

EU's external energy policy: The Russian Case

cernoch@mail.muni.cz

Russia is 'a great power'

For Russia and its citizens, a great power status is absolutely critical.

The essentials of a great power:

- Significant military and economic potential.
- Ability and willingness to resort to unilateral (typically military) action.
- Operates over large (global) area.
- Has the will to act like a great power.

(Russia background comments based on M. Romancov's work)

How does Russia view itself?

- Russia is large (It always was).
- Russia is victorious.
- Russia is exceptional.
- Russia needs to be respected and shown gratitude (WWII).

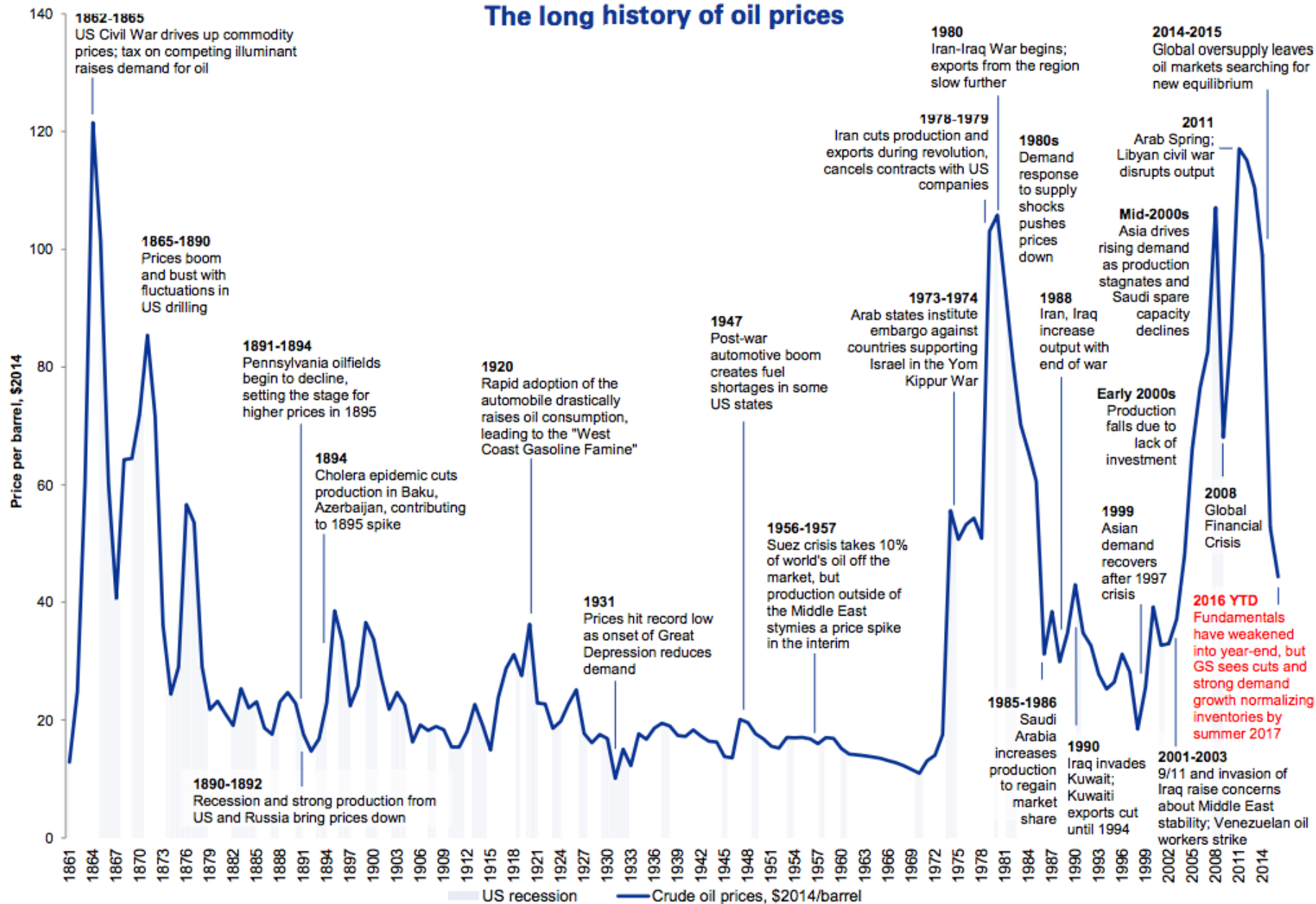
Conflict issues

- Lost of respect.
- The impossibility of negotiating with West based on geopolitical principles without involving references to human rights and other „Western-liberal“ values.
- Inability to find an agreement on what is and what is not interference in the internal affairs (soft power vs. undermining the state).
- Russia is an archetypal realist actor that does not (want to) understand and recognise the liberal principles of international relations - the non-zero-sum game, cooperation that limits conflict, the primacy of economic over political gains. (NATO – enlargement vs. expansion).

What to expect?

- Russia wants to be big, important, to have a role in deciding what happens (and what does not happen) in the world – (vs. its real capacities).
- Catherine the Great's foreign policy minister Alexander A. Bezborodko (1747 – 1799): „...not a single gun in Europe dared to fire without our permission“.
- In 1990s and zero years Russia more or less hesitantly accepts the „West order“ and discourse. From 2014 an effort to confront West (= USA) using all available options – economically, militarily, legally.
- Struggles to apply soft power, threatens with nuclear armaments instead - Russia is a heavy militarized country, both physically and mentally.

The long history of oil prices



An earlier version of this chart appeared on pg. 16 of Top of Mind Issue #52: OPEC and Oil Opportunities.

Note: 2016 price shown is YTD average as of Dec. 19, 2016.

Source for data: BP, NBER/Federal Reserve Bank of St. Louis, Haver Analytics.

Source for annotations: ©James Hamilton, "Historical Oil Shocks," University of California, San Diego, February 2011; various news sources; Goldman Sachs Global Investment Research.

Yeltsin's era (1991 – 1999)

- Low prices of oil.
- Government's desperation for exporting hydrocarbons to get hard currency (export at all costs).
- General economic chaos (economy down by about 40%) drives down oil and gas production (about ½ of Soviet era production), again impacting revenues.
- Privatization for cheap price (Sibneft USD100 million in 1995 – Roman Abramovich, sold for USD 13 billion in 2005) resulted in money extracted by oligarchs. State controls only about 10% of oil production, full privatization of Gazprom (state controls 38%) considered.

= foreign policy ambitions limited by tight resources.

Putin's era

- Dramatic increase in prices of oil.
 - State regains the control (not necessarily the ownership though) over fossil fuel production (M. Khodorkovsky and Yukos, 2005 Sibneft/Gazprom Neft – R. Abramovich, 2007 Russneft – M. Guseriev to Oleg Deripaska...).
 - Economic situation stabilized, foreign debt paid off, significant reserves.
 - Traditional customers highly dependent on Russia's supplies.
 - Pushing foreign companies out of the control of production of hydrocarbons (2006 - Shell – Sakhalin II).
- = Increased manoeuvrability in foreign affairs.

Putin's era

- Despite increasing tensions energy cooperation continues.
 - Long term contracts extended.
 - Gas trades stable or increasing.
- Active pipeline policy (including increased effort to control pipelines in transit countries (Baltic states, Poland, Belarus, Ukraine, Balkan countries)).
 - 1997 – Yamal pipeline.
 - 2001 – Blue Stream.
 - 2005 – Start of Nord Stream
 - and others.
- An effort to diversify the consumers.

Increasing tensions over Ukraine

- Importance of Ukraine for Russia based on culture, spirituality, industry, demography, imperial ambition, agriculture, NATO, corruptive influence „of the West“ (EU)...
- Leonid Kuchma (1994 – 2005).
 - Frozen prices of natural gas.
 - Delayed payments (debt to Russia).
- 2005 Viktor Yushchenko (result of Orange revolution).
- 2010 Viktor Yanukovich.
- 2014 Petro Poroshenko (result of Euro-Majdan and refused EU association agreement).
- 2019 Volodymyr Zelenskyj.
- Eastern Partnership (2009) – Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine.

Natural gas disputes 2006 - 2009

- Tension increased after Orange Revolution of 2004.
 - Ukraine pays USD 50/tcm, Gazprom demanded USD 230/tcm.
 - Cut off on January 1, 2006, European customers impacted. Flow of gas restored a day later.
 - Gazprom accused Ukraine of siphoning gas from transit pipelines, denied.
- = Agreement on USD 95/tcm price.

2007 – Russia suggests creating a joint venture to run the transit system, Ukraine prevents that passing a law banning privatisation, sale or lease the system.

Natural gas disputes 2006 - 2009

- Feb 2008 – Gazprom claimed over USD 1.5 billion debts, later on halved supplies for a short period of time.
- Naftogas agreed to pay the debt back.
- Oct 2008 – memorandum on Ukraine paying market price after three years of gradually increased prices.
- After weeks of negotiations on debt and prices for 2009 Gazprom cut off all supplies for Ukraine on Jan 1, 2009. (Gazprom proposed to raise the price to USD 250 from USD 179.5. Ukraine said it was prepared to pay USD 201 and wanted to raise gas transit fees. Gazprom then raised the price again to USD 458).

Natural gas disputes 2006 - 2009

- Russia accused Ukraine of stealing gas for Europe, on Jan 7 PM Putin halted all supplies to and through Ukraine.
- Problems in 16 EU MSs and Moldova for 2 weeks (7.-20.1.2009). Part of the Balkans in a humanitarian emergency, economic damages.
- Lacking infrastructure to redistribute natural gas over the EU (reverse pipelines).
- EU mediation helped to solve the dispute, introducing 10 year supply and transit contract.
- Wake up call for the EU.

EU (energy) reaction

EU concerned both about Russia's assertive/aggressive foreign policy and its own (eastern part) energy vulnerability.

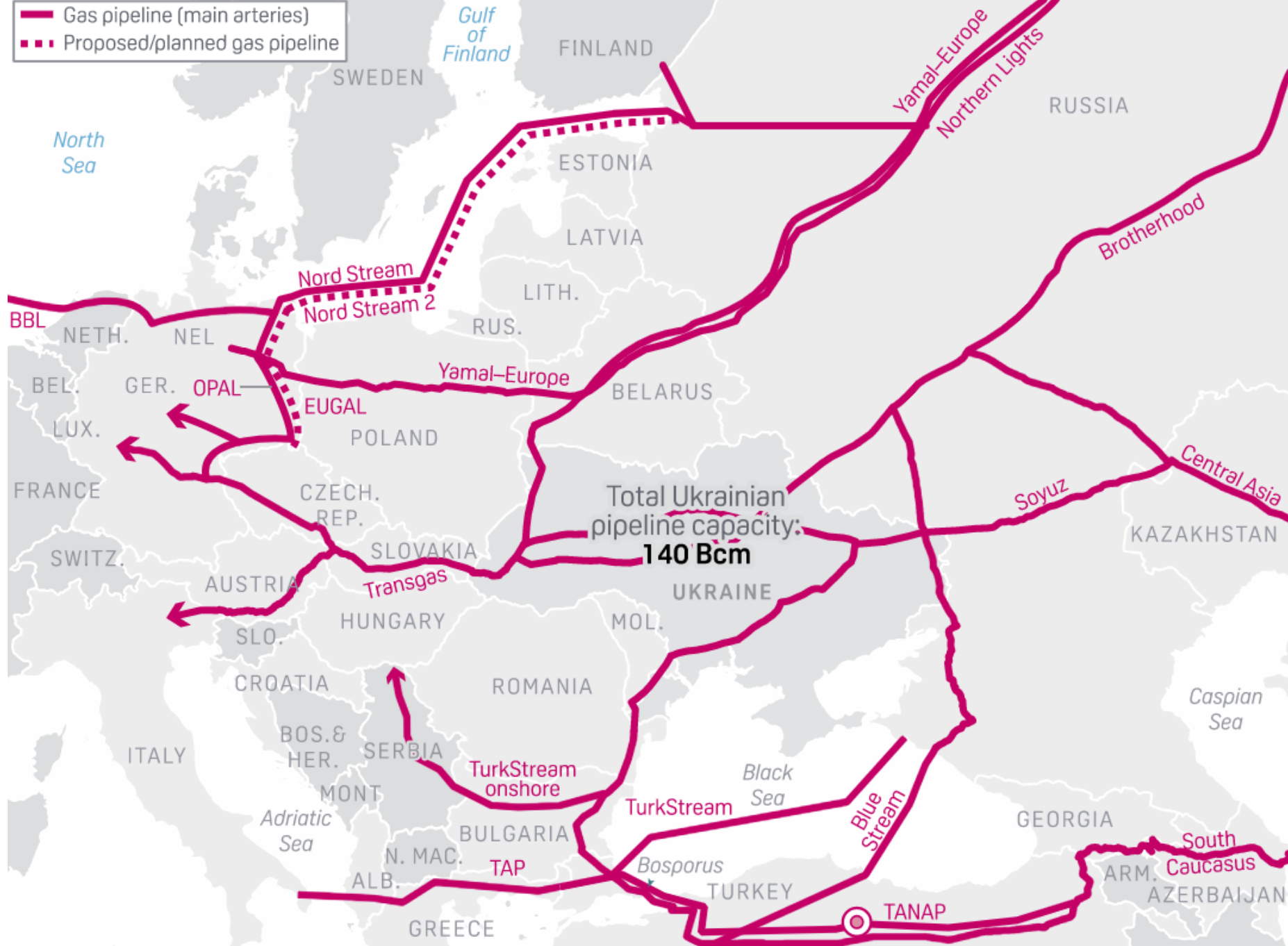
- 994/2010: N-1 scenario (when the single largest gas infrastructure of country fails) – supplies for protected customers (mostly households + hospitals...).
- 2017/1938: solidarity principle - countries are obliged to help neighbouring countries, to which they are directly connected.
- New infrastructure – reverse flows, gas storages, LNG terminals.
- Measures increasing flexibility and transparency of the market.

= EU focused on protecting individual MS or some smaller group (focus on market rules).

The EU and Russia are both diversifying

- Yamal LNG (2017).
 - Power of Siberia (2019).
 - Nabucco (cancelled in 2012).
 - TANAP (2018)/TAP (PCI, 2020).
 - TurkStream (replacing South Stream) (2020).
 - Nord Stream (2012).
 - And others....
-
- Ukraine problem both for Russia and the EU.
 - Diversification feedback loop.

— Gas pipeline (main arteries)
- - - Proposed/planned gas pipeline



Nord Stream (2010 – 2012)

- Nord Stream (2 lines of 55 bcm/y) was not restricted by TPA but both OPAL (50 % of its 35 bcm/y) and NEL (35 % of its 20 bcm/y) partially were.



Euromaidan and Revolution of dignity

- 2013 Maidan Uprising over EU-UA Association Agreement (Viktor Yanukovich's government overthrown) -> 2014 Revolution of Dignity.
- 2014 Russo-Ukrainian War -> Proto-states Donetsk and Luhansk, annexation of Crime.

⇒ Diplomatic relations (such as bilateral summits) between the EU and Russia frozen.

⇒ Sanctions (individual measures, restrictions on economic relations with Crimea and Sevastopol, economic sanctions, restrictions on economic cooperation).

Ukraine

- 2010 Gas market law (unbundling, TPA, transparency, NRA, price reform) -> Energy Community.
- 2012-2013 foreign IOC invited – Shell, negotiations with Exxon, RWE, Chevron...
- Direct imports of gas from Russia ceased. Imports from Poland, Slovakia, and Hungary instead.
- Transit limited with feeble perspective.
- Naftohaz with international supervisory board (later replaced).
- Consumption from around 50 bcm in 2013 to 30 bcm in 2021.
- UA accepting some EU decarbonization ideas and targets.

2014 gas 'stress tests'

- Different scenarios, in particular a complete interruption of Russian gas imports into the EU for a period of 6 months.
- EU MS and neighbouring countries included.
- Results – substantial impact expected, with the Eastern MS and Energy Community countries affected the most.
- Non – cooperative scenario: Finland, Estonia, North Macedonia, BiH, and Serbia would miss 60%+ of the gas they need, which would result in some customers with no supplies.
- Cooperative (market) scenario: no households (protected customers) without gas.

Nord Stream II (2018 – 2022)

Highly politicized, several criticisms:

- NSII will reinforce Gazprom's dominance in Europe and cement the position of natural gas in the EU's energy mix.
- It will undermine the security and financial position of Poland, Slovakia and Ukraine.
- Cleavages between Germany and Poland/Slovakia/Baltic countries; between Germany/Austria and US; between US and the EU.
- US sanctions (starting in 2017, applied in 2019 - Allseas) aimed at companies building the pipeline.

Nord Stream II

- Legal disputes – UN convention on the Law of the Sea vs. Third liberalization package applied to the EU territorial waters = Gas directive changed (2019) but it is up to MS to implement the rules on TPA, unbundling, and tariff transparency.
- Nov 2021 BNetzA suspended the certification of NSII company as an ITO of the pipeline. Operator needs to be „organized in a legal form under German law“.
- 9/2022 – sabotage of the pipelines.

EU – Russia Energy Relations

- Partnership and Cooperation Agreement.
- Energy Charter Treaty.
- Partnership for Modernisation.
- EU – Russia Energy Dialogue (Launched in 2000, Early Warning Mechanism). To have a legally binding agreement with Russia similar to ECSC.
 - Energy strategies, forecasts, and scenarios group.
 - Market development group.
 - Energy efficiency group.
 - Gas Advisory Council.

Suspended after Russia's annexation of Crimea.

EU – Russia relationship

- Russia is a classic realist actor in international relations, using energy resources (also) as a foreign policy tool.
- It has been quite transparent about this for a long time.
- We just didn't want to accept it and act accordingly.

Sources

- OIES (2021): Decarbonization pathways for oil and gas.
- Lacalle, D.(2011): Peak Oil Defenders' Most Overlooked Mythe: EROEI.
- Gustafson, T.(2021) Klimat: Russia in the Age of Climate Change.
- Tagliapietra, S.(2017): The political economy of Middle East and North Africa oil exporters in times of global decarbonisation.
- Reuters (2009): Timeline: Gas crises between Russia and Ukraine.
- Romancov, M. (2018): Rusko v mezinárodních vztazích (Pátečníci).
- Newnham, R.(2011): Oil, carrots, and sticks: Russia's energy resources as a foreign policy tool.
- Elliot, S.(2021): Nord Stream 2 onshore gas link EUGAL to reach full capacity April 1.

Schroderization

- G. Schröder (1998 – 2005, Rosneft, Nord Stream AG, nominated to Gazprom)
- Francois Fillon (former French PM) – Zarubezhneft and Sibur.
- Paavo Lipponen (former PM of Finland) – lobbyist for Nord Stream 2.
- Karin Kneissl (former Min. of foreign affairs of Austria) – Rosneft.
- Wolfgang Schussel (Former PM of Austria) – Lukoil.
- Hans-Jorg Schelling (Former Min of Finance of Austria) NS2.

