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EU-Russia Energy Diplomacy: The Need for an Active Strategic Partnership

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DEPARTMENT OF EU INTERNATIONAL
RELATIONS AND DIPLOMACY STUDIES

EU Diplomacy Paper

04 / 2012



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4/2012

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Abstract

This paper explains the conflictive and cooperative elements of energy diplomacy between the European Union (EU) and Russia. It argues that interdependence forms the underlying principle of this relationship and creates both sensitivity and vulnerability for the interdependent parties, thus carrying the sperms of both conflict and cooperation. Both sides would be negatively affected by the other side's non-cooperation within the current policy framework and the prevailing mistrust and recurring tensions can be explained by this sensitivity. However, even if both sides' policies were adjusted, vulnerability interdependence would still prevent them from seriously reducing their energy cooperation. It is necessary then to see how EU and Russian energy diplomacy can converge and how their strategic energy partnership can be cemented.

1. Introduction: Setting the Framework for an Efficient Energy Partnership

Since the mid-2000s there has been renewed interest in the EU-Russia energy relationship, following world price increases for gas and petroleum, the struggle between Russia and Ukraine, controversies regarding the regulation of (and the access to) the European market and competing visions for energy security. EU-Russia energy trade is characterized by the creation of new infrastructure as well as the development of spot markets. In order to understand this relationship, the analysis must take into account that the economic interests of the two partners are not fixed and absolute but they flow from their perceptions of risks, opportunities and benefits.

The paper focuses on both conflictive and cooperative elements of the EU-Russia relationship. It draws on two key terms of Keohane and Nye's (2001) approach to complex interdependence: sensitivity and vulnerability. Sensitivity refers to a country's responsiveness within an existing policy framework and "means liability to costly effects imposed from outside before policies are altered to try to change the situation", while vulnerability "can be defined as an actor's liability to suffer costs imposed by external events even after policies have been altered" (Keohane and Nye 2001: 11).

As shown in Table 1 and building on Proedrou (2007), sensitivity refers to the losses each side may face in case the other does not live up to the obligations it has taken up. The uncertainty stemming from energy security dilemmas may well lead to the implementation of policies from both sides that aim to lessen dependence and thus diminish trade and cooperation. Vulnerability, on the other hand, is a driver for cooperation, in the sense that a significant decrease of cooperation in the energy sector would be mutually detrimental. The key difference between sensitivity and vulnerability interdependence hinges on the costs that countries would bear should relations between them be disrupted.

The paper argues that the EU-Russia energy partnership is characterized by both conflictive and cooperative elements, sensitivity and vulnerability interdependence. In particular, while Gazprom's dominant presence in the EU market propels diversification rhetoric and some diversification plans from the EU (explained by sensitivity interdependence), overall trade is far from being diminished due to the understanding that a large-scale decrease of energy cooperation (diminished imports for the EU and exports for Russia) would entail dreadful consequences for both sides stemming from their vulnerability interdependence. The lack of real

alternatives makes it costly for both sides to rupture their relationship. In this light, the key to the maintenance of the EU-Russia energy partnership is how to manage conflict as well as how to prevent disputes, mistrust and different perceptions (that flow from sensitivity) from jeopardizing EU-Russia energy trade.

Table 1: Sensitivity and vulnerability in EU-Russia energy relations

	<i>'Complex interdependence' (Keohane and Nye 2001)</i>	<i>EU-Russia energy partnership</i>
<i>Effects of sensitivity</i>	conflict, unilateral policies	lack of trust, hesitance, unilateral moves
<i>Effects of vulnerability</i>	cooperation, coordinated action	maintenance and improvement of cooperation

Source: authors' compilation.

The paper proceeds as follows: section 2 analyzes the EU's unilateral policies that aim to ensure and improve its state of energy security. Section 3 scrutinizes Russian energy strategy and its tactics to maximize energy leverage in Europe. Section 4 examines the risks and uncertainties that characterize EU-Russia economic relations. Finally, Section 5 suggests ways for compromising the stance of the two entities, solidifying their energy partnership and ensuring their energy security.

2. EU Energy Diplomacy

The actors under examination have distinctive institutional characteristics. The EU institutional architecture has little to do with the classical organization of the nation-state. Hence, member states' energy policies often diverge due to different interests and cognitive frameworks. Moreover, while European energy enterprises play a significant role in the organization of the European energy sector, the Russian energy sector is largely ruled by the Kremlin; there are little margins left for Russian or foreign companies operating in Russia to manipulate the Kremlin's energy policy, especially abroad (Pleines 2006; Sander 2007).

2.1. Policy-making in the EU

The EU is a complex hybrid system of governance where both intergovernmental and supranational elements are present (Hix and Høyland 2011; Staab 2008). Energy policy features well this complex method of policy-making in the European arena. Members have yielded some of their former powers to supranational institutions,

namely the European Commission and the Council of Ministers; however, they retain control of the procedure. Energy policy thus remains a national, not a supranational competence. In EU energy policy both member states and the supranational institutions have a crucial role to play, albeit in different areas, shaping a dynamic balance, often in favor of the former (Buchan 2007a). More specifically, the European Commission has gained a number of competences in the energy field. Its pioneering role in promoting and ensuring the smooth functioning of the European internal market means that it is responsible for the deregulation of member states' national energy markets and the growth of competition. The Commission is also competent to mediate differences that may arise from its legislation. Recently, EU competencies have been further strengthened by the Lisbon Treaty and the new gas security regulation, which has granted the Commission critical supervising authorities (Proedrou 2012; Egenhofer and Behrens 2008: 3). Evidently, the Commission should have a fundamental role in the energy policy of the Union. Contrary to the internal domain, however, where its leverage is important, in the external domain its role is quite limited.

Although the Commission participates in the energy dialogue with Russia and other significant suppliers, member states retain their sovereignty with regard to the most critical aspects of energy trade. More precisely, states determine their energy mix, choose the suppliers and sign supply contracts. Despite all the fuss about 'Europeanizing' the energy policy and taking decisions in the European Union, member states appear rather reluctant to cede such authority to the EU level. This attitude was clearly reflected in German Chancellor Angela Merkel's comments on the Energy Policy for Europe (EPE) initiative (signed in March 2006) that "the source of energy mix is a national competence" and that the EPE means "coordination instead of centralisation" (Rettman 2006).

2.2. Internal Controversies about EU Energy Diplomacy

The European Commission is at pains to strengthen its role in EU energy policy, securing energy supplies. Its proposals, initiatives and legislative measures often clash with individual member-state energy policies and practices. The aim to reduce the EU's sensitivity to any of its external suppliers led the Commission to set the diversification of energy sources as a primary goal in the Green Papers of 2001 and 2006. More specifically, it defines energy security as ensuring that future essential energy needs are satisfied by means of sharing internal energy resources and

strategic reserves under acceptable economic conditions and by making use of diversified and stable, externally accessible sources (European Commission 2006). This policy boils down to exploiting reserves in North Africa and especially in the Caspian and Central Asia region in order to counter Russia's increasing share in the European energy market. However, little has been done in this direction (Socor 2007). The Commission lacks the power to organize EU energy policy and to turn European investors and member states towards common European interests in these regions.¹ Its policy proposals contrast sharply with some member states' practices that prefer dependence on a single supplier (Sander, 2007). Actually, while member states should, according to the Commission's proposals, attempt to reduce dependence on a single source, they follow a different rationale. Germany's strategy of extending bilateral energy deals with Russia in order to strengthen the position of Germany as a major gas and power provider in the EU, and thus intensifying Central Europe's dependence on Russian energy, is the most indicative example. No wonder, thus, that the fragmented policy-making in European energy issues hinders the implementation of a coherent and effective line of action in the energy sector. In the words of de Jong (2001: 1),

Particular provisions concerning external relations were and remain few and far between [... there is] vocal but inconsistent common security of supply policy. Bilateral energy deals with third countries prevail while undermining the ability of the EU to 'speak with one voice' [...] The missing provision of detailed security of supply rules leads to the proliferation of national, uncoordinated and counterproductive approaches, as well as the perception of a lack of long-term strategy in order to address vulnerabilities.

This is also obvious when looking at the degree of liberalization that each state has forced on its internal energy market. The Commission perceives the establishment of a unified, liberalized EU energy market as the cornerstone for European energy security, since "energy sector deregulation – permitting utilities freedom in setting prices, in choice of technology, and in contracting with fuel suppliers – effectively increases the elasticity of utility gas demand and limits the market power of gas sellers" (Jaffe and Soligo 2006: 462). Thus, a unified energy market enhances competition, is conducive to lower prices for the European consumers and proves to be a valuable means for the EU to respond to energy crises (Finon and Locatelli 2002). Accordingly, the Commission puts pressure for the progressive liberalization of

¹ As Finon and Locatelli (2007: 7) note, its role is limited; the European Commission has "some power within the framework of the Trans European Networks policy to assist financially the setting up of major transit and import facilities that contribute to greater diversification".

the European energy market as the best vehicle to facilitate intra-EU energy trade and in order to reduce Europe's sensitivity vis-à-vis external suppliers. Its ambitious plans were, nonetheless, moderated by member states' reactions and inputs to the initial proposals. The aforementioned plan is not realised due to significant resistance of some member states that are sceptical about the effects of full liberalization, resulting in a partial liberalisation of the EU energy market (European Commission 2009).

However, the Commission insisted in the 1990s that state monopolies should break up and new, private supply corporations should gain at least a one third share of the members' national energy markets (European Commission, 2007). With the exception of Britain and the Scandinavian states that liberalized their energy markets before 1990's, most EU member states fall well behind the expectations. Evidently, the goal of energy liberalisation is not yet fulfilled. The states that entered the EU in 2004 lag even further behind; the Baltic states have retained their gas supply monopolies for fear of seeing Russian companies enter their market and in Poland the first private gas supplier entered the market only in 2006 (Checchi, Behrens and Egenhofer 2009: 22-24; CIEP 2010; European Commission 2009).

The Commission's initiative to break up monopoly companies and allow other players' entrance into the market was intended to increase competition and spur economic growth. However, it proved counter-productive. The largest energy companies rushed to consolidate their market power through mergers and acquisition of smaller companies with the tacit support of their governments. For example, the German companies RWE and E.ON Ruhrgas have captured significant shares in the Balkan and Central European markets through the acquisition of supply networks and distribution companies (Auer 2007). At the same time, European governments moved to prevent domestic energy assets from passing in foreign hands. The Gaz de France-Suez merger and the French state's role in the deal is the most indicative example. The Italian utility Enel had made a bid to buy the French utility Suez. However, France's reluctance to let Suez pass into foreign hands led it to block the proposed merger; subsequently, state company Gaz de France stepped in and merged with Suez. The new company, in which the French state retains a blocking minority, came into being in September 2007 with the then French President Nicolas Sarkozy's support and blessing. This agreement created Europe's largest buyer and seller of natural gas, Europe's biggest natural gas distributor, as well as Europe's biggest Liquefied Natural Gas (LNG) importer. Gaz de France-Suez is also the

company with the largest storing capacity of gas in the continent and the fifth biggest supplier of electric energy in the whole of the EU (Dempsey and Bennhold 2007). Electric companies in Spain and Germany have also followed the same path of strengthening their grip on their national markets with their governments' tacit support (Kanter 2006). At a time when the EU calls for the Europeanization and internationalization of energy companies in order to steer up competition and enhance the function of the internal energy market, national governments are keen to prevent foreign companies from gaining access to their national markets (European Commission 2007).

The result is that the European market is currently dominated by a handful of energy companies, namely Russia's Gazprom, Germany's E.ON Ruhrgas, Italy's Eni, the Netherlands' Gasunie and Norway's Norsk-Hydro. Such concentration of power is followed by allegations about secret agreements between them not to enter each other's markets. This not only leaves their economic activities and profits untouched, but also diminishes competition. At the same time, such concentration of power serves as hindrance to new entrants in the European energy market.

Taking into account all these facts, the European Commission proposed the separation of supply and network ownership as a necessary prerequisite for the growth of competition and the establishment of a well-functioning open market (Auer 2007). The Commission has made two alternative suggestions, favouring the former: the first provides for the unbundling of the companies that own the networks in two independent economic entities, one operating the system and the other producing and trading energy. The second suggestion concerns the establishment of an independent network operator (European Commission 2007). The most powerful EU members, most prominently France and Germany, have opposed these proposals fearing a significant loss of income for their companies and a dysfunctional energy market. They have instead suggested a third way, which was finally approved by the European Commission in 2009. Accordingly, companies would retain full ownership of their networks. A transmission system operator (TSO) would be founded to monitor fair access to the pipelines and to realize network modernization investments when necessary. This operator, contrary to the second option, would remain under the same ownership structures, but would be bound to meet the EU-wide terms pertaining to third party access (Pollit 2008). These developments have led to a "softer version of unbundling that retains a significant place in the gas market for national champions" and pay lip service to the complex ways of policy-

making within the EU in the energy sector (Proedrou 2012: 63). According to de Jong (2011: 1),

key institutional problems of EU policy addressing gas security of supply result from the pervasive effects of 27 diverging predilections for market-based energy procurement, natural resource endowments, national champions interests, foreign policies and geographic neighbourhood specificities, as well as the unwillingness of the Member States to give the rudder to a supranational body".

The result is that liberalization is not fully utilized as a shield of protection against monopolistic practices and structures, and the EU's sensitivity to the energy leverage of external players (especially Russia) is perpetuated. The following section examines, in turn, Russia's policy-making and energy diplomacy vis-à-vis Europe.

3. Tracing the Content of Russian External Energy Policy

Contrary to the case of the European Union, the Russian energy sector is heavily regulated and centralized. The state retains a preponderant role through Gazprom (51% share), through state-owned oil company Rosneft and through state-owned Transneft (Pleines 2006). Since the state is enmeshed in the main Russian energy enterprises, economic decision-making and the management of energy resources lacks transparency and often takes place on political, not economic grounds and calculations. This renders Russia a more difficult and less consistent partner.

3.1. Aggressive Russian Energy Diplomacy in the 'New' Europe

Throughout the Cold War the Soviet Union proved itself a steady trade partner. After the fall of the Berlin Wall Russia as the successor state maintained and increased energy exports to the west European market (Stern 2005). At the same time, however, it started using energy as a weapon to exploit 'new' Europe's energy vulnerability and elicit geopolitical advantages in the region. In 1992 Russia cut energy supplies to the Baltic countries with the aim to put pressure on them to drop their demands for the withdrawal of Russian troops stationed there. In 1998-2000 Transneft ceased manifold oil supplies to Lithuania in order to force it to hand over the Lithuanian port and refinery of Mazeikiu Nafta. In 2004 Gazprom cut gas supplies to Belarus in order to put pressure on Belarus to sell its assets in the Belarusian gas network. As a result also Lithuania and Poland received reduced gas quantities for a while (Smith 2006). In 2006 and 2009 Gazprom withheld gas supplies from Ukraine for

a number of reasons: demand for higher gas prices, purchase of shares in the Ukrainian gas network and retaliation for Ukraine's pro-western stance. In 2007 Transneft cut oil supplies to Belarus to demand higher gas prices and shares in the Belarusian gas network and to show Russia's reluctance to keep subsidizing President Lukashenka's regime. These crises also resulted in the interruption of energy supplies to EU countries (Poland, Slovakia, Bulgaria etc.) for a few days, revealing Europe's sensitivity to Russian energy exports (Larsson 2006b; McFaul 2006; Pirani, Stern and Yafimava 2010; van der Linde and de Jong 2009; Yafimava 2010).

Additionally, Russia's pipeline diplomacy is set to further expose 'new' Europe's vulnerability to Russian energy leverage. The recently inaugurated Nord Stream runs under the Baltic Sea and carries natural gas directly to Germany. Traditionally, Russian gas has been imported by Germany via Belarus, Poland and Ukraine, which has made Germany vulnerable to Russian supply interruptions aimed at Ukraine or Belarus. Nord Stream is therefore "an excellent project for securing Germany's energy imports and mounting gas needs without facing the risks mentioned above" (Larsson 2007: 54). From the Russian perspective, it will enable Gazprom to supply gas to the most lucrative markets of north-western Europe directly, bypassing Ukraine, Belarus, Poland, Slovakia and the Baltics. Poland and the Baltic states reacted ferociously to this plan comparing the Russo-German deal with the Molotov-Ribbentrop pact of 1939 and accusing Germany for advancing its own interests at the cost of those of its European partners. The significance of the new project lies in the weakening of East and Central European states vis-à-vis Moscow. Their role as transit countries integrates them in the Russia-Europe energy chain and thus ensures their energy security. Through the new pipeline Gazprom will be able to supply its north-western European partners, while playing its energy card with the ex-Soviet allies (Baran 2008: 158). It leaves the latter exposed to Russia's unilateral manipulation of gas offer and prices and use of energy for political and geostrategic purposes.

Nord Stream is much more expensive than investments on the doubling of the existing Yamal pipeline through Belarus and Poland would be (Dempsey 2005). Upgrading the capacity of the main gas pipeline through Ukraine would also be a much cheaper option. Nevertheless, this new pipeline lessens Russia's dependence on ambivalent transit states such as Ukraine and Belarus, serving as a diversification of export routes. Despite, and in parallel with, this economic logic, one cannot fail to see the obvious political implications of such a move. Nord Stream allows Russia to maintain different policies towards 'old' and 'new' Europe: expanding energy ties

with the first and utilizing energy as a political lever against the second (Larsson 2007).² As Robert Larsson (2007: 44-46) comments,

the pipeline cannot be seen as a common European project, as it divides the EU into two halves, those that are for it and those that are against it [...] A key problem for the Baltic states and Poland is that they have few supporters in this matter. Some of the larger nations have interests in the project and those that are not affected are not necessarily willing to support the new members if it also risks affecting relations to the larger nations and to Russia. As Brussels has been rather positive, it is neither a natural ally against Russia, if anything were to happen.

In addition to bypassing transit countries, Russia has secured for itself the bulk of the gas Central Asian states are going to produce for the coming years, thus leaving the 'new' European members with hardly any viable alternatives, increasing their vulnerability to steady energy flow from Russia even further. The same holds true with regard to Russia's assertive commercial policy in 'new' Europe that aims at the acquisition of critical infrastructure in order to fortify its role in the EU market as well as to control the energy chain. The most indicative example is the embargo imposed on the Latvian port of Ventspils that used to be a main export outlet during Soviet and early Russian times. Latvia's rejection of Russian offers to buy the port led the Kremlin to forbid Russian companies to use it, despite the latter's issuance of formal complaints. As Transneft's Vice-President Sergei Grigorev puts it, "oil can flow only from Russia. You can of course sell [the port] to Westerners. But what are they going to do with it? Turn it into a beach?" (Lelyveld 2003). At the same time, Russia follows an expansive policy in the European downstream energy sector. This policy can be traced more in, but is not confined to, 'new' Europe. In addition to the preponderant role Gazprom enjoys in the EU's eastern gas market, it has created joint ventures in Germany thus entering the retail market and is fortifying its presence in the spot market that has emerged in Britain. The role of Russian oil companies is also important in a handful of EU members, such as Bulgaria, where they enjoy a dominant share of the market. All these add to European sensitivity and vulnerability (Proedrou 2007).

² The 'new' European states proposed the construction of an alternative route that would carry Russian gas through the Baltics to Central and Western Europe, the 'Amber' route. As it would bypass Ukraine and Belarus, pass only through EU territory and involve a number of EU countries, it would be a project with a pan-European character. This proposal was, however, not seriously examined by the EU (Larsson 2007).

4. Uncertainties and Dilemmas of EU-Russia Energy Relations

The European Commission's approach towards achieving energy security can be summed up to the proper functioning of the energy market. This entails not only efforts to liberalize the EU energy market but also the wider European energy market. The signing of the Energy Charter Treaty in 1994 aimed exactly at the establishment of a free-market energy sector spanning from the East to the West. Russia, however, although it has signed it, refuses to ratify the Charter, sticking to its preference for an energy sector tightly controlled by the Kremlin. In an era where nationalization of natural resources takes place, Brussels has been largely powerless to impose the unbundling of the upstream and downstream energy sectors and ensure the EU's security of supplies through a unified liberalized energy market (Larsson 2006a; de Jong 2008: 60–61; Haghighi 2007). As the EU's main supplier, Russia aims at retaining a stronghold on its natural resources, and the goal of an open energy market risks to fall apart. Finon and Locatelli (2007: 7) eloquently comment that "the limits to the effectiveness of this [EU] international approach are all too apparent with a country such as Russia which is still a traditional power, deploys diplomacy backed by force to reassert its influence in its 'near abroad' and is determined to use its energy resources to exert geopolitical influence".

Gazprom's penetration into the EU downstream sector raises serious reactions within the EU, since it gives Gazprom, a company that refutes liberal policies, a quasi-monopolistic position in the EU gas market. The excessive reliance on an external supplier that will enjoy a preponderant role in the EU market, and thus may be able to set prices, is not compatible with EU energy policy. Apparently, it is a high risk for the EU to take (Hartley and Medlock III 2006; Thumann 2006). At the same time, it can hamper the most important rationale for Russian energy imports into the EU: its reliability. Since liberalization takes place rather slowly and a single European energy market has yet to emerge, and in view of persistent controversies with Gazprom, the European Commission has contemplated to change the rules and the rationale of the energy game (Buchan 2007b). It would allow a special and more protectionist status for the energy sector in order to prevent the energy market from falling into the hands of Gazprom; Russian energy companies would not be allowed to buy into European ones, unless they open up their own assets to European firms; and the commercial activities of corporations that have a dual role in the EU market, both as energy producers and distributors, would have been forbidden (Goldirova 2007).

These plans aimed to put pressure on Russia to liberalize the Russian gas sector, to reduce the EU's sensitivity to Russian supplies and to enhance EU energy security, especially in light of the concerns for Gazprom's capacity to maintain and increase its output in the coming years. While most fields currently under exploration in Russia face decreasing productivity, the plans for sufficient production from new fields have yet to materialize. The projections show that Russia will have difficulties in sustaining energy production at the current level, at the same time that energy demand in the EU is seen to rise significantly in the coming years (Pirani 2009; Stern 2005).

Furthermore, a number of new pipelines agreed upon (see below) will reduce, albeit not eliminate, the importance of non-EU transit states in the Russia-EU energy trade. Ukraine and Belarus are set to remain significant transit countries for Russian oil and gas. As the recent Russo-Ukrainian and Russo-Belarusian crises depicted, smooth relations with transit countries are a prerequisite for steady Russia-EU energy trade (Percival 2008). The EU and Russia thus share an interest in finding a working framework with these countries.

Last but not least, Russia's utilization of energy as a political tool towards its neighbours can upset regional stability. Russia's 'energy war' with Georgia (cut of supplies, abrupt increase of gas prices) added to an atmosphere of hostility that paved the way for an actual war, albeit fought mainly on ethnic-nationalist terms, in August 2008 between Russia and Georgia. The war pitted EU members against each other with regard to the policy the EU should follow vis-à-vis Russia and its actions in Georgia. Such developments are contrary to one of the fundamental goals of the EU namely, the preservation of stability in Europe. Larsson (2007: 41-45) thus makes the point that "this 'energy game', where Russia aims to create and play by its own rules [...] brings about risks of increased internal competition in the EU" and warns that "without acknowledging the priorities of the new members, EU might lose legitimacy in its northern dimension and common EU-projects as well as integration in general might be more difficult to achieve".

5. The Merits of an Active EU-Russia Strategic Partnership

Unless progress in all these aspects takes place, sensitivity of both sides may rise and direct them to conflictive policies that can potentially further deteriorate the conditions of their energy trade. The implementation of protectionist measures from the EU would increase the two sides' sensitivity and vulnerability to imports and

exports, respectively, and could thus have a severe impact on EU-Russia energy relations. In case of implementation, it is likely that the outcome would be significantly less gas for the EU, as well as reduced energy revenues for Russia. Prudence talks against its realization, and both sides should take steps to come to terms with a shared regulatory framework.

The EU and Russia have throughout the 2000s settled thorny issues with regard to long-term contracts, import limitations and destination clauses. These agreements can only be interpreted as results of their increased sensitivity and vulnerability, and their subsequent will to keep reaping benefits from their partnership. In this understanding, it would be much more helpful if the EU, instead of trying to impose unbundling regulations to exporting companies such as Gazprom, were to find a mutually acceptable and beneficial compromise on energy issues. Despite ample rhetoric, the EU does not in its whole, as we saw above, endorse full liberalization but opts for a semi-liberalized market. Russia, on the other hand, although viewing the interference of politics and the state in the economy and trade as essential, understands the benefits that market mechanisms can bring. It is in this context that a full-fledged debate on the issues surrounding the liberalization of the Eurasian gas market could provide the foundations for the maintenance of amiable energy relations between the EU and Russia (Proedrou 2012: 128-129). As de Jong (2011: 12, 22, 36) alleges,

past and ongoing discussions on gas industry structures, such as the ownership unbundling of infrastructures, gas market designs, and the target model, are not always helpful in building and developing a secure gas supply system between the EU and Russia [...] Realizing that they need to invest large amounts of money to develop production and supply lines that EU consumers would like to be served with, suppliers such as Gazprom [...] are complaining about understanding the EU market and its governance by a variety of countries and authorities that may even be working in different directions [...] That would include the need to find a way in creating joint understandings between oligopolistic supply structures and non-oligopolistic demand structures in a context of semi-monopolistic vital infrastructures.

Both Russia and the EU have to take measures to smooth the progress of their partnership and hence facilitate their energy security. From the European perspective, what is needed is a common European energy policy. The EU should forge a common stance vis-à-vis supplier countries in a way similar to the EU trade policy in order to exploit its potential as the biggest market in the world. At the same time, it should intensify its efforts for the creation of a competitive, interconnected

and single Europe-wide internal energy market. These should, and can only, be accomplished through the establishment of a new framework for energy policy-making, whereby the Commission would have a central role. Simply put, since the energy challenges act on an international, and not national level, energy problems should be dealt with at the supranational level. As a Deutsche Bank study concludes, “piecemeal efforts at the national level have proved inadequate. Only a concerted European energy policy can generate hope for a sustainable future” (Auer 2007: 1).

On the other hand, Russia pursues an aggressive energy policy that aims to exploit ‘new’ Europe’s vulnerability, thus challenging EU solidarity. The Union’s response remains fragmented. This sends the wrong signal to the Kremlin that it can maintain its tactics of *divide et impera* in Europe. This patchy line of action preserves mishaps in EU-Russia energy relations and diverts the two parties’ dialogue from its focal issues, namely, investments in the upstream and downstream sector and liberalization of the energy market. From the Russian perspective, the pursuance of political gains utilizing the energy lever undermines Russia’s reliability as a supplier and EU-Russia trade. In the medium term, Russia stands to lose more from the maintenance of such policies in comparison to a less politicized attitude that would render it by far the most significant, reliable and powerful actor in the EU energy market. In addition, more transparency in its dealings with the EU is essential. Estimations about Russian productivity are hard to make since the Russian state refuses to publish all data concerning its future productivity levels. Evidently, however, Russia puts more emphasis on making inroads into the European downstream sector than on investing in exploration schemes in order to sustain sufficient levels of productivity in the medium term. This adds to European anxiety and decreases trust in Russia as a reliable supplier (Pirani 2009).

When it comes to pipeline diplomacy, the case of South Stream can serve as a blueprint for future Russia-EU energy infrastructure. Although virtually a deal made by Gazprom and the Italian energy company ENI, with no planning and contribution from the European Commission, the new pipeline is going to carry Russian gas to at least seven EU member states (Bulgaria, Greece, Italy, Slovenia, Hungary, Austria and Romania). Moreover, since Russian gas is going to pass under the Black Sea and reach directly Bulgaria, an EU member state, there is no danger created by the transit of gas through non-EU territory. That means that South Stream is an exclusively EU-Russia project since it involves only these two parts. It also has a pan-European character since it will supply a handful of EU countries, leaving Russia with no room

for manoeuvre to supply selectively some members and play political games against others (Mityayev 2007).

Although such projects will facilitate EU-Russia energy trade, the need to create a working framework with non-EU transit countries remains. The establishment of the Early Warning Mechanism by Moscow and Brussels in the autumn of 2007, whereby both sides agreed to inform each other in time of any export shortages or import problems, caused either by political or technical problems, is a good starting point (Cleutinx and Piper 2008). Still, Ukraine and Belarus have to accept embedding bilateral problems within a cooperative framework. Such a development would stabilize the Russia-Europe energy chain and thus minimize their sensitivity vis-à-vis each other.

6. Conclusion: Considerations for a Fruitful Energy Partnership

This paper examined the conflictive and cooperative elements of EU-Russia energy diplomacy. It argues in favour of an active strategic partnership in view of the relationship's underlying sensitivity and vulnerability interdependence. A number of fundamental policy steps could cement the EU-Russia energy partnership. The first concerns the creation of a mutually agreed upon regulatory framework that accepts a semi-liberalized market rationale. This presupposes a gradual convergence on the rules of the game. The second step would be to strengthen the joint preventive mechanisms, identifying possible shortfalls in energy supply at an early stage, and taking all necessary unilateral and bilateral actions to face them. This also creates the necessity for a common framework of EU energy policy-making, whereby the European Commission would have a central role.

The ultimate long-term target of these steps is, evidently, the establishment of a new integrated strategic partnership in energy issues with competitive prices, secured supply and effective regulation. Such an understanding flows from a cooperative logic that is based upon the interdependence that binds the two sides. In particular, vulnerability makes exit from bilateral trade a rather imprudent and costly option. It thus fortifies bilateral EU-Russia ties and delimits the impact of unilateral policies that flow from sensitivity and create tensions, cultivate mistrust and imperil EU-Russia energy trade.

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