



# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**RUSSIAN ENERGY POLICY VIS-À-VIS EUROPE:  
NATURAL RESOURCES AS A MEANS OF FOREIGN  
POLICY**

by

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June 2012

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**RUSSIAN ENERGY POLICY VIS-À-VIS EUROPE: NATURAL RESOURCES  
AS A MEANS OF FOREIGN POLICY**

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requirements for the degree of

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## **ABSTRACT**

The dissolution of the Soviet Union left Russia without efficient military power and with a tumbled-down defense industry that are critically important to support its resurfaced superpower ambitions. This obstacle could be overcome by substituting military power with the economic one through domination as the leading energy supplier. Establishment of governmental control over the energy sector became a key element of the Russian domestic policy that would convert the energy resources into the instrument of the state's power.

All major energy transportation routes between Russian energy producers and European consumers are in possession of the former Soviet republics. Russia has become heavily dependent on these countries as energy transit intermediaries. To ensure consistency of the energy supply flow and to lessen Russia's reliance on the transit states, Russia is seeking ways to diversify energy transportation routes to Europe. Russia is willing to pay a significantly higher cost for a complex construction of new pipelines that bypass intermediaries. The establishment of Russian monopolistic control over energy flow to Europe might be converted into a regional political dominance. Threatening the possibility of abrupt energy disruption and price manipulation could become an efficient tool of state power to achieve Russia's political objectives.

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## **I. INTRODUCTION**

### **A. BACKGROUND**

After the resignation of Boris Yeltsin, the first president of the Russian Federation after the dissolution of the USSR, on December 31, 1999, and de facto appointment of his successor, Vladimir Putin, Russia entered a new political era. What Putin inherited from his predecessor was the state with poor economy, a lot of external debts left after the state default of 1998, and a political decision-making system strongly influenced by a group of rich people known as the oligarchs, who owned major capital assets of Russia.<sup>1</sup>

Those tycoons controlled major businesses in the country. They gained such political influence by playing a significant role in Yeltsin's presidential campaign back in 1996, supporting him through the mass media owned by the oligarchs. For that reason, being under protection of the country's top leadership, the oligarchs were actually above the law or were under favorable legal conditions for conducting their businesses without significant obstacles. Thus, politics and business became tightly interconnected and interdependent.<sup>2</sup>

The main characteristic of Russian business was its ability to get money effortlessly from the thin air. Upon dismantling of the Soviet Union, the new Russian political leadership proclaimed a transition to the free market economy. Such a transition requires, among other things, development of sufficient legislation and its transparent implementation. Unfortunately, development of the free market economy and appropriate legal institutions was not coordinated; application of laws throughout the country was vague. At the same time, the then still state-owned resources were vast. The socialist approach to collective ownership of state property could be portrayed as "shared property means no one's property." That approach created a fertile precondition for property that used to be owned by the now non-existent state of the Soviet Union to be rapidly grasped by those people who were at the right place at the right time and with a sufficient

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<sup>1</sup> David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: Public Affairs, 2003), 3.

<sup>2</sup> *Ibid.*, 348–364.

business mindset. Furthermore, seven decades of the Soviet system suppressed any signs of entrepreneurship among the people, and the people's almost total reliance on state subsidies was conducive to the appearance of the deep gap between rich and poor people. Therefore, during the transformation period from state-owned to private property, major capital in Russia easily became controlled by tycoons.<sup>3</sup>

Thus, Vladimir Putin, when he came to power, had to deal with recovering the economy after the recent default, the socioeconomic instability, and chaotic policy making significantly affected by business interests. As he stated, "Russia is in the midst of one of the most difficult periods in its history. For the first time in the past 200–300 years, it is facing a real threat of sliding down into the second, and possibly even third, echelon of world states."<sup>4</sup>

His aspiration as a nation's leader was clear: reemergence of Russia as a superpower. It appeared that Vladimir Putin had his own view on how to return to Russia its economic and political influence. In his dissertation, he literally outlined an action plan for restoring Russia's former prosperity. He stated that the Russian government should "reassert its control over the country's abundant natural resources and raw materials."<sup>5</sup> Luckily enough, the demand for natural resources was rapidly growing by the time of Putin's first presidency, causing the subsequent oil-price growth and increasing the state's collected revenue. The resulting monetary resources allowed Putin to build up and further strengthen his domestic power.

Once in power, several practical steps were taken to accomplish his "plan." To eliminate competitors, Putin's regime liquidated two major players in the domestic energy markets: Yukos and Sibneft. The former was plundered,<sup>6</sup> and the latter one was put under government control by compelling the owner to sell its major stakes to Gazprom.<sup>7</sup> Former owners of both companies suffered: the first one was sentenced to

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<sup>3</sup> Ibid., 6.

<sup>4</sup> Stephen K. Wegren and Dale R. Herspring, eds., *After Putin's Russia: Past Imperfect, Future Uncertain*, 4th ed. (New York: Rowman & Littlefield Publishers, 2010), 1.

<sup>5</sup> Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2010), 97.

<sup>6</sup> Ibid., 120.

<sup>7</sup> Goldman, *Petrostate*, 123.



prison (and currently is still in jail); the second one is in exile. Furthermore, eventually Gazprom itself, the energy giant, went under full control of the Russian government (50 percent plus one share belong to Russia's government). Hence, the control over extraction and outflow of minerals was handled by the political leadership.

Obviously, Europe's growing energy consumption and energy demand, which is prompting Europe to seek diversification of resource suppliers to reduce its over-dependence on Middle East fossil fuels exports<sup>8</sup> and almost unlimited natural gas, and Russia's vast oil and natural gas resources perfectly fit with Putin's plan. Indeed, to have the advantage of monopolizing the European energy market, a complete control over transportation routes is required. Then, Russia could ensure stable income in the long run because Russia's revenue critically depends on mineral exports. But major gas flow goes through transit states, such as Ukraine and Belarus. The importance of Ukraine cannot be overestimated since Russia exports almost 80 percent of its natural gas through the Ukrainian pipeline transport system.<sup>9</sup>

Some tensions happened between Russia and those transit states. In both cases, there were disagreements on gas and gas transit prices between Russia and the transit intermediaries. In the case of Belarus, the parties found consensus without threatening gas transit to Europe; however, the tensions between Russia and Ukraine reached a point at which the gas flow through Ukrainian territory was discontinued, leaving Europe without a gas supply for two weeks in 2009.<sup>10</sup> Using this precedent, Russia tried to pressure the EU states regarding the necessity of diversifying their gas flow by

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<sup>8</sup> Ibid., 136.

<sup>9</sup> Oksana Shevelkova, "Экспорт российского газа через Украину резко вырос и тут же начал снижаться" ("Russian Gas Export through Ukraine Rose Rapidly and Immediately Began Declining"), *Деловая Газета "Маркер"* (*Business Newspaper Marker*), July 5, 2010, accessed December 8, 2011, <http://www.marker.ru/news/1217>.

<sup>10</sup> "Газовый конфликт Украины и России имеет политический аспект – Ющенко" ("Gas Conflict between Ukraine and Russia is Politically Motivated - Yushenko"), *RIANOVOSTI*, January 15, 2009, accessed December 8, 2011, <http://ria.ru/gas/20090115/159336537.html>.

developing several new projects, such as Nord Stream under the Baltic Sea and South Stream under the Black Sea, bypassing Ukraine and highlighting that Ukraine is an unreliable transit state.<sup>11</sup>

To reduce its dependence on a single natural-gas supplier, Europe is seeking ways to diversify energy supplies. The Nabucco pipeline, backed by the United States and European Union, is a major project bypassing Russia and is a rival to Russia's South Stream. It originates in the Caspian basin, goes through South Caucasus, Turkey, Bulgaria, Romania, and Hungary, and terminates in Austria.<sup>12</sup> Economically, Nabucco looks more attractive because it is three times cheaper to build than South Stream. However, NABUCCO faces a major obstacle of whether there is going to be enough volume of gas provided for the pipe to operate. One of the key planned suppliers for NABUCCO pipeline was Iran. But current disagreement over Iran's nuclear program and the variety of economic sanctions imposed by the leading nations give Iran no credibility as a reliable supplier in the long run. Other possible Central Asia suppliers are unlikely to be key suppliers due to a long-running dispute over Caspian Sea legal status; Russia is a key player because the pipeline connection is needed to link Central Asia and South Caucasus.<sup>13</sup>

Russia took further steps towards monopolizing control of the gas flow to Europe. In November 2006, Russian Gazprom and Italian Eni, the two biggest state-controlled oil and gas companies in Russia and Italy, signed a "Strategic Partnership Agreement" on the direct Russian natural gas delivery to the Italian market, followed by the establishment of the South Stream AG company on January 18, 2008, being registered in Switzerland.<sup>14</sup> Furthermore, between 2006 and 2010, Russia signed intergovernmental bilateral

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<sup>11</sup> *The Economist*, "An Annual Spat between Russia and Ukraine over Gas Supplies Turns Nasty," January 7, 2009, accessed December 8, 2011, <http://www.economist.com/node/12884378>.

<sup>12</sup> Stefan Nicola, "Analysis: Europe's Pipeline War," *UPI*, February 5, 2008, [http://www.upi.com/Business\\_News/Energy-Resources/2008/02/05/Analysis-Europes-pipeline-war/UPI-24561202258576/](http://www.upi.com/Business_News/Energy-Resources/2008/02/05/Analysis-Europes-pipeline-war/UPI-24561202258576/).

<sup>13</sup> Jason Bush, "The Great Pipeline Race: Russia's South Stream Project Gets a Boost," *Spiegel Online International*, May 19, 2009, accessed June 8, 2012, <http://www.spiegel.de/international/business/0,1518,625697,00.html>.

<sup>14</sup> South Stream: Europe's Energy Security, "Italy," accessed on December 11, 2011, <http://south-stream.info/index.php?id=16&L=1>.

agreements on participation in the South Stream project with Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia, and, finally, Austria<sup>15</sup> (Figure 1).



Figure 1. South Stream Gas Pipeline Planned Route.<sup>16</sup>



Figure 2. Nord Stream Gas Pipeline Route.<sup>17</sup>

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<sup>15</sup> South Stream: Europe's Energy Security, "Facts and Figures," accessed December 11, 2011, <http://south-stream.info/index.php?id=14&L=1>

<sup>16</sup> "South Stream Gas Pipeline Planed Route," accessed June 5, 2012, [http://south-stream.info/fileadmin/pixs/sotrudnichestvo/3d\\_map/south\\_stream\\_europe\\_big\\_eng\\_final.jpg](http://south-stream.info/fileadmin/pixs/sotrudnichestvo/3d_map/south_stream_europe_big_eng_final.jpg).

<sup>17</sup> International Institute for Strategic Studies, "Nord Stream Moves Forward," March 22, 2010, accessed June 2, 2012, <http://climatesecurity.blogspot.com/2010/03/nord-stream-moves-forward.html>.

In addition to that, on November 8, 2011, the first of the twin Nord Stream gas pipelines became operational, directly connecting Russia and Germany under the Baltic Sea and bypassing other intermediary transit states<sup>18</sup> (Figure 2.) Once the second pipeline is complete, the overall transportation capacity is estimated to be about 55 billion cubic meters (bcm) of natural gas per year.<sup>19</sup>

Moreover, at the beginning of December 2011, Russian Gazprom purchased, in addition to the 50 percent of Beltransgaz which it already owned, the remaining 50 percent of shares of Belarus's gas transportation system.<sup>20</sup> From that moment, Russia entirely controls energy flow through Belarus's territory.

Currently, Ukraine still maintains its ownership over the gas transportations routes inherited from the Soviet Union. However, it is not clear yet whether Russia will be able to preserve its possession of these routes or will have to hand over control of the pipelines to Gazprom. With its economy vitally depending on natural gas, Ukraine, in the last quarter of 2011, paid the highest price for gas supplies from Russia among all European states, that is, more than \$500 per thousand cubic meters.<sup>21</sup> Gazprom is ready to lower the price for natural gas if Ukraine agrees that Gazprom and Naftogaz Ukraina, the Ukrainian state-owned oil and gas company, would be unified.<sup>22</sup>

Thus, the monopolization of gas transportation routes from Russia and Caspian Basin states to European countries, including major political players of the European Union, creates a precondition of Russia's influence on economic and political decision making in countries with economies highly dependent on exports of mineral resources.

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<sup>18</sup> Nord Stream: The New Gas Supply Route for Europe, "Nord Stream Pipeline Inaugurated – Major Milestone for European Energy Security," November 8, 2011, accessed December 10, 2011, <http://www.nord-stream.com/press-info/press-releases/nord-stream-pipeline-inaugurated-major-milestone-for-european-energy-security-388>.

<sup>19</sup> Nord Stream: The New Gas Supply Route for Europe, "The Pipeline," accessed December 10, 2011. <http://www.nord-stream.com/pipeline>.

<sup>20</sup> "Белорусские газопроводы перешли под контроль "Газпрома" ("Belarus's gas pipelines went under GAZPROM's Control"), *ИноТВ (InoTV, Russia)*, December 5, 2011, accessed December 10, 2011, <http://inotv.rt.com/2011-12-05/Belorusskie-gazoprovodi-pereshli-pod-kontrol>.

<sup>21</sup> *LB.ua/Economy*, "Тигипко: цена российского газа для Украины составляет \$500" ("Tigipko: The Price of Russian Natural Gas for Ukraine Is \$500"), October 14, 2011, accessed December 11, 2011, [http://economics.lb.ua/state/2011/10/14/119420\\_TSena\\_rossiyskogo\\_gaza\\_dlya\\_Ukrain.html](http://economics.lb.ua/state/2011/10/14/119420_TSena_rossiyskogo_gaza_dlya_Ukrain.html).

<sup>22</sup> Maria Selivanova, "Дешевый газ для Украины в обмен на 'трубу'" ("Cheap Gas for Ukraine in Exchange for 'Pipe'"), *RIANOVOSTI*, August 02, 2011, <http://ria.ru/analytics/20110802/410999263.html>.

This looks feasible due to Russia's geographical location and the amount of resources it holds and can use effectively as a tool of economic leverage to project Russia's political aspirations to re-emerge as a world power.<sup>23</sup>

## **B. SCOPE AND PURPOSE**

The purpose of this thesis is to study how Russia's tremendous energy potential impacts the shaping of Russia's current foreign policy, particularly vis-à-vis the European Union and the European Union individual states that are getting heavily dependent on Russian energy supplies.

The scope of this study is to develop a notion that a consumer's heavy dependence on a supplier's energy resources may turn the latter into an economic tool of political coercion, to assess the European energy market and degree of its reliance on Russian energy supplies; to describe how the European countries might act, and what options they have, to enhance their energy security; and to envision how intensified energy cooperation throughout Asia might impact future European-Russian relations.

## **C. RESEARCH QUESTIONS**

Tracing Russian persistence to monopolize control over the energy transportation routes supplying Europe, this thesis will answer the following research questions:

Taking into account the growing demand for energy across Europe and, in particular, in the European Union, are Russia's attempts to monopolize the European energy market just economically motivated or are they a way to accomplish Russia's international political ambitions by using economic means as an instrument of state power?

What are the challenges to implementation of the common energy security of the European Union, specifically with respect to Russian "energy foreign policy"?

What could be done and what is being done by the European Union to enhance European energy security?

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<sup>23</sup> Alexander Ghaleb, "Natural Gas as an Instrument of Russian State Power" (Letort Paper, Strategic Studies Institute, U.S. Army War College, Carlisle, PA, October 2011), v.

#### **D. HYPOTHESIS**

During the Cold War, the Soviet Union used its strong military as a tool of the state's power and invested significantly in the development of its defense sector of economy. The dissolution of the Soviet Union, followed by economic and political turbulence, left Russia without efficient military power and with a tumbled-down defense industry that are critically important to support its resurfaced superpower ambitions. This obstacle could be overcome by substituting military power with the economic one through domination as the leading energy supplier, in particular of natural gas. Thus, establishment of ultimate governmental control over the energy sector became a key element of the Russian domestic policy that would convert the energy resources into the instrument of the state's power.

After the dissolution of the USSR, all major energy transportation routes between Russian energy producers and European consumers turned out to be in possession of the newly independent states, the former Soviet republics, on which Russia became heavily dependent as energy transit intermediaries. To ensure consistency of the energy supply flow and to lessen Russia's reliance on the transit states, and to maintain its reputation as a dependable energy supplier—an issue that has been raised after disruption of the gas flow to Europe back in 2006 and 2009—Russia is seeking ways to diversify energy transportation routes to Europe, namely through the North Stream and the South Stream projects. Such a policy of linking consumer and supplier directly is presumably motivated politically rather than economically. Russia is willing to pay a significantly higher cost for a complex construction of new pipelines that bypass intermediaries than the lower cost of investing in economically reasonable renovation of the existing transportation routes, in particular the one in Ukraine, through which 80 percent of Russian natural gas passes on its way to Europe. Acknowledging the asymmetric reliance on Russian energy supplies within the European Union, the establishment of Russian monopolistic control over flow of a critical amount of energy supplies to Europe might be converted into a regional political dominance. Threatening the possibility of abrupt energy disruption and price manipulation, Russia could demand political concessions from any individual state

that falls in its sphere of interest. In other words, economic leverage could become an efficient tool of state power to be effectively used to achieve political objectives.

## **E. METHODOLOGY**

The main method of evaluation of the research questions is application of Constructivism and Realism theories to international relations that Russia pursues towards the post-Soviet space, the European Union, and individual European states.

The Constructivist theory, while examining the historical, cultural, and political legacy left after the Soviet Union, explains the existence of Russia's so-called traditional spheres of influence, mostly over post-Soviet space. The same approach could explain the existing aggressive attitude and destructive rhetoric by both the Russian political leadership and the civil society towards the Western world and its democratic values, namely, the United States, the European Union and NATO. They mostly stress the impermissibility of further westernization of the former Soviet republics by granting them European Union and NATO membership.

The Realist theory helps explain how Russia uses its economic potential, specifically its leading role as a fossil fuels exporter, to turn it into an instrument of state power to support Russia's reemerged superpower ambitions. Realist theory clarifies Russia's concurrent domestic policy and assertive foreign behavior. Further, it helps to understand why Russia has regained state control over domestic energy-producing companies, limits participation of foreign investors in development of its hydrocarbon extraction fields, persistence in trying to gain access to the European energy market, and remains consistent in attempts to strengthen near-monopolistic control over energy transportation routes that connect Europe with Russia and Central Asia, especially over those in the former Soviet republics.

## **F. LITERATURE REVIEW**

The book, *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*,<sup>24</sup> contains chapters that help the reader understand the

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<sup>24</sup> Jeronim Perovic, Robert W. Orttung, and Andreas Wenger, eds., *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation* (New York: Routledge Taylor & Francis Group, 2009).

importance of the relationship between security of energy demand and security of energy supply and its growing influence on the ways the states shape their foreign policies. The book gives insights into the role that Russia's vast energy potential plays in domestic and international dimensions to support Russia's reemerged "global ambitions"<sup>25</sup>. Among other points, the authors argue for existence of asymmetric energy interdependence between Russia and the European states, which are key Russian energy consumers, and share some ideas about how the European states might counter this steadily increasing reliance on Russian hydrocarbons.<sup>26</sup> They also discuss possible implications for European energy security of recently intensified energy cooperation across Asia.<sup>27</sup>

In his volume, *The Oligarchs: Wealth and Power in the New Russia*,<sup>28</sup> David E. Hoffman describes the emergence of a unique Russian capitalism after the dissolution of the Soviet Union and the appearance of an oligarchy during the years of economic and political stagnation, shortages, and mass poverty. He argues that Russia's failure to adopt free market economy sufficiently was due to long-term suppression of "private initiative and entrepreneurship"<sup>29</sup> in the people's minds by the Soviet regime. He also stresses the misbalanced development of market institutions and rules and free pricing on commodities and how it caused creation of such a massive and durable underground economy. Also, he analyzes interrelations between the political leadership and the oligarchy in the 1990s in the state without "rule of law." He states that political decisions in Russia were highly influenced by the oligarchy, which was seeking only to maximize their profits, causing a deepening of overall corruption throughout the country.

In his book, *Petrostate: Putin, Power, and The New Russia*,<sup>30</sup> Marshall I. Goldman portrays Russia as a reemerging energy superpower as more countries worldwide, including leading economies in Europe, became consumers of Russian

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<sup>25</sup> Ibid., 9.

<sup>26</sup> Ibid., 89–108.

<sup>27</sup> Ibid., 132–154, 201–222.

<sup>28</sup> David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia* (New York: Public Affairs, 2002).

<sup>29</sup> Ibid., 6.

<sup>30</sup> Goldman, *Petrostate*.



natural resources and how that status impacts as a re-emerging energy superpower impacts the characteristics of Russia's political diplomacy.. He describes the process of how the government regained control of natural resources through using the state's legitimate institutions to suppress the domestic oligarchy. He also stresses European vulnerability to sudden natural gas cut-offs, as happened after a dispute between Russia and Ukraine in 2006. He also argues that Russia derives political power from the new economic empire it is building with its natural gas pipelines. The author warns Europe of the necessity to seek diversification of energy supplies to reduce its economic dependence on just one source of energy.

In his study "Natural Gas as an Instrument of Russian State Power,"<sup>31</sup> Alexander Ghaleb argues that "Russian control of the natural gas supplies and of the export infrastructure system of natural gas to Europe gives tremendous leverage to Russia in imposing its national security policy."<sup>32</sup> He supports his argument by the fact that leading world economies increase consumption of natural gas for "environmental, economic, technological, and . . . geostrategic considerations."<sup>33</sup> Furthermore, he reasonably presumes that natural gas could be an effective tool of state power<sup>34</sup> and could be used as a means of political coercion in imposing unilateral sanctions throughout East and Central Europe<sup>35</sup>. For that reason, monopolized control over natural gas pipelines becomes a key of Russian foreign policy<sup>36</sup>. In addition to that, Ghaleb suggests that European dependence on Russian natural gas would lead to "political disunity" within the European Union.<sup>37</sup>

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<sup>31</sup> Ghaleb, "Natural Gas."

<sup>32</sup> Ibid., ix.

<sup>33</sup> Ibid., 10.

<sup>34</sup> Ibid., 12.

<sup>35</sup> Ibid., 15.

<sup>36</sup> Ibid., 57.

<sup>37</sup> Ibid., 111.

## **G. ORGANIZATION OF THE STUDY**

The next chapter, Chapter II, will depict how Russia organizes its foreign policy by seeking ways to dominate in the international dimension, how its domestic and foreign policies are integrated, and what means and capabilities it holds to pursue such an aspiration. Chapter III of the study will give some insights into how possession of energy resources may be reflected in Russia's foreign policy vis-à-vis the European Union with regard to the existing asymmetric interdependence between Russia and the European Union states and their heavy reliance on Russian energy resources, particularly natural gas. Chapter IV will describe what complicates the European Union energy policy and what the European Union is doing to overcome concurrent obstacles to enhance its energy security. Chapter V will summarize subjects described in the study.

## II. WHY RUSSIA SEEKS SUPREMACY

I would assert that Russia's contemporary foreign energy policy falls within a framework of *political realism* and *neorealism*. According to Robert Keohane, political realism contains three major assumptions that define the world's politics: "(1) states . . . are the key units of actions; (2) they seek power, either as an end in itself or as a means to other ends; and (3) they behave in ways that are . . . rational."<sup>38</sup> In other words, states' behavior is stipulated by the "language of power and interests"<sup>39</sup>. Another contemporary scholar, Hans Joachim Morgenthau, views political realism as the interaction of the "concepts of power, rationality and balance of power" and the key notions driving international politics. He argues that states struggle for power mostly due to the "human nature," which has not changed since ancient history.<sup>40</sup> Human beings are continuously in a state of war with each other or in fear of being so. He maintains the idea that states, to act effectively "in world politics," should involve power. Thus, the more powerful a state is, the more ambitious its goals are. Further, he states that states seek rational ways to preserve suitable international policies, meaning that they are "consistent [and] . . . calculate costs and benefits of all alternative policies in order to maximize their utility in light both of those preferences and of their perceptions of the nature of reality." Finally, Morgenthau sees the balance of power concept as a "necessary outgrowth" of power politics and being universally applicable.<sup>41</sup> A more detailed and coherent explanation of the balance of power concept was developed by neorealism theorist Kenneth Waltz. He puts forward that the balance of power concept is valid for an "anarchic realm," which the world is, in which entities "have to worry about their survival." Further, Waltz insists that both internal and external means are important for the states' self-preservation and

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<sup>38</sup> Robert O. Keohane, "Realism, Neorealism and the Study of World Politics," in *Neorealism and Its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986), 7.

<sup>39</sup> *Ibid.*, 9.

<sup>40</sup> Hans J. Morgenthau, revised by Kenneth W. Thompson, *Politics among Nations: The Struggle for Power and Peace* (New York: McGraw-Hill, 1993), 4.

<sup>41</sup> Keohane, "Realism," 10–13.

their achievements of foreign policy objectives.<sup>42</sup> In other words, a state's foreign policy and its domestic policy are closely interconnected; and to foresee its behavior in international politics, the domestic political structure and policy should be defined and described.<sup>43</sup> Hence, in order to understand Russia's behavior, it is necessary to gain some insights into its domestic policy and society and its economic development and to assess what could serve as instruments of its state power.

#### **A. SOCIO-POLITICAL DIMENSION**

On the international scene and domestically, Russia poses itself as a democratic state.<sup>44</sup> I would disagree with that, assuming that a unique trait of so-called "directed democracy," introduced by Russian leadership during Vladimir Putin's first presidency, does not match the commonly accepted meaning of democracy. Classical democracy rests on three main pillars: participation of the population in political life; competition of political leaders for public votes; and accountability of the elected to their constituencies. Further, to be considered democratic, states should meet the following minimum requirements that would allow democracies to be what they are: freedom to form and join organizations, freedom of expression, the right to vote, eligibility for public office, the right of political leaders to compete for support and votes, alternative sources of information, free and fair elections, and institutions for making government policies depend on votes and other expressions of preferences.<sup>45</sup> Indeed, Russia has a variety of political parties, regularly held elections, and diverse media sources and allows regular people to participate in political life, etc. But, as Ivan Krastev insists, the Russian version of implementation of the existing democratic "institutional elements" helps not only

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<sup>42</sup> Robert O. Keohane, "Theory of World Politics: Structural Realism and Beyond," in *Neorealism and Its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986), 171–173.

<sup>43</sup> Kenneth N. Waltz, "Political Structures," in *Neorealism and Its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986), 74.

<sup>44</sup> Karen Dawisha, "Is Russia's Foreign Policy That of a Corporatist-Kleptocratic Regime?" *Post-Soviet Affairs* 27, no. 4 (2011): 334.

<sup>45</sup> Peter H. Smith, *Democracy in Latin America: Political Change in Comparative Perspective* (New York: Oxford University Press, 2005), 8–9.

“those in power to stay in power” but to “monopolize competition for it [power],” resulting in “a near total monopoly of power.”<sup>46</sup>

The Russian brand of “democracy without representation” is unique. To build a regime that would resemble a democratic one but not being democratic by nature, Russia introduced an innovative mechanism known as *political technology*. The aim of the political technology is to manipulate formally existing democratic institutions to achieve political outcomes which had been already pre-planned by the ruling elite. In other words, political technologists pursue interests of those in power by creating an illusion of competition. The final goal of the “managed democracy” trend is to avoid any accountability of the political leadership to their constituencies. As Krastev stated, “Managed democracy is a political regime that liberates the elites from necessity of factual governing of the state and gives them time to take care of their personal business.”<sup>47</sup>

The way the population participates in the political life is quite remarkable. People do take part in it by expressing their will during elections and public meetings or, even occasionally, they are invited to be a part of a local government.<sup>48</sup> Within the concept of directed democracy, the goal of the political technologist is to let people participate but without any real impact on those who govern the state.<sup>49</sup> That is only possible by creating an apolitical and stable middle class,<sup>50</sup> which actually is a major motivating force of potential domestic political changes, or by allowing regular people to do a meaningless representative job without real influence on “government decision making.”<sup>51</sup>

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<sup>46</sup> Ivan Krastev, “Democracy’s ‘Doubles,’” *Journal of Democracy* 17, no. 2 (April 2006): p. 57.

<sup>47</sup> Ibid., 59.

<sup>48</sup> Debra Javeline and Sarah Lindemann-Komarova, “A Balanced Assessment of Russian Civil Society,” *Journal of International Affairs* 63 (2010): 182–184.

<sup>49</sup> Krastev, “Democracy’s,” 60.

<sup>50</sup> Stephen Kotkin, “Russia under Putin: Toward Democracy or Dictatorship?” Foreign Policy Research Institute, March 2007, accessed June 8, 2012, <http://www.fpri.org/enotes/200703.kotkin.russiademocracydictatorship.html>

<sup>51</sup> Javeline and Lindemann-Komarova, “Balanced Assessment,” 184.

The middle class in Russia is not independent. A majority of it is employed by the governmental or state-owned institutions. The share of those who are not dependent on wages paid by the government is not significant. Only around 25 percent of the entire Russian population is employed by middle and small-sized businesses. Such a mass of governmental employment preconditions corporate thinking and solidarity. The government employees either have to support the political leadership or avoid criticizing ruling politicians. Not doing so could be risky in terms of loss of jobs because, in private business, opportunities for making life better off are fewer. Thus, by having in its employ as many people as possible, the government maintains a stable and apolitical society.<sup>52</sup>

Public activities are not discouraged by the state unless they threaten the stability of the political regime. People may easily gather for peaceful demonstrations to support opinions that have been already supported by the government. Also, some prominent activists may get a seat of local or federal significance in legislative or executive branches. But those jobs are worthless, only aiming to show publicly that democracy *de jure* works but, *de facto*, are without meaningful representation. That is the way the state seeks to maintain control over public involvement in political activity in order to predict any political changes the public may trigger. For the time being, “none of the reforms implemented in Russia . . . was initiated by pressure from below.”<sup>53</sup> That statement testifies to the denial by the government of actual public political needs and/or for the need for a non-politicized majority of the population.

In competition among political leaders for public votes during the election process, the media’s role is acknowledged. In Russia, the most influential media sources, specifically the most popular TV channels, are controlled by the government. TV is used by the political technologists to shape the population’s sense that there are no alternatives to the existing wise leaders who care about every single citizen. News broadcast on TV is mostly the same throughout the media; programs are mainly pre-recorded to minimize the risk of the outflow of undesirable information so that diverse ideological opinions are not presented. To avoid interference by other unwelcomed TV channels, control over the

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<sup>52</sup> Ibid.

<sup>53</sup> Krastev, “Democracy’s,” 60.

broadcasting network is also monopolized by the state through the NTV Company just as transportation of hydrocarbons is controlled by Gazprom and Sibneft.<sup>54</sup> At the same time, to show the existence of media diversity, Russia preserves some room for truly independent media channels, but their influence on public opinion is minor as a result of the monopoly on the main media sources of information.

Special attention is paid to how elections are managed to gain a desired outcome. First, personal accountability of the elected to their constituencies has been eliminated. The pattern of “single-member-district” elections (representation of a district’s voters by their nominee) to Parliament (State Duma) was replaced by “closed-party-list” elections (Duma members are appointed by a political party in proportion to how many votes the party gained during the elections). In other words, formal accountability is preserved, but, in fact, no one is personally accountable for anything specific. Second, government excessively involves itself into the election process. More precisely, it is unlawful to sponsor the political campaigns of opposing political parties. Government preserves its right to fund and supervise “campaign-related expenditures.” Such a dependency on expenditure of governmental money literally nullifies the significance of parties as political bodies. Third, the government unreasonably injects law into the political process. In democracies, government and society establish a set of rules that check each other’s behavior (“rule of law”). In Russia, rulers control society by means of legislation that necessitates “severe punishment” for violators of any kind. The punishment could entail even banning a candidate from participation in the elections. Fourth, a new set of requirements were introduced for a political party to be elected to the Duma. The threshold was raised and parties were forbidden to create coalitions and blocs. Further, the minimum number of collected signatures required for a political party to get onto the ballot has been increased. Also, there is no minimum number of voters required to come to the polls for elections to be valid. Moreover, constituents are deprived of an opportunity to oppose all proposed candidates by voting “against all.” The old norm was that the elections would not have been valid if the number of “against all” pins (votes)

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<sup>54</sup> Nikolai Petrov, Masha Lipman, and Henry E. Hale, “Overmanaged Democracy in Russia: Governance Implications of Hybrid Regimes,” *Carnegie Papers* 106 (2010): 14.

exceeded the number of supporters of the leading candidate. Finally, the Russian government introduced some “nonstandard” voting procedures, allowing people to vote at home or in advance. The government justified the new procedures by the necessity of maximizing the number of voters to be involved in political activity. In fact, those changes inspire the possibility of fraudulent results by the way that the bulletins could be “filled correctly.”<sup>55</sup>

## **B. ECONOMY**

The reason Russian political leadership was able to concentrate and maintain centralized power and managed to find massive public support for its domestic and international policy at the beginning of the 2000s is found in Russia’s rapid economic growth and recovery after the chaos and turmoil of the 1990s. An overall opinion is that that became possible because of the appearance of a new generation of political leaders who are open-minded and free of the Soviet mentality.

One of the important independent variables that drive contemporary Russian foreign policy is Russia’s current economic arrangements. Russian economy is export-oriented. Eighty-five percent of its state revenue comes from exporting raw materials such as oil, natural gas, timber, and metals. Russia possesses about 30 percent of the world’s proved natural gas reserves and 6 percent of its oil. Russia’s main fossil-resources consumers are the former Soviet states and the high-paying European Union countries. Because it inherited developed oil and natural gas pipeline systems from the Soviet Union, Russia did not have to invest in construction of new energy transportation routes. At the beginning of the 2000s, Russia managed to meet its budget needs quickly, mainly due to significant reduction of domestic energy production across Europe because of Europe’s dwindling hydrocarbon resources and rapidly growing energy demand. Being years behind technologically and having to meet growing public needs, since 2000 Russia has imported a variety goods of higher quality than are produced domestically, failing, at the same time, to develop its own technology or to successfully import technologies from other developed countries.

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<sup>55</sup> Ibid., 7–9.



Further, all major sources of the state's revenue are under the state's control. Before the Putin era, all major businesses were in the hands of so-called oligarchs. In private hands, the energy sector did not give much support to the economic growth. Once Putin was in power, all key energy companies, which are now accountable for about 50 percent of the budget's income, were literally confiscated (Yukos and Transib) through selective application of legislation and placed under governmental control and ownership (Gazprom and Sibneft). That move prevented the domestic energy market from further liberalization and development. Continuously imposed bureaucratic restrictions resulted in lack of incentives for domestic and foreign companies to invest. Moreover, Russia consistently does not allow foreign investors to come to capitalize Russia's energy sector.<sup>56</sup> At the same time, Russia not only does not invest in developing untapped hydrocarbon fields,<sup>57</sup> but also lacks sophisticated technologies to develop new fields efficiently itself. Unlike in other developed economies, energy extraction, transportation, and distribution to consumers are monopolized and controlled by the state through state-owned companies. Those monopolies eliminate competitiveness in the domestic energy market. In the international energy market, energy demand would be secured to the highest possible extent, and the amount of revenue collected would be high. If the extraction, transportation, and distribution segments of the Russian energy industry were to be separated as the Energy Charter stipulates,<sup>58</sup> Russia would have to give up its almost monopolistic control over the transit routes by making the energy market open, transparent, and competitive.<sup>59</sup> That may make Russia vulnerable to energy prices fluctuations and sensitive to diversification options of its main international consumers, with further direct impact on Russia's revenue collection.

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<sup>56</sup> Stacy Closson, "Russia's Key Customer: Europe," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 99.

<sup>57</sup> Laura Solanko and Pekka Sutela, "Too Much or Too Little Russian Gas to Europe?" *Eurasian Geography and Economics* 50, no. 1 (2009): 63–64.

<sup>58</sup> Europa: Summaries of EU Legislation, "European Energy Charter," accessed June 1, 2012, [http://europa.eu/legislation\\_summaries/energy/external\\_dimension\\_enlargement/127028\\_en.htm](http://europa.eu/legislation_summaries/energy/external_dimension_enlargement/127028_en.htm).

<sup>59</sup> Pami Aalto, "European Perspectives for Managing Dependence," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 160.

Hence, I would argue that Russia pretty much fits the criteria of being a “rentier state” since its economy is heavily dependent on the rent of natural resources, only a small proportion of the population works in companies accountable for rent generation, and the government is the major recipient of the income that comes from the rent.<sup>60</sup>

Political and economic dimensions in Russia are interlocked. During Putin’s first presidency, the state regained control over major “extractive industries,” and those persons in close affiliation with Putin were appointed to run those business holdings and corporations.<sup>61</sup> Russian elites and Putin’s inner circle became those whom he used to work with at his time in the KGB and Saint Petersburg city administration. In other words, those who were appointed to high governmental and business positions were those whom he had known before and who shared the same set of values and ideas that had been shaped during the Soviet times or by the Soviet ideology of dictatorship. The most vivid case of such an intertwined political-economic relationship is a former Russian president, Medvedev. He used to work with Putin in the Saint Petersburg administration. Not so long ago, he was in charge of the state-owned company, Gazprom (the natural gas monopolist controlling extraction, transportation, and distribution of hydrocarbons to consumers), in which his younger brother currently is a vice-president. In that way, such a business-political corporation has to observe the highest level of “obedience” and loyalty to the top political leadership.

### **C. THE RUSSIAN MILITARY**

As realist theory stipulates, “the reality of domination—certain states over others, and of the elites over nonelites—continues.”<sup>62</sup> In this respect, Waltz in his balance of power theory, predicts that in an “anarchic realm . . . states seek power and calculate their interests in terms power.”<sup>63</sup> According to Morgenthau, to maximize their power, states would seek ways to influence other states in terms of power “and resources that can be

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<sup>60</sup> Karen Dawisha, “Is Russia’s Foreign Policy that of a Corporatist-Kleptocratic Regime?” *Post-Soviet Affairs*, 27 (2011): 338.

<sup>61</sup> *Ibid.*, 340.

<sup>62</sup> Keohane, “Realism,” 24.

<sup>63</sup> Keohane, “Theory of World Politics,” 163.

used to exercise influence.” Waltz argues that in “a distribution of power system” all states, depending on their size and available power resources, will act differently with regard to change “in power relationship” by establishing or joining coalitions.<sup>64</sup> In this respect, means of power is an important variable for pursuing a state’s interest or projecting its power. The classical means-of-power projection is a state’s military.

In “Russia’s National Security Strategy to 2020,” Russia does acknowledge appearance of new threats to its national security: terrorist activity and wars on its territory; conflicts with and in adjacent states, specifically in South Caucasus and Afghanistan; global proliferation of nuclear arms [or threats] and means of their delivery. However, the “Security Strategy” does not prioritize them. As it was addressed by Putin back in 2004, all of those activities were explained by “perceived weakness” of Russia’s “strategic strength.” Hence, Russian leadership still heavily relies on its existing nuclear arsenal as its main “security strategy.”<sup>65</sup> As the Security Strategy states, “The strategic goals related to improving national defense consist of preventing global and regional wars and conflicts, and likewise of realizing strategic deterrence in the interests of ensuring the country’s military security.”<sup>66</sup> Thus, the existing Russian nuclear-arsenal-utilization concept falls into the framework of rational nuclear deterrence theory that suggests that due to possible “catastrophic outcomes of nuclear exchange . . . the probability of major war among states having nuclear weapons approaches zero.”<sup>67</sup> In this respect, Russia does not anticipate being invaded militarily by major world powers and poses itself as a powerful state in possession of an effective means of deterrence.

Soon after the accession into his presidency, Vladimir Putin had his image created as a nation’s “father” pursuing the goal of Russia’s reemergence as a superpower, not allowing others to push Russia around.<sup>68</sup> Rapid economic growth (mainly thanks to

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<sup>64</sup> Ibid., 165.

<sup>65</sup> Pavel Podvig, “Russia’s Nuclear Forces: Between Disarmament and Modernization,” *Security Studies Center* (2011): 8.

<sup>66</sup> *Rustrans*, “Russia’s National Security Strategy to 2020,” accessed on December 22, 2011, <http://rustrans.wikidot.com/russia-s-national-security-strategy-to-2020>, paragraph 26.

<sup>67</sup> Scott D. Sagan and Kenneth N. Waltz, *The Spread of Nuclear Weapons: A Debate Renewed*, (New York: W.W. Norton, 2003), 49.

<sup>68</sup> Mikhail Tsypkin, “Russian Politics, Policy Making and American Missile Defense,” *International Affairs* 85, no. 4 (2009): 782.

increased demand for energy resources), a successful fight against oligarchs, increased spending on social welfare programs, and decisive actions against terrorists in Chechnya gave him much credibility as a real national leader domestically and an “image as a strong man.”<sup>69</sup> However, aspirations of being a superpower cannot be fulfilled without a strong military. In fact, the current status of the Russian military is deplorable. It takes time, money, consistency, and continuity to reform the military successfully. At this time, the only remaining component that gives the Russian military strength is Russia’s existing nuclear potential, which was actually inherited from the former Soviet Union. Putin also took advantage of it and presented himself, especially for foreign counterparts, as a commander-in-chief of nuclear strike forces, spending overnight on board of nuclear ballistic submarine and taking a flight on a strategic bomber.<sup>70</sup>

The image that everything, in domestic and foreign dimensions, is decided by one person correlates with tenets of an authoritarian method of state government. As Waltz suggests, in developing countries with unstable governments, nuclear possession engenders fear that, to ensure sufficient control over nuclear weapons to prevent unauthorized launch, such states are prone to be authoritarian with an enhanced level of “internal struggle for power.”<sup>71</sup>

Another scholar, Scott Sagan, reasonably argues that non-democratic nuclear powers “have either military-run governments or weak civilian-led governments in which professional military have a strong and direct influence on policymaking.”<sup>72</sup> In Russia, government is de jure civilian. De facto, representation by former military cadre (or cadre from the militarized security services) dominates. Putin himself is a former KGB officer, and he prefers to surround himself with former KGB and representatives of other force structures who are loyal to him. For instance, the recently appointed head of the Presidential apparatus, Ivanov, who is the former Minister of Defense and, most recently, vice-prime-minister, is also a retired KGB general. Thus, current political leadership,

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<sup>69</sup> Ibid., 783.

<sup>70</sup> Ibid., 784.

<sup>71</sup> Scott D. Sagan and Kenneth N. Waltz, *The Spread of Nuclear Weapons: A Debate Renewed* (New York: W.W. Norton, 2003), 11.

<sup>72</sup> Scott D. Sagan, “More Will Be Worse,” 48.

consisting mostly of former siloviki, helped Putin to build a strong *power vertical*, in which the political decision making is handled by one person.

Domestic stability is critically correlated with possible external threats. To strengthen civil-military relations and to gain public support by the leadership, an image of external threat is highly important. “Russia’s National Security Strategy to 2020” defines the United States and NATO (indirectly but with no doubts) as major threats to Russia’s national security. The “Security Strategy” accepts the notion that “military force is a usable tool of foreign policy” and at the same time acknowledges the weakness and inability of Russian conventional military forces to compete effectively with NATO and China.<sup>73</sup> Thus, nuclear superpower status is the only meaningful way to maintain military parity with other leading, nuclear-capable nations with regard to the “nuclear deterrence concept.” Domestically, possession of the nuclear arsenal makes Russian leadership strong in the eyes of its own citizens; it is what Russian citizens see as giving Russia the status of a great power and is widely supported by the population. Thus, Russia’s nuclear capability closely links foreign and domestic politics.<sup>74</sup> Moreover, Russian elites strongly back an idea that “Russia’s natural role in the international system is of a major power.”<sup>75</sup> Therefore, a major power could only be opposed by other major powers, which are mostly those in possession of nuclear arms. That is why any attempt by NATO to expand eastward calls for a negative reaction by the Russian leadership, which considers such expansion as an attempt to undermine Russia’s great capability.<sup>76</sup> Strong opposition to an increase in NATO’s membership was publically expressed during the NATO summit in Bucharest, Romania, in April 2008. In his conversation with the United States President, G. W. Bush, Putin viciously criticized Ukraine and Georgia for their foreign policy strategy of getting a NATO Membership Action Plan (MAP). Putin even went beyond the norms of diplomacy, stating that Ukraine “even is not a state.”<sup>77</sup>

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<sup>73</sup> Tsypkin, “Russian Politics,” 792.

<sup>74</sup> Ibid., 787.

<sup>75</sup> Ibid.

<sup>76</sup> Ibid., 788.

<sup>77</sup> *Ukrainskaya Pravda*, “Путин - Бушу: “Украина - это не государство” (“Putin to Bush: ‘Ukraine is not a State’”), April 7, 2008, accessed December 23, 2011, <http://www.pravda.com.ua/rus/news/4b1ab07215ca7/>.

Besides positioning himself as commander-in-chief of nuclear arms, Putin “regards himself as an expert in foreign affairs”<sup>78</sup> for the reason that he is the nation’s first leader since Lenin who stayed overseas on long-lasting residency. As a former KGB officer, his mindset has been greatly influenced by the Soviet system and the Cold War rhetoric. In the Soviet Union, the “military tended to exaggerate the western threat” while diplomats provided the Soviet leadership with more realistic threat assessments.<sup>79</sup> Hence, Putin presumably preserves a tenet of a “single-handed” decision making in “national security policy”<sup>80</sup> and still relies on information provided by the SVR (External Intelligence Service) or GRU (Main Intelligence Directorate) of the General Staff<sup>81</sup> as being the “worst-case scenarios” rather than relying on more realistic data provided by the Ministry of Foreign Affairs.<sup>8283</sup>

One of the prominent recent examples of how Russian political leadership seeks public support for its ongoing foreign policy in order to consolidate the population in front of an external enemy is the current hysteria about development of the United States’ anti-ballistic missile defense system (BMD) in Europe. That system has actually been designed against possible hostilities from Iran, which might be running a nuclear program of its own to develop nuclear weapons. In addition to Russia’s traditional concerns about “strategic depth” thinking and therefore sensitivity to any military facilities in its neighborhood that can undermine, even hypothetically, its military power,<sup>84</sup> Russian leadership through media sources proclaims that the United States still maintains hostile intentions towards Russia to weaken Russia’s national security. For example, during the European Union Summit in May 2009, the former Russian president, Dmitry Medvedev, declared that “the European Union’s Eastern Partnership” (countries without either the EU or NATO membership) has been established to oppose Moscow’s policy since the

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<sup>78</sup> Tsypkin, “Russian Politics,” 789.

<sup>79</sup> Ibid., 788.

<sup>80</sup> Ibid.

<sup>81</sup> Ibid.

<sup>82</sup> Ibid., 789.

<sup>83</sup> Ibid., 791.

<sup>84</sup> Ibid.

post-communist East European nations consistently promote anti-Russian policies.”<sup>85</sup> Furthermore, December 2007 polling showed that nearly half of the Russian population backs a notion that “the purpose of American foreign policy is the complete destruction of Russia.”<sup>86</sup> It looks as though everyone who still remembers the Soviet Union is preoccupied by negative reaction to whatever represents Western society.<sup>87</sup> Furthermore, to a high degree, “Soviet and then Russian policy-making . . . has been characterized by deception and intrigue.”<sup>88</sup> For that reason, the harder the United States argues that the intention of the anti-ballistic missile defense system is harmless for Russia, the more distrustful the Russian reaction is. Thus, whatever the United States would do to promote national or collective security, it inevitably will generate negative reaction from Russian political leadership, who will represent it as undermining Russia’s national security.

As a response to the United States’ intentions to deploy a counterargument of the BMD development, the former Russian president, Dmitry Medvedev, declared intentions to the deploy tactical nuclear missile system Iskander in the Kaliningrad district, targeting BMD launching sites in Poland.<sup>89</sup> Such a declaration by the Russian president met with public support and high expectations but was no more than just muscling in front of the rest of the world. Even if those Iskander missiles would have been deployed, militarily it makes no sense. Once American interceptor missiles are launched, “it would be too late to use [the Iskanders].” Pre-emptive launch of Iskander missiles, as Medvedev asserted, would inevitably result a military clash with nuclear-armed NATO states per Article V of NATO Agreement.<sup>90</sup>

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<sup>85</sup> Ibid., 793.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid.

<sup>88</sup> Ibid., 790.

<sup>89</sup> *Voice of America*, “Медведев против ПРО” (“Medvedev against BMD”), November 23, 2011, accessed December 23, 2011, <http://www.voanews.com/russian/news/Medvedev-U.S.-antimissile-defence-preview-2011-11-23-134381368.html>.

<sup>90</sup> Tsypkin, “Russian Politics,” 793–794.

#### D. ENERGY AS A SUBSTITUTION FOR MILITARY POWER

Even though Russian political leadership managed to consolidate population behind current Russian foreign policy, Russia is unlikely to fulfill its global aspirations using its conventional military as the means of power projection; the Russian military has been in decline over the last two decades since the dismantling of the USSR.<sup>91</sup> A nuclear arsenal is not the means of advancing national interests overseas, either, since the most effective way it could be used is for military deterrence in order to maintain status quo with other military superpowers. To support the notion of political realists that foreign policy effectiveness depends on the degree of power involvement,<sup>92</sup> an effective substitution for military power projection could be found in manipulating “energy supplies” that “not only could have important financial repercussions but could also be a powerful political tool.”<sup>93</sup>

If Russia’s conventional military can be used to project its power and support its national interests abroad in nearby regions, as was witnessed in 2008 during the Russia-Georgia conflict, then its enormous natural resources, existing developed transportation pipeline system, and geographical location give Russia a natural advantage. Russia could use those resources as “a powerful political and economic weapon”<sup>94</sup> to extend Russia’s interests beyond the post-Soviet space,<sup>95</sup> especially vis-à-vis Europe, which currently is the largest high-paying exporter of Russian hydrocarbons, especially natural gas.<sup>96</sup> Europe has no or very few alternatives for exporters other than Russia, which makes it difficult for Europe to avoid dependence on Russia as a single energy supplier. That situation gives advantage to Russia with regard to price manipulation. Those states “that are considered . . . friendly to the Kremlin” may “enjoy lower prices than others.”<sup>97</sup>

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<sup>91</sup> Stefan Hedlund, “Russia as a Neighborhood Energy Bully,” *Russian Analytical Digest* 100 (2011): 2.

<sup>92</sup> Keohane, “Realism,” 11.

<sup>93</sup> Goldman, Petrostate, 137.

<sup>94</sup> Ibid., 139.

<sup>95</sup> William Zimmerman, “Russian National Interests, Use of Blood and Treasure, and Energy Price Assessments: 2008–2009,” *Post-Soviet Affairs* 25, no. 3 (2009): 193.

<sup>96</sup> Closson, “Russia’s Key Customer,” 95.

<sup>97</sup> Hedlund, “Russia as Energy Bully,” 3.



Furthermore, energy supply flow could be disrupted for many reasons, which would cause severe damage to consumers' economies and undermine political stability in those states, as happened during the Russia-Ukraine gas crisis in the winter of 2009.<sup>98</sup> Thus, with regard to the European Union states, "western leaders would have to think twice before resisting the political demands of the supplier."<sup>99</sup>

The idea of restoring Russia's regional political dominance by economic means, "in particular its mineral resources," rather than by military means stems from the mindset of the current political leadership. In his dissertation, which predates Putin's presidency, Vladimir Putin stated the necessity of reasserting the state's control over natural resources that became controlled by private owners in the 1990s so that they can be used "to advance the country's national interests." Further, he specified that "the state has the right to regulate the process of their development and use." At the time, Putin acknowledged weaknesses of the Russian economy with respect to its potential for competitiveness. Indeed, the Russian economy was too isolated for years from other developed foreign markets to be able to quickly catch up technologically and compete effectively. Even though foreign investors were welcomed, Putin was assertive that the government must "retain operating control. . . . He insisted that it is a mistake to relay on private owners and markets alone," referring to the economic chaos of the 1990s, which coincided with privatization. Thus, to "emerge from its deep crisis and restore its former might," Russia should maintain governmental control over major companies and corporations, especially those that are "resource-based."<sup>100</sup> Morgenthau argues that "statesmen think and act in terms of interest defined as power." To pursue its "objective national interests"<sup>101</sup> in seeking power and power projection, Russia must make quick and effective use of the vast amount of energy resources it possesses rather than going through time- and capital-intensive militarization.

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<sup>98</sup> Ibid.

<sup>99</sup> Goldman, *Petrostate*, 138.

<sup>100</sup> Ibid., 97–98.

<sup>101</sup> Keohane, "Realism," 10.

## **E. CONCLUSION**

Russia's foreign policy follows a pattern of political realism, which assumes that the world is anarchic and states' behaviors are driven by their national interests with respect to existing capabilities and the necessity of using power to achieve their goals and objectives. To act rationally, Russian political leadership, when conducting its foreign policy, capitalizes on Russia's gigantic energy resources rather than on capital-intensive modernization of its military, a classic instrument of power. Used strategically and intelligently, energy supplies could effectively be substituted for conventional weapons with respect to projecting Russian influence. The unique domestic political notion of so-called "directed democracy" was introduced by the Russian elites and guided by Vladimir Putin. It, along with everything else, helped to legitimize the use of energy as a weapon in the public's view but without factual public influence. This concept allowed the building of a domestic hierarchical order which ensured the state's control over all existing strategic resources and capabilities necessary for influence abroad and legitimize public support for domestic and foreign policy without the government's real consideration of the public will. To strengthen its domestic power and consolidate the society, the Russian leadership keeps exploiting the United States and NATO as the image of aggressive enemies, as has been affirmed in "Russia's "National Security Strategy till 2020."

### III. THE EUROPEAN UNION ENERGY SECURITY CHALLENGES VERSUS RUSSIAN ENERGY POLICY

As Czech Deputy Prime Minister Alexandr Vondra claimed back in October 2007, “Unjust manipulation or interruption of energy supplies is as much security threat as is military action.”<sup>102</sup> If energy flow is disrupted, it severely affects the economy of a consumer state without actual physical destruction of its infrastructure and economic assets and provokes “political instability” in domestic and regional external dimensions.<sup>103</sup> Internally, it weakens social-political relations in the affected country and may lead to a “humanitarian crisis,” as was witnessed in Southeastern Europe during the Russia-Ukrainian gas dispute in 2009 when Europeans had to deal with a severe shortage of energy supplies.<sup>104</sup> Regionally, manipulation by energy cut-offs is often seen through the prism of international policy making, especially by rentier states; they feel can develop their political agenda by influencing the energy security policy and strategy of their consumers and by then enforcing “asymmetric power relationships” between energy exporter and importer. In other words, as long as energy and foreign policies are closely interconnected in the contemporary security environment, energy producers seek “political dominance over a region” by using economic potential as a means of political leverage.<sup>105</sup>

Such application of economic leverage subjugated to political objectives may follow a period of implemented economic sanctions. Alexander Ghaleb referred to Steve Chan, who defined economic sanctions as “the actual or threatened withdrawal of economic resources to affect a policy change by the target.” Further, Ghaleb supplements that definition by the statement made by Ivan Eland, who argues that economic sanctions aim “to have the maximum political effect through introducing psychological pressure

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<sup>102</sup> Aalo, 166.

<sup>103</sup> Anreas Wenger, “Russia’s Energy Power: Implications for Europe and for Transatlantic Cooperation,” in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 225–226.

<sup>104</sup> Kirsten Westhal, “Europe Held Hostage?” *Russian Analytical Digest* 53 (2009): 15–16.

<sup>105</sup> Wenger, “Russia’s Energy Power,” 225.

against its [a nation's] political leaders and populace.”<sup>106</sup> Indeed, economic sanctions in forms of embargos are widely used to achieve certain political ends and “promote foreign policy objectives.”<sup>107</sup> The most recent example of deployment of economic sanctions is against Iran aiming to “discourage the proliferation of weapons of mass destruction”<sup>108</sup> due to the ambiguity of Iran’s nuclear program. As was addressed by the National Conference of Catholic Bishops, “sanctions can offer a nonmilitary alternative to the terrible options of war”<sup>109</sup> and “can be a powerful and deadly form of intervention.”<sup>110</sup>

Sanctions vary in scope but are not always politically and economically viable. Implementation of sanctions also burdens the economies of the imposing states due to inevitable reduction of the imposing states’ collected revenues<sup>111</sup> and, for the most, requires a set of reasonable political goals with feasible political benefits to justify that possible economic loss. Sanctions can be multilateral or unilateral. Multilateral sanctions require unity of action of the coalition and cohesion of the sanctions’ deployment by all participating state actors. The states should have common “benefits of imposing economic sanctions,” share political will vis-à-vis a targeted state, and have relatively equal economic capabilities to bear the sanctioning. Mostly, multilateral efforts to sanction fail, not because of inefficiency of sanctions as a tool per se, but for the reason that the sanction-imposing actors often have different outlooks on the political outcomes of the sanctions and dissimilar economic abilities to bear and enforce sanctions strongly enough to achieve the desired end state.<sup>112</sup>

Unlike multilateral sanctions, unilateral sanctions are more successful because their application does not face the difficulties the multilateral approach encounters. Unilateral sanctions do not require any sort of coordination with other sanctions enforcers. In other words, the necessity of reliance on partners in terms of their

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<sup>106</sup> Ghaleb, “Natural Gas,” 3.

<sup>107</sup> Richard N. Haass, “Sanctioning Madness,” *Foreign Affairs* 76, no. 6 (November/December 1997): 75.

<sup>108</sup> *Ibid.*, 74.

<sup>109</sup> *Ibid.*, 75.

<sup>110</sup> *Ibid.*, 79.

<sup>111</sup> *Ibid.*, 80.

<sup>112</sup> Ghaleb, “Natural Gas,” 4–6.

participation and political support stops being an issue; the ratio between political benefits versus possible economic loss is calculated by a single actor with reference to its economic and political ability to afford the sanctions. In this respect, “the monopoly or near monopoly of a critical energy supply” creates a necessary precondition “for imposing unilateral sanctions.”<sup>113</sup>

To develop this argument, I would support an argument made by Alexander Ghaleb that Russia is very capable of imposing unilateral economic sanctions. In other words, Russia’s possession of vast amounts of energy supplies, specifically natural gas can be rendered a tool of economic coercion vis-à-vis the European Union states by means of manipulation of the flow of energy to the European consumers.<sup>114</sup> To support that argument, this chapter will further provide some insights on historical background of energy cooperation between Russia and Europe, vulnerability of the European natural gas market, and the current level of energy interdependence between Russia as supplier and Europe as consumer.

#### **A. HISTORICAL BACKGROUND OF RUSSIA-EUROPE ENERGY COOPERATION**

Energy cooperation between Western Europe and Russia dates back to the Soviet times and started in the late 1950s with construction of oil and natural gas pipelines connecting the Soviet Union energy fields with “the East European member states of the Council for Mutual Economic Assistance” and of the Warsaw Pact, namely “Poland, East Germany, Czechoslovakia, Hungary, Romania, and Bulgaria.” In the late 1960s, seeking diversification options “away from oil into other forms of energy, notably natural gas,” and to reduce dependency on energy supplies originating in the Middle East, Western European countries initiated a round of negotiations with the Soviet Union on construction of natural gas pipelines to connect Russia and West Europe for natural gas delivery. Negotiations ended up with 20-year bilateral contracts between the Soviet Union as a supplier and Austria, West Germany, and France as consumers. After the fall of the Iranian monarchy in 1979, West European states, deeply concerned about their

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<sup>113</sup> Ibid., 6.

<sup>114</sup> Ibid., 6–7.

energy security, looked at the Soviet Union as a major alternative source of energy for their growing and thus increasingly energy-demanding economies. Even though energy cooperation with West Europe was highly beneficial for the Soviet economy—increased trade with the West European market accounted for more than 60 percent of the Soviet budget income—the Soviet planned economy could not afford modernization of the transportation infrastructure to meet the gradual growth of West European demands for energy. Construction of new gas pipelines physically connecting Russian natural gas extraction fields and West European consumers appeared to be a capital-intense project and a burden for the Soviet planned economy. Only direct investments into the project and essential equipment delivery by the concerned West European states made the energy routes construction feasible.<sup>115116</sup>

Through the end of the Cold War, the share of Russian natural gas in German, Italian and French energy markets rose from 15 to 36 percent.<sup>117</sup> After the dismantling of the Soviet Union, Russia was still capable of meeting its hydrocarbons supply commitments to 14 existing European consumers mainly because of a substantial decline in domestic demand that resulted from the decline of industrial production. Nine of Russia's 14 European customers even enjoyed increased volumes of mineral supplies downstreamed from Russia. Additionally, Russia set up energy cooperation with another European state, namely, Greece.<sup>118</sup>

Over time, different European states came up with different levels of energy cooperation and dependency on hydrocarbons of Russian origin. The European Union as a whole, as of 2009, drew 36 percent of its imported natural gas from Russia,<sup>119</sup> which was around 25 percent of the total European Union consumption.<sup>120</sup> In reference to the

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<sup>115</sup> Closson, "Russia's Key Customer," 91.

<sup>116</sup> Aalto, "European Perspectives," 159.

<sup>117</sup> Closson, "Russia's Key Customer," 92.

<sup>118</sup> Ibid., 92–93.

<sup>119</sup> European Commission, "Energy from broad: EU-Russia Energy Relations," accessed March 18, 2012, [http://ec.europa.eu/energy/international/russia/russia\\_en.htm](http://ec.europa.eu/energy/international/russia/russia_en.htm).

<sup>120</sup> Jeronim Perovic, "Russian Energy Power, Domestic and International Dimensions," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 4.

European Union states individually, some import 100 percent of their natural gas from Russia to meet their domestic needs; some are more than 50 percent dependent on Russian natural gas; some take none of it.<sup>121</sup> Since the creation of the European Union as a multilateral institution, the “dynamic of European-Russian energy relations”<sup>122</sup> has changed. Although the European Union aims to put forward an integrated approach toward a common security strategy for all European Union members, the existing diverse reliance of individual European Union states on energy imported from Russia substantially undermines such a joint effort; domestic energy security is mostly a subject to be dealt with by every state individually.<sup>123</sup> That would inevitably reflect on how their foreign policies would be shaped vis-à-vis both the European Union and Russia. Thus, the current status of energy cooperation between the European Union states, the European Union, and Russia is equivocal. On the one hand, Russia has long-term contracts for providing natural gas supplies with each European state individually. On the other hand, the European Union-Russia energy cooperation is grounded in interaction between the European Union states as a unified body and Russia as a key energy supplier.

In this respect, I would argue that historically formed energy ties with European states and the current dynamics of energy relations between Russia and Europe give Russia political advantage over Europe based on the hypothetical use of energy supplies as an economic weapon to advance Russia’s political objectives. That stems from the notion that the European Union states, lacking a common energy policy, might disagree on the shape of the foreign toward Russia: Russia is a supplier of a critical amount of an energy source for the European Union states, is a holder of a vast amount of that resource, and enjoys state’s control over it; thus, Russia would not face the “problems of a multilateral coalition.”<sup>124</sup>

## **B. EUROPEAN NATURAL GAS MARKET**

To cover their domestic needs, the European states acquire natural gas supplies

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<sup>121</sup> Aalto, “European Perspectives,” 163.

<sup>122</sup> Ibid., 161.

<sup>123</sup> Ibid.

<sup>124</sup> Ghaleb, “Natural Gas,” 6.

from a variety of sources. Europe produces natural gas domestically (mainly extracted by the UK, the Netherlands, and Norway) and imports it from other regions, namely, from Northern Africa (Egypt, Libya, Algeria), the Middle East, and, in large part, Russia<sup>125</sup> (Figure 3). Europe imports of total 36 percent of its natural gas needs from Russia<sup>126</sup> through pipelines while imports in the form of liquefied natural gas (LNG) come from Africa and the Middle East and account for about 15 percent<sup>127</sup> (Figure 4). Domestic production of natural gas by the European Union states is currently in decline. Even though the major European Union gas producers still extract a significant amount of energy,<sup>128</sup> they are unlikely to satisfy the steadily growing European demand for natural gas.<sup>129</sup> The combined annual European production of natural gas, including from non-EU members, slightly exceeded 300 bcm<sup>130</sup> in 2010 whereas its consumption rose to 522 bcm.<sup>131</sup>

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<sup>125</sup> Euan Mearns, "The European Gas Market," December 11, 2007, <http://www.theoil Drum.com/node/3283>.

<sup>126</sup> European Commission, "Energy from abroad," [http://ec.europa.eu/energy/international/russia/russia\\_en.htm](http://ec.europa.eu/energy/international/russia/russia_en.htm).

<sup>127</sup> Richard E. Ericson, "Eurasian Natural Gas Pipelines: The Political Economy of Network Interdependence," *Eurasian Geography and Economics* 50, no. 1 (2009): 33.

<sup>128</sup> Euan Mearns, "The European Gas Market," *The Oil Drum: Europe*, December 11, 2007, <http://www.theoil Drum.com/node/3283>.

<sup>129</sup> Aalto, "European Perspectives," 164.

<sup>130</sup> Mearns, "The European Gas Market."

<sup>131</sup> Doris Leblond, "Eurogas: EU 27 Gas Consumption Rises 7.2% in 2010," *Petroleum Insights*, March 9, 2011, <http://petroleuminsights.blogspot.com/2011/03/eurogas-eu-27-gas-consumption-rises-72.html>.



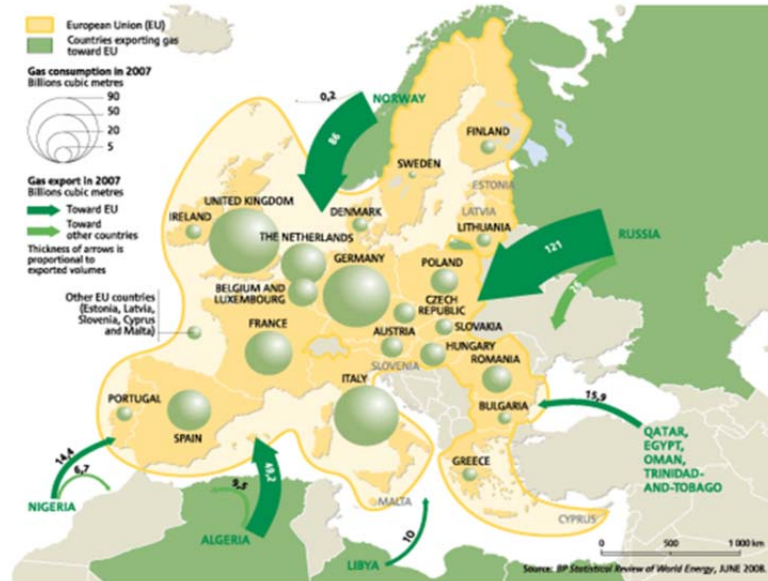


Figure 3. Gas Pipeline Projects throughout Europe<sup>132</sup>



Figure 4. Eurasian Gas Transportation System<sup>133</sup>

<sup>132</sup>Christophe-Alexandre Paillard, "Rethinking Russia: Russia and Europe's Mutual Energy Dependence," *Journal of International Affairs* 63, no. 2 (Spring/Summer 2010), accessed June 6, 2012, <http://jia.sipa.columbia.edu/russia-and-europe%E2%80%99s-mutual-energy-dependence>.

<sup>133</sup> East European Gas Analysis 2006–2008, "Eurasian Gas Transportation System," last modified December 23, 2008, accessed June 6, 2012, <http://www.eegas.com/europe.htm>.

Even with an increase of 26.5 percent in the LNG trade in 2010 as compared to 2009 with total imports of 65 million metric tons (mmt) of natural gas,<sup>134</sup> Europe is still unlikely to be able to satisfy its steadily increasing demand for natural gas by relying only on the LNG diversification because of the high costs involved in construction of LNG terminals and the economic unviability for the landlocked countries.<sup>135</sup> In the meantime, Russia is capable of meeting growing European energy demands indicated by its existing natural gas pipeline net capacity heading to Europe from Russia, Russia's current, even almost flat, natural gas production output, and domestic consumption estimates along with Russia's presently estimated potential for production if energy extraction sites are developed in a timely manner.<sup>136</sup> In this respect, increased production of natural gas by Russia, steadily growing demand in the EU states over the last decade,<sup>137</sup> dwindling European gas fields, and Russian proximity to Europe, lead the European Union states to look forward to seeing Russia as its key supplier of natural gas. Further, the growing energy-demand issue gained higher consideration in Europe after Germany's declaration of its strategy to phase out nuclear energy by 2022.<sup>138</sup> Moreover, rough calculations foresee that by 2030 more than 60 percent of the European domestic gas consumption would be covered by the hydrocarbons imported from Russia.<sup>139</sup>

In summary, "different interests within Europe" put Russia in an advantageous position to apply economic leverage over Europe to advance Russia's political will.<sup>140</sup>

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<sup>134</sup> "Global LNG Trade in 2010 and Outlook for 2011/2012," *Hydrocarbon Asia* (July-September 2011): 24.

<sup>135</sup> Anna Aseeva, "Rethinking Europe's Gas Supplies after 2009 Russia-Ukraine Crisis," *China and Eurasia Quarterly* 8, no. 1 (2010): 133.

<sup>136</sup> Philip Hanson, "The Sustainability of Russia's Energy Power: Implications for the Russian Economy," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 37.

<sup>137</sup> "BP statistical review of World Energy," (June 2011): 22, 29, [http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2011/STAGING/local\\_assets/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_report\\_2011.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2011/STAGING/local_assets/pdf/statistical_review_of_world_energy_full_report_2011.pdf).

<sup>138</sup> Spiegel Online 2012, "Germany 'Must Not Go It Alone': EU Commissioner Attacks Berlin's Energy Plans," March 12, 2012, accessed March 20, 2012, <http://www.spiegel.de/international/germany/0.1518.820767.00.html>.

<sup>139</sup> Ghaleb, "Natural Gas," 15.

<sup>140</sup> Aalto, "European Perspectives," 157.

Thus, increasing European reliance on Russian energy sources and Russia's consequent growing economic dominance in the European energy market precondition assertive Russian foreign policy through hypothetical European fear of sudden withdrawal of critical energy resources.

### C. RUSSIA-EUROPE ENERGY INTERDEPENDENCE

A simple explanation of economic relations between market actors is that a consumer and a supplier are mutually interested in trading commodities to make the former better off and to “maximize utility” for the latter.<sup>141</sup> In this respect, energy trade, or interdependence, between Russia and European states should be mutually beneficial, making both supplier and consumer comfortable. Indeed, Europe needs energy, precisely, natural gas, because its demand is steadily growing; and Russia needs money and its main revenue comes from hydrocarbon exports; and, key to the relationship, the most high-paying of Russia's customers are West European states, such as Germany and Italy.<sup>142</sup> Russia “finds” itself “substantially financially dependent on Europe”<sup>143</sup> and Europe heavily relies on cleaner energy as articulated in the “Green Paper on Energy Policy,” issued by the European Commission in 2000.<sup>144</sup>

The cheapest way to deliver the natural gas commodity is through a pipeline system once it has been constructed. The construction itself requires tremendous up-front investments and typically takes up to 25-year “commitments from buyers/users of the gas to purchase enough to justify the development cost.” Once the pipeline is built and the seller and the buyer are “physically” connected by a pipeline, it gives a supplier “tremendous market power” over its consumer because of the high building cost for a “competitive pipeline” for a low marginal “cost per unit of energy transported.”<sup>145</sup> In the case of Russia-Europe energy relations, the existing natural gas transportation system was

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<sup>141</sup> Charles Wheelan, *Naked Economies: Undressing the Dismal Science* (New York: W. W. Norton, 2010), 6.

<sup>142</sup> Closson, “Russia's Key Customer,” 95–96.

<sup>143</sup> Ericson, “Eurasian Natural Gas Pipelines,” 35.

<sup>144</sup> European Commission, “Green Paper towards a European Strategy for the Security of Energy Supply,” 2001, [http://ec.europa.eu/energy/green-paper-energy-supply/doc/green\\_paper\\_energy\\_supply\\_en.pdf](http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf).

<sup>145</sup> Ericson, “Eurasian Natural Gas Pipelines,” 29.

built during the Soviet times; and Russia, having avoided the necessity of major investments involvement in pipelines construction, appeared in a position of “effective monopoly”<sup>146</sup> over energy resources streaming from Asia to Europe because of a lack of other major alternative routes connecting the former and the latter.

At the same time, different European Union states have different degrees of reliance on energy imported from Russia. Even though an absolute amount of the overall imported gas supply from Russia constitutes about one third of the total of the European Union consumption, seven of the European Union states (Bulgaria, Estonia, Latvia, Lithuania, Finland, Romania, and Slovakia) import 100 percent of their natural gas from Russia; six of them (Greece, Austria, Hungary, Czech Republic, Poland, and Slovenia) rely on Russian natural gas imports for more than 50 percent.<sup>147</sup> Further, ten EU states newly accepted into the EU after the European Union enlargement in 2004 and 2007 (the former Soviet bloc countries from East and Central Europe) have a legacy of a highly developed energy relationship with Russia, developed over decades.<sup>148</sup> Such a bias in existing energy cooperation between the European Union individual states and Russia, namely, the different levels of their dependency on Russian natural gas, creates a precondition for a variety of tensions between the European Union as a supranational political entity and the European Union individual states in terms of shaping and implementing a common energy security policy for the European Union.

Certainly, each state seeks the best ways possible to protect its own national interests. That also applies to the national energy security. Inequality of economic development among the European Union states and each state’s unique geographical location (from land-locked East to sea access in the West and South) do affect a choice of how much and where to obtain energy resources to run their economies efficiently. Undeniably, industrialized European economies, such as Germany, France, and Italy, would definitely need more resources to cover their energy needs than those that lag. For instance, after the March 2011 Fukushima disaster, German political leadership decided

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<sup>146</sup> Ibid.

<sup>147</sup> Aalto, “European Perspectives,” 163–164.

<sup>148</sup> Ibid., 159.

to shut down Germany's nuclear power plants by the end of 2022<sup>149</sup> and then gradually substitute that power source with "green" natural gas, mainly from Russia through the Nord Stream pipeline. Simultaneously, France and Poland, to lessen their energy dependence on other suppliers, are conceptualizing a construction of new nuclear power-generating facilities.<sup>150</sup> Thus, prioritization of the national economic interests by each the European Union members over collective ones inevitably undermines the European Union's capability to act effectively as a single voice to deal with any challenges this political entity may face.

To secure demand for natural gas in the European energy market, Russia bound a number of European states with long-term contracts on a "take-or-pay" basis. That means that, regardless of what volume of natural gas is taken, countries should pay for the amount of gas previously negotiated.<sup>151</sup> Therefore, any attempt to move away from the current supplier would mean a significant amount of money to be paid for the untaken resources until the contract expires. To Russia's advantage, the land-locked East European states cannot even aspire in the short-run to substitute Russian natural gas from alternative sources. LNG could be an option but its economic viability is currently doubtful because of the high cost of LNG terminal construction and transportation from degasified LNG terminals located on the Mediterranean coast.<sup>152</sup> In other words, Russia enjoys a "natural monopoly"<sup>153</sup> on natural gas delivery to certain European Union states for a minimum of another 10–15 years,<sup>154</sup> meaning that they would remain totally reliant upon Russian energy resources in the near term until an effective substitution is conceived.

European Union-Russia energy cooperation is not reciprocal. The main concern of European energy security policy is to ensure security and sustainability of supplies.

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<sup>149</sup> "Germany 'Must Not Go It Alone.'"

<sup>150</sup> Ibid.

<sup>151</sup> Aseeva, "Rethinking Europe's Gas Supplies," 133.

<sup>152</sup> Ibid., 134.

<sup>153</sup> Ericson, "Eurasian Natural Gas Pipelines," 29.

<sup>154</sup> Aalto, "European Perspectives," 160.

Diversification of supplies as a key element of the energy security policy<sup>155</sup> can be achieved only through implementation of “market rules and competition principles,”<sup>156</sup> allowing other actors fair access to the energy market assets, including Gazprom. Conversely, to secure energy demand by high-paying European customers, Russia strives for market monopolization with concurrent restriction of foreign investments in its domestic energy market. Further, to maximize control over energy flow to Europe to the highest possible extent, Russia, through the state-owned Gazprom Company, strives for deeper expansion into the European energy market through long-term contracts with existing customers and direct investments into upstream projects of other present and potential European energy suppliers in Africa, the Middle East, the Caspian Basin, and even Latin America.<sup>157</sup> At the time, to maintain energy supply flow and to meet the steadily increasing European demand for energy that is growing faster than Russia’s currently almost flat output, Russia has to buy a significant portion of natural gas from the Caspian region and Central Asia.<sup>158</sup> Moreover, while a number of Russian gas fields remain untapped, foreign investors are not welcomed to develop new fields on their own. Russia insists on participation in such projects of the state-controlled companies, particularly Gazprom. Otherwise Russian government suppresses foreign investors, imposing certain obstacles by selective application of the legislation.<sup>159</sup> In accordance with classical argumentation against involvement of external investments is the argument that “foreign investments have often been seen as giving outside investor undue influence within one’s country” and could be interpreted as “violations of sovereignty.”<sup>160</sup> In this respect, wide investor engagement in Russia’s energy market would mean its liberalization and, as a consequence, weakened state monopoly over extraction,

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<sup>155</sup> Closson, “Russia’s Key Customer,” 99.

<sup>156</sup> Aalto, “European Perspectives,” 160.

<sup>157</sup> Closson, “Russia’s Key Customer,” 98–99.

<sup>158</sup> Indra Overland, “Natural Gas and Russia – Turkmenistan Relations,” *Russian Analytical Digest* 56 (2009): 11.

<sup>159</sup> Heiko Pleines, “Developing Russia’s Oil and Gas Industry: What Role for the State?” in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 74.

<sup>160</sup> George H. Quester, “Energy Dependence and Political Power: Some Paradoxes,” *Demokratizatsiya* 15, no. 4 (October 2007): 447.

transportation, and distribution of the critical source of energy that might be used as a “tool of [economic and political] coercion.”<sup>161</sup> As long as the European Union members and Russia apply different strategies with regard to security of demand and supply, their energy relationships could be called merely reciprocal.

#### **D. CONCLUSION**

In this chapter, I argued that Russia possesses the tools and sufficient conditions to use economic leverage as an instrument of foreign policy to project the state’s power, in particular vis-à-vis the European Union states. Power projection could effectively be performed by withdrawal of the critical amount of energy resources. In that way, economic leverage is substituted for the military potential that is traditionally envisioned as a tool of state coercion. Historically formed Europe-Russia energy cooperation, Europe’s geographical immediacy to Russia, enormous amount of energy reserves in Russia’s possession, and rapid growth of energy demand by the European countries eventually put Europe into a significant degree of dependency on Russian energy supplies. Further, domestic resources allocation and the level of energy production across Europe, along with diversity in economic development and reliance on energy imports by each individual European state, produce the existing divergence of opinions within the European Union on how the common energy security policy should be shaped. Further, as long as the European Union is just a political entity and thus does not and cannot import even a bit of energy, pursuance of individual national interests dominates the common ones. Thus, the diversity of opinions and interests across the European Union, complemented by various levels of dependency on Russian hydrocarbons, favor Russia over Europe politically as it enjoys absolute unilateralism in decision making with respect to its foreign policy. In addition, energy cooperation between Europe and Russia is asymmetrically interdependent. The actors do not share the approach with regard to security of demand and security of supply. To secure demand, Russia seeks ways to monopolize the energy market domestically and internationally, imposing state control through the state-owned companies while Europe strives for security of supply through

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<sup>161</sup> Ghaleb, “Natural Gas,” 2.

diversification and energy market liberalization. Thus, excessive state involvement into determining Russian energy policy leads to an assumption that Russia would use the energy matter as a “bargaining tool”<sup>162</sup> subjugated to its political objectives.

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<sup>162</sup> Aseeva, “Rethinking Europe’s Gas Supplies,” 134.



#### IV. MAIN CHALLENGES FOR EUROPEAN ENERGY SECURITY

Concurrent asymmetric interdependence between Europe and Russia stipulated by the “lock-in” nature of the pipeline system connecting Europe and Russia<sup>163</sup> imposes certain economic and political challenges for the European multilateralism. Recently, back in 2006 and 2009, European economy was severely impacted by major abrupt cut-offs of Russian natural gas supply inflow. Those abruptions initiated a round of talks on growing importance of security of energy supply, European critical dependency on Russia, particularly for its natural gas, and put in doubt Russia’s reliability as a reliable energy trader<sup>164</sup>. In political dimension, those energy flow disruptions have been viewed as an emergence of energy as an economic weapon as an instrument of state power to pursue political objectives<sup>165</sup>.

After unprecedented gas disruption in 2009 due to gas disputes between Russia and Ukraine<sup>166</sup> that left Europe without Russian gas supply for about two weeks called, European energy consumers were forced to seek ways to mitigate possible consequences of future energy cut-offs, if there are any, through diversification of supply<sup>167</sup>. However, for Europe, options to diversify away from Russia to undergo increased energy reliance on Russia are limited.<sup>168</sup> There are three major ways to mitigate such a dependency and secure energy supplies flow to Europe: Nabucco pipeline project connecting the Caspian region and bypassing Russia, South Stream project that links Russia and Europe and bypasses major transit states such as Ukraine, and further development of natural gas delivery in liquefied form.

Simultaneously, the European Union as a political actor strives for establishment and application of a multilateral approach to counter “the historically-evolved energy relations between individual European countries and Russia.” It attempts to act as a

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<sup>163</sup> Ericson, “Eurasian Natural Gas Pipelines,” 41.

<sup>164</sup> Wenger, “Russia’s Energy Power,” 228.

<sup>165</sup> Hedlund, “Russia as Energy Bully,” 2.

<sup>166</sup> Westphal, “Europe Held Hostage?” 15.

<sup>167</sup> Closson, “Russia’s Key Customer,” 99.

<sup>168</sup> Wenger, “Russia’s Energy Power,” 229.

centralized authority on behalf of all the European Union members offering a unified framework for energy cooperation between the European Union and Russia and promoting unity of actions towards implementation of common “energy policy principles” across the European Union.<sup>169</sup>

China’s rapid economic growth of 2000s and its increased energy demand induced China to look for external energy resources. Tough negotiations with Russia stalled with gas pricing stirred Chinese energy cooperation with hydrocarbon-rich Central Asian states. In turn, intensified energy cooperation across Asia diversifies energy away from Europe further limiting its energy diversification prospective to develop a southern energy corridor and lessening dependence on Russian fossil fuels.

This chapter will describe possible diversification options for Europe to further promote competition in energy market in order to reduce growing reliance on Russian hydrocarbons, what the European Union does to develop collective vision on energy security challenges that are in conflict with interests of the European Union individual states, and current dynamics of energy cooperation across Asia and how it may affect European energy security.

## **A. DIVERSIFICATION OPTIONS**

To restore its reputation as a reliable energy supplier to Europe after 2006 and 2009 cut-offs, Russia consistently persuades the European Union regarding the necessity to accelerate construction of the South Stream project that is to connect Russia and Europe bypassing Ukraine which is currently the major transit state for Russian gas deliveries to Europe. Russia backs its position by blaming Ukraine to being inconsistent to fulfill assumed transit obligations<sup>170</sup>. Therefore, Russia insists that the energy flow through “unfriendly” transit nations should certainly be avoided.<sup>171</sup> Cost estimation of the pipeline construction across the bottom of the Black Sea at about €19–24 billion<sup>172</sup>

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<sup>169</sup> Aalto, “European Perspectives,” 161.

<sup>170</sup> Simon Pirani, “The Russo-Ukrainian Gas Dispute, 2009,” *Russian Analytical Digest* 53 (2009): 3.

<sup>171</sup> Aseeva, “Rethinking Europe’s Gas Supplies,” 130.

<sup>172</sup> Vladimir Socor, “Gazprom Reveals Unaffordable Costs of South Stream Project,” *The Jamestown Foundation*, February 12, 2009, accessed March 25, 2012, [http://www.jamestown.org/single/?no\\_cache=1&tx\\_ttnews\[tt\\_news\]=34495](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=34495).

reasonably questions economic viability of the project: it would not deliver additional quantity of gas to Europe; to bypass Ukraine, 63 billion cubic meters of gas<sup>173</sup> would be simply diverted from the Ukrainian transit structure.<sup>174</sup> In total, the South Stream complemented by the Nord Stream pipeline with 55 bcm of natural gas transportation capacity per annum<sup>175</sup> would be able to abolish significance of the Ukrainian pipeline, which currently accounts for transportation of about 120 bcm of natural gas to European consumers annually<sup>176</sup>. Additionally, Russia would keep enjoying overall near-monopoly over all volume of natural gas heading down to Europe from Russia, Caspian region<sup>177</sup>, and Central Asia<sup>178</sup>. Thus, Europe presumably would gain more assurance with respect to consistency of energy flow but dependency on Russia as key energy exporter would likely remain unchanged.

Competitive to the South Stream, Nabucco pipeline project intends to reduce dependence on “importing natural gas solely from Russia”<sup>179</sup>. With estimated annual delivery capacity of 31 bcm<sup>180</sup>, Nabucco project also falls into a framework of the “Energy Security and Solidarity Action Plan” of the European Union that postulates the “developing a southern gas corridor for the supply of gas from Caspian region and Middle Eastern sources”<sup>181</sup> and became “flagship project” of the European energy

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<sup>173</sup> Gazprom, “South Stream Schedule Stipulating Maximum Capacity of 63 Billion Cubic Meters per Year Addressed,” February 28, 2012, accessed March 25, 2012, <http://www.gazprom.com/press/news/2012/february/article130497/>.

<sup>174</sup> Aseeva, “Rethinking Europe’s Gas Supplies,” 130.

<sup>175</sup> Nord Stream, “The Pipeline.”

<sup>176</sup> Chi Kong Chyong, Pierre Noël, and David M. Reiner, “The Economics of the Nord Stream Pipeline System,” (EPRG Working Paper, University of Cambridge, 2010): 26, <http://www.econ.cam.ac.uk/dae/repec/cam/pdf/cwpe1051.pdf>.

<sup>177</sup> Julia Nanay, “Russia’s Role in the Eurasian Energy Market: Seeking Control in the Face of Growing Challenges,” in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 109.

<sup>178</sup> Idra Overland, “Natural Gas and Russia – Turkmenistan Relations,” *Russian Analytical Digest* 56 (2009): 9, 11.

<sup>179</sup> Stefan Nicola, “Analysis: Europe’s Pipeline War,” *UPI*, February 5, 2008, accessed May 19, 2012 [http://www.upi.com/Business\\_News/Energy-Resources/2008/02/05/Analysis-Europes-pipeline-war/UPI-24561202258576/](http://www.upi.com/Business_News/Energy-Resources/2008/02/05/Analysis-Europes-pipeline-war/UPI-24561202258576/).

<sup>180</sup> Nabucco Gas Pipeline, “The Project,” [http://www.nabucco-pipeline.com/portal/page/portal/en/Home/the\\_project..](http://www.nabucco-pipeline.com/portal/page/portal/en/Home/the_project..)

<sup>181</sup> Europa, “Energy Security and Solidarity Action Plan,” last modified April 3, 2009, accessed March 25, 2012, [http://europa.eu/legislation\\_summaries/energy/european\\_energy\\_policy/en0003\\_en.htm](http://europa.eu/legislation_summaries/energy/european_energy_policy/en0003_en.htm).

security policy<sup>182</sup>. Even though its construction is more than two times cheaper (€7.9 billion<sup>183</sup>) compared to the South Stream project, investors still doubt whether up-front investments would yield immediate output as Nabucco faces a major obstacle to run the piping if there would be enough resources found to fill the pipeline with natural gas.<sup>184</sup> Initially, Iran was regarded as a major gas provider for Nabucco. But due to the ongoing disputes around the Iranian nuclear program, Iranian gas is unlikely to be used until the crisis is over.<sup>185</sup> Alternative way to get required volume of natural for Nabucco pipeline would be an access to the fossil resources of the former Soviet republics in the Central Asia. So far, this option is not feasible for two reasons. First, disagreement over the legitimate status of the Caspian Sea between its littoral states – “whether it should be treated as a sea or a lake” – is still unresolved<sup>186</sup> which inevitably does not allow constructing a pipeline on the bottom of the Caspian Sea. Second, Russia “tied up available and future supplies of Central Asian gas in long-term Gazprom contracts.”<sup>187</sup> Hence, even though Nabucco diversification option makes political and commercial sense, it is unlikely to be implemented in foreseeable future because of lack visible solutions to overcome aforecited difficulties quickly.<sup>188</sup>

Another option for Europe to diversify energy supplies away from Russia is to further develop LNG facilities relying on African and Middle East producers. This option is feasible but costlier than others. LNG projects are quite capital-intensive and also require

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<sup>182</sup> Katinka Barysch, “Should the Nabucco Pipeline Project be Shelved?” (Centre for European Reform, Transatlantic Academy, 2010): 17, accessed May 19, 2012, <http://www.transatlanticacademy.org/sites/default/files/publications/Should%20the%20Nabucco%20Pipeline%20be%20Shelved.pdf>.

<sup>183</sup> Nabucco Pipeline Project, “Facts and Figures,” <http://www.nabucco-pipeline.com/portal/page/portal/en/press/Facts%20Figures>.

<sup>184</sup> Barysch, “Should the Nabucco Pipeline Project be Shelved?” 17.

<sup>185</sup> *Iran Times*, “Regime objects to EU pipe across Caspian,” September 20, 2011, accessed May 20, 2012, [http://www.iran-times.com/english/index.php?option=com\\_content&view=article&id=2624:regime-objects-to-eu-pipe-across-caspian&catid=103:eco-right&Itemid=44](http://www.iran-times.com/english/index.php?option=com_content&view=article&id=2624:regime-objects-to-eu-pipe-across-caspian&catid=103:eco-right&Itemid=44).

<sup>186</sup> Vladimir Afanasiev, “Caspian Sea Pipe Deadlock,” *Upstream. The International Oil&Gas News Source*, November 25, 2011, accessed May 20, 2012, <http://www.upstreamonline.com/hardcopy/news/article291027.ece>.

<sup>187</sup> Ericson, “Eurasian Natural Gas Pipelines,” 46.

<sup>188</sup> Barysch, “Should the Nabucco Pipeline Project be Shelved?” 17.

substantial up-front investments and commitments by both producers and consumers<sup>189</sup>. For the sake of security of supply, reliance on LNG option would require sufficient of amount of liquefaction and de-gasification facilities and LNG transportation means. To ensure security of demand, “the system of long-term contracts and their constant renewal would need to be set up.” Both issues of security of supply and security of demand are key determinants that stipulate inevitability of high-fixed costs for the LNG choice. Besides that, if LNG is commercially viable for the states with immediate sea access or not far away from it, this option hardly makes economic sense for the land-locked ones, in particular for the Central European states, which already obtain energy supplies from Russia via pipelines.<sup>190</sup> Thus, due to significantly higher cost involved to develop LNG infrastructure, it is anticipated that LNG share in the European natural gas market, being currently at the level of about 20 per cent<sup>191</sup>, would remain modest as it is over the next couple decades.<sup>192</sup> Indeed, to some extent LNG would reduce growing dependency on Russia’s natural gas, especially for the West European states<sup>193</sup>, but is unlikely to align existing asymmetric interdependence in the European Union-Russia energy cooperation.

## **B. THE EUROPEAN UNION’S ACTIONS REGARDING COMMON ENERGY POLICY VIS-À-VIS RUSSIA**

To deal with existing peculiarities stemming out of so-called “energy security dilemma”<sup>194</sup> in collaborating triangle – the European Union, the European Union individual states, and Russia, the European Union attempts to function an “integrator motor”<sup>195</sup> to shape and implement a common energy security policy in both external and internal dimensions aiming to create a unilateral approach by the European Union members to withstand concurrent heterogeneous energy dependency, particularly on Russian fossil resources. Indeed, European-Russian and energy cooperation across

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<sup>189</sup> Ericson, “Eurasian Natural Gas,” 46.

<sup>190</sup> Aseeva, “Rethinking Europe’s Gas Supplies,” 133.

<sup>191</sup> Ghaleb, “Natural Gas,” 20.

<sup>192</sup> Ericson, “Eurasian Natural Gas,” 46.

<sup>193</sup> Ghaleb, “Natural Gas as an Instrument of Russian State Power,” 20.

<sup>194</sup> Aalto, “European Perspectives,” 165.

<sup>195</sup> Ibid., 161.

Europe gained certain novel characteristics after appearance of a new actor, namely the European Union that advances a unified energy policy on behalf of the European Union members without actually importing “a single cubic meter of gas”<sup>196</sup>. At the same time, implementation of the unified approach towards collective energy security is often in conflict existing forms of energy cooperation, namely between individual European states and Russia.<sup>197</sup>

Before establishment of the European Union, the first attempt to conceptualize a common approach for unified energy policy within the European Economic Community was taken back in 1988 emphasizing the importance of application of free market principles in the internal European energy market.<sup>198</sup> After dissolution of the Soviet Union, substantial consequent changes on the European political map along with appearance of new actors known as energy transit states, and entrance of a new political entity, namely the European Union, called for revision of the existing energy policy seeking new arrangements of energy cooperation between the European and other states. At the beginning of 1990s, the European Union launched an initiative initiated with a purpose to “build a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development”<sup>199</sup>. This notion has been reflected in “Energy Charter Treaty” (ECT) with primary emphasis on the development of common rules to “provide a more balanced and efficient framework for international cooperation than is offered by bilateral agreements.” The Treaty was signed in December 1994 by fifty-one states embracing majority of the European countries, transit states (Ukraine, Moldova, and Turkey), and energy producing countries, including Russia, and came into

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<sup>196</sup> Solanko, “Too Much or Too Little Russian Gas to Europe?” 58.

<sup>197</sup> Aalto, “European Perspectives,” 161.

<sup>198</sup> Ibid., 160.

<sup>199</sup> Energy Charter, “About the Charter,” accessed March 23, 2012, <http://www.encharter.org/index.php?id=7>.

force in April 1998<sup>200</sup> (Russia has not ratified the Treaty and officially informed other signatories on lack of such intentions<sup>201</sup>).

Applying the Treaty provisionally, Russia refused to ratify it insisting that the ratification would undermine “the country’s economic interests”<sup>202</sup>. In fact, the key reason was a lack of agreement between the European Union and Russia over the provisions of the Transit protocol of the Energy Charter. Russia insisted that “the document should include the ‘right of first refusal’ if a long-term supply contract ... does not match the long-term transit contract” literally granting a “third-party access” to the Russian gas transportation system, especially for the Caspian energy producers<sup>203</sup>. Conversely, The European Union stands for “the non-discriminating access of companies and other countries to Russian pipelines, primarily the gas transportation network controlled by state-owned gas holding Gazprom”<sup>204</sup>. If that happened, Russia literally would have “to give up its near-monopolistic control over energy transit”<sup>205</sup> and become a just transit state for the Caspian and Central Asian producers.<sup>206</sup>

The failure of negotiations with Russia over the content of the Energy Charter Treaty induced the European Union to seek other forms of energy cooperation with Russia. During the “EU-Russia Summit in Paris in October 2000” it was agreed to launch a separate “The European Union–Russia Energy Dialogue.”<sup>207</sup> The European Union

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<sup>200</sup> Ibid.

<sup>201</sup> Energy Charter Secretariat, “Status of Ratification of the Energy Charter Treaty as of October 2009,” accessed March 18, 2012, [http://www.encharter.org/fileadmin/user\\_upload/document/ECT\\_ratification\\_status.pdf](http://www.encharter.org/fileadmin/user_upload/document/ECT_ratification_status.pdf).

<sup>202</sup> Energy Daily, “Moscow Reiterates Refusal to Ratify Energy Charter,” accessed March 23, 2012, [http://www.energy-daily.com/reports/Moscow\\_Reiterates\\_Refusal\\_To\\_Ratify\\_Energy\\_Charter\\_999.html](http://www.energy-daily.com/reports/Moscow_Reiterates_Refusal_To_Ratify_Energy_Charter_999.html)

<sup>203</sup> Andrei V. Belyi, “A Russian Perspective on the Energy Charter Treaty (ARI),” *Real Instituto Elcano*, June 16, 2009; accessed March 23, 2012, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_eng/Content?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_in/zonas\\_in/europe/ari98-2009](http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/europe/ari98-2009).

<sup>204</sup> Sergei Kolchin, “Why Russia Refuses to Ratify Energy Charter,” for *Rianovosti*, April 7, 2006 accessed March 23, 2012, <http://www.bilkent.edu.tr/~crs/energycharter.htm> accessed on March 23, 2012.

<sup>205</sup> Aalto, “European Perspectives,” 160.

<sup>206</sup> Ibid.

<sup>207</sup> Ferran Tarradellas Espuny, “EU-Russia Energy Dialog at the Origin of the European Foreign Energy Policy,” in *EU-Russia Centre Review: EU-Russia Energy Relations*, Issue 9 (2009): 6, accessed March 18, 2012, [http://www.eu-russiacentre.org/wp-content/uploads/2008/10/review\\_ix.pdf](http://www.eu-russiacentre.org/wp-content/uploads/2008/10/review_ix.pdf).

Commission as a supranational authority was mandated by the European Union member states to offer the Russian government de facto bilateral form of energy cooperation. In addition to “institutional, technical, and financial assistance” provisioned by the Energy Charter Treaty<sup>208</sup>, the European Union offered Russia to “participate in the development of the EU’s internally integrated [energy] market.”<sup>209</sup> At the same time negotiations within the framework of the European Union–Russia Energy Dialogue are always tough when the issue of fossil resources is raised. The main obstacle once again lays in divergence of strategic interests of the two actors. Whilst Russia seeks “long-term contracts for natural gas, ... investments and technology, participation in the European Investment Bank, and removing limits on imports of energy products,” the European Union, to enhance security of supply, strives for the “opening ... Russian energy market” and fair conditions for investments.<sup>210</sup>

To further develop a unanimous multilateral approach towards collective energy security, in November 2008 the European Union adopted “The European Union Energy Security and Solidarity Action Plan” emphasizing on insufficiency of “specific national solutions” in relation to “the integration of energy markets and infrastructures within the European Union” and necessity to “develop a vision for 2050.”<sup>211</sup> Simultaneously, steadily growing energy consumption across the European Union raised serious environmental concerns that have been highlighted in “The EU Climate and Energy Package.” The Package envisions reduction by 20 per cent of “greenhouse gas emissions,” “20 per cent of European Union energy consumption to come from renewable resources energy,” and reduction by 20 per cent “in primary energy use compared with projected levels ... by improving energy efficiency” that are to be fulfilled by 2020. To converge the provisions stated in the two policy papers cited above with intended outcome to strengthen the European Union’s ability to act unanimously and

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<sup>208</sup> Closson, “Russia’s Key Customer,” 93.

<sup>209</sup> Ibid., 94.

<sup>210</sup> Ibid.

<sup>211</sup> Europa: Please Releases RAPID, “The EU Energy Security and Solidarity Action Plan: 2nd Strategic Energy Review,” accessed March 23, 2012, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/703&type=HTML>.



to modernize energy cooperation with Russia acknowledging its continuously growing importance as energy supplier, in February 2011 the European Union complementing the EU-Russia existing energy dialog policies solidified an intention to develop another long-term EU-Russia cooperation strategy in the form of “the EU-Russia Roadmap for Cooperation in the Energy Sector until 2050.”<sup>212</sup>

Thus, the European Union is persistently looking for different ways to improve the level of energy cooperation with energy suppliers through developing numerous strategies and concepts. Besides everything else, they intend to mitigate existing various levels of interdependence on imported energy resources between the European Union individual states and other energy importers and strengthen the European Union’s capability to act unanimously to withstand existing and potential threats to the European security.

### **C. CENTRAL ASIAN ENERGY COOPERATION AND EUROPEAN ENERGY SECURITY**

In addition to current strategy to maintain dominance in the European energy market<sup>213</sup>, Russia also looks eastward for extensive energy cooperation with energy demanding Chinese and East Asian economies<sup>214</sup>. Key elements of the eastern energy strategy were settled in the “Eastern Gas Program” issued by the Russian Federation Industry and Energy Ministry in September 2007. This is a “state-run Development Program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries.” This program envisions development gas fields and gas output growth in Russian Eastern Siberia and the Far East to satisfy needs for natural gas of by potential Chinese and east Asian customers.<sup>215</sup>

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<sup>212</sup> “Common Understanding on Preparation of the Roadmap of the EU-Russia Energy Cooperation until 2050,” accessed March 23, 2012, [http://ec.europa.eu/energy/international/russia/doc/20110224\\_understanding\\_roadmap\\_2050.pdf](http://ec.europa.eu/energy/international/russia/doc/20110224_understanding_roadmap_2050.pdf).

<sup>213</sup> Ericson, “Eurasian Natural Gas Pipelines,” 51.

<sup>214</sup> Nina Poussenkova, “Gazprom and Russia’s Great Dreams,” *Russian Analytical Digest* 58 (2009): 7.

<sup>215</sup> Gazprom, “Eastern Gas Program,” accessed May 22, 2012, [“http://www.gazprom.com/about/production/projects/east-program/](http://www.gazprom.com/about/production/projects/east-program/).

China's Economic boom of the 2000' set the most opportunistic and highly economically viable outlook for Russia to deepen energy relations with China.<sup>216</sup> Likewise, China also views Russia as an important future energy trade partner from several important reasons. First, strategic significance of their geographical proximity<sup>217</sup> allows connecting upstream and downstream projects with lower cost and avoiding reliance on intermediaries.<sup>218</sup> Second, China is also seriously concerned about diversifying energy supplies to enhance its energy security.<sup>219</sup> Finally, China is the world's highest CO<sub>2</sub> emitter because of its predominantly coal-based domestic energy production; consequently, it anticipates international pressure regarding growing environmental issues.<sup>220</sup> Currently, there is no decision has been made upon beginning of the construction of gas pipelines. The main issue the sides cannot agree upon is the gas price. China stands for lower gas prices emphasizing the necessity of maintaining competition with alternative sources of domestic energy production, namely coal. Russia, on the other hand, attempts to cooperate with China the way as it does with Europe through "long-term contracts for the gas deliveries." As Russian official pointed out, such a long-term commitment is "the basis for the decision on building a pipeline."<sup>221</sup> Therefore, unless demand for the gas is secured, Russia is unlikely to put much effort to develop the Siberian gas fields.

Lack of consensus over the gas pricing with Russia and ambiguity over future intensity of gas cooperation with Russia induced China to rely more on alternative sources of energy, including those in the Central Asia, namely Kazakhstan and Turkmenistan<sup>222</sup>. Currently, Turkmenistan, that "holds the world's fourth-largest natural

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<sup>216</sup> Indra Overland and Kyrre Elvenes Broekhus, "Chinese Perspectives on Russian Oil and Gas," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 208.

<sup>217</sup> Ibid., 201.

<sup>218</sup> Ibid., 209–210.

<sup>219</sup> Ibid., 201.

<sup>220</sup> Ibid., 212.

<sup>221</sup> Poussenkova, "Gasprom and Russia's Great Dreams," 8.

<sup>222</sup> Xuanli Liao, "Central Asia and China's Energy Security," *China and Eurasia Forum Quarterly* 4 (2006): 61–69, accessed May 22, 2012 [http://www.silkroadstudies.org/new/docs/CEF/Quarterly/November\\_2006/Liao.pdf](http://www.silkroadstudies.org/new/docs/CEF/Quarterly/November_2006/Liao.pdf).

gas reserves”<sup>223</sup>, is the only Central Asian state that ships its air hydrocarbons to China via pipeline net since December 2009<sup>224</sup> with projected export annual capacity of 40 bcm<sup>225</sup>. Simultaneously, China negotiates on gas deliveries with Kazakhstan and Turkmenistan. In September 2011, China and Kazakhstan agreed on launching a pipeline construction that would link Kazakh gas fields with existing transportation network, that originates in Turkmenistan and crosses Kazakhstan and Uzbekistan and terminates in China<sup>226</sup>, and add another 15 bcm of natural gas for China.<sup>227</sup> It is expected that Kazakhstan could increase annual export volumes up to 40 bcm by 2015<sup>228</sup>. In addition, China agreed with Uzbekistan to acquire up to 4 bcm of Uzbek natural gas to be shipped in 2012. It also anticipated that the natural gas export to China would be increased up to 9 bcm in 2013<sup>229</sup>.

A key implication for the European security strategy in deepening energy cooperation between China and Central European energy suppliers is that the volumes of natural gas that would be enough to fill Nabucco pipeline would have been secured by other consumers, specifically China. Even though Russia would inevitably lose “its monopsony position as buyer of Central Asian gas”<sup>230</sup>, it would retain its monopoly over transportation already contracted gas from Asia to Europe and enjoy remaining strong European reliance on Russian fossil fuels.<sup>231</sup> Another serious challenge for the European

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<sup>223</sup> *Reuters*, “Uzbekistan says to start gas supply to China in 2012,” May 17, 2012, accessed May 22, 2012, <http://www.reuters.com/article/2012/05/17/gas-uzbekistan-china-idUSL5E8GHA1E20120517>.

<sup>224</sup> *Bloomberg News*, “China, Kazakhstan Sign Accord to Expand Gas Pipeline Network,” September 7, 2011, <http://www.bloomberg.com/news/2011-09-08/china-kazakhstan-sign-accord-to-expand-gas-pipeline-network-1-.html>, accessed on May 22, 2012.

<sup>225</sup> Isabel Gorst and Geoff Dyer, “Pipeline brings Asian gas to China,” *Financial Times*, December 14, 2009, accessed May 22, 2012, <http://www.ft.com/intl/cms/s/0/38fc5d14-e8d1-11de-a756-00144feab49a.html#axzz1veejebQp>.

<sup>226</sup> *Reuters*, “Uzbekistan says to start gas supply to China in 2012.”

<sup>227</sup> “China, Kazakhstan Sign Accord to Expand Gas Pipeline Network.”

<sup>228</sup> *Financial Times*, “Kazakhstan and China agree \$1bn currency swap,” June 13, 2011, accessed May 22, 2012, <http://blogs.ft.com/beyond-brics/2011/06/13/kazakhstan-and-china-agree-1bn-currency-swap/#axzz1velsJRgw>.

<sup>229</sup> *Reuters*, “Uzbekistan says to start gas supply to China in 2012.”

<sup>230</sup> Ericson, “Eurasian Natural Gas Pipelines,” 51.

<sup>231</sup> *Ibid.*, p. 52.

energy security might appear if Russia would link West and East Siberia energy fields<sup>232</sup> and if Russia and China would overcome the gas price disagreement. Russia would no longer be dependent on Europe for its energy sales,<sup>233</sup> demand for Russian fossils and revenue would be secured in case of politically motivated disruptions of energy flow to the European market<sup>234</sup>.

#### **D. CONCLUSION**

None of possible diversification options would resolve the European energy security dilemma. The South Stream project proposed and accelerated by Russia would secure energy supply but retain heavy dependency on Russian fossil fuels. Nabucco project, the cheapest and the only effective option to significantly reduce dependence on Russian energy, has vague prospects due to the lack of viable options to fill up the pipe with gas. LNG option is not a decisive one. It is capital-intensive and requires special and expensive infrastructure that is substantially time-consuming to make it operational.

To withstand and overcome existing asymmetric interdependence, the European Union uses political tools across the European Union to pursue its members to act unanimously to fulfill provisions of the common security policy. Due to varying degrees of dependence on Russian energy resources, those efforts are often opposed by the member states that prioritize national interests over supranational as long as energy security of each individual state is not delegated to the supranational authority. That makes the European Union weak and vulnerable in dealings with present and possible future threats to European security.

At the first glance, present dynamics of energy cooperation in Asia undermines Russian energy superpower ambitions by reducing its influence in energy markets in the former Soviet republics in Central Asia by allowing the diversion of energy resources to China that potentially could be sold to the European Union states<sup>235</sup>. In fact, this weakens

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<sup>232</sup> Nina Poussenkova, "Russia's Future Customers: Asia and Beyond," in *Russian Energy Power and Foreign Relations: Implications for Conflict and Cooperation*, eds. Jeronim Perovic et al. (New York: Routledge Taylor & Francis Group, 2009), 150.

<sup>233</sup> Nanay, "Russia's Role in the Eurasian Energy Market," 128.

<sup>234</sup> Ericson, "Eurasian Natural Gas Pipelines," 52.

<sup>235</sup> Ibid.

European opportunities to find enough natural gas for the Nabucco pipeline allows Russia to maintain monopoly over energy transit from Central Asia to Europe and keeps Europe heavily dependent on Russian energy supplies.

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## V. CONCLUSION

Russia's foreign policy can be best explained within a framework of the political realism theory that describes the world as an anarchic realm, and state actors are to use instruments of power to survive. The current status of the Russian military presumably could not be strong enough to be used effectively as a tool of the state's power as the theory suggests. Unprecedented cut-offs of energy flow from Russia to Europe in 2006 and 2009 lead to an impression of the economic weapon being used through manipulation of critical energy supplies, threatening other actors with the possibility of severe economic loss and creating panic among the population, with an effect nearly equal to that resulting from the use of military force but without actual physical destruction and massive loss of lives. In this respect, the rational explanation for Russia's international conduct would be its reliance on key components of its economy that are highly crucial to, and in high demand by, other states, that is, reliance on its enormous amount of energy resources but not on its weak military. For maximization of its economic leverage vis-à-vis other states for political reasons, the necessary condition for Russia should be to impose state control over energy production, transportation, and distribution to the consumers as was actually done during Vladimir Putin's first presidency with oil and natural gas monopolists Sibneft and Gazprom.

The historically formed energy cooperation between Russia and European states, especially those that happened to be members of the European Union, can be described as asymmetric and gives Russia all necessary preconditions to use economic leverage as an instrument of foreign policy. First, there are already existing and operational energy transportation routes that connect Russian energy extraction fields and European consumers. Second, the European fossil fuels production is declining while demand for energy is steadily growing, and the amount of energy resources in Russia is large enough to satisfy European needs. Third, the degree of dependency on Russian energy across the European Union varies from no dependence to complete dependence; this differentiates approaches to energy security in every single case. This also weakens the political unity of the European Union to counter possible Russian assertive foreign behavior by

imposing tools of economic coercion on Europe. Finally, the European Union lacks sufficient diversification of energy supplies to lessen the existing critical reliance on Russian hydrocarbons. All options are either capital-intensive and require significant upfront investments or could put the European consumers into a deeper energy dependence on Russia, which might be converted into a political one. Development of the southern energy corridor is considered to be the only politically and economically viable option for the European Union to diversify its energy supplies, but its future is vague. Certain obstacles stemming from unresolved problems over the Iranian nuclear program, the unsettled issue of the legal status of the Caspian Sea that does not allow connecting Central Asia and Europe while bypassing Russia, and recently intensified energy cooperation in Asia makes it unclear who is going to provide enough energy to justify the pipeline construction cost.

Thus, by replacing the military as a tool of state power with economic means, Russia could rely on the energy matter as a “bargaining tool”<sup>236</sup> to pursue its political goals and objectives, especially in Europe.

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<sup>236</sup> Aseeva, “Rethinking Europe’s Gas Supplies,” 134.



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