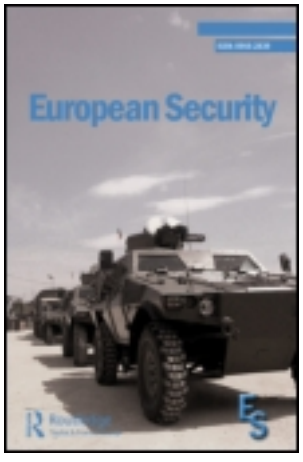
This article was downloaded by: [FU Berlin]
On: 26 January 2014, At: 08:05
Publisher: Routledge
Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



European Security
Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/feus20

The issue of energy security in relations between Russia and the European Union

Nikolay Kaveshnikov [a]

[a] Centre for Political Integration Studies , Institute of Europe RAS , 11-3 "B" Mokhovaja str., Moscow, 101999, Russian Federation

Published online: 22 Dec 2010.

To cite this article: Nikolay Kaveshnikov (2010) The issue of energy security in relations between Russia and the European Union, European Security, 19:4, 585-605, DOI: 10.1080/09662839.2010.531707

To link to this article: http://dx.doi.org/10.1080/09662839.2010.531707

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at http://www.tandfonline.com/page/terms-and-conditions

European Security
Vol. 19, No. 4, December 2010, 585–605

Routledge
Taylor & Francis Group

The issue of energy security in relations between Russia and the European Union

Nikolay Kaveshnikov*

Centre for Political Integration Studies, Institute of Europe RAS, 11-3 ''B'' Mokhovaja str., Moscow 101999, Russian Federation

(*Received 21 April 2010; final version received 5 October 2010*)

This article provides a comprehensive analysis of EU–Russia energy relations in the light of the concept of energy security. It gives a brief overview of various views on the concept of energy security. Further, the article compares developments in EU and Russian internal energy markets and their influence on the external energy policy of both actors. It concludes that predictability might be achieved only in a regulatory framework that aggregates the interests of all stakeholders and ensures a fair distribution of risks, obligations and revenues.

Keywords: energy security; EU–Russia relations; EU–Russia energy dialog; European Union; Russia

Downloaded by [FU Berlin] at 08:05 26 January 2014

Introduction

Russia and the European Union (EU) are inextricably linked in terms of the energy sector. Numerous frictions that took place in recent years reduced confidence, engendered serious concerns on energy security issues and put the topic among the most important points on the EU–Russia political agenda. The paper critically analyses some common perceptions about EU–Russia energy relations, contributes to a better understanding of both actors' motivations and discusses opportunities to reduce energy risks.

Today, energy policy is a highly politicised topic. A lot of studies based on a geopolitical approach are devoted to 'pipeline wars' (Tekin and Williams 2008, Paillard 2010). Dhaka (2009, p. 279) even proposes the metaphor of an 'Energy New Great Game', referring to Rudyard Kipling's famous novel. Numerous authors treat the energy security of the EU as a Common Foreign and Security Policy (CFSP) question (Mauring and Schaer 2006, Trinataphyllou 2007). Stringer (2008, p. 121) develops a portfolio approach especially for 'military officers or diplomats [who require] a simple methodology to conceptualize energy security . . . a basic understanding of the key concepts and definitions'. The economic background of the energy industry usually falls victim to such simplified approaches. Even economic analysis is often reduced to trade flows and energy balances. One should remember that energy is business: it is primarily about prices, profits and recoupment of projects. Changes in Russia's energy policy can hardly be explained by an assumption that Russia 'likes to think of itself as a victim of the Cold War, trying to take its

*Email: nikandrrr@mail.ru

ISSN 0966-2839 print/ISSN 1746-1545 online
© 2010 Taylor & Francis
DOI: 10.1080/09662839.2010.531707
http://www.informaworld.com

revenge on "plutocratic westerners"' (Paillard 2010, p. 74). An attempt to analyse the conditions of production sharing agreements or the current distribution of energy incomes between producers and consumers would be more effective. This article tries to show the economic motivation of energy actors and promotes a more balanced mix of political and economic approaches in energy policy research.

The concept of energy security has being attracting increasing attention among policy-makers and scholars. Most papers analyse energy security in a very restricted manner – as security of supply, usually referring to the same classical definitions, such as 'access to sufficient energy resources at reasonable prices for the foreseeable future free from serious risk of major disruption of service' (Barton *et al.*, 2004, p. 5). Even experts who mention security of demand often state that they focus on the production side of the energy equation (Heinrich 2008, Stringer 2008). I think that analysing security of supply separately from security of demand not only makes vulnerable the methodology of academic studies but also enhances risks for consumers in energy planning. This article tries to reveal the indissoluble link between both sides of energy security and argues that a reliable energy policy should integrate concerns of all actors involved.

Energy policies in the EU and Russia are usually viewed as based on principally diverging approaches. As Hadfield (2008, p. 232) states, 'Russia and the EU symbolize polar opposites of the foreign [as well as domestic – N.K.] energy policy spectrum', i.e. liberal competitive market versus state intervention determined by (geo)political reasons. This article argues that despite differences, the regulatory environments in the EU and Russia have many similar features. Moreover, many differences could be explained not by political/value choice made in Brussels or Moscow, but, to a considerable degree, by the very nature of energy industries in the EU and Russia.

In political practice one hardly can separate the internal and external aspects of policy. However, existing research does not reflect this linkage comprehensively. As far as the EU is concerned, studies usually depict only one aspect – externalisation of the internal energy market regime. Numerous papers on Russia's energy policy are devoted to such topics as political control over industry (Heinrich 2008) and use of energy as a political instrument. 'Russia used gas, just as it used missiles in the 1980s to disorganize NATO' (Paillard 2010, p. 78) – such assessments are widespread though some experts, for example Monaghan (2007) and Goldthau (2008), convincingly demonstrated the essential shortcoming of this concept. But there is another, more profound linkage between domestic and external energy policy. This article attempts to show how the peculiarities of the energy industry and the domestic regulatory regime influence the goals and practice of external energy policy.

The many faces of energy security

Today the concept of energy security is understood in many different ways. Historically speaking, the concept of energy security was born in consumer countries which, naturally, were primarily guided by their own interests and concerns. Until now, in their understanding of energy security, Western experts and politicians tend to focus on the security of supply. The EU policy aims to reduce its vulnerability to irregularities in energy supplies due to the growing dependence on energy imports from or via politically unstable regions. It also focuses on the political pressure the

Downloaded by [FU Berlin] at 08:05 26 January 2014

EU faces or can potentially face because of this dependence (Mauring and Schaer 2006, Paillard 2010). In its everyday work the European Commission (2006, p. 3) understands energy security as being when 'EU citizens and businesses enjoy all the benefits of security of supply and lower prices', which, under conditions of extremely high import dependence, turns into the provision of reliable and stable supply of hydrocarbons at acceptable wholesale import prices. The stance of energy-importing countries puts the burden of all risks on the supplier, which is not only unfair but also ultimately inhibits secure supplies.

The recently adopted Energy Strategy of Russia through 2030 (Government of RF 2009, p. 13) also pays serious attention to the security of supply; it interprets energy security as 'protection of the country, its citizens, society, state and economy against the threats to a reliable fuel and energy supply'. But the next phrase shifts the emphasis to the security of demand: '[t]hese threats are determined by external (geopolitical, macroeconomic, conjunctural) factors as well as by the condition and functioning of the energy sector of the country'. The Strategy enumerates the main external risks, in particular, volatility of world prices, increasing competition at traditional markets, low diversification of export, transit dependency, politicisation of energy issues etc (Government of RF 2009, p. 35).

There is no doubt that energy security is a common target of the consumer and supplier, though quite often those actors pursue different interests. However, in order to view energy security as a 'common advantage' it has to integrate the interests of all parties concerned – consumers, suppliers and transit countries. In fact, energy security should be defined as the elimination of a threat that in the longer run the energy factor would become a potential barrier to the economic development of a country. Guided by this understanding of energy security, energy importers must enjoy guaranteed energy supplies in the volumes and terms sufficient to maintain the required rate of economic development. In their turn, energy exporters must enjoy guaranteed demand and profit-making sufficient at least to maintain extended reproduction of the energy sector. Such understanding of energy security logically leads to the idea of more balanced distribution of profits and risks.

In the framework of the discussion of energy security[1] particular attention should be paid to the following aspects:

- Stability or, more accurately, predictability of energy flows. This predictability should be based on some kind of guarantees both of supply and demand. Of course, such predictability does not exclude diversification, neither can it stop technical progress leading to the appearance of new market players and the mining of unconventional hydrocarbons. But at least there should be predictability of changes and mechanisms to smooth shocks of demand and supply.
- Adequate investments in exploring, mining and transport infrastructure. Taking into account the required amounts of investments and long period of payback, predictability or some time even the guarantee of future demand for a long period of time is the ultimate prerequisite. Predictability is necessary not only for a return on investments, but also to accumulate them at low cost at the initial stage of the project.
- Stability of functioning of transport infrastructure linking producers and suppliers.

Downloaded by [FU Berlin] at 08:05 26 January 2014

- Mechanisms of setting energy prices that provide the lowest possible volatility and fair distribution of revenues between the energy companies of producer and consumer countries. In the absence of such fair distribution the system might be overloaded by economic and political tensions and the outcome could be unpredictable.
- Market environment at global, regional and national levels and their interrelation, in particular the combination of free market elements and state regulation.

Let us briefly analyse the above mentioned aspects. The world demand for primary energy resources will continue to grow. According to the latest estimates of the International Energy Agency (2009), despite the decline in the world demand for energy resources of 2009, in the long run the demand will grow at a considerably high rate. The aggregate world reserves of oil and gas are large enough to satisfy the growing demand. However, there is no certainty that the existing reserves will be developed soon enough to satisfy the expected demand. Today the drop in the output of active deposits is 6.7 per cent; in the long run this figure will reach 8.5 per cent (IEA 2009). This will demand greater investment in exploring and mining.

Growing investment in exploring and mining of hydrocarbon deposits seen over recent years was largely caused by increase of costs per unit of the product. The launch of new deposits with more challenging conditions of extraction, especially offshore fields, will demand greater investments still. But the financial crisis hampers the accumulation of funds needed to develop new deposits; the majority of oil and gas companies (Gazprom included) have been cutting down on their investment projects. Investments in oil and gas extraction were reduced by 19 per cent in 2009, the implementation of numerous projects was cancelled or suspended, to a total amount of 6.2 million b/d of oil and 90 million m^3 of gas (IEA 2009).

Today we reap the fruits of high energy prices that have pushed companies to invest in exploring and mining. Facilities for gas liquefaction of 19.3 million tonnes were put into operation in 2009; an increase to 31 million tonnes is expected in 2010. The same high prices allowed the development of technologies of mining unconventional oil and gas, including the shale gas that redirects LNG from USA to the EU and contributes to the price fall on the European spot market for gas. But investment decisions on these projects were made some years ago, at the time of a gas/oil deficit and high prices.

As was mentioned above, in the long and mid-term perspective the world economic crisis will not entail smaller demand for hydrocarbons, but will only slow down its growth rate. In today's circumstances underinvestment will result in an actual shortage of production capacities within several years. Undoubtedly, it will lead to greater investment in extraction, while the effect thereof will become visible at a later date. The 'seesaw' of unbalanced demand and supply and price instability worries both producers and consumer. The contemporary regulatory structure of the global energy market can do little to diminish its magnitude because it can hardly balance long-term interests of various actors and provide a rational basis for expectations of market players.

The distribution of oil and gas resources is highly uneven. This turns transportation into one of the crucial aspects of energy security. First of all everybody should understand that transport facilities are vitally important for actors on both sides of the

Downloaded by [FU Berlin] at 08:05 26 January 2014

route – producers and consumers. Consequently, the burden of risks, be they technical, political, etc, as well as the burden of costs, should be shared. Of course, there might be quite different schemes of burden sharing, but there should be a common responsibility at the political and business level. A surplus of transport facilities is an important factor of stable energy flows, whether we are talking about LNG terminals or pipelines. Such a surplus enables the manoeuvre of energy flows necessary in case of supply/demand shocks or problems at a particular transport facility. Of course, pipelines, tankers and LNG carriers cost money; this once again compels us to think about predictability of demand/supply. A high level of confidence between producers, consumers and transit countries may decrease the risks and allow the avoidance of excessive investments.

As far as energy prices are concerned, the system of pricing should generate the revenue flow that enables the accumulation of long-term investments in the energy sector in form of companies' own resources and accessible credits. Any attempt to restrict the discussion about foreign investments exclusively to the issue of a favourable investment climate in the host countries seems unfair: it protects the consumer's strategy to establish control over deposits in other countries. In circumstances of fair pricing the attraction of foreign investments will be explained not by the necessity of a supplier's 'survival' but by the comparison of the cost of resources and the opportunity to obtain access to new technologies or markets.

Theoretically, production of energy resources should yield revenue sufficient at least for extended reproduction of mining capacity. Moreover, it should allow the producer states to withdraw a significant part of the revenues and to re-distribute it in order to develop non-energy sectors. This claim is not an exaggeration; it will do no more than balance actual uneven distribution of revenues. In the four biggest EU Member States (MS) – Germany, France, UK and Italy – the tax share of the final oil price exceeds the FOB price (OPEC 2009, p. 1). This means, for example, that from a litre of oil consumed in France, the French government received more than the foreign company (supplier) and the government of the producer country. In exact numbers this means that estimated average annual G-7 oil taxes in 2004–2008 made up USD 684 billion, while annual OPEC revenue was a bit less – USD 669 billion (OPEC 2009, p. 2). It is the same story in the 'balance' of revenues on the gas market. While Gazprom sold gas at the German border for USD 230–250 per thousand m^3 in 2006, the retail price for German households was about USD 600, of which one third was federal and land taxes. Thereby, the issue of revenues distribution includes in the energy security discussion not only wholesale but also retail prices and the ability of the producer to obtain access to the retail market.

One has to pay attention to profound structural changes in the oil and gas industry. The entire world faces the ongoing process of greater control over the resources exercised both by the states that own them and the respective state-owned companies. Stringer's assumption that producers proceed along this path because of 'concerns of national pride, cultural identity . . .' (Stringer 2008, p. 124) seems questionable. Since the 1970s developed producer countries, including Australia and Canada, restricted access of foreign investments in mining and developed various mechanisms to use arbitrary power on grounds of economic expedience, i.e. to maximise the resource rent (Wälde and Konoplyanik 2002, pp. 221–222). In the 2000s new producer countries joined this trend. Today more and more often foreign partners are involved in the field development as junior partners or subcontractors

Downloaded by [FU Berlin] at 08:05 26 January 2014

(Feygin 2007). The national companies dominate in exploring and mining in the majority of the countries with the largest hydrocarbon reserves, while foreign companies are either disallowed from owning the reserves or their operation is more or less strictly limited. Many major companies from consumer countries already face difficulties with the reproduction of proven reserves and expansion of production. For example, Morse (2009, p. 137) formerly remarked that 'producer countries have been aiming to concentrate control over resources in the hands of big state-owned monopolies during the most part of the last decade'. This tendency is true and is likely to continue. According to IEA (2008) estimates, today the major private companies of the consumer countries control about 44 per cent of the world oil production and more than 55 per cent of gas extraction. But one can turn the thesis of E. Morse on its head: might producer countries worry about the fact that more than half of the world's resources have been controlled by foreign TNCs? Probably, the contemporary trend is no more than a continuation of the tendency formed in 1970s.

The discussion on the role of the state, methods and instruments of regulation of the energy sector occupies a special place in the energy security discourse. Many experts believe that the primary source of the energy security is the market, which facilitates a more prompt response of demand and supply to the shocks and imbalances as compared to the response of an administered system. How viable are such ideal markets, or to be more precise, a comprehensive system of liberalised national markets? Forecasting is a difficult task as it is impossible to evaluate all energy resources available in the long run. From the functional point of view, it is related to the risk that the companies operating in the liberal energy market will choose to capitalise on current profits to the detriment of long-term stable production and supply. From the practical point of view, one can find nowhere a truly liberal market; everywhere the state plays an essential role either in investment planning or in the establishment of transmission tariffs or in other activities. Probably the only example of a liberal market is the exchange oil market. But it hardly can be regarded as a price-setting mechanism that decreases volatility. On the contrary, more then 80 per cent of oil exchange transactions were concluded by financial investors vitally interested in high volatility (Feygin 2009, p. 45). As a result, oil prices were formed by 'paper deals'; this 'paper market' significantly loses touch with the physical oil flows and the outcome is well-known. Everyone who wants to rely on the global energy market should be ready to rely on the goodwill and insight of financial speculators.

Energy security cannot be a spontaneous result of market self-regulation, even under the conditions of wider liberalisation. More specifically, a liberal (but not free from in-depth state regulation) energy market can exist in a country or a group of countries with relatively homogenous interests because of identical resource endowment and structure of energy consumption. However, such a market is unlikely to unite suppliers and consumers; i.e. it cannot unite all European countries. This thesis does not intend just to justify EU–Russia tensions in energy sphere; let us not forget about Norway, which is fully integrated in the EU internal market with the exception of two key sectors – energy and fishing. Therefore, the debate on the role of a government in the energy sector is being transformed into a discussion of the way to join more or less liberalised national markets of particular countries (or groups of countries) with a principally less liberal regime of interrelations between

Downloaded by [FU Berlin] at 08:05 26 January 2014

those markets; a regime based, among other things, on such non-market mechanisms as bilateral and multilateral agreements, industrial policy and regulated prices. Moreover, regarding energy reserves and extraction forecasts Yegorov and Wirl (2008, p. 310) conclude that by the middle of twenty-first century global gas market 'will be oligopoly-oligopsony relationship with three main producers (Russia, Iran and Qatar) and three large consumers (the USA, the EU and Asia-Pacific)'; this hardly could promote a liberal international gas market.

Hence, the risks and instability in the world energy markets are likely to grow. In the longer run one can expect the greater importance of energy security issues on the global agenda and greater competition for influence on suppliers and transit countries, as well as competition for the control over the resource potential, routes of delivery and technologies. A deeper and wider dialogue between hydrocarbons consumers and producers (the latter may run even greater risks, and are no less concerned about energy security issues) might be helpful to all energy market players in reducing the risks caused by instability, and in accumulating necessary investments. Comprehension of the urgency of such a dialogue per se (to say nothing of specific and positive practical achievements) is also one of the key tendencies in the world energy sector and in the world energy markets. Taking into account the intensity and mutual importance of energy relations between Russia and EU countries, both parties are especially interested in an efficient energy dialogue.

Downloaded by [FU Berlin] at 08:05 26 January 2014

EU energy policy

A key EU energy project is the building of a single liberalised electricity and gas market (SLEGM). The main task of liberalisation is to establish a high level of competition between energy companies which should lead to the levelling of energy tariffs in different EU MS and a general price reduction. Since the early 2000s, a SLMEG has been presented as the most effective way to ensure EU energy security. Noel (2008, p. 8) believes that '[t]he most efficient solution to the Russian gas problem lies not in the development of an external energy policy, but in further restructuring of the EU's internal gas market'. He also believes that such a market would create a maximum degree of solidarity among the European gas consumers and would increase collective security through re-distribution of the gas flows in cases of crises.

From the formal point of view, all plans for liberalising the markets have been successfully implemented by mid-2007. However, in practice the project faced a whole range of problems. Separate liberalised markets of the EU MS have emerged instead of a single EU market. National markets turned out to be less liberalised than expected. Among 18 MS reported in 2008 the three largest companies control more 90 per cent of national gas retail market in 7 MS and 70–90 per cent in 6 MS; annual consumer switching rate was appreciable only in 3 MS (European Commission 2010, pp. 18, 8). Governments of many EU countries pursue an openly protectionist policy, countering the takeover of national companies by other EU firms and encouraging the merger of national corporations. The level of competition in the EU energy market has grown only insignificantly. The difference in the end-user prices of natural gas in MS is three-fold and of electricity more than two-fold (European Commission 2010, pp. 19–20); the trend in retail prices was quite diverse,

reflecting an insufficient level of retail market integration. Therefore, the market becomes an oligopoly instead of being a competitive venue.

Being aware of all those problems, the EU pursues the strategy of market liberalisation. In September 2009, after nearly 3 years of debate, the EU adopted the Third Package – a set of measures to improve the functioning of the SLEGM. Unsurprisingly, the basic element of the reform – introduction of mandatory property unbundling – caused the most heated debates. Finally the MS were entitled to choose among three unbundling options: genuine property unbundling, independent transmission operator (ITO) and independent system operator (ISO), the latter two being no more than slightly improved legal unbundling, the inability of which to ensure high level of competition and smooth third party access had already been demonstrated. Fear of losing control over the gas sector outweighs the ideal of free competition. One can identify an unexpected similarity – 'old-style monopoly suppliers controlled all aspects of the [energy] system' (Barton *et al.*, 2004, p. 8) – in numerous EU countries, as in Russia. Discussion on the Third Package demonstrates that this similarity still exists.

Another interesting point to note is that the Third Package increased state control over the energy sector. For example, ITO is now obliged, in cooperation with the national regulator, to workout an indicative 10-year investment plan to ensure the infrastructure development. In other words, the Third Package maintained the previous trend of EU energy market reform: restrictions on the free hand of vertically integrated companies by means of greater state regulation and increased state control over the energy sector. It is nothing else than an indirect acknowledgement that a liberalised energy market is unable to guarantee the investment required for infrastructure development.

Naturally, EU energy policy does not confine itself to the SLEGM. The EU pays great attention to energy-saving policy, development of alternative power sources, and environmental aspects of energy production and consumption, which must also contribute to energy security. For example, the EU Energy and Climate Package, politically endorsed in 2007, envisages the increase of RES share up to 20 per cent of the primary consumption, which is hard to believe in, taking into account the contemporary level (about 9 per cent) and recent failures of the EU to achieve previously set RES indicators. The package also establishes the goal of increasing energy efficiency by 20 per cent by 2020, which will require huge efforts but has more chance of being achieved. Whereas RES are not profitable without state support (tax benefits, guaranteed prises and direct state financing), this is a clear example of a non-market approach, the choice made on geopolitical and partially ecological grounds. Another interesting point to note is that the Third Package increased state control over the energy sector.

The crucial external goal of EU energy policy is the security of energy import supply, understood as reliability and predictability of delivery of the growing volumes of energy resources at acceptable prices. The EU's import dependence is already extremely high and it will steadily continue to grow. Latest estimates (European Commission 2008), especially the optimistic variant, look too optimistic and reflect more political desires than long-term trends.

Stable and ever growing energy imports are needed not only to meet growing demand but also to ensure the functioning of SLEGM. Experience of energy market liberalisation proves that the establishment of a competitive market is feasible only if

Downloaded by [FU Berlin] at 08:05 26 January 2014

excessive supply of natural gas is available. If the supply is limited, imports go through former national monopolies, which enjoy well-established business contacts with external suppliers; this keeps new players away from national markets and inhibits competition (a phenomenon currently seen in many EU countries).

With due regard to the above, one can express the following goals of EU external energy policy as follows:

(1) Further dialogue with the key suppliers and major world energy consumers. The purposes of these dialogues are variable, depending on the status of a partner in the world energy sector. They can be focused on providing stable deliveries, sharing of energy-saving technologies, joint efforts in developing alternative energy sources, etc.
(2) Export of an energy *acquis communautaire* to the neighbouring countries. Initially, the necessity to spare no effort in '[d]eveloping a strategy for exporting the internal energy market approach to neighbouring countries' was mentioned by the European Council (2006, point 51). For this purpose in July 2006 the EU initiated the establishment of the Energy Community. Besides, the EU pursues incorporation of the *acquis communautaire* into the legislation of East European countries in the framework of the European Neighbourhood Policy/Eastern Partnership.
(3) Diversification of suppliers and routes of delivery of energy resources. The main EU efforts are concentrated on the access to the resources of Central Asia and the Gulf. The Baku-Tbilisi-Ceyhan oil pipeline is already operational, and the discussions on its extension via the Caspian Sea to Kazakhstan are going on. The EU actively pushes Nabucco though the sources of the gas supply remains uncertain. In the Gulf LNG supply from Qatar is the most promising option. One can also mention such projects as the Arab gas pipeline (Egypt–Jordan–Syria), Iraq–Turkey gas pipeline and Trans-Sahara gas pipeline that may bring Nigerian gas to Europe via Algeria. Diversification strategy decreases the predictability of EU market demand for Russian gas and may compel Gazprom to considering development of new extraction projects. Initiatives to diversify suppliers enjoy the unanimous support of all EU countries. While the projects aimed at diversifying the routes of delivery (including Nord Stream, South Stream and Bourgas-Alexandropoulis) cause serious controversy among MS. In general dependence on the supplier countries causes greater concern in the EU than dependence on transit countries. Only after the cessation of transit of Russian gas via Ukraine did some changes appear in the EU approach towards transit countries.
(4) Governments not only play an important regulative role on the internal energy market, but provide political support for national companies worldwide. As Bahgat (2006, p. 975) concludes, '[a]n active EU [and individual Member States – N.K] policy in Russia, the Caspian Sea, Iran and the rest of the Middle East opens the door for European oil [and gas – N.K.] companies to do business in these countries'.

The last point to note here is the EU aspiration to speak with a single voice. The European Commission is especially seeking to expand its powers in energy policy. A

Downloaded by [FU Berlin] at 08:05 26 January 2014

special ambition of the Commission is to obtain authorisation to negotiate an energy agenda with third countries. It is not the least important reason underlying the current discussion about Russia, which is supposedly gambling on the competition between the EU countries and is using energy resources for political blackmail or even, as Baran (2007, p. 131) states, 'is pursuing divide and conquer strategy'. However, more and more responsible European politicians share the view that it is not Russia which is to be blamed for EU disunity. For example, then Commissioner for External Relations Benita Ferrero-Waldner stated: '[o]ur problem is less Russia than the weakness of our collective response capabilities . . . What is the most serious and most urgent, however, is the lack of coordination within the EU and transparency, which are needed if we are to speak with a single voice to our partners' (Agence Europe 2008, p. 11).

The entry into force of the Treaty of Lisbon has significantly expanded EU competency in the energy sector, especially in the internal aspects of energy policy. But EU powers in external energy policy still remain very modest. Article 194(1) TfEU envisages that 'Union policy on energy shall aim, in a spirit of solidarity between Member States, to . . . (b) ensure security of energy supply in the Union'. However, this ambitious statement is considerably undermined by the next paragraph: any measures in energy policy 'shall not affect a Member State's right to determine the conditions for exploiting its own energy resources, its choice between different energy sources and the general structure of its energy supply' (Article 194(2) TfEU). In other words, EU countries are still completely free to regulate energy production in their territory and import of energy resources, including the choice of suppliers. The prominent adherent of a more active EU energy policy, Haghighi (2008, p. 478), concluded that according to existing legal provisions '[s]ecurity of energy supply at the external level remained largely within the competence of Member States'.[2] Thus, even after the Treaty of Lisbon has come into force, the ability of the Commission to negotiate energy issues with third countries will be determined on a case-by-case basis and will be based on coincidence of the MS' interests and their ability to reach a consensus to confer on the Commission the right to express the position of 27 stakeholders.

The energy policy of Russia

The former Energy Strategy of Russia (Government of RF 2003, p. 3) rightly stated that the energy sector 'has a determining influence on the state and prospects of development of the national economy providing for about a quarter of gross domestic product, a third of industrial production and of revenues of the consolidated budget, approximately one half of the federal budget income, export and currency inflow'. In fact, a high rate of economic growth in Russia in the 2000s was to a considerable extent, but not completely, due to a hike in hydrocarbons prices and to the development of the mining industry. The recently adopted new Energy Strategy of Russia through 2030 (Government of RF 2009, pp. 6–7), while claiming that within the next few decades 'the energy sector will retain its crucial role in resolving important strategic tasks of national development', at the same time provides for a reduction of the role of the energy sector because of 'accelerated development of innovative low power-intensive sectors of economy and by taking advantage of the technological potential of energy saving'.

Downloaded by [FU Berlin] at 08:05 26 January 2014

Being a crucially important part of domestic economy, the energy sector attracts a lot of attention of political authorities. Since 2003 Russian energy policy has paradoxically combined two opposite tendencies: development of competitive market elements and intensification of state influence. The most illustrative example of the market trend is the reform of RAO UES[3] and the development of a competitive environment in the electricity industry. RAO UES ceased to exist in 2008; it was replaced by independent generating and selling/distributing companies, a united national transmission company and a system operator. The state retained control over the transportation and two (among a few dozen) generating companies – Rosenergoatom and GidroOGK. The exchange market of electric power is already operational. In fact, the reform of the Russian electricity sector has already left behind the liberalisation process going on in the EU, all the more because (according to the European terminology) the competition environment in Russia is based on property unbundling, which is not yet mandatory in the EU.

There are certain shifts in other sectors as well. The market for Gazprom shares was liberalised, gas exchange has started operations, though trade volume is extremely small, and an ambitious programme of deregulation of gas price for industrial consumers was adopted (for details see Price 2007). Practical steps were taken to gradually level domestic (for industrial consumers) and export gas prices. In spite of widespread opinion to the contrary, the government's role in the oil industry is not dominant; state-controlled companies make up around 30 per cent of oil production and less then 20 per cent of refinery.

The least competitive environment exists in the gas sector. It is directly caused by the preservation of the Unified System of Gas Supply and transfer of this asset to Gazprom. This prevented gas sector demonopolisation according to the scenario in the oil and electric industries. Today Gazprom holds the dominant position on the domestic market and fulfils the complete range of upstream and downstream functions, as well as enjoying the exclusive right of gas export. There are several factors hampering creation of a competitive environment in the gas sector. The most important is the need to fulfil social commitments in providing energy resources to households at affordable (i.e. non-market) prices; the burden thereof was put on Gazprom. From its turn Gazprom has being using its influence to hamper non-discriminatory third party access to transmission and distribution pipelines and slow down the development of competitive wholesale gas market.

The opposite tendency – the increase of state influence in the energy sector – took shape in 2003–2004. The Kremlin supports the creation of 'national champions' which will use natural resources for the benefit of society as a whole rather than for the interests of the oligarchs of the 1990s and will be competitive in the international arena. The transfer of assets from private to state-controlled companies (the YUKOS case, and a series of questionable transactions in the oil branch) was the most evident element of the 'new energy order'. Active and selective use of regulatory powers in order to establish control over certain assets or to ensure privileges for individual companies has been taking place. Gazprom export monopoly was confirmed by the Russian legislation in 2007. The most important reason of the latter was the necessity to preserve regulated (underpriced) internal tariffs on gas and avoid competition between domestic gas companies on external markets. Broadly speaking, this strategy yielded some positive fruits, but at the same

Downloaded by [FU Berlin] at 08:05 26 January 2014

time it impeded the regulatory environment and had a negative effect on the political situation in the country.

The business environment is becoming more exacting for foreign companies. The conditions of the access of foreign investment in oil and gas extraction were fundamentally reviewed. The new law regulating the access of foreign capital to strategic deposits was endorsed in 2008; it established an authorisation regime and, in principle, prohibited foreign companies to acquire (depending on the volume of deposits) a blocking share holding or a controlling block of shares of the company, which is the deposit operator.[4] There was much fuss about conflicts over the Sakhalin-2 and Kovykta projects, which ended with the conclusion of new agreements with foreign investors who gave over control over the projects into the hands of domestic companies.[5] However, the idea was not to stop foreign investors but to assign them to explore new fields, develop difficult deposits and upgrade refinery.

The crucial factor of instability of the Russian energy sector is the need to make enormous investments. Reduction of capital investment in the Russian energy sector in the 1990s caused serious problems. Moreover, over the last 5 years the volume of investments in the energy industry constituted only 60 per cent of the target delineated by the former Energy Strategy. It resulted in a substantial fall in the volume of explored reserves. Internal gas consumption is growing, and export commitments also foresee a certain increase, while the production of natural gas has, in fact, shown signs of stagnation even before the global economic crisis. Until the comprehensive development project of the Yamal Peninsula has been completed, Gazprom's gas production will dwindle. The imminent deficit is expected to be compensated for by gas imports from Central Asia and larger supplies from independent producers. Some negative tendencies have also become visible in the oil sector.

The Energy Strategy (Government of RF 2009) points out that until 2030 the energy sector will need USD 2366–2765 billions of investments. However, the proposed incentives (primarily tax-related) seem fail to meet the scale of the target figures (Government of RF 2009). Even keeping in mind that implementation of a large number of oil and gas projects implies the use of the sovereign Investment Fund resources, the feasibility of implementing this large-scale investment programme without external financing seems doubtful.

Russian external energy policy is not coherent. The common view that Gazprom is an energy weapon of the Kremlin is rather questionable; 'a Gazprom strategy does not equal a Russian energy strategy . . . Gazprom has a number of priorities that in fact conflict with state political interests' (Monaghan 2007, pp. 279–280). There is a comprehensive symbiosis and mutual influence between the government and 'national champions'. The basic external goals of Russian energy policy can be identified as follows:

(1) A shift in relations with the CIS countries to the market-oriented model, which implies, besides other changes, an increase of export prices on hydrocarbons to world/European levels. Keeping in mind the logic and market validity of this strategy, its practical implementation (categorical and harsh rhetoric, etc.) has fundamentally tarnished the Russian image. The heavy-handed actions of Russian officials and business leaders have offered a

Downloaded by [FU Berlin] at 08:05 26 January 2014

sound reason to those irrationally suspicious to appear sensible in their attitude toward Russian policy.

(2) Focus on the European countries as the primary export market with a certain diversification of supply (Eastern Siberia – Pacific Ocean pipeline, project of the Russia–China gas pipeline, startup of the first Russian LNG facility in Sakhalin, LNG delivery project to the USA). The main guideline in gas sales in Europe is to preserve the current rules of gas trading (long-term contracts, procedure of access to transmission capacities) and to maximise profits by reaching the end-users (acquisition of shares in sales and distribution companies).

(3) Provision of stable and profitable conditions of energy transit. It is expected that the task can be accomplished by the construction of a bypass infrastructure ensuring a direct access to the West European markets without transit through the CIS and Central European countries. However, this does not mean the halting of deliveries through available pipelines. The availability of alternative routes and an opportunity to stop transit along traditional routes will dramatically reduce the bargaining power of transit countries like Ukraine, prohibiting an 'unsanctioned takeoff'.

(4) Uphold the leading position of Central Asia, especially by a change in price policy and additional infrastructure binding Central Asian states to the Russian pipeline network (the Caspian pipeline) and guaranteeing the increase of hydrocarbons deliveries to Russia.

(5) Diversification of an export line of energy products. This strategy includes a considerable increase of electricity exports (coupling of the EU and Russia/CIS electricity networks was evaluated in the framework of EU–Russia Energy Dialogue), larger export of oil products instead of crude oil, export of services in construction and operation of nuclear power stations in Central Europe and the repeal of informal EU restrictions on Russian nuclear fuel deliveries.[6]

Downloaded by [FU Berlin] at 08:05 26 January 2014

Russia–EU energy relations

Interdependence, on the one hand, and differing views on the basic rules of the relationship on the other, are the two characteristics of energy cooperation between Russia and the EU. Russia is the largest supplier of energy to the EU. Today Russian gas constitutes 42 per cent of the EU total import and oil deliveries have reached 32 per cent of EU import. Even so, the frequent statements about EU overall dependence on Russian gas seem to be a gross exaggeration. As a matter of fact, Russian gas constitutes only 6.5 per cent of primary energy consumption in EU countries. Moreover, in the early 1990s Russia supplied 70 per cent of gas imported by the European Union, but for some unclear reasons this share failed to cause anxiety. The heart of the matter seems to lie not in the amounts provided by Russia but in the economic provisions that regulate the deliveries and their political background. The uneven dependence of MS on energy flows from Russia causes another difficulty for the EU and complicates elaboration of a single EU energy policy. But is Russia really to blame?

On the other hand, the EU is the main consumer of Russian hydrocarbons, its share exceeding 70 per cent of Russian gas and oil export. Besides, the EU countries

are Russia's most solvent clients. They purchased natural gas at USD 230–250 per thousand m^3 in 2006, whereas, for example, Ukraine bought natural gas at USD 130 in 2007 and at USD 179 in 2008. Another promising consumer – China – is not ready to pay prices comparable with the European one. To be honest, the EU is a monopolistic client to a greater extent than Russia is a monopolistic supplier.

Russia and the EU both carry on diversification strategies, but they can hardly diminish existing interdependence. Interdependence shows itself not just in trade. The EU is the principal investor in the Russian economy, including the energy sector. EU companies possess technologies required to develop Russian offshore deposits and might facilitate access to final consumers. Last but not least, the transport infrastructure binding the parties is another factor of interdependence, the influence of which will only grow due to the ongoing construction of new pipelines. The nature of relations between the supplier and the consumer determines not only interdependence and mutual commitment towards a stable relationship but also a divergence in the parties' interests. The differences cover the rules and principles of trade, interpretation of the energy security issues, balance of risks and revenues, investment regime and the commodity structure of energy trade.

Since the overwhelming majority of the EU countries are net energy importers, Brussels would like to have trade rules that ensure acute competition between suppliers and minimum energy prices. In other words, the EU strives to form a 'consumer market' in its own territory and to extend these rules to external suppliers, including Russia. 'The EU market governance ethos is discernable by 2001 [and later – N.K.] as the leitmotif of its relationship with Russia' (Hadfield 2008, p. 238); this morally justified the EU accent on legal approximation, or more precisely on Russia's approximation to EU legal provisions. The complex nature of the EU allows it to pursuit different policies at various levels. Many MS promote the interests of 'national champions' and act on the base of (geo)political considerations. At the same time the EU as an organisation can represent itself as a value-based actor 'unselfishly' spreading worldwide 'market ethos' and values which only 'accidentally' coincide with its interests.[7] The values-based approach effectively conceals the fact that it is the EU which tries to change existing international rules in the energy sphere, insofar as 'Russian energy diplomacy with regard to the EU is tinged with defensiveness' (Monaghan 2007, p. 284). As a net exporter, Russia wants the opposite, i.e. to preserve the current international trade regime ('producer market'), which generates more competition among consumers.

At the technical level this divergence of interests is more evident in the harsh dispute over gas trading. Russia strives to retain the long-term take-or-pay contracts and guarantees of access to gas transmission capacities (ship-or-pay provisions and right of first refusal). The EU is doing its best to diminish the application of long-term contracts by pursuing sales at the spot market and to distribute transmission capacities by auction. Until recently Russia's position seemed stronger. Gazprom has recently signed over a dozen new long-term contracts with major European consumers. The few attempts to auction the transmission capacities in the EU have virtually failed. The European Commission has recognised long-term contracts as a key element of the gas market, which ensures stable supply, but insists that these contracts should reflect the permanently changing rules of the EU internal energy market. Such an approach makes Gazprom worry not only about the substance of these rules, but also about potential changes and uncertainty of their implementation,

Downloaded by [FU Berlin] at 08:05 26 January 2014

producing a lack of predictability. The economic crisis changed the situation; following the decrease in gas demand, Gazprom recently agreed to sell a small share of gas delivered by long-term contracts at the spot market price.

Diverse interpretations of energy security issues give rise to a debate on the management of foreign investments in the energy sector. Both sides declare the need to organise investment on a mutuality basis but see mutuality differently. For the EU it should be based on universal rules. In September 2007, presenting Commission proposals on the Third package, President Jose Manuel Barroso (2007) said: '[External suppliers] can and should play an active role on our markets, but on the same fair and equal conditions as our own companies . . . In practice, this means that third country individuals and countries should not be able to acquire control over a Community transmission network unless there is an agreement between the Community and the companies' country of origin'. This statement demonstrates that the EU, as well as Russia, often regards investments not only from economic point of view, but in terms of 'control'. Moreover, while consumer countries preserve control over domestic assets, many experts believe they should continue strategy of 'affecting the control of energy development and transportation around the world' (Stringer 2008, p. 123).

For Russia mutuality means an exchange of assets, i.e. implementation of separate investment deals where the parties acquire assets of equal significance. At the Russia-EU summit in May 2006 the then Russian President Vladimir Putin (2006) noted that we should understand what Russia will receive in exchange for free access to the production and transport infrastructure: 'It is very easy to understand if you look back at your childhood. You go out for a walk with a candy in your hand. And the guys immediately also want to have it. You clench it in the sweaty fist and ask what you get in return. And we also would like to know what we get in return'. Such an interpretation of mutuality requires no common rules and, moreover, suggests strict state control over strategic deals.

These differences are by no means rooted in diverging political positions. On the contrary, political differences logically evolve out of actual dissimilarities of the Russian and European energy sectors. In Russia it includes production, transportation and distribution, whereas the EU has only transportation and distribution. As a result, mutuality based on common rules will open up Russian fields to European capital but will give the Russian companies no access to European deposits because they are of a relatively small volume and, furthermore, most of them were already being exploited.

Nowadays both Russia and the EU execute political control over foreign investments. Russian actions are well-known. From the EU's practice one could mention the Centrica case, LUKOIL's attempts to buy assets in Greece and Spain, and so on (Poussenkova 2010). Moreover, the total volume of Russian investments in EU countries is many times less than the amount of European investments in Russian energy sector. Of course, Gazprom has access to sales assets in 16 EU countries, but, except for Germany, these assets are of a minor nature. It seems that nowadays Gazprom's intention is to learn how to operate on the EU retail market. At the same time, the Third Package debate has shown that the EU or some MS are ready to harden their stance. Implementation of the Third Package provisions (in particular, 'the third party clause') would question the presence of Gazprom and its affiliates in the EU retail market, including the assets already purchased by

Downloaded by [FU Berlin] at 08:05 26 January 2014

Gazprom. Moreover, in certain cases the revision of actual long-term contracts may be needed.

A compromise seems practically impossible due to the basic incompatibility of the approaches – 'investments for resources' or 'investments for investments'. In the long term, the choice between the two concepts will likely hinge on two factors: (1) requirements of the Russian energy sector for investments and its ability to ensure extended reproduction without an extraordinary inflow of foreign capital; (2) balance of supply and demand on the EU energy market. In any case, exchange of assets seems to be the scheme providing better energy security both in terms of supply and demand.

The security of transit of Russian hydrocarbons has been another concern for many years. This issue has acquired a principally different meaning after the gas conflict between Russia and Ukraine in January 2009. The conflict was devastating for all parties. The EU experienced factory shutdowns, cold batteries and damaged nerve cells of its inhabitants. The Ukrainian politicians demonstrated to the world their ability to 'cooperate' with each other and to 'observe' agreements, as well as the complete absence of any kind of strategic thinking. Russia's post-conflict damage reaches far beyond the USD 1.4 billion of direct losses accumulated during the shutdown period; the damage to its reputation is immense.

The EU's reaction was rather predictable and quite alarming at the same time. Firstly, the EU fails to pursue any common active position; statements from Brussels about the unacceptability of the fact 'that European gas consumers were held hostage to this dispute between Russia and Ukraine' (Barroso 2009) are nothing more than statements. Actions were undertaken by particular MS and companies. Secondly, the EU, at least most MS directly affected by the crisis, put the blame for interruption of supplies both on Russia and Ukraine. After all, having no contracts with Ukraine's Naftogaz, European companies deal directly with Gazprom, regularly settle their accounts and expect equally regular gas deliveries. Having failed to find an arrangement with the Ukrainian transit operator, Gazprom should also shoulder the part of the blame. Thirdly, the essence of the EU approach was not to intervene in the 'dispute between the Slavs'. This position might look reasonable if coming from business, but not from responsible politicians with long-term vision. Despite numerous appeals for fair distribution of risks between producers, consumers and transit states, the January 2009 events have shown that the EU countries were not ready to accept part of the transit risks, preferring to leave them all with the Russian supplier.

In order to prevent similar crises in future one should understand that all 'recent gas disputes appear to be about profit, not about politics' (Goldthau 2008, p. 58). A set of measures can be implemented to secure a stable transit and to return credibility to the EU–Russia Energy Dialogue. Setting up stable and transparent contract conditions of transit has been partially achieved by the elimination of the highly dubious intermediary RosUkrEnergo, dividing supply and transit contracts and the establishment of flexible price formulas. Viktor Yanukovych then became the president of Ukraine and the confidence between Moscow and Kiev increased, but personal or political contacts cannot prevent potential blackmail attempts from the Ukrainian side in the long-term future when a new leader comes to power.

The development of a new international legal basis for energy security is necessary. The Energy Charter Treaty (ECT) seemed inadequate to provide stability.

Downloaded by [FU Berlin] at 08:05 26 January 2014

It is clear why Russia, which did not intend to ratify the ECT, never applied its instruments. But why has the EU lodged no claims against Ukraine, despite its obvious violation of ECT provisions on transit? Most likely, because neither Brussels nor the MS really believed in the effectiveness of the ECT mechanism. In this situation Russia's withdrawal from the ECT temporary application regime and proposal to develop a new international legal basis for energy cooperation seems quite logical. The Conceptual Approach of international energy cooperation (Russian Federation 2009) was presented during the visit of President Dmitry Medvedev to Finland on 20 April 2009. Of course, the idea of signing a new legally binding document on energy security means an attempt to offer an alternative to the ECT and has met with a standoff in the EU. But let us not forget that, even before the gas crisis, former IEA Director Claude Mandil (2008) suggested that Russia should not be irritated by never-ending demands to ratify the ECT. Anyway the idea itself has a proper basis: the ECT is not able to guarantee one of its main goals, to ensure security of transit vital for all European countries.

Another option is to intensify the construction of alternative pipelines like Nord Stream and South Stream. The gas crisis offers just one more argument to this end. The intentions of Russia and the EU in this field largely coincide, but a guarantee of future demand is needed to invest in additional transport facilities. Even with all planned alternative pipelines built, Russian gas will be piped to Europe via Ukraine. However, every cloud has a silver lining; the crisis has made Ukraine admit that its national gas transmission system is far from perfect and requires large-scale repair. In the long run, the situation may lead to the establishment of a consortium that would enable European and Russia gas companies to take partial responsibility over the Ukrainian gas pipelines, which seems a really welcome solution to obtain stable transit.

Downloaded by [FU Berlin] at 08:05 26 January 2014

Conclusion

The widespread view of complete divergence between the EU's market-oriented liberal energy policy and a Russian energy policy based on ideas of monopolism and political control seems rather simplistic. The EU energy market is not as liberal as it is presented. State regulation covers a wide range of crucial business activities. A desire to control the strategic sector sometimes dominates over the liberal approach, even within EU borders. One can hardly deny the in-depth linkage between politicians and business. The market environment in the Russian energy sector varies significantly, from a competitive one in electricity to a profoundly monopolistic one in the gas sector. The sector suffers from 'manual governance' and the selective use of law, as does the whole economy. Social reasons cause distortions in price-setting and, especially in gas industry, urge to preserve monopoly. Role of the energy exporter pushes Russia to develop 'national champions' competitive on the international market and also increases monopolistic tendencies.

Existing differences of internal regulation and basic economic interests (producer and consumer) are logically reflected in the external energy policy of both actors. The EU builds a 'consumer market' and attempts to change the international regime in order to spread this market beyond its borders. Russia takes up a defensive position and tries to maintain a gas 'producer market', which now exists at the international level. However, their tactics (sometimes even the strategy) look very similar. EU and

Russia both try to establish an international/regional regulatory regime that would answer their purposes; they seek to reduce external dependency by diversifying energy import/export; they aim to establish control over important external assets like deposits or access to final consumers; they strive to reduce their risks and increase revenues; and they use the energy sector as an important source of tax money required to meet social obligations and further economic development. Up to now the balance of influence between producers and consumers has been following the price dynamics. But, by pursuing short-term goals, all actors often sacrifice long-term stability and are vulnerable to the shocks caused by the inefficient global system of energy regulation.

Separating security of supply and security of demand and accentuating the risks of consumer countries is an inefficient scheme of energy security research. Energy security analysis should take into account the interests of all actors involved and must be regarded as a positive sum game. Security of consumers could not be achieved if risks of producers increase or vice versa. Energy security and predictability might be achieved only in a regulatory framework that aggregates the interests of all stakeholders and ensures a fair distribution of risks, obligations and revenues. The IEA can not represent the interests of all actors, since it is a club of consumers and does not include even such major consumers as China and India. OPEC controls only about of 40% of the oil market and will never be regarded as a legitimate regulator by consumers. The attempt to establish a regional regime on the basis of the ECT failed. Energy markets are guided by short-term profits and are unable to limit price volatility within reasonable limits. Only a system representing the interests of all major consumers and producers might be efficient and stable.

The role of private actors is of particular importance. Despite all its political aspects, energy is primarily a business. To develop a stable and mutually beneficial scheme one should discuss regulation of investments, price setting mechanisms and distribution of profits. At the business level the scheme of asset-sharing might be one of the best options. Integration of companies from different countries into a single industrial chain 'from the well to the burner' provides predictability, vitally important for all market players. Another option to depoliticise energy issues is to shift discussion from the highest level to the expert one, such as existing thematic groups of the EU–Russia Energy Dialogue.

Differing understandings of energy security seriously hamper constructive cooperation between the EU and Russia. Nevertheless, actual interdependence urges both sides towards more intense coordination. One of the working groups of the EU–Russia Energy Dialogue deals with proposals 'for developing energy strategies, policies and forecasts by Russia and the EU' while possibly 'achieving an agreed level of coherence of energy sector development forecasts and scenarios' (European Union and Russia 2008, p. 2). In particular, the 2010 agenda includes the development of more coherent forecasting of demand for oil and gas imports to the EU until 2030, an assessment of Russia's capacity to ensure oil and gas supplies during this period and an assessment of investment required in Russia and the EU.

Russian representatives participate in the Network of Energy Security Correspondents set-up in early 2007. In November 2009 Russia and the EU signed a momentous Memorandum on an Early Warning Mechanism in the Energy Sector that sets a procedure for practical measures on prevention and prompts a response to arising or existing emergencies. The next step might be the engagement of transit

Downloaded by [FU Berlin] at 08:05 26 January 2014

countries. Sharing of experience in crucially important for Russia energy saving is an example of efficient practical cooperation.

A solution to the energy security problem cannot be found either in the egotistic policy of consumer, transit or supplier countries or in the mystique of energy independence. Modest optimism on the subject of future cooperation might be inspired by the fact that the EU and Russia managed to harmonise, at least at the level of political declarations, the basics of the future energy regime that might be a part of the new agreement currently being negotiated. These are 'the principles agreed upon at the G8 summit in St. Petersburg in 2006, as well as issues of demand, supply, transportation and transit reliability, energy efficiency, the Early Warning Mechanism and nuclear power' (European Union and Russia 2008, p. 8).

Acknowledgements

This research was fulfilled with the financial support of the Russian Foundation for Humanities, Project Nr. 09-03-00707?/?. Opinions expressed in the article are strictly personal and cannot be associated with RFH or any other institution the author is affiliated with.

Downloaded by [FU Berlin] at 08:05 26 January 2014

Notes

1. I lay aside the geological and hard security aspects of energy security.
2. Haghighi made a legal analysis of the Constitutional treaty, as well as secondary legislation and case-law. As the Lisbon treaty mostly repeats energy provisions of the Constitutional treaty, his conclusion can be extended to the current time.
3. United Energy System was the former vertically integrated state-owned monopoly in the electricity sector.
4. A similar authorisation regime exists in the US and some EU countries. Moreover, in line with numerous experts, Paillard (2010, p. 73) calls upon European countries to define strategic sectors and to 'examine other ways to protect its technological advantage'.
5. The accusations of the 'state corporate raiding' are only partially true. There is no doubt that foreign companies actually violated the initial agreements and environmental standards of the Russian law. Thus, they enabled Russian regulatory bodies to legitimately apply respective sanctions (or to threaten them). The Kremlin took the political decision to use this opportunity.
6. The limitations are written down nowhere; however, the current practice of the Euratom Supply Agency corroborates their existence. The EU in 1994 committed itself to sign a special agreement on the trade of nuclear materials with Russia, but up to date it has been avoiding even starting negotiations.
7. One should note that the EU does not always defend market values in international trade. It carries on very different politics in such issues like trade in agricultural products or, returning to energy policy, trade in nuclear materials.

Notes on contributor

Nikolay Kaveshnikov is a Head of Centre for Political Integration Studies at the Institute of Europe of the Russian Academy of Science and Associate Professor at Moscow State Institute of International Relations (University). He graduated from Lomonosov Moscow State University in 1996. He holds a Ph.D. in political science (2006). His research interests include: EU-Russia relations, EU energy policy, institutional development of the European Union, EU external relations. He is the author of more than 80 publications.

Downloaded by [FU Berlin] at 08:05 26 January 2014

References

Agence Europe, 2008. Ferrero-Waldner argues for genuine European Diplomatic Service. *Bulletin quotidien Europe*, # 9644, 17 April 2008, 11.

Bahgat, G., 2006. Europe's energy security: challenges and opportunities. *International affairs*, 82 (5), 961–975.

Baran, Z., 2007. EU energy security: time to end Russian leverage. *Washington quarterly*, 30 (4), 131–144.

Barroso, J.M., 2007. Energising Europe: a real market with secure supply. Opening remarks at press conference on the Commission's energy package, Brussels, 19 September 2007. SPEECH/07/553. Available from: http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/553&format=HTML&aged=1&language=EN&guiLanguage=en [Accessed 25 March 2010].

Barroso, J.M., 2009. *Speech*. Brussels, 20 January 2009, SPEECH/09/12. Available from: http://ec.europa.eu/commission_barroso/president/pdf/speech_20090120.pdf [Accessed 25 March 2010].

Barton, B. *et al.*, eds., 2004. *Energy security: managing risk in a dynamic legal and regulatory environment*. Oxford: Oxford University Press.

Dhaka, A., 2009. The geopolitics of energy security and the response to its challenges by India and Germany. *Geopolitics*, 14 (2), 187–212.

European Commission, 2006. *Green paper. A European strategy for sustainable, competitive and secure energy*. COM(2006) 105 final, Brussels, 8 March 2006.

European Commission, 2008. Communication from the commission to the European parliament, the council, the European economic and social committee and the committee of the regions. Second strategic energy review. An EU energy security and solidarity action plan. COM(2008) 781 final, Brussels, 13 October 2008.

European Commission, 2010. Technical annex to the communication from the commission to the council and the European Parliament Report on progress in creating the internal gas and electricity market. SEC(2010)251 final, Brussels, 11 March 2010.

European Council, 2006. Presidency conclusions, part two. Energy policy for Europe, Brussels, 22/24 March 2006.

European Union & Russia, 2008. *The EU-Russia energy dialogue*. Ninth Progress Report, Paris, October 2008. Available from http://ec.europa.eu/energy/international/bilateral_cooperation/russia/doc/reports/progress9_en.pdf [Accessed 25 March 2010].

Feygin, V., 2007. Are the energy majors in decline? *Russia in Global Affairs*, 5 (1), 25–31.

Feygin, V., 2009. The end of the "Paper Oil" era. *Russia in global affairs*, 7 (1), 43–55.

Goldthau, A., 2008. Resurgent Russia? Rethinking energy Inc. *Policy Review*, 147, 53–63.

Government of RF, 2003. *Energeticheskaya strategiya Rossii na period do 2020 goda* [Energy strategy of Russia through 2020]. Adopted by the Decree of the Government of RF # 1234-p, 28 August 2003.

Government of RF, 2009. Energeticheskaya strategiya Rossii na period do 2030 goda [Energy Strategy of Russia through 2030]. Adopted by the Decree of the Government of RF # 1715-p, 13 November 2009.

Hadfield, A., 2008. EU-Russia energy relations: aggregation and aggravation. *Journal of contemporary European studies*, 16 (2), 231–248.

Haghighi, S.S., 2008. Energy security and the division of competences between the European community and its Member States. *European law journal*, 14 (4), 461–482.

Heinrich, A., 2008. Under the Kremlin's thumb: does increased state control in the Russian gas sector endanger European Energy Security? *Europe-Asia studies*, 60 (9), 1539–1574.

International Energy Agency (IEA), 2008. *World energy outlook 2008*. Paris: IEA/OECD.

International Energy Agency (IEA), 2009. *World energy outlook 2009*. Paris: IEA/OECD.

Mandil, C., 2008. Energy security and the European Union. Proposals for the French presidency. 21 April 2008. Available from: http://www.premier-ministre.gouv.fr/IMG/pdf/08-1005_Rapport_au_Premier_ministre_final_ENG.pdf [Accessed 20 November 2008].

Mauring, L. and Schaer, D., 2006. The effects of the Russian energy sector on the security of the Baltic states. *Baltic security & defence review*, 8 (1), 66–80.

Monaghan, A., 2007. Russia's energy diplomacy: A political idea lacking a strategy? *Journal of southeast European & Black Sea studies*, 7 (2), 275–288.

Morse, E., 2009. Nizkie tseny i bol'shie vozmozhnosti. *Rossiya v global'noi politike*, 7 (6), 136–152.
Noel, P., 2008. *Beyond dependence: how to deal with Russian gas*. ECFR Policy Brief, London, November 2008.
Organization of the Petroleum Exporting Countries, 2009. *Who gets what from imported oil?* Vienna: OPEC.
Paillard, C.-A., 2010. Russia and Europe's mutual energy dependence. *Journal of international affairs*, 63 (2), 65–84.
Poussenkova, N., 2010. The global expansion of Russia's energy giants. *Journal of international affairs*, 63 (2), 103–124.
Price, R.F., 2007. Energy reform in Russia and the implications for European energy security. *Demokratizatsiya*, 15 (4), 390–407.
Putin, V., 2006. Replies to Russian journalists after the Russia-EU summit press conference, 25 May 2006, Sochi. Available from: http://president.kremlin.ru/appears/2006/05/25/2358_type63380_106079.shtml [Accessed 25 March 2010].
Russian Federation, 2009. *Kontseptual'nyi podhod k novoi pravovoi baze mezhdunarodnogo sotrudnichestva v sfere energetiki* [The conceptual approach to the new legal basis for international cooperation in the energy sector], Moscow, 21 April 2009. Available from: http://www.kremlin.ru/text/docs/2009/04/215303.shtml [Accessed 25 March 2010].
Stringer, K.D., 2008. Energy security: applying a portfolio approach. *Baltic security & defence review*, 10 (1), 121–142.
Tekin, A. and Williams, P.A., 2008. Turkey and EU energy security: the pipeline connection. *East European quarterly*, 42 (4), 419–434.
Trinataphyllou, D., 2007. Energy security and common foreign and security policy (CFSP): the wider Black Sea area context. *Journal of southeast European & Black Sea studies*, 7 (2), 289–302.
Wälde, T. and Konoplyanik, A., eds., 2002, *Dogovor k Energeticheskoy Khartii: put' k investitsiam i torgovle dlia Vostoka i Zapada* [The energy charter treaty: An east–west gateway for investment and trade]. Moskva: Mejdunarodnye otnosheniya.
Yegorov, Y. and Wirl, F., 2008. Energy relations between Russia and EU with emphasis on natural gas. *OPEC Energy Review*, 32 (4), 301–322.

Downloaded by [FU Berlin] at 08:05 26 January 2014