



# STRATEGIC FILE

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Editors: Marcin Zaborowski (Editor-in-Chief) • Wojciech Lorenz (Managing Editor)  
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## European Energy Security in the Wake of the Russia–Ukraine Crisis

**Jakub M. Godzimirski**

*Russia's confrontational approach towards Ukraine and the West has made energy security bells ring in many European capitals and in Brussels. This is perfectly understandable because Russia is the most important external supplier of energy to the EU, and Ukraine is the country through which more than 50 per cent of Russian gas destined for the EU is shipped. The EU learnt earlier, in 2006 and 2009, how tensions in gas relations between Russia and Ukraine may influence the situation on the European gas market. This time, however, the EU is on course to change its energy policy and relations with Russia, in order to enhance its security and limit the possibility of energy blackmail.*

Russia's energy cooperation with the EU has created strong interdependence between the two—the EU needs Russian energy supplies, and Russia depends on access to the EU energy market that generates the lion's share of Russia's revenue from the sale of energy commodities. Such a strong interdependence should result in better political relations and smoother cooperation in other fields, but it has not prevented the outbreak of the current crisis. Rather, it has created a set of negative incentives that prompted Russia to intervene militarily in Ukraine and annex Crimea, which in turn has forced the EU to react to this blatant violation of international law and Russia's undermining of the existing international order. Since both Russia and the EU have apparently very high political stakes in Ukraine, the crisis has already had a negative impact on the form and the content of Russian energy cooperation with the EU.

### **The EU's Energy Relations with Russia**

On 22 January 2014, only one month before the fall of Viktor Yanukovych and the beginning of the most intense phase of the Russian–Ukrainian crisis, Alexander Novak, the Russian minister of energy, and Gunther Oettinger, EU commissioner for energy, published the 13<sup>th</sup> joint report on the state of energy cooperation between Russia and the EU. This document presents data on the volume of energy trade between the two.<sup>1</sup> According to this official statement, 62% of Russian export of mineral products went to the EU. Russia's share in the import of gas and oil to the EU reached 29%. At the same time, more than 50% of gas exported by Russia, 66 per cent of oil and petroleum products, and almost 50% of coal went to the EU. According to preliminary data for 2013, Russia exported 153.9 million tonnes of oil, 139 bcm of natural gas and 60.5 million tonnes of coal to the EU. The value of Russian mineral product exports reached \$377 billion in 2013. At the same time, approximately 50% of Russia's state budget revenues are generated from the production, sale and export of energy commodities, and Russia needs an oil price higher than \$117 in order to balance the state budget. Most of Russia's energy export revenue has been generated

<sup>1</sup> The document is available at the Ministry of Energy of the Russian Federation website at this address: <http://minenergo.gov.ru/press/doklady/17473.html>.

from trade with the EU, which spent, according to its own estimates, \$1 billion per day on importing energy resources from beyond its borders. In 2012, the EU paid \$300 billion to external suppliers of oil, and \$85 billion to external suppliers of gas—Russia supplied a third of the oil and 39% of gas imports to the EU.

## How the Russian–Ukrainian Crisis Has Affected the EU’s Energy Security

In order to understand how the current crisis can influence the EU’s energy security and energy policy in the long-term, it is important to examine the elements of EU energy security that have been at risk since the outbreak of the open conflict in March 2014, and how this situation may evolve in the future. Energy security in general is about four things: **availability**, **affordability**, **stewardship**—or sustainability of energy supply and use—and finally about **energy efficiency**. Availability relates to the relative independence of and diversification of energy fuels and services; affordability means not just lower, but also stable, prices, and equitable access to energy services. Stewardship focuses on the question of sustainability, ensuring that energy systems are socially acceptable and not harmful to the environment. Efficiency has to do with improved performance and the deployment of more efficient energy equipment and changes in the behaviour of producers and consumers.<sup>2</sup>

The EU’s energy policy in general is to address three key concerns. First is the question of the impact of energy use on the **competitiveness** of the EU’s economy. Second is the question of the **sustainability** of energy production and use. Last is the question of **security of supply**, which is understandable in the case of a player that has to import 53% of energy to cover its own energy needs. It is evident that, in the case of the ongoing crisis, the question of energy availability—especially of gas—is central, but other elements of the EU’s energy security may also be affected. Russian actions in Ukraine may help the EU to promote renewable energy as an alternative to the sources supplied by Russia, improving the overall sustainability of the future European energy mix. More focus on LNG supplies to Europe as an alternative to Russian gas may in the medium and long-term perspective change the European gas market, making more players compete for shares and resulting in lower gas prices for European consumers. This in turn could make energy more affordable and improve the competitiveness of the European economy. The EU and Member States may also pay more attention to improving the energy efficiency of the economy as a response to the tension in energy relations with Russia—it is said that saved energy is the cheapest and most environmental friendly form of energy use, and this is also promoted strongly by the EU. Finally, the tension in relations with Russia may also boost the work on building a single energy market and development of energy infrastructure in Europe, improving both the affordability and availability of energy to European customers, and facilitating diversification of energy supplies.

The Ukrainian crisis has had a negative impact on the EU’s energy security, as it has contributed to severely damaging relations between the EU and Russia. Gas supplies from Russia are particularly at risk, as more than 50% of gas exported from Russia to the EU has to be shipped through Ukraine, a country that has been de facto at war with Russia since Russia’s military intervention in Crimea, and its direct and indirect support to the anti-Kyiv armed rebellion in Donbas. What made the situation on the gas market even worse was the lack of agreement on future supplies of gas from Russia to Ukraine, and the argument about pricing principles and the size of the Ukrainian gas debt to Russia. The lack of agreement on those issues resulted in Russia stopping gas supplies to Ukraine on 15 June 2014. There was also a real danger that gas supplies to the EU could also be disrupted, as in the previous Ukrainian–Russian gas crises in 2006 and 2009. In particular, six EU Member States that depend on Russia for their entire gas imports—Finland, Slovakia, Bulgaria, Estonia, Latvia and Lithuania—could be affected, with Slovakia and Bulgaria facing the most critical situation as they receive all their Russian gas through Ukraine.

The Russian–Ukrainian crisis that broke out in February 2014 has lifted the issue of energy security higher on the EU political agenda. As a result, on 28 May 2014, the EU published its *European Energy Security Strategy*, accompanied by an *In-depth study of European Energy Security*, discussing these issues in detail.<sup>3</sup> These documents mapped the energy security situation in Europe at the moment when political tensions

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<sup>2</sup> B.K. Sovacool, “Defining, Measuring, and Exploring Energy Security,” in: B.K. Sovacool (ed.), *The Routledge Handbook of Energy Security*, Routledge, London, 2011, pp. 1–42.

<sup>3</sup> [http://ec.europa.eu/energy/security\\_of\\_supply\\_en.htm](http://ec.europa.eu/energy/security_of_supply_en.htm).

between the EU and Russia were reaching new heights after Russian intervention in Ukraine, and proposed the following measures to help deal with the EU's energy vulnerabilities:

1. Immediate actions aimed at increasing the EU's capacity to overcome a major disruption during the winter of 2014/2015.
2. Strengthening emergency/solidarity mechanisms, including coordination of risk assessments and contingency plans, protecting strategic infrastructure.
3. Moderating energy demand.
4. Building a well-functioning and fully integrated internal market.
5. Increasing energy production within the European Union.
6. Further developing energy technologies.
7. Diversifying external supplies and related infrastructure.
8. Improving coordination of national energy policies and speaking with one voice in external energy policy.

Another factor influencing current and future energy relations between Russia and the EU is the imposition of restrictive measures by the EU and the U.S. on some elements of energy cooperation between Russian and Western energy companies working in the deep-water and offshore areas of the Russian Arctic. Restrictions on access to Western capital and credit for Russian energy sector companies are also a factor to be reckoned with. These restrictive measures are aimed primarily at new projects in the Russian oil sector, for which Russian partners need Western funding, expertise and technology. Such measures do not, for the time being, have a direct impact on oil flows between Russia and the EU, but may delay completion of projects that are to help Russia maintain the current level of oil production and replace falling oil production from current fields with production from new, more technologically demanding fields offshore and in the Arctic areas.

Russian reactions to the West's sanctions have also contributed to raising the stakes in energy relations. The increasing tension between Russia and the West has clearly boosted the Russian leadership's work on diversification of Russian energy markets—a number of energy deals with China have been concluded, in order to increase the share of the Asian market in Russian energy exports and thus reduce Russia's dependence on the European gas market. The first deal, for the supply of 30 bcm/year of gas from eastern Siberia—the Sila Siberii project—was concluded in May 2014. The second, relating to the construction of the Altai gas pipeline linking Russian gas fields in western Siberia with the Chinese market, which will increase Russian gas exports to China by another 30 bcm/year, was reached in November 2014. In addition, Russia's president, Vladimir Putin, announced in December 2014 that the South Stream project that was to supply the EU with 63 bcm of Russian gas and reduce both Russia's and the EU's transit dependence on Ukraine was to be shelved, in response to the EU's policy. However, Russia is trying to offset this decision by creating a gas hub in Turkey close to the border with Greece, which would open the way for an alternative access route to the EU in the future.

### **What the EU Can and Should Do to Deal with the Impact of the Ukrainian Crisis on Its Energy Security**

The EU official statements on energy security, made during the Ukrainian crisis, proposed a set of measures to be taken to map and reduce the risks to energy security. The European Commission carried out energy security stress tests to simulate a disruption in the gas supply for the coming winter, and to check how EU's energy system could cope with such risks.<sup>4</sup> The EU was also to develop emergency plans and back-up mechanisms, including increasing gas stocks, developing emergency infrastructure such as reverse

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<sup>4</sup> [http://ec.europa.eu/energy/stress\\_tests\\_en.htm](http://ec.europa.eu/energy/stress_tests_en.htm).

flows, reducing short-term energy demand, and switching to alternative fuels as possible replacements for Russian gas.

The stress tests were conducted in 38 countries—EU Member States and members of the Energy Community—during this summer and autumn, following the European Commission's launch of the European Energy Security Strategy in May 2014, and at the request of the European Council in June. Four scenarios were considered during this exercise—a complete halt to Russian gas imports to the EU for a period of one month, and of six months; and a disruption of Russian gas imports through Ukrainian territory for the same periods. The tests demonstrated that supply disruption would have a substantial impact on the EU, and particularly on EU countries in Eastern Europe, and other members of the Energy Community. However, protected consumers would receive the supplies required even in the event of a six-month disruption, provided that all countries cooperated with each other.

The stress tests also resulted in some recommendations on how to deal with the situation in the months to come, to help ensure secure supplies and a better functioning internal energy market. More specifically, it was recommended that countries should follow a market-based approach, avoid interventionist measures, and increase energy coordination with each other, including through the maximisation of interconnector capacity and the removal of restrictions to cross-border energy trade. In addition, public authorities and industry should share responsibility through the implementation of the EU's Security of Gas Regulation, while short-term behavioural changes should be encouraged to boost energy efficiency and lower demand, and the EU's Gas Coordination Group should monitor developments in the gas supply continuously.

The EU was also to engage with its international partners to develop new solidarity mechanisms for sharing natural gas and the use of gas storage facilities.

In order to reduce the risk of gas supply disruption, the EU also decided to play a role in making Russia and Ukraine sign a new deal on gas supplies. The deal concluded on 30 October 2014 solved some of the most burning short-term issues in their gas relations, without solving the most crucial medium and long-term questions. This deal, signed under the auspices of the EU, has reduced the immediate risks to the EU's gas supplies, but the most crucial medium and long-term risks to EU energy security, caused by the EU's strong energy dependence on Russia, are yet to be properly addressed.

Finally, partly in response to the Ukrainian crisis, the EU also decided to improve its energy governance by making energy policy one of the areas on which the new European Commission is to focus. This new approach is reflected in a new structure and new goals assigned to those responsible for designing and implementing the common EU energy policy. Maroš Šefčovič, the former Slovak ambassador to the EU, and graduate of the prestigious Moscow State Institute of International Relations (MGIMO), was appointed new vice-president of the Commission for Energy Union. He is to steer and coordinate the work of several commissioners, whose cooperation is crucial for making the EU's common energy policy both more comprehensive and more efficient. In particular, his cooperation with the commissioners for climate action and energy, transport, the internal market, industry, entrepreneurship and SMEs, the environment, maritime affairs and fisheries, and research, science and innovation, will be crucial for the EU's future energy policy and security. In order to make the EU more energy resilient, the new commission will have to pay special attention to areas identified as most crucial in the recently published study on energy security. Šefčovič has already presented his views on how to address the most critical questions facing the EU in the field of energy. In his speeches on 13 and 17 November 2014 he promised to focus his work on Energy Union on five issues: 1) security, solidarity and trust 2) completing the internal market for energy 3) moderation of demand 4) decarbonisation of the EU energy mix 5) research and innovation in the field of energy.<sup>5</sup>

## Conclusions

Russian actions in Ukraine have, over the last ten months, challenged the very basic norms promoted by the EU, and have gravely undermined the existing international order. Russia has breached international

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<sup>5</sup> [http://europa.eu/rapid/press-release\\_SPEECH-14-1684\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-1684_en.htm) and [http://europa.eu/rapid/press-release\\_SPEECH-14-1883\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-14-1883_en.htm).

law and invaded a neighbouring country to punish it for its pro-Western choice. Russia's violation of international norms in Ukraine has had consequences for the EU's thinking about energy cooperation with Russia. The Russian–Ukrainian crisis has also made the EU more aware of the risks to which its energy security is exposed, partly due to the lack of diversification of suppliers and supply routes, and even more so because of its increasing dependence on imports from Russia. However, more action is needed to translate those new ideas into an efficient energy policy towards Russia, which is re-emerging as a power in Europe.

Even before the outbreak of the current crisis, the EU had apparently almost lost hope that its energy interests could converge with those of Russia. Russia's decision to withdraw from the Energy Charter Treaty in 2009 was a clear sign that the EU's policy of building a common legal space for energy cooperation between producers and consumers had not been successful. It was however hoped that Russia could still be persuaded to act in a rational manner and see energy cooperation with the EU as a win-win game. In order to make Russian and other players who wanted to have access to the highly profitable EU energy market play by the rules regulating its single market, the EU launched its Third Energy Package and tried to project its regulatory power in that manner. The increasingly assertive Russia, ruled since 2012 by Putin, with his agenda of restoring his country's status as a great power, was not very receptive to those attempts and decided to act as a revisionist power, undermining the stability of the existing post-Cold War order.

Russian actions in Ukraine have therefore forced the EU and many Member States to seriously reconsider their energy relations with Russia, and to design and implement measures to address short, medium and long-term energy-related challenges. The EU decided that the time was ripe to improve its energy governance, as a response to new energy security challenges emerging from the Russian–Ukrainian crisis. The EU institutional machinery has been reset and the new energy policy towards Russia is being designed. The trust upon which attempts to build relations between the two over the past 20 years seems to be dead and gone, and the EU is therefore being forced to reinvent its energy partnership with Russia. The EU will most probably seek to reduce its energy dependence on Russia further, by trying to attract new suppliers, reducing its energy consumption, and replacing Russian supplies with other sources of energy available locally, most probably renewables and other more environmentally friendly and less politically challenging types of energy.

There is no doubt whatsoever that the Russian–Ukrainian crisis has dealt a heavy blow to EU–Russian political relations, nor that it has already had an impact on their energy cooperation and will continue to have a mostly negative impact on these relations in years to come. The shape of the new EU energy policy is still unclear, but the crisis has given a new lease of life to the European debate on the future of the European energy system and the role that external energy suppliers are to play in this new setting.



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