

UDK 620.9:621.039.58(061.1E)(470)

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THE IMPORTANCE OF ENERGY SECURITY IN THE RELATIONS OF THE EUROPEAN UNION AND RUSSIA

ABSTRACT

Due to the growing needs of the European Union for energy on one hand, and the energy potential of Russia on the other, the issue of energy security is to be one of the most important in relations between the two parties. The European Union is trying to ensure regular supply, and the interest of Russia is to preserve markets in which it can sell energy. Regardless of the interdependence of the EU and Russia in the field of energy, the two sides differently understand energy security and reciprocal market access. Trying to secure a stable energy supply, the European Union asks from Russia to open its energy sector for European investors. On the other hand, Russia has been expecting from the Union to give Russian companies more opportunities to invest in a distribution network of oil and gas in Europe. However, despite numerous challenges and disagreements, prospects for closer EU-Russia cooperation in the field of energy are pretty good.

Key words: the European Union, Russia, interdependence, energy, energy security.

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1. ENERGY SECURITY AS AN ELEMENT OF COOPERATION BETWEEN EU AND RUSSIA IN THE FIELD OF ENERGY SOURCES

Considering the world energy reserves reduction and their projected demand growth, the issue of energy security has become one of the key issues in the contemporary international relations. In conditions of modern interdependent economies, energy security cannot be understood as an attempt of countries to achieve self-sufficiency in energy supplying. Bearing in mind the importance of energy, for both industry and the economy, it is obvious why energy sources play a strategic role in international relations.

Geological allocation of energy resources is very uneven worldwide. Depending on whether they rely on import, export or transit of energy resources, countries, regions and companies differently define a concept of energy security.² The countries that produce and export energy resources tend to ensure a long-term stable demand, primarily due to high costs of exploitation, construction and maintenance of pipelines. On the other hand, countries that are dependant on import, wish to ensure a reliable supply of energy sources at best possible prices. Essentially, energy security is avoiding of overdependence of one region or country as the main energy supplier or buyer.³ This greatly reduces the possibility of use of energy resources as a means of political pressure.

Since the EU countries cannot meet their inner energy needs using only internal resources, import of energy has a significant role in ensuring of security of supply. Energy security is just one of the key issues in contemporary European and international affairs. Russian deliveries represent significant part of total consumption of oil and gas in the EU. According to the estimates of the European Commission, about 46 percent of imported gas comes from Russia, accounting for 29 percent of total gas consumption in the EU. The same stands for oil in amounts of 32 imported and 26 percent consumed in total. These data clearly show to what extent the security of energy supply of the Union depends on Russia.⁴

In the context of obvious importance and interdependence, cooperation in the field of raw material and energy security are priority issues on which the further development of overall relations and partnership between the EU and the Russian Federation depends.

² Amelia Hadfield, "EU-Russia Energy Relations: Aggregation and Aggravation", *Journal of Contemporary European Studies*, Vol. 16, No. 2, Routledge, London, 2008, p. 231.

³ Milan Simurdić, „Gasna kriza i energetska bezbednost“, *Međunarodna politika*, br. 1133, Institut za međunarodnu politiku i privredu, Beograd, 2009, str. 54.

⁴ Sergey S. Seliverstov "European Union energy security: The Russian perspective", *Energy and Innovation: Structural Change and Policy Implications*, Marina van Geenhuizen, William Nuttall, David V. Gibson, Elin Oftedal, Purdue University Press, 2010, p. 135.

2. DEVELOPMENT OF A COMMON EU POLICY IN THE FIELD OF ENERGY SOURCES

Under the “security energy sources supply” European Union implies the provision of long-term fulfilment of basic energy requirements under economically acceptable conditions and by using various and stable, externally available resources.⁵ Starting from the necessity to provide the long-term security of energy supply, the Union, in November 2000, published a Green Paper on energy security. This document points to the fact that, if current trends continue, the EU dependence on imported energy will, for the next twenty to thirty years, grow up to 70 percent, as opposed to 50 percent as recorded in 2000.⁶ Although it highlights the need for geographic diversification, the Green Paper states that the increased dependence on gas supplies from Russia is inevitable, given that this country possesses almost one third of global gas reserves. It points to the need, within the partnership with Russia, of development of long-term strategy that would regulate this area.⁷

A month before issuing the Green Paper, at the summit held in Paris, EU and Russia decided to initiate a dialogue in the field of energy, in order to define energy partnership between the two parties. It was anticipated that this dialogue will regulate cooperation in the field of energy saving, rationalization of production and transportation infrastructure as well as relations between consumer and producer countries. A year later, an agreement was reached on common goals and objectives of the energy dialogue between the EU and Russia. At the EU-Russia summit in 2001, it was confirmed that this dialogue, through support of construction and modernization of energy transport infrastructure and the establishment of safety rules, laid the foundations for long-term energy sources supply to Europe from Russia.⁸

The growing importance of cooperation between the EU and Russia in the field of energy sources is based, as has already been said, in relation of EU markets and Russian production and supply. Before the expansion of European Union in 2004, Russia was satisfying about 20 percent of its gas needs and 17 percent of its needs for oil. This share has since increased, as

⁵ Debra Johnson, “EU-Russian Energy Links: A Marriage of Convenience?”, *Government and Opposition*, Blackwell Publishing, Oxford, 2005, pp. 256–277.

⁶ “Toward a European Strategy for Security of Energy Supply”, *Green Paper*, Commission of the European Communities, Brussels, 2000, p. 21.

⁷ *Ibidem*, p. 40.

⁸ Günther H. Oettinger, Sergey I. Shmatko, *Joint Report EU-Russia Energy Dialogue 2000–2010: Opportunities for our future Energy Partnership*, Brussels/Moscow, 2010, p. 11.

the new member states from Central and Eastern Europe, traditionally depend on the imports of energy sources from Russia.⁹

In recent years, the Union actively seeks to develop a common policy in the field of energy sources. European Strategy for Sustainable, Competitive and Secure Energy, published in March 2006, points once again to the growth of the EU dependence on energy imports and repeats the estimation that in the next few decades import will reach 70 percent of total energy needs. In this context, the significance of a common policy and unified actions of the Union when it comes to energy sources supplying, was pointed out.¹⁰

In 2007, the Union started a new policy in the field of energy sources. On that occasion, the document was adopted, focusing on the need to ensure security of energy supply. A new EU energy policy has ambitious objectives that should be met by 2020. The document, among other things, predicts increased share of renewable energy sources to 20 percent, as well as providing help to Member States, which mainly depend on one supplier, in order to diversify energy supplies.¹¹

Although it is often stressed that Russia sometimes uses the fact that it is an important supplier of energy sources for political purposes, there are opinions that in the future, the main problem will be this country's ability to meet the growing needs of European market. This could also occur as a result of stagnation of energy production in Russia due to high exploitation costs, possible reorientation of Russian energy exports to other markets - primarily in Asia, as well as the high growth of consumption in Russia itself.¹² Given these facts, the Union seeks to provide enough energy sources by supplying with gas from multiple sources or switching to new sources of energy.

In November 2008, the Union released a package of measures, which should contribute to the primary energy sustainability and competitiveness and security of supply. Planned diversification in supplying should primarily suppose to enable the reduction of dependency on Russian energy sources. The necessity of establishing some sort of mechanism that would allow an adequate response to problems that could arise as a result of a possible

⁹ Debra Johnson, "EU-Russian Energy Links: A Marriage of Convenience?", *op. cit.*

¹⁰ "A European Strategy for Sustainable, Competitive and Secure Energy", *Green Paper*, Commission of the European Communities, Brussels, 2006.

¹¹ Yuri Yegorov & Franz Wirl, "Energy relations between Russia and EU with emphasis on natural gas", *OPEC Energy Review*, No. 4, Vol. 32, Organization of the Petroleum Exporting Countries, Vienna, 2008, pp. 307-310.

¹² *Ibidem.*

disruption in gas deliveries, is also emphasized. Measures for increasing of energy efficiency are also planned.¹³

The package of measures also envisaged the Action Plan on Energy Security and Solidarity, which should provide a sustainable supply of energy sources to the EU, given the problems that Europe will face between the 2020 and 2050, due to the reduction of production. The document states that the import makes 61 percent of the total gas consumption in the EU out of which 42 percent is imported from Russia, 24 from Norway, 18 from Algeria and 16 from other countries. Given that level of production in the EU continues to decline, it is expected that by 2020 percentage of gas import shall increase up to 73 percent. Speaking of the EU level, these data provide a picture of relatively good offers. However, at the national level, a number of Member States completely rely on a single supplier. The action plan emphasizes that bonding and solidarity within the EU internal market are natural characteristic of the integrated market system as well as that when it comes to energy supplying, it is very important to reduce individual risks. It is therefore concluded that the EU must take concrete measures to ensure further diversification of gas supply of Member States.¹⁴

In 2009, the European Union adopted the Third Energy Package, which includes measures that should be adopted by the Member States in order to establish an integrated European energy market. The envisaged legal acts also include three regulations and two directives which, among other things, also regulate conditions for access to networks of natural gas and electricity, also establishing common rules for gas and electricity internal market.¹⁵ Adoption of the Third Energy Package is currently in the process of adoption in the Member States, and should come into force in the first quarter of 2012.

In the chapter on energy of the EU Treaty of Lisbon (Article 194) it is stated that energy policy will ensure the functioning of energy markets and security of supply of the Union as well as it will improve energy efficiency and provide energy savings. In addition, it is stated that energy policy will encourage the development of new and renewable forms of energy as well as connection of energy networks. To achieve these objectives, Article 194 of the Treaty envisaged a legislative process that will, after consulting the Economic and Social Committee and the Committee of Regions, allow the Parliament and the Council

¹³ "Second Strategic Energy Review: An EU Energy Security and Solidarity Action Plan", Communication from the Commission to the European parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 13.11.2008, COM(2008) 781 final.

¹⁴ *Ibidem*.

¹⁵ Integral text of the legal acts adopted in the so-called Third Energy Package see in: *Official Journal of the European Union*, L 211, Vol. 52, Brussels, 2009.

together to make decisions in the energy field. However, the Treaty of Lisbon stipulates that Member States retain the right of determining terms for exploiting their energy resources, to choose between different energy sources and choice of the general structure of energy supply. Thus, the main aspects of energy supply policy remain under the jurisdiction of member states.¹⁶

At a conference in November 2010, the EU and Russia marked the tenth anniversary of the dialogue in the field of energy sources. On that occasion, they have adopted the joint report entitled *The EU-Russia Energy Dialogue 2000-2010: Opportunities for Our Future Energy Partnership*, in which, among other things, they agreed to develop a long-term road map to improve the functioning of mechanisms for early warning, and to co-operate in resolving the issue of electricity and work on reducing of investment barriers.¹⁷ At the European Council meeting held in February 2011, the Union leaders reached an agreement that until end of 2014 the internal energy market should be established, and thus enable the free flow of gas and electricity. In addition, it was proposed to take steps towards the development of „a reliable, transparent and rules-based partnership with Russia in areas of common interests in energy sector, and as part of negotiations on a new agreement on partnership and cooperation, the ongoing partnership for the modernization of and energy dialogue”.¹⁸ Given that the Third Energy Package should provide increased competitiveness of the internal market, the additional liberalization measures were provided, such as, among other things, the separation of production and supply from the transmission of energy sources networks.

Russia expressed clear disapproval with the placing of terms and restrictions for its access to the Union energy market. Especially problematic for Russia is a provision that prohibits the same legal entity to be both the supplier and owner of transport infrastructure. In Russia's opinion, it prevents the investor to recover investment. This prevents the Russian „Gazprom” to buy a strategic distribution networks without government approval of the Member States in the EU. Russia is concerned about the potential problems that proposed Union market development, as the largest and most integrated energy market in the world, can create.¹⁹

¹⁶ Eda Kusku, “Enforceability of a Common Energy Supply Security Policy in the EU: An Intergovernmentalist Assessment”, *Caucasian Review of International Affairs*, Vol. 4 (2), Frankfurt am Main, 2010, p. 154.

¹⁷ “EU-Russia Common Spaces Progress Report 2010”, March 2011, Internet, http://eeas.europa.eu/russia/docs/commons_spaces_prog_report_2010_en.pdf.

¹⁸ “Conclusions, European Council”, Brussels, 4 February 2011, EUCO 2/11, Internet, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119175.pdf, p.1.

¹⁹ Andrew Monaghan, “Russia-EU Relations: an Emerging Energy Security Dilemma”, *Pro et Contra*, Vol. 10, Issue 2-3, Carnegie Moscow Center, Moscow, 2006, pp. 4-5.

The condition for a stable supply of energy sources to the EU market is the safety of energy sources transportation. Given the fact that they were a part of one country, the former Soviet republics are linked in a complex network of energy interdependence, which has allowed Russia a sort of monopoly on gas pipelines from Central Asia to Western Europe. Some of the former Soviet republics almost entirely depend on Russian supplies of energy sources, while simultaneously controlling transportation routes of Russian exports to the EU.²⁰

Concerned about the possible consequences of excessive dependence on Russian energy sources, the Union has proposed building of a pipeline that would allow her direct access to energy resources from the Caspian region. Gas-pipeline project "Nabucco" is of strategic importance and priority for the Union, as it is expected that this very pipeline will contribute in diversification of supply sources and routes of natural gas, and thus improve energy security in Europe. The project is part of a broader US-European idea of building a gas export corridor from Russia, which would be independent. This corridor should allow the Union access to gas from the Caspian region, Central Asia and the Middle East. It is planned that the pipeline "Nabucco" goes through Turkey, Bulgaria, Romania and Hungary to Austria and from there to other EU member states.

In May 2009, the European Union held a summit with leading transit countries and energy producing countries from the South Caucasus and Central Asia. On that occasion, principle agreement was reached to accelerate the construction of the pipeline "Nabucco" and that its capacity, planned to be 31 billion cubic meters, should be filled, among other, with the gas from Azerbaijan and Turkmenistan. The pipeline "Nabucco" received the further impetus in July 2009 when Austria, Hungary, Romania, Bulgaria and Turkey signed an intergovernmental agreement on this project. In late 2009 and early 2010, the European Union approved funding in the amount of four billion euros for reconstruction and connecting pipelines and electricity grids of member states, as well as for financing of gas pipeline "Nabucco". Work on the pipeline "Nabucco" was originally planned to start in 2011, with the first delivery of gas available by 2014 and to reach full capacity by 2019. However, the start of the construction of gas pipeline "Nabucco" was postponed for 2012, and start of the route construction is planned for the end of 2014, or the beginning of 2015.²¹

²⁰ Sabine Fischer, "How to Rescue the Partnership?", *Russia in Global Affairs*, Vol. 6, No. 2, Moscow, 2008, p. 203.

²¹ Agata Łoskot-Strachota, "Nabucco vs. South Stream – Rivalry over Balkan Gas Pipelines", *CECOMMENTARY*, Issue 3, Centre for Eastern Studies, Warsaw, 2008, p. 1.

As one of the key factors that complicate the implementation of the project "Nabucco" is considered to be its opposition to the interests of Russia, which is not prepared to lose direct control over the network of transport of oil and gas.²² Thus, in the March 2011, EU Energy Commissioner Guenther Oettinger has called on Russia not to put pressure which could block the project pipeline "Nabucco", on the countries of Central Asia, noting that this project is not a direct competitor of "South Stream". In addition, Oettinger said that, while appreciating Russia as a partner for the import of Russian gas, EU should receive gas from the third countries by the shortest, and not a roundabout way via Russia.²³

In order to consolidate the position in the European market and bypass the transit through Ukraine and Belarus, Russia has intensified its efforts for the construction of two projects - "Nord Stream" and "South Stream". These pipelines are vital for Russia's energy strategy.

Back in 2005, Russia and Germany made a deal about the construction of gas pipeline "Nord Stream", which is placed at the bottom of the Baltic Sea to transport gas directly from Russia to Germany and then other European countries. The pipeline has two lines, one of which was first put into operation in early November 2011. It is anticipated that the second line is going to be operational in 2012 and that the capacity of each line is 27.5 billion cubic meters a year. Some EU countries are concerned about the "Nord Stream". In particular, Poland and the Baltic countries believe that building a pipeline that bypasses their territory could threaten their energy security.²⁴

Another pipeline project on which Russia is actively working is "South Stream". "Gazprom" and Italian company "Eni" signed in 2007 agreement on the construction of the "South Stream", which will run from Russia under the Black Sea to Bulgaria and then through the Balkans, including Serbia, with branches to Austria, Italy and Greece. Russia and Italy, as of May 2009, announced that the capacity of the pipeline "South Stream" will be 63 billion cubic meters per year, i.e. that it will transport about 35 percent of the total amount of gas that Russia exports to Europe.²⁵ Russia expects that the "South

²² Vladimir Zuev, "EU-Russian relations: in search of a new contract within a changing global environment", Vytautas Magnus University Press, Kaunas, Lithuania, 2010, p. 14.

²³ "EU official urges Moscow not to block Nabucco pipeline", 29 Mar 2011, Source: Agence France Presse, Internet, <http://www.eu-russiacentre.org/news/eu-official-urges-moscow-block-nabucco-pipeline.html>.

²⁴ Peter Novik, "Russia and the EU – Cooperation or Rivalry?", "Russia and the EU – Cooperation or Rivalry?", in: *Russia and the EU: Uneasy Relations A Look From Belgium*, Nina Belyaeva (ed.), Vytautas Magnus University Press, Kaunas, Lithuania, 2010, p. 56.

²⁵ Dmitri Trenin, „Geopolitika energije u odnosima Rusija-EU“, u: Katinka Bariš (ur.), *Cevovodi, politika 6i moć: budućnost energetskih odnosa EU-Rusija*, Centar za evropsku reformu, Beograd, 2009, str. 22.

Stream" will be completed in 2015, and intergovernmental agreements between Russia and most countries through which the pipeline should go have been signed, as well as agreements between "Gazprom" and gas operators in these countries.²⁶

There are opinions that this pipeline is not built only for the economic reasons, but also for the geopolitical, i.e. to discourage potential investors from investing in the pipeline "Nabucco".²⁷ In order to ensure political support for the construction of "South Stream", Russia has done everything to attract a larger number of countries to participate in the project, some of which are already participating in the project "Nabucco". Although for energy security of the EU and Russia cooperation in the development and modernization of infrastructure should be vital, in reality there is obvious competition, as in the case of project pipeline "South Stream" and "Nabucco". Russian officials often express doubts about the prospects of "Nabucco", claiming it would be difficult to provide the necessary quantities of gas to the pipeline. The efforts of Russia to purchase gas supplies in Azerbaijan and Turkmenistan, some analysts see as an attempt to disable the "Nabucco".²⁸

There are opinions in the EU that, although such agreements do not resolve the future of the project "South Stream", together with other Russian actions represent a threatening competition to the realization of the project "Nabucco". It is believed that with signing of agreements with countries that also participate in the project "Nabucco", Russia has managed to create doubts about the feasibility of the realization of "Nabucco" and undermine the political consensus on this project, which is defined as a strategic for the Union.²⁹

Given the projected growth in gas demand, there are opinions that in order for the EU to meet the growing needs for this energy source even after 2025 – both "South Stream" and "Nabucco" are required. At the same time, there is a fear of the possibility that European energy security in the coming years will be threatened if Russia continues to build new pipelines to Europe.

²⁶ Ewa Paszyc, "Nord and South Stream won't save Gazprom", *OSW Commentary*, Issue 35, Centre for Eastern Studies, Warsaw, 2010, pp. 1-7.

²⁷ Dragan Štavljanin, *Hladni mir (Kavkaz i Kosovo)*, Radio Slobodna Evropa, Čigoja štampa, Prag/Beograd, 2009, str. 412-413.

²⁸ Jim Nichol, "Russian Political, Economic, and Security Issues and U.S. Interests", *CRS Report for Congress*, Congressional Research Service, Washington D.C, 2011, p. 23.

²⁹ Agata Łoskot-Strachota, "Nabucco vs. South Stream – Rivalry over Balkan Gas Pipelines", *op. cit.*, p. 1.

3. RUSSIA'S ENERGY STRATEGY AND POLICY TOWARDS THE UNION

Russia today occupies one of the leading places in world trade in energy products and actively participates in international cooperation, manufacturing and supply of markets. Russia occupies a leading position in oil and provides 12 percent of world oil trade. More than four-fifths of Russian oil exports is to the European market. It provides 25 percent of world natural gas trade, and due to a unique transport system of this energy source, Russia has an important role in the European gas market and market of the Community of Independent States.³⁰

Although due to its rich energy resources Russia represents a unique energy superpower, with no new investments in the obsolete infrastructure, its status will be jeopardized. Given that the national gas and oil companies "Gazprom" and "Rosneft" are under the firm control of the Russian government, Russia's energy policy is the subject of great controversy.

Basically, the official attitude of Russia lies in the thesis that the state acts in the interests of society and that the issue of energy sources is associated with its sovereignty.³¹ In the Energy Strategy of the Russian Federation adopted in 2003, energy security is defined as "a state of protection of the state, its citizens, society, economy from threats that may endanger the safe supply of fuel and energy".³² Furthermore, it is stated that the energy sector is, "an instrument for the implementation of domestic and foreign policy" and that "the role of government in world energy markets largely defines its geopolitical influence".³³

In November 2009, Russia adopted a new strategy for regulation of the energy sector until 2030. This strategy defines the long-term goals for energy sector development, priorities and standards, and mechanisms of the energy policy of Russia in various stages of its implementation. The strategic objective of energy policy is, as stated, the most efficient use of energy resources of Russia in order to achieve full integration and strengthen the position in the global energy market, and achieve maximum benefit for the national economy. One

³⁰ "Энергетическая стратегия России на период до 2030 года", Утверждена распоряжением Правительства Российской Федерации от 13 ноября 2009 г. № 1715.

³¹ Sophie Nappert, "EU-Russia Relations in the Energy Field: The Continuing Role of International Law", *Third Quarter 2010*, International Association for Energy Economics, Cleveland, 2010, pp. 10-11.

³² Sergey Seliverstov, "Energy Security of Russia and the EU: Current Legal Problems", *op. cit.*, p. 3.

³³ Fraser Cameron, "The Politics of EU-Russia Energy Relations", *EU-Russia Centre Review: EU-Russia Energy Relations*, Issue 9, EU-Russia Centre, Brussels, 2009, p. 21.

of the priorities of the strategy is “geographic and product diversification of energy exports in terms of stable supply of the world’s largest energy consumer”. It is anticipated that the energy market in Europe and the CIS shall remain major markets for energy products from Russia.³⁴

Based on this strategy, it could be concluded that Russia is trying not only to consolidate as a leading supplier of energy in the European market, but also to significantly expand the market. In this regard, it is planned to take appropriate measures to reduce the risk of transit, including the further development and improvement of export infrastructure, which should contribute to the reliability of energy exports to these markets.³⁵

Furthermore, the Strategy states that the European market share in total export of Russian energy sources will drop over time due to the diversification of energy exports to Eastern markets. It is envisaged that until 2030 eastern market share in exports of oil and petroleum products shall rise from the current six to twenty-five percent, and exports of gas to reach twenty percent. So, Russia is planning not only to maintain position as the largest supplier in the global energy market, but also to qualitatively change the nature of its presence by diversifying energy sources export routes, developing of new forms of international business and expanding the presence and activities of Russian companies abroad. This should reduce the risk depending on the energy sector from Russia’s exports to the European market and to increase efficiency and profitability of Russian companies in the international energy market.³⁶

Russian monopolistic companies are trying to acquire ownership of the transit gas pipelines and gas distribution centres, while the Russian energy market remains rather closed to foreign investment and business. The opening of energy markets would allow foreign investors to participate in “Gazprom’s” projects, which could open the question of the structure of transport and energy exports, which are again directly managed by “Gazprom” and thus indirectly by the state. Furthermore, the liberalization of gas market is likely to directly lead to an increase in gas prices in the domestic market, which is due to a living standard of Russian citizens, difficult to accept.³⁷

There are opinions that energy sector is an important lever of foreign policy of Russia, and that the purpose of occasional problems in natural gas

³⁴ “Энергетическая стратегия России на период до 2030 года”, *op. cit.*

³⁵ *Ibidem.*

³⁶ “Энергетическая стратегия России на период до 2030 года”, *op. cit.*

³⁷ Paul Ruttman, “Sa nas, sa vas, sa gas The Gas-Factor in EU–Russian Relations”, in: *Comparing and Inter-Relating the European Union and the Russian Federation*, Andreas Langenohl and Kirsten Westphal (eds.), No. 30, Universität Gießen, Bonn, 2006, p. 63.

deliveries is to remind Europe of its dependence on Russian energy products import. There are opposing views - which suggests that Russia is trying to preserve the position of the most important and reliable European supplier, because long-term and stable demand depends on it. Accordingly, Russia has no interest in trying to blackmail the Union, for its member countries are paying the best price for energy products and Russia's budget depends on energy exports, whose highest percentage exports to the EU. This attitude is based on the belief that the policy of Russia in energy sources is led primarily on the basis of a reasonable business strategy, which seeks, in the circumstances, to accrue the highest profit.³⁸

Russia, as a source of problems in the supply of energy products, sees the transit countries, and that is why it decided to build two new gas pipelines - "Nord Stream" and "South Stream".³⁹ The construction of new pipelines that would bypass Belarus, Ukraine, Poland and other Central European countries will enable direct gas supplies to European countries, while reducing dependence of Russia from transit countries and strengthening its position as Europe's main gas supplier.

In addition to a clear commitment that Europe remains a key market for its energy products, Russia is trying to export to different countries. In order to avoid excessive dependence on the Union as the main buyer of energy products, Russia is turning to new Asian markets. Such policy has caused concern that, at the expense of the European market, could transfer the energy and financial resources to the East. However, supply of the eastern markets relies on energy derived from eastern Siberia and the Far East. So, these are deposits of energy products from which the European market has not been supplied so far.⁴⁰

4. PROSPECTS OF COOPERATION BETWEEN THE EU AND RUSSIA IN THE FIELD OF ENERGY PRODUCTS

In recent years, there have been problems and tensions over gas supplies, raising doubts about the safety and stability of Europe's future supply of energy products from Russia. However, same as the Union is largely dependent on Russian energy supply, so is the good part of economic stability of Russia based on the sale on European energy market.

³⁸ Dmitri Trenin, „Geopolitika energije u odnosima Rusija-EU“, *op. cit.*, str. 19.

³⁹ Gunnar Wiegand, „EU-Russian Relations at a Crossroads“, *Follow Irish Studies in International Affairs*, Volume 19 (1), Royal Irish Academy, 2008, pp. 9-15.

⁴⁰ Peter Novik, „Russia and the EU-Cooperation or Rivalry?“, *op. cit.*, p. 57.

In 2000, the Union and Russia started a bilateral dialogue in the field of energy that should help them in solving numerous issues of common interest. This includes, among other things, cooperation in energy efficiency, energy saving, rationalization of production and transport infrastructure, investments, as well as the precise regulation of relations among producer and consumer countries.⁴¹

However, despite the mutual dependence and clear commitment to further develop cooperation in the energy sector, the relations of the Union and Russia, from time to time, become tense. The two sides still have different views on the many important issues, such as gas and oil pipeline routes, contracts for the supply of gas, electricity sector restructuring and the use of nuclear power.⁴²

Investors are interested in participating in the production of oil and gas in Russia and in financing of new technology, thereby contributing to more efficient and higher production. For the realization of the potential of Russian energy sector, significant investments are required. It is estimated that by 2020 it is necessary to invest about 100 billion dollars in the gas industry and 150 billion dollars in oil industry of Russia. However, such large investments require substantial reforms and liberalization of the energy market. The European Union is very interested in this reform, because considers that the abolition of state monopoly over the companies in Russia will ensure long term stability of supply of the EU.⁴³

The Union is committed to open access to exploitation, production and transportation of energy products, which puts pressure on Russia to ratify the Energy Charter, which, as the legal framework, should ensure investors protection from discrimination in the energy sector.⁴⁴ By creating a unique rules that would be respected by all signatory countries, the risks associated with investment, trade and supply of energy products should be reduced to a minimum.⁴⁵ However, although Russia signed the Energy Charter back in 1994, it has not ratified it yet, and resolutely refuses to sign the Transit Protocol. By ratifying these documents, Russia would, in effect, assumed the

⁴¹ "EU-Russia Summit", Joint Statement, Paris, 2000, Internet, http://europa.eu.int/comm/external_relations/russia/summit_30_10_01/statement_en.html.

⁴² Charles Grant and Katinka Barysch, "The EU-Russia Energy Dialogue", *Briefing Note*, Centre for European Reform, London, 2003, pp. 1-4.

⁴³ Dov Lynch, "Russia and CFSP", in: *Russia Faces Europe*, Dov Lynch (ed.), *Chaillot Papers*, No. 60, The European Union Institute for Security Studies, Paris, 2003, pp. 63-65.

⁴⁴ Energy Charter was adopted on 17 December 1994, and entered into force on 16 April 1998, after being ratified by thirty countries. So far, 51 country has signed the Charter, out of which five (including Russia) has not yet ratified the agreement.

⁴⁵ Peter Novik, "Russia and the EU – Cooperation or Rivalry?", *op. cit.*, p. 58.

obligation to offer service of transit to the countries that supply energy products to the EU through its territory. In other words, with respecting of these standards, Russia would lose the influence over gas from Central Asia, and would have to eliminate, politically and economically very profitable, state monopoly on gas.⁴⁶

Critics of the Energy Charter argue that the charter is opposing the economic interests of Russia and allows other countries easier access to its natural resources, and that Russia in return does not receive adequate benefits on the EU market. Russia fears that the recent measures of the Union on the liberalization of market and the competition will jeopardize current conditions of energy products trade. Representatives of the Union reject these arguments, arguing that liberalization would be beneficial for both Russia and its trade, as it would enable it to reach a much-needed investment.⁴⁷

There are opinions that Russia's reluctance to accept international standards in the field of energy is becoming a serious challenge to energy security of the Union. It is believed that in this way Russia reserves the right to use energy products as a political means, without fearing of additional liability and sanctions.

Despite EU's efforts to keep common policy in the field of energy, even in the Union itself, among its member states there are often different opinions. While some countries believe that they should continue bilateral relations with Russia, others think it would be better to insist on cooperation at the EU level, in order to perform some kind of joint pressure on Russia.⁴⁸ Several European companies signed new long-term agreements with "Gazprom". Russia highlights this fact as an argument - that the market participants positively evaluated the reliability and efficiency of its delivery.⁴⁹

The Union has a vital interest to end disturbances in the supply and disputes between Russia and transit countries to ensure the predictability on energy market, as is Russia interested in uninterrupted gas supplies to ensure a regular income from Europe.⁵⁰ Therefore, the EU and Russia are objectively interested in strengthening mutually beneficial cooperation in the field of energy products.

⁴⁶ Milena Marin, "Normative power Europe and Russian Great Powerdom: the Challenges of a Strategic Partnership", in: *Russia and the EU: Uneasy Relations A Look From Belgium*, Nina Belyaeva (ed.), Vytautas Magnus University Press, Kaunas, Lithuania, 2010, p. 46.

⁴⁷ Yuri Yegorov & Franz Wirl, "Energy relations between Russia and EU with emphasis on natural gas", *op. cit.*, p. 313.

⁴⁸ Boris Varga, *Putin i baršunasta gerila*, Vreme, Beograd, 2007, str. 118.

⁴⁹ Peter Novik, "Russia and the EU-Cooperation or Rivalry?", *op. cit.*, p. 58.

⁵⁰ Debra Johnson, "EU-Russian Energy Links: A Marriage of Convenience?", *op. cit.*, p. 274.

However, despite this long-term interest to cooperate in the energy sector, Russia and the EU often observe the problems in delivery, which occasionally come up, in different ways. Although many in the EU believe that Russia uses energy as a means for achieving political goals, there are opinions that this position requires serious reconsideration. As an argument, stated is the fact that the countries of Western Europe import Russian energy products since the late sixties, that even during the Cold War there was no problem in supplying, and there were none, even in the time of the dissolution of the Soviet Union.⁵¹

Every winter there is a concern about the possibility of new interruption of Russian gas deliveries to the EU countries, due to which Russia could lose reputation and suffer financial losses, and leave Europe without gas. Because of that, the problems associated with the transit of energy remain in the focus of attention.

Given the fact that security and predictability of market conditions should be ensured in the long run, the dialogue in the field of energy products is an important component of stable relations between the EU and Russia. This dialogue should increase mutual trust and transparency in relations between the two parties, including the exchange of information on further policy on development in legislative and regulatory framework in the field of energy.⁵²

Recognizing the importance of uninterrupted energy supply, prevention of emergency situations and their overcoming with minimal negative consequences, at the summit held in Samara in May 2007, the European Union and Russia reached an agreement on establishing a mechanism for early warning, which should allow the forecasting of problems in supply and demand, thereby reducing the effects of potential disruptions in supply.⁵³

In order to prevent the emergence of new problems, in 2009, the EU and Russia signed a Memorandum on an Early Warning Mechanism in the Energy Sector. The Memorandum defines the concept of early warning mechanism, stating that it provides an early assessment of potential risks and problems associated with supply and demand of natural gas, oil and electricity, as well as prevention and rapid response in case of emergency or threat of emergency situation.⁵⁴

⁵¹ Dmitri Trenin, „Geopolitika energije u odnosima Rusija-EU”, *op cit.* str. 22.

⁵² “ЭнергодIALOG Россия-ЕС”, Интернет, http://minenergo.gov.ru/activity/co-operation/russia_eu/.

⁵³ Kristijan Kolt i Džefri Pajper, „Energetski dijalog EU-Rusija”, u: Katinka Bariš (ured.), *Cevovodi, politika i moć, Budućnost energetskih odnosa EU-Rusija, op. cit.*, str. 31.

⁵⁴ Emergency implies a situation in which there is significant disruption/interruption of supply of natural gas, oil and electricity transported from Russia to the EU, including supplies crossing the territory of third countries. “Memorandum on an Early Warning Mechanism in the Energy Sector within the Framework of the EU-Russia Energy Dialogue”, Internet, http://ec.europa.eu/energy/international/russia/doc/reports/2009_11_16_ewm_signed_en.pdf.

Memorandum also states joint actions to be undertaken in case of problems that can lead to a crisis situations in energy delivery and supply. Listed as possible causes of problems in delivery are, among other things, the unauthorized appropriation of energy products during transit and storage, as well as termination or reduction of transit of energy products, if it is not otherwise provided by agreements. To prevent possible problems in the delivery of energy products, it is envisaged that the EU and Russia closely cooperate, exchange information and conduct surveillance. In case of problems with gas transit, measures provided in the memorandum are allowing Russia, in cooperation with the EU, to share the risks related to the reliability of transit countries and peacefully resolve any disputes with the Union.⁵⁵

The future cooperation shall be largely affect by the Union's capacity to conduct joint and coherent energy policy towards Russia, but security of supplying can be increased with integration of markets of the Member States. This would create the conditions where Member States "speak with one voice", and thus overcome the basic deficiency of the EU energy policy, which significantly affects the outcome of EU negotiations with Russia.⁵⁶

On the EU level, however, the dominant opinion is that Russian cooperation with some European countries is often based on very pragmatic approach, which sometimes leads into question the overall interests of the Union's policy in the field of energy products.⁵⁷ The differences within the EU are especially evident in this particular area, because the member states, to varying degrees depend on energy products from Russia. While some new member states such as Latvia and Bulgaria are almost entirely dependent on Russian energy, others such as Spain and Ireland are not importing energy products from Russia. In addition, a source of division in the Union is the nature of relations between Russia and individual EU member states. While the old member states are more interested in normalization of relations with Russia and long-term security in energy supplies, new members are in doubt about Russia's policy towards the neighbouring post-Soviet countries that depend on Russian supplies of gas and oil.

⁵⁵ Игор Томберг, „Русија и Европа у потрази за универзалним леком од гасних криза“, *Фонд стратешке културе*, Интернет, <http://rs.fondsk.ru/article.php?id=2608>.

⁵⁶ Kristijan Kolt i Džefri Pajper, „Energetski dijalog EU-Rusija“, u: Katinka Bariš (ur.), *Cevovodi, politika i moć: budućnost energetskih odnosa EU–Rusija, op.cit.*, str. 26–27.

⁵⁷ Vladimir Milov, “European Energy Relations with Russia and Other Energy Producing Nations: Bilateralism or a Single European Voice?”, “European Energy Relations with Russia and Other Energy Producing Nations: Bilateralism or a Single European Voice?”, Background Paper for the “Towards a Common European Energy Policy Public Hearing in the European Parliament, Brussels, 2006, Internet, http://www.socialistgroup.eu/gpes/media3/documents/1886_EN_background_paper_vladimir_milov_en_060608.PDF.

Besides numerous unresolved issues, it is expected that in the next twenty years, the share of Russian energy products in the EU market will remain high. The reason for this is the evolving needs of the Union for the imported energy products, geographical proximity of Russia, the existing energy and transport infrastructure, as well as long-term cooperation in this sector.

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