

# Energy Security: At Last, A Response from the EU

**James Sherr**  
**Conflict Studies Research Centre**  
**UK Defence Academy**  
**(07/10)**

**March 2007**

Will energy security be the death knell of Euro-scepticism? Or will it be the death knell of the EU? There might not be a third option. In the days when security was mainly guaranteed by armed forces, those who championed the supremacy of the nation state could be confident that when collective security was threatened, Europe could rely upon NATO. But today, when in the words of Russia's official energy strategy, it is energy which 'to a large extent determines the country's place in geopolitics', then NATO, in the words of its Riga Summit Declaration, can at most 'add value' to what only the EU can do.<sup>1</sup>

But will the EU do it? Will it persuade *Gazprom*, *Transneft* and the Kremlin that they are dealing not with 27 'little platoons', but an integrated and toughly regulated internal market? Will it enforce its longstanding principles of market liberalisation, transparency and competitiveness not only in defiance of Russia's energy giants, but the 'national energy champions' of some of its own member states? Will it apply its oldest principle, solidarity, in support of members facing asset grabs, ultimata and supply cut-offs—and governments exposed to bribery and blackmail? Or will it fail to display the quality that Ernest Renan defined as essential to a nation: 'the sentiment of shared sacrifice'? Without this sentiment, how can the EU 'move beyond' the nation state or even remain a repository of trust for new members and a pole of attraction?

Therefore, today's Euro-sceptic does not fear the power of the EU, but its fragmentation and impotence. Yet he can finally draw some comfort. On 10 January of this year, the European Commission published a 29 -pg document entitled 'An Energy Policy for Europe'. Its language is unusually forthright and its recommendations unusually bold. Mindful not only of rising EU energy demand, but of 'external vulnerability'—the progressive concentration of hydrocarbon reserves in a few hands, the 'discrimination and abuse' of monopoly and the overwhelming dependence of several member states on 'a single supplier'—its unmistakable conclusion is that 'this situation cannot continue'. 'A common voice' in energy policy (which already exists in trade) has become 'crucial to geopolitical security', and energy must now 'become a central part of all external EU relations'. [author's emphasis]<sup>2</sup>

On 8-9 March the European Council convened for a summit to discuss climate change and energy security (although even the quality British and American press managed to ignore the latter theme almost entirely). Prior to the summit, the expectation of many experts was that the Council would water down the Commission's recommendations, particularly the most radical one: the 'unbundling' of large, vertically-integrated national energy companies of several EU member states which, like mini-*Gazproms*, control energy networks, production and sales in their respective countries. In the event, the Action Plan, published as Annex 1 to the Presidency's Conclusions, turns out to be, like the Commission's 'Communication' itself, unusually robust.<sup>3</sup> Amongst the recommendations are:

- 'timely and full implementation of the letter and spirit of existing Internal Market legislation [in order to promote] a truly competitive, interconnected and single Europe-wide internal energy market';<sup>4</sup>

- ‘effective separation of supply and production activities from network operations’;<sup>5</sup>
- ‘effective diversification of energy sources and transport routes’;<sup>6</sup>
- acceleration of ‘a common approach to external energy policy...developing the common voice of the EU’, with reference to ‘intensifying...the relationship with Central Asia, the Caspian and the Black Sea regions’ and with ‘producing countries in the Mashreq/Maghreb region’, as well as ‘ensuring the implementation of the Energy Community Treaty’ and its ‘possible extension to Norway, Turkey, Ukraine and Moldova’;<sup>7</sup>
- ‘adequate interconnection in particular of isolated energy markets’ with priority to ‘the Power-Link between Germany, Poland and Lithuania...offshore wind power, electricity interconnections between France and Spain and the Nabucco pipeline, bringing gas from the Caspian to central Europe’;<sup>8</sup>
- ‘EU-wide development of renewable energies’ including a ‘binding target of 20 per cent’ in renewables and ‘a 10 per cent binding minimum’ for biofuels in transport by 2020;<sup>9</sup>

These recommendations almost entirely replicate those of the Commission’s Communication of 10 January.<sup>10</sup> Yet in one area with a clear bearing on Russian energy policy, the Council goes further, inviting the Commission:

- to assess the impact of vertically integrated energy companies from third countries on the internal market and how to implement the principle of reciprocity;<sup>11</sup>

An action plan is, of course, different from action. But if implemented, these measures will have far-reaching consequences. They will bring the EU into partnership with the United States, Azerbaijan, Georgia and other countries seeking to develop transport routes independent of Russia. They will address the most acute energy security problem faced by Lithuania and several other new member states: energy isolation, brought about by the eastward orientation of pipeline infrastructure and the absence of electricity connections to the rest of the EU. And whilst the national energy giants and their respective governments will not roll over on receipt of these conclusions, they are now on the defensive politically and legally. The EU Directorate for Competition under Commissioner Neelie Kroes has already shown that it needs no incentive to enforce Community legislation or remind even the strongest players that the rules are the rules. But will these rules be enforced in the face of determined opposition from Russia?

## **The Russia Complex**

The Russia complex is, as ever, a combination of overweening confidence and congenital insecurity. From the vantage point of Kyiv, Vilnius and Warsaw, Russia under Putin has acquired money, power and the determination to use both. But from the vantage point of Beijing, Tokyo, Seoul and even Almaty, Russia is a country characterised by stark demographic imbalances, decaying infrastructure, dysfunctional governance and chronic underinvestment. It is this combination of ambition and vulnerability which makes partnership with Russia so difficult. Where energy is concerned, this difficulty is felt in four respects:

(1) *Divergent Economic Cultures*. Russia under Putin has experienced a considerable re-nationalisation of economic power with a strong security service component. Like the

defence sector in Soviet times, the energy sector is now seen by many as the engine of growth and modernisation. Although leading Russian experts have exposed the deficiencies of this model, it has brought short-term prosperity and the appearance of international success.<sup>12</sup> This appearance of success makes it exceedingly difficult for the EU to speak to Russia with authority, let alone persuade it that its approach needs adjustment. To Russia's energy mastodons, 'markets' exist wherever money-commodity relations exist, however unbalanced, inequitable or monopolistic they are. But to the European Commission, monopoly is the antithesis of markets, which, in principle, mean choice for buyer and seller. To Alexei Miller, head of *Gazprom*, energy security is guaranteed by a strong vertical of integration and control: 'the regulation from a single centre of regimes of extraction, transport, underground storage and sales'.<sup>13</sup> From the Commission's perspective, it is guaranteed by an impartial and effective regulatory framework and by 'diversity with regard to source, supplier, transport route and transport method'.<sup>14</sup>

(2) *The emerging gas deficit.* The Russian fuel and energy complex has become an increasingly important prop for the authority of a state congenitally distrustful of decentralisation, alarmed by demographic trends and conscious not only of China's power, but the emerging aspirations of resource rich Central Asian states. It is this which largely explains the Kremlin's arduous efforts to limit the presence, bargaining power and 'centrifugal influences' of independent energy actors, whether foreign or domestic (e.g. the former YUKOS). Yet without major restructuring and market liberalisation, Russia will not meet projected energy demand at home or abroad. Production at three of *Gazprom's* four major fields is already declining. Even to maintain current levels of production, the International Energy Agency calculates that 200 bcm [bn cubic metres] per annum will need to be produced in new fields by 2015: a project which qualified experts believe demands \$11 bn p.a. in investment. But such investment is not taking place. In the oil sector, the picture is no more encouraging.

(3) *An aggressive rather than productive pattern of investment.* *Gazprom's* current investment strategy appears to be focused on compensating for Russia's emerging gas deficit rather than remedying it. Whilst under-investing in new fields and refurbishment of internal infrastructure, it has displayed a marked appetite for export infrastructure, downstream (i.e. foreign) acquisitions and non-gas projects, whilst conducting what Mikhail Gonchar calls an 'active hunt' for energy resources in other parts of the world.<sup>15</sup> In alliance with the Kremlin, it also seems determined to use every means at its disposal to derail new energy projects that exclude Russia, such as Nabucco and the South Caspian Gas Pipeline. Yet when pressed to say where the gas from Russia's own pet projects will come from, there are no credible answers. Whatever the motive behind this behaviour, it would be perilous for the EU to reward it. By doing so, it will surrender its primary means of escape from Russia's already palpable energy crunch. It will make itself increasingly hostage to Russia's energy deficit and whatever steps the Kremlin takes, or fails to take, to address it.

(4) *Geo-economics in the 'Near Abroad'.* The 'legacy' issues of inter-elite ties, similar bureaucratic and business cultures, as well as the multiplicity of economic linkages and dependencies means that energy will continue to provide Russia with opportunities for geopolitical tradeoffs and inducements to limit the sovereignty and *samostoyatel'nost'* [capacity to exercise independence] of neighbours. Why should such opportunities not be utilised in future as they have been used in the past? Yet today there is a more worrying question. Given the profitability of the EU market, the needs of the Russian economy and the Kremlin's fear of popular discontent, then upon whom will the scissors close as Russia's resource constraints mount? The answer is inescapable: energy dependent neighbours.

## Ukraine: A Pivot of Energy Security?

Ukraine matters, and the EU knows it. It was, after all, the January 2006 cut-off of the Druzhba pipeline, supplying over 80 per cent of the gas that the EU imports from Russia, that prompted the EU to reconsider the mantra that 'Russia is a stable and reliable supplier of energy'. But the EU does not know what to do about Ukraine except wait. This is because it equates *dvoevlastie* [divided power] with paralysis, rather than ferment. In this it is mistaken, and the mistake could become obvious during the presidential and parliamentary elections of 2009 and 2010 respectively. But apart from former Prime Minister Yulia Tymoshenko, many Ukrainians best placed to point out this mistake today are unconvincing communicators.

Clarity is needed from Ukraine. This is because Ukraine is part of the EU's energy problem: not only thanks to the *Druzhba* pipeline but because, with a GDP one-quarter that of Belgium, Ukraine is the sixth largest consumer of gas in the world. New efficiencies and new investment demand an energy economy constructed on the basis of rules rather than deals. If Ukrainians who share this vision do not make themselves known in Brussels, then Ukraine's 'European course' will bear no resemblance to the EU's European course. Clarity is also needed, indeed candour, to counter the danger that the EU, armed with more scepticism than knowledge, will make decisions that impact unfavourably on Ukraine. In other words, Ukraine needs to demonstrate that it can be part of the solution.

The first step in this direction has already been taken: the law on gas pipelines passed by the Verkhovna Rada (parliament) and signed into law by President Yushchenko on 6 February. Following a round of worrying negotiations between Ukraine and Russia and an even more worrying series of leaks that a final surrender to *Gazprom* was under way, this law bars the sale of Ukraine's state owned pipeline network: a network which many across the political spectrum in Ukraine regard as a guarantee of the country's independence. But the 6 February model needs to be more broadly applied:

- against the proposed Bohorodchany-Uzhhorod gas pipeline, which would make the EU and Ukraine even more dependent on Russian gas and undercut part of the market rationale for Nabucco;
- against the moves afoot to transfer stakes in regional energy distribution companies to *Gazprom*: yet a further step to circumvent the 6 February law;
- against plans (some well advanced) to grant access to Black Sea gas deposits on the basis of inter-governmental understandings with Russia rather than open market tender;
- against the final assault on Ukraine's state energy company, *Naftohaz Ukrainiy*, and the transfer of vital revenue from an entity which can be audited and monitored to another entity, the opaque and partially Russian controlled *UkrGazEnergo*, which cannot.

Outside parliament, the other founders of the 6 February model need to become more cohesive and visible. Since absorbing the implications of the establishment of *RusUkrEnergo*—the murky entity half controlled by *Gazprom* and half by unknown Ukrainian directors, which emerged as part of the 'resolution' of the winter 2005-06 gas crisis—President Yushchenko's instincts about energy security have been largely unerring. His group of officials responsible for energy policy in the Presidential Secretariat and the National Security and Defence Council includes individuals of outstanding calibre. But has the group become a team? Are European capitals aware of its existence? Is it generating a body of ideas and alternative policies that can be put to use once it becomes clear, even to the government itself, that the present course leads to surrender and penury?

Moreover, it is presidential institutions in Ukraine, not parliament, who must take the lead in responding to the three seismic shifts that have taken place in the geopolitics of energy since the end of last year. The first of these is the decision by Azerbaijan to defy Russia, assist Georgia and proceed with projects (including the Kars-Tbilisi-Baku railway) that promise to provide effective energy connections between the Caspian, the South Caucasus, the Black Sea region and Europe. This change of course is bringing GUAM back from the dead. The second shift is the quiet but unmistakable realisation in Kazakhstan that the EU formula of 'diversity with regard to source, supplier, transport route and transport method' now serves its own interests and is coming within its means. The third is President Lukashenka's brutal realisation that his policies have left Belarus with no energy security at all. For the first time since 1994 the possibility of direct energy connections between the Baltic and Black seas is now open. The question before Ukraine is so inescapable that even the government of Prime Minister Yanukovich understands it: is Ukraine to be a cavity in this matrix or part of the glue that holds it together?

Is the EU prepared to be part of the glue that holds it together? Despite the Commission's Communication and the EU Action Plan, that is still in doubt, because too many dogmas, habits of mind and narrowly construed national interests stand in the way. Clarity is therefore needed from the EU as well. It must ask itself what it wants in Ukraine, the South Caucasus and the Caspian, and it must ask itself what it will contribute in order to get it. Only then will it be able to reformulate the old question with new authority: where is Ukraine going and with whom?

## Endnotes

<sup>1</sup> *Energy Strategy of Russia to 2020 [Energeticheskaya strategiya rossii na period do 2020]* (Government of the Russian Federation, 28 August 2003, No 1234-g). The first paragraph states that Russia's 'powerful energy sector' is 'an instrument for the conduct of internal and external policy' and that 'the role of the country in world energy markets to a large extent determines its geopolitical influence'.

<sup>2</sup> Emphasis added. 'Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe', {SEC(2007) 12}, Brussels 10.1.2007, COM(2007) 1 final [Hereafter, Communication]

<sup>3</sup> 'European Council Action Plan (2007-2009): Energy Policy for Europe (EPE)' (Annex 1 of *Presidency Conclusions: Brussels European Council 8/9 March 2007, 722407*) [Hereafter, AP]

<sup>4</sup> AP, pg 16.

<sup>5</sup> AP, pg 16.

<sup>6</sup> AP, pg 18. The Commission's formula has more punch: 'diversity with regard to source, supplier, transport route and transport method'

<sup>7</sup> AP, pg 19.

<sup>8</sup> AP, pg 18.

<sup>9</sup> AP, pg 21.

<sup>10</sup> In deference to Austria, Ireland and some other member states, the Council merely 'notes' the Commission's commitment to enhancing nuclear energy and leaves nuclear policy to 'each and every Member State'. AP, pg 23.

<sup>11</sup> AP, pg 17.

<sup>12</sup> Especially trenchant are the criticisms of former Deputy Energy Minister Vladimir Milov, e.g. *The Power of Oil and Energy Insecurity* (Moscow: Institute of Energy Policy, January 2006) and President Putin's former economics adviser, Andrei Illarianov. Four concerns have been raised: unfounded optimism about the long-term benefits of energy led growth, vulnerability to price fluctuations, the diseconomies of concentration and state control and the diversion of focus from urgently needed reforms

<sup>13</sup> Address to EU ambassadors, 18 April 2006. [*Rasshirovka vystupleniya Predsedatelya Pravleniya OAO <Gazprom> Alekseya Millera na vstreche s poslami stran Evropeyskogo Soiuzna v rezidentsii posla Avstrii*]

<sup>14</sup> Communication, pg 10.

---

<sup>15</sup> Mikhail Gonchar, 'Russian Energy Policy in the Context of the Diversification of Markets and the Current Gas Deficit: Conclusions for the EU and Ukraine', pg 4 [*Rossiyskaya energeticheskaya politka v kontekste diversifikatsii rynkov i vznikaiushchikh tekushchikh resursnykh defitsitov: viyvodiy dlya ES i Ukrainiy*] (NOMOS: Centre for the Promotion of the Study of Geopolitical Problems and Euro-Atlantic Cooperation in the Black Sea Region: Sevastopol and Kyiv, 2006)

**This is an updated version of an article which appeared in Zerkalo Nedeli, No 8(638), 8-16 March, 2007**



**Disclaimer**

The views expressed in this paper are entirely and solely those of the author and do not necessarily reflect official thinking and policy either of Her Majesty's Government or of the Ministry of Defence.