

# EU's external energy policy: A focus on Russia

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# Development of crude oil trade

- The Soviet oil industry, damaged during WWII, recovered by the 1960s.
- The Druzhba Pipeline, signed in 1959, reached Bratislava (1962) and Litvínov (1965), spanning over 5,000 km—the world's longest oil pipeline.
- Its northern branch serves Poland and Germany; the southern branch connects Ukraine, Slovakia, Czechia, and Hungary.
- Supply disruptions: 1990-1992 (Baltics), 2007 (Ukraine-Russia fees), 2008 (Czech radar dispute), and 1998-1999 (Mažeikiai refinery).

# Development of natural gas trade

- Gas exploration began in the 1950s as a by-product of oil and became a standalone industry by the 1960s, supplying Soviet republics like Georgia and Armenia.
- Despite NATO's embargo on large-diameter pipes, the USSR sourced pipeline technology from Germany and Italy.
- By the 1960s, deliveries reached Belarus, Latvia, and Lithuania, with the Brotherhood Pipeline completed in 1967.
- Gas exports to Western Europe began in the 1970s, and by 1975, all Soviet satellites (except Romania) were connected.

# Primary Russian Oil and Gas Pipelines to Europe (U)

- Oil pipeline
- - - Proposed oil pipeline
- Gas pipeline
- - - Proposed gas pipeline
- Russian-dominated pipeline<sup>a</sup>
- Tanker terminal

0 500 Kilometers  
0 500 Miles

<sup>a</sup>All or most of the oil or gas moving through a given pipeline is from Russia.



# Hydrocarbon politics during the Cold War

## In the West

- Oil shock, détente, and Ostpolitik (led by W. Brandt).
- Industrial cooperation with Italy (pipes for Soviet oil), later replaced by Austria as a key partner.
- Economic priorities dominated over geopolitical concerns, contrasting sharply with the U.S. approach.

# Hydrocarbon politics during the Cold War

## In the East

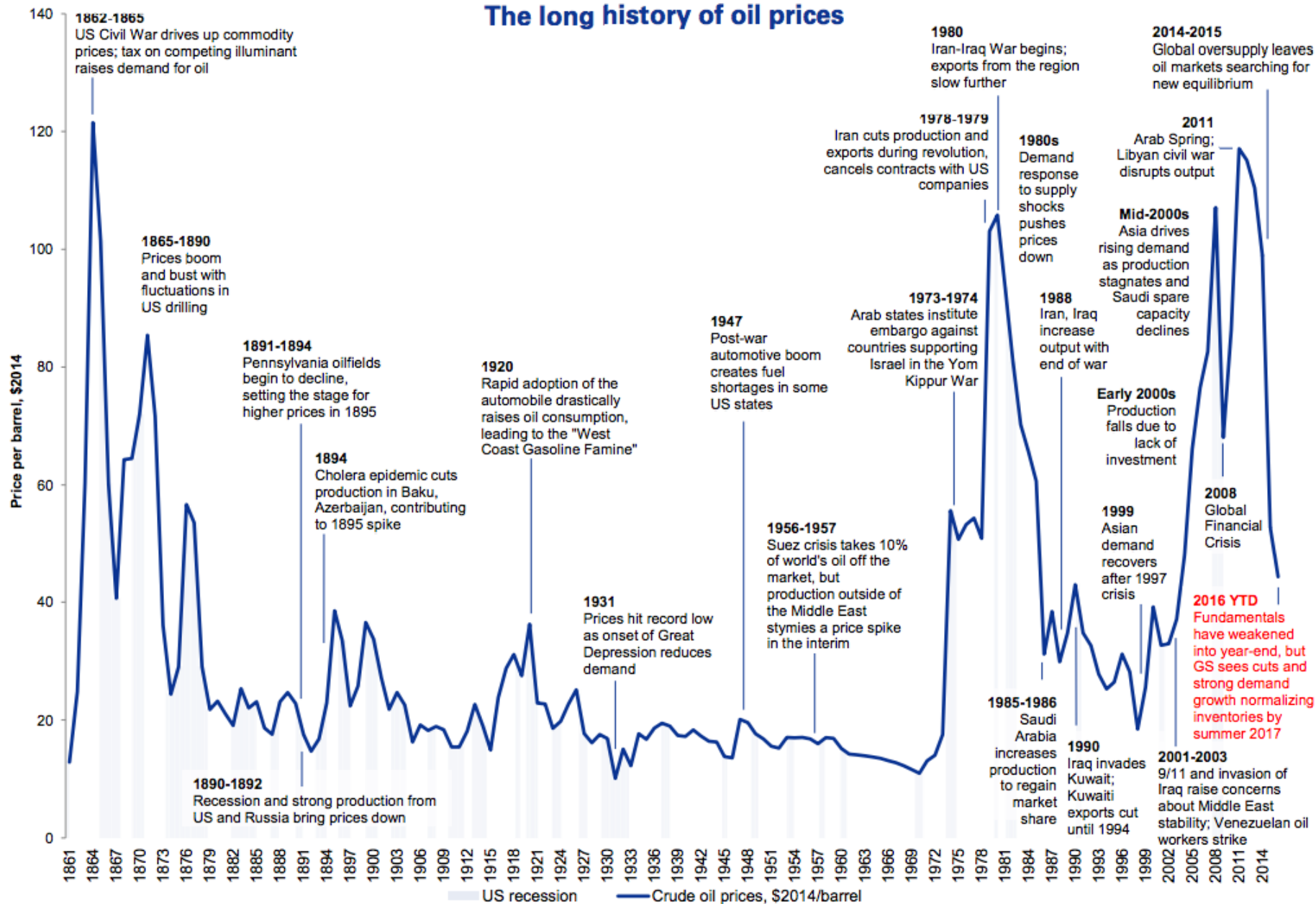
- The "Socialist division of labour" (N. Khrushchev, 1953–64) saw the USSR subsidizing oil and gas to the Eastern Bloc to ensure dependency and political compliance.
- Eastern Bloc countries built inefficient industries reliant on cheap energy.
- Hydrocarbon exports to the West provided hard currency, showcased communist achievements, and countered U.S. influence in Europe.

= The USSR adhered to contractual obligations, creating long-term path dependencies.

# Russian position

- For Russia and its citizens, maintaining great power status is paramount.
- Russia operates as a classic realist actor, resistant to recognizing liberal principles of international relations, such as non-zero-sum games, cooperation that mitigates conflict, and the prioritization of economic over political gains.
- In the 1990s and early 2000s, Russia hesitantly accepted the "Western order" and discourse.
- Since 2014, it has actively sought to confront the West through economic, military, and legal means.
- Energy exports remain both an economic asset and a political instrument.

## 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)

- Oil prices low (usually below USD20 between 1986 – 2000).
- 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, 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.

# 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...).
- Active pipeline policy.
- Increased effort to control pipelines in transit countries (Baltic states, Poland, Belarus, Ukraine, Balkan countries).
- An effort to diversify the consumers.
- Economic situation stabilized, foreign debt paid off, significant reserves – increased manoeuvrability in foreign affairs.
- Traditional customers highly dependent on Russia's supplies.
- Pushing foreign companies out of the control of production of hydrocarbons (2006 - Shell – Sakhalin II).

# Putin's era

Despite the conflicts cooperation continues

- Yamal pipeline 1997, Blue Stream 2001, start of the Nord Stream 2005...
- Long term contracts extended.
- Gas trades stable or increasing.

But tensions are also rising, including in the energy sector.

# Schroderization

- Gerhard Schröder (1998–2005): Rosneft, Nord Stream AG, nominated to Gazprom.
- François Fillon (former French PM): Zarubezhneft, Sibur. Paavo Lipponen (former Finnish PM): Lobbyist for Nord Stream 2.
- Karin Kneissl (former Austrian Foreign Minister): Rosneft.
- Wolfgang Schüssel (former Austrian PM): Lukoil.
- Hans-Jörg Schelling (former Austrian Finance Minister): Nord Stream 2



# Politization of gas supplies?

Natural gas prices charged to Russian customers (\$/TCM).

	2005	2006	2007	2008
Armenia	\$56	\$110	\$110	\$110
Belarus	\$46	\$46	\$110	\$125
Georgia	\$63	\$110	\$235	\$235
Moldova	\$80	\$110	\$170	\$190
Ukraine	\$50	\$95	\$130	\$160

# Increasing tensions over Ukraine

- Importance of Ukraine for Russia based on culture, spirituality, industry, demography, imperial ambition, agriculture, NATO, corruptive influence „of the West“ ...
- 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

- Tensions rose after the 2004-2005 Orange Revolution.
- Ukraine paid USD 50/tcm; Gazprom demanded USD 230/tcm.
- Gas cut off on January 1, 2006, impacting European customers; flow restored the next day.
- Gazprom accused Ukraine of siphoning transit gas, which Ukraine denied.
- Agreement on USD 95/tcm price.
  
- In 2007, Russia proposed a joint venture to manage Ukraine's transit system, but Ukraine blocked it by passing a law banning its privatization, sale, or lease.

# Natural gas disputes 2006 - 2009

- Feb 2008 – Gazprom claimed over USD 1.5 billion in debt and briefly halved supplies.
- Naftogaz agreed to repay the debt.
- Oct 2008 – Memorandum signed for Ukraine to pay market prices after a three-year gradual increase.
- Jan 1, 2009 – Gazprom cut all supplies after failed negotiations on debt and 2009 prices.
- Gazprom proposed raising the price from USD 179.5 to USD 250. Ukraine agreed to USD 201 and sought higher transit fees.
- Gazprom responded by raising the price to USD 458.



# Natural gas disputes 2006 - 2009

- Russia accused Ukraine of stealing gas meant for Europe.
- On Jan 7, PM Putin halted all supplies to and through Ukraine.
- 16 EU member states and Moldova faced disruptions for two weeks (Jan 7–20, 2009).
- Parts of the Balkans experienced humanitarian emergencies and economic damages.
- The EU lacked infrastructure for redistributing natural gas (e.g., reverse pipelines), serving as a wake-up call.

# EU (energy) reaction

The EU is concerned about Russia's aggressive foreign policy and its own energy vulnerability in Eastern Europe.

- Regulation 994/2010: N-1 scenario ensures gas supplies for protected customers (e.g., households, hospitals) in case the largest gas infrastructure fails.
- Regulation 2017/1938: Solidarity principle obliges neighboring countries to assist directly connected states during shortages.
- Investments in reverse flows, gas storage facilities, and LNG terminals.
- Measures to improve market flexibility and transparency.

# 2014 gas „stress tests“

- Different scenarios analyzed, including a complete halt of Russian gas imports to the EU for 6 months.
- Significant impact expected, with Eastern EU members and Energy Community countries most affected.
- Non-cooperative scenario: Finland, Estonia, North Macedonia, Bosnia and Herzegovina, and Serbia would lose 60%+ of their gas needs, leaving some customers without supply.
- Cooperative (market) scenario: No households (protected customers) would lose access to gas.

= Accelerate investments in reverse flow infrastructure, gas storage, and interconnectors while improving cross-border cooperation and solidarity mechanisms.

# The EU's new strategy towards Russia

- Since the occupation of Crimea at the latest, the EU no longer perceives Russia as a reliable (energy) partner.
- It pursues two goals: 1) limiting its vulnerability to Russia (diversification, solidarity, backup infrastructure, etc.).
- 2) maintaining high supplies of available energy from Russia.

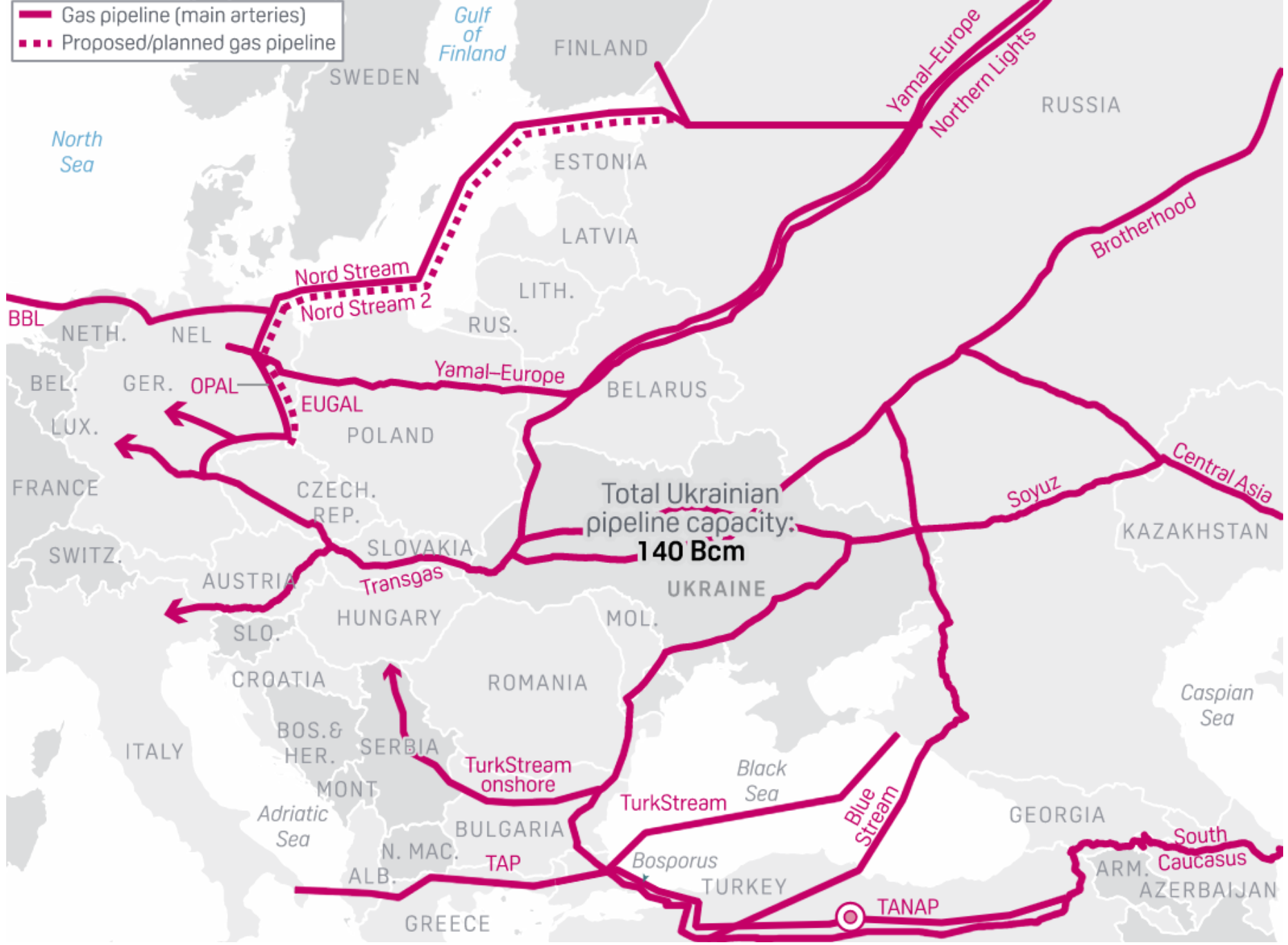
= But is it possible to combine these objectives?

# Diversification efforts

= Diversification feedback loop.

- Yamal LNG (2017).
- Power of Siberia (2019).
  
- Nabucco (cancelled in 2012).
- TANAP (2018)/TAP (PCI, 2020).
  
- TurkStream (replacing South Stream) (2020).
- Nord Stream (2012).

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



The share of natural gas imports by the European Union from Russia.



Source: Eurostat • By Karl Russell

# EU – Russia formal energy relations

- Partnership and Cooperation Agreement: Signed 1994, effective 1997; cooperation largely suspended since 2014.
- Energy Charter Treaty: Signed 1994, effective 1998; Russia withdrew provisional application in 2009.
- Partnership for Modernisation: Launched 2010; stalled after 2014.
- EU-Russia Energy Dialogue: Established 2000; reduced activities after 2014.
- Early Warning Mechanism: Updated 2011; limited impact amid rising tensions.



# EU – Russia Energy Relations

EU – Russia Energy Dialogue (launched in 2000) - to have a legally binding agreement with Russia (similar to ECSC).

4 thematic groups:

- Energy strategies, forecasts, and scenarios group.
- Market development group.
- Energy efficiency group.
- Gas Advisory Council.

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# Nord Stream (2010 – 2012)

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



# 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 Crimea.

⇒ 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.