

# CONNECTIONS

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EU-Russia Energy Diplomacy: 2010 and Beyond? .....	1
<i>Irena Dimitrova</i>	
China's Strategic Growth Sustainment: Accidental Leader? .....	17
<i>Zdzislaw Sliwa</i>	
In the Shadow of Great Powers: A Comparative Study of Various Approaches to Regionalism in Central Asia .....	37
<i>Xu Zhengyuan</i>	
Modeling Defense Acquisition Strategy .....	53
<i>Venelin Georgiev</i>	
The Russo-Chinese Strategic Partnership: Oil and Gas Dimensions .....	69
<i>Jean-Marie Holtzinger</i>	
Security Implications of Neutrality: Switzerland in the Partnership for Peace Framework .....	83
<i>Marjorie Andrey</i>	
The Armed Forces' Development at the Beginning of the Twenty-First Century from the Polish Perspective.....	97
<i>Stanisław Zajas</i>	

# EU-Russia Energy Diplomacy: 2010 and Beyond?

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## Introduction

There are three major players in the arena of European energy security: the European Union, its individual member states, and Russia, which is currently the EU's most important energy supplier.<sup>1</sup> Other concerned parties include candidates for EU membership and those nations that aspire to candidacy. Countries through which Russian gas must travel en route to markets in Western Europe, possible gas suppliers from the Caucasus and Central Asia, and the United States also have significant roles to play. This essay focuses on researching the nature of the European Union's energy relations with Russia in terms of natural gas supply, from the perspective of the member states.

Moscow poses an energy challenge by applying this income-based economic relationship as a tool of soft power towards individual member states as well as toward the European Union as a collective body. The last supply cuts in 2009 intensified questions about the EU's energy dependency on Russia. From being more energy independent in the past, "old" EU members such as Germany and Italy have become increasingly reliant on Russian imports. At the same time, due to their almost complete dependence on Russian gas supply that is provided through existing pipelines, some "new" EU members are striving to diversify their suppliers, routes, or both. Fragmentation of the gas market, competition for preferential deals, and the lack of a coherent energy policy are making the EU more vulnerable to supply reductions. This risk is rising in strategic importance for security practitioners and policy makers in Europe, and requires a long-term strategy beyond one government's limited political mandate.

The focus of this essay is EU-Russia energy diplomacy, viewed through the prism of the two main pipeline projects for gas supply: Nabucco and South Stream. The Nabucco project, backed by the EU and U.S., challenges both Russia's strategic interests in Europe and in its near abroad.<sup>2</sup> In response, Moscow introduced two major pipeline projects aimed at diversifying supply routes to Europe: Nord Stream and South Stream.

The first section of the article explains where we are in 2010, suggests that the two parties are interdependent in their energy relations, explores the approaches they apply,

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<sup>1</sup> European Union, "Europe's Energy Portal – Gas & Electricity," available at [www.energy.eu/#dependency](http://www.energy.eu/#dependency).

<sup>2</sup> In Russian political language, this term refers to the former Soviet republics.

and elaborates on some aspects of the two main pipeline projects. Russia stands for a multipolar world and multilateralism in principle,<sup>3</sup> but in reality it acts bilaterally when dealing with energy matters. Its policy with regard to how it uses its energy resources is strategic, focused, and consistent. Moscow is “economizing” its foreign policy by using soft power (in the form of European dependence on Russian natural resources) to influence EU states on security matters.

The European efforts to reduce dependence on Russian gas are still unconsolidated, even though there is a consensus among the EU member states on the need for a secure energy supply. That is why the EU case is presented here mainly from the perspective of the individual member states, rather than that of the EU as a whole. Despite applying the EU’s Common Foreign and Security Policy (CFSP), member states also often prefer a bilateral approach to securing their energy supplies. They seek to diversify their energy sources in different ways, due to their aspirations for resources and transportation fees. Some are even duplicating their policies regarding Nabucco and the South Stream, insisting that these two projects are not in competition with each other. As a result, the EU gives the impression of being weak, short-term oriented, and rhetorically unfocused. Furthermore, when comparing the two projects, both present uncertainty with regard to possible energy sources and financing.

The second section of the essay identifies some security implications of Russia’s “pipeline diplomacy”: the “divide and conquer” approach towards the European Union members and other nations in Russia’s near abroad and its influence on EU and NATO decisions; the crisis in Georgia; and the Ukraine case. In conclusion, this article will argue that the bilateral approach still prevails over the multilateral approach in EU-Russia energy diplomacy at this stage. As a result, Russia is much closer to its objective of monopolizing control over the European market than the EU is in its efforts to diversify its sources of energy. Russia’s offensive energy strategy has proven successful in achieving Moscow’s political goals and undermining the EU as international player. It is still unclear if the EU’s defensive measures will be of any help in case of a future energy disruption. The “single player” attitude of the member states might challenge the Lisbon Treaty’s solidarity clause, and could even threaten the EU’s unity. In order to prevent further vulnerability and guarantee its future as a global player, the EU has to consider this challenge as an opportunity to develop and implement a common energy policy. The first step in that direction is to begin viewing its energy relations with Russia as interdependent. The research presented here is primarily based on contemporary documents, analyses, and commentaries. Official websites and policy papers are used as sources as well.

## **Where We Are in 2010**

The EU and Russia are interdependent in their energy relations. Europe is the world’s largest gas and oil market, and its imports are expected to increase by 75 percent by

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<sup>3</sup> “National Security Concept of the Russian Federation,” *Rossiiskaya Gazeta* (18 January 2000); available at [www.fas.org/nuke/guide/russia/doctrine/gazeta012400.htm](http://www.fas.org/nuke/guide/russia/doctrine/gazeta012400.htm).

2035.<sup>4</sup> The EU imports 40 percent of its gas from Russia, and is looking for new supplies to meet its growing demand. The EU aims at diversifying its sources and routes with pipeline projects like Nabucco, which aims to connect European markets to supplies of natural gas in Central Asia and the Middle East, and will run from eastern Turkey to Austria.

The EU is Russia's largest hydrocarbons export market. Russia's economy is heavily dependent on oil and natural gas exports, which accounted for 30 percent of all foreign direct investment (FDI) in the country in 2007.<sup>5</sup> Gas resources, secure transit routes, and timely payments from customers are essential for Moscow's energy policy to be successful. Following the EU's decision to designate Nabucco a "priority project"<sup>6</sup> in 2004, Russia announced its own South Stream pipeline project in 2007, which is intended to transport Russian natural gas across the Black Sea to Bulgaria, and then on to Italy and Austria. Moscow fiercely promotes South Stream as a "project aimed at strengthening European energy security," and has denied that it is intended as a competitor to the Nabucco pipeline.<sup>7</sup> There is a growing tendency among European states to take part in both projects, although it is quite clear that the two pipelines are competing to transport gas basically to the same consumers, and likely from some of the same suppliers. The considerations behind both projects are more political than economic, given the fact that Nabucco would go out of its way to avoid going through Russia, and the South Stream would provide gas from Russia to Europe under the Black Sea, bypassing Ukraine.

### *Russia's Approach*

Russian pipeline politics are gaining momentum, using a classic "divide and conquer" strategy. Zbigniew Brzezinski describes the Russian pipeline projects as driven by a grand ambition to "separate Central Europe from Western Europe insofar as dependence on Russian energy is concerned."<sup>8</sup> Russia's leadership maintains mutually beneficial energy relations with major European players like Germany, Italy, and France (Paris was seduced into the South Stream project with a 10 percent share). Moscow's cozy relations with Rome could be easily perceived at the videoconference Russian Prime Minister Vladimir Putin and Italian Prime Minister Silvio Berlusconi held in October 2009 in Moscow with their Turkish counterpart Recep Erdogan to discuss

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<sup>4</sup> European Union, "Report on the Implementation of the European Security Strategy," 11 December 2008, S407/08; available at [www.eu-un.europa.eu/documents/en/081211\\_EU%20Security%20Strategy.pdf](http://www.eu-un.europa.eu/documents/en/081211_EU%20Security%20Strategy.pdf).

<sup>5</sup> According to IMF and World Bank estimates, source: U.S. Energy Information Administration, at [www.eia.doe.gov/cabs/Russia/Background.html](http://www.eia.doe.gov/cabs/Russia/Background.html).

<sup>6</sup> Directorate-General for Energy and Transport, European Commission, *Trans-European Energy Networks: TEN-E Priority Projects* (Luxembourg: Office for Official Publications of the European Union, 2004); available at [http://ec.europa.eu/ten/energy/studies/doc/2004\\_brochure/ten\\_e\\_priority\\_projects\\_2004\\_en.pdf](http://ec.europa.eu/ten/energy/studies/doc/2004_brochure/ten_e_priority_projects_2004_en.pdf).

<sup>7</sup> Gazprom's official website, at <http://old.gazprom.ru/eng/articles/article27150.shtml>.

<sup>8</sup> Andrew E. Kramer, "Russia Gas Pipeline Heightens East Europe's Fears," *New York Times* (12 October 2009); available at [www.nytimes.com/2009/10/13/world/europe/13pipes.html](http://www.nytimes.com/2009/10/13/world/europe/13pipes.html).

joint projects.<sup>9</sup> The development of the South Stream project clearly demonstrates how focused and consistent Russian efforts are in drawing more states into the fold of its energy policy, paying special attention to the ones that partner in the rival Nabucco (see Table 1 below). The Russian state-controlled energy giant Gazprom is continuously adding new counterparts to the pipeline project. Even Austria, the stronghold of Nabucco since 2002, is negotiating on possible participation in the competing South Stream project.<sup>10</sup> The Russian side is rightfully expecting this process to be more difficult, even though “Vienna is unlikely to miss the chance of having two pan-European pipelines on Austrian territory.”<sup>11</sup>

Table 1: South Stream Project Developments.

<i>Country (partner)</i> <sup>12</sup>	<i>Date</i>
<i>Russia</i>	
• Gazprom <sup>13</sup>	2006
<i>Italy</i>	
• ENI MoU with Gazprom	23 June 2007
• South Stream AG registered in Switzerland	18 January 2008
• Gazprom and ENI sign 2nd Addendum to MoU on further actions as part of the South Stream project (Gazprom 50%, ENI 40%, EDF 10%)	15 May 2010
<i>France</i>	
• EDF purchases 10 percent share of South Stream AG	27 November 2009
<i>Bulgaria</i>	
• Intergovernmental agreement for participation in the project	18 January 2008
• Gazprom and the Bulgarian Energy Holding (BEH) sign Cooperation Agreement on the framework of South Stream project implementation.	15 May 2009
<i>Serbia</i>	
• Umbrella Intergovernmental Agreement for the South Stream project and the Banatski Dvor UGS gas storage	25 January 2008
• Gazprom and Srbijagas sign an Agreement of Cooperation to implement a gas pipeline construction project for	25 February 2008

<sup>9</sup> Official transcript of videoconference between Vladimir Putin, Silvio Berlusconi, and Recep Erdogan (22 October 2009); available at <http://government.ru/eng/docs/7954/>.

<sup>10</sup> “Austria in talks with Russia over South Stream,” *eubusiness.com* (21 November 2009); available at [www.eubusiness.com/news-eu/austria-russia-gas.1kt](http://www.eubusiness.com/news-eu/austria-russia-gas.1kt).

<sup>11</sup> Oleg Mityayev, “Austria and Slovenia to Join South Stream,” *RIA Novosti* newswire (10 November 2009); available at <http://en.rian.ru/analysis/20091110/156787969.html>.

<sup>12</sup> Highlighted countries are part of Nabucco as well.

<sup>13</sup> Source of data for the agreements: Gazprom’s official website, at <http://old.gazprom.ru/eng/articles/article27150.shtml>.

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natural gas transit across the territory of the Republic of Serbia

- Gazprom and state-owned Srbijagas sign Principal Conditions of the Basic Cooperation Agreement for constructing the South Stream gas pipeline and natural gas transmission across Serbia, as well as a MoU for cooperation in gas storage within the Banatski Dvor project 24 December 2008
  - Gazprom and Srbijagas sign Basic Cooperation Agreement 15 May 2010
- 

### Hungary

- Intergovernmental agreement envisaging Hungary's engagement in the South Stream project
  - Gazprom and Hungarian Development Bank (MFB) sign a Basic Cooperation Agreement on the South Stream project implementation
- 

### Greece

- Intergovernmental agreement to construct a South Stream gas pipeline section in Greece
  - Gazprom and DESFA sign Basic Cooperation Agreement on the South Stream project
- 

### Turkey

- Decision that enables it to start laying a gas pipeline system on the seabed of the Black Sea from Russia to Bulgaria and in the exclusive economic zone of Turkey
- 

### Austria<sup>14</sup>

- Currently negotiating
- 

### Slovenia<sup>15</sup>

- Intergovernmental agreement on building and utilizing the South Stream gas pipeline 14 November 2009
- 

### Croatia<sup>16</sup>

- Currently negotiating Possibly the first quarter of 2010
- 

### Romania<sup>17</sup>

- Declared interest in replacing Bulgaria as the main European transit hub 16 December 2009
- 

<sup>14</sup> "Russia, Austria Urge States to Expedite South Stream Deal," *RIA Novosti* (11 November 2009); available at <http://en.rian.ru/russia/20091111/156797045.html>.

<sup>15</sup> "Russia, Slovenia Premiers among 70,000 WC-2010 Football Fans," *RIA Novosti* (14 November 2009); available at <http://en.rian.ru/russia/20091114/156838019.html>.

<sup>16</sup> "Russia, Croatia to Sign South Stream Deal in 2010," *The Journal of Turkish Weekly* (15 December 2009); available at [www.turkishweekly.net/news/93887/russia-croatia-to-sign-south-stream-deal-in-2010.html](http://www.turkishweekly.net/news/93887/russia-croatia-to-sign-south-stream-deal-in-2010.html).

<sup>17</sup> "Turkey, Romania Interested in South Stream Gas Project – Gazprom," *RIA Novosti* (28 September 2009); available at <http://en.rian.ru/russia/20090928/156276112.html>.

The same is true for Bulgaria, a crucial state for the South Stream project. Its newly elected government's decision to review the country's energy projects raised some tensions with Russia. A possible Bulgarian withdrawal would threaten Russia's pipeline project, but according to the Russian energy minister, there is simply a need to "[intensify] negotiations on a corporative level."<sup>18</sup> As some Russian analysts put it, there are two ways to respond to Bulgaria's requirements: either to accept them and to pay more, or to postpone the project one more year, until Bulgaria's current gas contract expires and Sofia becomes more active in searching for new supplies.<sup>19</sup>

Russia is making concerted efforts at all levels to guarantee that the South Stream project is successful. This includes playing the "neighbor" card to convince countries in doubt, and promising that they will become transit hubs. As Gazprom's export CEO Alexander Medvedev points out,

Negotiations with Austria are at an advanced stage and I expect the contract to be signed very soon. As for Romania, I can only say that no country that is serious about joining the South Stream will be left behind. Romania has a great strategic position on the Black Sea coast and it could have been the starting point for the European part of the pipeline route, like Bulgaria. It can be connected from that country, but we also have to see what will happen with the project in Bulgaria now that the government has changed. Negotiations with Bulgaria are still under way and this is the right time for Romania to make its intentions clear about the project.<sup>20</sup>

Nord Stream, the other Russian pipeline project, is also part of the strategy to diversify Russian natural gas supply routes toward Europe in order to gain more economic and political influence. The project—which will provide Russian gas directly to Germany via the Baltic Sea, bypassing Belarus and Ukraine—is developing successfully. The French company Gaz de France-Suez is currently negotiating with Gazprom the conditions for obtaining a 9 percent share of the project.<sup>21</sup>

Attracting renowned former officials to serve its energy interests is another aspect of Russia's strategic approach.<sup>22</sup> This is the case of the former German chancellor Gerhard Schröder, who was appointed Chairman of the Nord Stream Shareholders Committee. After completing his term in office in February 2010, former Croatian president Stjepan Mesic could become part of the South Stream management team as

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<sup>18</sup> Sergey Kulikov, "Bolgaryi osushayut 'Yujnyi potok'," *Nezavisimaya gazeta* (4 December 2009); available at [www.ng.ru/economics/2009-12-04/4\\_bolgary.html](http://www.ng.ru/economics/2009-12-04/4_bolgary.html).

<sup>19</sup> Aleksey Grivach, "Bolgarya torquetsya po ukrainski," *Vremya novostey* 27 (17 February 2010); available at [www.vremya.ru/2010/27/8/247647.html](http://www.vremya.ru/2010/27/8/247647.html).

<sup>20</sup> Marco Biocina, "Medvedev: 'Gazprom a reliable partner'," *SETimes* (11 January 2010); available at [www.setimes.com/cocoon/setimes/xhtml/en\\_GB/features/setimes/articles/2010/01/11/reportage-01](http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/articles/2010/01/11/reportage-01).

<sup>21</sup> "France's GDF Suez to join Nord Stream pipeline," *EurActive.com* (30 July 2009); available at [www.euractiv.com/en/energy/france-gdf-suez-join-nord-stream-pipeline/article-184525](http://www.euractiv.com/en/energy/france-gdf-suez-join-nord-stream-pipeline/article-184525).

<sup>22</sup> Andrei Piontkovsky, "Who's Who on Putin's Payroll?" *Project Syndicate* (29 May 2009); available at [www.project-syndicate.org/commentary/piontkovsky6](http://www.project-syndicate.org/commentary/piontkovsky6).

well.<sup>23</sup> Former Italian Prime Minister Romano Prodi was also approached by Gazprom but declined its offer to become chairman of South Stream AG.<sup>24</sup>

As this brief review illustrates, in the realm of energy diplomacy Russia has demonstrated clear vision, consistency, and determination to fulfill its projects. This focused approach has given it increased political influence over the EU, and has also generated tremendous inflows of revenue for its heavily export-dependent economy, which has proven particularly crucial during the current global economic and financial crisis.

### *The EU Response*

It is much more complicated for the EU to act as a unified bloc when it comes to efforts to secure consistent supplies of natural gas, and in the entire area of energy security as a whole. The European Security Strategy (ESS) recognizes energy dependence as a “special concern for Europe,”<sup>25</sup> and the ESS Implementation Report recommends that this challenge be addressed by adopting a coherent EU energy policy. Its internal elements should include “a more unified energy market, with greater inter-connection, particular attention to the most isolated countries and crisis mechanisms to deal with temporary disruption of supply.”<sup>26</sup> Greater diversification of fuels, sources of supply, and transit routes” are defined as the key elements of such a policy’s external dimensions.<sup>27</sup>

In theory, the EU member states share a common interest in securing their gas supply, but in reality they apply different approaches. In practice, they are divided over the main gas pipeline projects, and approach them on an individual rather than a collective footing. They prefer to make bilateral gas deals with Moscow, hoping to reap short- to middle-term political and economic benefits. Different national energy policies prevent the EU’s member states from standing together and introducing a common energy policy. That is the reason for some analysts to consider that, in practice, “tragedy and farce have too often been the hallmarks of European efforts to improve energy security.”<sup>28</sup> In fact, the severe disruption of gas supplies in 2009 introduced a new dividing line within the EU, different from the one that distinguished between “old” and “new” members. Now there are members that need more assistance in case of a gas crisis, and others that have achieved a higher degree of security of supply. Those states that are

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<sup>23</sup> “Croatia’s Mesic slated for South Stream?” *UPI* (11 January 2010); available at [www.upi.com/Science\\_News/Resource-Wars/2010/01/11/Croatias-Mesic-slated-for-South-Stream/UPI-30821263232687](http://www.upi.com/Science_News/Resource-Wars/2010/01/11/Croatias-Mesic-slated-for-South-Stream/UPI-30821263232687).

<sup>24</sup> Judy Dempsey, “Gazprom Courts Prodi as Pipeline Chief,” *New York Times* (28 April 2008); available at [www.ihf.com/articles/2008/04/28/business/gazprom.php](http://www.ihf.com/articles/2008/04/28/business/gazprom.php).

<sup>25</sup> European Union, *A Secure Europe in a Better World. European Security Strategy* (Brussels: European Union, 12 December 2003), 3.

<sup>26</sup> “Report on the Implementation of the European Security Strategy,” Report no. S407/08 (Brussels, 11 December 2008), 5.

<sup>27</sup> *Ibid.*

<sup>28</sup> “He Who Pays for the Pipelines Calls the Tune,” *Energy in Europe*, *The Economist* (18 July 2009), 47.



most dependent on Russian gas are afraid of being blackmailed by further supply cuts. Some of them have staked their hopes entirely on Nabucco, while others prefer to hedge their bets by participating in both pipeline projects, even though fully recognizing that it is the source that has to be diversified, and not the route. As the Hungarian Prime Minister Gordon Bajnai points out, the best-case scenario is a pipeline that combines both alternative sources and routes, and Nabucco fulfills these requirements. In the meantime, his government is “keeping its options open” by also supporting the South Stream project, fully aware that by doing so “Hungary’s dependence on Russian gas would increase, not decrease.”<sup>29</sup>

Other members, like Germany, France and Italy, have different energy priorities, which makes the case for a coherent EU energy policy a difficult one to make. These disagreements weaken the EU, and leave room for short-term oriented bilateral agreements with non-EU players, who do not have to obey transparency and accountability rules.<sup>30</sup>

This significant EU weakness in confronting energy challenges was demonstrated when its members experienced supply cuts in 2006, 2007, and 2009, due to Russia’s disputes with the transit countries Ukraine and Belarus. The last one, which took place during the very cold winter of 2009, left Eastern Europe “gasping for gas.”<sup>31</sup> In general terms, the EU was unable to deal with the crisis, struggling diplomatically between the two sides. In principle, the pipelines were out of the EU’s control, but its response could have been more effective had better coordination and proper mechanisms been in place. The EU response was based on the Council Directive on security of gas supply, where no substantial responsibility is delegated to the European Commission.<sup>32</sup> The directive does not provide a strong coordination framework, and there are no storage requirements for the member states.

### *Nabucco vs. South Stream*

The most recent Russia-Ukraine gas crisis renewed interest in the Nabucco pipeline, and raised hopes that the EU-supported project would gain new momentum. An inter-governmental agreement was signed in July 2009, after some rather tense negotiations with Turkey. Even though the project is financially backed by the EU to some extent, the main questions for the rest of the financing and for committed supply sources still remain to be addressed.

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<sup>29</sup> Judy Dempsey, “Eastern Europe Unites over Energy,” *International Herald Tribune* (24 February 2010), 15.

<sup>30</sup> Both Nord and South Stream projects are registered in Switzerland, a non-EU country who applies different rules of regulating its banking and corporate sectors.

<sup>31</sup> “Gasping for Gas,” *The Economist* (17 January 2009), 53.

<sup>32</sup> Council Directive 2004/67/EC concerning measures to safeguard security of natural gas supply (26 April 2004), *Official Journal* L 127, 29/04/2004, 0092–0096.

Table 2: Nabucco vs. South Stream – A Comparative Analysis.

	<i>Nabucco</i>	<i>South Stream</i>
<i>Strengths</i>	<ul style="list-style-type: none"> <li>• Diversifies sources of supply by avoiding Russia</li> <li>• Better prices for consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Provides gas directly to the EU</li> <li>• Diversifies routes, avoiding dependence on Ukraine and Belarus (Russian perspective)</li> </ul>
<i>Weaknesses</i>	<ul style="list-style-type: none"> <li>• Not clear gas sources</li> <li>• Partial financing for the project secured (Est. 8 bill. Euro for 31 cub m/year)</li> </ul>	<ul style="list-style-type: none"> <li>• The most expensive project so far (est. EUR 25 billion); financing not clear</li> <li>• Higher consumer prices</li> <li>• Moscow might not be able to provide enough gas from its own sources</li> </ul>
<i>Opportunities</i>	<ul style="list-style-type: none"> <li>• Will guarantee EU more supply security and less dependence on Russia</li> </ul>	<ul style="list-style-type: none"> <li>• More gas supplied directly for Europe</li> </ul>
<i>Threats</i>	<ul style="list-style-type: none"> <li>• Russia buying gas from countries that are potential suppliers for Nabucco (Azerbaijan, Turkmenistan)</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of economic profits from the EU gas market</li> <li>• Diversifies routes, not sources (EU perspective)</li> </ul>

Azerbaijan, considered as a major future supplier to the Nabucco project, finally played its energy card in 2009 in response to Turkey's decision to establish diplomatic relations with Armenia.<sup>33</sup> It decided to completely reorient its gas exports towards Russia, starting as of 2010. There is a fierce competition between the Nabucco project backers and Russia over Turkmenistan and Kazakhstan gas as well. Moscow needs access to these countries' resources in order to transport gas to the European market at a higher price. Iran is another potential supplier that has expressed its interest in the project.<sup>34</sup> Some European officials have voiced approval for the opportunity to take Iran on board, but this is not an option until there is a breakthrough on the issue of Iran's nuclear arsenal, especially in light of the U.S. position.

<sup>33</sup> Brian Whitmore, "Azerbaijan Could Scuttle Nabucco Over Turkey-Armenia Deal," *Radio Free Europe* (19 October 2009); available at [www.rferl.org/articleprintview/1855784.html](http://www.rferl.org/articleprintview/1855784.html).

<sup>34</sup> Bahman Aghai Diba, "Iran and Nabucco," *Payvand Iran News* (9 November 2009); available at [www.payvand.com/news/09/nov/1240.html](http://www.payvand.com/news/09/nov/1240.html).

Recent developments in Central Asia leave little hope for Nabucco's future, with China becoming a rising power both as a consumer and competitor, prompting one observer to remark that "the West officially lost the new 'Great Game.'"<sup>35</sup> At the end of 2009, a new gas pipeline project connecting China with Kazakhstan, Turkmenistan, and Uzbekistan was officially opened by the heads of these states. This is a key development that enables the former Soviet republics to diminish Russia's leverage on them, especially in the case of Kazakhstan, where a pipeline burst on 9 April 2009, due to unclear causes. Some analysts suspected Moscow of intentionally regulating the flow of Turkmen gas to its European customers due to fluctuations in market conditions and its own economic interests.<sup>36</sup>

In terms of sourcing and costs, both gas pipeline projects face serious doubts, and these developments in Central Asia leave their future unclear. Some indications from the Russian upstream sector demonstrate that Gazprom would not probably be in a position to fully meet the capacity requirements of the South Stream project if had to rely solely on its own natural gas resources.<sup>37</sup> In his analysis of the specifications of the South Stream pipeline project, Mikhail Korchemkin estimates that the pipeline will represent an annual loss of USD 4.5 billion for the state budget, and an annual profit of USD 4–5 billion to Gazprom, if the project ever becomes reality.<sup>38</sup> In case Russia does not secure enough supply from its partners in Central Asia and the Caucasus, it might transfer the gas that is currently transiting Ukraine and Belarus to fill the South Stream pipeline. It is possible that the ultimate aim of the project is to bypass these two countries, rather than to deliver new gas to Europe.<sup>39</sup>

According to Jonathan Stern, there is no explicit Gazprom strategy for monopolizing the European gas market; rather, Gazprom's actions are driven by the need to avoid unreliable transit countries. He points out that the differences between the two projects (Nabucco and South Stream) and their price tags do not make them compatible. At the same time, he admits that consumers will not be able to absorb all the gas that is made available if both come into reality.<sup>40</sup> The way that Russia and the EU approach energy matters proves to have implications for security policy, an area that requires further research regarding their current actions on the international stage.

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<sup>35</sup> Andrea Bonzanni, "For the West, 'Game Over' in Central Asia," *European Dialogue* (January 2010); available at <http://eurodialogue.org/eu-central-asia/For-the-West-Game-Over-in-Central-Asia>.

<sup>36</sup> "Turkmenistan, U.S.: The Politics of Natural Gas Deals," *Stratfor* (18 November 2009); available at [www.stratfor.com/analysis/20091118\\_turkmenistan\\_us\\_politics\\_natural\\_gas\\_deals](http://www.stratfor.com/analysis/20091118_turkmenistan_us_politics_natural_gas_deals).

<sup>37</sup> Falling production and lack of investments.

<sup>38</sup> Mikhail Korchemkin, "Specifications of the South Stream Project," *East European Gas Analysis* (20 October 2009); available at [www.eegas.com/southstream2e.htm](http://www.eegas.com/southstream2e.htm).

<sup>39</sup> Roman Kazmin, "EU Heavily Divided on South Stream," Future of Gas section, *European Energy Review* (July/August 2009): 24–27.

<sup>40</sup> "Gazprom to Bolster Weak Domestic Sales with World Expansion," *The National* (Abu Dhabi) (29 September 2009); available at [www.thenational.ae/apps/pbcs.dll/article?AID=20090725/BUSINESS/707259966/1050](http://www.thenational.ae/apps/pbcs.dll/article?AID=20090725/BUSINESS/707259966/1050).

## Security Policy Implications

In terms of policy implications, the Nabucco project “still looks very problematic.”<sup>41</sup> The pipeline would transport Caspian gas either through Iran or the Caucasus, competing directly with Russian spheres of interest. The Russo-Georgian war of 2008 increased concerns about the pipeline’s security, as well as many others. This war was seen by former heads of state and prominent intellectuals from Central and Eastern Europe as a Russian declaration of control over a “sphere of privileged interests” that could include their countries as well. In an open letter to the Obama Administration in Washington, they insisted that “energy security must become an integral part of U.S.-European strategic cooperation.”<sup>42</sup>

The Russian military incursion into Georgia in 2008 and the energy disruptions that resulted had a profound impact on the perception of Russia on the global stage, proved Moscow to be an unpredictable partner, confirmed European dependence on Russian energy in the EU’s own eyes, and left no doubt about the power of Russian “pipeline diplomacy.” This growing sense of unease is not simply a by-product of fear about “Russia’s energy weapon,”<sup>43</sup> given that Russian gas is only 6–7 percent of the EU’s total primary energy supply, and thus Russia does not pose a significant threat to monopolize the EU gas market, according to some analysts. Nevertheless, there are still EU members that are almost completely dependent on Russian gas supplies, and this compromises the fundamental European principle of solidarity.

In her paper dedicated to the security dimensions of the South Stream pipeline, Zeyno Baran explores the amount of damage that the South Stream project could wreak in the EU’s foreign and security policy, especially in the fields of potential conflict of policy interests between Moscow and Brussels.<sup>44</sup> She argues that Russia drew on its closer energy relations with major European powers like France, Germany, and Italy, and managed to derail any NATO consensus on granting Georgia and Ukraine Membership Action Plan (MAP) status in 2008. Furthermore, this raises the question of what would happen if the EU nations that are major shareholders in the South Stream project were to become Russia’s advocates within NATO and the EU.

After using its energy clout to prevent Ukraine from achieving MAP status, in August 2009 Russian President Dmitry Medvedev sent to his Ukrainian counterpart a

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<sup>41</sup> Jason Bush, “The Great Pipeline Race: Russia’s South Stream Project Gets a Boost,” *Spiegel Online* (19 May 2009); available at <http://www.spiegel.de/international/business/0,1518,625697,00.html>.

<sup>42</sup> “An Open Letter to the Obama Administration from Central and Eastern Europe,” *Gazeta Wyborcza* (15 July 2009); available at [http://wyborcza.pl/1,75477,6825987,An\\_Open\\_Letter\\_to\\_the\\_Obama\\_Administration\\_from\\_Central.html](http://wyborcza.pl/1,75477,6825987,An_Open_Letter_to_the_Obama_Administration_from_Central.html).

<sup>43</sup> Uffe Ellemann-Jensen, “Defusing Russia’s Energy Weapon,” *Project Syndicate* (12 July 2009); available at [www.project-syndicate.org/commentary/ellemannjensen18](http://www.project-syndicate.org/commentary/ellemannjensen18).

<sup>44</sup> Zeyno Baran, *Security Aspects of the South Stream Project* (Brussels: European Parliament, October 2008); available at [www.hudson.org/files/publications/Baran-South%20Stream%20for%20EP.pdf](http://www.hudson.org/files/publications/Baran-South%20Stream%20for%20EP.pdf).

strong open letter,<sup>45</sup> thus interfering in Ukraine's political situation before the elections in January 2010.<sup>46</sup> Shortly after that, the chairman of Gazprom warned that Ukraine might not be able to pay its gas bills, which spread fear of a new crisis in already fragile Russia-Ukraine energy relations.<sup>47</sup> Now that Ukraine's new president has renewed Russia's lease on its Black Sea naval base, Moscow is breathing easier, and announced it would cut the price of the natural gas for Kiev by approximately 30 percent.<sup>48</sup> As professor Stephen Blank highlights,

These concerns over Russian energy policy go beyond Ukraine, for the evidence is abundant that Russia's energy policy is part and parcel of a broader strategy to undermine the foundations of European security and European public institutions. Moscow's goal is to use the energy weapon to rebuild Russia economically and militarily while also using it to hollow out European membership in NATO and the EU so that they are a shell and these organizations are in fact incapable of extending security or managing it beyond their present frontiers, while Russia has a free hand in its own self-appointed sphere of influence and can leverage developments throughout Europe and with the U.S.<sup>49</sup>

During the 2009 supply cut, the most severely affected EU states—Bulgaria, Slovakia, and Hungary—looked toward the EU for guidance and help. The European Commission took some practical steps, such as providing some additional financing to build interconnectors and proposing a “Regulation to Safeguard Security of Gas Supplies.” The new measure “creates mechanisms for Member States to work together, in a spirit of solidarity, to deal effectively with any major gas disruptions which might arise.”<sup>50</sup> The regulation includes standards for measuring energy security in the internal gas market and aims at preventing potential supply disruptions by improving interconnections, storage, and reverse flow facilities. The EU also reached an agreement with Russia on an early warning system on gas interruption. “The Regulation aims for

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<sup>45</sup> Dmitry Medvedev, “Address to the President of Ukraine Victor Yuschenko,” President of Russia official web portal, available at <http://eng.kremlin.ru/text/docs/2009/08/220759.shtml>.

<sup>46</sup> James Marson, “Russia's Medvedev Hits Ukraine President's Pro-West Stance,” *Wall Street Journal* (12 August 2009); available at <http://online.wsj.com/article/SB124998360182322207.html>.

<sup>47</sup> Stefan Wagstyl and Roman Olearchyk, “Fear of New Europe Gas Crisis,” *Financial Times* (13 September 2009); available at [www.ft.com/cms/s/0/b9f89982-a06f-11de-b9ef-00144fea bdc0.html?nclink\\_check=1](http://www.ft.com/cms/s/0/b9f89982-a06f-11de-b9ef-00144fea bdc0.html?nclink_check=1).

<sup>48</sup> Clifford J. Levi, “Kiev Quickly Soothes Ties with Moscow,” *International Herald Tribune* (22 April 2010).

<sup>49</sup> Stephen Blank, “Russia's Energy Weapon and European Security,” paper presented at the NATO conference “One Year after Georgia: National Perspectives,” Washington, D.C. (8 October 2009), and at the “NATO at 60” conference, Naples, Italy (13–14 October 2009), 7; available at [www.acus.org/files/StephenBlank-RussiaEnergy.pdf](http://www.acus.org/files/StephenBlank-RussiaEnergy.pdf).

<sup>50</sup> European Commission, “Energy: Second Strategic Review – Securing our Energy Future (follow-up),” July 2009; available at [http://ec.europa.eu/energy/strategies/2009/2009\\_07\\_ser2\\_en.htm](http://ec.europa.eu/energy/strategies/2009/2009_07_ser2_en.htm).

solidarity, but not for a free ride,” as EU official points out.<sup>51</sup> The EU has taken steps to modernize Ukraine’s gas transit infrastructure as well, which is making Russia nervous to a certain extent.

Apart from these practical steps, though, the EU has passively supported all pipeline projects, due to the different national stances among its member states. While the EU was the entity that negotiated successfully with Turkey on Nabucco, the South Stream project is completely based on bilateral agreements. From a European regulator’s perspective, this is not synchronized with the European reality. As one observer has noted,

Intergovernmental agreements are the tools of the past. Some of the new EU members have not realized yet that meaningful agreements with third parties involving complex commercial issues, such as transit, cannot be negotiated any longer on a bilateral basis. ... These issues are superseded by European regulations and law. On the political level, all the agreements signed between the EU member states and Gazprom on the South Stream project involved non-committal language.<sup>52</sup>

More energy-vulnerable countries like Bulgaria insist that a common EU approach towards the South Stream project should be adopted, since there are already six EU members involved.<sup>53</sup> Some analysts go further by arguing that “it is in Russia’s own interest that the EU deals with it as a united entity.”<sup>54</sup>

A report by a French member of European Parliament raised some doubts over the potential supplier states’ commitment to Nabucco, and called on the EU to work with Russia on the project.<sup>55</sup> Another proposal, to connect the Russia-Turkey Blue Stream pipeline to Nabucco, came from the CEO of the project.<sup>56</sup> Both statements call into question the project’s main strategic reason for existence, and demonstrate once again the different priorities and lack of synergy among the EU states on energy security matters. This viewpoint was also expressed by Vladimir Socor in a comment regarding a similar suggestion to invite Gazprom to take part in Nabucco made recently by the U.S. State Department’s Special Envoy for Eurasian Energy Affairs, Richard Morningstar.<sup>57</sup> Furthermore, it would be of substantial interest to know what would have been

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<sup>51</sup> Karel Beckman, “The Great Security of Gas Supply Struggle,” *European Energy Review* (8 March 2010); available at [http://europeanenergyreview.eu/index.php?id\\_mailing=47&toegang=67c6a1e7ce56d3d6fa748ab6d9af3fd7&id=1766](http://europeanenergyreview.eu/index.php?id_mailing=47&toegang=67c6a1e7ce56d3d6fa748ab6d9af3fd7&id=1766).

<sup>52</sup> Roman Kazmin, “EU Heavily Divided on South Stream,” 27.

<sup>53</sup> Roman Kazmin, 25.

<sup>54</sup> Uffe Ellemann-Jensen, “Defusing Russia’s Energy Weapon.”

<sup>55</sup> “EU Debates Inviting Russia to Join Nabucco,” *EuroActiv.com* (2 February 2009); available at [www.euractiv.com/en/energy/eu-debates-inviting-russia-join-nabucco/article-179060#](http://www.euractiv.com/en/energy/eu-debates-inviting-russia-join-nabucco/article-179060#).

<sup>56</sup> Judy Dempsey, “EU-sponsored Pipeline to Open up to Russian Gas,” *New York Times* (6 February 2008); available at [www.nytimes.com/2008/02/06/business/worldbusiness/06iht-pipe.4.9807226.html](http://www.nytimes.com/2008/02/06/business/worldbusiness/06iht-pipe.4.9807226.html).

<sup>57</sup> Vladimir Socor, “Can Nabucco be Married Off to Gazprom?” *Eurasia Daily Monitor* 7:25 (5 February 2010); available at [www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=36015](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=36015).

the security policy implications for the EU had Russia succeeded in creating a gas “OPEC” it had proposed to world’s other significant gas suppliers (Algeria, Iran, Qatar, and Venezuela).

Some analysts suggest that NATO should play a greater role in energy security in order to face the challenges in that field. U.S. Senator Richard Lugar argued on the eve of the Riga Summit in 2006 that the issue should be integrated into the Washington Treaty. This idea is opposed by France, however, which considers the European Union to be the proper organization to address the issue.<sup>58</sup> Energy security will probably be among the key issues that NATO’s new strategic concept will address. For its part, the EU could have encouraged its member countries to develop their ability to access other sources of energy supply, build adequate storage facilities, and search for alternative fuels after the first signals of the Russian gas disruption, instead of limiting the damages afterwards – an indication that the European Union has some distance to travel before it has the potential to meaningfully address energy security.

## Conclusion

The research presented here leads to the conclusion that the currently prevailing bilateral approach in EU-Russia energy diplomacy will have an extensive effect over both actors’ long-term policies. The successful deployment of pipeline politics would bring multiple results for Russia: it would guarantee its energy markets, generate economic gains, offer Russia another tool to exert political leverage over the EU and its near abroad, and minimize its dependency on potentially unreliable transit countries.

The nature of the EU-Russia energy relationship is interdependent, and it is up to the EU to build up its defensive measures as a basis for its approach towards Moscow. Currently, national interests prevail over collective ones, preventing the EU from adopting a common energy policy. When member states allow other players to separate them using a “divide and conquer” approach, the very ethos of European unity is at stake. In the long run, the lack of a common approach would create new challenges in case Russia decides to play its energy card once again.<sup>59</sup>

Analysts like Zeyno Baran insist that energy security should become an integral part of the European Common Foreign and Security policy. She concludes that, “if the EU is to survive as a united and global actor, it needs not dissension on energy security, but solidarity.”<sup>60</sup> Europe “needs to speak with one voice when dealing with monopoly suppliers such as Russia – or, in the future, Iran might one day become linked to the planned Caspian pipelines. Such a single voice would not erode individ-

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<sup>58</sup> Gal Luft vs. Christophe Paillard, “Debate: Should NATO play a major role in energy security?” *NATO Review* (Spring 2007); available at [www.nato.int/docu/review/2007/issue1/english/debate.html](http://www.nato.int/docu/review/2007/issue1/english/debate.html).

<sup>59</sup> Interestingly enough, the Energy Charter Treaty provides dispute settlement mechanisms between its parties, and the Russian Federation is no longer applying the Treaty provisionally as of October 2009.

<sup>60</sup> Zeyno Baran, “Security Aspects of the South Stream Project,” 30.

ual countries' sovereign right to determine their energy production mix...; it is simply common sense between countries determined to defend their common security.”<sup>61</sup>

Challenges in the area of energy supply open a window of opportunity for the EU to consolidate its energy security efforts. The EU members could mitigate the Russian challenge by putting into practice their rhetoric about solidarity and commitment. That would allow the EU to develop some genuine strategic thinking about energy security and implement it in order to protect itself and its neighbors from energy dependence and external political influence.

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<sup>61</sup> Jacek Saryusz-Wolski and Charles Tannock, “Energy Disarmament,” *Project Syndicate* (4 February 2009); available at [www.project-syndicate.org/commentary/saryuszwolski2](http://www.project-syndicate.org/commentary/saryuszwolski2).