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EU energy security in the context of The Russian Federation's change in energy strategy: the geopolitical aspect

Abstract: The article analyses the significance of the relationships between the EU and Russia concerning energy, and the primary disadvantages stemming from latter day EU security issues in this field. Particular attention is paid to the peculiarities of European energy geopolitics with the influence of the processes between the EU and Russia, which outlines the relationship between the geopolitical processes and the changes in the energy sector, allowing the author to determine the impact of globalisation due to the changing EU energy strategy regarding security issues.

Furthermore, attention is also given to how relevant is the aggressive nature of falling oil prices, by characterising the changing geopolitical effects and the assumed prospects of the strategy adopted by the Russians and its influence regarding the European political processes, whilst accounting for the reluctance of some EU countries to participate in the creation of a more secure common energy policy, emphasising the political impact on Russia and its relevance to Europe.

Consequently, the author stresses the need for a consolidated EU approach to create a common energy strategy. In the absence of a common approach regarding the issue of energy security, it could lead to increased Russian political influence in the EU, triggering more threats to energy security.

Key words: energy security, energy strategy, the European Union, Russian Federation

Introduction

Modern international procedures show an increased importance of the factors related to energy consumption and its use as a lever for implementing the geopolitical interests of individual countries. Consequently, consideration of these procedures is not only important for the formation of effective security strategies, but also for understanding and predicting any potential geopolitical conflicts, particularly in Eastern Europe. Presently, far greater threats to security are evident on the global scale. Furthermore, without a more appropriate approach regarding security, production and consumption, current measures will not be sufficient. This article aims to determine the impact of the change in security strategy in the EU.

Theoretical research based on the problems regarding security in the energy field

For the methodological basis, as a basic approach, the systematic approach was chosen. At the same time general methods of research of social processes, including problem-historical and analytical prognostics were used. They are based on the principles of

consistency and historicity that make it possible to study contemporary phenomena (energy strategy, energy security) in flux, and due to the historical conditions of their development.

Based on the analytical-prognostic technique, phenomena and processes in the European space were analysed through the prism of Russian Federation's (RF) change in energy strategy. In particular, the system of European energy security in terms of new geopolitical challenges was investigated.

For the theoretical and methodological basis of labour issues, the works of following scientists were analysed: B. Vdovenko (Вдовенко, 2005, pp. 68–77), M. Spence (Spence, 2013, p. 336), A. Bradbrook (Bradbrook, 1996, p. 194), V. Kokin (Кокин, 2005, p. 242), M. Biryukov (Бирюков, 2004, p. 250), T. Oppermann (Опперманн, 1999, p. 223), K. Ipsen (Ipsen, 1999, p. 436), S. Padgett (Padgett, 1992, p. 75). Other authors should also be mentioned here, whose research was not directly used in this article, but which had a significant influence on general research in this sphere, such as Zbigniew Brzezinski, Henry Kissinger, Pepe Escobar, Niels Werber.

EU Energy Strategy and changing foreign policy

The positions of many European countries on the ways of addressing the problem of energy dependence differ greatly. Some countries (and especially Germany) still prefer long-term contracts with Russia, while others want to adopt a much more diverse approach, allowing room for more negotiation, leading to more competitive prices from Russia as the diversification of energy supplies enhances their bargaining power, especially since the Congressional Research Service announced, in recent years, the energy factor has been used increasingly as an instrument to apply geopolitical pressure.

Russian relations in this matter continue to occupy a significant place in European politics, while historically the Eastern European states which are dependent on Russian energy react to new proposals for the transportation of oil and gas supplies destined for Europe. Consequently, the Baltic countries and Poland actively opposed the new Nord Stream pipeline, proposing it should be installed above ground level and not under the Baltic Sea, while at the same time Germany, (Russia's principle partner in this project) stated that it is not solely a German issue but a European one.

Given that one of the main suppliers of gas to the EU is Russia, with Ukraine being a major player in its transportation, one could argue that the problem of gas supplies to the EU is dependent on cooperation between the EU, Ukraine and Russia. As far as Ukraine is concerned, the issue of transportation is highly vulnerable, due to its own dependence on Russian supplies, with the major supply threat being its inefficient use of its resources, a distinct lack of an energy efficient policy, the slow pace of the diversification process, poor environmental production related issues, the social conflicts in the field of energy production and an overall reliable supply for its own people.

The third energy package adopted by the European Parliament and Council on July 13, 2009, played an important role in the formation of the fundamental legal principles of EU energy security. It included the following legislative acts:

- 1) EU Regulation no 713/2009, establishing the Agency for the Cooperation of Energy Regulators, ACER);
- 2) EU Regulation no 714/2009 on conditions for access to the networks of cross-border electricity exchanges repealing EU Regulation no 1228/2003;
- 3) EU Regulation no 715/2009 on conditions for access to natural gas transmission networks, repealing EU Regulation no 1775/2005;
- 4) Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC;
- 5) Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC35.

New regulations are aimed at the *effective unbundling* of business functions, such as selling and gas recovery, from transportation functions. Only the removal of the stimuli for the creation of vertically integrated enterprises leading to discrimination of market participants and potential investors can provide such a separation.

The conceptual basis for the EU's common energy policy was determined by such strategy documents of the European Committee as the Green Paper "European strategy for sustainable, competitive and sustainable energy", adopted in 2006.

The EU periodically adopts ten-year Community-wide network development plans, which should be renewed every two years. Although a Community-wide network development plan is formally labelled non-binding, the regulatory authorities of member states should maintain similar national plans. Regulators should be empowered to require adjustment of national plans to bring them into compliance with the pan-European plans.

In particular, according to the Treaty establishing the Energy Community of 2006 (Energy Community, 2014), member states are obliged to implement the basic legal acts of the EU in the areas of energy, environment, competition and renewable energy sources in national legislation determined by the Treaty: Green Paper "European strategy for sustainable, competitive and sustainable energy", "Energy 2020: A strategy for competitive, sustainable and secure energy", "Energy Roadmap 2050: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions".

Nowadays, the European Union is trying institutionally to provide its own energy security, to ensure order in energy relations, maintaining them in good condition with good prospects. To this end the Agency for the Cooperation of Energy Regulators – ACER was founded in the EU. ACER is independent from the producers of electricity and gas, transport operators and distribution systems, and in the implementation of its activities should take into account the specific role of national regulatory authorities, ensuring uniform application of the legislation.

ACER's objectives are to assist the regulatory authorities of member states to implement their national regulatory challenges at EU level and, if necessary, coordination of their activities to strengthen energy security. Countries that are not EU members have the right to participate in ACER, under condition that they have an agreement with the EU, which foresees the adoption of EU standards in the field of energy.

Another success in ensuring energy security was limiting the activities of integrated enterprises. Vertically integrated companies are allowed to own transport networks, but in such cases an independent system operator (ISO) undertakes their administration. The

right to make decisions on commercial and investment issues is given by the ISO, which is appointed by the national government after the approval of this decision with the European Commission. As is the case with the ISO, maintaining vertically integrated corporations is foreseen, but their activities are monitored by a specially created “supervisory authority”. The current network management provides a separate organisational entity – an independent, subsidiary company – an independent transmission operator (ITO). Under this condition, the parent company may retain the right to make commercial and investment decisions, but will have to establish a framework to ensure independence in the workings of the transport system.

The main directions of the conceptual foundations today and for the coming decade are set by the European energy strategy 2011–2020. First of all, they are related to the diversification of energy supplies and the emergence of more profound integration on the European energy market by bringing together national networks and associations of regional energy projects.

In previous decades, a more reliable European/Asian supply was based on the Groningen concept, developed in Western Europe in the 1960s and justifying the need for large investment in mining and transportation. The financial concerns are: 1. long-term contracts (15, 20 or 30 years) and the financial penalties that come with them; 2. the ‘Take or Pay’ scheme, whereby the buyer is obliged to pay for approximately 80% of the contracted amounts of gas regardless of actual consumption; 3. gas prices being directly tied to oil prices, thereby making it competitive with other fuels. Suppliers assumed the main issue with prices being directly linked forced the client to take the biggest risk, due to the supplier being in a position where any price increase was passed on to the end user (Dickel, 2012).

In continental Europe, the Groningen concept has no longer been the dominant force regarding contractual agreements for the last 15 years. EU legislation divided the national gas monopoly, diversifying production and the sales of its supplies and transportation, thereby opening up the market for new suppliers using third-party access to pipelines, thereby strengthening its position. In 2009, revised marketing laws in Europe, due to the US shale gas boom, provided liquefied natural gas (LNG), and when traded on the European market, it became cheaper than the gas that was directly linked to oil and contracted for the long term. As the crisis has led to a reduction in demand, domestic producers ‘dumped’ surplus gas on the spot market, thus further increasing their liquidity. The result: today in Europe, from one third to a half of gas is now distributed through the spot market (Reuters, 2013).

The role of the energy factor as a tool for the implementation of the geopolitical goals of Russia in its relations with the EU

Due to the increased active cooperation between Russia and the EU in the energy sector, as far as energy security is concerned, Russia has now become a significant part of the problem, rather than part of the solution (СМИТ, 2006). Not surprisingly, Gazprom declared the main economic priority (and its implementation) is key to bringing about a transformation for a global energy corporation, yet crucially the idea of having a gas

monopoly is still high on the Kremlin's political agenda. To this end, Russia seeks to block other energy players (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan), allowing them to set the trend of escalating prices in the EU gas market, maximising cash returns from exports without the need for a flexible pricing policy and actively using the assets procured in Europe as a weapon. An example of this is the Slovak Transpetrol, 49% of which was acquired by the Russian company Yukos in 2002. Since 2003, Russian has repeatedly made blocking attempts to Ukrainian exporters of oil from non-Russian origins, including the Caspian Sea, to furnish the needs of Czech refineries (Гончар, 2007, p. 14).

Within Russian political circles, the locally celebrated 'gas lever' allows major decisions to fall in favour of Moscow's agenda. It is significant that one of the reports of the Military-Political Studies Institute of the US and Canada, regarding the Russian Academy of Sciences "Optimization of military policy to ensure national energy security," published in November 2012, contains the quite frank statement: "The main consumers of Russian undefined resources are countries in Eastern, Central and Western Europe. Even countries with very diverse economies, such as Germany, heavily depend on Russian supplies accounting for 40% of the total of exported gas and 20% of exported oil. This is one of the factors that allows Russia to achieve certain political goals, such as the suspension of NATO's expansion and the deepening infringements in Ukraine by supporting pro-Russian presidential candidates and others" (*Перспективи*, 2012).

It should be emphasised that Russia is clearly trying to diversify its energy supply lines, which becomes apparent through the new pipelines to the EU and the signing of new contracts with other countries, including the People's Republic of China (PRC). Recent negotiations culminated in the signing of a contract with China (albeit containing some unfavourable conditions) allowing Russia to be less dependent on supplying oil and gas to the EU. Given the prerequisites and intense efforts to procure the formation of a single European energy policy, they still maintain their position in Europe through the implementation of a system of measures, including:

- strengthening Russian control of the European energy infrastructure by purchasing shares in European companies and joint ventures;
- wider release of Russian gas to European markets by creating new gas transmission systems that maintain the EU of reorientation to other gas suppliers;
- diversification of Russian energy exports, and with attention to the increasing problems of the collaboration of OAO Gazprom with the EU, the Russian leadership is making efforts to expand the output of Russian oil and gas to the Asian-Pacific market, while trying to speed up the appropriate measures to develop gas fields in eastern Siberia;
- attempts to avoid the 'third EU energy package', creating a new body, seemingly independent of Gazprom, through assisted management and the personal involvement of Russian President Vladimir Putin, who recently increased the number of independent gas producers, providing the opportunity to enter the foreign market, namely: NovaTЭК, Lukoil, Rosneft;
- obstructing the development plans of shale gas in Europe;
- and providing support to OJSC Gazprom in its disputes with the EU (*Перспективи*, 2012).

Energy is just one element of the totality of Russian-German relations. The Federal Republic of Germany (FRG) sees Russia as an important partner in several dimensions. First, Russia is an important trading partner of Germany. Second, it is one of its major suppliers of energy resources. We also cannot ignore its military might, especially concerning security in Eastern Europe. And third, Russia has geostrategic importance for the region and is a member of G20. Thus, relations in the energy sector do not affect the foreign policy of Germany as much as the historical and political relations with Russia. In other words, the energy dimension plays an important role in Russian-German relations, but is not decisive. The peculiarity of these relations is embedded in the concept 'Russland verstehen', which means the special status of relations between Germany and Russia. This is the 'understanding' of the authoritarian manifestations of the German politicians in Poland fears about the Nord Stream pipeline, particularly regarding the threat of losing their supplies of Russian Yamal-Europe gas pipeline. However, the Polish government accepted a recent attempt to revive the project of Yamal-Europe-2 and leading think tanks in Poland regarded it as an attempt to put pressure on Ukraine. In general, it can be argued that Poland's energy strategy towards an early diversification of energy supplies can reduce dependence on Russia.

Another way to promote the interests of Russia is the so-called infrastructure through support groups. Germany is a good example of this approach as shown by the mutually beneficial cooperation with Russian large national companies, especially energy companies, that remain very loyal to Gazprom. In addition, companies can also support some foreign policy initiatives.

Recent developments in the European gas market have shown a number of threats to energy security resulting from sudden changes in production, transit routes and natural gas supplies to Europe. It is expected that the new model of the European gas market, based on the principles of diversification, security of supply, interconnection and liberalisation will provide new opportunities and challenges for gas transit countries of Europe. On the one hand, a gradual shift in Europe to spot gas markets will mean fair pricing due to competition. On the other hand, the abolition of long-term contracts for the supply pipeline will create a high level of uncertainty and fluctuations in countries that do not have to diversify sources of supply, such as Central and Eastern Europe. This situation will force the CEE region to seek new sources of supply contracts for reverse supply within the Third Energy Package, to fund investment in new infrastructure and transit Interconnector (pipeline) and commercial development processes to better align supply and demand of gas in the region. These problems should be seen only through deeper cooperation between the main gas transit countries in the region (*Європейська стратегія*, 2006). Given the globalisation of the energy market, there are more and more voices in favour of strengthening the role of NATO in ensuring stability in the context of the energy security. Since the problem of energy security is global, its solution requires a global approach and, consequently, increased attention from international organisations such as NATO. The Alliance must strive for political solidarity against deliberate interruption in power supply (as it was in January 2009, when Russia interrupted gas supplies to Ukraine), not hesitate to use their political influence and leverage to counter the attempts to curb use energy as a weapon in producing countries. Similarly, the influence of the Alliance should be used to protect the sovereignty and

rights of the producer countries and transit countries which are in a vulnerable position (*Чи повинен Альянс*, 2007).

Conclusions

As a result, it can be noted that, despite the aggressive foreign policy of Russia, the value of maintaining a secure energy policy is particularly relevant for the EU. The lack of a unified European political stance creates highly advantageous conditions for the implementation of RF's dominance in the energy field and a less challenged means of implementing its geopolitical plans. Of course, the EU countries are trying to create the necessary conditions to become more energy independent and to restrict the Russians impact on European gas market. European Commission for example has sent the Statement of Objections to Gazprom, alleging that some of its business practices in Central and Eastern European gas markets constitute an abuse of its dominant market position in breach of EU antitrust rules. An investigation of the European Commission pointed out that Gazprom tries to segregate gas markets of Central and Eastern Europe, for example by reducing its customers' ability to resell the gas cross-border.

However, Russia was able to successfully use its gas monopoly as a tool of political influence to create a meaningful and effective gas lobby. A striking example of this process was the 'Schroeder effect' – Involving influential European officials to lobby for projects that strengthen the EU's dependence on Russian supplies and infrastructure. This suggests that the major European countries, especially Germany and France, are not interested in creating a single European energy policies. The proof of this fact was the reaction of the above countries to Russian aggression in Ukraine. Violations of international norms and principles of democracy were not a powerful stimulus for Germany and France. These countries are not ready to lose economic benefits, even if such compliance may lead to a 'second Munich conference'. Consequently, despite attempts by some states to consolidate the efforts around the creation of a single European energy strategy the lack of clear steps to reduce energy dependence on Russia can be seen. The EU is currently not ready for the formation of a unified system of energy security, due to political (Russian lobby in the EU) and economic (the reluctance of European companies losing access to the development of new oil and gas fields) factors. Due to the fact that the EU is interested in reducing energy consumption, in the growth of rate of the economy in European countries and in programs aimed at phasing out nuclear energy, such situation leads only to the more effective its use. Such format of energy security in the context of an aggressive foreign policy of Russia, can only lead to greater energy dependence. The desire of the RF not only to supply energy, but also to control the routes of communication, shows that Russia will have the most significant tool to influence the foreign policy of the EU until EU members (especially Germany) does not develop a common energy policy.

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Bezpieczeństwo energetyczne w Unii Europejskiej w kontekście zmiany strategii energetycznej Federacji Rosyjskiej: aspekty geopolityczne

Streszczenie

Ostatnie wydarzenia na Ukrainie pokazały potrzebę wzmocnienia bezpieczeństwa energetycznego UE. Starania Rosji zmierzające do zwiększenia wpływów w Europie, wraz z wykorzystaniem współczynnika mocy, jako narzędzia realizacji interesów geopolitycznych.

UE starają się uniknąć uzależnienia od dostaw energii z Rosji, ze względu na dywersyfikację tras tranzytowych. Choć, niestety, do tej pory, istnieją różnice w formułowaniu wspólnej strategii energetycznej w UE. Fakt ten nie jest pomocny dla zapewnienia bezpieczeństwa energetycznego UE i wzmocnienia wspólnego Europejskiego rynku energii.

Celem artykułu jest identyfikacja wpływu zmian w strategii energetycznej Rosji na bezpieczeństwo energetyczne UE.

Słowa kluczowe: bezpieczeństwo energetyczne, strategia energetyczna, Unia Europejska, Federacja Rosyjska

