

**European Union's Energy Security:
The Impact of Tensions in External Relations with Russia on Central Europe**

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ABSTRACT

With energy having become a referent of security, the perceived threats to a state's security have expanded to incorporate supply disruptions, weak infrastructure, absence of sufficient energy supplies, and overdependence on too few suppliers. All of the above are energy security concerns addressed by the European Commission, in light of the increasing demand for hydrocarbons to fuel the European Union's economy. The EU is well aware of its overdependence on, especially, Russian natural gas and the need for increased supply security. As a result, integral components of the EU's strategy towards supply security are diversification, transparency, and solidarity. Russia's desire to retain and strengthen its advantageous geostrategic, monopolistic position in energy relations with the EU drives Russia's interests and behaviour vis-à-vis its most important energy importer.

The different meanings attached to energy security and approaches to its achievement in the EU and Russia create a complex and problematic relationship between these two interdependent units. Despite ongoing efforts, mainly from the European side, it is difficult to sustain cooperation guided by transparency and common market rules as the EU envisions. It wants to maintain energy relations with Russia based on cooperation and interdependence. The European Commission is implementing policies to aid in the process - namely an active search for alternative routes and suppliers, endorsement of solidarity among the member states, and liberalization of the energy market. However, Russia's energy policy is in direct opposition to Europe's liberalization and diversification efforts. Ongoing tensions result from the incompatibility of norms and rules that guide their respective energy policies as well as differing material interests of individual European member states which in turn makes the achievement of supply security in heavily dependent countries in Central Europe a difficult task.

INTRODUCTION

Changing Definition of Security

The interpretation of the term *security* has undergone significant changes in recent decades in the field of international relations. Originally, security was defined primarily in military terms, revolving around the protection of a state and its population from external attacks. National security was defined by the availability and maintenance of a strong army and weapons systems. This narrow, realist conceptualization of security was especially prevalent in the Cold War era, when the world lived in fear of a potential nuclear conflict between the two polarized superpowers, the Soviet Union and the United States of America.¹ However, this paradigm is not sufficient in today's globalized world, when states are also faced with threats of a non-traditional nature. Since 1980, academic and policy circles have been participating in a debate about the broadening and deepening of security, whereby new referents of and threats to security appear. In 1983, Barry Buzan in *People, States and Fear* emphasized the need to include other domains, aside from the military, into the security discourse, namely economy, society, and environment.² Six years later, Jessica Tuchman Matthews suggested that national security include "questions touching on resources, environment and demography."³

Because states as sovereign units have undergone significant transformations in terms of their capacities, their realm of concerns has been extended and so has the concept of security.⁴

The security agenda has come to include issues that have very little or nothing in common with

¹ Brown, Lester R., "Redefining Security", *Worldwatch Paper*, No.14, Washington D.C.: Worldwatch Institute (October 1977). Ullman, Richard H., "Redefining Security", *International Security*, Vol.8, No.1 (Summer 1983), 129-153. Kolodziej, Edward E., "What is Security and Security Studies? Lessons from the Cold War", *Arms Control*, Vol.13, No.1 (April 1992), pp.1-31.

² Alex Macleod. Dan O'Meara, *Théories des Relations Internationales : Contestations et résistances* (Outremont: CEPES, 2007), p. 356.

³ Jessica Tuchman Matthews, "Redefining Security," *Foreign Affairs* 68, 2 (1989), p. 162.

⁴ Barry Buzan, "Security, the State, the "New World Order," and Beyond" in Ronnie D. Lipschutz, *On Security* (New York : Columbia University Press, 1995), p. 191

the originally adopted military understanding of the concept. Security has been redefined as a “freedom from threat,” whereby a threat becomes anything that can weaken a state’s sovereignty, self-determination, and “capacity to manage by itself.”⁵

One of the most influential scholars advocating a broadening and deepening of the concept of security is Barry Buzan – an adherent of the Copenhagen School of security studies – who in 1991 acknowledged the existence of new threats to security and suggested that security needs to be conceptualized in several other ways in addition to the military. He presented four domains of the extended concept of security, namely political, economic, societal, and environmental security.⁶

Relevance of Energy Security

I focus this paper on a sub-category of economic security: energy security. Economic security “concerns access to resources to sustain acceptable levels of welfare and state power.”⁷ Energy is an inseparable component of the economy because it can greatly contribute to a country’s development and standard of living. Moreover, energy security has become a matter of extreme relevance today as the world is facing problems associated with dangerously fast progressing climate change. Never has it been more pertinent to focus a unit’s policy priorities on energy security than today, when the world energy demand is projected to grow by 45% before

⁵ Barry Buzan, "New Patterns of Global Security in the Twenty-First Century." *International Affairs* 67, 3 (1991), p. 432.

⁶ Macleod and O’Meara, *Théories des Relations Internationales : Contestations et résistances*, p. 364.

⁷ Buzan, "New Patterns of Global Security in the Twenty-First Century," p. 433.

2030.⁸ Further, global natural gas consumption alone is likely to increase by 87% in the next seventeen years.⁹

However, energy problems are not a new phenomenon in national policy. They have been considered a matter of concern for states since industrial society was born over one hundred years ago.¹⁰ Advanced use of fossil fuels kick-started the production processes of the industrial revolution¹¹ and still today, natural resources are the fuel of any economy directly contributing to a nation's economic, technological, and trade development. The conceptualization of energy as a security matter was, nevertheless, not directly used until the oil shocks of 1970s. Lester R. Brown was one of the pre-Copenhagen pioneers to delve into the realm of energy, expanding the concept of security beyond weapons, militia, and wars and considering the environment, economy, society, and individuals as worth incorporating into the security discourse. More importantly, analyzing the Arab oil embargo of 1973, Brown realized that resource scarcity and depletion play a role in determining security of nations that depend on their imports. He stressed how important it is for countries to find alternative sources of energy and that such a transition must be executed as quickly as possible.¹²

The oil embargo of the early 1970s is what Biresselioglu refers to as the “big debut of the concept of energy security.”¹³ Taylor perceives the aforementioned crisis as proof that there is hardly any other non-traditional threat to national security more pertinent than insufficient

⁸ Gal Luft and Anne Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook* (Santa Barbara, CA: Praeger Security International, 2009), p.1.

⁹ Miloslav Ransdorf, *Věk Nejistoty: Energie - Chléb i Meč* (Plzeň: Euroverlag, 2009), p. 14.

¹⁰ Daniel Yergin, “Energy Security and Markets” in Jan H. Kalicki and David L. Goldwyn, *Energy and Security: Toward a New Foreign Policy Strategy* (Washington, D.C.: Woodrow Wilson Center, 2005), p. 52.

¹¹ Ransdorf, *Věk Nejistoty: Energie - Chléb i Meč*, p. 123.

¹² Lester R. Brown, “Redefining Security”, *Worldwatch Paper*, No. 14, (October 1977), p. 47-9.

¹³ Mehmet Efe Biresselioglu, *European Energy Security: Turkey's Future Role and Impact* (New York: Palgrave Macmillan, 2011), p. 10.

energy resources.¹⁴ The energy crisis of 1973-1974 demonstrated the harm to a state's functioning that is brought about by overdependence on one supplier of an energy source. It was also when energy was securitized and the concept of *oil supply* security began appearing frequently in policy dialogues. Six years after the oil shocks, David Deese defined energy security in more general terms as "a condition in which a nation perceives a high probability that it will have adequate energy supplies at affordable prices."¹⁵

With energy having become a referent of security, the threats to a state's security have expanded to incorporate supply disruptions, weak infrastructure, absence of sufficient energy supplies, and overdependence on too few suppliers. Failure to address any of these could result in reduced economic and industrial activity of a state, which would in turn affect its ability to act independently and in a self-supporting manner, thus threatening a state's sovereignty.¹⁶

European Union and Energy Security

All of the above are energy security concerns presently addressed by the European Commission. At the moment, Europe (along with Eurasia) consumes 32.6% of world natural gas supplies.¹⁷ By 2030, the EU's dependence on energy imports is to grow from 50% to 70%. Notwithstanding the likelihood of pending European shale gas revolution to alter the statistics, in 25 years, the European Union may have to import 80-85% of its gas supplies.¹⁸ Only 0.6% of global oil and 2.0% of natural gas reserves are located in Europe. The EU's three biggest natural gas suppliers are respectively Russia, Norway, and Algeria. Russia, in possession of 17.6% of

¹⁴ Biresselioglu, *European Energy Security: Turkey's Future Role and Impact*, p. 11.

¹⁵ Andrej Nosko, "Dilemmas of Energy In(security) in Central Europe and Southeastern Asia." *Contemporary Security Dilemmas: Reflections on Security in Central Europe and Southeast Asia*. (Pilsen, 31 October 2006), p. 4.

¹⁶ Buzan, "New Patterns of Global Security in the Twenty-First Century," 432

¹⁷ BP Statistical Review of World Energy June 2013. p.13.

¹⁸ Ransdorf, *Věk Nejistoty: Energie - Chléb i Mec*, p. 2-3.

global natural gas¹⁹, supplies natural gas to nineteen of the EU's twenty-seven member states, out of which six are 100% dependent on Russian gas (Slovakia being one of them).²⁰ In total, Europe imports 377.2 billion cubic meters of natural gas. Russia supplies the EU with 130 bcm.²¹ Indisputably, Russia is the European Union's largest and most important supplier of oil and natural gas and its energy imports contribute significantly to the functioning of the EU's economy. In turn, the revenues Russia obtains from exporting to the EU contribute to the functioning of its own economy and industry.

It is clear that "significant economic activity [binds the two]," automatically adding value and importance to their political and diplomatic relations.²² At first glance, all that seems necessary is effective cooperation, so both sides can achieve their respective goals. However, the EU is well aware of its overdependence on, especially, Russian natural gas and the need for increased supply security. As a result, integral components of the EU's strategy towards supply security are diversification, transparency, and solidarity. Despite its advances in energy policy, the EU struggles to achieve effective and sustainable supply security, especially in the most heavily dependent countries of Central Europe such as Slovakia and Poland. The EU is aware of the dangers that come with overdependence on Russia as the main supplier, namely monopolistic pricing and supply disruptions such as the well-known gas crisis in January 2009. It is thus concentrating primarily on diversification of routes and suppliers, reduction of demand, transparency of pricing mechanisms and solidarity in the region. Nevertheless, the region continues to struggle because in the name of enhancing its own energy security, Russia largely opposes the remedying steps undertaken by the European Commission. The question then

¹⁹ BP Statistical Review of World Energy June 2013. p. 22.

²⁰ Ransdorf, *Věk Nejistoty: Energie - Chléb i Mec*, p.5.

²¹ BP Statistical Review of World Energy June 2013. p.30, p.13.

²² Buzan, "Security, the State, the "New World Order," and Beyond," p.188.

remains to what extent energy policy of the EU is successful and effective in strengthening energy security in Central Europe in particular in light of the challenges posed by its Russian counterpart.

The Russian Federation is not a member of the EU and is in a different strategic position vis-à-vis the European community. While the two entities recognize their interdependence, both sides realize that their national perceptions of energy reality are different when it comes to the integrated market approach, diversification and reciprocity, or the concept of solidarity, as propagated primarily by the European Commission. While it is clear that monopolization of energy exports is a reflection of Russia's profit maximizing aims, to a certain extent the values reflected in both Russia's and European Commission's respective energy policies also play a role in their relations. Lukáš Tichý wrote for the Centre for European and North Atlantic Affairs that we are witnessing an inevitable "clash of values" in energy relations between Russia and the EU. This clash is a result of a conflict of "the idea of a "liberal" EU consumer-market versus the "monopoly" Russian producer that focuses on political control rather than on mutual benefit and prosperity."²³ Vladimir Milov from the Center for Strategic and International Studies refers to this encounter of values as an asymmetry between EU's energy market liberalization and Russia's "resource nationalist policies."²⁴

EU's and Russia's main differences, however, rest primarily in the way they define their energy security goals, in the significance they attribute to energy as a foreign policy tool, and in the interests energy is used to advance. Considering its dependency on imports, the EU equates energy security with supply security, which means stable and affordable supplies. **Indeed,**

²³ Tichý, Lukáš, *Controversial Issues in the EU-Russia Energy Relations*, In: Majer, M. – Ondrejcsák, R. – Tarasovič, V. (eds.): *Panorama of global security environment 2012*. Bratislava: CENAA, p. 196-197.

²⁴ Milov, Vladimir. *Russia and the West: The Energy Factor* (Washington D.C.: Center for Strategic and International Studies, July 2008), p. 17.

according to the ‘Energy 2020’ - the Communication of the European Commission - the main objective of the EU in terms of energy security is “to ensure the uninterrupted physical availability of energy products and services on the market, at a price which is affordable for all consumers (private and industrial), while contributing to the EU's wider social and climate goals.”²⁵

Because of its strong reliance on energy supplies from outside providers, the EU’s energy security rhetoric is enmeshed in the context of being an importer. This guides the fundamental principles and priorities of its energy policy and is what makes the EU’s strategy so different from that of its Russian counterpart.

The important role Russia’s energy exports play in the development of its economy and industry translates energy security into demand security in the sense of maintaining a stable and reliable base of dependent importers which would continue to generate equal if not higher energy export revenues for the country. Russian President Vladimir Putin’s vision for energy security as presented during the summit in Saint Petersburg in 2006 stressed interdependence and dialogue – priorities that seem to go hand in hand with those of the EU - but went on to demand “guarantees for producers, and sharing responsibilities and risks among energy suppliers, consumers, and transit states.”²⁶

Finding common ground with Russia is crucial to the pursuit of supply security in particularly dependent regions of the EU, such as Central Europe; however, it is also a challenge. Cooperation efforts in the domain of energy have been made by both actors which and demonstrate that they acknowledge their mutual strategic significance to each other. Their inter-

²⁵ European Commission, “Energy 2020: A strategy for competitive, sustainable and secure energy.” *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions* (Brussels, 10.11.2010), p.2.

²⁶ Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p. 93.

reliance is reflected in the EU-Russia Energy Dialogue initiated in 2000 at the 6th EU-Russia Summit in Paris in October 2000. The main goal of this initiative is “to provide reliability, security and predictability of energy relations on the free market in the long term and to increase confidence and transparency on both sides.”²⁷ Nevertheless, one of the aims of the abovementioned dialogue has yet to be reached, namely the ratification of the Energy Charter Treaty by Russia, which “refused to ratify the Charter on the basis that its liberal rules would give foreigners improved access to Russia’s gas monopoly, Gazprom.”²⁸

It is clear that Russia uses its energy exports to generate revenue as well as to further its importance on the global stage. It is concentrating primarily on demand security – securing a stable and consistent revenue-generating customer base for its energy resources – which may be jeopardized if Europe begins importing natural gas from other suppliers. Additionally, in such an event, the EU would increase its negotiating power for natural gas prices. Russia thus attempts to slow down the EU’s diversification process and impede its related efforts.

The energy-weak and heavily imports-dependent EU states – mainly states in Central Europe which are the focus of the paper – are trying to find sustainable solutions to the problem of Russian monopolization in the European energy market and to diversify sources and suppliers. The European Commission investigation into the Russian gas prices in Central European countries and the EU-endorsed Nabucco pipeline project reflect these efforts. However, Russia’s lack of willingness to collaborate in the investigation and its attempt to prevent successful diversification by initiating the construction of a competing South Stream pipeline are making the achievement of these goals very difficult and contribute to weakening of an already unstable energy security situation in Central Europe.

²⁷ European Commission. “Energy from abroad: EU-Russia Energy Dialogue.”
http://ec.europa.eu/energy/international/russia/dialogue/dialogue_en.htm

²⁸ Desktop: Russian revisionism p. 3 PDF

In addition, in order for Russia to retain an influential position on the European energy market it has chosen to pursue a bilateral-relations policy. The EU, on the other hand, likes to act and respond as a unified bloc guided by the principles of solidarity. However, when it comes to energy policy, it doesn't always do so. Individual member states continue to maintain sovereignty over their energy mixes and define the ways in which to sustain them; their respective positions vis-à-vis Russia also differ. Countries such as Germany and Italy view Russia differently with respect to energy relations than Poland or Slovakia for example. Russia uses these differences to its advantage and has been successful in undermining "European unity" by actively participating in projects such as the Nord Stream pipeline – a direct energy link between Russia and Germany causing discontent in Poland as well as the Baltic States.

This paper's main goal is to demonstrate how the differently constructed meanings of energy security – demand security and supply security - and approaches to their achievement create a complex and problematic relationship between these two interdependent units. Despite ongoing efforts, mainly from the European side, it is difficult to sustain cooperation guided by transparency and common market rules.

The EU wants to maintain energy relations based on cooperation and interdependence with its largest natural gas supplier, Russia. However, European Commission's liberalization and diversification efforts, described in the Third Energy Package of the EU, directly oppose Russia's energy policy and what is more, are not always consistent in all member states enabling Russia to enhance its status and influence in Europe. There is not only an external tension between the principles of the European Commission and norms of Russia but also an internal tension within the EU between its supranational and intergovernmental dimension. On the external level, the ongoing tension results from the EU and Russia's differing norms they follow,

values they uphold, as well as distinct material gains they each seek when it comes to energy policy. On the EU's internal level, inconsistencies in upholding the norms endorsed by the European Commission are a result of differing state policies and in this particular case also of distinct perceptions of Russia. I will use several examples to demonstrate how these tensions and discrepancies have the potential to jeopardize and weaken energy security in Central European countries in particular, with Slovakia as the primary case study.

METHODOLOGY

The principal question of this Major Research Paper (MRP) was initially 'What is weakening energy security in the European Union?' or 'What are the contemporary challenges to European Union's energy security?' As my research was progressing and I realized one of the biggest challenges is Europe's – and primarily Central Europe's – overdependence on one natural gas supplier, the Russian Federation, I have slightly altered the research question. In my MRP, I strive to explore to what extent the European Commission's policy attempts to reduce overdependence on Russian natural gas and to propagate member solidarity within the European Union as a means to face the impacts of energy overreliance are effective and helpful in addressing the challenge of Russia as a persistent monopolistic supplier. I decided to use the case study of Central Europe - Slovakia in particular – because of the natural gas crisis that took place in January 2009 and had major effects on energy security in the region. The paper looks at the European liberalization policies that stand in opposition to Russia's profit-maximizing and expansionist energy policy and explains how this clash of values and priorities makes the achievement of energy security in Central Europe a difficult goal to achieve and sustain.

I gathered the material used in this essay in the last year and a half. I presented on this issue at several graduate conferences, namely at the Royal Military College in Kingston, the

University of Ottawa, and Carleton University. Suggestions from moderators and questions from the audience helped me direct my research and enticed my interest in Russia-EU relations vis-à-vis energy security in Central Europe.

Moreover, during the winter semester of 2013 I participated in my second Co-op placement at a non-profit think tank, EUROPEUM Institute for European Policy in Prague. There, I met with several Czech experts on the topic of energy security and Russia-EU energy relations. I also participated in a weeklong intensive seminar on the challenges to energy security in the Czech Republic at Prague Security Studies Institute and took a Global Energy course at the Anglo-American University in Prague. Recently, I attended a policy workshop on “The EU’s External Energy Relations: Russian and Canadian Dimensions” where I gained invaluable insights into this controversial and complex topic from Russian speakers as well as those from the European energy policy-making arena.

Much of the data presented are secondary sources, such as news reports, books, academic articles, and analyses of the energy situation in the region. A very useful primary source was the BP Statistical Review of World Energy 2013 with the most recent data on natural gas trade movements, reserves, production and consumption. The statistics in this document served as a good indicator of the significance Russia has on the global energy stage and of the level of EU’s dependence on Russia’s exports. Being able to speak Slovak and Czech helped me in conducting research as the professors and academics I met in Prague directed me to domestic sources that I would be otherwise unable to consult. Invaluable components of my accumulated research material are the documents, directives, and legislation from the European Commission, which are part of the Third Energy Liberalization Package. These helped me understand the main challenges to the EU’s energy security and what is being implemented to address them.

When it came to understanding European Union's energy security priorities and main concerns in terms of its relations with Russia, the European Commission's *Roadmap: EU-Russia Energy Cooperation until 2050* as well as *Energy 2020: A Strategy for competitive, sustainable and secure energy* were particularly helpful. Other publications such as *An Energy Policy for Europe, the January 2009 Gas Supply Disruption to the EU – An Assessment*, as well as *the Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan* were invaluable when analyzing EU's external energy policy. Important to supporting my arguments were statements from members of the respective political elites such as Commissioner Guenther Oettinger's speech in April 2012 in Brussels or Vladimir Putin's reaction to the European Commission investigation into gas prices in Central Europe. It was also helpful to consult Europa Press Releases and information provided on the European Union Information Website *Euractiv*.

The official websites of South Stream and Nabucco pipelines, the two principal competing diversification projects in the region, were a good source of information. They regularly published press releases and updates on their progress and future role in the energy security of the region. Because diversification is the most significant component of the newly applied European energy strategy and EU's most highlighted energy policy interest, following the developments in the EU-sponsored Nabucco pipeline has been part of my MRP research. It is important to note that the analysis of this paper (mainly Section 1 of Chapter 3) reflects the situation prior to the Shah Deniz Consortium which took place in Azerbaijan on June 26th. Azeri

gas will flow through the Trans Adriatic Pipeline (TAP) instead of Nabucco West making Nabucco a project which realization is no longer an option for the EU.²⁹

The research I have conducted has guided my selection of the conceptual framework – constructivism - in which to ground my paper. During my research I observed the importance of material and economic interests as well as of internal norms and values in explaining how Russia and the EU behave towards each another, when it comes to energy security.

CHAPTER 1

Constructivism: Explaining the EU's Liberal and Russia's Zero-Sum Game Approach

The constructivist approach is particularly useful in the discourse of non-traditional conceptions of security, such as energy. Security is not objective, but rather socially and politically constructed by each actor according to their identity, the values they uphold and wish to protect, and perception of the role they play on the international stage with regards to the respective security concern. Because all nation states are internally different, the way they define and prioritize their security concerns, what they choose to securitize and how, or what meaning they assign to a particular security issue are all a matter of social construction.³⁰ This, in turn, impacts how they interact with each other and to what extent they depend on one another in their attempts to eliminate security threats.

Energy security is a social construct and a geopolitical goal; it is a matter of geography and policy formation. Spatial distribution and endowment of reserves is something states cannot affect directly. Inherently, some states will depend on other states more, and other states will be

²⁹ Note: TAP passes through Greece, Albania, the Adriatic Sea and ends in Italy. It is not contributing to supply diversification of Central Europe. This is why I focused my analysis in Section 1 of Chapter 3 on Nabucco West which was to pass through Bulgaria, Romania, and Hungary and which was projected to end in a Central European natural gas hub in Austria.

³⁰ Buzan, "Security, the State, the "New World Order," and Beyond," p.187-188.

more self-sufficient. This will have an impact on and guide their behavior towards one another. The complexities in effective policy formation arise when a relatively small number of exporters have the power to change foreign policy priorities and security doctrines of other countries.³¹

This will be elucidated in the following discussion, which revolves around the relationship that the Russian Federation has with its most important energy market, the European Union. They are interdependent because the EU is Russia's largest energy importer and Russian energy exports, of which a significant portion goes to the EU, form 61% of its overall revenues.³² However, their views on how to achieve energy security are distinct, because their interests have been created in different geopolitical and identity contexts, which influence their behaviour towards one another. This behaviour is not theoretically or objectively pre-determined, but rather a reflection of what they perceive as threatening to energy security, which depends on the meaning they assign to energy security and its rhetorical representation.³³

Constructivism assigns much weight to state identity and norms as a means of explaining state behaviour. "For constructivists, [power], identities and norms influence how security interests are defined."³⁴ To make sense of the incompatibility of Russia's and the European Union's policies regarding energy security, one must first recognize the relevance of identity construction and norms which are very different in both contexts but essential to understanding their respective interests. Constructivism considers the rules, ideologies, and identities of states as the basis of international relations. Once the role of the "ideational intersubjective structures"

³¹ Ransdorf, *Věk Nejistoty: Energie - Chléb i Mec*, p. 31.

³² Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.92.

³³ Macleod and O'Meara, *Théories des Relations Internationales : Contestations et résistances*, p. 190.

³⁴ Nilufer Karacasulu and Elif Uzgoren, "Explaining Social Constructivist Contributions to Security Studies." *Perceptions* (Summer-Autumn 2007), p. 37.

- rules, norms, and meanings that construct the world where political actors live - is decoded, it becomes easier to comprehend the relations between Russia and the EU.³⁵

Identity is the key to unlocking the door to understanding state behaviour. It is not possible to analyze state behaviour without first considering its identity and how it was formed. In essence, state interests are a reflection of state identity. These interests are not pre-determined but rather formulated as part of a larger and continuous social process. Therefore, state behaviour is not embedded solely in material or fixed objects but also in the subjective meanings that they assign to them.³⁶ Energy, as William F. Martin argues, is a game.³⁷ The energy policy of each state involved defines the rules of the game. Naturally, each player will want to follow her or his own set of rules that will best direct him or her to the achievement of energy security.

The Role of Energy in Russian Identity and Foreign Policy Formation

Energy is a significant component of Russia's national identity because the world's largest natural gas and eighth largest oil reserves are located in its territory³⁸. Russia is in possession of 32.9 billion cubic meters of gas.³⁹ It has become the largest exporter for Europe as it is supplying around 40% of European natural gas imports.⁴⁰ The EU's dependence on Russian natural gas is already projected to go up to 84% by 2030.⁴¹ It is through the EU's dependency on Russian energy sources that Russia is able to enhance its status as an energy superpower and incorporate it into its own identity. The desire to retain and further this advantageous position in

³⁵ Macleod and O'Meara, *Théories des Relations Internationales : Contestations et résistances*, p. 181.

³⁶ Macleod and O'Meara, *Théories des Relations Internationales : Contestations et résistances*, p. 188 – 189.

³⁷ William F. Martin, "Energy Games, Past and Present" in Man-Hua Chen, Jakub Kulhánek, and Michal Thim, *Energy Security in Central and Eastern Europe* (Prague: Association for International Affairs, 2008), p. 16.

³⁸ BP Statistical Review of World Energy June 2013.

³⁹ BP Statistical Review of World Energy June 2013. p. 22.

⁴⁰ Biresselioglu, *European Energy Security: Turkey's Future Role and Impact*, p. 2.

⁴¹ Gert Brunekreeft and Farid Guliyev, "Gas supply security and the competitiveness on the European gas market" in Jepma, C. J., *Gas Market Trading* (Groningen: Energy Delta Institute, 2009), p. 70.

energy relations with the EU drives Russia's interests and behaviour vis-à-vis its most important energy importer. In fact, Russia uses its energy resources as a tool for pursuing its foreign policy interests.

Realizing its energy power status on the international stage, Russia regards energy as “a subset of global power politics and a legitimate tool of foreign policy.”⁴² Energy sources have the potential to enhance Russia's economic power and influence in the EU. Therefore, Moscow does not shy away from using them in its quest to “revise the post-Cold War settlement and satisfy its desire to be acknowledged as a great power.”⁴³

These tendencies do not go unnoticed in the regional community. On July 16th, 2009, several Central and Eastern European intellectuals and former policy-makers drafted a letter to President Barack Obama to inform the great Western power of the attitudes the countries in this region have towards Russia.⁴⁴ Among its twenty-two authors was the first Czechoslovak President, Vaclav Havel and the chairman of the Slovak Atlantic Council, Rastislav Kacer. The letter expressed their uneasiness concerning “Moscow's intimidation tactics and the use of energy as a political weapon [that] could result in a gradual erosion of their independence.”⁴⁵

The disintegration of the Soviet Union in 1991 steered Russia in a course it had not expected to follow and it has strived to regain its power status ever since. Vast hydrocarbon resources have become an effective means to this end. Russia's identity, as the unit opposing the values encompassed by the West is well reflected in its current interests and actions in energy relations with the EU. Russia realizes that the more dependent the EU is on its imported gas and

⁴² Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.340.

⁴³ European Union Center of North Carolina. “The EU-Russia Relationship: A Flawed Strategic Partnership.” (EU Briefings, March 2008), p. 4.

⁴⁴ Radio Free Europe. “An Open Letter to the Obama Administration from Central and Eastern Europe,” (16 July 2009).

⁴⁵ Larrabee, F. Stephen. “Russia, Ukraine, and Central Europe: The Return of Geopolitics.” *Journal of International Affairs*, Vol. 63, No. 2 (Spring/Summer 2010), p. 44.

oil, the less political influence it will have in negotiations with Russia, and the less relevance the EU-imposed liberalist political rhetoric will have in Russia's decisions.

Russian identity is interpreted well in the following quotation: "Russia views itself as a pole in the multi-polar world, characterized by interest-based interaction and the necessity to balance the other poles to ensure that none of them becomes too strong."⁴⁶ To translate this into energy security terms: At the moment, Europe's strong dependence on Russian energy imports – natural gas, in particular –helps Russia's revisionist tendencies in Central and Eastern Europe. Russia consistently uses energy as an instrument of its interests, fuelled by its self-perception as an anti-Western superpower. As such, its main priority is to ensure Europe does not enhance its own supply security by successfully diversifying and establishing a common liberal energy market in which Russia would have to abide by rules and norms unfamiliar in its own context. This would also signify a perceivable loss in the amount of power and influence Russia would then have in the region. In other words, it is a priority for Russia to bring about a state of affairs in which Europe will be more dependent on Russia than Russia is on Europe. Russia is thus engaging in a zero-sum game behaviour in light of its self-regard as a revisionist and energy power and its historically and politically guided interests "dedicated to restoring Russian participation in world politics as one of several great powers co-managing the system."⁴⁷ Russia has the tools necessary to partake in the zero-sum game due to the "change in [its] geopolitical position as a result of the energy boom and President Putin's determination [and capacity] to provide Russia with a greater influence in its geographic neighbourhood."⁴⁸

⁴⁶ Lisa Pick, "EU-Russia Energy Relations: A Critical Analysis." *POLIS Journal* 7 (2012), p. 192.

⁴⁷ Hopf, Ted. "Russia's Place in the World: An Exit Option?" PONARS Eurasia Policy Memo No. 79, September 2009. p. 4.

⁴⁸ European Union Center of North Carolina. "The EU-Russia Relationship: A Flawed Strategic Partnership." p. 1.

Energy Security Concerns Addressed by the European Commission

The European Commission approaches its primary energy security concern, supply security, in the way that reflects the norms and beliefs that have always been and still are the pillars of the EU's identity – cooperation, transparency, and solidarity. The European Commission has played a “central role in the project of European integration, which is built on the belief that the advantages of cooperation exceed the disadvantages.”⁴⁹ This is why “multilateral cooperation and solidarity” are at the base of the European internal energy market and the “internal structures of multilateral governance [are exported] to relations with external partners.”⁵⁰ In terms of its energy relations with Russia, the European Commission’s promotion of a liberal approach towards energy security whereby the market is what decides the rules of the game and actors cooperate reflects the three abovementioned values. However, while their incorporation into energy relations with Russia and overall energy security in the region *is* the goal which the European Commission works towards, some of the key EU states namely Germany, which is regarded as one of the European political and diplomatic leaders, depart from these norms by seeking lucrative bilateral agreements with Moscow as is the case with the Nord Stream pipeline.

The most recent conversation between the EU and Russia as part of the ‘Energy dialogue’ project initiated in Paris in 2000 took place on April 27th, 2012. In his statement, the European Commissioner Guenther Oettinger spoke about the need to diversify Europe’s suppliers, as well as supply routes, while at the same time maintaining a strong relationship by asking Russia to “respect our choices and the choices of the countries in the region.”⁵¹

⁴⁹ Pick. "EU-Russia Energy Relations: A Critical Analysis." p. 333.

⁵⁰ Pick. "EU-Russia Energy Relations: A Critical Analysis." p. 332.

⁵¹ Commissioner Guenther Oettinger, "Energy Dialogue: Russia-European Union. Gas Aspects," *Eurogas Conference* (Brussels, 27 April 2012), p.3.

Respecting the EU's choices would mean abiding by the principles of solidarity and transparency, and letting Europe diversify without Russian interference. The collective identity of European member states is defined by the principles of freedom and democracy; these principles are applied in their behaviour towards one another as well as towards non-member states, such as Russia.⁵² However, because Russia's behaviour towards Europe is guided by different norms, and most importantly, by its energy superpower and anti-Western entity status, the respect called for by the European Commissioner can hardly be expected. Moreover, it seems that not all the countries' choices align with those endorsed by the European Commission, solidarity in particular. It works towards Russia's advantaged that an important European actor such as Germany does not look at the energy superpower with the same degree of concern and skepticism as Central European member states like Poland and Slovakia.

Moreover, Russia is not part of the European Neighbourhood Policy⁵³ and this is not likely to change in the near future. This is logical because Russia wants to act as a single powerful player and distance itself from – not integrate into – the EU. While the EU strives to get Russia to abide by the rules of its economic and market model, one of the reasons Russia is not willing to ratify the Energy Charter Treaty is because “it is mostly interested in an agreement that emphasizes its status as an equal international partner and that avoids language of integration with the EU.”⁵⁴

Energy security, an extremely relevant aspect of the EU's internal and external policy, is approached as a supply issue. In Russia, energy is securitized in terms of consistent demand, the decline of which would result in a threat to not only Russia's energy security but also to its

⁵² Macleod and O'Meara, *Théories des Relations Internationales : Contestations et résistances*, p. 189.

⁵³ Arno Behrens, “Learning from the Crisis: A Market Approach to Securing European Natural Gas Supplies.” *Centre for European Policy Studies (CEPS)*, No. 183, (March 2009), p. 4.

⁵⁴ European Union Center of North Carolina. “The EU-Russia Relationship: A Flawed Strategic Partnership.” p. 7.

identity as a global energy power. Because energy is given a specific meaning as a sort of foreign policy tool that enables international expansionism, Russia engages in a zero-sum game behaviour in its energy relations with the EU. The rules that guide this game are meant to ensure that Russia's demand security is not decreased as a result of an increase in EU's supply security.

The EU's identity is grounded in its perception of being one institutional entity encompassing the diverse policies of its member states, and trying to reconcile their integral differences by striving towards the formation of a common energy market. Russia, on the other hand, seeks recognition as a global energy superpower. Therefore, its means of achieving demand-oriented energy security is of a much more strategic, aggressive, and revisionist nature. To explain how the EU's market approach clashes with Russia's zero-sum game attitude and how Russian energy policy opposes the European Commission's efforts to achieve energy security, we must consider the principal components of the European liberalized energy strategy.

CHAPTER 2

Liberalization of the European Union's Energy Market

The European community had been built on the centralization of energy into the common policy framework, which essentially led to the establishment of the European Coal and Steel Community in 1951 and the European Atomic Energy Community in 1957.⁵⁵ Energy issues were an integral component of European Community's policies from the start and remain the key priorities in European policy to this day. Effectively, decreasing the EU's "external vulnerability to imported hydrocarbons" is one of the guiding principles of the Energy Policy for Europe approved on January 10th, 2007.⁵⁶ The EU wishes to reduce its carbon footprint by 20%, at the

⁵⁵ Biresselioglu, *European Energy Security: Turkey's Future Role and Impact*, p. 31

⁵⁶ Commission of the European Communities. "An Energy Policy for Europe." *Communication from the Commission to the European Council and the European Parliament*. Brussels (10.1.2007), p. 5.

same time as it attempts to strengthen its common energy security policy. Considering that, it is obvious that securitization of energy in the European context includes securing sustainable and steady supplies of energy from more reliable providers at affordable prices, with as little negative environmental impact and as much cooperation from all involved actors as possible.

At the centre of the European Union's energy policy is the internal market. In light of the EU's institutional regulatory tendencies, the prevalent belief in its policy community is that a common unified and internally competitive market will secure and sustain reliable energy supplies in the long-term. Considering the EU's high level of reliance on outside sources, interdependence is inevitable and necessary – both internally between member states, as well as externally with supply partners. While not fully accepted among all member states, the trust in the effectiveness of a multilateral institutional regulatory framework in reaching energy market stability is widespread. In the European Commission's market-oriented approach, the two key priorities are supplies and how to assure their uninterrupted accessibility.

The Third Energy Package

The Third Liberalization Energy Package of the EU was presented in the fall of 2007 and approved by the European Parliament in April 2009. It came into force in September of the same year. It is a comprehensive regulation of relations in the energy and the first consolidated formulation of EU energy policy goals.⁵⁷ It consists of two directives and three regulations pertaining to electricity and gas markets. It also includes several other important documents, reviews, and reports that build on the priorities outlined in the legal acts. Energy policy for Europe is thematically concentrated on open competitive markets, environmental sustainability,

⁵⁷ Petr Binhack, and Lukáš Tichý. *Energetická Bezpečnost ČR a Budoucnost Energetické Politiky EU*. Praha: Ústav Mezinárodních Vztahů (2011), p. 30.

and diversification of supplies and routes.⁵⁸ Energy 2020 from November 2010, the latest initiative, adds two other relevant goals to the list: the improvement of the external dimension of the EU market and leadership in technology and innovation.⁵⁹

Probably the greatest progress in terms of achieving effective common energy policy at the EU level was the approval of the Treaty on the Functioning of the EU (TFEU) in 2010 within the Lisbon Treaty. Incorporation of energy security into a document like the Lisbon Treaty meant that the European Union finally gained competence in the articulation of its energy security goals and means of achieving them.⁶⁰ Article 194 of Title XX1 - 'Energy' - of the TFEU states that although member states retain their sovereign right to define their energy mix:

Union policy on energy shall aim, in a spirit of solidarity between Member states, to: ensure the functioning of the energy market; ensure security of supply in the Union; promote energy efficiency and energy saving and the development of new and renewable forms of energy; and promote the interconnection of energy networks.⁶¹

Both Energy 2020 and TFEU became integral components of the European Union's Third Energy Package about a year and a half after the natural gas supply crisis of January 2009 disrupted supplies to Europe for almost two weeks and severely impacted energy sectors of heavily dependent countries in Central Europe, in particular Slovakia. The weight given to actively and strategically addressing energy security materialized in 2010 when the European Commission approved Energy 2020 and included a clause on Energy in the TFEU. Both documents, among other things, highlighted diversification, external relations, and solidarity

⁵⁸ Commission of the European Communities. "An Energy Policy for Europe."

⁵⁹ Binhack and Tichý. *Energetická Bezpečnost ČR a Budoucnost Energetické Politiky EU*, p. 30-31.

⁶⁰ Cellini, Maurizio. *Policy Workshop: The EU's External Energy Relations: Russian and Canadian Dimensions*. Carleton University, Ottawa (13 June 2013).

⁶¹ Official Journal of the European Union. "Treaty on the Functioning of the European Union." (30.3.2010.), p. 88 - 89

among individual member states as integral aspects of energy policy goals, in order to avoid crises of this caliber from occurring again.

The European Union's approach to energy policy and energy securitization demonstrates its adherence to the liberal principles in the field of energy security whereby "strong faith in the power of markets and the concept of "interdependence" [are] the key to [ensuring] energy security."⁶² Regarding relations with Russia, the most effective way to reach energy security is "through stronger integration of European markets and enhanced dialogue with Moscow."⁶³ These would not be unfeasible aspirations if all member states were always willing to act in the name of the aforementioned priorities and if Russia did not regard energy security as a tool for strengthening its geopolitical power and furthering revisionist tendencies in foreign policy. Additionally, Russia perceives the strategy dominant in the Third Energy Package as a set of rules for future energy relations written and enforced by the EU. As Nikolay Yu. Kaveshnikov from the Moscow State Institute of International Relations reiterates, "rules should be mutually elaborated, not imposed by the energy partner."⁶⁴ Russia's opposition to Europe's recently approved liberalization energy package is representative of its self-regard as an independent anti-Western agent not willing to abide by prescribed rules.

The EU's Third Energy Liberalization Package is meant to reduce dependence on Russia and diversify the sources of its imports. At the same time as the EU's diversification efforts are being implemented, Russia's top priority is to secure the demand of its biggest importer. The EU's continued dependence will be extremely essential for Russia's economic and industrial growth in the long-term.

⁶² Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.340.

⁶³ Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.341.

⁶⁴ Kaveshnikov, Nikolay Yu. "EU-Russia Energy Relations: Russian Perspectives." *Policy Workshop: The EU's External Energy Relations: Russian and Canadian Dimensions*. Carleton University, Ottawa (13 June 2013).

Russia's economic development is built on, and will continue to count on, energy exports. World Bank indicators from 2005 show energy exports generate up to 61% of Russia's overall export revenues.⁶⁵ In 2012, revenues generated from Russia's oil and gas exports amounted to \$215B - 50% of overall budget revenue.⁶⁶ Nevertheless, in addition to Russia's fixation on demand security in the sense of profit maximization and the desire to secure high export revenues, energy is an inseparable component of Russia's identity and represents more than a means to financial resources. Russia considers energy to be a tool to help pursue its political interests abroad. As a result, Russian energy interests are not materialized in cooperation, as envisaged by the European Commission. It is much more beneficial for Russia to conjoin with individual member states of the EU, as opposed to with the institution as a whole, since the EU upholds integrated market focus and liberalization policies that Russia does not support.

The EU's energy policy efforts include diversifying routes and suppliers, unbundling the energy network systems in order to increase competition in the common integrated market, and enhancing solidarity among member states. Russia realizes that these efforts may jeopardize its own ambitions to retain an energy superpower status and to preserve the demand of European customers. In certain aspects, their respective goals find common ground and may overlap. Nevertheless, Russia and the EU's different perceptions of energy security and distinct means implemented to achieve it result in irregularities.

The next chapter outlines some ways in which Russia, in the attempt to strengthen its own energy security, is trying to block the EU's aforementioned efforts. It also analyzes how this

⁶⁵ Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.92.

⁶⁶ Aron, Leon. "The Political Economy of Russian Oil and Gas." *American Enterprise Institute*. May 29, 2013. <http://www.aei.org/outlook/foreign-and-defense-policy/regional/europe/the-political-economy-of-russian-oil-and-gas/>

can in turn have a negative impact on energy security of dependent nations in Central (and Eastern) Europe, such as Slovakia.

CHAPTER 3

3.1

DIVERSIFICATION:

NABUCCO vs. SOUTH STREAM

After the infamous Russia-Ukraine gas dispute in January 2009 that caused a two-week halt in natural gas supplies to Europe, the word ‘security’ began to appear much more frequently in official statements and reports related to the EU’s energy policy. ‘Vulnerability,’ ‘emergency plans,’ and ‘emergency measures’ were pronounced with greater urgency.⁶⁷ Prime Ministers, heads of state, and energy experts approached and assessed the situation in more than just economic or technical terms, which would suffice in the case of a temporary breakdown inside a pipeline, for example. The crisis was interpreted as “a challenge to the European Union’s energy security,”⁶⁸ as “a landmark gas and energy security event [with] far-reaching policy consequences,”⁶⁹ and as a demonstration of the “weaknesses of [the] European Union’s energy security.”⁷⁰ It became absolutely essential that the EU address the issue of overdependence and focus its policy on diversification of both routes and suppliers.

The Nabucco pipeline would seek sources in the Caspian region, where the potential suppliers would be Azerbaijan and Turkmenistan. Already in 2007, the Nabucco pipeline

⁶⁷ Commission of the European Communities. “The January 2009 Gas Supply Disruption to the EU – An Assessment”, Brussels (June 16, 2009), p. 8.

⁶⁸ Loskot-Strachota, Agata. “The Complexity of Russian-Ukrainian Energy Relations”, *European Union Institute for Security Studies* (February 2009), p. 1.

⁶⁹ Pirani, S., Stern J., Yafimava, K. “The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment”, *Oxford Institute for Energy Studies* (February 2009), p. 60.

⁷⁰ Europa Press Releases Rapid. “EU-Russia Energy Dialogue.” Brussels (19 March 2009).

appeared on the list of four priority projects as part of the European Commission's newly emerging diversification effort to decrease the EU's dependence on Russian natural gas.⁷¹ If the EU's diversification efforts, such as the Nabucco pipeline succeeded, the weight of what once was perceived as the most pertinent threat to energy security would be substantially reduced. Energy security would then take on a newly constructed meaning, depending on the new context. Effective diversification of sources and routes would result in a situation where absence of sufficient supplies and their disruptions would no longer be considered a major threat to energy security. Such a scenario, however, would bring about a new social context where Russia's position as the most significant energy exporter to the EU would be jeopardized.

Because Russia sees itself as a revisionist power, Europe diversifying might impact its political, diplomatic, and strategic influence in the region, namely in currently highly dependent Central European countries. In consequence, soon after the introduction of Nabucco as a viable diversification project of the EU, Russia responded by introducing a direct competitor to Nabucco: the South Stream pipeline. South Stream bypasses Ukraine giving the impression of diversifying the European energy market but essentially, it only further enhances Russia's energy security interests – increasing its presence and energy monopoly in the region. Upon completion, the pipeline will carry 63 billion cubic meters of Russian natural gas per year through the Black Sea to Bulgaria and further to Greece, Italy and Austria.⁷²

More importantly, Russia's identity is based on continuous ideological opposition to European and Western standards. The way Russia reacted to EU-endorsed Nabucco pipeline is a demonstration of this opposition. In May 2012, a well-known Russian newspaper, *Nezavisimaya Gazeta*, published an article titled 'Nabucco Crashes Down, South Stream Triumphs,' in which it

⁷¹ Commission of the European Communities. "An Energy Policy for Europe." *Communication from the Commission to the European Council and the European Parliament*. Brussels (10.1.2007), p. 9.

⁷² <http://www.south-stream.info/en/pipeline/route/>

referred to the European-promoted project as the “anti-Russian alternative.”⁷³ This implies Russia’s perception of South Stream as the anti-European alternative. Nevertheless, material interests embedded in Russian energy policy mustn’t be ignored. With Russia’s focus on maintaining demand security and expanding its energy presence in the EU, the construction of South Stream in opposition of Nabucco was a rational move on the part of Russia.

A diversification project such as Nabucco could increase the EU’s bargaining power, at the moment small in relation to that of Russia.⁷⁴ Nabucco would improve supply security⁷⁵ by bringing natural gas from Central Asia and the Caspian Region, strengthening outside energy options for Central Europe.⁷⁶ In addition, as highlighted by Reinhard Mitschek, CEO of NABUCCO Gas Pipeline International Gmb, the key advantage of the pipeline is that the route will begin “at a European entry point,” at the border between Bulgaria and Turkey.⁷⁷

Some claim the two projects are not competing, but rather complementary.⁷⁸ However, such statements are difficult to substantiate. The two pipelines are in direct competition for essentially the same source of natural gas, even though this conclusion is not explicit from the map. If it were not for the Russia-supported South Stream pipeline, it is possible that Nabucco would already be in construction, not waiting for its future to be sealed at the upcoming Shaah Deniz Consortium at the end of June 2013. Nabucco’s main sources were to be Azerbaijan and Turkmenistan, as both have largely unexplored gas fields at their disposal. However, the region

⁷³ Nezavisimaya Gazeta. “Nabucco crashes down, South Stream triumphs.” 15 May 2012. <http://www.south-stream.info/en/press/publications/publication/nabucco-rushitsja-na-radost-juzhnomu-potoku/>

⁷⁴ Brunekreeft Guliyev, “Gas supply security and the competitiveness on the European gas market”, p. 2.

⁷⁵ *Ibid.*, p. 39

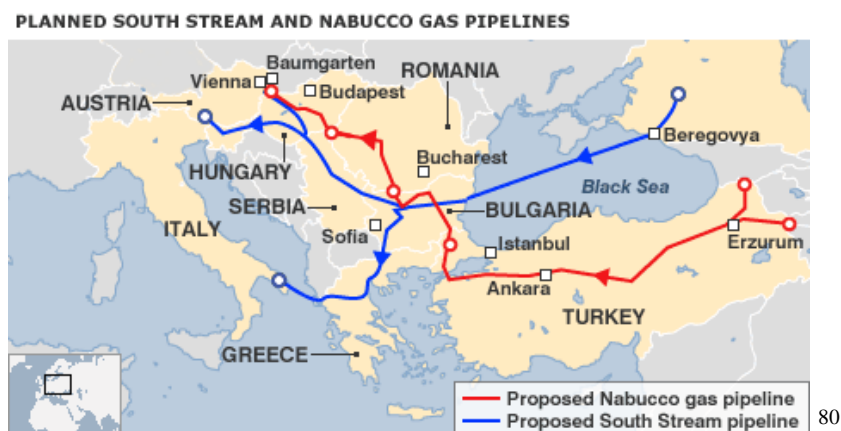
⁷⁶ *Ibid.*, p. 34

⁷⁷ Interview with Nabucco Pipeline CEO

http://www.nabuccopipeline.com/portal/page/portal/en/press/NewsText?p_item_id=DD63B218D39B006AE040A8C001011C1D

⁷⁸ Jan Osicka, “Energy sources, infrastructure, state and market.” *Challenges to Czech and Global Energy Security*. Prague (25 February – 1 March 2013).

is virtually under the control of Russia via signed exploration agreements with Azerbaijan and with Kazakhstan and Uzbekistan, in order to make sure “independent exporting arrangements with the West” become impossible.⁷⁹



South Stream is already in construction and has even gained the support of some countries that were initially on board with the Nabucco project, namely Bulgaria and Hungary.⁸¹ This is very problematic for the EU because the European Commission attempts to speak with one voice of a common integrated market and in this case, there are several. For instance, Hungary’s privately-owned MOL Company continues to be a member of the Nabucco Consortium but already on January 31st, 2010 Hungary became involved with South Stream on the state level through the Hungarian Development Bank.⁸² The disunity on the internal level whereby not all member states follow the integrated market approach and act in the principle of solidarity within the EU is furthering external tensions with Russia.

⁷⁹ Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.97.

⁸⁰ Steven Eke, “Russia signs gas pipeline deals.” *BBC News* (15 May 2009).
<http://news.bbc.co.uk/2/hi/europe/8051921.stm>

⁸¹ Petr Lang, Andrej Nosko, and Jiri Schneider, “Energetická bezpečnost a Státní energetická koncepce.” *Prague Security Studies Institute (PSSI)*, Prague (30 August 2009), p. 27.

⁸² http://www.worldsecuritynetwork.com/no_topic/Socor-Vladimir/Hungary-Signs-South-Stream-Project-Agreement

Nabucco's Potential to Strengthen Central European Energy Security

It seems Russia's strategy has been successful given the cracks in the common energy policy of the EU and the reduced capacity of Nabucco, because Azerbaijan is no longer able to provide as much gas as was originally expected. Nabucco was originally supposed to be 3,893 km long and transport 30 billion cubic meters (bcm) of mainly Azeri natural gas. However, its final proposal - Nabucco *West* – is only 1,312 km long, starting at the Turkish-Bulgarian border and bringing only 10-23 bcm of natural gas to Baumgarten an der March, Austria.⁸³

Central Asia and the Caspian region are in possession of around 5% of global supplies of natural gas, and can thus “provide only a limited relief “to the EU's rising demand.”⁸⁴ Nevertheless, Nabucco West – even in its shortened version, with reduced capacity - could have a positive impact on the energy security of countries like Slovakia, Bulgaria and Romania reducing their dependence on Russian natural gas supplies. Looking again at the map above, we can see that the Nabucco West pipeline is projected to end in a gas hub at the Austria-Slovakia border. This would translate into quick and effective transport of the needed supplies to Slovakia that currently imports gas from Russia through only one pipeline. A pipeline from the Caspian Region ending in a nearby gas hub in Austria has great potential to strengthen the country's energy security. At the European Council meeting on May 22nd, the Romanian Prime Minister Victor Ponta stressed the importance of the Nabucco West pipeline: “For Bucharest, Nabucco remains the most important project in the energy sector...Europe needs an alternative to create competition and reduce the influence of the Russian Federation.”⁸⁵ Only a day before at a

⁸³ Nabucco Gas Pipeline. “Nabucco West Scenario.”

<http://www.nabuccopipeline.com/portal/page/portal/en/press/Nabucco%20West%20Scenario>

⁸⁴ Checchi, Behrens, and Egenhofer. "Long-Term Energy Security Risks for Europe: A Sector-Specific Approach." p. 19.

⁸⁵ Assenova, Margarita. “Bulgaria and Romania: Pursuing Energy Security in a Changing Environment.” Center for European Policy Analysis. 2 July, 2013. <http://cepa.org/content/bulgaria-and-romania-pursuing-energy-security-changing-environment>

Nabucco Committee meeting in Bucharest, Ponta also reiterated that “Nabucco is the most important step the entire European Union may make for a sound and visionary partnership with the Caspian area states and for the strengthening of European energy security.”⁸⁶ Even higher hopes for the potential of the Nabucco project were prevalent in Bulgaria which energy dependence on Russia is as high as that of Slovakia and where “Russian energy companies have long exercised economic and political influence.”⁸⁷

Slovakia’s case is a good example of the severe impact energy overdependence can have on a nation's economy and on the overall functioning of a state. This example demonstrates the danger of weak national energy security, and weak supply security, in particular. The impacts energy overdependence has on the country’s economy are severe. In January 2009, as a consequence of halted supplies of natural gas passing through Ukraine from Russian gas fields:

Slovakia lost 100 million euros a day, or 1 billion euros over the duration of the entire crisis, and the gas-cut related recession led to a 1-1.5% decrease in GDP. National tax revenues dropped by 40% in January 2009 (due to both the gas crisis and recession). Some Slovak companies, as part of their own contingency plans, which were to be invoked in the event of an energy crisis, even began to prepare to relocate parts of their production elsewhere.⁸⁸

In fact, it was in light of the Russia-Ukraine natural gas dispute in 2009 that the Slovak government as well as the Slovak Gas Industry became supporters of and realized the need for change and diversification. At first, the Slovak government prepared an amendment to the Energy Law which entered into force on March 15th, 2009. The amendment defined the responsibility to ensure a standard of supply security for the participants on the gas market in terms of fulfilling the interests of end users. The government thus gained the right to use gas

⁸⁶ Romania Ministry of Foreign Affairs Press Release. “Nabucco supporters reiterate their commitment and continue the progress to develop the project.” 21 May, 2013. <http://www.mae.ro/en/node/19737>

⁸⁷ Assenova, Margarita. “Bulgaria and Romania: Pursuing Energy Security in a Changing Environment.”

⁸⁸ Andrej Nosko, and Peter Sevce, (Sep 2010) <<http://www.euractiv.com/en/energy/thinking-europe-gas-supplies-2009-russia-ukraine-crisis/article-188857>>

reserves for the purposes of supplying end users in the country, in the name of the public interest.⁸⁹ The Slovak Gas Industry began diversifying by concluding a ten-year deal with E.ON Ruhrgas a GDF Suez about additional supplies of natural gas in case of another total disruption of imports.⁹⁰

Projects such as Nabucco endorsed by the EU became a priority. Natural gas end users in Slovakia are paying a comparatively higher price than the surrounding nations.⁹¹ Nabucco West thus has a great potential to provide a bargaining tool to “change pricing formulas in existing long-term contracts with Russia.”⁹² The most recent official energy policy document published on the website of the Ministry of Industry of the Slovak Republic stated:

In the framework of opening the market with natural gas, it is important to participate and support projects such as:

- A common gas-logistical business centre in Austria
- Nabucco pipeline from the eastern borders of Turkey to Austria and is realized in cooperation with Austria, Hungary, Romania, Bulgaria, and Turkey.⁹³

The map above illustrates that South Stream is projected to end in the same Austrian natural gas hub, and thus has potential to contribute to Slovakia’s energy security in terms of route diversification. It bypasses Ukraine, the problematic transit nation, but does not address the issue of overdependence on Russia as the main supplier. By designing South Stream as Nabucco’s competitor and taking advantage of internal disagreements in energy policy between member states, Russia enhances its monopoly and weakens energy security in Central Europe. Its revisionist efforts and self-identification as an energy superpower define its interest in sustaining

⁸⁹ Duleba, Alexander. “Poučenia z plynovej krízy v januári 2009: Analýza príčin vzniku, pravdepodobnosti opakovania a návrhy opatrení na zvýšenie energetickej bezpečnosti SR v oblasti dodávok zemného plynu.” Vyskumne centrum Slovenskej spoločnosti pre zahraničnú politiku, n.o. Bratislava, október 2009. p. 30.

⁹⁰ Duleba, Alexander. “Poučenia z plynovej krízy v januári 2009: Analýza príčin vzniku, pravdepodobnosti opakovania a návrhy opatrení na zvýšenie energetickej bezpečnosti SR v oblasti dodávok zemného plynu.” p. 33.

⁹¹ Nosko and Sevc, “The Evolution of Energy Security in Slovak Republic”

⁹² *Ibid.*

⁹³ Ministry of Industry of the Slovak Republic. “Energy Policy of the Slovak Republic.” 2009. <http://www.economy.gov.sk/energeticka-politika-sr-5925/127610s>

energy demand in the European Union. To sustain this demand, Russia created the South Stream pipeline, which prevents energy diversification in the region, and ensures Russia remains a monopolistic supplier. By slowing diversification in Europe, Russia can weaken supply security, as has been demonstrated in Central Europe, and particularly, in the case study of Slovakia.

3.2

TRANSPARENCY

EUROPEAN COMMISSION vs. GAZPROM

In 1997, the Partnership and Cooperation Agreement with Russia was established dedicating Article 65 to Energy. The article outlines the need for “improvement of quality and security of energy supplies.”⁹⁴ Already then the EU was pushing for liberal economic principles, built on gradually integrated markets in Europe and increasing interdependence between Russia and the EU. The European Union exports more than democratic ideals and human rights; it sometimes has a tendency to export regulatory norms and liberal market economics as well.⁹⁵ It is very idealistic when envisioning its energy relationship with the Russian Federation, and in particular with Gazprom.

Gazprom is the world’s biggest gas producer, and in several Central and Eastern European countries, such as Slovakia, the only gas provider. Considering that most of Russia’s economic and political power was built on its vast gas and oil reserves, Gazprom is more than a large gas-distributing company. Many speculate that the Russian Kremlin uses Gazprom to further its national as well as foreign policy interests. For example, in February of 2012, Gazprom offered Ukraine a substantial discount on gas prices if it agreed to let Russia take

⁹⁴ Official Journal of the European Union. “Partnership and Cooperation Agreement.” (28.11.1997), p. 23.

⁹⁵ Joan DeBardleben, *Policy Workshop: The EU’s External Energy Relations: Russian and Canadian Dimensions*. Carleton University, Ottawa (13 June 2013).

control of its gas transport system.⁹⁶ In addition, Belarus – another significant transit state of Russian natural gas – already sold part of Beltransgas - a natural gas infrastructure and transportation company of Belarus - to Russia. Russia aspires to gain wider, if not complete control, of these two countries' energy infrastructures to have more political leverage and greater say in decision-making processes regarding prices.⁹⁷

In light of the facts above, it is unreasonable to believe that Gazprom and Russian policymakers would openly accept the European Commission's *unbundling* policy, one of the new goals outlined in the Third Energy Liberalization Package.

Ownership Unbundling in the European Energy Market

The EU is a strong adherent of separation of ownership within energy networks and infrastructures. The document Energy Policy for Europe states that: "Economic evidence shows that ownership unbundling is the most effective means to ensure choice for energy users and to encourage investment. This is because separate network companies are not influenced by overlapping supply/generation interests as regards investment decisions."⁹⁸

Ownership unbundling means that no producer – internal or external – in the European Union may own the transmission network in an EU member state. Russia is concerned it will lose its priority in access to infrastructure, because it will be forced to sell its distribution networks.⁹⁹ The decision to implement this clause, ironically also referred to as the Gazprom

⁹⁶ Tai Adelaja, "Gas Price Gamble: Top Level Talks Between Ukraine and Russia Have Failed to Settle a Long Standing Gas Price Dispute," *Russia Profile* (March 22, 2012)

⁹⁷ Grzegorz Gromadzki, "Energy Game: Ukraine, Moldova and Belarus between the EU and Russia." in Man-Hua Chen, Jakub Kulhánek, and Michal Thim. *Energy Security in Central and Eastern Europe*. Prague: Association for International Affairs, 2008), p. 21.

⁹⁸ Commission of the European Communities. "An Energy Policy for Europe," p. 7.

⁹⁹ Binhack and Tichý, *Energetická Bezpečnost ČR a Budoucnost Energetické Politiky EU*, p. 55-56.

Clause¹⁰⁰ in the Third Energy Liberalization Package, represents the EU's idealistic outlook on energy policy within its relations with Russia. It is as if the European Commission, when drafting the new policies, forgot that Russian behaviour is steered by the wheel of revisionist and monopolistic self-perception. This means that Russian behaviour is guided by the principle of more, not less, control over its energy distribution networks.

Nevertheless, the idea of ownership unbundling is logical from the perspective of a European policy maker observing the high dependence of Central European countries, like Slovakia, on one energy supplier. Separation of the components of the energy network systems could facilitate the transition towards enhanced competition and lower gas prices. Because this rule applies to all EU member states, it would be difficult for Russia to continue with its policy of price discrimination, enabled by its preferred bilateral relations with individual European countries.¹⁰¹ Russian Energy Minister Victor Krishtenko is not convinced that the system of unbundling that has been applied to electricity grids should be implemented in gas sector as well. "Gas and electricity infrastructures function differently, he said, and are governed by different market mechanisms and investment decisions, including long-term contracts."¹⁰²

It is not surprising that a representative of Russia's energy policy elite would be against the prospect of unbundling considering Russia's anti-Western sentiments and the benefits that stem from being able to arrange for long-term contracts with individual member states. Nevertheless, he is correct, as presently a large number of small firms do not govern the gas market. Rather, the market is controlled by "strong dominant players," which makes the prospect

¹⁰⁰ Euractiv. "Gazprom clause' issues Russia ultimatum for energy co-operation." 20 September 2007. <http://www.euractiv.com/energy/gazprom-clause-issues-russia-ult-news-218748>

¹⁰¹ Luft and Korin, *Energy Security Challenges for the 21st Century: A Reference Handbook*, p.93.

¹⁰² Euractiv. "EU, Russia to explore 'reciprocity' in energy trade." 28 May 2012.

<http://www.euractiv.com/energy/eu-russia-explore-reciprocity-energy-trade/article-167662>

of competition an idea distant from reality.¹⁰³ Successful ownership unbundling would change the advantageous position that the Russian energy giant, Gazprom, holds and would establish greater transparency in gas pricing.

European Commission's Anti-Trust Investigation of Gazprom

The European Commission is currently conducting an anti-trust investigation into Gazprom's alleged abuse "of its dominant market position" in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia.¹⁰⁴ First, the EU is accusing Gazprom of breaking up the unity and solidarity of the internal energy market. Gazprom does this by not allowing the resale of Russian gas to other nations, which inhibits the interconnectedness of the EU gas market so essential for its overall supply security. Second, as Section 3.1 has demonstrated, Gazprom actively seeks out ways to slow down and eventually avert European supply diversification projects. Third, because Russia ties its gas prices to the price of oil, heavily dependent countries, such as Slovakia, have no other choice but to pay higher prices.¹⁰⁵

The EU competition laws allow for this kind of inquiry, which began as a very technical and bureaucratic affair, but "Russia's vigorous reaction has elevated [it] to [a] political-strategic one."¹⁰⁶ Such a complication makes the successful completion of the investigation an unrealistic goal. The principles guiding the European Commission's investigation are incompatible with the principles guiding Russia's (and Gazprom's) logic, when it comes to energy policy. European

¹⁰³ Brunekreeft, and Guliyev, "Gas supply security and the competitiveness on the European gas market," p. 6.

¹⁰⁴ Daniel Mason, "EU investigates Gazprom over alleged market abuse." Public Service Europe (5 September 2012) <http://www.publicserviceeurope.com/article/2406/eu-investigates-gazprom-over-alleged-market-abuse>

¹⁰⁵ Lukas Tichy, "Evropská komise versus Gazprom: otevření druhé fronty vůči Rusku." *NATO Aktual* (25 September 2012) http://www.natoaktual.cz/evropska-komise-versus-gazprom-otevreni-druhe-fronty-vuci-rusku-p97-na-analyzy.aspx?c=A120925_095325_na_analyzy_m02

¹⁰⁶ Nicolo Sartori, "The European Commission vs. Gazprom: An Issue of Fair Competition or a Foreign Policy Quarrel?" *Instituto Affari Internazionali* (3 January 2013), p. 16.

policy makers often forget that Russia views itself as “a strategic partner, not a political customer.”¹⁰⁷ The EU continues to demonstrate an idealistic outlook on its relations with Russia. In an announcement made in September 2012, shortly before the aforementioned investigations began, the European Commissioner Günther Oettinger firmly declared that “Russia and its energy giant Gazprom must abide by the EU's internal market rules and stop offering widely varying prices.”¹⁰⁸

The norms guiding EU interests and behaviour differ from those of its Russian counterpart. The Russian Gas Strategy of 2030, whereby its priority is “protecting [the] rights and legal interests of its citizens and business entities,” guides Russia’s energy policy.¹⁰⁹ In the last decade, we have witnessed Russia's prevalent resistance to EU-pertinent energy norms.¹¹⁰

The message sent to Gazprom through the investigation is clear: it asks Russia to respect the norms and regulations of liberalization on the internal energy market of the EU.¹¹¹ The following quote from a Europa Press Release Memo on 19 March 2009 describes how the European Commission envisions its energy cooperation with Russia.

The overall objective of the energy partnership is to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues of mutual concern in the energy sector can be addressed while, at the same time, ensuring that the policies of opening and integrating energy markets are pursued. With the strong mutual dependency and common interest in the energy sector, this is clearly a key area of EU-Russia relations.”¹¹²

¹⁰⁷ Amelia Hadfield, “EU’s External Energy Relations: Russian and Canadian Dimensions.” *Policy Workshop: The EU’s External Energy Relations: Russian and Canadian Dimensions*. Carleton University, Ottawa (13 June 2013).

¹⁰⁸ Novinite, “Oettinger: Russia, Gazprom Must Accept EU Market Rules.” (14 September 2012).

http://www.novinite.com/view_news.php?id=143249

¹⁰⁹ Gunther Oettinger and Sergey I. Shmatko, “EU-Russia Energy Dialogue 2000-2010: Opportunities for our future Energy Partnership.” Brussels / Moscow (November 2010), p. 14.

¹¹⁰ Checchi, Behrens, and Egenhofer. “Long-Term Energy Security Risks for Europe: A Sector-Specific Approach.” p. 43.

¹¹¹ Tichy, “Evropská komise versus Gazprom: otevření druhé fronty vůči Rusku.”

¹¹² Europa Press Releases Rapid. “EU-Russia Energy Dialogue.” Brussels (19 March 2009),

http://europa.eu/rapid/press-release_MEMO-09-121_en.htm

Given the guiding norms of both the EU's and Russia's energy security interests, it is not surprising that the Russian Foreign Minister Sergei Lavrov gave a negative response to the commencement of investigations in Central European countries. In 2012, he said:

If the EU continues to push, continues to threaten Gazprom with unbundling directives, continues to insult the sovereign interests of Russia, insists on backward economic structures and unenforceable legal attitudes, or undermine bilateral trade relations with European partner states, Gazprom can easily find ways to ensure that energy diversification takes on a swift and permanent eastern dimension.¹¹³

A positive resolution of the examination against Gazprom would enhance energy security in Central and Eastern European countries. These, according to the European Commission's accusations, are faced with extremely high natural gas prices, blocked diversification, and divided gas markets.¹¹⁴ All of this contributes to the weak supply security that the European Commission is attempting to strengthen. Russian President Vladimir Putin believes Gazprom is not obligated to disclose any documentation or materials needed to pursue the Commission's investigation. He also confirmed Gazprom will continue its price discrimination vis-à-vis Central European countries, which will most likely continue to weaken their energy security. Not only that, he threatened gas supply diversion into Asia, which could bring another gas crisis to Europe in the near future.¹¹⁵

The investigation has thus yet to bring about any substantive results. In the meantime, it is stalling positive progress in energy relations between the EU and Russia, highlighting their disagreements. The two sides are unable to enter into a productive and substantial dialogue with regards to the accusations made by the European Commission which Russian officials simply

¹¹³ Hadfield, "EU's External Energy Relations: Russian and Canadian Dimensions."

¹¹⁴ Euractiv. "Commission opens antitrust case against Gazprom." (5 September 2012). <http://www.euractiv.com/energy/commission-opens-antitrust-case-news-514613>

¹¹⁵ Roger W. Robinson, "The Implications of Gazprom's Demise." *Prague Security Studies Institute (PSSI)*, (11 October 2012), p. 3.

reject as unjustified. Gazprom's reaction to the investigation reminded the EU that Russia does not fall within the European legal framework. Instead, in the words of Vladimir Putin, Gazprom is "empowered as a strategic organization, administered by the government of Russia."¹¹⁶ Considering the European Commission's endorsement of a liberal market and ownership unbundling, reconciliation with the Russian side is unlikely to occur in the near future.

3.3

SOLIDARITY:

THE NORD STREAM CONTROVERSY

The EU-Russia energy policy relationship is a result of their different perceptions of energy, as a securitized issue. When discussing the complexity of this relationship one must not omit mentioning Central European countries, such as Slovakia, Czech Republic, even Poland, Hungary, or Bulgaria - the newest additions to the European community. When it comes to energy security, they have brought historical as well as fixed non-diversified infrastructural baggage with which the EU's common approach to energy is coping. On one hand, they are highly dependent on imports of natural gas and oil from Russia, and on the other, there is doubt and scepticism towards her revisionist tendencies.

The security associated with belonging to institutions such as the EU or NATO as well as a demonstrated affiliation with the West are both important to nations such as Slovakia or the Czech Republic. For Slovakia and the Czech Republic, membership in organizations such as NATO and the European Union represents being "[not only] part of the community of democratic nations, [but also a means which they use] to draw a line after the communist past

¹¹⁶ RFE/RL. "Gazprom Responds To EU Antitrust Probe." *Radio Free Liberty*, 5 September 2012. <http://www.rferl.org/content/gazprom-responds-to-eu-antitrust-probe/24699217.html>

[and] to belong formally where in their view [they are] destined to be by [their] history and geographic location.”¹¹⁷ Countries like Slovakia rely on the implementation of the common EU energy policy to ward off the threat of complete energy monopolization by Russia and on European Commission’s active involvement in regional energy security matters such as the investigation analyzed in the section above.

To address the concerns of these countries, the European Union has identified as key aspects of its energy strategy (two of which have already been analyzed and discussed in chapters above): supply diversification, transparency, and solidarity. This chapter focuses primarily on the latter aspect. Solidarity essentially means that the EU is to act as a united bloc in its external relations.¹¹⁸ Article 122, or the Solidarity clause, from the TFEU is probably the most resonant buzzword of the Third Energy Package. It authorizes the European Council to “decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy.”¹¹⁹ This means that the Council can intervene in the case of a supply shortage and ask any given member state to provide energy to affected the affected country(ies).¹²⁰ Its principal goal is to reduce Russia’s influence over European energy security and prevent it from using the export of its natural resources as a political tool.

¹¹⁷ Martin Votruba, “Slovakia and NATO: No Partnership for Peace with the Opposition (The Central European Security Debate in Slovakia),” AAASS National Convention, Washington, DC (November 2001), p. 5.

¹¹⁸ Miccinilli, Maximo. “The EU's growing energy dependency from unreliable suppliers.” in Radko Hokovsky (General Editor), *Towards a Safer Europe: Policy Papers*. European Values o.s., 2010), p. 42.

¹¹⁹ Official Journal of the European Union. “Treaty on the Functioning of the European Union.” p. 52.

¹²⁰ Binhack and Tichý, *Energetická Bezpečnost ČR a Budoucnost Energetické Politiky EU*, p. 34.

Disunity in Members' Adherence to the European Solidarity Principle and Russia's Bilateralism

According to the solidarity principle, European member states should make energy policy decisions and act as a unified bloc in external relations with energy suppliers. This is, however, difficult to achieve for at least two reasons: member states' energy mixes differ from one another, and not all member states support the idea of a common energy policy and the solidarity approach. As a result, Moscow takes advantage of the fact that not all member states are active in establishing a common energy policy. Inevitably, this provides the loophole Russia needs to pursue its external energy policy vis-à-vis the EU: bilateralism and monopolization of the energy market.

As has already been implied and demonstrated in the chapters above, Russia's anti-Western sentiment and desire to strengthen its energy power position in the European market make its interests of energy expansionism and political revisionism virtually incompatible with Europe's idea of liberalized markets, transparency, mutual interdependence, and cooperation. For the EU, it is important to "break apart all energy monopolies so that suppliers do not monopolize."¹²¹ However, for Russia monopolization of European energy markets is the desired outcome of its expansionist energy policy because it strengthens its control and presence in the region and contributes to the achievement of victory in the zero-sum game. Russian ambitions are of a very invasive nature, whereby the Russian energy arm wants to extend and "penetrate deeper into Northern and Central Europe."¹²²

In other words, Russia prefers to maintain bilateral relations with European member states as opposed to negotiating with the European Union as a whole. Because the EU strives for

¹²¹ Hadfield, "EU's External Energy Relations: Russian and Canadian Dimensions."

¹²² *Ibid.*

reduced dependence on Russian natural gas, the principle of solidarity promotes a common instead of an individual stance on the Russian question. Nevertheless, in light of the recently constructed and launched Nord Stream pipeline crossing the Baltic Sea from Russia directly to Germany, Russia is not the only agent opposing the fundamentals of the concept of solidarity as endorsed by Article 122 in the Treaty on the Functioning of the European Union. While Nord Stream demonstrates Russia's disregard for the European Commission's ideals of open, liberal, and a horizontally integrated natural gas market in the region, it also represents strong state individualism within the EU.

The Nord Stream Pipeline: Indicator of Russia's Bilateralism and Energy Monopolization Tendencies

The Route of the Nord Stream Pipeline



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Gerhard Schroder, the Chairman of Nord Stream Shareholders' Committee, claims "Nord Stream is truly an expression of cooperation and trust between the European Union and

¹²³ Gazprom. "Nord Stream." <http://www.gazprom.com/about/production/projects/pipelines/nord-stream/>

Russia.”¹²⁴ This is an unreasonable conclusion, since Nord Stream is hardly a European-initiated project. It is, nevertheless, also a demonstration of the fact that the EU means different things to different member states which is where the discrepancies even in energy policy originate. It cannot be denied that to a certain extent Nord Stream diversifies the route to Europe as it successfully manages to bypass Ukraine, which is the most attractive aspect of it for Germany. However, at the moment, the European energy policy agenda is not focusing on transit security. Rather, as the discussion above demonstrated, it is concentrating on supply security and supplier diversification. Nord Stream, similarly to South Stream discussed in Chapter 3.1, furthers European dependence on Russia’s natural gas supplies and is more aligned with Russia’s strategy of export diversification and political expansionism, as part of its goal of enhanced demand security.

It is not surprising that Russia created a project that strengthens its energy position in Europe, or that its behaviour reflects anti-Europeanism. Russia's self-perception fuels its refusal to abide by the rules and norms, one of them being solidarity, prescribed on the floor of European institutions. By constructing Nord Stream and signing a bilateral deal with Germany – not a very solidary move on Germany’s part – Russia signals to Europe that it does not have to, and will not respect its aspiration of a liberal market where interdependence guides energy policy. The new pipeline exemplifies Russia’s contempt of the European Commission’s ideal that an integrated, cooperative approach towards external suppliers will lead to enhanced energy security in the region. This is especially so for the heavily dependent nations, such as Slovakia or

¹²⁴ Nord Stream. “We Deliver: Nord Stream’s Twin Pipelines Come on Stream.” (8 October 2012) <http://www.nord-stream.com/press-info/press-releases/we-deliver-nord-streams-twin-pipelines-come-on-stream-425/>

Poland that believe that Nord Stream is just another way for Russia to extend its geopolitical influence in the region.¹²⁵

Having built Nord Stream, Russia created a direct natural gas connection to Western Europe to solidify its position on the European energy market and thus strengthen its demand security. It also developed tensions between some of the member states and thus put a strain on Europe's efforts to establish a unified internal energy market. In fact, the approval of the pipeline by both Russia and Germany further aggravates the distrust Poland and the rest of Central Europe possess towards Russia and divides Europe internally. However, a stronger economic relationship with Germany is in Russia's revisionist interests because it gives more importance to Russia in the Western European energy market and also increases Russia's political leverage in the region. Russia realizes that launching a direct pipeline link to Germany "could increase the vulnerability of these countries to Russian economic pressure."¹²⁶

Poland and the Baltic states bypassed by Nord Stream are all opposed to the new pipeline project. The prevalent anti-Russian sentiment in this part of Europe is best reflected in the comparison Radek Sikorski, the Polish Foreign Minister, made in 2006 of Nord Stream to the Molotov-Ribbentrop Pact of 1939.¹²⁷ These countries are critical of Germany's disregard for solidarity that is supposed to underpin the EU's energy policy. According to this principle, states consider energy mixes and energy security challenges of neighbouring states before they support controversial projects such as, in this case, Nord Stream. In addition, Poland and the Baltics are worried Nord Stream will weaken their energy security. "They maintain that [the Nord Stream

¹²⁵ Filippou Proedrou, *EU Energy Security in the Gas Sector: Evolving Dynamics, Policy Dilemmas and Prospects*. (Farnham, Surrey, England: Ashgate, 2012), p. 81.

¹²⁶ Larrabee, "Russia, Ukraine, and Central Europe: The Return of Geopolitics." p. 47.

¹²⁷ Euractiv. "Nord Stream 'a waste of money', says Poland." (11 January 2010.)
<http://www.euractiv.com/energy/nord-stream-waste-money-poland/article-188727>

pipeline] poses a grave environmental threat as well as put their energy security in peril.”¹²⁸
These countries are important transit points for natural gas from Russia to the rest of Europe and
“stand to lose the revenues they enjoy from the transit of gas through their territory.”¹²⁹

Due to the munitions and weapons along its route at the bottom of the Baltic Sea, Nord Stream carries with it the risk of ecological catastrophe. Disregarding their national energy security, countries like Poland and Slovakia believe that in the future any projects similar to Nord Stream must be negotiated by the European Commission with the third party, not an individual member state.¹³⁰ Nevertheless, it may take a substantial amount of time before a unity of this kind dominates Europe’s external relations with its suppliers. Until then, Russia will take advantage of its position and continue its politics of bilateralism vis-à-vis European member states, reflecting the norms and rules of its energy policy game.

¹²⁸ Alaksandar Stralcou, “Central Europe, Russia and Energy Conundrum.” in Chen, Man-Hua, Jakub Kulhánek, and Michal Thim. *Energy Security in Central and Eastern Europe*. Prague: Association for International Affairs (2008), p. 40

¹²⁹ Proedrou, Filippou. *EU Energy Security in the Gas Sector: Evolving Dynamics, Policy Dilemmas and Prospects*, p. 81.

¹³⁰ Ransdorf, *Věk Nejistoty: Energie - Chléb i Mec*. p. 88.

CONCLUSION:

CHANGES AND CHALLENGES AHEAD

It is no surprise that one of the most intensely debated issues in the institutions and legislative bodies of the European Union is energy policy. To remain on track regarding industrial and economic development, the EU uses one fifth of global energy resources.¹³¹ Before 2030, hydrocarbon consumption is expected to increase by 15%, and natural gas consumption alone by 17%.¹³² The EU secures only 30% of its energy supplies from within; the remaining 70% are imports from external sources. Considering Europe's weight as an energy importer, a large discrepancy exists between the EU's significance as a consumer and its bargaining power on world energy markets.¹³³ Undoubtedly, this is partially due to its low diversification of sources and high dependence on outside imports, in particular Russian natural gas.

The discussion above demonstrated the fundamental differences in the norms and rules that guide the state behaviours and energy policies of the European Union and the Russian Federation. The identities and self-perceptions as well as distinct material aims of these entities play an important role in how they define their energy security interests and how they behave in relations with one another. The EU is dependent on energy imports from Russia, particularly natural gas. This dependence creates several problems for some of its member states that face increased reliance and, as a result, uncompetitive prices and a lack of alternatives.

As the EU strives to improve supply security in the region, the European Commission is implementing policies to aid in the process - namely an active search for alternative routes and

¹³¹ Commission of the European Communities. "An Energy Policy for Europe," p. 5.

¹³² *Ibid.*, p 3.

¹³³ Commission of the European Communities. "An Energy Policy for Europe," p. 5.

suppliers, endorsement of solidarity among the member states, and liberalization of the energy market. These are the three most fundamental ways in which the region wants to achieve its goal of reduced dependence on the Russian Federation and address the challenges related to it. Nevertheless, its tension-filled energy relationship with Russia and the lack of internal energy policy cohesion prove this goal rather difficult to achieve.

Overreliance of European countries on Russian natural gas is beneficial to Russia because demand security is at the heart of its energy policy, and also because it strengthens Russia's political presence, enabling her to realize her revisionist goals and tendencies. The European Union, on the other hand, is focused on supply security. This includes searching for alternative routes and suppliers of natural gas; striving to make the energy market more open, transparent, competitive, and unified; and encouraging all member states to adopt one stance on external energy policy.

Russia's identity as an anti-Western and anti-European agent is reflected in its reactions to Europe's efforts to diversify and liberalize the energy market, ensure transparency, and promote solidarity. When the Nabucco project was first presented and endorsed by the EU as a pipeline that could greatly contribute to supplier diversification, especially in Central Europe, Russia, without hesitation, responded by introducing its own competing route, the South Stream.

Whereas the energy security discourse in the EU includes supplier diversification, pricing transparency, and regional solidarity, the same discourse in Russia resonates with different terms: demand security, control, and bilateralism. Frequently expressed in the claims made by the Kremlin are negative sentiments with regards to the EU's vision of a liberal energy market. The European Commission's goal is to weaken the control of Russia as a monopolistic supplier

by getting her to abide by prescribed transparency and free-market principles. The fundamentals that direct Russia's energy policy, however, make the achievement of this goal rather unrealistic.

The EU's guiding principles directly oppose the norms guiding Russia's decision making when it comes to energy policy. Therefore, it is unreasonable to expect Gazprom's cooperation when it comes to the ongoing European Commission investigation into alleged abuses of Gazprom's monopolistic presence in Central Europe.

The EU is committed to "export[ing] internal structures of multilateral governance to relations with external partners."¹³⁴ Russia, however, does not adhere to multilateralism and interdependence. Moreover, it does not see itself as a member of the European energy market and does not see why it should accept the rules approved and imposed by the European Commission. It is a supplier that wants to retain its energy power status and control in the region.

Europe's efforts to decrease dependence on a monopolistic supplier, to diversify, and to make the market more transparent – priorities outlined in the Third Liberalization Energy Package - are meant to strengthen energy security. However, these efforts do quite the opposite. Russia has every intention and, more importantly, the capacity needed to prevent these efforts from coming to fruition. This is not to say that Europe's energy insecurity is strictly Russia's responsibility. Rather, I have demonstrated that it is the incompatibility of norms and rules that guide energy policies of the EU and Russia and prevalent inconsistencies in positions and decisions of certain individual member states of the EU that make the achievement of supply security in heavily dependent countries in Central Europe a difficult task.

The future of Energy Security in Russia-EU Relations

Energy security will be at the centre of European policy-making and discussions for years to come. It is difficult to accurately predict the future of the EU's energy scene in ten to twenty

¹³⁴ Pick "EU-Russia Energy Relations: A Critical Analysis," p. 332.

years from now, but from the analysis above, it is apparent that reconciling the goals and priorities of Russia with the EU's will be a challenging task for all member states. The European Commission believes the best and most effective way to approach its relations with Russia, when it comes to energy security matters, is through the common market and via a unified policy. As the last section of the third chapter pointed out, not all states are fully on board with this idea. The desired unity regarding energy security is incomplete, as each member state brings a different energy mix and thus different aims to the energy policy table. This will have significant policy implications for European energy security.

Amongst the most recent developments in the energy sphere is Germany's slow, but resolute transition to renewable energy sources and a move away from nuclear energy. As the EU strives to reduce its carbon footprint by 20%, Poland's increasing natural gas dependence is underscored by attempts to reduce its use of coal, of which the country has abundant resources. Slovakia continues to be 100% dependent on natural gas from Russia. These are only a few examples of the differing energy needs of the EU member states. The EU's internal disunity facilitates Russia's greater political and economic involvement in the region and enables Russia to retain bilateral relations with some member states, such as with Germany, via Nord Stream and with Italy, via South Stream.

Even though Europe contains some oil and gas resources concentrated in Norway, the Netherlands, and the United Kingdom,¹³⁵ these have never been enough to fuel all of the EU's economy. Reliance on Russia has always been a factor in Europe's energy struggles. Moreover, the UK is today becoming an importer rather than an exporter country, and Dutch production is

¹³⁵ Ivana Oklestkova and Tomas Karasek, "The Impact of Central and Eastern European Countries on the Changing Energy Security Concept of the European Union." in Chen, Man-Hua, Jakub Kulhánek, and Michal Thim, *Energy Security in Central and Eastern Europe*. Prague: Association for International Affairs (2008), p. 61.

also declining.¹³⁶ Dependence on external energy sources in the EU is thus increasing. The launched construction of South Stream, completion of Nord Stream, and much influence over resources in the Caspian region make Russia's future energy control in Europe seem promising, especially as Europe's demand for natural gas is projected to increase in the next decade.

Nevertheless, it is likely that the EU will be diverting away from Russia and turning west to satisfy its energy needs when it comes to natural gas. The so-called shale gas revolution in the United States has the potential to reshuffle the cards on the energy scene worldwide, and European policy makers need to keep these developments in mind when deciding the next course of action on the energy security field.

The International Energy Agency predicts that the US, which was until recently the largest energy consumer, will actually be energetically self-sufficient by 2030. It is likely that the US will soon export more oil, since production of crude oil has significantly increased in the last year. The US has increased production because the technologies used in gas extraction, such as hydraulic fracking and horizontal drilling, are also being used in petroleum extraction.¹³⁷ Importing shale gas from the US could significantly impact Russia's future energy position in the European market.

Russia is aware of this trend and is looking east to export its natural gas, especially to the Chinese market. With dangerous levels of pollution, as a result of China's extremely high use of coal, the time is ripe for Russia to introduce its vast natural gas reserves to the Chinese economy. At the moment, a deal with China is not likely to be sealed, as the demanded price differs from the price China is willing to pay. The two partners have yet to find a common ground.

¹³⁶ Checchi, Behrens, and Egenhofer. "Long-Term Energy Security Risks for Europe: A Sector-Specific Approach," p.18.

¹³⁷ International Energy Agency (IEA). "World Energy Outlook 2012: Executive Summary." (2012), p. 1.

It is possible that in addition to future potential shale gas imports from the US, Europe will witness an era of its own shale gas evolution. It is predicted that in the future, 40-50% of Poland's total energy mix will be shale related.¹³⁸ While it is far from being the “European saviour,”¹³⁹ Poland is willing to invest time, money, and resources in shale gas. “Shale gas investments will remain Poland's top priority despite a series of recent setbacks, because unconventional sources of energy are a matter of national interest,” said the Treasury Minister on June 3, 2013.¹⁴⁰ If Polish efforts are successful, shale gas has a potential to, one day, significantly reduce Russia's monopolistic grip of the natural gas market in the European Union.

Shale gas, however, is a very controversial topic globally due to the effects of fracking – the extraction method used when drilling for shale gas – on the environment. Europe is much divided when it comes to the views on the use of shale gas because it is more densely populated than the United States which has vast areas suitable for this type of drilling.¹⁴¹ There is no unified policy in terms of shale gas on the European level; in addition, opinions differ between individual member states making an establishment of a unified stance a rather difficult and complicated task.

Bulgaria and France are largely opposed to hydraulic fracturing as a means of obtaining energy source due to groundwater pollution that can be a negative consequence of shale gas extraction. Poland, on the other hand, as has been mentioned above, sees shale gas as a means to maintain energy security in the region.¹⁴² Its support for shale gas is largely motivated by the

¹³⁸ Hadfield, “EU's External Energy Relations: Russian and Canadian Dimensions.”

¹³⁹ *Ibid.*

¹⁴⁰ Reuters, “Shale to remain Poland's top priority – treasury minister.” (3 June, 2013)
<http://www.reuters.com/article/2013/06/03/poland-shale-idUSL5N0EF0CK20130603>

¹⁴¹ KPMG Global Energy Institute, “Central and Eastern European Shale Gas Outlook,” *KPMG International Cooperative* (2012), p. 22.

¹⁴² KPMG Global Energy Institute, “Central and Eastern European Shale Gas Outlook,” p. 25.

proven reserves on its territory but also by the desire to distance itself from Russian natural gas imports and contribute to the reduction of European dependence on Russia as a supplier.

Environmental concerns and controversies with regards to fracking are not absent from the policy debate in the United States. Nevertheless, seeing how the US has transformed itself from a net importer to a soon-to-be self-sufficient entity and an exporter in a relatively short period of time is very motivating for the EU concentrating its energies on reducing import dependency and increasing the level of diversification.¹⁴³ Nevertheless, the costs associated with shale gas extraction are high and for Poland to take full advantage of the potential of its reserves, financial support of the EU is likely to be needed. This might be difficult to obtain as the member states continue to argue over the costs and benefits of this non-traditional method of enhancing energy security on the continent.

There is a lot of uncertainty and insecurity surrounding energy security in the European Union. What remains certain is the fact that its dependence on natural gas imports from the Russian Federation is not helping improve the situation. The uncertainty, however, is experienced by Russia as well. While Russia continues to enjoy an apparent monopoly in the European natural gas market, it must be vigilant when preparing for the future. Attentiveness to recent global energy market trends, such as the shale gas revolution, or Germany's sway towards renewable sources, must go hand in hand with the realization of the "urgent need for infrastructure investment and modernization [of Gazprom]."¹⁴⁴ Regardless of what their future policy priorities will look like, both Russia and the EU have set out on a long and challenging journey towards sustaining their demand and supply security.

¹⁴³ *Ibid.*, p. 18.

¹⁴⁴ Robinson, "The Implications of Gazprom's Demise," p.1.

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