Russia’s Foreign Energy Policy Towards the European Union: Prospects for Cooperation and Conflict

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Abstract

Much has been written on Russia’s power over the price and supply of natural gas in Europe. But how exactly does Russia behave towards its European neighbours through its energy policy? In this article, I demonstrate that this energy policy is, in fact, bifurcated. Russia largely maintains a market-based policy towards its Western European customers, while its demeanour towards those in Central and Eastern Europe largely reflects its political ambitions. Russia is far too dependent on its energy relationship with the European Union to jeopardize it by abruptly altering pricing or supply. In contrast, the country uses its ability to provide (or revoke) preferential pricing and supply agreements in post-Communist Europe to maintain its political power in the region.

Keywords: Russia; Energy; Diplomacy; Europe; Foreign Policy

Résumé

De nombreux écrits s’intéressent au pouvoir de la Russie sur le prix et l’approvisionnement du gaz naturel en Europe. Mais comment la Russie se comporte-t-elle envers ses voisins européens dans le cadre de sa politique énergétique? Dans cet article, je démontre que cette politique énergétique est, en fait, à deux volets. La Russie mène une politique largement fondée sur le marché à l’égard de ses clients d’Europe occidentale, tandis que son attitude à l’égard de ceux d’Europe centrale et orientale reflète largement ses ambitions politiques. La Russie est beaucoup trop dépendante de sa relation énergétique avec l’Union européenne pour la mettre en péril en modifiant brutalement les prix ou l’approvisionnement. En revanche, le pays utilise sa capacité à fournir (ou à révoquer) des accords de prix et d’approvisionnement préférentiels dans l’Europe post-communiste pour maintenir son pouvoir politique dans la région.

Mots-clés : Russie, Énergie, Diplomatie, Europe, Politique étrangère

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Introduction

Russia’s foreign energy policy towards the European Union (EU) is a highly contentious issue. While some see Russia’s actions as being driven primarily by geopolitical considerations, others find their origins in the market imperatives of natural gas. The gas conflicts of 2006 and 2009 highlighted this distinction and served to bring energy politics to the foreground in EU-Russia relations. The looming expiry of the existing transit contract between Ukraine and Russia has reignited some of the questions surrounding how Russia engages with its European neighbours using its external energy policy, and whether this policy has been dominated by geopolitical or commercial interests. The reality lies somewhere in between. In this policy analysis, I find that Russia’s foreign policy towards the EU in terms of its supply of natural gas cannot be understood as monolithic. Rather, various actors within Russia have differing, and occasionally competing interests in how the country exercises its influence in energy politics abroad. Additionally, these actors – such as Gazprom and the Russian state - are highly constrained in their ability to use natural gas exports to the EU as a political tool. Moreover, domestic and external market considerations, as well as the diversification and liberalization of both EU and Russian natural gas markets are likely to weaken the geopolitical aspects of Russia’s energy policy vis-à-vis the EU. The political machinations behind Russia’s foreign energy policy are much more evident in the country’s relationship with former Soviet states, as preferential pricing is used to shape political outcomes in the region. Consequently, the ‘energy weapon’ is used not to coerce the states of Western Europe – as Russia is far too dependent on their consumption of Russian energy – but instead to ensure the country’s ability to extract favourable gas prices within the former Soviet Union, and thus ensure Russia’s broader political influence in the region.

This paper will begin with a brief description of EU-Russian energy relations. This will be followed by an analysis of the Russian and European interests in this issue. After this, I will describe the role and interests of Gazprom, the primary natural gas producer and exporter in Russia. To tie the analysis together, I will describe how market liberalization in the EU (and to a limited extent in Russia) is shaping and influencing Russia’s foreign energy policy towards the EU. Finally, I will provide my conclusions. The focus of this paper is on natural gas, rather than oil, because it has been at the centre of Russian-EU energy relations due to its particular characteristics as a commodity, which will be described throughout this analysis.

Russian-EU Energy Politics: A Background

The existing energy relationship between the EU and Russia began in the 1960s and is largely the continuation of the Soviet Union’s energy trade with Europe (Siddi, 2018, p. 1554). Originally, the Soviet Union sold oil and gas to its COMECON allies in Eastern Europe, but eventually expanded its pipeline network to the rest of Europe (Siddi, 2018, p. 1554). Economics, rather than politics, were the crucial force propelling this relationship. As Dannreuther (2016) notes, the Soviet Union was rich in natural gas, but was unable to provide the necessary transport infrastructure in Europe, while Western Europe had significant demand for Russian gas and was able to construct the pipelines used to transport it (p. 916). The abundance of energy in the Soviet Union was thus used to meet Europe’s increasing demand for hydrocarbons. Since then, Europe has become the main consumer of Russian oil and gas products, and energy has been the “essential economic driver of EU-Russia relations” (Siddi, 2018, p. 1554).

Despite the mutual animosity engendered by the Cold War, the energy relationship between Europe and the Soviet Union was highly amicable, as the Soviet Union consistently demonstrated its reliability as a supplier of natural gas (Ziegler, 2012, p. 11). This relationship, however, was not to last. The breakup of the Soviet Union led to the fracturing of what was formerly Soviet gas export infrastructure across Europe, resulting in the present situation in which Russian gas is transported via pipeline through numerous transit states to Europe. Following the demise of the Soviet Union, Russia continued to provide subsidized gas to its neighbouring states, which relied on preferential prices for
both industrial and household needs. One such state is Ukraine, which following the Orange Revolution in 2004, began to face demands from Russia to pay higher, market-based prices for its gas. Russia accused Ukraine of siphoning gas bound for Europe, and in response stopped sending gas to Ukraine for a handful of days in 2006 (Casier, 2011, p. 545). Again, in 2009, both parties were unable to reach an agreement regarding gas prices and transit tariffs, this time being further complicated by an additional debt-related dispute between Gazprom and the Ukrainian state gas company, Naftogaz. Russia again completely halted the flow of gas through Ukraine based on accusations that Ukraine was both siphoning and blockading gas in the pipeline (Feklyunina, 2012, p. 460). In 2006, German Foreign Minister Frank-Walter Steinmeier went so far as to say that “ten years ago anybody talking about ‘energy foreign policy’ would probably have had to explain what they meant” (Casier, 2011, p. 538). Since then, however, Russia’s energy policy has since become a major plank of its foreign policy. As a result, energy relations between Russia and the EU have become securitized and hotly contested due to both disputes.

Russia’s foreign energy policy towards the EU has again become a central issue in EU-Russian relations, as the TurkStream pipeline has become operational and Nord Stream 2 approaches completion, and because of the recent expiry and subsequent renegotiation of the existing Russia-Ukraine gas transit agreement. Since the disputes of 2006 and 2009, the EU has sought to both diversify and secure its supply of natural gas, while Russia has attempted to avoid transit risks by building pipelines that bypass states such as Ukraine. Both pipelines, one built under the Baltic Sea linking Germany with Russia and the other constructed through Turkey, are set to be operational between 2020 and 2021 (Pifer, 2019). The expiry of Ukraine’s transit agreement at the end of 2019 portended another potential dispute, but conflict was avoided through a series of negotiations between both states. Gazprom, Russia’s state-owned natural gas company, initially proposed a one-year deal, conditional on Ukraine dropping its existing litigation against the company (Soldatkin, 2019). In contrast, Ukraine proposed an EU-supported agreement, which stipulated an annual transit amount of 60bcm (with 30bcm flexibility) over a ten-year period (Polityuk, 2019). Russia’s negotiating position was based on the premise that once Nord Stream 2 and TurkStream are both operational, it will be able to meet demand in Europe while only having to export a marginal amount of natural gas through Ukraine. The final agreement, signed only 24 hours before the expiry of the previous one, stipulates that Russia would ship 65bcm of gas to Ukraine throughout 2020, with that amount decreasing to 40bcm per year between 2021 and 2024 (Soldatkin and Zinets, 2019).

Despite the energy disputes involving Ukraine, Russia will remain the EU’s main supplier of natural gas. However, the EU’s diversification policy aimed at diversifying both the types of energy used and the origins of this energy will greatly influence Russian foreign energy policy towards Europe. As Europe seeks greater security of supply, Russia faces the challenge of both ensuring its market position in Europe and diversifying its exports in order to ensure security of demand. How Russian foreign energy policy has and will continue to respond to this is the result of a confluence of various actors and interests within Russia, each having their own objectives.

**Actors and Interests: Commodities, Cooperation, and Competition**

Much has been written about Russia’s geopolitical use of natural gas as an ‘energy weapon’ intended to achieve political objectives in both the former Soviet Union and in the EU (Judge, Maltby, Sharples, 2016, p. 755). Although there are elements of this in Russia’s foreign energy policy, they are often overstated or greatly misunderstood. Instead, Russia’s foreign energy policy is comprised of a multiplicity of actors, interests, and dimensions. It is important to distinguish these actors and their various interests, because as Casier (2016) notes, “energy relations are as much about commercial profit, regulation, interests of individual countries and companies, as they are about security of supply or strategic interests” (p. 764). Romanova (2016) provides a taxonomy of these actors, arguing that “decision-making in Russian external energy policy is obscure and quite
centralised” (p. 861). Constitutionally, the Russian President directs foreign policy, which is implemented through the Ministry of Foreign Affairs (MFA) (Romanova, 2016, p. 861). Additionally, the Ministry of Energy controls internal energy policy, while the Ministry of Economic Development handles “external economic relations” and “is more liberal compared to the MFA” (Romanova, 2016, p. 861). Gazprom, Russia’s state-controlled natural gas company, although closely linked to the presidential administration, has interests that are both concordant with and divergent from those of the president or the MFA (Romanova, 2016, p. 861).

Importantly, each of these actors does not have equal influence in shaping Russia’s foreign energy policy, which largely reflects the interests of the president and the various bodies close to the presidential administration. This is precisely why Russia’s foreign energy policy is typically perceived as monolithic and geopolitically oriented. This perception will be challenged in this analysis, but it must be recognized that there are certainly substantial geopolitical aspects to Russia’s foreign energy policy vis-à-vis formerly communist and Soviet states in Europe. This, however, has largely not been exercised through the ‘energy weapon’ as it is commonly perceived as the ability to shut off the flow of natural gas at will. Instead, Russia has exercised influence by using differential pricing with its customers in its sphere of influence. Most notably, Ukraine was paying approximately $50USD per thousand cubic metres of gas from Russia prior to the Orange Revolution, after which Russia sought to raise the price closer to its European market price of $230USD per thousand cubic metres, once Ukrainian President Yuschenko began to ask for European transit tariff levels (Casier, 2011, p. 545). Similarly, Russia offered Ukraine reduced energy prices in 2013 as part of a deal to entice Ukraine to join the Eurasian Customs Union (Viju, 2018, p. 148). Although differential pricing exists within the EU, it is primarily the result of market factors, such as demand or the ability to access alternative sources of gas. As will be demonstrated in this analysis, Russia’s foreign energy policy towards the EU reflects market imperatives more so than geopolitical considerations. The ‘energy weapon’ is thus less a weapon to be used against the EU and is instead one of Russia’s many tools of potential influence it uses to shape political developments in its immediate neighbourhood.

Examining the various imperatives surrounding Russia’s business of exporting natural gas demonstrates why Russia has sought, and largely maintained business-like relations with the EU. Primarily, energy sales account for a significant part of the domestic budget. This, in itself, ensures that Russia seeks security of demand in its exports (Siddi, 2018, p. 1556). This is especially true for its European exports, which as Henderson and Moe (2017) note, effectively subsidize low domestic gas prices that form the basis of a “broader ‘social contract’” between state and society (p. 445). Natural gas accounts for approximately 15 percent of Russia’s export revenues, and around half of these exports transit through Ukraine (Siddi, 2018, p. 1555). To a large extent, this explains the rationale behind why security of demand and transit occupy such an important position in Russia’s energy strategy. Because of this, the construction of Nord Stream 2 and TurkStream are not necessarily about maintaining European dependence on Russian gas imports, but rather ensuring that “lucrative” sales to Europe continue reliably and unabated by Russian-Ukrainian conflicts (Siddi, 2018, p. 1561).

Reliability thus forms a major aspect of Russia’s foreign energy policy towards the EU. Russia’s dependence on gas exports to Europe means that its reputation as a reliable supplier is of the utmost importance, as demonstrated by the EU’s diversification strategy following the 2006 and 2009 disputes. To this end, Russia has portrayed Nord Stream 2 and TurkStream as pipelines that improve, rather than decrease European energy security (Feklyunina, 2012, p. 459). In the wake of the gas disputes, Russia sought to rebuild the image of itself as a reliable supplier, while Gazprom attempted to distance itself from its perceived connection to the state by stressing its commercial nature (Feklyunina, 2012, p. 459). This contradiction between competing images of Russia as a reliable supplier and one that uses energy politics to influence its near abroad was on display during the war in Ukraine following the Maidan revolution. On one hand, the crisis began after attempts were
made to integrate Ukraine into the European Customs Union using preferential energy prices, and on the other, the continuation of gas deliveries to both Ukraine and the EU were negotiated during the conflict. In this way, the ‘energy weapon’ was used to buy influence prior to the conflict, rather than force either Ukraine or the EU into capitulating during the war. This reflects how Russia has much more to lose than it would gain by shutting off gas supplies to Europe, as it relies too heavily on sales and export revenue to Europe for maintaining a certain level of domestic stability. Pirani (2018) argues that it is precisely this reason why Russia and Gazprom are unlikely to let gas supplies to Europe be disrupted by another dispute with Ukraine at the end of 2019 (p. 8). This situation demonstrates that Russia’s long-term strategic interests involve ensuring security of both supply and demand, and that it has been reluctant to jeopardize these interests for short-term political gains.

To speak of a unified interest in the EU-Russian energy relationship at the supranational level in Europe betrays the complex and often divergent interests among various actors within the EU. However, the EU does have specific interests of its own, and they must be examined in order to understand how the EU engages with Russia in energy politics. In contrast to the typical representation of Russia as pursuing its ends through geopolitical power, the EU is seen primarily as a “regulatory power” because it makes access to its enormous internal market contingent on regulatory convergence (Siddi, 2018, p. 1553). The EU exercises this power through a variety of enforcement mechanisms, most notably through financial punishment or market exclusion (Siddi, 2018, p. 1553). It is primarily through this strategy that the EU has engaged with Russia’s energy policy. As a major consumer and importer of natural gas from Russia, the EU has undergone the process of liberalising its gas market so as to reduce the market power of actors such as Gazprom (Siddi, 2018, p. 1564). One of the specific mechanisms the EU has used to do so is the ‘Third Energy Package’ (TEP), which is a set of regulations provided by the European Commission that stipulate that energy distributors in the EU must be commercially separate and ‘unbundled’ from energy producers (Judge, Maltby, & Sharples, 2016, p. 753). This unbundling of energy monopolies thus poses a significant challenge for Gazprom, which is vertically integrated and has an effective monopoly over Russian gas exports to Europe, as it owns both the upstream and downstream components of its energy production network (Judge, Maltby, & Sharples, 2016, p. 753). The TEP thus demonstrates the EU’s two main interests in its gas relations with Russia: to ensure security of supply and to liberalise its gas market.

The issue of supply security is much more contentious within the EU, as each member state faces differing levels of dependence on Russia for its gas consumption, as well as the various historical legacies that more generally shape their interactions with Russia. Although an analysis of each member state’s interests in Russian energy policy is beyond the scope of this research, one example is highly instructive: Poland has emerged as one of Europe’s biggest champions of diversifying internal energy supplies away from Russia and has attempted to do so within the EU’s regulatory framework. Most recently, Poland has argued that the increased transit of gas from Nord Stream to the Opal pipeline (the onshore German transmission branch of Nord Stream) endangers Polish security of supply as this transit route completely bypasses Poland. In dealing with this, Poland has begun to both import greater amounts of Liquified Natural Gas (LNG) and has challenged the amount of gas transiting through the Opal pipeline in court. The EU initially allowed this increase, only to have it challenged by Poland and struck down by the European Court of Justice (Eckert, 2019). Poland – and by extension other transit states such as Ukraine – are especially sensitive to this issue as construction nears completion on Nord Stream 2, thus further reducing Russian dependence on exporting gas through transit states in Eastern Europe. By examining the competing interests within Europe, it becomes clear that security of supply has different meanings in different states, thus making Russia’s energy relationship with the EU far more complex than a simple battle between two completely independent and unified actors.
Complicating matters further is the fact that state interests compose only part of Russia’s foreign energy policy towards the EU. In addition, one must account for commercial interests as well. Gazprom is an undeniably complicated actor to analyze because as Judge, Maltby, and Sharplies (2016) note, that although no “well-known expert on the subject has denied the linkage between Gazprom and the Russian state,” it is often oversimplified and perceived to have no “commercial interests of its own” (p. 755). However, the connections between Gazprom and the state must be highlighted. Chiefly, Gazprom is 50.002 percent owned by the Russian state, and is the heir of the Soviet Ministry of Gas’ responsibilities and assets (Romanova, 2016, p. 863). Because of this, Gazprom has maintained an export monopoly on the sale of gas to Europe and retains a significant portion of export revenue, and in exchange, it sells inexpensive gas domestically to consumers (Henderson & Moe, 2017, p. 445). Judge, Maltby, and Sharplies astutely point out that state ownership allows the government to nominate the executives of Gazprom (p. 755). Consequently, the close relationship between state and corporation is personified by the corporate leadership of long-time Gazprom CEO Alexei Miller, a friend of Russian President Vladimir Putin from his time in St. Petersburg (Henderson & Moe, 2017, p. 453). As a result of these connections, it can be understood how and why Gazprom’s interests are often treated as being synonymous with those of the Russian state.

Dismissing Gazprom’s commercial interests, however, would be a significant lapse in analyzing Russia’s foreign energy policy. As a company, Gazprom’s interests are conditioned by the commodity it sells - natural gas. Gas prices (until the advent of commercially viable LNG) were, and continue to be, largely determined by long-term, high-volume contracts so as to ensure both demand security and the financial viability of the infrastructure required to export gas (Siddi, 2018, pp. 1556-7). Gazprom’s gas sales to the EU have largely involved take-or-pay terms, meaning that even if the importing country does not take the entire amount of gas it must pay for the unused supply, and contract prices have typically been indexed to the price of oil (Goldthau & Silver, 2014, p. 1465). Gazprom controls about 30 percent of the gas market in the EU, which explains much of the concern over the company’s ability to set prices and to control the flow of gas, especially considering the company’s close relationship to the Russian state (Boussena & Locatelli, 2017, p. 550). However, these concerns must be tempered by the reality of the aforementioned pricing agreements. Although Russia, and by proxy Gazprom, have used preferential pricing to influence its close neighbours, this strategy is not part of its practice in the EU. Instead, the long-term take-or-pay contracts that index gas prices to oil only allow Gazprom a “limited amount of leeway for manipulating prices” despite its significant market share (Boussena & Locatelli, 2017, p. 552). The inverse of this is that Gazprom secures demand at profitable price levels, which both ensures its commercial viability and the significant role it plays in subsidizing gas domestically. In this way, Gazprom’s commercial and political responsibilities largely shape its interactions with its European customers, and these interactions are largely guided by commercial imperatives that emphasize security of demand.

Gas Market Liberalization and its Effects on Russian Foreign Energy Policy

As has been demonstrated, there is a diverse constellation of actors involved in shaping Russia’s foreign energy policy towards the EU. The presence of shared interests has shown that although Russia has used certain aspects of its gas trade to achieve political goals, both state and commercial interests in Russia are largely constrained by the financial need to maintain a viable commercial relationship with Europe, meaning that the ability to exercise political influence over the EU through energy exports is quite limited. Russia has largely attempted to achieve this through long-term contracts that ensure security of demand, while Europe has sought to form a more functional gas market through internal liberalization as directed by the TEP. Naturally, these interests clash as market liberalization would both liberalize prices and potentially reduce Gazprom’s market share, in this way affecting Russia’s security of demand.
Russia and Gazprom have responded to these changes, not through the use of the ‘energy weapon,’ but through selective acceptance of reforms and several careful challenges of market liberalization, thus significantly affecting the country’s foreign energy policy towards the EU. The TEP is meant to unbundel Gazprom’s ownership of distribution routes in Europe, to limit the amount of Russian gas flowing through pipelines so as to allow third party access, and to reduce prices (Romanova, 2016, pp. 863-4). Russia initially responded to the TEP by challenging its legality, on the grounds that it did not adhere to the ‘grandfather clause’ of the Energy Charter Treaty, which “protects investments that have already been made from subsequent legislative changes that might negatively affect them” and by challenging the EU under World Trade Organization rules, arguing that the TEP undermines most favoured nation status and unequally discriminates against Russia (Romanova, 2016, pp. 867-8). As Romanova (2016) notes, these strategies were primarily advocated internally in Russia by the Ministry of Energy, which has been engaged in a variety of technocratic engagement mechanisms with the EU (p. 869). Gazprom has additionally been involved in legal challenges of the TEP, as it applied to the European Commission to be exempted from the third-party access restrictions in the Opal pipeline. Interestingly, the European Commission originally allowed Gazprom to export more gas via Opal until the European Court of Justice struck down this decision. Reflecting the internal divisions within the EU, Germany appealed the ECJ’s decision (TASS, 2019). These instances show that although Russia and Gazprom are seeking illiberal economic goals, their means of doing so have been legalistic and technocratic.

Russia has also challenged the TEP in less conciliatory ways, as the example of TurkStream demonstrates. After facing significant complications with the construction of the South Stream pipeline as a result of the EU’s market liberalization measures, Russia abandoned the project and opted to build TurkStream instead. TurkStream reflects Russia’s foreign energy policy towards the EU in two ways. First, it demonstrates Russia’s desire to ensure security of demand by diversifying its export destinations. Following the EU, Turkey is the largest consumer of Russian natural gas and its demand is only expected to increase, thus making the pipeline a rational commercial decision (Siddi, 2018, p. 1562). Second, the challenge to the EU arises because the pipeline is still treated as an export route to Europe, albeit one that stops short of EU borders. The pipeline has explicitly been constructed so as to end at the border between Turkey and Greece, thus meaning that EU countries are expected to build their own pipelines to connect to TurkStream and import gas. Consequently, TurkStream allows Russia to skirt the liberalization measures imposed by the TEP while diversifying its own export markets and continuing to ensure its market position in Europe. (Siddi, 2018, p. 1562).

The instances in which Russian actors have acquiesced to the consequences of liberalization provide a more instructive example of how Russian foreign energy policy is likely to proceed in the future. Specifically, Gazprom has begun to implicitly accept some of the realities of EU market liberalization. The EU has begun to develop spot markets for gas, largely as a result of the global development of LNG, which allow consumers and producers to buy and deliver gas in the short-term (Romanova, 2016, p. 864). For European consumers, gas bought on spot markets is typically less expensive than gas indexed to the price of oil (Romanova, 2016, p. 864). This has challenged Gazprom’s long-term take-or-pay contract model, forcing the company to renegotiate these aspects of some of its existing contracts with European customers (Siddi, 2018, p. 1557). Chieflly, Gazprom altered many of its contracts so as to include spot prices for 10 to 20 percent of total contract prices and to provide short-term suspensions of take-or-pay clauses (Romanova, 2016, p. 870). Although this does not reflect a paradigmatic shift of Gazprom’s existing strategy, it is clear that EU market liberalization has constrained the company, forcing both it and Russia to react cooperatively and confrontationally under different circumstances, although never doing so in a way that would jeopardize market access.

The liberalization of the EU’s gas market is not the only substantial market change affecting Russia’s foreign energy policy towards Europe. Additionally, domestic market liberalization, although
considerably limited, has further constrained Gazprom’s actions. As Henderson and Moe (2017) argue, Russia’s gas sector is effectively a triopoly, in which Gazprom is the primary actor, with Novatek and Rosneft playing different, and at times competing, roles (p. 444). As has been described, Gazprom’s export business relies largely on gas flowing through pipelines to Europe, while the advent of LNG has challenged Gazprom’s market position in Europe as countries such as Poland begin to import LNG from elsewhere. Russia’s foray into LNG development has been slow, but as Henderson and Moe note, it has become a pillar of Russia’s energy strategy because LNG is “transforming the way that gas is marketed and priced in an increasingly globalized market” (p. 455). At present, the primary Russian commercial actor in LNG is Novatek, which in 2009 became the majority shareholder in OAO Yamal LNG, which produces LNG in the Yamal peninsula in the Russian Arctic. Crucially, Russia liberalized its export rules in 2013, allowing Novatek to export LNG abroad to both Europe and Asia (Henderson & Moe, 2017, p. 448). As Siddi (2018) argues, the fact that this gas can easily be sold on spot markets in Europe “constitutes the first challenge to Gazprom’s monopoly of Russian gas exports to the EU” (p. 1567). In this way, domestic market liberalization in response to market demand for LNG is itself reducing the ability of Gazprom and Russia to exercise influence through price differentials and market control.

Examinining the various actors involved in Russia’s foreign energy policy vis-à-vis the EU demonstrates that not only are there a multiplicity of interests involved in the issue, these interests are changing as Russia reacts to an evolving global market and political environment. Although Russia’s need for demand security and the EU’s need for supply security bring the two together in a mutually interdependent energy relationship, various political and economic conflicts have pushed both in the direction of market diversification. As the EU has liberalized its internal market, Russia has responded in both cooperative and conflictual ways, but has not used the ‘energy weapon’ to extract concessions from the EU. Instead, Gazprom has responded by partially liberalizing some of its exports to Europe while continuing to surreptitiously avoid the measures of the TEP, while Russia itself has embarked on a diversification strategy based on LNG and exporting gas to China, as demonstrated by the thirty-year, 38 bcm per year project recently launched between the two countries (Romanova, 2016, p. 866). In this way, Russia’s foreign energy policy towards Europe is unlikely to involve significant conflict, except in key areas of contestation such as Ukraine. Instead, the main thrust will be to diversify its export markets so as to ensure profitability, while continuing to supply Europe with natural gas.

Conclusion

Russia’s foreign energy policy toward the EU is marred by the disputes of 2006 and 2009 and is thus often seen as highly contentious. The upcoming expiry of the most recent transit agreement through Ukraine has renewed fears over Russia’s potential use of the ‘energy weapon’ in its negotiations with the EU and Ukraine. However, as this analysis has shown, Russia’s exercise of influence through natural gas prices applies primarily to former Soviet states and those in Eastern Europe, while its energy relationship with the EU has largely been one of economic interdependence. Moreover, as the EU liberalizes its internal gas market and global gas production changes, Russia, and the various actors within it, are increasingly constrained in their ability to use energy as a tool of geopolitics. In this way, maintaining interdependence is the crucial factor in maintaining mutually beneficial energy relations.

References


