Between Markets and National Interests: Assessing Russia's Influence on EU Energy Policy

Dissertation Proposal

Irina Kustova

14 December 2011

Abstract

In recent years, energy security has become one of the most prioritized issues on the EU's agenda. The EU is highly dependent on external supplies of energy, and the EU's ambitious agenda for developing alternative energy sources is unlikely to change this situation. Russia is a major supplier to the EU and one of the "big players" in the region. Russia has refused to accept the EU's model of market liberalization and conceives energy supplies as a foreign policy tool for reaffirming its dominant position in its neighborhood and for extending bilateral relations with EU Member States.

A number of academic studies have examined the leading role of Member States in both restricting the transfer of competence in energy policy to the supranational level and in seeking bilateral relations with Russia. Other studies have focused on EU-Russia relations in energy by treating the EU as a single actor, not as a complex political institution.

The proposed study will bridge these bodies of literature by examining Russia's influence on EU energy policy. It will seek to establish to what extent and under what conditions the inability of the EU to force Russia to accept its rules has led the EU to adopt a more strategic approach in its energy policy both at the supranational and national levels. The findings will contribute to developing a theoretical framework for analyzing energy policy in the EU and possible paths for the EU as an international actor.

Table of Contents

Introduction

The modern world economy is based on energy generated from fossil fuels, and economic development is closely connected to them. The unequal allocation of energy resources in the world makes secure access to fossil fuels a vital issue for the functioning of the industrialized economies, as well as for state security in broader terms. The importance of energy security as an indispensable part of state security has been widely recognized since the 1970s oil crisis, which demonstrated the vulnerability of the industrialized West in this area (Overhaus, 2007; Pascual and Elkind, 2009). While the concept of energy security is not clearly defined, conventionally, scholars and policymakers have concentrated on the studies of reliability of supplies and affordability of oil as an essential basis of modern economies (Fried and Trezise, 1993; Vivoda, 2009: 3615). Changes in the world energy market: such as increasing price levels, the competition for the access to resources and markets due to growing demand in newly emerging economies, as well as revitalized resource nationalism in some supply countries, have resulted in an emerging range of security of supply concepts (Yi-chong, 2006: 265; van Linde, 2007: 272). The International Energy Agency estimates that energy consumption is likely to double that of 2005 in 2035 due to the growing consumption of China and India (IEA, 2008).

The EU is highly dependent on external supplies of energy; in 2006 it imported approximately 61 per cent of natural gas and 84 per cent of oil that it consumed (European Commission, 2007). This external energy dependency is likely to deepen – from 52 per cent in 2003 to 95 per cent in 2030 for oil, and for gas from 36 to 84 per cent for gas (European Commission, 2007) – notwithstanding the EU's attempts to decrease it by the ambitious

target of 20 per cent renewables within the EU's overall mix by 2020 in The 20/20 Package (Haghighi 2007: 3; Tekin and Williams, 2010: 38).

Energy policy historically constituted the basis of European integration, but institutionalization of the Internal Energy Market became politically feasible only in the 1990s (Matláry, 1997: 12-24). EU energy policy, especially its external dimension, was traditionally a matter of national concern for Member States who strongly opposed an EU-wide approach. The situation did not alter with the forced cooperation after the oil shock in 1973-74, and with the adoption of some non-binding for Member States guidelines and recommendations of the European Community. As Matláry (1997: 13) points out, "the conventional academic view has been that energy policy is one of the weakest policy areas of the EC/EU". Currently fragmented EU energy policy is characterized by a gap between a more or less unified Internal Energy Market and the absence of EU common position in the international arena. The debates over whether the EU should 'speak with a single voice' in external energy policy are usually framed within the intergovernmental-supranational dichotomy: Member States have different national energy strategies and tend to favour bilateral negotiations with their suppliers, while the Commission asserts that it should have a wider range of competence in this area. Many scholars underline the strength of national policies in this area with the 'jealous' guardianship of the competence by Member States (McGowan and El-Agraa, 2004). The dynamic of EU energy policy development could be described as an attempt at "expansion of the implied powers of the Community from internal to external matters" (Haghighi, 2008: 465) with the Member States' reluctance to accept it and their preferences for intergovernmental cooperation in this area. This lack of a comprehensive energy policy at the EU level causes both the "foreign policy side effects and the economic challenges of the sector" (Hadfield, 2006: 2).

The last wave of the Commission's proposals for a more integrated energy policy was catalysed with the cuts in supply during the gas crisis between Russia and Ukraine in January 2006 (Bahgat, 2007: 965-967; Natorski, Herranz-Surrallés, 2008: 72). Despite the consensus over the conceptualization energy as a security issue, the European Commission and Member States failed to find a common approach to deal with the problem.

Russia is one of the major suppliers of oil and natural gas to the EU and is likely to remain a EU's long-term partner. Still, the mutual interdependence between the EU and Russia is complicated by their divergent views of the nature of energy cooperation. While the EU pursues the policy of market liberalization – by integration of the Internal Energy Market and by export of the EU regulations to its neighbours – Russia does not accept EU's regulation as a model of cooperation and conceives energy as a central tool of its foreign policy both towards its neighborhood and the EU (Aalto, 2007). The most likely "come back" of Vladimir Putin in the Presidential elections in March 2012 will secure the existing Russian strategy in energy policy. Moreover, the EU's position is complicated by its institutional design and the division of competences across its levels. There is no coherence in external energy policy among its Member States, many of them often prefer to deal with Russia bilaterally.

Contrary to the conventional approach that Russia's position in energy disunites the EU and inhibits a common approach, discussed in intergovernmentalist terms of fixed predetermined preferences, this research will argue that Russia's position can unite as well as dis-unite the EU in its energy policy – due to a complex structure of the EU decision-making. Market liberalization, favoured by the EU, is inhibited by Russia both in the Internal Energy Market (e.g., 'Gazprom clause') and in its external policies (e.g., bilaterial pipeline projects of the Member States and Russia). At the same time, Russia forces the EU to look for a more strategic approach. Therefore, the assessment of Russia's impact on EU energy policy allows

evaluating the new potential configuration of energy routes and supplies in Eurasia, as well as contributing to the understanding of theoretical implication of the integration in energy area. Another potential contribution could be re-conceptualization of the EU as an international actor in energy, based on the analysis whether a market approach constitutes the basic principle of EU external energy policy or represents a strategy "by default."

Literature Review

The problem of European integration in energy policy can be addressed by two broad bodies in the literature. The first one involves the debates over the concept of energy security and the ways of guaranteeing supply – through market mechanisms or by bilateral strategic agreements. This literature also discusses whether the EU opted for energy policy based on market rules or geopolitical strategies. The second body of the literature addresses the theoretical framework of European integration in energy.

Markets and Geopolitics: Understanding the EU as an International Energy Actor

Traditionally the concept of energy security included the availability, reliability, and affordability of the resources (Bohi and Toman, 1996; Dorian *et al*. 2006; Pascual and Elkind, 2009: 121). In the 1990s, along with the rise of the international environmental agenda, the concept was expanded to a fourth dimension – environmental sustainability, which included climate change, nuclear security, and other environmental issues (Jamasb and Pollitt 2008: 4585; World Energy Outlooks, 2006). Thus, the U.N. Intergovernmental Panel on Climate Change (IPCC) links the use of fossil fuels to the increase of greenhouse gas emissions (Pascual and Elkind, 2009: 10). The International Energy Agency defines low carbon economy and technological developments as the key elements for decreasing supply dependency and, therefore, enhancing energy security (Brown and Huntigton, 2008: 3510).

The debates over energy security are usually framed along the lines of market-based vs. geopolitical strategies (Moran and Russell, 2009). Market-based approach underlines the importance of global energy governance, even if oil and gas remain "politically charged commodities" (Goldthau and Witte, 2010: 2). Accordingly, international energy markets in

oil and to a less extent gas balance demand and supply and define the rules of the game; thus , energy networks and investments in production development in the supplying countries are of crucial importance (Jamasb and Pollitt, 2008: 4584). Still, international coordination of energy markets on the principles of good governance and cooperation is "extremely volatile and poorly regulated" (Youngs, 2009: 8), and many experts consider the creation of a single institution able to ensure energy market regulation and transparency to be unlikely (Pascual and Elkind, 2009: 150).

Geopolitical approach implies the importance of the strategic agreements and the alliances; the use of military power to secure access to resources, as well as acquisition of control over the energy production in producer states (Youngs, 2009: 8). The 1990s have been marked by a gradual shift to geopolitical thinking: most suppliers remain authoritarian regimes with a risk of internal instability that try to strengthen their regional influence (Pascual and Elkind, 2009: 17). Most proponents of geopolitical approach argue that energy security has become much more integrated into the foreign policies of large consumers (Youngs, 2009: 10). The US doctrine of "securitization of energy", introduced by the Bush Administration, implies securing new foreign oil sources, first of all in the Middle East (Rutledge, 2006; Stokes, 2007; Pascual and Elkind, 2009: 9). Engdahl (2004: 252, 265) interprets the US war on terror in Afghanistan and Iraq – as well as the extension of US military bases in Uzbekistan and Kyrgyzstan – as the attempts to gain the control over the major oil reserves in the region. Many scholars assess Chinese energy policy as the pursuit of the control over energy resources and their infrastructure in the supplying countries, especially in Africa (Downs, 2004; Zweig and Jianhai, 2005; Zha, 2006; Lai, 2007). While China stresses the "apolitical nature of [its] international investment activities" (Tessman and Wolfe, 2011: 215), its policy is closely associated with a zero-sum game in the world energy

market. Thus, Eisenman *et al*. (2007: 38) stress that China provides support for African political elites in order to secure control of African energy resources.

The debates over the EU's role as an international energy actor, as well as its choice how to guarantee energy security have centered around two main issues: the conceptualization of the EU as a "hard" or "soft" power and the definition of the main driving force – norms or interests – of the EU external policies.

Debates over soft-hard power issue of whether one can consider the EU – a distinctive actor due to "its unique institutional nature" (Orbie, 2009: 2) – to be a power in the traditional meaning. The proponents of the soft power concept underline the fact that the EU is not a final guarantor of its own security and does not act as a single actor in all external policy areas, thus the prospects of the emergence of the EU as a (hard) power actor are unlikely (Kagan, 2002; Moravscik, 2002; Laidi, 2008; Krotz, 2009: 555, 569). At the same time, there is no consolidated view among scholars about whether the EU must acquire military and security actorhood in order to become a global power. To this extent, the discussion of the EU's actorhood has been limited mainly to the civilian-military dichotomy, leaving the substantial issues under-explored.

The EU's approach in energy security is usually defined within the framework of soft power along the lines of 'Markets and Institutions'. Thus, the expansion of EU market rules is seen to be a crucial part of the EU external policies: the concept of a pan-European energy space implies a creation of a common regulatory space of the EU, transit countries, and suppliers (Mane-Estrada, 2006). Another concept – external governance – serves to explain the expansion of EU rules beyond its borders (Schimmelfennig and Sedelmeier, 2004; Lavenex, 2004, 2008). Accordingly, the EU tends to export its norms and rules as "key means of influence in pursuit of foreign-policy objectives" (Youngs, 2009: 54). The neofunctionalist approach, applied in the case of the EU policy towards non-members,

suggests that the integration process can expand beyond EU borders in the selected policy field of mutual interest, as in the case of the Energy Community of Southeast Europe (Renner, 2009).

The debates over the role of norms vs. interests in EU's external policies have been shaped around the conceptualization of the EU as "a particular kind of power" (Orbie, 2009: 1): a "normative power" (Manners, 2002), a "power by example" (McCormick, 2007).

Normative Power Europe concept, which has occupied the leading position in the debates over EU's international role, argues that the EU, unlike other actors, is predisposed to act in a normative way and possess the ability of (re)defining what can be 'normal' in world politics, and is able to project its core values through norm diffusion beyond its borders (Manners, 2002: 240, 242). While Normative Power Europe is applicable to specific issues, such as the death penalty abolition and the ratification of Kyoto protocol (Lucarelli, Manners, 2006 : 4), a number of studies have pointed out the theoretical and methodological weaknesses of this concept that rejects the EU's interest-driven actorhood in the world (Sjursen, 2006: 242, 244; Harpaz, 2007: 94). Norms and interests cannot be separated easily and the former are likely to derive from the latter (Youngs, 2004: 420; Diez, 2005: 622; Storey, 2006; Scheipers and Sicurelli, 2007: 438). From the neo-realist position the Normative Power concept downplays the strategic calculations and material interests of the EU's external policy (Hyde-Price, 2006).

Many scholars argue that "the EU's normative exceptionalism" complicates the problem of assessing EU's external policy (Amin and Kenz, 2005; Johansson-Nogués, 2007: 185, 192) because it neglects other important factors, such as EU's "imperialistic" norm promotion in order to impose its own regulations on other actors through different forms of cooperation (Zielonka, 2008: 471).

Therefore, the important question is how the EU conceives the relationship between democratic norms and security-commercial interests in energy supplies (Youngs, 2009: 15). This question is closely related to the issues of the EU's self-identification as a normative actor (Lucarelli and Manners, 2006: 4), and as a promoter of democracy and human rights, that opted for "markets and institutions". Still, the problem of EU's energy policy is rarely addressed in debates about the EU's role as an international actor (one of the examples – Orbie, 2009), that are usually centered on military issues within CSDP and civil-normative issues.

The EU officially rejects the move from markets to geopolitics, as "US-style securitization of energy", but many scholars identify a move towards more instrumental strategies, where the EU's vital interests are threatened (Wood, 2009). The EU has launched a number of bilateral partnerships within the European Neighborhood Policy and the Strategy for Central Asia that tended to silence the issues of human rights. The EU has been careful in imposing sanctions on Turkmenistan and imposed very limited sanctions on Uzbekistan after the 2005 Andijan massacre. Moreover, Member States engage in "mercantile geopolitics" prioritizing bilateral agreements with producer governments (Mañé-Estrada, 2006; Youngs, 2009).

Some scholars have pointed out the EU is no less "egoistically geopolitical" than any other international actor, but exploits the rhetoric of rule-based energy policy in order to mask its own geopolitical aspirations (Youngs, 2009). EU policy of export of market liberalization, when there is not agreement among Member States on policy towards Russia, thus, is argued to be simply the area in which the Commission enjoyed energy-related competence, which inevitably becomes the focus of the Commission's proposals (Schmidt-Felzmann, 2011).

EU Energy Policy: Between Cooperation and Competition

Energy policy is often defined as the next 'chapter' of the European integration project and is considered proof of EU's increasing coherence and growing influence in the world. Still, despite the growing importance of this issue and its re-emergence on the political agenda, the status of energy policy – and especially its external dimension – remains unclear (Tekin and Williams, 2010: 13).

From the beginning the European project was based on integration of energy resources: the Treaty of ECSC and the Euroatom Treaty aimed to establish French and German cooperation in coal and steel markets, because they were crucial assets in post-war economic developments, as well as creating common nuclear safety standards and investment regulations (Haghighi, 2007: 4).

Nevertheless energy policy has remained one of the politically sensitive areas of European integration. Until the 1990s, most Member States opposed any significant developments in the field and favored national champions' bilateral deals with suppliers. In the 1990s, the problem of energy security due to international challenges attracted a closer attention within the EU as a problem requiring supranational coordination. Still, there was no explicit legal basis for energy policy in the Treaty of Maastricht and most Member States were against any significant developments in the field. The Commission "allocated" energy issues in three interconnected policy areas, that fell under its legislative competence – environment (sustainable development), the single market (competition), and external relations (security of supply). Based on these competences, the EU has established a number of policies, which has included also an energy component, in relations to its neighbourhood with different degrees of success (such as the EU-Russia Energy Dialogue, the Black Sea Synergy, The Eastern Partnership, and the Energy Community of South East Europe).

Gradual consolidation of the Internal Energy Market started with the 1996 and 1998 Directives for electricity and gas, the Second Energy Package was adopted in 2003, and the Third Internal Market Energy Package came into force in 2009, having established the framework for completion of the European energy community that requires mandatory ownership unbundling (Eikeland, 2011).

Guaranteeing security of supply has been excluded from the supranational competence and designated as national competence. One of the first attempts of the European Commission to call for the security of supply was the 2000 Green Paper, *Towards a European Strategy for the Security of Energy Supply* (European Commission, 2000: 28). The next attempt to link Common Foreign and Security Policy and energy security was taken in 2003 in *European Security Strategy*, but the problem of energy dependence was just mentioned. As Hadfield (2006: 2) claims, energy security was not considered as "part of strategic culture to be developed by the EU to strengthen the instruments and capabilities of the CFSP". These careful proposals of further cooperation in the beginning of the 2000s were followed by a stronger securitizing tone of the Commission in 2005-2007, that mainly aimed at the inclusion of security of supply in the EU common energy framework (van Linde, 2007: 266). 'The window of opportunities' was granted to the Commission after the Russian-Ukrainian gas crisis in January 2006. The measures, taken by the Russian authorities, affected not only the nearby neighbours: the non-deliveries of gas made the situation in several Member States critical.

The conflict itself, even presented by counterparts from different positions, was a catalyst of the following integration of the energy policy at the EU level. The Green Paper *A European Strategy for Sustainable, Competitive and Secure Energy* was followed by *the Strategic Energy Review 2007*, and *Energy Policy for Europe* in the beginning 2007, with the *Second Strategic Energy Review* in 2008. The Green Paper (2006), besides initiatives for

completing the Internal Energy Market and providing environmental sustainability, paid special attention to solidarity among the Member States in order to ensure security of supply: among six proposed areas for future strategy, solidarity, diversification of energy mix, and external policy were directly linked to the need of more cohesive external energy policy as part of CFSP (European Commission, 2006: 5).

The positions of the Member States were more or less unified in regards of treating the issue of security of supply not only in economic but also in strategic terms (Council of the European Union, 2006h; Council of the European Union, 2006d, Council of the European Union, 2006c). Still, most of them stayed reluctant to any transfer of competence from national level, favouring some degree of cooperation at the EU level and/or at the regional level – such as 'Energy OSCE' by Germany and 'Energy NATO' by Poland (Council of the European Union, 2006a; Council of the European Union, 2006e; Council of the European Union, 2006k; Council of the European Union, 2006b). The Commission's proposals resulted in no substantial measures to approve in regards to the external energy policy: the establishment of more effective crisis response mechanism and a network of energy correspondents were agreed in 2007 (Council of the European Union, 2006j; Council of the European Union, 2006l). The priority of common energy policy was "equivocal", Member States tended to expand bilateral policies while rhetorically committing to "the outward expansion of EU internal market norms" (Youngs, 2009: 22).

The Lisbon Treaty has established energy as one of the new shared competences between the EU and its Member states and included the reference to energy solidarity among Member States. Even if Member States have retained the right to define their national energy mixes, the "codification" of the existing competences at the supranational level can be interpreted as a next step to the Member States' commitment to work towards a more coherent energy policy (Tekin and Williams, 2010: 13-15). Still, most EU initiatives have

concentrated in energy efficiency and environmental protection – the issues, obviously important, but not closely connected to security of supply (Duffield and Birchfield, 2011: 5-6).

Despite the fact that energy policy is a vital issue for the EU, few academic works have been done so far. Matlary's book *Energy Policy in the European Union*, published in 1997, is one of the examples of prominent academic study; among the recent publications it is worthy to mention *Energy Security: Europe's New Foreign Policy Challenge* by R. Youngs (2009) and an edited volume *Toward a Common European Union Energy Policy: Problems, Progress, and Prospects* by Duffield and Birchfield (2011).

The problems of energy security have been discussed mostly in the light of the empirical substance of EU energy policy, both in terms of energy diplomacy and relations with major suppliers.

Among the attempts to theorize the process in EU energy sector, one can find the application of supranational-intergovernmental approaches (Neuman, 2010); historical institutionalism, explaining a gradual expansion of the Commission's competence (Meyer, 2008); neofunctionalist approach to EU's internal energy market rules expansion to South-Eastern Europe (Renner, 2009); securitization theory (Natorski and Surralles, 2008).

Eikeland (2011a: 16) adopts a historical institutionalist framework in order to assess the developments of the Third Internal Energy Market Package. Youngs (2011: 41-42) argues that the EU constantly rejects the realist geopolitics as an approach for energy security, but in practice Member States "seek the influence that flows from Europe- wide market rules while simultaneously pursuing short- term gain from highly geopolitical behavior".

While the concept of supranational spill-over can be more or less applied to the internal dynamics of the energy market, external energy policy still remains an

intergovernmental domain. At the same time, rule-based market governance is usually interpreted as the best foreign policy tool of the EU (Kirchner and Berk, 2010).

EU-Russia relations have been conceptualized either as mutual dependency (Pleins, 2005; Finon and Locatelli, 2008; Padgett, 2011) or as a challenge for EU energy security (Wood, 2010). Aalto (2006: 102) conceptualizes EU-Russia relations as a 'problem of community': the conceptualization of a 'community' as the EU leads to the exclusion of Russia and – therefore – to the increase of potential confrontation; contrary, the concept of 'a wider community', which includes Russia, creates the sense of mutual interdependence between the EU and Russia.

The famous gas cuts off to the EU in 2006, 2007, and 2009 due to the conflict situations between Russia and the transit countries, have revived the concerns about Russia's reliability as a supplier as well as the aims of its energy policy (Balmaceda, 2008; Wood, 2010). Diversification of supplies (as the Nabucco pipeline project) and completion of the Internal Energy Market are considered within the EU to improve the situation. Still, the negotiations with Azerbaijan, Kazakhstan, Uzbekistan and Turkmenistan question the EU's commitments to democratic values (Youngs, 2007; Wood, 2009). The EU looks for diversification of the sources (trying to get an access to gas in Central Asia, where Russia enjoys the position of monopolist of transit routes), Russia proclaims the diversification of export to Asian markets (Balmaceda, 2008). Other conflict situations between the EU and Russia are: liberalization of energy market and refuse of Russia to ratify the Transit Protocol of the Energy Charter Treaty, which allows access to the pipelines to third parties; the reform of Russia's domestic energy sector; the problem of access of Russian companies to the EU market (Grätz, 2009).

Research Problem

In energy policy, the EU officially shows its adherence to market regulation, based on multilateral energy governance (Youngs, 2011: 46). Internally, it favors full market liberalization and ownership unbundling of the generation and sale operations from the transmission networks of the energy companies (Third Energy Package, 2009). Externally, the EU promotes its internal regulations to the third countries through different forms of cooperation: such as the EU-Russia Energy Dialogue, the Black Sea Synergy; the Eastern Partnership; the Energy Community of South East Europe. Still, there has not been much success in persuading Russia to accept these rules. Moreover, Russia has called into question its reliability as a supplier when supplies were interrupted due to disputes with Ukraine and Belarus in 2006, 2007, and 2009. These events caused an increasing concern of the EU of diversification of the supplies and construction of the additional pipelines for natural gas – in e.g., the Caspian region.

At the same time, the EU cannot be defined as a single and coherent actor: EU's institutional organization and division of competence among the national and supranational levels is complex and not clearly defined. Due to this fact, the EU cannot be considered to be an actor with a unified position towards other actor with regards to energy policy. Contrary, the call of the EU to 'speak with a single voice' in external energy policy is undermined by the divergent interests of the Member States.

This research project tries to account for the transformation of EU energy policy due to the influence of an external actor. Russia is the EU's single main supplier and is likely to remain so at least for the mid-term. Russia's energy policy aims to conduct bilateral agreements with the EU Member States by granting special conditions selectively; as well by using the "divide and rule" tactics of "doubling" pipelines (Smith, 2008). Russia has

significant influence in the Caspian region and Central Asia, where it enjoys the role of energy monopolist. Russia attempts to control the EU's distribution's infrastructure by preventing Member States from selling import excesses to other countries, non-transparent agreements with Member States inhibit EU's potentially strong position under the unified Internal Market in gas.

It is not enough to assess only relations between the EU and Russia or between Member States and the Commission. Rather, the development of the Internal Energy Market and a common position in external energy policy can also be influenced by Russia's position in energy supplies. Apart the gradual shift of the EU (the Commission) towards a more strategic approach in securing supplies, the Member States and the Commission do not share a common understanding of the concepts of market and strategic approach.

Therefore, the research question can be formulated as following:

What is Russia's influence on EU energy policy?

Hypothesis:

Russia's influence can either inhibit or booster further institutionalization of EU energy policy.

The Member States and the Commission do not share a common understanding of market approach to energy security both in internal and external energy policy.

Russia's influence forces the EU (the Commission) to adopt a more strategic approach in its energy policy.

EU energy policy comprises internal energy market and energy policy in natural gas supplies with different levels of institutionalization. For the initial stage of research, Russia's influence is conceptualized as Russia's policy aimed at preventing cooperation among the

Member States by conclusion of bilateral non-transparent agreements and at securing exclusive transit of gas from Central Asia. The policy of Russian monopolist, Gazprom, due to Russia's internal development (re-nationalization and state consolidation of energy assets) can be conceived as Russian external energy policy.

Research Design

This study will employ the qualitative methodology of case studies of the issues within EU energy policy. As a point of departure, the cases have been selected along the division between the Internal Market and EU external energy policy. They have been chosen on the basis whether they cause more (successful) supranational initiatives or inhibit cooperation and retain the issues in the intergovernmental domain. This selection will provide a comprehensive picture in order to understand the role of the energy dependency in the European integration process. Moreover, the cases are selected in order to examine the degree of adherence to Market or Strategic approach by the EU and its Member States.

Within every case there will be taken a policy-process tracing that will allow identifying the key actors and their positions, preferences, and decision-making processes (Klotz and Prakash, 2008). In order to verify the obtained results, a number of semi-structured interviews will be conducted with the EU and national, as well as Russia's officials and experts.

EU Energy Policy	Supranational Domain	Intergovernmental Domain
Internal Energy Market	**"Destination clause"**	**"Gazprom clause"**
External Energy Policies	**Diversification strategy** (in the Caspian region)	**"Divide and rule"** (Russia's bilateral deals with Member states)

Table 1. Case Studies Selection

Case 1. "Destination clause"

The 'destination clause' used by Gazprom in long-term contracts with the consumers, imposes territorial sales restrictions: either a buyer cannot re-sell gas to the other countries or

to other customers in the same country; if the buyer resells gas, the profit should be shared with the producer (*profit-sharing*). This issue has been unsuccessfully discussed within the EU-Russia Energy dialogues framework. The Commission plays an active role in facilitation of the removal of this clause, arguing that this market-splitting 'destination clause' inhibits creation of the Internal Common Market and infringes the EU competition law (rules on restrictive business practices).

Case 2. "Gazprom Clause"

Internal market regulation, introduced by the Third Energy Package requires unbundling: thus, the EU's largest monopolies have to sell off their electricity and gas distribution assets.

The principle of "reciprocity", advocated by the EU, allows access by foreign companies to the EU Internal Market (in other words – to buy transmission and distribution assets), if third countries offer similar access to acquisition of the assets in home energy production projects. According to this proposal, Gazprom was allowed to acquire mid- and downstream assets in the EU, if Russia offered a free access to European companies in its domestic market. Many Member States (Germany, France, Italy), as well as Gazprom itself, have opposed this proposal, and according to the final regulation, the Member States can decide themselves whether to allow foreign companies to enter their markets. This agreement, according to the Commission, decreases the EU's ability to protect its Internal Market from Russia's domination.

Case 3. Diversification Strategy

The Commission argues that the EU's facilitation of "the maintenance and upgrade[ing] of existing energy infrastructure in neighboring countries" as well as the

development of the new energy corridors are essential for EU energy security (Commission-SG/HR Council Paper, 2006: 2). The construction of the new pipelines and the liquefied natural gas (LNG) terminals could provide "the necessary interconnections […] outside the Community in order to ensure the diversification of routes and sources of external energy supplies" (External Energy Relations, 2006: 1).

Diversification is more or less agreed to be a vital issue to guarantee security of supply and to decrease dependency on Russia – and the EU has started a number of project, especially in the Caspian region – e.g., the well-known Nabucco, which is designed to by-pass Russia and to connect directly the EU with the Caspian region.

Case 4. "Divide and rule" tactics by Russia

Russia plays a game of "doubling" the pipeline projects in bilateral deals with the Member States. The Member States' choice to conduct bilateral agreements with Russia (e.g. the Nord Stream pipelines between Russia and Germany, which has by-passed Eastern European transit countries), is considered by the Commission and some Member States to be an infringement of EU solidarity. The South Stream pipeline project, announced in 2007 – a competing pipeline to the Nabucco – is planned to connect Russia with several Member States, such as Bulgaria, Austria, Greece, and Italy. Moreover, non-transparent structure of agreements with the Member States allows Gazprom using non-market instruments in its negotiations (Smith, 2008).

Data Collection:

The research will be based both on the primary and secondary sources.

Primary sources: official documentation of the EU, Russia, Member States; statistics of the EU, Russia, the IEA.

In order to verify information interviews with the EU officials, Member States' and Russian officials, as well as with the experts in the field will be conducted.

Secondary sources: reports, media, working papers etc.

References

Aalto, P., 2006.The EU, Russia and the Problem of Community. In: Mayer, H. and Vogt, H. (eds.). *A Responsible Europe? Ethical Foundations of EU External Affairs.* Palgrave Macmillan.pp. 98-119

Aalto, P., 2007. *The EU-Russian Energy Dialogue*. Ashgate.

Amin, S. and A. Kenz, 2005. *Europe and the Arab World: Patterns and Prospects for the New Relationships*. New York, NY: Zed Books.

Bahgat, G. 2006. Europe's Energy Security: Challenges and Opportunities. *International Affairs,* 82 (5), 961-975.

Balmaceda, M.M., 2009. *Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarchs' Profits and Ukraine's Missing Energy Policy, 1995-2006.* Series on Russian and East European Studies, T & F Books UK.

Bohi, D.R. and M.A. Toman, 1996. *The Economics of Energy Security*, Springer.

Brown, S.P.A. and H.G. Huntington, 2008. Energy Security and Climate Change Protection: Complementarity or Tradeoff? *Energy Policy*, 36, 3510-3513.

Commission-SG/HR Council Paper, 2006. Joint Paper 'An External Policy to serve Europe's Energy Interests', 18 June.

Council of the European Union (2006a). A New Energy Policy for Europe; The functioning of the internal gas and electricity market - Approach and Handling. 5401/06, Brussels,

16 January 2006. Available at:
http://register.consilium.europa.eu/pdf/en/06/st05/st05401.en06.pdf

Council of the European Union (2006b). French Memorandum for revitalising European energy policy with a view to sustainable development. 5724/06, Brussels, 26 January 2006. Available at:
http://register.consilium.europa.eu/pdf/en/06/st05/st05724.en06.pdf,

Council of the European Union (2006c). New Energy Policy (Initial contribution from the Italian delegation to the debate on a New Energy Policy for Europe). Italian Delegation, 5944/06, Brussels, 2 February 2006. Available at:
http://register.consilium.europa.eu/pdf/en/06/st05/st05944.en06.pdf

Council of the European Union (2006d). New Energy Policy (Contribution from Belgium on the new energy policy of the European Union). 6014/06, Brussels, 3 February 2006. Available at: http://register.consilium.europa.eu/pdf/en/06/st06/st06014.en06.pdf

Council of the European Union (2006e). New Energy Policy (German key issues paper on energy policy in the EU). 6009/06, Brussels, 3 February 2006. Available at:
http://register.consilium.europa.eu/pdf/en/06/st06/st06009.en06.pdf

Council of the European Union (2006h). New Energy Policy (Contribution from Spain to the Austrian Presidency's Note on the New European Energy Policy). 6084/06, Brussels, 7 February 2006. Available at:
http://register.consilium.europa.eu/pdf/en/06/st06/st06084.en06.pdf

Council of the European Union (2006j). Council conclusions: 'A New Energy Policy for Europe' Contribution of the Energy Ministers to the 2006 Spring European Council.

6878/06, Brussels, 2 March 2006. Available at: http://register.consilium.europa.eu/pdf/en/06/st06/st06878.en06.pdf

Council of the European Union (2006k). Proposal for a European Energy Security Treaty - presentation by the Polish delegation (Poland's non-paper: Outline of the European Energy Security Treaty). 7160/06, Brussels, 9 March 2006. Available at: http://register.consilium.europa.eu/pdf/en/06/st07/st07160.en06.pdf

Council of the European Union (2006l). Brussels European Council 23-24 2006. Presidency Conclusions. Brussels, 23 and 24 March, 7775/1/06 REV 1, Brussels, 18 May 2006. Available at: http://register.consilium.europa.eu/pdf/en/06/st07/st07775-re01.en06.pdf

Dawns, E.S., 2004. The Chinese Energy Security Debate. *The China Quarterly*, 177, 21-41.

Diez, T., 2005. Constructing the Self and Changing Others: Reconsidering Normative Power Europe. *Millennium: Journal of International Studies*, 33(3), 613-36.

Dorian, J.P. *et al*., 2006. Global Challenges in Energy. *Energy Policy*, 34, 1984–1991.

Duffield, J.S. and V.L. Birchfield (eds.), 2011. *Toward a Common European Union Energy Policy: Problems, Progress, and Prospects*, Palgrave Macmillan.

Eikeland, P.O., 2011. The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors? *Journal of Common Market Studies*, 49(2), 243-263.

Eikeland, P.O., 2011a. EU Internal Market Energy Policy: Achievements and Hurdles. In: Duffield, J.S. & Birchfield, V.L. (Eds.). *Toward a Common European Union Energy Policy: Problems, Progress, and Prospects*, Palgrave Macmillan. Pp. 13-41.

Eisenman, J. *et al*. (eds.), 2007. *China and the Developing World: Beijing's Strategy for the Twenty-First Century*, M.E. Sharpe.

El-Agraa, A. and F. McGowan, 2004. Energy Policy, chpt. 14. In: El-Agraa, A. *The European Union. Economics and Politics* (pp. 293- 317). Prentice Hall.

Engdahl, F.W., 2011. *A Century of War: Anglo-American Oil Politics and the New World Order*, Pluto Press.

European Commission, 2000. Green Paper. Towards a European strategy for the security of energy supply. COM (2000) 769 final, Brussels, 29 November 2000.

European Commission, 2006. Green Paper. A European Strategy for Sustainable, Competitive and Secure Energy. COM (2006) 105 final, Brussels, 08 March 2006. Available at: http://ec.europa.eu/energy/greenpaperenergy/doc/2006_03_08_gp_document_en.pdf

European Commission, 2007. EU Energy Policy Data *Working Documen*t available at: http://ec.europa.eu/energy/energy_policy/doc/02_eu_energy_policy_data_en.pdf

European Security Strategy, 2003. A Secure Europe in a Better World.

External Energy Relations, 2006. External Energy Relations – from Principles to Actions.Communication from the Commission to the European Council, Brussels 12 October 2006, COM (2006). Available at: http://ec.europa.eu/comm/external_relations/energy/docs/com06_590_en.pdf

Finon, D., 2011. The EU Foreign Gas Policy of Transit Corridors: Autopsy of the Stillborn Nabucco Project. *OPEC Energy Review*, 47-69.

Finon, D., and C. Locatelli, 2008. Russian and European gas interdependence: could contractual trade channel geopolitics? *Energy Policy*, 36(1), 423-442.

Fried, E.R. and P.H. Trezise, 1993. *Oil Security: Retrospect and Prospect*, Brookings Institution Press.

Goldthau, D.A. and J.M. Witte, 2010. *Global Energy Governance: The New Rules of the Game*. Brookings Institution Press.

Grätz, J., 2009. Energy Relations with Russia and Gas Market Liberalization. *International Politics and Society*, 3, 66–803.

Hadfield, A., 2006. EU Foreign Energy Policy: In the Pipeline? *CFSP Forum*, 4(1), 1-5.

Hadfield, A., 2008. EU–Russia Energy Relations: Aggregation and Aggravation. *Journal of Contemporary European Studies*, 16(2), 231-248.

Haghighi, Sanam S., 2007. *Energy Security: The External Legal Relations of the European Union with Major Oil and Gas Supplying Countries*, Hart Publishing.

Haghighi, Sanam S., 2008. Energy Security and the Division of Competences between the European Community and its Member States. *European Law Journal*, 14(4), 461-482.

Harpaz, G., 2007. Normative Power Europe and the Problem of a Legitimacy Deficit: an Israeli Perspective. *European Foreign Affairs Review*, 12, 89-109.

Hyde-Price, A., 2006. Normative' Power Europe: a Realist Critique. *Journal of European Public Policy*, 13 (2), 217-234.

IEA, 2008. World Energy Outlook 2008 Edition. Available at: http://www.worldenergyoutlook.org/2008.asp

Jamasb, T. and M. Pollitt, 2008. Security of Supply and Regulation of Energy Networks. *Energy Policy*, 36, 4584-4589.

Johansson-Nogués, E. 2007. The (Non-) Normative Power EU and the European Neighbourhood Policy: An Exceptional Policy for an Exceptional Actor? *European Political Economy Review*, 7, 181-194.

Kagan, R., 2002. Power and Weakness: Why the United States and Europe See the World Differently. *Policy Review*, 113, 1-18.

Kirchner, E. and Berk, C., 2010. European Energy Security Co-operation: Between Amity and Emnity. *Journal of Common Market Studies*, 48(4), 859-880.

Klotz, A. and D. Prakash, 2008. *Qualitative Methods in International Relations. A Pluralist Guide*. Palgrave Macmillan.

Krotz, U. 2009. Momentum and Impediments: Why Europe Won't Emerge as a Full Political Actor on the World Stage Soon. *Journal of Common Market Studies*, 47(3), 555-578.

Lai, H., 2007. China's Oil Diplomacy: Is it a Global Security Threat? *Third World Quarterly*, 28(3), 519–537.

Laidi, Z. 2008. *Norms over Force. The Enigma of European Power*. Palgrave Macmillan.

Lavenex, S. 2004. EU External Governance in 'Wider Europe'. *Journal of European Public Policy*, 11 (4), 680-700.

Lavenex, S. 2008. A Governance Perspective on the European Neighbourhood Policy: Integration Beyond Conditionality? *Journal of European Public Policy*, 15(6), 938-955.

Lavenex, S. 2008a. EU rules beyond EU borders: theorizing external governance in European politics. *Journal of European Public Policy*, 16(6), 791-812.

Lucarelli, S., Manners (eds.) 2006. *Values and Principles in European Union Foreign Policy*. Routledge.

Mañé-Estrada, 2006. European Energy Security: Towards the Creation of the Geo-energy Space. *Energy Policy*, 34, 3773-3786.

Manners, J. 2002. Normative Power Europe: A Contradiction in Terms? *Journal of Common Market Studies*, 40(2), 235-58.

Matláry, J.H. 1997. *Energy Policy in the European Union.* St.Martin's Press, New York

Mayer, S., 2008. Path Dependence and Commission Activism in the Evolution of the European Union's External Energy Policy. *Journal of International Relations and Development*, 11(3), 251-278.

McCormick, J. 2007. *The European Superpower*. Palgrave Macmillan.

Moravscik, A. 2002. 'The Quiet Superpower'. *Newsweek* 17 June.

Natorski, M. and A. Herranz Surrallés, 2008. Securitizing Moves To Nowhere? The Framing of the European Union Energy Policy. *Journal of Contemporary European Research*, 4 (2), 71-89.

Neumen, M., 2010. EU–Russian Energy Relations after the 2004/2007 EU Enlargement: An EU Perspective. *Journal of Contemporary European Studies*, 18(3), 341-360.

Orbie, J. 2009. A Civilian Power in the World? Instruments and Objectives in European Union External Policies. In: *Europe's Global Role. External Policies of the European Union*. Orbie, J. (ed.). Ashgate. Pp. 1-34.

Overhaus, M. *et al.* (eds.), 2007. Dealing with Dependency. The European Union Quest for a Common Energy Foreign Policy. *Foreign Policy in Dialogue* 8(29), 7-9.

Padgett, S., 2011. Energy Co-operation in the Wider Europe: Institutionalizing Interdependence. *Journal of Common Market Studies*, 49(5), 1065-1087.

Pascual, C. and J. Elkind, 2009. *Energy Security: Economics, Politics, Strategies, and Implications*. Brookings Institution Press.

Pleines, H., 2005. Russian Business Interests and the Enlarged European Union. *Post-Communist Economies,*17(3), 269-287.

Renner, S., 2009. The Energy Community of Southeast Europe: A Neofunctionalist Project of Regional Integration. *European Integration Online Papers*, 13(1). Available at: http://eiop.or.at/eiop/texte/2009-001a.htm 10.1695/2009001.

Russell, J.A. and D. Moran, 2008. *Energy Security and Global Politics: The Militarization of Resource Management*. Routledge.

Rutledge, I., 2006. *Addicted to Oil: America's Relentless Drive for Energy Security*, I. B. Tauris.

Scheipers, S. and D. Sicurelli, 2007. Normative Power Europe: A Credible Utopia? *Journal of Common Market Studies*, 45(2), 435-57.

Schimmelfennig, F. and U. Sedelmeier, 2004. Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe. *Journal of European Public Policy*, 11 (4), 661-679.

Schmidt-Felzmann, A., 2008. Editorial: The European Union's External Energy Policy. *Journal of Contemporary European Research*, 4(2), 67-70.

Schmidt-Felzmann, A., 2011**.** EU Member States' Energy Relations with Russia: Conflicting Approaches to Securing Natural Gas Supplies'**.** *Geopolitics*, 16 (3), 574-599.

Sjursen, H., 2006. The EU as a '"Normative' Power: How Can This Be? *Journal of European Public Policy*, 13 (2), 235-51.

Smith, Keith C., 2008. *Russia and European Energy Security. Divide and Dominate.* October, CSIS, Washington, DC.

Stokes, D., 2007. Blood for oil? Global capital, counter-insurgency and the dual logic of American energy security. *Review of International Studies*, 33(2), 245–264.

Storey, A., 2006. NPE? Economic Partnership Agreements and Africa, *Journal of Contemporary African Studies*, 24(3), 331-46.

Tekin, A. and P.A. Williams, 2010. *Geo-Politics of the Euro-Asia Energy Nexus: The European Union, Russia and Turkey*, Palgrave Macmillan.

Tessmann B. and W. Wolfe, 2011. Great Powers and Strategic Hedging: The Case of Chinese Energy Security Strategy. *International Studies Review*, 13, 214-240.

Third Energy Package, 2009. Available at: http://eurlex.europa.eu/JOHtml.do?uri=OJ:L:2009:211:SOM:EN:HTML

van Linde, C., 2007. External Energy Policy: Old Fears and New Dilemmas in a Larger Union. In: *Fragmented Power: Europe and the Global Economy*. Ed.: Sapir, A. Brussels, Bruegel.

Vivoda, V., 2009. Diversification of oil import sources and energy security: A key strategy or an elusive objective? *Energy Policy*, 37, 4615-4623.

Wood, S., 2009. Energy Security, Normative Dilemmas, and Institutional Camouflage: Europe's Pragmatism. *Politics & Policy*, 37(3), 611-635.

Wood, S., 2010. Europe's Energy Politics. *Journal of Contemporary European Studies*, 18(3), 307-322.

Yi-Chong, X. (2006). China's Energy Security. *Australian Journal of International Affairs*, 60(2), 265-286.

Youngs, R. 2004. Normative Dynamics and Strategic Interests in the EU's External Identity. *Journal of Common Market Studies*, 42(2), 415-435.

Youngs, R., 2007. Europe's External Energy Policy: Between Geopolitics and the Market. *CEPS Working Documents No. 278* .CEPS.

Youngs, R., 2009. *Energy Security: Europe's New Foreign Policy Challenge.* Routledge

Youngs, R. (2011). Foreign Policy and Energy Security: Markets, Pipelines and Poliitics. In: Duffield, J.S. & Birchfield, V.L., (eds.). *Toward a Common European Union Energy Policy: Problems, Progress, and Prospects*, Palgrave Macmillan. Pp. 41-61.

Zha, D., 2006. China's energy security: domestic and international issues. *Survival*, 48(1), 179-190.

Zielonka, I., 2008. Europe as a Global Actor: empire by example? *International Affairs*, 84(3), 471-84.

Zweig, D. and B. Jianhai, 2005. China's Global Hunt for Energy. *Foreign Affairs*, 84(5), 25-38.