be exported to Western Europe even in the event that Russia halts exports to Eastern European states. Having an underwater route eliminates the interference of transit countries and allows Russia to exert pressure on region like Eastern Europe, while still ensuring supplies and maintaining good relations with the valued customers in Western Europe. Before Nord Stream, any disruption to supplies going through transit states would impact Western Europe, which is not usually the target of Russia’s pipeline politics. In a 2009 interview with the *New York Times*, Zbigniew Siemiatkowski, former head of the Polish security service, responded that “the ability to shut off one pipeline or the other ‘depending on a whim’ makes shutoffs to Eastern Europe more likely,” indicating that the Nord Stream pipeline may increase the vulnerability to Eastern European countries who will be bypassed by Nord Stream, as well as the South Stream line then in concept.<sup>57</sup> Although Gazprom executive, Matthias Warnig attempted to dispel these fears, after conducting extensive interviews, NY

---

<sup>54</sup> Poussenkova, “Russia’s Energy Giants,” 115-6.

<sup>55</sup> Poussenkova, “Russia’s Energy Giants,” 116.

<sup>56</sup> Robert L. Larsson, “What Does The Nord Stream Mean To The Baltic Sea Region?,” *Lithuanian Political Science Yearbook* 01 (2006): 16.

<sup>57</sup> Andrew E. Kramer, “Continental Divide: Russia Gas Pipeline Heightens East Europe’s Fears,” *New York Times*, October 12, 2009, accessed October 1, 2014, [http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?em&\\_r=0](http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?em&_r=0).

Times journalist Andrew Kramer noted that the overwhelming sentiment in Eastern Europe was that “the pipeline issue evokes deep memories of a darker era of occupation and collaboration, and has become a proxy debate over Russia’s intentions toward the lands it ruled from the end of World War II to the fall of the Berlin Wall.”<sup>58</sup> He notes that Radek Sikorski, Polish foreign minister, views this Russian-German negotiation as reminiscent of the Molotov-Ribbentrop Pact that divvied up Eastern Europe. These types of bilateral agreements are the modus operandi of Gazprom, but from an EU perspective, there seems to be a need for more convergence on energy policy, especially concerning large-scale projects like Nord Stream.<sup>59</sup>

Despite the controversy, the EU granted Nord Stream status as a Trans-European Network-Energy project (TEN-E). TEN-E is an EU program that is used to fund energy projects that are beneficial to improving interdependence of European energy markets.<sup>60</sup> Robert L. Larsson, security analyst for the Swedish Defence Research Institute, comments that although this status adds legitimacy and funding to the project, “[i]n reality, the TEN-E status is not as important as it may seem [...]”<sup>61</sup> From Gazprom’s perspective, the goal of the Nord Stream project is to develop a pipeline “that will make it possible both to diversify Russian gas export routes and to ensure utmost reliability in gas supplies to European consumers.”<sup>62</sup> Furthermore, the European Parliament published a briefing paper conducted by Larsson, “Security Implications of the Nord Stream Project” in February 2008, which states:

Since Russia has strong ambitions of again becoming a great power and uses all available means in its endeavors, it is pivotal that the EU and its members assess

---

<sup>58</sup> Kramer, “Continental Divide.”

<sup>59</sup> Ibid.

<sup>60</sup> Larsson, “Security Implications of the Nord Stream Project,” 8.

<sup>61</sup> Larsson, “What Does The Nord Stream Mean To The Baltic Sea Region?,” 14.

<sup>62</sup> “Nord Stream.”

the Nord Stream project in this light and act accordingly. An assessment of the project cannot be based on a best-case scenario.<sup>63</sup>

The paper continues the discussion of the security ramifications for the traditional transit states, such as, Poland, Lithuania, Latvia, and Estonia. This pipeline increases the potential that Baltic States could become more vulnerable to their neighbor, Russia.<sup>64</sup> Russia has often been accused of using its dominance as an energy supplier to influence policies and politics in Europe; therefore this tactic must not be overlooked. The EU's response to Nord Stream, though, is remarkably contradictory.

Gazprom promotes itself as a company that is actually assisting Europe in achieving its energy goals. The official Gazprom statements imply that projects such as Nord Stream are beneficial to EU energy security:

In this regard, back in December 2000 the European Commission had assigned the Nord Stream project the Trans-European Network (TEN) status, which was confirmed once again in 2006. This means Nord Stream is a key project aimed at creating crucial cross-border transport capacities with a view to ensure sustainability and energy security in Europe.<sup>65</sup>

It seems ironic that Nord Stream is hailed as championing “cross-border transport”, when, in essence, the entire practical effect of this project is to achieve the direct opposite. Nord Stream was constructed in order to circumvent borders, instead of crossing through them. The key borders that have been bypassed are those of EU Member States, such as Poland, Lithuania, Latvia, and Estonia. Gazprom goes on to state, more specifically, that by avoiding transit countries, “this reduces Russian gas transmission costs and eliminates any possible political risks. Nord Stream will provide customers in Western Europe with the most reliable gas

---

<sup>63</sup> Larsson, “Security Implications of the Nord Stream Project,” iii.

<sup>64</sup> Larsson, “Security Implications of the Nord Stream Project,” iii.

<sup>65</sup> “Nord Stream.”

deliveries.”<sup>66</sup> This emphasizes the dividing line between East and West in the EU and that Gazprom aims to provide additional supply routes to preferred customers in Western Europe. This could mean an increase in vulnerability to pipeline politics for Eastern European customers. The main argument in support of the Nord Stream Pipeline is that it will offer a new route for gas imports, thereby diversifying the supply routes to the EU. A secondary effect will be the benefits of infrastructure development and improvement that will accompany the implementation of such a large-scale project.<sup>67</sup> By routing the pipeline through the Baltic Sea, as opposed to a traditional land pipeline, Gazprom is able to eliminate the transit costs and risks, such as illegal siphoning, through those countries.<sup>68</sup>

Although there appear to be noticeable contradictions when it comes to the EU and Nord Stream, an assembly of delegates from Eastern European nations made their assessment of Nord Stream very clear. In an appeal to President Obama, the former presidents and prime ministers of several Baltic and Eastern European nations, among them Lech Wałęsa (former President of Poland and leader of the Solidarity Movement), Valdas Adamkus (former Present of Lithuania), Vaira Vike-Freiberga (former President of Latvia), and Mart Laar (former Prime Minister of Estonia) along with eighteen other presidents and ministers representing Eastern European nations, wrote a letter which was published July 15, 2009, in the Polish newspaper *Gazeta Wyborcza*. Drawing on the tradition of the United States’ support of democracy in Eastern Europe, especially during and after the Cold War, they hope to appeal once again for support as they face a threat from their Eastern neighbor once again. They express the fear that major powers of the world, such as the United States, Russia, and only select nations in the European

---

<sup>66</sup> “Nord Stream.”

<sup>67</sup> Bouzarovski and Konieczny, “Landscapes of Paradox,” 2.

<sup>68</sup> *Ibid.*, 9.

Union, may leave the smaller nations Eastern Europe vulnerable. This excerpt illustrates their sentiment toward Russia and the vulnerabilities of energy dependence:

Our hopes that relations with Russia would improve and that Moscow would finally fully accept our complete sovereignty and independence after joining NATO and the EU have not been fulfilled. Instead, Russia is back as a revisionist power pursuing a 19th-century agenda with 21st-century tactics and methods. At a global level, Russia has become, on most issues, a status-quo power. But at a regional level and vis-à-vis our nations, it increasingly acts as a revisionist one. It challenges our claims to our own historical experiences. It asserts a privileged position in determining our security choices. It uses overt and covert means of economic warfare, ranging from energy blockades and politically motivated investments to bribery and media manipulation in order to advance its interests and to challenge the transatlantic orientation of Central and Eastern Europe [...] Central and Eastern European countries should lobby harder (and with more unity) inside Europe for diversification of the energy mix, suppliers, and transit routes, as well as for tough legal scrutiny of Russia's abuse of its monopoly and cartel-like power inside the EU.<sup>69</sup>

---

<sup>69</sup> Lech Wałęsa, et al., “An Open Letter to the Obama Administration from Central and Eastern Europe,” *Gazeta Wyborcza*, July 15, 2009, accessed October 27, 2014, [http://wyborcza.pl/1,98817,6825987,An\\_Open\\_Letter\\_to\\_the\\_Obama\\_Administration\\_from\\_Central.html](http://wyborcza.pl/1,98817,6825987,An_Open_Letter_to_the_Obama_Administration_from_Central.html).

## CHAPTER 4

## GAZPROM, GAS CRISES, AND DIPLOMACY

The EU has been investigating Gazprom for violating anti-trust laws within the European Union since September 2011. Gazprom's business practices in the Baltic States, Lithuania, Latvia, Estonia, Poland, as well as the Czech Republic, Slovakia, Hungary, and Bulgaria, are under particular scrutiny because of Gazprom's monopoly on supply and supply routes, which prevents competition; both violate EU competition law. These Eastern European countries in particular are more susceptible to disruptions in energy supplies because they rely almost exclusively on Russian natural gas. Gazprom's role as producer, supplier, and owner of the pipelines provides a powerful advantage. To add to this increasingly imbalanced relationship between the EU and Russia, on December 4, 2013, the EU Commission approved Gazprom's acquisition of 50% of WINZ Wintershall and 100% control over Wingas and WIEH of Germany. The Commission's rationale for their decision was that "the transaction would not raise competition concerns as it would not allow Gazprom to restrict customers' access to gas supplies."<sup>70</sup> In the same document the Commission also acknowledges that "some Member States rely on one single supplier and often on one single supply route for 80%-100% of their gas consumption [...]."<sup>71</sup> Furthermore, the Commission projects that by 2035 the EU will import over 80% of its gas and oil.<sup>72</sup> So while investigating Gazprom for unfair, if not illegal, business practices as a monopoly that puts certain Member States at risk, the Commission simultaneously facilitates Gazprom's partial takeover of the German energy sector. These proceedings were also

---

<sup>70</sup> European Commission, "Staff Working Document Accompanying the Document on [...] Competition Policy 2013 {SWD (2014) 148 final}," May 6, 2014, accessed November 1, 2013: 33. [http://ec.europa.eu/competition/publications/annual\\_report/2013/part2\\_en.pdf](http://ec.europa.eu/competition/publications/annual_report/2013/part2_en.pdf).

<sup>71</sup> European Commission, "Competition Policy," 32.

<sup>72</sup> Ibid.

taking place at the same time that protests were erupting in Kiev over Ukrainian President Yanukovich's refusal to sign an agreement with the EU, while Russia was claiming that the EU was coercing Ukraine into deepening ties with the EU.<sup>73</sup>

Undoubtedly, Germany and Gazprom share a unique partnership that some have viewed as more than just strategic for smooth business transactions. The action of former Chancellor of Germany, Gerhard Schroeder, is an example of a calculated maneuver that raised suspicions of corruption. Four weeks before the end of his term, Schroeder pledged that the German banks Deutsche Bank and KfW would agree to be guarantors to Gazprom up to one billion Euros; this prompted an investigation of this questionable guarantee by the EU Commission.<sup>74</sup> Furthermore, less than one month after finishing his term as Chancellor of Germany, Gerhard Schroeder was made Chairman of Gazprom's Shareholders' Committee for the Nord Stream Project.<sup>75</sup> He was not the first influential German on the board, but joined the Board Chairman of Dresdner Bank, Matthias Warnig, who Poussenkova notes had, "allegedly served with Putin in then East Germany," but became managing director of Nord Stream.<sup>76</sup>

The EU investigation of Gazprom could lead to large fines, which could be as much as 10% of its global annual sales, estimated to be around €12 billion; this would be the highest fine the EU has ever imposed on any entity. The objections to Gazprom's practices include the ownership of the supply and the pipelines that deliver natural gas, forcing customers to enter into

---

<sup>73</sup> Laurence Norman and Vanessa Mock, "Gazprom to Explore Settlement on EU Competition Concerns," *Wall Street Journal Online*, December 4, 2013, accessed October 1, 2014, [http://www.wsj.com/news/articles/SB10001424052702303722104579238130551890254?mod=newsreel\\_5](http://www.wsj.com/news/articles/SB10001424052702303722104579238130551890254?mod=newsreel_5).

<sup>74</sup> Larsson, "What Does The Nord Stream Mean To The Baltic Sea Region?," 18.

<sup>75</sup> Poussenkova, "Russia's Energy Giants," 115.

<sup>76</sup> *Ibid.*

long-term gas contracts, and pegging the price of gas to that of oil.<sup>77</sup> It seems to be an ambitious action to take against Gazprom, considering the EU has not successfully diversified its natural gas and still purchases between 25% and 30% from Russia. EU Energy Commissioner Günther Oettinger, though, says in reference to the Commission's investigation of Gazprom's unfair business practices in Eastern Europe, it shows that "the Commission has the courage to take on large corporations when it comes to securing a common market."<sup>78</sup> Gazprom has proven in the past that it will suspend gas supply in the event of contracts and pricing it deems unfair, so it has the potential to be a problematic decision.

### **Supply Routes and the New Map of Europe**

It is not until the EU truly diversifies the *suppliers* that natural gas will be more secure. The lack of a consistent and unified energy policy at the EU level has encouraged individual Member States to pursue energy interests as individuals and this has led to further isolation rather than deeper integration for EU Member States. A major deficiency of the current layout of natural gas pipelines is that they run mostly from East to West, from Russia to Europe with an underdeveloped network of connectors among EU Member States. This means that there is access and risk that is distributed unevenly among Member States; one can look at any map and interpret this as an uneven distribution between "old" members and "new" members a division which Stacy Closson, Trans-Atlantic Post-Doctoral Fellow for International Relations and Security, also acknowledges.<sup>79</sup>

---

<sup>77</sup> Norman and Mock, "Gazprom to Explore Settlement on EU Competition."

<sup>78</sup> Günther Oettinger, "Address to the CMS Competition Conference," Brussels, April 18, 2013, accessed October 1, 2014, [http://ec.europa.eu/commission\\_2010-2014/oettinger/headlines/speeches/2013/04/doc/2013\\_04\\_18\\_cms\\_competition\\_en.pdf](http://ec.europa.eu/commission_2010-2014/oettinger/headlines/speeches/2013/04/doc/2013_04_18_cms_competition_en.pdf).

<sup>79</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 95.

This inconsistent response to energy issues exposes the “knee-jerk national protectionism” that EU Energy Commissioner Günther Oettinger specifically warned against in his April 2013 address to the CMS Competition Conference in Brussels.<sup>80</sup> Oettinger includes energy subsidies, politically motivated price regulation, and other price fixing as a “nation-centric way of thinking ‘nation first, community-wide second [...] that could tear apart the fabric of our legal framework.’”<sup>81</sup> With this, he asked the EU to recall that the foundation of the union was coal and steel, and of all the treaties, competencies, and policies, that energy should be as essential now as it was during the birth of the EU. Its inspiration as a tool of connectivity leading to lasting peace in Europe should not be forgotten or understated.

The European Parliament has published (a study?) that states that even though the Nord Stream Pipeline offers a new route for gas supplies to Germany, it certainly negatively impacts numerous EU Member States, and therefore “hampers development of a common energy strategy as it divides the EU and the region into two parts, those that benefit and those that do not.”<sup>82</sup> Nord Stream caused a power shift between the Baltic States and Russia, which contributed to the revival of nuclear programs and fracking in the Baltic region, both of which are highly debated energy topics in the EU.<sup>83</sup> The Baltics lost the certainty of knowing without a doubt they were more secure being a part of the EU because other Member States directly increased the Baltic’s vulnerability to Russian energy politics.

If any single Member State is threatened, it should be addressed at the EU level, but the pipeline politics of Nord Stream divide the EU.<sup>84</sup> Stefan Bouzarovski, energy vulnerability

---

<sup>80</sup> Oettinger, “Address to the CMS Competition Conference.”

<sup>81</sup> Ibid.

<sup>82</sup> Larsson, “Security Implications of the Nord Stream Project,” iii-iv.

<sup>83</sup> Larsson, “What Does The Nord Stream Mean To The Baltic Sea Region?,” 20.

<sup>84</sup> Larsson, “Security Implications of the Nord Stream Project,” 5.

researcher, expresses the opinion that there is the concern that Nord Stream might “draw a new border across Europe”, dividing those who have favorable relations with Russia and uninterrupted supplies and those Member States that have less amicable relations and are at risk for interrupted energy supplies.<sup>85</sup> By diversifying the gas routes to Western Europe via Nord Stream, Eastern European gas security decreased as a direct result.<sup>86</sup>

Aside from the security concerns, it is questionable whether Nord Stream made sense financially. The cost of building a natural gas pipeline under the Baltic sea, around €8 billion, is much higher than if additional capacity were to be added on to the existing infrastructures, which was estimated at €2.5 billion.<sup>87</sup> Due to the polarizing and divisive impact of Nord Stream, it should not have been given TEN-E status and EU funding.

EU Commissioner for Energy, Günther Oettinger stated in April, 2013:

There is a threat looming over Europe. It does not come from China, India, the US or any other force. The main threat to the completion of the internal energy market, to our foundation to peace and stability, is a nation-centric way of thinking ‘nation first, community-wide second.’<sup>88</sup>

Commissioner Oettinger has highlighted the greatest challenge to EU energy security, and that is that there exists no unified policy, but rather a series of contradictions and paradoxes. This is obvious in the natural gas projects that have been developing, or stalled through the Southern Corridor to Austria.

The EU Commission outlined major energy policy objectives in “Energy 2020,” including “a specific emphasis on the Southern corridor and the effective start of projects of European interest, in particular Nabucco and ITGI;” These were competitors to Gazprom’s

---

<sup>85</sup> Bouzarovski and Konieczny, “Landscapes of Paradox,” 2.

<sup>86</sup> *Ibid.*, 10.

<sup>87</sup> Larsson, “Security Implications of the Nord Stream Project,” 6.

<sup>88</sup> Oettinger, “Address to the CMS Competition Conference.”

proposed South Stream Pipeline.<sup>89</sup> The Southern Corridor refers to pipeline routes that would supply the EU by entering through Southern Europe and connecting to Central Asian and/or Caspian gas reserves, and for the EU this presents the opportunity to secure a new, non-Russian supplier. The Commission reiterates throughout the communication that diversified imports are essential and that this infrastructure will be partially financed by tariffs, that is by consumers, but also the Commission intends to take actions to encourage investments.

Financial support is not the only type of backing these projects will need. A theme to the entire communication is that there must be a commitment to “energy solidarity” among Member States. This means that Member States should not think of themselves and their energy policy as an ‘island’ and that the impacts of energy policy on other Member States must be taken into consideration. Further more, it states that, “energy policy is also responsible for protecting European citizens from the risks of energy production and transport.”<sup>90</sup> This is an interesting comment because it indicates that the EU policy should generally benefit the protection of all European citizens, not strictly EU citizens. This becomes especially important with gas transport, as there are several key transit countries that are not EU Members, such as Ukraine, Belarus, and Serbia.

### **Russia’s Geopolitical Instrument: Hydrocarbon Resources**

Although there are conflicting accounts of the precise causes of energy disruptions between Russia and the EU, there are some that could indicate Russia’s unfair use of hydrocarbon resources as a political tool. Since the 1990’s Russia has repeatedly been accused of using energy resources as a political tool. Beginning with its neighboring Baltic countries, Russia has

---

<sup>89</sup> European Commission, “Energy 2020,” 10. (Nabucco was a plan to supply Europe with non-Russian gas from Azerbaijan. ITGI is a plan to supply Europe with gas from Azerbaijan via Italy-Turkey-Greece-Interconnector (ITGI).

<sup>90</sup> Ibid., 13.

created numerous disruptions in supply that appear to have been politically motivated. Lithuania seems to have been a target between 1998 and 2000 during the negotiations and sale of the Mazeikiu Nafta oil refinery. Oil supplies were stopped nine times during these negotiations. Russia's Rosneft was among the potential buyers, but not favored, while Lithuania prepared to diversify the energy mix in order to avoid over dependence on Russian hydrocarbons.<sup>91</sup>

In 2004 the Orange Revolution in Ukraine, which prompted several other 'Color Revolutions,' marked another period of strained relations between Russian and Eastern Europe. Poland was also experiencing difficulty in finally obtaining full disclosure of the Katyn Massacre, where thousands of Polish officers were rounded up, shot, and buried in a mass grave during World War II.<sup>92</sup> This also occurred at the same time as Germany and Russia solidified plans and prepared to construct the Nord Stream Pipeline. Estonia, as mentioned previously, had also experienced a strained relationship with Russia. In 2007 Estonia experienced stoppages that occurred immediately after the relocation of the Bronze Soldier statue, erected by the Red Army in Tallinn.<sup>93</sup> For the Russian population in Estonia and in Russia, it was a symbol of victory over the Nazis and Fascism, but the overwhelming majority of ethnic Estonians regarded it as a reminder of Soviet occupation. The move led to protests in Tallinn and Moscow that escalated to riots called "Bronze Nights",<sup>94</sup> and subsequently there were unexpected

---

<sup>91</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 93.

<sup>92</sup> Ivo Mijnsen and Jeronim Perovic, *The Quest for an Ideal Youth in Putin's Russia I: Back to Our Future! History, Modernity, and Patriotism According to Nashi, 2005-2013*. Ed. Andreas Umland. (Stuttgart: Ibidem-Verlag Haunschild/Schoen Gbr, 2014), accessed November 11, 2014, <http://books.google.com/>.

<sup>93</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 93.

<sup>94</sup> Mijnsen, *The Quest for an Ideal Youth in Putin's Russia*, 106-7.

‘disruptions’ in Russian energy supplies. The official response from Gazprom was that the infrastructure required repairs.<sup>95</sup>

Belarus and Ukraine, key transit states to the EU, have continued to have difficulties with Russian energy. January 1, 2004, Gazprom gas to Belarus stopped after Belarus failed to give in to Gazprom’s coercive negotiations. In 2007 Belarus experienced the major disruptions through the Baltic Pipeline System (BPS) during the ‘Moscow-Minsk’ oil conflict. The result was the construction of BPS-2, the Russian solution to a so-called unreliable transit state.<sup>96</sup> Though like most of the former Soviet states, Belarus enjoyed subsidized energy, the prices have steadily risen, leading to serious debt. An underlying factor to these troubles is that in Russia and the Soviet Union, household gas was not metered, rather consumers were charged a flat rate, making the transition to collecting payments for gas used nearly impossible. Stacy Closson, who has served as an expert on policy issues in Ukraine and the Caucasus under the United States Department of Defense, highlights this part of the problem:

These countries had grown accustomed to low prices and a barter system employed during the Soviet era, and factories were built with little consideration for energy efficiency and conservation. Neither the Siberian gas field, where the gas originated, nor homes throughout the Soviet Union were metered. The newly independent governments experience difficulties in convincing their citizenry to pay for the energy they consumed.<sup>97</sup>

But this may not last much longer, as Russia has also identified this pitfall and set a goal in “Russia’s Energy Strategy to 2030” to gradually increase and liberalize domestic gas prices in a

---

<sup>95</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 93.

<sup>96</sup> Poussenkova, “Russia’s Energy Giants,” 113.

<sup>97</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 93.

manner that assures responsible usage. It does not stop there, but goes on further to promote energy savings through higher efficiency and regular audits to increase accountability.<sup>98</sup>

### **The Deteriorating Relationship Between Russia and Ukraine**

Of all the Eastern European nations, though, Ukraine has a very complicated relationship with Russia. Disputes between Russia and Ukraine led to dramatic supply disruptions in 2006 and again in 2009. The 2006 episode came to a boiling point on January 1, 2006, when Gazprom halted all supplies destined for Ukraine's state-operated gas company, Naftogaz Ukrainy, for unresolved disputes. Gazprom accused Naftogaz of diverting supplies intended for the EU for its own domestic use in Ukraine. After a series of talks an agreement was reached and supply resumed a few days later.<sup>99</sup> There was widespread speculation that the interruption was used to exert pressure on the more Western-oriented government of President Viktor Yushchenko following the Orange Revolution.<sup>100</sup> A similar situation arose in the beginning of January 2009, when again, Russia accused Ukraine of siphoning and diverting gas. This dispute was far more serious and impacted supply to over a dozen European countries until January 18, 2009.<sup>101</sup> Russia tried to paint Ukraine as an unreliable transit state, but it is increasingly difficult to ignore the common denominator in these energy disputes. Scholars such as Jeronim Perovic also notice this trend of increasingly aggressive diplomacy, "Russia's rise as an energy power has stirred up a level of controversy that has not been seen since the days of the Cold War."<sup>102</sup> Robert Ortung

---

<sup>98</sup> Russian Federation. Government Order #1715-p. "Energy Strategy to 2030," 16, November 13, 2009, accessed November 1, 2014, [http://www.energystrategy.ru/projects/docs/ES-2030\\_\(utv.\\_N1715p\\_13.11.09\).doc](http://www.energystrategy.ru/projects/docs/ES-2030_(utv._N1715p_13.11.09).doc).

<sup>99</sup> Benita Ferrero-Waldner, "After the Russia/Ukraine Gas Crisis: What Next?," European Commission Press Release March 9, 2009, Accessed October 1, 2014, [http://europa.eu/rapid/press-release\\_SPEECH-09-100\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-09-100_en.htm).

<sup>100</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 97.

<sup>101</sup> Ferrero-Waldner, "After the Russia/Ukraine Gas Crisis: What Next?"

<sup>102</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 1.

shares a similar viewpoint that, “Increased income from the energy sector has helped to bolster an authoritarian government [...] Russia has built a state with extensive coercive capacity.”<sup>103</sup>

Paillard poses that in Russia “raw political power determines energy policy.”<sup>104</sup> Stefan Bouzarovski and Marcin Konieczny make a slightly different evaluation of pipelines such as Nord Stream stating that the “potential, rather than actual material existence that has led to dramatic changes in national security discourses.”<sup>105</sup>

It is important to note that Ukraine benefited from, but also became dependant upon, subsidized Russian gas. This is a peril of subsidized energy imports. The addiction to cheap gas makes Ukraine’s foreign policy and energy policy susceptible to Russian coercion. Gazprom makes about 70% of its total profits from the gas that it sells to the Western European markets, where Gazprom can charge a much higher price.<sup>106</sup> In a 2009 press statement by Benita Ferrero-Waldner, the EU Commissioner for External Affairs from 2004 to 2009: “The EU may depend on Russia for 25% of our gas and oil supplies, but 70% of Gazprom's revenue comes from us.”<sup>107</sup> This supports the argument that Russia needs the European markets as badly as Europe needs Russian gas.

In the past, there has been tension with some Gazprom customers who objected to or experienced difficulties in fulfilling inflexible, long-term contracts. Gazprom’s contracts are oftentimes multi-decade long agreements. The true cost of an addiction to subsidized energy can manifest itself in other ways, such as in Ukraine. In 2010, Ukrainian President Viktor Yanukovich signed an agreement with Russia for a 25-year extension on the lease of the Black

---

<sup>103</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 66.

<sup>104</sup> Paillard, “Russia and Europe’s Mutual Energy Dependence,” 82.

<sup>105</sup> Bouzarovski and Konieczny, “Landscapes of Paradox,” 16.

<sup>106</sup> Ferrero-Waldner, “After the Russia/Ukraine Gas Crisis: What Next?”

<sup>107</sup> Ibid.

Sea port Sevastopol for Russia's Navy in exchange for a \$45 billion dollar subsidy in gas prices over the subsequent decade. This was not received well by all members in Parliament, though the vote showed that a majority of representatives supported the decision. The outrage from those who were not in favor led to chaos during a parliamentary session, where fistfights broke out, smoke bombs were set off, and the Speaker, Volodymyr Lytvyn, even had to dodge a barrage of eggs thrown at him.<sup>108</sup> This highlights how closely natural gas and national security can be bound. With rising debts and economic problems, Ukraine elected to compromise sovereignty for a subsidy.

Energy 2020 expresses a pan-European solidarity in energy, but at the same time, EU has been willing to support pipeline projects like Nabucco or South Stream in the southern corridor, which could have directly increased Ukraine's vulnerability. Although the gas would have been from Azerbaijan, the pipelines are owned and controlled by Russia. If Russia were inclined to use energy as an instrument of influence on Ukraine, it would have the ability to do so, while still supplying its most valued customers in Western Europe.

---

<sup>108</sup> "Parliamentary Chaos As Ukraine Ratifies Fleet Deal," BBC News April 27, 2010, accessed November 1, 2013, <http://news.bbc.co.uk/2/hi/8645847.stm>.

## CHAPTER 5

## NABUCCO AND SOUTH STREAM 'PIPE-DREAMS'

The Nabucco Project was an EU solution for increasing natural gas transit routes as well as suppliers. In the end, though, it turned out to be another 'pipe-dream.' The goal was to connect Central Asia to Central Europe. Nabucco was backed by the following companies: BEH (Bulgaria), BOTAS (Turkey), FGSZ (Hungary), GDF SUEZ (France), OMV (Austria), and Transgaz (Romania); and in May 2013 GDF Suez (France) purchased 9% of OMV's shares and joined the "pan-European" gas project.<sup>109</sup> The project was proposed in 2002 and was planned to be a 3300km long pipeline that at full capacity could transport 31 bcm of natural gas per year. The route was first planned to access gas from Turkmenistan, but this option was taken off the table after Gazprom signed a contract guaranteeing access to Turkmen gas until 2020; the next step was to link Nabucco to the Baku-Tbilisi-Erzurum pipeline and transport Azeri gas to Europe with the end destination in Baumgarten, Austria, at the Central European Gas Hub. The goal was to decrease dependency on Russian gas imports by securing supplies from Central Asia.<sup>110</sup> Unfortunately, this was not fully realized. Gazprom was already the dominant supplier of natural gas to Austria; Austria imports 60% of its gas from Russia.<sup>111</sup> The EU Commissioner, Andris Piebalgs, stated in his letter to the Commission regarding the exemption of Nabucco from parts of the Gas Directive regulations, such as exempting it from regulated third party access as long as certain criteria were met, for instance maintaining stable tariffs pegged to the EU average plus or minus ten percent,

---

<sup>109</sup> "OMV sells part of Nabucco West shares to GDF SUEZ," OMV Press Release, May 28, 2013, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

<sup>110</sup> Rafael Fernandez, "Nabucco and the Russian Gas Strategy vis-à-vis Europe," *Post Communist Economies*, 23:1 (2011): 70, 76.

<sup>111</sup> Andris Piebalgs, "Exemption decision of the Austrian section of the Nabucco pipeline." EU Commission, Brussels, February 8, 2008; 7-8.

The Commission therefore considers it necessary to pay particular attention to the worst-case scenarios as developed in the exemption decision, i.e. a dominant market player becoming the capacity holder of all or of large part of the gas from the Nabucco pipeline exiting in Austria. In such a worst-case scenario, Nabucco could not be considered to enhance competition.<sup>112</sup>

The letter goes on to explain that it is quite possible that Austrian energy company OMV's existing relationship with Gazprom may have domino effect on increased cooperation by other Member States. The concern is that the Gazprom energy giant may become so deeply entwined in essential EU energy projects that it would compromise the political and diplomatic responses by the EU in the event of a conflict. This is exacerbated by the fact the pipelines from Russia are a major source of supply and emergency reserves of liquid natural gas (LNG) are limited. Still, though, Commission still felt confident enough to claim, "Nabucco pipeline is considered to enhance the security of gas supply for the Austria and the EU as a whole."<sup>113</sup>

The Nabucco Austrian company, OMV Gas and Power GmbH, and German company, RWE Supply and Trading Company, additionally created the Caspian Energy Company (CEC) in 2008 with the aim of developing gas pipelines across the Caspian Sea to supply the South Caucasus Pipeline and the future Nabucco Pipeline.<sup>114</sup> This project was a rival of Gazprom's South Stream Pipeline, and unfortunately, lost bids to Russian interests time after time. June 26, 2013 the Shah Deniz II consortium informed Nabucco shareholders that their pipeline did not win the bid for access to their Azeri gas reserves.<sup>115</sup> This can be attributed to at least two main factors.

---

<sup>112</sup> Piebalgs, "Exemption decision," 9.

<sup>113</sup> Ibid., 9-10.

<sup>114</sup> "OMV and RWE to jointly own Caspian Energy Company," OMV Investor News, November 6, 2008, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

<sup>115</sup> "Ad hoc announcement: Decision on Nabucco West," OMV Press Releases, June 26, 2013, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

First, OMV undermined the Nabucco Pipeline by signing agreements and supporting the number one competitor, Gazprom's South Stream Pipeline. The official agreement on the Austrian section of South Stream was signed April 24, 2010. This document was not only between the two companies, but was also signed by Austrian Federal Minister Reinhold Mitterlehner and the Energy Minister of the Russian Federation Sergey Shamtko. This pipeline, like Nabucco, would send supplies OMV's Central European Gas Hub, which is one of OMV's most profitable enterprises located in Baumgarten, Austria, and projected to start operations by the end of 2015.<sup>116</sup> Currently the CEGH handles gas auctions, trading, and titles and transfer paperwork as a major online marketplace.<sup>117</sup>

Secondly, there was a serious flaw with suppliers in the plan. Other possible suppliers included Mashreq countries, but it was unlikely that Egypt, Qatar, or Iran would agree to sell sufficient amounts; Iraq theoretically may have had potential if their Kurdish reserves were adequate.<sup>118</sup> The lack of any binding, official agreement for a supplier was a major flaw and subsequently fatal flaw in this project, to say the least.

The South Stream pipeline is another astronomically expensive pipeline, a route planned through the Black Sea so as to bypass Ukraine. While Gazprom is the majority shareholder, Italy's ENI and France's EDF are also involved. It was Gazprom's southern counterpart to the Nord Stream pipeline, which connects gas reserves in Russia to Greifswald, Germany, via the Baltic Sea. Again, Gazprom succeeded in partnering with some of the most influential countries in the EU that seem to act without regard to the spirit of solidarity that policies should have.

---

<sup>116</sup> "OMV and Gazprom sign Cooperation Agreement on the Austrian section of South Stream," OMV Investor News, April 24, 2010, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

<sup>117</sup> "CEGH Services," CEGH, last modified, December 11, 2014, accessed December 3, 2014, <http://www.cegh.at/hub-services>.

<sup>118</sup> Fernandez, "Nabucco and the Russian Gas Strategy vis-à-vis Europe," 76.

South Stream has been referred to as “a free solution to transit dependence with regard to Ukraine.”<sup>119</sup> Around 80% of Russian gas is transported to Europe via Ukraine.<sup>120</sup> This amount is around one third of Gazprom’s supply, but this one third generates 60% of Gazprom’s annual revenue due to the prices charged to Europe versus the highly subsidized domestic sales.<sup>121</sup> The construction is already underway, but there are still uncertainties about its operation in the EU because EU competition law forbids the supplier to own the transit infrastructure as well. December 4, 2013, Klaus-Dieter Borchardt, director of the Internal Energy Market in the European Commission provided that “in all openness and frankness, the South Stream link will not operate in the territory of the European union if it’s not in compliance with EU law.”<sup>122</sup> Gazprom’s investigation by the EU Commission for violating trade practices for natural gas, especially in Central and Eastern Europe, does not seem to prevent new project and contracts from being signed.

South Stream is not the only route that puts Ukraine’s energy security at risk. The other Gazprom routes that strategically avoid Ukraine include Blue Stream, which starts in Russia, crosses the Black Sea, and supplies Turkey with Russian natural gas. The Yamal-Europe pipeline, also known as Northern Light, originates in Russia and travels through Belarus to the EU.<sup>123</sup>

---

<sup>119</sup> Fernandez, “Nabucco and the Russian Gas Strategy vis-à-vis Europe,” 78.

<sup>120</sup> *Ibid.*, 72.

<sup>121</sup> *Ibid.*

<sup>122</sup> Barbara Lewis, “New Gazprom Pipeline Faces Long Wait for EU Legal Clearance,” Reuters December 4, 2013. Accessed October 1, 2014, <http://www.reuters.com/article/2013/12/04/eu-gazprom-idUSL5N0IX4AN20131204>.

<sup>123</sup> Fernandez, “Nabucco and the Russian Gas Strategy vis-à-vis Europe,” 74.

South Stream construction was already underway when in December 2014, President Putin suddenly dropped the project.<sup>124</sup> This has stunned the international audience. Although the gas crises in Ukraine in 2006 and 2009 were felt in the EU, there has still been no substantial change to the EU Energy Policy. It was clear that there is a risk associated with the primary supplier of EU natural gas. The Commission exhausts itself in writing memoranda and communications, but lack of enforcement continues.<sup>125</sup>

### **Central European Gas Hub**

The Central European Gas Hub (CEGH) is the pride of Austrian energy company, OMV. It is a large storage node in Baumgarten, and is both a supplier and transporter of natural gas. It supplies not only Austrian natural gas consumers, but also transports upwards of 75 bcm gas to Germany, Italy, France, Slovenia, Croatia and Hungary each year.<sup>126</sup> The CEGH was originally a 100% Austrian OMV enterprise, but in 2008, OMV states that it sold 30% to Gazprom and 20% to both Wiener Börse AG and Centrex Europe Energy & Gas AG.<sup>127</sup>

Despite Austria's preferential relationship with Russia's Gazprom, this did not prevent Austrians from feeling the effects of the January 2009 Ukrainian gas crisis, which resulted from disagreements between Ukraine and Russia regarding contracts, prices, and allegations of illegal gas siphoning and diversion. The supply to Austria dropped to a mere 10% by January 6, and stopped completely January 7. Fortunately for their customers, OMV subsidiary reserves were

---

<sup>124</sup> Stanley Reed and James Kanter, "Putin's Surprise Call to Scrap South Stream Leaves Europe Reeling," *New York Times*, December 2, 2014, accessed December 5, 2014, [http://www.nytimes.com/2014/12/03/business/south-stream-pipeline-cancellation-fallout.html?\\_r=0](http://www.nytimes.com/2014/12/03/business/south-stream-pipeline-cancellation-fallout.html?_r=0).

<sup>125</sup> European Commission, "Energy 2020," 3.

<sup>126</sup> "OMV and Gazprom sign Cooperation Agreement."

<sup>127</sup> "OMV, Gazprom and Vienna Stock Exchange agree to jointly develop Central European Gas Hub and establish a gas exchange," OMV Investor News, November 5, 2008, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

able to guarantee a normal level of supply through the crisis.<sup>128</sup> Nina Poussenkova claims that “The gas disputes between Russia and Ukraine were the most widely publicized energy conflicts of the decade because European countries became victims of their economic, energy, and political disagreements.”<sup>129</sup>

The CEHG had been planning to receive a significant portion of its gas supply through the Nabucco pipeline, which was to have increased energy security for Europe by decreasing Russian imports and also bypassing Ukraine. From Baumgarten CEGH, a series of interconnectors would form a network of supply within Europe, thereby integrating the internal EU gas market.<sup>130</sup> Werner Auli, Member of OMV’s Executive Board responsible for Gas & Power, stated:

The planned South Stream and Nabucco gas pipelines will further increase the significance of OMV’s Baumgarten distribution node as a key European natural gas turntable and boost the security of Europe’s supply. As for the Central European Gas Hub, already one of the most important gas trading platforms in continental Europe, this additional liquidity at its main trading point will also provide strong momentum and clear support as it seeks to become the leading gas hub in continental Europe.<sup>131</sup>

Although the CEGH had been an OMV project, in 2009 the shareholder structure shows that OMV has 65%, Wiener Börse AG 20%, and Slovak Eustream 15%.<sup>132</sup> the OAO Gazprom Annual Management Report for 2008 further suggests that “in January 2008 the Gazprom Group signed an agreement with Austrian company OMV AG under which the Gazprom Group will

---

<sup>128</sup> “OMV/EconGas: Currently no delivery of Russian natural gas to Austria – but gas supply for Austria still guaranteed,” OMV Investor News, January 7, 2009, accessed October 1, 2014, [www.omv.com](http://www.omv.com).

<sup>129</sup> Poussenkova, “Russia’s Energy Giants,” 117.

<sup>130</sup> Fernandez, “Nabucco and the Russian Gas Strategy vis-à-vis Europe,” 72.

<sup>131</sup> “OMV and Gazprom sign Cooperation Agreement.”

<sup>132</sup> “Shareholder Structure,” CEGH, last modified December 12, 2014, accessed November 1, 2013, <http://www.cegh.at/cegh-shareholders>.

obtain 50% interest in Central Europe Gas Hub (Baumgarten), one of the largest gas distribution centers in Europe.”<sup>133</sup>

This 2008 Gazprom Management Report goes on to define Gazprom’s key objectives in the European market to include “expanding the use of underground gas storage facilities in Europe and increase its ownership in companies engaged in the sale of gas and electricity to end-users.”<sup>134</sup> Gazprom has been able to set goals and also achieve them, such as buying its way into the infrastructure that the EU has developed to avoid depending on Russian energy. The EU exhausts itself with publications of energy security, solidarity, and diversification, but has been crippled by its lack of any enforcement mechanisms to keep energy companies within the EU from compromising the unified vision for energy security in Europe.

During that same month, January 2008, Italian ENI and Gazprom signed an agreement to establish South Stream Company and Gazprom also signed agreements with Bulgaria, Serbia, Hungary and Greece, allowing Gazprom to construct the land routes for South Stream through their countries; and there were still ongoing negotiations with Austria.<sup>135</sup> Gazprom has an organized strategy and clear vision of how to maintain its position as primary natural gas supplier to the EU. The EU, on the other hand, shows how vulnerable it has become due to its lack of enforcement of the unified policies it promotes.

The fact that Austria provided the opportunity for Gazprom to take control of 50% of the CEGH in 2008 almost doomed the EU’s Nabucco pipeline from the start. Nabucco was to be the key pipeline to supply the CEGH with Central Asian gas, thereby diversifying both the route and supplier to Europe. Time and time again the EU promoted diversification and lessening the

---

<sup>133</sup> “Management Report 2008,” Gazprom, Accessed November 1, 2013, <http://www.gazprom.com/f/posts/71/879403/2gmr.pdf>.

<sup>134</sup> Ibid.

<sup>135</sup> Ibid.

dependence on Russian gas, but consistently fell short of expectations. More importantly though, OMV's and Austria's actions undermined the security of the CEGH by allowing so much control to go to the single natural gas supplier from which the EU had hoped to lessen its dependence.

Gazprom would never have openly supported the Nabucco Pipeline to the CEGH for a number of reasons. First, it would compromise Gazprom's position as the primary natural gas supplier to Europe. Second, it would lessen Russia's influence in Central Asia by providing Azerbaijan with the attractive, high-paying customers of the EU. Gazprom had enjoyed a privileged partnership with Central Asian gas reserves, which it has no intention of giving up.

Considering all of these factors, Gazprom has certainly managed to mitigate any threats by promoting its own project, South Stream. Gazprom was able to partner with companies from Italy, France, and Austria to guarantee the success of South Stream, but the EU utterly failed to garner enough support for the Nabucco project. This is also while the EU Commission was investigating Gazprom for violating EU anti-trust laws, an investigation that still continues. It is incomprehensible how the EU has not taken a bolder stance against the energy companies within the EU that have facilitated Gazprom's success through bilateral agreements at the expense of EU Energy security as a whole. Now, the EU is cradled by Russian gas pipelines, Nord Stream, which compromised the energy security of the Baltic Member States for the gains of German, French, and Dutch energy companies, and South Stream that bypasses Ukraine, and Yamal-Europe, going directly to the heart of the EU.

## CHAPTER 6

EASTERN PARTNERSHIP, POLAND'S PUSH FOR SOLIDARITY, AND THE  
FUTURE OF RUSSIAN-EU ENERGY RELATIONS

The EU initiated the Eastern Partnership Program in 2009 in Prague. This program includes Eastern European countries that are not Member States, including Ukraine, Moldova, Georgia, Armenia, and Azerbaijan. The partnership aims to strengthen democracy and foster a closer political, economic, and cultural relationship with the EU. More specific goals include: “new, deeper contractual relations between the EU and partner countries; supporting the mobility of citizens and visa liberalization in a well managed and secure environment; and enhance sector cooperation in EU programmes and agencies.”<sup>136</sup>

One of the fundamental elements of the Eastern Partnership is energy security. The program aims to promote, “steps to integrate Eastern European countries and EU energy markets, enhance network interconnections between the EU and the Eastern partnership countries, diversify supply sources and routes, improve energy efficiency and the use of renewables.”<sup>137</sup> Furthermore, the program intends to take “concrete steps towards the realization of the Southern Gas Corridor, a strategically important infrastructure to ensure the diversification of energy supply routes from the Caspian Sea to the European market.”<sup>138</sup> Although, the program has admirable goals of fighting corruption, human trafficking, and increasing progress towards modernization, it seems contradictory for the EU to attempt to strengthen an energy relationship with Ukraine without having included Ukraine on the Nabucco pipeline project and while EU

---

<sup>136</sup> European Commission, High Representative of the European Union for Foreign Affairs and Security Policy, “Eastern Partnership: A Roadmap to the Autumn 2013 Summit: {SWD 2012) 108 final},” (2012), accessed November 1, 2013, [www.europa.eu](http://www.europa.eu).

<sup>137</sup> *Ibid.*, 7.

<sup>138</sup> *Ibid.*

Member State energy companies were funding South Stream, since both of these projects directly increased the vulnerability of Ukraine to Russian gas politics. After, watching the EU's flagship pipeline, Nabucco, fail as Gazprom's South Stream out-bid it, the amount of faith that the Eastern Partners can put in the EU's ability to follow through on energy policy has decreased. Though the EU suggests that their Eastern Partners pursue energy projects of "common strategic importance in oil, gas, and electricity" and focusing on supply security and the impact of these projects on Eastern Europe, it seems that the EU itself does not seem hold actual member states to the same standard.<sup>139</sup> Russia has shown how ambitious and dedicated it is to Gazprom's projects to ensure a monopoly on EU markets.

The Eastern Partnership had put forth an expectation that by Autumn of 2013 there would have been progress toward its four objectives in energy: "enhancement of framework conditions and solidarity; support for infrastructure development, interconnection and diversification of supply; promotion of increased energy efficiency and use of renewable resources; regulatory framework and approximation of energy policies."<sup>140</sup> The EU states its intention of monitoring the progress in the Eastern Partnership countries, but it seems that there is a lack of self-evaluation at the same level. Before the EU asks other non-EU to join in coordinating energy solidarity efforts, it desperately needs to reexamine solidarity internally.

Dominique Finon, Senior Research Fellow in Economics of the French National Center of Scientific Research (CNRS), illustrates the nature of the EU in regards to the failed Nabucco Pipeline and lack of energy solidarity in an article, "The EU Foreign Gas Policy of Transit

---

<sup>139</sup>European Commission, "Eastern Partnership: Platform 3 Energy Security: Core Objectives and Work Programme 2014-2017" (2013), [http://ec.europa.eu/energy/international/eastern\\_partnership/doc/approved\\_work\\_programme\\_2014-2017.pdf](http://ec.europa.eu/energy/international/eastern_partnership/doc/approved_work_programme_2014-2017.pdf).

<sup>140</sup> European Commission, "Eastern Partnership: A Roadmap," 12-13.

Corridors: Autopsy of the Stillborn Nabucco Project.” He describes the EU as “trying to be a *de facto* superstate with the traditional attributes of power, despite the fact that it lacks the means to enforce its own sovereignty,” and that this often leads to a use of ‘soft power’ to influence foreign affairs.<sup>141</sup> Russia has also been accused of using ‘soft power’, often with hydrocarbon resources as the tool, but she explains that the difference is that they also have the capability to employ force because they have a military and defense systems in place. He implies that there are member states, notably Germany, France, and Italy, who have pursued national energy interests that may or may not be convergent with the EU energy policy, which ultimately shows a lack of confidence in the EU’s ability to secure energy interests.<sup>142</sup>

With this in mind, it will be one of the EU’s greatest challenges to achieve true energy solidarity and security while even the two founding members, Germany and France, who should be the paradigm, have pursued energy interests that are divergent from the EU’s energy policy. If individual nations continue to undermine the EU energy policy and security, the EU will continue to be at risk of over-dependence on Russian gas.

Natural gas is a major part of the European energy mix, especially because it is cleaner than coal and can help European Union Member States to achieve their emissions standards. Unfortunately, the EU does not have sufficient natural gas reserves and is reliant upon imports. In an effort to diversify risk, the EU has supported several gas pipeline projects, such as Nord Stream, but several EU Member States have opposed this pipeline since its inception, with Poland as one of the most active entities, despite being a “new member.”

---

<sup>141</sup> Dominique Finon, “The EU foreign gas policy of transit corridors: autopsy of the stillborn Nabucco project.” OPEC Energy Review, 2011, 49.

<sup>142</sup> Ibid., 49.

## Poland's Impact on EU Energy Policy

Poland, which entered the EU in 2004, has used controversial projects like the Nord Stream Pipeline to take a stance and improve upon some of the EU's energy policies. The concept of Nord Stream was developed in 2005, so due to the timing and the geographic location, it became a topic the Poland was able to use to find its voice in the EU policy-making sphere. Poland's actions were important not only for its own energy security, but also for smaller countries such as Lithuania, Latvia, and Estonia that depend more heavily on Russian hydrocarbons.

Ernest Wyciszkievicz, senior research fellow and coordinator of the Program on International Economy and Energy Security at the Polish Institute of International Affairs, recognizes that despite the oil crises in the 1970's, the rise of resource nationalism in the 1980's, it was not until the new EU Member States from Eastern Europe joined the EU in 2004 that the concept of 'energy solidarity' was revitalized.<sup>143</sup> He attributes this partly due to the fact that "these eight new Member States from the Central Europe and Baltic region were highly or totally dependent on a single supplier of oil and gas, with whom they shared quite difficult history of political and economic relations."<sup>144</sup>

Polish concern for energy security stems from the fact that it lacks diversity in gas and oil imports; most are purchased from Gazprom. This contributes to Poland's stance in pushing for a fair and effective energy policy at the EU level. Wyciszkievicz notes that Poland was not alone in recognizing the influence that Russia had exerted by means of Gazprom.<sup>145</sup> Then in 2005 the solidification of the Nord Stream Project between Russia and Germany captured Poland's

---

<sup>143</sup> Ernest Wyciszkievicz, "Polish Perspective on the EU's Energy Policy and the Security of External Supply," *International Issues & Slovak Foreign Policy Affairs*, Issue 01/2009, 15-17.

<sup>144</sup> *Ibid.*, 17.

<sup>145</sup> *Ibid.*, 18.

attention and, in response, Poland has become one of the most active Member States when it comes to addressing EU level energy policy.<sup>146</sup>

Poland brought the concept of ‘energy solidarity’ onto the EU’s radar, reminding the Commission that true solidarity would mean that disruptions or other threats to any EU member should be addressed as important to the entire EU as a whole. Wyciszkievicz points out that Poland championed a small line in the Presidency Conclusions of the European Council of June 2006, where what is proposed is: “full support to infrastructure projects aimed at opening up new supply routes with a view of diversifying energy imports of sources *which would benefit all Member States.*”<sup>147</sup> Poland’s use of solidarity as guidance for all EU energy policy did meet some resistance, principally from Germany when Poland pushed to include a “solidarity clause” in the Lisbon Treaty of 2007.<sup>148</sup> The clause reads as follows:

The Union and its Member States shall act jointly in a spirit of solidarity if a Member State is the object of a terrorist attack or the victim of a natural or man-made disaster. The Union shall mobilise all the instruments at its disposal, including the military resources made available by the Member States.<sup>149</sup>

In a 2012 project commissioned by the European Commission to evaluate the Baltic Energy Market Interconnection Plan (BEMIP), the report indicates one of the main objectives to lessen dependence on Russian gas will be to “define and strengthen the role of Poland as an ‘energy bridge’ to the other countries [...]”<sup>150</sup> Not only is Poland the link between the isolated Baltic

---

<sup>146</sup> Wyciszkievicz, “Polish Perspective on the EU’s Energy Policy,” 18.

<sup>147</sup> *Ibid.*, 21.

<sup>148</sup> *Ibid.*, 22.

<sup>149</sup> European Union, “Treaty of Lisbon: Title VII ‘Solidarity Clause,’” Article 188 R, December 2007, accessed November 01, 2013. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2007:306:FULL&from=EN>.

<sup>150</sup> Booz & Company, “Analysis of Costs and Benefits of Regional Liquefied Natural Gas Solution in the East-Baltic Area, Including Proposal for Location and Technical Options Under the Baltic Energy Market Interconnection Plan.” Prepared for the European Commission

States, but also will increase its role as an energy producer after new shale gas resources are projected to supply up to 15 Bcm per year.<sup>151</sup> In 2010, the total combined Baltic Market Demand from Latvia, Lithuania, and Estonia was a mere 5.5 Bcm, compared to the total EU market that used 566 Bcm that same year.<sup>152</sup> Ironically, the Russian Federation's "Energy Strategy to 2030" uses the same language, also calling the Russian pipeline infrastructure the "energy bridge" (*энергомост*).<sup>153</sup>

The EU Commission's Second Strategic Energy Review: Energy Security and Solidarity stated that "while each Member State is responsible for its own security, solidarity between Member States is a basic feature of EU membership [...] the combined weight of the EU in world affairs can be more effective than dispersed national actions. For these reasons, energy security is an issue of common EU concern."<sup>154</sup> Despite this sentiment, and it can only be called a sentiment due to the inconsistencies of the publications and actions, individual Member States continue to pursue energy initiatives that negatively impact other Member States.

The Commission recognizes the need for funding and investments in the energy sector and has made some progress. In 2013, aid for gas infrastructure projects in Greece and Poland, as well as funding toward liquefied natural gas (LNG) projects in Greece and Lithuania, were approved.<sup>155</sup> The Rembelszczyzna-Gustorzyn Pipeline project will modernize some existing infrastructure, as well as connect the primary gas hubs in central Poland including reverse flow capabilities. This will allow Operator Gazociągów Przesyłowych Gaz System S.A., the company

---

Directorate-General for Energy, 2012, accessed October 1, 2014, [http://ec.europa.eu/energy/infrastructure/doc/20121123\\_lng\\_baltic\\_area\\_report.pdf](http://ec.europa.eu/energy/infrastructure/doc/20121123_lng_baltic_area_report.pdf), 15.

<sup>151</sup> Ibid., 28-9.

<sup>152</sup> Ibid., 9.

<sup>153</sup> Russian Federation, "Energy Strategy to 2030," 54.

<sup>154</sup> European Commission, "Energy Security and Solidarity," 4.

<sup>155</sup> European Commission, "Competition Report," 32.

that will own this infrastructure, to redirect gas not only within Poland, but also through pipelines that connect to other Member States. It will also connect with the Świnoujście LNG terminal and the Poland-Lithuania Pipeline, which promotes greater energy security as it is a LNG storage site easily accessible to Baltic Member States.<sup>156</sup> One of the requirements for this EU state aid is that the project must be “recognized by the EU as being in the common interest of the EU Member States.”<sup>157</sup> The project will also contribute to the Baltic Energy Market Interconnection Plan (BEMIP), a series of EU projects aimed to improve energy security and access in Lithuania, Latvia, and Estonia. The Member States involved in these projects include Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland and Sweden, all countries that border the Baltic Sea.<sup>158</sup> After the memorandum was signed by all eight nations in June 2009, Commissioner Andris Piebalgs commented:

Ending the effective isolation of the Baltic States, which still form an energy island, is an urgent task to deal with. Looking at the actions and projects the plan contains and which the countries of the region now endorse, I am now confident that this objective can be achieved in a mid-term perspective.<sup>159</sup>

### **Russia’s Return to Authoritative State, Revived Nationalism, and Expansion in the Near Abroad**

Under President Putin, Russia has returned to a more authoritative state and a revival of nationalism. At the same time President Putin is pursuing an expansionist policy in the near abroad. Exposing the correlation between the increase in energy prices and the decrease of

---

<sup>156</sup> European Commission. “State aid SA.34235-Poland-Gas Pipeline Rembelszczyna-Gustorzyn (phase III),” Brussels, May 2013, accessed November 1, 2014, 2-3, [http://ec.europa.eu/competition/state\\_aid/cases/245962/245962\\_1409299\\_145\\_2.pdf](http://ec.europa.eu/competition/state_aid/cases/245962/245962_1409299_145_2.pdf)

<sup>157</sup> Ibid., 10.

<sup>158</sup> European Commission, “Energy Infrastructure: Baltic Energy Market Interconnection Plan (BEMIP),” accessed November 1, 2014, [http://ec.europa.eu/energy/infrastructure/bemip\\_en.htm](http://ec.europa.eu/energy/infrastructure/bemip_en.htm).

<sup>159</sup> European Commission, Press Release: “The Baltic Sea Region States reach agreement on the Baltic Energy Market Interconnection Plan,” Brussels, June 2009, accessed October 1, 2014, [http://europa.eu/rapid/press-release\\_IP-09-945\\_en.htm](http://europa.eu/rapid/press-release_IP-09-945_en.htm).

democracy in Russia under Vladimir Putin, Orttung argues that this is not an entirely new phenomena, rather it has only reinforced a pre-existing tendency. Since Putin's first presidency, he has chosen to limit authority to a circle of 'elites'; he has increased pressure on sources of opposition, such as successful entrepreneurs, businesses, and non-governmental organizations; and overly influenced the press and other media.<sup>160</sup> Orttung further warns, "The suppression of a free media and a viable opposition makes it hard for new ideas to emerge, which in turn, stymies necessary structural changes."<sup>161</sup> Even Russia's first private national television network, NTV, fell victim to Putin's acquisitions, as a result of owner Vladimir Gusinsky's inability to repay a loan to Gazprom.<sup>162</sup> Mikhail Khodorkovsky's imprisonment from 2003 until the end of 2013 sent a strong message to existing or potential oppositional forces. His company Yukos had gone from a loss making Soviet enterprise to one of the most successful energy companies in the world in a matter of a few years, and although most entrepreneurs of Khodorkovsky's caliber had some initially questionable business practices following the mass confusion and ambiguity of the transition, at the time of his arrest Yukos maintained a high level of transparency.<sup>163</sup>

Stacy Closson sees the source of the problem as "being rooted in the two sides' different objectives for an energy dialogue," with Russia working toward securing natural gas contracts and the EU toward a secure supply.<sup>164</sup> She also mentions that because of the variation among member states as related to each other and to Russia, that "how Russia views its role in Europe likely depends on which 'Europe' is under consideration."<sup>165</sup> This exposes the divisions within

---

<sup>160</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 60.

<sup>161</sup> *Ibid.*, 66.

<sup>162</sup> *Ibid.*, 59.

<sup>163</sup> *Ibid.*, 58-61.

<sup>164</sup> Perovic et al., *Russian Energy Power and Foreign Relations*, 94.

<sup>165</sup> *Ibid.*, 95.

the EU, whether they are the 27 current members, the ‘old members’ or ‘new members’, the members who pay the highest prices, or those who are almost entirely dependent on Russian gas.

The EU, along with the United States, has attempted to use sanctions to reign in Russia’s aggressive diplomacy and expansion, especially in Ukraine. Beginning with an outcry after Ukrainian President Viktor Yanukovich failed to secure closer ties to the EU in the fall of 2013, the protests escalated and led eventually to Yanukovich’s flight from Ukraine. The situation then deteriorated with the invasion Ukraine and annexation of Crimea, which has been widely viewed as an illegitimate reincorporation of Crimea to the Russian Federation. Ukraine is economically and geo-politically important for Russia, serving as a transit state for gas to Europe as well as the strategic location on the Black Sea. Russia has historically given preferential prices for natural gas to Ukraine in return for loyalty, but also has used gas to influence the region.<sup>166</sup> Though Russia attempts to portray itself as the victim in the gas disputes and Ukraine as an unreliable transit country, the overwhelming result is that Russia is seen as an unreliable supplier and as meddling in the affairs of sovereign nations.<sup>167</sup> President Putin held a meeting with his Security Council in April 2014, when he addressed the current situation with gas sales to Ukraine stating:

If we want to be clear about the root of these recent problems, the fact of the matter is that Russia cannot continue to bear such a burden all on its own. It was for this reason that we appealed to our partners and friends in Europe in the hope that we can organise a meeting as soon as possible to work out ways of helping and supporting Ukraine's economy. Whoever really does care about Ukraine and the Ukrainian people should make their contribution to preventing the country’s economy from going bankrupt [...] This will take more than handing out pies at the Maidan.<sup>168</sup>

---

<sup>166</sup> Poussenkova, “Russia’s Energy Giants,” 117.

<sup>167</sup> Ibid.

<sup>168</sup> Vladimir Putin, “Meeting with Security Council Members,” April 11, 2014, Moscow Oblast’, Russia, accessed October 1, 2014, <http://eng.kremlin.ru/news/7009>.

The burden he refers to is that since Ukraine failed to pay for gas already delivered, all discounts that were based on a full payment of the balance became null and void. The balance that Ukraine should have satisfied by April 7, 2014, was upwards of \$540 million.<sup>169</sup>

The EU has enacted sanctions due to increased tensions resulting from the crisis in Ukraine and the EU's disapproval of Russia's role in the invasion and annexation. Russia in turn banned the import of agricultural products from the EU, USA, Canada, Australia, and Norway, including meat, dairy, fruits and vegetables, as well as some processed products. The EU is the most impacted by the sanctions due to the fact that they supply 73% of the banned imports.<sup>170</sup> In 2013 EU agricultural exports to Russia amounted to €11.3 billion and these products make up around 10% of all EU exports to Russia.<sup>171</sup> Exports from Lithuania that have been banned amount to around €922 million, which is extremely significant because the total agricultural exports are €1.374 billion, followed by Poland whose banned exports to Russia are €840 million from a total of €1.267 billion.<sup>172</sup>

The EU has enacted some emergency measures to mitigate the impact of the sanctions. €155 million was made available to aid in storage, while other farmers were encouraged to participate in "withdrawal measures," which are tactics to avoid over-saturating the market.<sup>173</sup> These include "withdrawal for free distribution" and "green harvesting," that is harvesting before

---

<sup>169</sup> Putin, "Meeting with Security Council Members."

<sup>170</sup> European Commission. Press Release: "Questions & Answers on the potential impact of the Russian measures against EU agricultural products and the EU response so far," Brussels September 3, 2014. [http://europa.eu/rapid/press-release\\_MEMO-14-517\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-517_en.htm).

<sup>171</sup> European Commission, "Questions & Answers."

<sup>172</sup> Ibid.

<sup>173</sup> Ibid.

the produce is ripe, or simply not harvesting the produce at all in order to prevent excess supply flooding the market.<sup>174</sup>

Sanctions imposed on Russia by the EU include diplomatic measures, export bans, visa restrictions and asset freezes on select individuals and entities, and also a review of EU-Russia cooperation programs. Banned exports include military equipment, arms, oil, and ‘sensitive technology.’ The European Council explained this action:

It is meant as a strong warning: illegal annexation of territory and deliberate destabilization of a neighboring sovereign country cannot be accepted in 21st century Europe. Furthermore, when the violence created spirals out of control and leads to the killing of almost 300 innocent civilians in their flight from the Netherlands to Malaysia, the situation requires urgent and determined response. The European Union will fulfill its obligations to protect and ensure the security of its citizens. And the European Union will stand by its neighbours and partners.<sup>175</sup>

The financial restrictions imposed by the EU until July 31, 2015 target Russia’s five largest banks: Sberbank, VTB, Gazprombank, Rosselkhozbank, and VEB and all entities owned more than 50% by these banks. The EU aims to apply pressure using this financial sanctions, as Russian banks depend on selling bonds to EU customers, so restricting this option is intended to pressure the Russian Central Bank.<sup>176</sup>

---

<sup>174</sup> European Commission, “Questions & Answers.”

<sup>175</sup> European Council, Press Statement: “Statement by the President of the European Council Herman Van Rompuy and the President of the European Commission in the name of the European Union on the agreed additional restrictive measures against Russia,” Brussels 29 July 2014, accessed October 1, 2014, [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/144158.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/144158.pdf).

<sup>176</sup> European Union Newsroom. “EU Sanctions on Russia over Ukraine crisis: Information note on capital markets,” accessed October 1, 2014, <http://europa.eu/newsroom/files/pdf/info-note-capital-markets.pdf>.

## Russia's Strategy: Energy and Beyond

In the first several years of his presidency, Vladimir Putin initiated a shift to government ownership of the energy sector, mostly through Gazprom acquisitions. In an authoritative manner, he strategically reversed the privatization process of key industries.<sup>177</sup> Looking forward to 2020, Russia set goals such as increasing gas production, lowering domestic consumption of gas partly by raising prices and switching to other hydrocarbons like coal.<sup>178</sup> In 2009 Vladimir Putin described the objectives for Russia's energy sector in the document "Russian Federation's Energy Strategy to 2030." Russia will aim to meet several targets. As far as gas is concerned, Russia plans to diversify exports and expand markets in Japan, Korea, and Asian-Pacific region with exports growing from the 0% in 2009 to 20% by 2030, while at the same time decreasing gas exports to Europe.<sup>179</sup> Russia also expresses concerns related to energy security including: the high degree of fixed asset depreciation; the low levels on investment into developing Russia's energy sector; the singular dependence of the Russian economy on natural gas (53%); the disparity between the scientific and technical level in the Russian energy sector and at the world level performance; and the weak energy infrastructure growth levels in Eastern Siberia and the Far East.<sup>180</sup> The low economic diversity is one of the most serious issues for Russia, along with other economic vulnerabilities, such as the difficulty attracting foreign investors.<sup>181</sup> This lack of diversity and lack of competition are significant hurdles that will need to be overcome.

At the same time, the Russian government plans to wean Russia off of its own dependence on gas by promoting, supporting, and developing nuclear energy and clean coal

---

<sup>177</sup> Louis Skyner, "The Reform of the Russian Power Sector: The Rhetoric and Reality," *Europe-Asia Studies*, 62:8 (2010): 1384.

<sup>178</sup> *Ibid.*, 1386.

<sup>179</sup> Russian Federation, "Energy Strategy to 2030," 10.

<sup>180</sup> *Ibid.*, 14.

<sup>181</sup> Skyner, "The Reform of the Russian Power Sector," 1384.

energy.<sup>182</sup> While the gas production decreases in active sites, Russia plans to conduct exploration and extraction at other reserves in Eastern Siberia, the Russian Far East, Yamal Peninsula, and the Arctic Shelf, which are projected to provide no less than 16 trillion m<sup>3</sup> of natural gas.<sup>183</sup> Russia must also consider the consequences of becoming overly dependent on Central Asian gas, which it has been using to make up for its own decreasing production.<sup>184</sup>

Foreign energy relations are also addressed in the outlook to 2030. One of the main problems with the gas industry was listed as the “high transit risks of gas exports to Europe” (*высокие транзитные риски экспорта газа в Европу*).<sup>185</sup> In April 2014, after Russian annexation of Crimea, President Putin made it very clear who he feels is to blame for any disruptions in gas supply, “We without a doubt guarantee that we will fulfill all of our obligations to our European gas customers. We are not the ones in question. The real question is whether (gas) transit can be ensured through Ukrainian territory.” (*Мы, безусловно, гарантируем в полном объеме выполнение всех наших обязательств перед нашими европейскими потребителями газа. Вопрос не в нас. Вопрос в обеспечении транзита через украинскую территорию.*)<sup>186</sup> He went on to emphasize the importance of stability and security, while simultaneously annexing parts of Ukraine, which caused unrest that led to deaths and civil war. Regardless, Putin still makes the following case:

Stable relations with traditional customers of Russian energy resources and the formation of equally stable relations in new energy markets is becoming the most important direction of this country’s energy politics in the field of providing global energy security in correspondence with national interests.

---

<sup>182</sup> Russian Federation, “Energy Strategy to 2030,” 23.

<sup>183</sup> Ibid., 39-40.

<sup>184</sup> Poussenkova, “Russian Energy Giants,” 118.

<sup>185</sup> Russian Federation, “Energy Strategy to 2030,” 49.

<sup>186</sup> Putin, “Meeting with Security Council Members.”

(Стабильные отношения с традиционными потребителями российских энергоресурсов и формирование столь же устойчивых отношений на новых энергетических рынках являются важнейшими направлениями энергетической политики страны в сфере обеспечения глобальной энергетической безопасности в соответствии с национальными интересами страны.)<sup>187</sup>

### **Divide and Conquer**

Another important segment of “Russia’s Energy Strategy to 2030” as related to foreign policy includes “the strengthening of the position of the leading Russian energy companies abroad” (“[...] укрепление позиций ведущих российских энергетических компаний за рубежом; [...].”)<sup>188</sup> By process of elimination, this is Gazprom, Russia’s top energy company abroad. Gazprom had already become so influential within the EU that it required a formal investigation to assess the violation of EU anti-trust and competition law. How will Gazprom evolve if it is forced to operate within the parameters of EU law? Or will it simply continue to establish its dominance in Europe, as set out by Russian energy strategy? At the same time, though, Russia also states that the 2030 strategy will include the “de-monopolization of the gas market, a competitive environment, and establish non-discriminatory rules to allow infrastructure access to all,” (*демонополизация газового рынка, создание конкурентной среды и установление недискриминационных для всех участников правил доступа к его инфраструктуре.*)<sup>189</sup> These claims seem to be very different from reality.

As the conflict in Ukraine continued without any lasting peace agreements, on June 24, 2014, President Vladimir Putin met in Vienna with President Heinz Fischer to discuss the South Stream project between Austrian state-operated energy company OMV and Gazprom. The purpose of the meeting was to sign the Gazprom-OMV Shareholders agreement, forming the

---

<sup>187</sup> Russian Federation. “Energy Strategy to 2030,” 34.

<sup>188</sup> Ibid., 35.

<sup>189</sup> Ibid., 50.

joint company for the Austrian section of South Stream, which will deliver supplies to the Central European Gas Hub in Baumgarten, Austria. They briefly and politely acknowledged the conflict in Ukraine, or as President Putin referred to it as “(the) dramatic events in Ukraine,” (*драматические события на Украине*). The press, though, focused its questioning almost entirely on the conflict, and President Putin’s concluding remarks to one journalist were:

“Of course, we will always protect ethnic Russians in Ukraine, as well as the part of the Ukrainian population that identifies not just ethnically, but also culturally and linguistically feels a connection to Russia and to the greater Russian world (community).”

(Конечно, мы всегда будем защищать и этнических русских на Украине, и ту часть украинского населения, украинского народа, которая чувствует свою неразрывную не только этническую, но и культурную, языковую связь с Россией, чувствует себя частью широкого русского мира.)<sup>190</sup>

One member of the press asked a question to President Fischer that is most relevant to the entire situation: “Today the agreement on the construction of “South Stream” was signed. At this time, does it give the right sign to bypass Ukraine? And are there any possibilities of resolving this problematic issue?” (*Сегодня был подписан договор о строительстве «Южного потока». Это в данный момент даёт правильный знак, когда обходится Украина? И какие есть возможности решения вот этой проблематики?*)<sup>191</sup> He responded beginning with, “everyone with a plan ‘A’, must also have a plan ‘B,” meaning that because the EU-backed Nabucco Pipeline fell through, that South Stream was the next best option for diversifying pipelines to Europe. Instead of answering the central ethical question of bypassing Ukraine in order to form a joint venture with Russia’s Gazprom, while Russia is annexing Ukraine and is under sanctions from the EU, Fischer simply shifted the blame by pointing the

---

<sup>190</sup> Kremlin News, “Press statements and responses to journalists at Russian-Austrian talks,” Vienna, Austria, June 24, 2014, accessed October 1, 2014, <http://kremlin.ru/transcripts/46060>.

<sup>191</sup> Ibid.

finger at Hungary and Bulgaria, two other NATO countries that South Stream will pass through, and further justifying the position by explaining that the Austrian segment of South Stream is only 2% of the total length.<sup>192</sup> Just because Fischer claims that “South Stream, of course, is in compliance with the legal framework of the European Union,”<sup>193</sup> is it actually ethical to increase the threat to energy security to another European country to for the sake of another European country? It appears that Austrian President Fischer prefers to distance himself from the EU and the EU sanctions against Russia, as well as distancing himself from any responsibility to aid Ukraine, a European neighbor under attack, all in order to maintain warm relations with Russia.

President Putin responded incredulously to the question on the topic of bypassing Ukraine with the following rationale:

“The (sole) intent is not to bypass Ukraine. These projects began long ago. And ‘Nord Stream,’ it’s what, just another intent to bypass [Ukraine]? No. And how about our ‘Blue Stream’ to Turkey beneath the Black Sea, there is such a project, it exists, and it works. Is this also just some sort of intent to put (someone) in a difficult position? No, it is simply our direct route to Turkey.”

([...]это не стремление обойти Украину. Эти проекты возникли давно. А «Северный поток» – это что, стремление обойти [Украину]? Нет. А наш «Голубой поток» на Турцию по дну Чёрного моря, есть такой проект, он существует, работает. Это что, стремление кого-то поставить в трудное положение? Нет, это просто наши прямые контакты с Турцией.)<sup>194</sup>

President Putin is concerned about security and economic stability and development in Russia. The balance is disrupted, though, when in pursuing security and stability for one nation the pipeline politics disrupt the security and stability of another. Moreover, President Putin blamed the controversy over Russian gas pipelines to Europe on the United States, which is attempting to compete for European gas markets. Putin claimed that the US has been unhappy

---

<sup>192</sup> Kremlin News, “Press statements and responses to journalists at Russian-Austrian talks.”

<sup>193</sup> Ibid.

<sup>194</sup> Ibid.

with Russian competition and has been stirring up Europe with the idea that Russian gas is unreliable since 1962 when the Soviet Union and West Germany signed the “Gas for Pipes” deal.<sup>195</sup>

Not even two months after that, Philippe de Villiers, French politician, met with President Putin to discuss the creation and dedication of two new parks in Crimea dedicated to “the history of Russia and the significance of the Russian soul.” De Villiers even prefaced the meeting by saying that while everyone else was busy discussing sanctions, that Russia and France were moving forward and signing agreements “which unite the Russian and French sides,—it is the symbol of the start of something new” (*которая соединит российскую и французскую стороны, – это эмблема начала чего-то нового.*)<sup>196</sup> This is not something new, just another instance of European leaders undermining the actions of the Union. His remarks did not stop at solely praising Putin as a wonderful leader, but went so far as to denounce his own European compatriots:

I would like to say, that President Vladimir Putin in the hearts and minds of many Europeans is a very highly respected figure, a person, whom most would rather emulate, than the majority of European leaders [...] We respect the Russian Federation and are pleased to cooperate with you. The future of the Europe is not by any means in America, but rather on the European continent, which includes Russia.”

(Хочу сказать, что Президент Владимир Путин в сердцах и в душах многих европейцев гораздо более уважаемая фигура, человек, которому они хотят гораздо больше подражать, чем большинству европейских лидеров и руководителей [...]мы уважаем Российскую Федерацию и счастливы сотрудничать с вами. Будущее европейского континента находится вовсе не в Америке, а на европейском континенте, в том числе в России.)<sup>197</sup>

---

<sup>195</sup> Kremlin News, “Press statements and responses to journalists at Russian-Austrian talks.”

<sup>196</sup> Kremlin News, “Meeting with the leader of the party “Movement for France” Philippe de Villiers,” Yalta, August 14, 2014, accessed October 01, 2014, <http://kremlin.ru/news/46454>.

<sup>197</sup> Ibid.

His criticisms of the EU and the US only continued, even to the point of accusing the EU Commissioners of ‘blindly following whatever their American partners dictate.’

*(что это еврокомиссары из Брюсселя, которые слепо следуют тому, что диктуют им американские партнёры.)<sup>198</sup>*

The following day, Putin met with Finnish President Sauli Niistö in Sochi to discuss their bilateral trade agreements. President Niistö acknowledged that the sanctions had a definite impact on the Russian-Finnish trade, which has been growing and reached a total of \$19 billion in 2013, making Russia Finland’s top trade partner. Niistö urged Putin to assure that weapons from Russia are not ending up in Ukraine and the need for mutual trust in order to achieve a ceasefire.<sup>199</sup>

President Putin’s strategy of cultivating bilateral agreements with European nations is successful. The tactic of ‘divide and conquer’ is working in his favor for the time being, though the EU has imposed sanctions, these somehow do not seem to prevent major business ventures that impact energy security, such as South Stream, to move forward. Despite the EU’s commitments to Ukraine as a fellow European nation, this sentiment breaks down when the bilateral talks and agreements with Russia begin. The EU seems to be leaving Ukraine out in the cold once again.

---

<sup>198</sup> Kremlin News, “Meeting with the leader of the party "Movement for France.”

<sup>199</sup> Kremlin News, “Statements to the Press after (Putin’s) meeting with Finnish President Sauli Niistö,” Sochi, August 15, 2014, accessed October 01, 2014.

<http://kremlin.ru/transcripts/46458>.

## CONCLUSION

### CHALLENGES AHEAD FOR THE RUSSIAN-EU ENERGY RELATIONSHIP

Since the mid-twentieth century, Russia and Europe have been drawn to one another because of energy. Russia, with its vast reserves of natural resources, was a practical trading partner for Europe. Revenue from energy contributes to Russia's economic stability, and Europe depends on hydrocarbon imports. The balancing act between dependence and independence combined with difficult histories between Russia and Eastern Europe intensifies the debate surrounding these multinational energy projects such as Nord Stream, South Stream, and Nabucco.

Poland has been instrumental in impacting EU energy policy since its accession to the union in 2004. Despite these improvements, EU energy policy is uneven and the bilateral energy agreements and projects between EU Member States and Russia are sounder than the irresolute solidarity between Member States. Gazprom's agreements have enacted a 'divide and conquer' strategy on the EU, which has become overly dependent. Major EU-Russian oil and gas deals have continued despite sanctions against Russia for the invasion and annexation of Ukraine. Not only does that seem to mock the sanctions, but again, it solidifies the speculations that the Union may not be able to speak with a unified voice and confirms Günther Oettinger's fears that one of the EU's greatest threats is the mentality of 'nation first, community-wide second.'

The challenges are many. The EU will undoubtedly continue to struggle for 'convergence' and 'solidarity' in energy policy, while Russia will likely continue to pursue an aggressive version of diplomacy in the near future. President Putin leadership style and despotism may not be sustainable long-term, though. Extended sanctions by the United States and Europe, combined with recently dropping oil and gas prices may disrupt the Russian

economy to a level that Putin cannot persuade or coerce his way out of. Once the economic stability decreases, it is likely that the support of the Russian population will dwindle. Now that South Stream has been dropped by Russia as of December 2014, an abrupt new shift in strategy is unfolding.<sup>200</sup> Ultimately, it will be a face-off between the powers of the EU and the power of Putin and his small circle of elites.

---

<sup>200</sup> Reed and Kanter, "Putin's Surprise Call to Scrap South Stream."

## BIBLIOGRAPHY

- Aslund, Anders. *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*. New York: Cambridge University Press, 2007.
- Booz & Company. “Analysis of Costs and Benefits of Regional Liquefied Natural Gas Solution in the East-Baltic Area, Including Proposal for Location and Technical Options Under the Baltic Energy Market Interconnection Plan.” Prepared for the European Commission Directorate-General for Energy (2012).  
[http://ec.europa.eu/energy/infrastructure/doc/20121123\\_lng\\_baltic\\_area\\_report.pdf](http://ec.europa.eu/energy/infrastructure/doc/20121123_lng_baltic_area_report.pdf)
- Bouzarovski, Stefan and Marcin Konieczny. “Landscapes of Paradox: Public Discourses and Policies in Poland’s Relationship With the Nord Stream Pipeline.” *Geopolitics* 15 (2010): 1-21.
- CEGH. “CEGH Services.” Last modified, December 11, 2014. Accessed December 3, 2014.  
<http://www.cegh.at/hub-services>.
- CEGH. “Shareholder Structure.” Last modified December 12, 2014. Accessed November 1, 2013. <http://www.cegh.at/cegh-shareholders>.
- European Commission. “An EU Security and Solidarity Action Plan.” (2008). Accessed November 1, 2013.  
<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0781:FIN:EL:PDF>
- European Commission, “Eastern Partnership: Platform 3 Energy Security: Core Objectives and Work Programme 2014-2017.” (2013).  
[http://ec.europa.eu/energy/international/eastern\\_partnership/doc/approved\\_work\\_programme\\_2014-2017.pdf](http://ec.europa.eu/energy/international/eastern_partnership/doc/approved_work_programme_2014-2017.pdf).
- European Commission. “Energy 2020: A Strategy for Competitive, Sustainable and Secure Energy.” (2010.)  
<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:2020:FIN:EN:PDF>.
- European Commission. “Energy Infrastructure: Baltic Energy Market Interconnection Plan.” (2014). [http://ec.europa.eu/energy/infrastructure/bemip\\_en.htm](http://ec.europa.eu/energy/infrastructure/bemip_en.htm).
- European Commission, High Representative of the European Union for Foreign Affairs and Security Policy. “Eastern Partnership: A Roadmap to the Autumn 2013 Summit: {SWD(2012) 108 final}.” (2012). Accessed November 1, 2013. [www.europa.eu](http://www.europa.eu).
- European Commission. Press Release: “Questions & Answers on the potential impact of the Russian measures against EU agricultural products and the EU response so far.” Brussels September 3, 2014. Accessed October 1, 2014. [http://europa.eu/rapid/press-release\\_MEMO-14-517\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-517_en.htm).

European Commission. Press Release: “The Baltic Sea Region States reach agreement on the Baltic Energy Market Interconnection Plan.” (2009). Accessed October, 2014.

[http://europa.eu/rapid/press-release\\_IP-09-945\\_en.htm](http://europa.eu/rapid/press-release_IP-09-945_en.htm).

European Commission. “Staff Working Document Accompanying the Document on the Report to the European Parliament, the Council, and the Committee of the Regions; Report from the Commission to the European Parliament, the Council, and the Committee of the Regions on Competition Policy 2013 {SWD (2014) 148 final}.” May 6, 2014. Accessed November 1, 2013.

[http://ec.europa.eu/competition/publications/annual\\_report/2013/part2\\_en.pdf](http://ec.europa.eu/competition/publications/annual_report/2013/part2_en.pdf).

European Council and Commission. “Partnership and Cooperation Agreement: Decision 97/800/EC,” *Official Journal of the European Communities* 40 (1997).

European Council. “Natural gas consumption statistics.” Last modified August 10, 2014.

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/Natural\\_gas\\_consumption\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Natural_gas_consumption_statistics).

European Council. Press Statement: “Statement by the President of the European Council Herman Van Rompuy and the President of the European Commission in the name of the European Union on the agreed additional restrictive measures against Russia.” (2014)

[http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/144158.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/144158.pdf)

European Union Newsroom. “EU Sanctions on Russia over Ukraine crisis: Information note on capital markets.” (2014). Accessed October 1, 2014.

<http://europa.eu/newsroom/files/pdf/info-note-capital-markets.pdf>

European Union. “Treaty of Lisbon: Title VII ‘Solidarity Clause.’ Article 188 R, December 2007. Accessed November 01, 2013. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2007:306:FULL&from=EN>.

Fernandez, Rafael. “Nabucco and the Russian Gas Strategy vis-à-vis Europe.” *Post Communist Economies*. 23(2011): 69-85.

Ferrero-Waldner, Benita. “After the Russia/Ukraine Gas Crisis: What Next?” European Commission Press Release March 9, 2009. Accessed October 1, 2014.

[http://europa.eu/rapid/press-release\\_SPEECH-09-100\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-09-100_en.htm).

Gazprom. “Management Report 2008.” Accessed November 1, 2013.

<http://www.gazprom.com/f/posts/71/879403/2gmr.pdf>

Gazprom. “Nord Stream.” Last modified June 27, 2014.

<http://www.gazprom.com/about/production/projects/pipelines/nord-stream/>.

Accessed November 01, 2013.

- Finon, Dominique. "The EU foreign gas policy of transit corridors: autopsy of the stillborn Nabucco project." *OPEC Energy Review*. (2011): 47-69.
- Gazprom. "Strategy Implementation." About Gazprom. [www.gazprom.com](http://www.gazprom.com). Accessed November 01, 2013.
- Gazprom. "Subsidiaries List." Gazprom. [www.gazprom.com](http://www.gazprom.com). Accessed November 01, 2013.
- Kramer, Andrew E. "Continental Divide: Russia Gas Pipeline Heightens East Europe's Fears," *New York Times*, October 12, 2009. Accessed October 1, 2014. [http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?em&\\_r=0](http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?em&_r=0).
- Kremlin News. "Press statements and responses to journalists at Russian-Austrian talks." "Заявления для прессы и ответы на вопросы журналистов по итогам российско-австрийских переговоров," Vienna, Austria, June 24, 2014, <http://kremlin.ru/transcripts/46060>. (Translation mine). Accessed October 01, 2014.
- Kremlin News. "Statements to the Press after (Putin's) meeting with Finnish President Sauli Niistö." Sochi, August 15, 2014. «Заявления для прессы по итогам встречи с Президентом Финляндии Саули Ниинистё.» Сочи, 14 августа 2014. <http://kremlin.ru/transcripts/46458>. Accessed October 01, 2014.
- Kremlin News. "The meeting with the leader of the party 'Movement for France' Philippe de Villiers," Yalta, August 14, 2014, <http://kremlin.ru/news/46454>. Accessed October 01, 2014.
- Larsson, Robert L. "Security Implications of the Nord Stream Project." A briefing paper to European Parliament's Committee on Foreign Affairs published by the European Parliament. Brussels (2008): 1-26.
- Larsson, Robert L. "What Does The Nord Stream Mean To The Baltic Sea Region?" *Lithuanian Political Science Yearbook* 01 (2006): 11-24.
- Lewis, Barbara. "New Gazprom Pipeline Faces Long Wait for EU Legal Clearance." Reuters December 4, 2013. Accessed October 1, 2014. <http://www.reuters.com/article/2013/12/04/eu-gazprom-idUSL5N0IX4AN20131204>.
- Mijnssen, Ivo, and Jeronim Perovic. *The Quest for an Ideal Youth in Putin's Russia I: Back to Our Future! History, Modernity, and Patriotism According to Nashi, 2005-2013*. Ed. Andreas Umland. Stuttgart: Ibidem-Verlag Haunschild/Schoen Gbr, 2014. Accessed November 11, 2014. <http://books.google.com/>.
- Norman, Laurence and Vanessa Mock. "Gazprom to Explore Settlement on EU Competition Concerns." *Wall Street Journal Online*. December 4, 2013. Accessed October 1, 2014. [http://www.wsj.com/news/articles/SB10001424052702303722104579238130551890254?mod=\\_newsreel\\_5](http://www.wsj.com/news/articles/SB10001424052702303722104579238130551890254?mod=_newsreel_5).

- Oettinger, Günther. "Address to the CMS Competition Conference," Brussels, April 18, 2013. Accessed October 01, 2013. [http://ec.europa.eu/commission\\_2010-2014/oettinger/headlines/speeches/2013/04/doc/2013\\_04\\_18\\_cms\\_competition\\_en.pdf](http://ec.europa.eu/commission_2010-2014/oettinger/headlines/speeches/2013/04/doc/2013_04_18_cms_competition_en.pdf).
- OMV. "Ad hoc announcement: Decision on Nabucco West." OMV Press Releases. (2013). [www.omv.com](http://www.omv.com).
- OMV. "OMV/EconGas: Currently no delivery of Russian natural gas to Austria – but gas supply for Austria still guaranteed." OMV Investor News. January 7, 2009. Accessed October 1, 2014. [www.omv.com](http://www.omv.com).
- OMV. "OMV, Gazprom and Vienna Stock Exchange agree to jointly develop Central European Gas Hub and establish a gas exchange." OMV Investor News, November 5, 2008, [www.omv.com](http://www.omv.com). Accessed October 1, 2014.
- OMV. "OMV and Gazprom sign Cooperation Agreement on the Austrian section of South Stream." OMV Investor News. April 24, 2010. Accessed October 1, 2014. [www.omv.com](http://www.omv.com).
- OMV. "OMV and RWE to jointly own Caspian Energy Company." OMV Investor News. November 6, 2008. Accessed October 01, 2014. [www.omv.com](http://www.omv.com).
- OMV. "OMV sells part of Nabucco West shares to GDF SUEZ." OMV Press Release. May 28, 2013. Accessed October 1, 2014. [www.omv.com](http://www.omv.com).
- "Parliamentary Chaos As Ukraine Ratifies Fleet Deal." BBC News April 27, 2010, [www.bbc.co.uk](http://www.bbc.co.uk). Accessed October 01, 2013.
- Paillard, Christophe-Alexandre. "Russia and Europe's Mutual Energy Dependence." *Journal of International Affairs* 63:2 (2010): 65-84.
- Perovic, Jeronim, Robert W. Orttung, and Andreas Wenger. *Russian Energy Power and Foreign Relations: Implications for conflict and cooperation*. New York: Routledge, 2009.
- Piebalgs, Andris. "Exemption decision of the Austrian section of the Nabucco pipeline." EU Commission, Brussels, February 8, 2008.
- Poussenkova, Nina. "The Global Expansion of Russia's Energy Giants." *Journal of International Affairs* 63 (Spring/Summer 2010):104-124.
- Putin, Vladimir. "Meeting with Security Council Members." April 11, 2014. Moscow Oblast', Russia. Accessed October 01, 2014. <http://eng.kremlin.ru/news/7009>.
- Reed, Stanley and James Kanter. "Putin's Surprise Call to Scrap South Stream Leaves Europe Reeling." *New York Times*. December 2, 2014. Accessed December 5, 2014.

[http://www.nytimes.com/2014/12/03/business/south-stream-pipeline-cancellation-fallout.html?\\_r=0](http://www.nytimes.com/2014/12/03/business/south-stream-pipeline-cancellation-fallout.html?_r=0).

Russian Federation. Government Order #1715-p. “Energy Strategy to 2030,” November 13, 2009. (*Распоряжением Правительства Российской Федерации. « Энергетическая Стратегия России на период до 2030 года,» #1715-р, от 13 ноября 2009 г. #1715-р.*) [http://www.ener-gystrategy.ru/projects/docs/ES-2030\\_\(utv.\\_N1715-p\\_13.11.09\).doc](http://www.ener-gystrategy.ru/projects/docs/ES-2030_(utv._N1715-p_13.11.09).doc). (Translation mine).

Skyner, Louis. “The Reform of the Russian Power Sector: The Rhetoric and Reality.” *Europe-Asia Studies* 62:8 (2010): 1383-1402.

Solnick, Steven L. *Stealing the State: Control and Collapse in Soviet Institutions*. Cambridge: Harvard University Press, 1998.

United Nations Framework on Climate Change, “Kyoto Protocol,” (1997).

Walęsa, Lech, et al. “An Open Letter to the Obama Administration from Central and Eastern Europe,” *Gazeta Wyborcza*, July 15, 2009. Accessed October 27, 2014. [http://wyborcza.pl/1,98817,6825987,An\\_Open\\_Letter\\_to\\_the\\_Obama\\_Administration\\_from\\_Central.html](http://wyborcza.pl/1,98817,6825987,An_Open_Letter_to_the_Obama_Administration_from_Central.html).

Wyciszkievicz, Ernest. “Polish Perspective on the EU’s Energy Policy and the Security of External Supply,” *International Issues & Slovak Foreign Policy Affairs*, 01 (2009): 15-28, [www.cceol.com](http://www.cceol.com).