Università
Ca'Foscari
Venezia

Master's Degree Programme

Second Cycle (ex. D.M. 270/2004)

In
Comparative International Relations

Final Thesis

EU-Russian Gas Relations

An un-cold war

Supervisor
Prof. Carlo Frappi

Assistant supervisors
Prof. Aldo Ferrari
Prof. Stefano Petrungaro

Graduand
Gianmarco
Donolato
848924

Academic Year
2018 / 2019

“Si può sempre andare oltre, oltre – non si finisce mai”
Jack Kerouac – Sulla strada

“È meglio essere infelici, ma sapere, piuttosto che vivere felici… in una sciocca incoscienza”
Fëdor Dostoevskij – L’idiota

Contents

Abstract

Questo lavoro tratta di un argomento che avrà un grande impatto sullo sviluppo delle future relazioni tra l'Unione Europea e la Federazione russa: il dialogo sull'energia. Questo argomento ha caratterizzato il legame tra Russia e Unione Europea da quando la politica internazionale ha incluso la gestione dell'energia tra i suoi obiettivi.

Il paper è organizzato in quattro capitoli: il primo presenta la questione energetica in termini generali e approfondisce tematiche quali la sicurezza energetica e l'interdipendenza nella governance globale dell'energia. Il secondo capitolo presenta lo stato della relazione nel settore del gas tra i Membri dell'Unione Europea e la Federazione Russa. Il terzo capitolo espone il caso di Nord Stream 2, un gasdotto che collega Germania e Russia, bersaglio di molte critiche. Il quarto capitolo intraprende un'analisi teorica del rapporto energetico tra UE e Russia.

Il metodo proposto per la ricerca si basa sull'utilizzo di fonti primarie, quali documenti ufficiali delle istituzioni europee o dichiarazioni di personalità ufficiali appartenenti, e sulla rielaborazione di studi e analisi redatti da esperti e personalità accademiche. Integrando questa combinazione di fonti con articoli provenienti dalla stampa internazionale, si è cercato di realizzare un'indagine imparziale e comprensiva di argomentazioni a favore della tesi sostenuta, ma anche di pareri ad essa contrari. Sintetizzando il risultato di tale ricerca, si può osservare come sia presente una dicotomia nell'interpretazione della questione energetica e dei relativi rapporti russo-europei che si basa su principi geografici e, alle volte, ideologici. Per concepire e delineare un'analisi il più possibile disinteressata ed equa, è stato necessario comprendere fonti provenienti da vari contesti argomentativi. Si è tentato di includere nell'analisi fonti affidabili e sostenute da validi background accademici e scientifici.

L'obiettivo del lavoro, come si potrà evincere dalle ultime righe di questo abstract e dall'ultimo capitolo del lavoro, è quello di discostarsi dal tradizionale semplicismo e riduzionismo con cui vengono interpretate le relazioni tra mondo occidentale e Russia, in campo energetico, ma anche politico e ideologico.

Infatti, rivalutare il valore delle relazioni eurasiatiche sembra essere un modo per evitare la carenza di dialogo che nel passato ha provocato traumi e timori tutt'altro che benefici per entrambe le parti.
Non è volontà del lavoro né dell'autore sostenere una o l'altra parte delle costituenti del dialogo energetico. Piuttosto, si tratta di supportare ed estendere il numero di opere che cercano di rifiutare un'interpretazione sterile e relegata ai luoghi comuni sulle differenze tra occidente e Russia. Ripensare il modo in cui viene rappresentata la realtà tende ad influenzare il modo in cui tale realtà si svilupperà: le costruzioni sociali danno forma alle relazioni tra gruppi sociali, così come l'analisi delle relazioni e la loro costruzione influenza la costruzione di nuove dinamiche tra Stati a livello internazionale.

Il capitolo 1 di questo paper mostra come le relazioni commerciali nel settore del gas contengano molti degli aspetti che il dialogo sull'energia tradizionalmente comprende. Il gas avrà un ruolo importante nella transizione energetica che l'UE sembra voler intraprendere. Pertanto, comprendere come il gas possa essere uno strumento utile alla cooperazione tra partner o uno strumento che porti ad un congelamento delle relazioni è un passo decisivo nella valutazione della governance globale dell'energia.
Il capitolo 1 espone concetti che sono tipici delle questioni energetiche e che sono alla base dell'approccio teorico alla disciplina. La sicurezza energetica e la governance globale dell'energia sono i pilastri attorno a cui si sviluppa il capitolo 1. La sicurezza energetica è un elemento che influenza attivamente la politica energetica a livello internazionale. I responsabili politici considerano la sicurezza energetica come uno degli aspetti fondamentali su cui basare la loro attività. La sicurezza energetica può differire per ciascuno degli attori coinvolti, ma ciò che il capitolo 1 cerca di sottolineare è che esiste un certo grado di simmetria tra fornitore e acquirente, in quanto entrambi devono affrontare la necessità di garantire il transito di gas e l'accessibilità alle forniture. Oltre alla sicurezza energetica, i partner energetici sono solitamente coinvolti in una situazione di interdipendenza, che li rende meno capaci di agire liberamente di quanto ci si potrebbe aspettare. L'interdipendenza crea una struttura vincolante che consente ai partner energetici di creare legami forti e basati sul beneficio reciproco. Governance globale, sicurezza energetica e interdipendenza sono concetti che dovrebbero essere

presi in considerazione in maniera più attenta nella valutazione delle relazioni tra UE e Russia, al fine di evitare approcci riduzionisti e deleteri alla questione.
Per migliorare la qualità di un'analisi dinamica e approfondita della vicenda, il capitolo 1 offre un'analisi della politica energetica dell'UE e della politica energetica russa. L'UE ha investito molto per rendere il suo mercato dell'energia liberalizzato, coeso e resiliente. La concorrenza e l'interconnessione delle infrastrutture europee sono le parole chiave che da decenni permeano la progettazione atta allo sviluppo energetico.

La Federazione Russa deve far fronte a una situazione paradossale in cui l'enorme potenziale che il suo territorio offre è contrastata dall'incapacità effettiva di emergere come leader globale nel campo energetico. Per questo motivo, le autorità russe, negli ultimi anni, si sono concentrate maggiormente sulla leva energetica come strumento di perseguimento di obiettivi nazionali considerati di fondamentale importanza. Ciò non significa necessariamente che la Russia agisca inevitabilmente in modo coercitivo nel settore energetico. Infatti, la Russia ha dimostrato in più di un'occasione di poter conformarsi al quadro normativo dell'UE; perciò, si può affermare che la Russia si stia orientando verso un nuovo modo di gestire l'energia, che prevede anche la differenziazione dei mercati di destinazione e delle rotte di approvvigionamento tradizionali, e non di un modo per mantenere la sua posizione vantaggiosa ei mercati europei tradizionali a prescindere dalla risposta ricevuta da questi ultimi. In questo contesto possiamo porre il riorientamento verso l'Asia orientale e l'accelerazione della produzione di GNL, nonché la circoscritta liberalizzazione del mercato interno del gas, che mostrano una nuova e in qualche modo innovativa interfaccia della politica energetica russa.

Il capitolo 2 riprende le tematiche del capitolo precedente e le analizza più dettagliatamente, ponendole sul piano delle relazioni nel settore del gas. Mostrando l'attuale stato dell'arte delle relazioni sul gas, il capitolo cerca di spiegare come gli elementi commerciali e geopolitici siano intrecciati e reciprocamente influenzati. I cambiamenti nell'ambiente energetico di un attore causano cambiamenti in quello dell'altro attore, e viceversa. Interessi diversi non comportano necessariamente lo

stabilirsi di posizioni negoziali e ideologiche diverse; se il dialogo energetico è posto su presupposti costruttivi e le parti sono disposte a lavorare per trovare una soluzione reciprocamente vantaggiosa, si crea un gioco a somma positiva. La costruzione di gasdotti e la deviazione dai paesi di transito considerati inaffidabili, come l'Ucraina, fanno parte della discussione del capitolo 2. Questo capitolo contribuisce a costruire le basi per il caso di studio presentato nel capitolo 3.

Il caso di studio proposto dal progetto Nord Stream 2 nel capitolo 3 è utile per fornire un esempio concreto di come la politica e l'economia si intrecciano e come la loro combinazione è rilevante nel settore energetico. Nord Stream 2 rappresenta una dimostrazione di come gli strumenti normativi e legislativi abbiano un valore enorme sullo sviluppo di politiche riguardanti l'energia. La revisione della Direttiva gas del 2009 presentata nel capitolo 3 sottolinea chiaramente questo aspetto: perseguendo il principio di liberalizzazione nel mercato del gas e volendo garantire il massimo grado di concorrenza nello stesso, l'UE ha mostrato elementi di contrasto verso la posizione della Russia nel mercato europeo del gas. È ancora difficile stimare se l'impatto di questo tipo di politiche sia benefico o dannoso per il settore energetico dell'UE. Comunque sia, il progetto Nord Stream 2 e la revisione della Direttiva gas aiutano a delineare all'interno del paper come l'influenza che le manovre politiche hanno sul dialogo energetico sia rilevante nel contesto preso in considerazione.

Tale influenza è stata analizzata da un punto di vista leggermente diverso nel capitolo 4, in cui geopolitica e teorie delle relazioni internazionali sono evidenziate. Quando il ragionamento geopolitico entra in gioco, spesso esso comporta il crearsi di elementi ed effetti controversi, difficilmente valutabili nel breve periodo. Dal punto di vista della sicurezza energetica, il dialogo energetico UE-Russia non può essere soggetto a meccanismi geopolitici che non tengano conto della molteplicità e della multidimensionalità della questione energetica. Come sottolineato nel capitolo 1, un approccio riduzionista rischia di portare soluzioni fuorvianti e risultati indesiderati.

Inoltre, è necessario comprendere il valore che i principi costruttivisti producono e, similmente, il valore che il concetto di potere esercita nel dialogo energetico. Il capitolo 4 mostra, infatti, che il modo in cui il concetto di potere viene proposto e trattato influenza l'esito delle discussioni in campo energetico. L'UE ha dispiegato un atteggiamento più geopolitico a partire dallo scoppio della crisi ucraina (se non dalle crisi del gas del 2006 e del 2009), mentre la Russia è asservita a problemi di gestione dell'energia, nonché della politica interna. Questo paradigma la rende un attore che si vede costretto a mantenere un approccio realista nello scenario internazionale, il che la porta a mostrare un comportamento non sempre razionale e spesso imprevedibile.
Le idee e la fuorviante rappresentazione dell'"altro", se combinate con una visione meramente geopolitica e realista delle relazioni bilaterali e multilaterali, sono strumenti pericolosi, soprattutto se impiegati da responsabili politici che danno per scontato un imprescindibile sviluppo negativo e una divergente risposta a questioni comuni che l'UE e la Russia sembrano intraprendere ed assumere.

Pertanto, lo scopo ultimo di questo lavoro è quello di sensibilizzare sull'importanza di una rivalutazione della visione ideologica che sta alla base del rapporto tra il mondo occidentale e la Federazione Russa. Per evitare una nuova escalation basata sul fraintendimento dei messaggi e degli atteggiamenti dell'"altro", è necessario rivedere e rivalutare il rilievo che assume il dialogo energetico nei rapporti tra Unione Europea e Russia.
Il gas naturale sarà, dunque, responsabile del riscaldamento delle abitazioni tanto quanto di evitare un nuovo congelamento delle relazioni tra occidente e Russia, nel prossimo futuro.

Introduction

This work will cover a topic that has had a major role in the history of international relations at least since XIX century: energy. In this paper, we will focus on the relationship in the energy sector between the Russian Federation and the Member States of the European Union. The *ratio* behind the decision of undertaking this research project lies on the fact that the diplomatic and commercial relationships between Russia and the 'West' have witnessed a significant setback in the last decade, whose peak was reached with the Crimean crisis. Therefore, it seems enthralling to analyse the characteristics of such a setback, which is currently a hot topic among the political élites of Russia and Europe.

Considering the ambitious energy targets the EU has set up for the period up to 2050, it is quite critical to understand which role Russia is going to play in a scenario in which natural gas has the potential to become the only fossil fuel to be granted permission to invest on by EU laws. As it is well known, Russia possesses a huge amount of natural gas inside its territory.

What is more, in the next five years, China will meet an incredibly high growth in the volumes of imported gas, the global demand for industrial purposes will widen and the United States will try to increase its gas export, thus influencing the world trends towards a further consumption of this resource. The International Energy Agency, whose mission is to help countries co-ordinate their responses to energy challenges, in its 2018 gas report forecasts that gas demand will overcome 4 trillion cubic meters by 2022[1]. Industries will require higher volumes of gas, in order to face the challenges raised by the energy transition. Growth in consumption is expected, which means further production from the exporting countries. With a focus on the European situation, gas is expected to cover an increasingly more important role in the energy mix: the European Union is expected to face a growth of the dependency on imported natural gas. "This trend is likely to continue due to falling domestic gas production while being only partly offset by falling gas demand due to energy efficiency and decarbonisation policies. The

[1] IEA, *Gas 2018 - Analysis and Forecasts to 2023*, IEA Publications - International Energy Agency, June 2018

share of net gas imports as compared with the EU's total gas consumption was 74.4% in 2017. The biggest gas importer to the EU is Russia (42%), followed by Norway (34%), Algeria (10%) and imported LNG (14%)."[2] The European Commission in charge for the period 2014-2019, 'Juncker Commission', through the words of Commissioner for Climate Action and Energy, expressed several times the path that the EU is going to undertake. In his press releases, the Commissioner highlighted more than once how predominantly gas will lead the energy transition in the EU.[3]

Therefore, as gas will be the driver for the ambitious EU goals in its energy and climate action, the Russian Federation is going to face a great challenge in dealing with energy security matters and the necessity to maintain sufficiently valuable relations with its clients. Russian dependency on fuels for its economy is undeniable, but what matters is that most of its gas transits towards West, to Europe. Gas transit is a fundamental topic in nowadays debates for political scientists, because the EU has to deal with a situation in which the annexation of Crimea thrusts European governments to officially accuse the Russian government for it, while not being willing to apply countervailing measures other than sanctions, due to EU (inter)dependence on its eastern neighbour.

Moreover, the US is going to expand its role on the gas market, because of growing consideration of European energy policy and, more importantly, thanks to an increased production of LNG. US LNG export is expected to double in 2019, in comparison with last year's volumes.[4] Surely, this element will be essential in the policy-making developments of Russian Federation and the European Union in the energy fields and in their energy dialogue. Multiple times, the US has expressed its disapproval of project

---

[2] European Commission, *European Commission Press Release of 12 February 2019*, http://europa.eu/rapid/press-release_IP-19-1069_en.htm, retrieved on 25.05.2019

[3] See F. Simon, *Cañete sees gas as 'a bridge' to reach EU's clean energy goals*, Euractive.com, 11 February 2019, https://www.euractiv.com/section/climate-strategy-2050/news/canete-sees-gas-as-a-bridge-to-reach-eus-clean-energy-goals/, or *Commissioner Arias Cañete to discuss role of gas in clean energy transition*, European Commission website, 22 March 2017, https://ec.europa.eu/energy/en/news/commissioner-arias-ca%C3%B1ete-discuss-role-gas-clean-energy-transition, or the latest news since 2018 from https://www.gasforclimate2050.eu/news for the point of view of the private gas sector.

[4] S. DiSavino, *Rising LNG demand to exert more pull on U.S. natural gas prices,* Reuters.com*,* 20 December 2018, https://www.reuters.com/article/us-usa-lng-prices-analysis/rising-lng-demand-to-exert-more-pull-on-u-s-natural-gas-prices-idUSKCN1OJ0H9, retrieved on 26.05.2019

Nord Stream 2[5]: its influence in Western and Eastern Europe will definitely be a major matter in the next years.

Finally, the relevance of the subject of this paper is significant in concern with the measures that the EU, both legislatively and materially, will be undertaking in order to achieve the climate goals that it set under the Third Energy Package.[6] The legislative power of the EU is going to influence its external relations in the energy sector, meaning that its negotiating power with strong interlocutors, such as the United States or the Russian Federation, will depend on the level of internal cohesion and on the development of the legislative framework itself. This has been one of the main concerns of Juncker's Commission, now at the end of its term. It is also supposed to become a crucial component of the political actions of the Commission setting up in the second half of 2019.

At the current time, Russia and the EU are two dominant players in the energy field, thanks to their commercial interchange of fuels and services. The World Bank estimates that Russia holds $75 trillion in natural resources (equivalent to the world GDP in 2017).[7] The Russian government owns and makes use of its resources in a centralised manner, as its main oil and gas companies are nationalised.[8] The fact that the Russian government presides over the energy resources and their production and export allows the policy-makers to use energy as a tool for achieving national goals (a later point of

---

[5] M. Williams, L. Heavens, *Sanctions bill on Nord Stream 2 coming soon: U.S. energy secretary,* Reuters.com, 21 May 2019, https://www.reuters.com/article/us-usa-ukraine-perry/sanctions-bill-on-nord-stream-2-coming-soon-u-s-energy-secretary-idUSKCN1SR0SG, retrieved on 26.05.2019.
See also G. Gotev, *US warns Hungary and neighbours against Turkish Stream*, Euractiv.com with Reuters.com, 14 November 2018, https://www.euractiv.com/section/global-europe/news/us-warns-hungary-and-neighbors-against-turkish-stream/ or G. Gotev, *US threatens EU companies with sanctions over Nord Steam 2, Turkish Stream*, Euractive.com with AFP.com, 14 January 2019, https://www.euractiv.com/section/global-europe/news/us-threatens-eu-companies-with-sanctions-over-nord-steam-2-turkish-stream/ as an example.

[6] A. Costescu, E. Manitsas, A. Szikszai, *State of implementation of the Third Energy Package in the gas sector*, Publications Office of the European Union, 2018, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/state-implementation-third-energy-package-gas-sector

[7] M. G. Salameh, *How Putin Is Turning Russia into the World's Energy Superpower*, RCEM.eu, 22 August 2018, https://www.rcem.eu/views-on-energy-news/energy-superpower/, retrieved on 27.05.2019

[8] P. Rutland, *Russia as an Energy Superpower*, in "New Political Economy", 2008, pp. 203-210; see also T. Gustafson, *The Future of Russia as an Energy Superpower*, Harvardpress.com, 20 November 2017, https://harvardpress.typepad.com/hup_publicity/2017/11/future-of-russia-as-energy-superpower-thane-gustafson.html, 27.05.2019

discussion will explore whether this tool is an actual weapon, as many experts claim, or simply a "Russian way" to interface with its partners through its resources) means that any partner, or competitor, needs to intertwine with the Russian political class in order to establish commercial ties.

On the other hand, according to realist scholars, the EU is considered as a weak international actor; to support that claim, they usually rely on the lack of military power of the Union[9], with the concept being extended to the energy dialogue. It is not hard to render the lack of cohesion that characterises the Member States of the European Union in their dialogue with third countries, in particular when, in realist terms, third countries are powerful and/or coercive. Although this claim is subject of debate, it is hard to find any factor that refutes the idea that there is an intergovernmental nature at the basis of the energy dialogue between Russia and the EU Member States. This element is important when analysing the dialogue between the EU and Russia: the EU pivots its market power on liberalisation and on guaranteeing free competition among enterprises. The different system underpinned by the EU clashes with the Russian way of managing energy matter, if we exclude the recent stirring towards acceptation of and adaptation to EU regulatory framework: the two parts have to deal with two different ways of acting, meaning that politics intervenes in combining two different mechanisms of the same engine.

It goes without saying that political frictions do all but help the cooperation in the energy field, most of all from an ideological point of view. Leaving to further analysis the ideology behind the EU-Russia relations, we may state that ideas do play a role in influencing the whole object of study. If we take a constructivist point of view on the matter, "the disputes are seen as stemming from the difference of interpretations".[10]

The state of art of the question sees two intellectual sides opposing one another: those scholars and experts who consider the Eurasian dialogue as a controversial and hostile one, thus including energy (and gas) as well, and those who separate the undeniably-bad

[9] M. Siddi, *The Role of Power in EU–Russia Energy Relations: The Interplay between Markets and Geopolitics*, in "Europe-Asia Studies", 2018, p. 1552

[10] N. Danilin, *Gazprom as an Energy Weapon. Perception of Threats to Energy Security of the EU*, in RSUH/RGGU Bulletin Series, "Political Science. History. International Relations", Moscow, 2017, p. 89

status of relations between West and East Europe from the (probably) beneficial bilateral commercial relations that the Russian Federation and the EU establish day by day.

On the side of those critical towards the Russian allegedly-coercive behaviour we can find examples in prominent newspapers' articles, such as "The Economist"[11], but also politicians, both American and (more often Eastern-) European, and scholars.

A clear example of the politicised way in which the EU is pushed to deal with Russia through circumscription, when not explicit aversion, is the Study published in April 2018 by the Foreign Affairs Committee of the European Parliament: "Energy as a tool of foreign policy of authoritarian states, in particular Russia."[12] As well as scholars and academic research, the claim finds supporters in the political élites of the European Union; indeed, the revision of the Gas Directive of 2009 was proposed by a Member of the European Parliament, Jerzy Buzek. The revision was titled as the "anti-Nord Stream 2 revision", as it seemed to address Gazprom's project directly. The action set out by Buzek, former Polish Prime Minister, offers an interesting representation of how national interests might influence politics and trade at the Union level, even when business would suggest otherwise.

On the side of those who separate business from politics, we can list many scholars, especially those working in Western Europe. There is, indeed, a difference in the conceptualisation of energy security when referring either to Western or CEEC (Central and Eastern European Countries): for the former, energy security refers to climate action, environmental policy and efficiency of the market, as well as security of supply and the conventional topics included in that concept (about which this paper is going to talk later); for the latter, also according to a paper edited by Donald Tusk, but shared by other experts in their pieces as well, energy security is to be put side by side with "solidarity between Member States and concerns over Russian gas".[13] "The CEEC tend

[11] See, as an example, article *The Nord Stream 2 gas pipeline is a Russian trap* from February 2019: in this case, Nord Stream project is defined as a trap for the European Union and its energy security. The article, however, does not provide any possible counterargument to this claim.

[12] Directorate General for External Policies of the Union, *Study requested by the AFET Committee*, Policy Department for External Relations, , PE 603.868 - April 2018, published on http://www.europarl.europa.eu/thinktank/en/home.html

[13] D. Tusk, *A United Europe can end Russia's energy stranglehold*, Financial Times, 2014

to support a supranational and shared EU responsibility to strengthen positions in relation to Russia when energy security is concerned, […] while many Western European countries consider themselves to be better off maintaining policy at the national level [thus giving more importance to a case-to-case basis for contracts and expansion of their market, in spite of political frictions]".[14]

Considering such a difference in their perspectives, it is easy to understand why Western scholars focus more on the remunerative potential gas contracts have, how political issues constrain business relations, what measures could be taken to improve the internal system to guarantee energy security, rather than trying to spot external factors to thwart in order to obtain the same goals.

Among the others, Simon Pirani, Marco Siddi, Matteo Verda, Carlo Frappi, Jonathan Stern, Katya Yafiamava are the authors whose works will help building this paper.

In my paper, I am going to use different kinds of sources and data: in the first part, which analyses the diverse and multifaceted aspects of energy security, a theoretical approach will be deployed. Theories of international relations will set the basis for an analysis of what security implies for the parties involved, what it means to assure national security in the energy sector and how international and diplomatic relations influence all of the above. We will try to offer a definition energy security as a general concept and its connection with interdependence. We will go on by illustrating EU and Russia main aspects of energy policy, their potential and their weaknesses.

The second chapter constitutes a briefing of the current energy relations between the EU and Russia: historic development, EU and Russian pipelines systems, controversies in place and description of the involved businesses' strategic planning will be the topic included.

Then, in the third part, which constitutes the core of the whole paper, the Nord Stream 2 case will be proposed, an example through which evaluating the depth of the political meddling in the business matters, and vice versa. This part will try to synthetize the two former chapters in order to find a valuable reasoning behind the way the heads of states

[14] O. Austvik, *The Energy Union and security of gas supply*, in S. Brown, "Energy Policy", Elsevier, 2016

and government representatives act. Third countries', namely American, among the others, involvement will be included in the discourse.
The last and fourth part is concerned with some general comments about the energy dialogue between Russia and the EU. It will include some assessment of the current diplomatic and political situation, and a valuation of the role ideas and power play in the energy dialogue.

The goal of this analysis is not to come up with a final solution on the energy security issue, not even to set the way towards a resolution of East-West frictions; the aim is to investigate the degree of influence produced by politics and business on each other and to understand whether this influence carries an added value or an insurmountable obstacle for one part or the other. Moreover, it will give an insight of the differences about the concept of energy security between Russia and the European Union, as well as assessing the extent of EU-Russia interdependence in the gas sector. Overall, this paper tries to position itself among the works that refuse to accept the downward direction the EU-Russian energy relations have undergone. To do this, it is necessary to present an analysis that could penetrate the cold surface that has been broadening in the last years and warm up the impasse – Kennan's Long Telegram times are far gone, and a new cold war is not desirable.
This paper is not going to get any political direction or act in support of one or the other side; it rather sets an in-depth analysis of the current situation and tries to understand why energy security appears to be a divisive matter for Russia and the EU countries, even if complex interdependence (a concept conceived by Keohane and Nye) might suggest otherwise. When interdependent, two partners maximise their benefits in a non-zero-sum game situation; Russia and the EU are in a situation which is far from being a game between partners, let alone a Pareto optimality.
Whether this paper will succeed in giving a small hint in understanding the political and economic decisions behind the current situation is up to the reader.
As stated above, the method will include a case-study before which a synthetizing description of the state of art in the gas sector. This will help in giving an impartial briefing, useful in understanding the reasoning behind Nord Stream 2 question.

CHAPTER 1 – Energy security and policy

Chapter 1 presents an overview of theoretical concepts and energy polies of the EU and Russia. The aim is to build a solid background for the analysis the following chapters will supply.
Chapter 1 is divided into three subchapters.

- *Subchapter 1.1 is concerned with theoretical issues linked to energy and energy relations. Energy security is a concept of international relations that carries a global character and that shifts the geopolitical balances of the actors involved. In the '70s, with the oil crises, and today, with the fight to climate change, it is clear that a coordinated action is what makes global policies efficient and valuable. Energy issues have to be addressed by reasoned operations: global governance of energy – topic of the first chapter – raises as an important feature of the energy discourse. Building upon new-intergovernmentalism and structuralism is a way to mitigate the difficulties deriving from the energy matter. In this context, path dependence influences the argument in ways that are included in Chapter 1. Since the '70s, energy security became a preponderant element of international policy. The availability of energy supplies at affordable prices became a mantra for energy policy-makers; it is also connected to reliability of the producer and affordability of the product for seller and buyer.*
  To avoid the reductionist approach to EU-Russia relations, as is highlighted in section 1.1.3, it is important to build upon technical, economic and political aspects of energy security. Interdependence best describes this relationship. An interdependent relation creates the conditions for an overlap of interests that, in turn, sets a strong incentive to cooperate in order to reduce the risks to the flow reliability. More peculiarly, it helps maintaining the levels of demand and supply, therefore it assures a certain stability in the prices (one of the aspects concerned with energy security). In Nord Stream 2 case-study, the three dimensions (technical, economic, and political) all converge and intersect one each other, thus creating a complex tie where interdependence, path dependence, historical relations, commercial bonds, ideology, external meddling and reductionism play a role.
  As explained in sections 1.1.4 and 1.1.5, in spite of the interdependent relationship, in the last decade a geopolitical/realist approach has been applied to the energy question. Political elements have probably overcome the economic (and technical) one, leave alone climate change. Thus, differentiation has entered the energy discourse as a key word.

- *Subchapter 1.2 is concerned with the European Union energy policy. Born to coordinate energy policy as well as economic ones, the EU included the first legislative acts only after the '90s. Internal energy market saw its ascent to political talks only in the 2010s, same year in which the Energy Union idea was conceived and realised. In that project, energy market, environment and security of supply were finally united under one cap.*
  It is pointed out that the EU still lacks cohesion in the security of supply strand, which makes it a weaker actor than it could be, considered the leader-role it has undertaken in the energy transition path. Different views on the energy issue that characterises the

EU Member States exacerbates the difficulty the EU has sometimes shown in dealing with its partners, including Russia. Even meaningful actions such as the application of the Third Energy Package reveals a multiplicity of different approaches and consequences for each country, not always assessed positively by all of them. Nevertheless, energy transition mechanisms linked the three strands cited above and improved energy security within the Union, as well as consolidated the single energy market.

The EU Green Papers, listed in section 1.2.3, have set the way for the EU energy path since 2000 by addressing its weaknesses and setting parameters (such as the 2006 TEN-E guidelines).

Policy coordination and connected infrastructures are a way to deepen internal interdependence and safeguard single citizens, as well as to consolidate a stable and sufficient flow of energy. The EU relies strongly on energy import; therefore, the Energy Union has to address security of energy supply, accessibility to energy for all, boost the economy and attract investments, thus creating job opportunities, but also acknowledge the importance of dealing with external partners. Dichotomy between intergovernmental and coordinated approach characterises the EU relation with Russia.

As it is shown in section 1.2.5, the EU MS are interchained by energy institutions in which they play an important role. They are: the Energy Charter, the Energy Community, the Eastern Partnership – these institutions influence the outcome of EU-Russian energy dialogue.

- *The Russian Federation – subject of subchapter 1.3 – is a giant in natural-resources production. It ranks among the biggest energy sources producers of the world and as first when it comes to gas exports. Nevertheless, Moscow is tightened between a Nietzschean will to power and the incapacity to strengthen its role in the global energy scenario. Russian energy behemoth needs to deal with ensuring that demand keeps steady and that prices do not fall down abruptly. Russian economy is known to be excessively dependent on the export of natural resources, hence requiring Moscow to act in order to avoid stops in export or a fall-down in revenues, lest the country's economy suffers recession and crisis.*

  Gas reaches 6-7% of the Russian GDP and 14-15% of Russian export. Since 2003, the Russian fuel and energy system was outlined in the "Energy Strategy for Russia" packages, as highlighted in section 1.3.2. In here, energy is depicted as a political instrument for the economic development and for conducting internal and external politics. Attention was focused on the emerging role Russia would cover in the global arena, not only from the energy point of view, as well as on facing 2010s challenges.

  Indeed, differentiation of clients (shift towards East Asian markets) and supply routes (Nord Stream, Turkish Stream) entered Russian energy policy as a way to overcome these challenges. In this context fits the consideration of Ukraine as an unreliable transit country: Moscow started planning diversion from Ukraine since the first 2000s. As an alternative to huge reliance on resources export, a green shift in energy production for Russia is not an unfeasible option as it might seem; section 1.3.4

investigates this topic. Nevertheless, Russia has a long way to go before being able to implement a real energy transition.
The description that suits the most Russian energy policy is the failure in becoming a great power – in the definition issued by Keohane and Nye – internally and at the global level. It is argued in section 1.3.5 that lack of constructivist depth is what makes Russia a vainglorious energy entity. Moreover, coercion and hard choices sparked scepticism in Western Europe and spoiled Russian reputation of being a reliable supplier.

1.1 Energy security and energy governance

Subchapter 1.1 deals with concepts that are portrayed in the energy discourse.
Section 1.1.1 introduces the topic by showing how important the energy question is today that energy transition is one of the hot topics of political discussions.
Section 1.1.2 deals with the concept of global governance of energy: Cherp, Goldthau, Folke' works are used to argument the section.
Section 1.1.3 is concerned with the concept of energy security, probably the notion about which most is told in the energy discourse; Verda, Frappi, Judge, Sharples are the authors cited.
Section 1.1.4 illustrates the role interdependence has in shaping energy relations, especially in the EU-Russia ones. Frappi, Verda, Stern hep building the section.
Section 1.1.5 closes the subchapter by focusing on the EU-Russian energy relations; the section connects subchapter 1.1 to next one, where EU energy policy is highlighted.

1.1.1 Introduction

The most discussed aspect of the energy question is surely energy security. It important to understand what energy security is, what value is given to it, what political and commercial aspects are involved in this concept. The International Energy Agency defines energy security as the condition under which availability of energy sources is guaranteed without interruptions and at an affordable price. Energy security involves long-term and short-term strategies: the former type deals with timely investments to supply energy based on economic development and environmental needs; the latter focuses on the ability to react to sudden changes in the supply-demand system.[15]

Considered that markets in the energy field usually cover the whole globe, energy security carries a global character. As such, multiple actors are involved in shaping the routes of global policy and global energy security – even when not directly addressed, each country and international organisation may have a role in modifying the

[15] IEA, International Energy Agency website, retrieved from https://www.iea.org/topics/energysecurity/, on 11.06.2019

development of the energy matter. Let us take as an example all the "green" organisations that in the past decades acted to sensitise audiences for ecological changes; or again, the valuable effort that international events such as the "Live Earth Festival" of 2007[16] make in addressing climate change (the latest heir of this kind of approach is the recent set of demonstrations named under the title of "Fridays for future"[17]). It is clear that a global response to climate change – hence, energy issue – is needed, both from the individuals' point of view and governmental action. However, hardly are good intentions enough to make a change: countries have to deal with other kinds of energy policy too. Moreover, energy issue does not only face climate change, but a long series of political, geopolitical and economic issues. Indeed, one of the first times energy security concept witnessed spread awareness was during the oil crises of the 1970s. When the first oil crisis happened, in 1973, the OPEC members retaliated for Western support to Israel during the Yom Kippur War. The OPEC members unilaterally decided to raise the price of oil up to four times the price applied before the crisis, leading to a steep recession within the Western industrialised countries. In this case, developed countries were forced to find new solutions in order to overcome the risk of seeing a rapid inflation in their economies. In fact, however, as the price of oil was never lowered, Western countries had to embark on a process of economic reformation to unlace from oil dependence.

When the second oil crisis took place at the end of the decade, following the Iranian revolution, the industrialised economies were now capable of transforming the shortage of oil into an oversupply, thanks to the economic manoeuvres they have undergone during the decade.[18]

The 1970s showed that, when coordinated, a shared response to energy matters is possible. In the following decades, up until now, the global scenario has seen new and

[16] La Repubblica, *Live Earth, il mondo unito dalla musica in 2 miliardi per la maratona di Gore*, laRepubblica.it, 07 July 2007, https://www.repubblica.it/2007/07/sezioni/spettacoli_e_cultura/live-earth/live-earth-concerti/live-earth-concerti.html, retrieved on 14.06.2019

[17] The Guardian, *Think we should be at school? Today's climate strike is the biggest lesson of all*, TheGurdian.com, 15 March 2019, https://www.theguardian.com/commentisfree/2019/mar/15/school-climate-strike-greta-thunberg, retrieved on 14.06.2019

[18] S. Kettell, *Oil Crisis*, in "Article History", Encyclopaedia Britannica, https://www.britannica.com/topic/oil-crisis, retrieved on 14.06.2019

different challenges on the stage. What matters the most in this context is that the concept of energy security appeared as an incisive part of governmental security as well. In the globalised century we are living, rarely does energy security come as a single response from a single country.

Recalling the definition of energy security proposed by the IEA, it is evident that long-term strategies are related to bilateralism and multilateralism. Just think of the inability for a single country to satisfy its demand of energy when supply falls short, or the need for a country rich in natural resources to trade them in exchange of services and funds for investments. Focusing on climate change action: even though it does not fall entirely on the segment of study about energy security, climate action is a concern each country has to care about. In December 2015, Parties to the UNFCCC (United Nations Framework Convention on Climate Change) reached an agreement that was planned to face climate change and accelerate the actions needed for a sustainable and low-carbon global scenario. The so-called Paris Agreement builds upon the UNFCCC, a Convention ratified by 197 countries that entered into force in March 1994. The Convention recognised for the first time that environment was exposed to risks coming from human industrial activity: human and natural life was declared to be under threat. The Convention set the first concrete goals to tackle environmental risks, such as stabilising greenhouse gas concentration, pushing industrialised countries to lead the transition, appointing OECD countries as main financers of the transition, and so on.[19]

Two decades later, the Paris Agreement endorsed more concrete and precise goals and strategies. The general objective is to enhance the global response to the threat of climate change by keeping the global temperature rise below 2°C as compared to pre-industrial levels and to improve the effort to limit the temperature increase even over 1.5°C.

The collateral measures to take are improving the ability of countries to deal with the consequences of climate change, moving to an appropriate mobilisation system, directing financing on the right route to reach technological innovation. What is central

[19] UNFCC, *What is the United Nations Framework Convention on Climate Change?*, unfccc.int, https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change, retrieved on 22.06.2019

to the Agreement is the importance of uniting everyone's effort, under a collective call to self-responsibility. This means that no countries could imagine of acting alone to contrast the catastrophic aftermaths caused by climate change; nor even could one achieve meaningful results alone.[20] Today's challenges, indeed, need an urgent and coordinated action, which implies a global energy governance transition.

To give a brief summary of the contents of the Paris Agreement, it is useful to list the first dozen articles underpinned by the signatories: the first three articles establish the main goals of the convention, which we mentioned above; article 4 is about climate neutrality and tackling of greenhouse gas emissions; article 5 addresses sinks and reservoirs of GHG (greenhouse gases) conservation; in article 6 voluntary cooperation and market/non-market based approaches are concerned; article 7 pushes for adaptation in enhancing resilience and reducing vulnerability; article 8 recognizes the importance of averting, minimizing and addressing loss and damage associated with the adverse effects of climate change; article 9, 10 and 11 focus on financing, technology and capacity-building support in a cooperative international environment. The next three articles include transparency and implementation of what was set by the Convention.[21]

These ambitious and utmost necessary goals imply taking into account a way to govern and manage the principles recorded on the paper. For what is concerned with the area that gravitates around energy, the IEA links the Paris Agreement's decisions to what is considered to be necessary in the energy sector. The IEA assessed the state of art drawing upon the Sustainable Development Goals (SDGs) designed in 2015: as well as the Paris Agreement's well-below 2°C climate goal, the IEA highlights universal energy access and reduction of air pollution as main goals the international scenario should perceive in the energy area. However, at the moment of writing, the assessment is not a positive one. The world is not on track to meet the main energy-related aspects of the SDGs; that is why the IEA composed a study through which it could address global governance as a fundamental part of the energy transition.[22] Only through an enhanced

[20] UNFCCC, *What is the Paris Agreement?*, unfccc.int, *https*://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement, retrieved on 21.06.2019

[21] The Paris Agreement text is easily available at https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf

[22] IEA, *Tracking Clean Energy Progress*, iea.org, https://www.iea.org/tcep/, retrieved 22.06.2019

coordinated global governance could the world face the energy transition challenges in the next decades.

Fighting climate change is influential for the global energy security matter: security involves dealing with global governance, an approach that goes beyond the traditional definition of energy security.

Aleh Cherp et al. distinguish three different and somewhat autonomous global energy governance arenas: energy security, energy access and climate change. In separating these three domains, they claim that governance in each of these arenas can be enhanced by closely linking one to the other. Indeed, none of these aspects can be taken into account as a single institution or regime. According to the authors, the current complexity of energy governance is an opportunity to establish a polycentric system with various approaches to face the highly interlinked energy challenges.[23] National energy systems and management needs a deep transformation in order to solve the obstacles in providing access to energy for all people, ensuring energy security and curtail the negative effects on climate and the environment. Cherp maintains the same idea expressed in the IEA definition of energy security, according to which long-term commitment is needed to ensure not only security, but all of the three aspects cited above. As well as determination and focus, energy challenges call for a bigger involvement of different actors, together with "flexibility, innovation, openness and diversity".[24]

Modern economies and industries need to meet the growing demand of energy linked to a growing capacity but need to do that minding the impact to people and the environment. Electrification and disengagement from traditional fuels mean a massive, urgent and worldwide commitment. As all the big changes in history, disruption is avoided when a process is wisely led and rightly conceived.

We will see that these ideas somehow shape also EU-Russian energy dialogue.

---

[23] A. Cherp, J. Jewell, A. Goldthau, *Governing Global Energy: Systems, Transitions, Complexity*, in "Global Policy" Volume 2, Central European University, Budapest, 2011

[24] ibidem

1.1.2 Global governance

A preliminary aspect to take into account before focusing on the energy relationship between Russia and the EU is the global governance issue. Cherp et al. extensively expose the main concerns at which global governance aims. Most importantly, they highlight the opportunity that countries have in facing global energy issues, as well as claiming that cooperation and multilevel coordination is what energy transition envisages for the foreseeable future. The basic idea of Cherp's work lies on the belief that the three arenas cited above (energy security, access to energy and climate change) are not separable and it is not feasible to tackle one while omitting the others. In particular, energy security does not meet all the aspects an actor should care of in the energy matter. This is because energy security has traditionally been associated with a realist approach towards international energy relations, even though the complexity of the systems requires more dynamic interpretations.

As the topic deals with complex systems, hardly could a panacea be found, when energy transition is concerned. More likely, global actors will have to act on different levels and different mindsets, i.e. coordinating long-term strategies, invest in research and new technologies, implementing national laws, conceiving and realising infrastructures, just to cite some. The authors identify various solutions to the energy challenges that will lead to systemic changes in production, transformation and consumption: on the supply side, it is possible to enlist renewable sources, nuclear energy and carbon capture and storage processes (CCS); on the distribution side, we can find smart grids, infrastructures for liquid natural gas (LNG), biofuels and hydrogen transportation infrastructures; on the consumers side, smart buildings with low-energy demand, new technologies for consumers' needs will meet the energy transition challenges.

This deserves consideration and reflection because it is a whole framework that applies not only to intergovernmental organisations or global actors, such as the IEA or OPEC, but also to our case: indeed, could the three arenas of energy transition be given a limited role when discussing bilateral (or even multilateral relations) in the gas sector between the European Union and the Russian Federation? The obvious answer finds further confirmation in the set of regulations and directives the European Union is constituting

(on which subchapter 1.2 will elaborate). Moreover, in order to overcome resilience and resistance from the undeniable "mechanical" frictions that energy system brings, once acknowledged the massive and urgent transformation needed, it is evident that governance envisages a complete involvement of actors, from sovereign states and international organizations, to the bottom – that is to say single consumers.

Coordination in the response to energy challenges touches the development of relations between the two parties. An example is given by the stipulation of long-term contracts in the fuel supply, which definitely shapes the form of energy governance to the extent that business often finds stronger ways to resist changes and modernisation. On the other hand, exchange of technologies and know-how are a means to carry change. In fact, ascertained that two actors operate in a constructive way and set a stable system, "if governance mechanism or institution emerges to ensure stability and continuity during a time of crisis and disruption, it may hinder innovation within the energy system at a later time."[25] This applies both to disruption caused by transition and to crisis linked to political matters. Folke et al. agree on the matter: they see an added value in the open flow of information between energy actors. The free flow of information is allowed only by cooperation and partnership; it helps foster flexibility and readiness to evolving and changing conditions.[26]

Coordination in the transition process is necessary to avoid disruption, also considered that global governance, as the name itself suggests, cannot be carried by single states alone. Furthermore, in a new-institutionalist interpretation, the links between the three different arenas necessary to manage energy at the global level can be built only through high level of integration of international energy policies, which implies designing convergence of interests for suppliers and consumers. Florini and Sovacool, in addition, claim that, alongside with governance innovations, "if the world is ever to enjoy energy security – reliable, affordable, and efficient access to energy services – and make the transition to a low-carbon energy system without extraordinary disruption and human

[25] Ibi., p. 80

[26] C. Folke, S. Carpenter, T. Elmqvist, L. Gunderson, C. S. Holling, B. Walker, *Resilience and Sustainable Development: Building Adaptive Capacity in a World of Transformation,* in "A Journal of the Human Environment", p. 437-440, 2002

suffering, a full assortment of global governance mechanisms will need to come into play. Doing so effectively requires a conversation between those with expertise in the complex specific of energy issues and those with expertise in the equally complex questions of governance at the global-scale".[27] NGOs, the private sectors, international agencies and businesses all shape the direction of energy transition. The complexity of such a system finds its extension in the complex relations between the EU and Russia: not only do they have to deal with the challenges posed by energy transition, but also the two parties need to combine political meddling and energy security issues with the aforementioned undertakings.

Path dependence, in this context, may trace a common way to overcome nowadays frictions in the trade disputes, or, on the contrary, become a further obstacle to the stabilisation of energy systems. In the first case, the long-term contracts that have been agreed in the last five decades in the gas supply from Russia to Western countries represent an example of the undeniable strong linkage that exists between the two parties in spite of ideologies or politics. On the other hand, path dependence means that resilient energy systems, such as the oil market or the gas sector, struggle to obtain changes and innovation. We shall keep that in mind when assessing the different approach that the EU and Russia maintain in their vision on the future development of energy policy.

What is more, we shall not forget the radically different vision the EU and Russia are believed to have. For the former, attention to consumers, competition, innovation, greenhouse gas emission, low-carbon industries, and so on, are the declared long-term goals.[28] For the latter, it is often thought by the Western world that using energy as a tool, strengthening political control over energy issue, deepening control on production and distribution of energy is the basic concept of Russian energy policy. We will explore the topic in the next chapters, but what is certain is that, even if this gap is refuted, it is clear that some peculiar differences in managing the energy area exist. The point in

[27] A. Florini, B. K. Sovacool, *Who governs Energy? The Challenges facing global energy governance,* in "Energy Policy", Elsevier, pp. 5239-5248, 2009

[28] European Commission, *Energy strategy and energy union*, European Commission website, https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union, retrieved on 20.06.2019

question is whether these differences are marked enough to justify the current stalemate in common affairs.

1.1.3 Energy security

After arguing about global governance in the energy transition era, we might now focus more specifically on energy security, understood as a crucial element in the Russian-European relations. Clearly, energy security nowadays implies connecting the notion of security to the wide issue of climate change. Nevertheless, energy security is traditionally conceived as a building brick of the relations among producer and consumer countries.

The definition of energy security has appeared more frequently in the last four decades than before, even though the concept appeared already during the II Word War and in the first post-war decade. The second half of the XIX century witnessed an extraordinary growth of Western economies and an increase in the industrial production of the rich countries, which was led by the manufacturing power of the United States. In fact, it is in the US that the relevance of the energy security discourse took its first steps. As it was cited above, the most disruptive moment in the energy security history was the oil crises of the 1970s. Since that moment, experts in the academic and political worlds put more and more attention on the strategies and actions needed to secure energy security, firstly for the national systems, then for private users. Yergin and Verda delineate energy security as "the availability of energy supplies at affordable prices".[29] This interpretation shows the dual nature of the question, i.e. the *reliability* of the producer, who has to assure a safe supply from the extraction down to the final consumers, and *affordability* of the product, both for the producer and the consumer. Taking the dual nature of energy security into account, it is instrumental to distinguish three dimensions that policymakers undertake in order to guarantee security. Verda and Frappi quote F.

[29] D. Yergin, *Ensuring Energy Security*, foreignaffairs.com, 01 March 2006, https://www.foreignaffairs.com/articles/2006-03-01/ensuring-energysecurity, retrieved on 28.06.2019
M. Verda, *Politica estera e sicurezza energetica. L'esperienza europea, il gas naturale e il ruolo della Russia*, Edizioni Epokè, Novi Ligure, 2012, p.18

Bordonaro, M. H. Brown, T. Gagliano, C. Rewey, F. Baumann[30] in their proposal for a definition of energy security, which consolidates the scholar background of their analysis.[31] In turn, Berchicci[32] bases his essay on the work of Verda and Yergin; according to the authors, we can divide the three dimensions of the energy field as follows: technical, economic and political. In a manner similar to the one Cherp highlighted, separating the dimensions that constitute the energy discourse is a way to wreck the potentiality of a more contextualised and holistic approach. We will see that fragmentation in the energy relations brings a hollow and unconstructive discourse also in dealing with EU and Russian relations: Judge et al. see an upsetting shade in the matter, as they claim that academic and political discourse on the Russian-European energy relations often lose their efficiency because of the reductionist views of which they are subject.[33]

However, what Berchicci conveys from Yergin and Verda is that the technical, economic and political dimensions are separate fields that cannot be taken individually if a nation wants to guarantee energy security to its citizens. However, the complexity of the choices in the energy security field leads to a situation in which one decision that is positive for one dimension might appear deleterious for the other two dimensions, often without the decision-makers knowing that.

The technical dimension concerns those measures that are necessary to maintain continuity of flows of energy raw materials in the short term. The most analysed risk-situation of the technical dimension is interruption of supply. An interruption can happen due to accidents and malfunctions, human error, hostile acts caused by third parties (think of piracy, for example). In most cases, especially regarding gas pipelines, it is duty of the national government to avoid and reply to technical risks. Moreover,

---

[30] F. Bordonaro, *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*, Ricerca Cemiss, 2009;
M. H. Brown, T. Gagliano, C. Rewey, *Energy Security, National Conference of State Legislatures paper*, 2003;
F. Baumann, *Energy Security as Multidimensional Concept*, CAP Policy Analysis, 2008.

[31] C. Frappi, M. Verda, *Sicurezza energetica, gas naturale e rapport russo-europei*, in "Paper per il XXIV Convegno SISP", Venice, 2010

[32] A. Berchicci, *Sicurezza Energetica e Geopolitica del Gas in Europa*, Università degli Studi di Firenze, Firenze, 2015

[33] A. Judge, T. Maltby, J. D. Sharples, *Challenging Reductionism in Analyses of EU-Russia Energy Relations*, in "Geopolitics", 2016, pp. 751-762

governments and companies involved in the supply may forestall disruptions through enhanced controls, well-planned protocols and capacity to react to possible interruptions. This last aspect is connected to voluntary interruptions (that might be caused by political or economic reasons), whose resolution key is building storage capacity and diversification. Storage capacity is still a limited solution to the possibility of undergoing a relatively long interruption of energy supply, while diversification sounds more feasible and more efficient. Differentiation, in this case, branches in diversification of energy sources (gas, coal, oil, nuclear, renewables, biofuels), diversification of the provision methods (e.g. regasifying GNL or commuting biowaste into biofuels), diversification of the tracks of the infrastructures that carry sources of energy, diversification of business partners (both producers and transit countries). Berchicci, taking from Verda, translates into general terms much of what we will see when analysing the EU-Russian situation. Nevertheless, the next two dimensions aim even more precisely at what has been happening in the European continent in the last 50 years.

The economic dimension is concerned with the stability of raw materials prices, more than the reliability of energy flows, as in the technical one. An unintended or unexpected growth of the raw materials might create challenges for the importers, since, in the short term, energy demand is characterised by low elasticity towards prices. Growth of prices might be caused by various events, such as supply and demand variations, falls of production, lack of investment or interest in a certain field (though this latter refers to longer terms). The producing countries showed, in the past, that national economic needs may lead to the decision of diminishing or interrupting supplies for a limited amount of time. This would lead to an increase of the prices of energy raw materials. However, the enhanced capacity that consuming countries developed since the first oil crisis made them more resilient and less vulnerable to energy disruptions. Furthermore, very often, producers and consumers are linked by a relation of interdependence, which prevent one or the other parties from being completely free to act following national

interests alone.[34] Then, growth in the demand side can also generate a price increase, as happens when a country or a region of the world meet an intense economic expansion, thus attracting and demanding a higher quota of energy. Quite similarly, a decrease in prices is seen by producing countries as a dangerous situation, since lower profits from energy exports usually delineates a very serious contraction of the national economy. The highest risk is that a negative spiral is created, thus leading to the impossibility of committing investments to new technologies or development of the existing extraction spots, which, eventually, would lead to the inability of reacting to the shrinkage.
What Verda suggests is that to face the challenges in the economic dimension, governments have to bind national energy businesses so that they maintain a sufficient level of investment in the critical infrastructures.[35] Even so, it is hard for Western governments to manage the private sector in energy matters, especially within the European Union, where the Commission addressed exactly the liberalisation of the energy market through the Third Energy Package.[36] Moreover, investments are a national (or at most regional) action, whereas energy systems involve multiple countries. Coordination and planning are probably what governments of both sides of the system (demand and supply) shall engage as a way to face the medium-long term challenges dictated by the economic dimension.

The third dimension regards the kind of consequences that technical and economic decision have on the social, environmental and political sphere. Alongside with internal political and social matters, such as the location of energy infrastructures and the consequent reaction of the communities of locals, it is necessary to take into account the foreign relations that a country entertains with its partners in the energy area. A gas pipeline, for example, can be seen as a tie between two parties that create a condition of interdependence. "The importing countries depend on the continuity of raw material

[34] For further explanation of this aspect, see, among the others, C. Frappi and M. Verda, *Sicurezza energetica*, op. cit.
[35] M. Verda, *Una politica a tutto gas. Sicurezza energetica europea e relazioni internazionali*, Università Bocconi Editore, Milano, 2011
[36] European Commission, *Third Energy Package*, European Commission website, https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation/third-energy-package, retrieved on 28.06.2019

flows and on the stability of prices, while the producing countries base their revenues on the profit coming from the trade established in order to guarantee financial and economic internal stability."[37] This carries beneficial consequences, seen from a constructivist and neo-liberal point of view, but, as the author claims, it could bring a limitation to the room for manoeuvre within the bilateral relations of two energy partners. Moreover, in the case a fracture in the relations between two energy partners occurs, interdependence nourishes the degree of complexity in solving any issue that might appear. Examples are numerous and one of the most eloquent is the case we are going to study, i.e. Nord Stream 2 project. In this case-study, the three dimensions all converge and intersect one each other, thus creating a complex tie where interdependence, path dependence, historical relations, commercial bonds, ideology, external meddling and reductionism play a role.

Energy security is certainly a top aspect in the intricate plot of the Eurasian energy relations, but it is far from being the only directive that leads the development of the situation. Indeed, interdependence is also one of the fundamental facets here: deeper acknowledgement of what interdependence entails is required.

1.1.4 Interdependence

Energy interdependence appears as a notion, in most cases, when energy raw materials are geographically distributed in an uneven manner. Thus, importers and exporters create a situation in which the first country relies on the supply from the second country to satisfy it energy demand, while the second country needs the funds and returns obtained thanks to the first country's payments. This condition is what is meant by interdependence, as none of the actors involved can interrupt the flow of materials or money, lest the whole energy system collapses. Obviously, a total-interdependence situation is difficult to find in the real world; however, the lower the possibility to differentiate suppliers or customers, the stronger the interdependence association is.

After laying such examination, Verda and Frappi associate it with the Russian-European interdependence in the natural gas sector. First of all, it is important to bear in mind that

[37] A. Berchicci, *Sicurezza* energetica, op. cit., 2015, p. 12

an interdependent relation creates the conditions for an overlap of interests that, in turn, sets a strong incentive to cooperate in order to reduce the risks to the flow reliability. More peculiarly, it helps maintaining the levels of demand and supply, therefore it assures a certain stability in the prices (one of the aspects concerned with energy security).

In the Russian and European case, we need to analyse interdependence as an element shaped by the infrastructure system built in the Eurasian territory. Pipelines are necessary for the transportation of gas, due to its chemical nature, which makes gas easier and cheaper to be distributed through tubes.[38] It is estimated that pipelines carry a comparative advantage when the deployed for relatively short distances and high volumes of gas. Verda and Frappi point out 7.000 km as an indicative distance for which it is more economically convenient to build pipelines than starting an LNG trade. However, Ulvestad and Overland, in their work dated 2012, make up a study in which they report the data exploited by the traditional literature about the choice between building pipelines or using LNG: a break-even point is set between 3.000 and 5.000 km. Nevertheless, the two scholars form up a detailed study and assume that, taken into account a good deal of essential elements, such as the volume of gas, the distance of the transport, the volume of gas used in the liquefaction process, the fluctuation of prices, and so on, a more realistic break-even point should fall at about 9.100 km.[39] The pipelines connecting the Russian spots in Siberia and the European continent fit within that measure, meaning that, in general, any investment for the construction of a pipeline should show up more convenient than an investment for the LNG transportation and regasification. We will see that this is not always the case, and, obviously, general considerations always hide a great number of unneglectable features, such as the forecasts on the future employment of gas at the global level. However, to simplify the question, we might state that, at the moment, pipelines are more convenient in the Russian-European gas relations than LNG, under certain conditions. Indeed, it is interesting to note that Russia has undertaken a policy of semi-liberalisation in the

[38] It is not always the case: see next for deeper analysis.

[39] M. Ulvestad, I. Overland, *Natural gas and CO2 price variation: impact on the relative cost-efficiency of LNG and pipelines*, in "International Journal of Environmental Studies", vol. 69, Taylor&Francis Online, 2012

energy sector, aimed at developing its LNG production and export. In particular, Novatek is operating in the Artic regions to extract and deploy LNG, independently from Gazprom.

Thus, pipelines are the transport system deployed between the Russian territory and Europe that has usually been chosen. Therefore, it is interesting to note that the fact that pipelines require huge investments, long periods and great quantities of gas transported to become profitable renders this kind of infrastructure a strong linkage between the parties that took part at the project. Verda and Frappi agree that producers and consumers accept to bind each other in the long-term in order to make the most of the walloping investments made. This creates a situation of great interdependence, in which interrupting relationships might result in disastrous economical loss. Moreover, interdependence is accentuated by the lack or shortage of valid alternatives. Indeed, in the case of the European Union, since the 1970s, dependence on Russian gas has grown year by year, due to the progressive exhaustion of internal resources, higher total demand of gas, geopolitical difficulties that made it difficult to carry out a real diversification programme (think of Libya, for instance). At the same time, Russian economics, especially after the ruinous fall of the Soviet Union that led Russia to the edge of state bankruptcy in the 1990s, needed the revenues coming from energy exportations. Russia needs exporting as well as attracting investments in order to keep developing its production and satisfy internal demand.

The dual nature of dependence creates what is considered as *inter*dependence: European and Russian economics need to intersect and find spots of common interests, in spite of the political and ideological difficulties. This situation affects energy security, trade and political relations, all of which goes beyond energy field merely, but includes also other aspects of security (most notably, inter-national security).

1.1.5 Russian – EU energy security

Since the beginning of the 2000s, the European Union has focused on the safeguard of its internal energy security, thus trying to guarantee the availability of supply in the short term, but more importantly on the settlement of a condition in which a stable and

satisfactory level of supply is guaranteed in the long term. With a focus on the second element, it is clear that the European institutions had to start being concerned more deeply with the political aspects of energy and with the infrastructural system linked to the community energy need.[40] As Europe imports more or less 40% of the total amount of natural gas from Russia (while the second exporter, Norway, sets at 35%)[41], it would seem necessary for the cadres of the Union to pursue some deeper awareness for in concerns with the energy relations with its vast Eastern neighbour. To be sure, much has been spoken and analysed on the topic within Brussels' buildings; nevertheless, it should be object of further investigation whether the energy matter receives enough effort at the higher levels. In 2011, Frappi and Verda foresaw what is still in place in the EU institutions, i.e. a gap in the approach deployed towards energy issues. "We can see an opposition between those who are in favour of equipping EU institutions of the regulatory tools needed to pursue a common energy strategy and those who support the importance of maintaining a priority on the role of the single States that, better knowing the dynamics related to their own markets and pursuing broader goals, can ensure their own energy security more effectively.

In spite of this gap, the European Commission developed a new strategy to address the structural weaknesses of the Union. Starting from 2010s, the EU Commission shifted from a policy mainly focused on economic and internal measures to geopolitical reasoning and external action (probably assisted also by the reformation introduced by the Lisbon Treaty of 2009 and the consequent foundation of the European External Action Service – EEAS, dated 2010). Accordingly, the Commission has highlighted the necessity to diversify EU supply chain: diversification involves establishing or reinforcing foreign relations with energy partners. As of the Russian – EU relations, differentiation means modifying the relative weight of the bilateral trade. The idea that Russia might not be a reliable partner rose after the double gas crisis that led to a

[40] J. Stern, *Security of European Gas Supplies: The Impact of Import Dependence and Liberalization*, Royal Institute of International Affairs, London, 2002

[41] Eurostat estimates, referred to 2018. See more in details *EU imports of energy products - recent developments*, Eurostat.eu, May 2019, https://ec.europa.eu/eurostat/statistics-explained/pdfscache/46126.pdf, retrieved on 03/07/19

temporary interruption of the supply of gas from Russia to Ukraine in 2006 and again in 2009, caused by "the fact that the two sides failed to agree a price for Russian gas supply to Ukraine and a tariff for the transit of Russian gas to Europe before previous agreements expired on 31 December 2008."[42]

Pirani et al. pointed out how far-reaching the consequences of two crises were. Alongside with the economic loss directly caused by the interruption of energy, what came out more clearly was the damage occurred to Russia and Ukraine as a supplier and as a transit country, respectively. What happened in those two occasions made the EU stir more decisively towards a diversification process that it envisaged as necessary to guarantee energy security. Moreover, the Russia-Ukraine crisis of 2014 stressed the different degree of awareness among the European Union Member States, because of the rising fear spread in the Eastern part of the Union that Russia might use energy as a tool to raise its soft and hard power in the Union's territory, which the former Soviet countries and those countries that belonged to the Communist block are eager to avoid with all their strength.

Before continuing with the analysis of the energy relations between Europe and Russia, it may be useful to present an excursus on the current scheme of the energy policy and infrastructure within the European Union, first, and the Russian Federation, then.

[42] S. Pirani, J. Stern, K. Yafimava, *The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment,* the Oxford Institute for Energy Studies (OIES), Oxford, February 2009

1.2 EU energy policy

Subchapter 1.2 is structured so as to offer an overview of the present EU energy policy, its development over time and the implications for external relations. Section 1.2.1 introduces the topic.
Section 1.2.2 is a historical excursus of the development of energy policy until the Energy Union was conceived. The main legislative items concerning energy are presented. Buchan and Thaller's works are employed.
Section 1.2.3 is a sort of continuation of the previous section and highlights the progress carried by the EU Green Papers, the first of which was published in 2000. Frappi's work sets the structure of the section.
Section 1.2.4 highlights the energy statistics of the European Union, mainly concerning gas.
Section 1.2.5 lists the institutions that deal with energy with which the EU has connections or interests: besides the Energy Union, the list presents the Energy Community, the Energy Charter, the Eastern Partnership panel.

1.2.1 Introduction

The following part of the chapter aims to display the main features of the European Union energy policy. The *ratio* behind is to compose an integral picture of the policy mechanisms that govern the decision-making processes within the two parties involved in our study: this will be done by framing separately the EU and the Russian Federation energy policy.

1.2.2 The development of the European energy policy

We will start from the European energy policy. If not stated otherwise, next paragraph will be based on the work of Philipp Taller[43] and David Buchan.[44]

The European Coal and Steel Community is considered the first step in the history of what became the European Union. Most often, we are reminded how important the Treaty signed by the six founding members (Belgium, the Netherlands, Luxembourg, Italy, France and West Germany) was in shaping the future cooperation of the European community. However, the historic development is often presented from an economic and business point of view, sometimes even on the cultural and social aspects of the integration process; actually, the ECSC was directly concerned with energy, as well.

[43] P. Thaller, *The European Commission and the European Council: Coordinated Agenda setting in European energy policy*, in "Journal of European Integration", Routledge, Taylor & Francis Online, 2016
[44] D. Buchan, *Energy Policy: Sharp Challenges and Rising Ambitions*, in "Policy-making in the European Union", edited by Helen Wallace, Mark A. Pollack, and Alasdair R. Young, 344–366, 7th ed., Oxford University Press, Oxford, 2015

This aspect is sometimes neglected or relegated to the background, surely because of the minor importance energy security and the energy field received in the last half a century, except for raising unconventional attention in rare occasions, such as the oil crises of the 1970s, as we stated above. Moreover, the Treaty that established the European Atomic Energy Community was the first official document that addressed directly energy in the European context. Truth be told, none of the two were meant to institute the basis for a common energy policy. This came at a later stage in the history of the European integration. Indeed, it is in the late 1980s that the Commission recognised the necessity to take energy into account more carefully, in order to preserve the effects of the Community's economic measures. More specifically, the Commission understood that energy was a fundamental piece of the single-market puzzle. Shoulder to shoulder with the single market programme, the European community had to build an internal energy market, whose concern is the liberalisation of cross-border competition in order to ensure the availability of energy supply at competitive price levels. Thus, within the 1992 Maastricht Treaty, a couple of articles concerning the first reference to energy were included: Article 129b and Title XVI of the Treaty; they were provisions on cross-border energy infrastructure and environmental policy that made a reference to energy. Still, the attempt to include a proper chapter on energy was unsuccessful in Maastricht. Up until the second half of the 1990s, the development strains were committed to supranational competences, which meant a lack of coordination and legal basis for the Community's institutions. "The dominant initiative of the past decades has been the liberalisation of the internal energy market with three consecutive legislative packages that entered into force in 1996–1998 (Electricity Directive 96/92/EC and Gas Directive 98/30/EC), 2003 (Electricity Directive 2003/54/EC and Gas Directive 2003/55/EC), and 2009 (Electricity Directive 2009/72/EC and Gas Directive 2009/73/EC)."[45] The theoretical basis lying underneath these packages was set more precisely at the Barcelona Council of March 2002. On this occasion, the European Community Member States approached energy as an issue of utmost importance, identifying it as one of the key areas to complete in the internal

[45] P. Thaller, *The European* Commission, op. cit., 2016, p. 573

market programme, as the Commission claimed beforehand. The Commission, however, in the first decade of the XXI century, had to struggle with the opposition from various member states and stakeholders, which argued the importance of national or independent response to energy issues. Anyhow, the Commission efforts were successful at least in leading to the agreement of February 2011, when, at the European Council, the internal energy market was set to be completed by 2014. Point 3 of the Presidential Conclusion of the European Council of 4th February 2011 reads: "The EU needs a fully functioning, interconnected and integrated internal energy market. Legislation on the internal energy market must therefore be speedily and fully implemented by Member States in full respect of the agreed deadlines" (deadlines are specified in the fourth point of the same paper, which indicates 2014 as the threshold up until which gas and electricity should flow freely across the EU Member States' territories).[46]

Thaller, taking from Buchan, sees energy policy in the EU as a threefold strand, in which internal energy market is one of the paths, with environment and security of supply siding it. The first chapters dedicated to the environmental policy in the European context date back to the 1986 Single European Act: Title VII (which became Title XVI in the Maastricht Treaty) provided the community with the competence to take the measures needed to face the environmental challenges. Yet, what the pioneers of environmental policy regretted was the inclusion of Article 130s(2)47, which envisioned the possibility for the member state to veto 'measures significantly affecting [its] choice between different energy sources and the general structure of [its] energy supply.

In spite of the difficulties coming from the frictions due to a policy-making balance tending more to intergovernmentalism than supranationalism, smitten by the Kyoto Protocol's guidelines and, more opportunely, by the intuition of having the possibility of becoming a global frontrunner in fighting global climate change, the European

[46] European Commission, *Presidency Conclusion of 4th February 2011*, European Commission website, 4 February 2011, https://ec.europa.eu/research/era/docs/en/brussels-european-council-4-february-2011-presidency-conclusions.pdf, retrieved on 06.07.2019

[47] To have a confirmation of what stated, see the Maastricht Treaty, https://europa.eu/european-union/sites/europaeu/files/docs/body/treaty_on_european_union_en.pdf, p. 59

Community and the European Union tracked a new path in their energy policy framework. The Commission covered a major role in leading the EC/EU towards major achievements. In 2003, the Emission Trading Scheme entered into force, through Directive 2003/87/EC. The European Council was not far behind: in December 2008, it agreed on a package that set the 2020 targets in the environmental and climate change context. The perspective of enjoying global leadership in the energy field linked to climate change had to strike against the financial and economic crisis of the late 2000s.

The last strand of the EU energy policy is security of supply. Thaller considers this fringe of energy policy as the weakest in Europe, probably because of its difficulty in acting as a single player towards the big global player, such as Russia or the USA. It is not the aim of this work to argue whether Thaller is right or to investigate which are the considerations he built his claim on; it is more appropriate, in our context, to highlight the meaning of security-of-supply policy in the European Union.

The external shocks that happened in the last decades were an acceleration factor in this respect. The gas crises between Russia and Ukraine of 2006 and 2009, political instability in supplier and transit countries, the Eastern members' backwardness in infrastructures and systems to avoid overreliance that arrived with the Eastern enlargement, exhausting internal resources are all factors to mention here. In this context, Buchan and Thaller agree on the fact that the general assumption in the security of supply matter is to be associated with a gap in the visions of the EU Member States. Eastern countries thwart individuality in negotiating and dialoguing with external actors (read Russia, mainly): they would opt for a unified and coordinated action, possibly aimed at contrasting Russian expansionism. On the other hand, "big" Member States are still bound to an individual and intergovernmental approach to energy policy, which includes interacting with third countries alone, when national interest requires so. The stronger resonance that securitisation of energy policies achieved in the last years had done nothing but exacerbate the different national views. The lack of formal powers at the supranational and EU-institutional level does not help, even though the Treaty of Lisbon, in Article 176A, provided the Union with the competence to legislate on the

area. Yet, the same provision includes the possibility of vetoing for "measures [that] affect a member state's right to determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply."[48] Similarly to the provision addressing environmental issues, this article allows very limited room for manoeuvre to the EU authorities. The unanimity that leads much of the EU decision-making is applied also to energy policies, thus giving the institutional forms of power shortage of competence or legislative capability. Nevertheless, as happened for the former two strands, the Commission succeeded in having the EU Council and the Parliament to agree on some pieces of legislation. These are Gas Security Directive 2004/67/EC, Electricity Security Directive 2005/89/EC, and Gas Security of Supply Regulation 994/2010. Moreover, the aim of expanding EU rules of the *energy acquis* to south-eastern and eastern neighbours was guaranteed by the Energy Community, established in 2006: through the adoption of the Energy Community Treaty, the EU made a step forward in securitising its security of supply, which happened to be one of the key points of the mission of the Treaty.[49]

Even though it is believed that the three strands of European energy policy are separated and badly interconnected, in practice they became linked due to the intrinsic interdisciplinarity of the energy discourse. Renewables undoubtedly impact the field of security of supply as well as that of the environment, because allows the EU countries to develop more resilient and independent systems of energy production. In the same way, developing transnational infrastructures, pipelines, electricity grids, affects the completion of the internal energy market, but implies also deepening the interdependence and strength of the Member States' energy security as a whole.

Nevertheless, different priorities and characteristics of European countries prevent them from acting unanimously in its external relations. Member States are reluctant to transfer competences to the European level, thus endangering the role of the European Union as a valuable speaker in the international scenario. However, pragmatism pushes governments to increase the level of coordination because of the spreading awareness

[48] Treaty of Lisbon, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:FULL:EN:PDF
[49] Energy Community, https://www.energy-community.org/aboutus/whoweare.html, retrieved on 08.07.2019

that enhanced coordination is necessary. What is interesting for our context is that, over the years, the EU countries have applied either coordinated approaches (as we could see with the significant number of legislative packages that have been approved in the last 20 years), but also individual responses to what was seen as energy national interest. This dichotomy explains some of the issues the EU has in dealing with the Russian Federation. Moreover, the energy theme, especially in the sense of energy security, started being active part of the European Councils' agenda already before the tightening of the relations with Russia. This is important to remember when assessing the degree of interconnectedness between the EU and Russia. However, the implementation of the Energy Union took place in 2014/2015, after the annexation of Crimea by Russia.

1.2.3 European Union's Green Papers

Since the beginning of the '90s, the European Union started debating on what actions should be taken to enhance its security in the energy sector. As long as gas is concerned, the rigidity of its market binds producers and consumers to apply long-termed strategic planning. The importance of gas in the EU energy mix, the characteristic of EU gas market and the shifting perception on suppliers made diversification of suppliers and supply routes a priority for EU policy-makers.

The EU founding treaties – Maastricht 1993, Amsterdam 1997, Nice 2000 – did not include mentions to energy security. A gradually growing awareness about the importance of energy security, both in terms of protection from external threats and enhancing internal mechanisms emerged only later. The positions held by Member States differed in relation to the opposite visions on the Union's integration process. On one side stood those countries that claimed the need to provide the Union with regulatory tools in response to the growing interdependent relation that was growing among them; on the other side, the centrality of the role of the State was emphasised, on the assumption that States can better direct the improvement of their energy market. The result was the gradual increase of the weight of the European Commission in the energy

decision-making of the EU.[50] It was, indeed, the EC to boot a community response to energy security challenge.

In November 2000, the EC published its Green Paper titled *Towards a European strategy for the security of energy supply*. In this work, the EC pointed out what it saw as structural weaknesses of the Union; it envisaged the need to undertake a more active energy policy capable of limiting the growing dependency on external actors in the energy sector. The most peculiar aspect of the Green Paper was that it highlighted the need to switch from a purely economic approach towards energy security to a geopolitical one, or at least to conceive such an option.

Two further steps towards the total incorporation of energy security in the EU agenda were, firstly, the inclusion of energy security in the 2003 EU Security Strategy;[51] secondly, the 2004 and 2007 enlargement processes added urgency to the matter, as new Member States resulted to be less able to differentiate their energy suppliers and, geopolitically speaking, were less eager to maintain the same level of dependence on the Russian partner. Thus, energy became also a tool to deepen cooperation with new MS and face together external challenges.

In 2006, the EC published another Green Paper: *A European Strategy for Sustainable, Competitive and Secure Energy*[52]. In this paper, energy security gained the rank of top priority for the EU. The external dimension of the matter was emphasised, and, as a consequence, the EC insisted on the need to coordinate common action for Member States. The paper focused on two key goals, as well as calling for internal cooperation: the promotion of energy partnerships with producing and transit countries; setting a clear policy on securing and diversifying energy supplies. These two points were seen as a way to strengthen the dialogue with EU's energy partners and to fill the discrepancies among Member States by levelling individual and regional gaps.

---

[50] C. Frappi, *EU Energy Security Policies and Azerbaijan*, in "The EU Eastern partnership: common framework or wider opportunity? EU-Azerbaijani perspectives on cooperation", Milan, Egea Bocconi, 2013, pp. 43-66

[51] Council of the European Union*, A secure Europe in a better world – European Security Strategy*, Bruxelles, 12 December 2003, as cited in Frappi, *EU Energy* Security, op. cit, 2013

[52] Commission of the European Communities, *A European Strategy for Sustainable, Competitive and Secure Energy*, COM(2006)105 final, Bruxelles, 8 March 2006

The tool utilised for achieving diversification was the promotion of diversity in suppliers, transport routes and transport methods. This meant that it was necessary to upgrade and build suitable infrastructures. The first move had already been made in 2003 through the drafting of the Trans-European Energy Networks (TEN-E) guidelines. The projects that could enter the list were given priority and support in the construction (further enhanced with 2006 TEN-E guidelines).

Then, in 2008, another Green Paper was published: *Towards a Secure, Sustainable and Competitive European Energy Network*, alongside with *Second Energy Strategic Review*. These two documents highlighted once again the crucial need to enhance solidarity and joint actions internally and in relations to external partners.
The papers focused on the integration and implementation of internal infrastructure network and on its connection to third parties' networks, with the aim of facilitating diversification. Diversifying gas supply and routes was the main goal of the papers, considered that the EC assessed it necessary notwithstanding the targets that were emerging in the renewable field.

The trend was maintained after the Russo-Ukrainian gas crisis broke out in 2009, accompanied by the constraints provoked by the financial crisis of 2008. The strategic role of natural gas for economic recovery in Europe was reiterated in the European Economic Recovery Plan (EERP).[53] The Plan envisaged €3.9 billion of funds to finance energy infrastructures, a concrete financial support that addressed part of EU budget to projects considered beneficial for the community. The focus did not shift much in spite of the harsh difficulties that the EU had to overcome internally because of the financial crisis. Indeed, the following couple of years were still characterised by concentrating on cooperation with non-EU partners and diversification of suppliers – as well as fostering the role of renewable sources of energy.

"The need to expand cooperation with key suppliers and transit countries through mutually beneficial energy partnerships, and to include the promotion of energy

[53] Commission of the European Communities, *A European Economic Recovery Plan*, COM (2008) 800, 26 November 2008

infrastructure development in EU external relations, has been readdressed by the EC with the September 2011 communication *The EU Energy Policy*. Urging the Union to take a strong, effective and equitable position on the international stage to secure the energy it needs, the EC focused its proposal for the consistent development of an external energy policy around four main objectives, consisting of: a) building up the external dimension of our internal energy market; b) strengthening partnerships for secure, safe, sustainable and competitive energy; c) improving access to sustainable energy for developing countries; d) better promoting EU policies beyond its borders."[54]

1.2.4 EU energy in figures

In 2016, the EU registered a final energy consumption of 1.138 Mtoe out of a global consumption of 9.555 Mtoe (million tonnes of oil equivalent → 1Mtoe = 11.630 kW). EU energy mix included more than 35% of the consumption coming from petroleum and its products, followed by more than 20% coming from gases, more than 10% from solid fuels and other 10% from nuclear; the same amount comes from renewables.[55] Natural gas derives from Russia (40%), Norway (25%), Algeria (12.5%), Qatar (5.5%) and other sources (17%). Concerning oil, it comes from Russia (31%), Norway (13%), Iraq (8%) Saudi Arabia (7.7%), Kazakhstan (6.7%), among the others (30%). The EU 2020 targets for renewable energy sources are set at 20% (differences among countries are pretty evident), accompanied in the fight to climate change by a reduction of GHG emissions (greenhouse gases) of 77.6%.

The EU produced 216 Mtoe by nuclear sources, 132 Mtoe by solid fuels, 210 Mtoe by renewable sources, 107 Mtoe by gases, 88 Mtoe by petroleum products, 14.5 Mtoe by wastes and non-renewable sources. The total internal production is 770 Mtoe, out of the 1.138 Mtoe of total consumption. The net import of fuels was 903 Mtoe in 2016, mostly concentrated in petroleum, gases and solid fuels (99.2%, to which renewables and electricity are added). The EU imported 357 Mtoe from gases, which represents the double amount as compared to 1995. Germany is the biggest importer, with 81.6 Mtoe

[54] Frappi, *EU Energy* Security, op. cit., 2013, p. 54

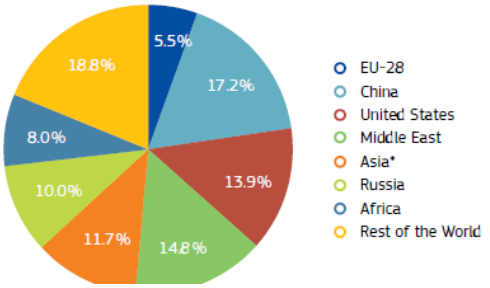
[55] Approximations based on EU Commission *EU energy in Figures*, statistical pocketbook published in 2018

imported (23% of the total 28 EU countries), followed by Italy (15%) and France (11.5%). The EU is dependent on foreign gas for 70% of its total consumption.

World energy consumption in 2016

	1995	2000	2005	2010	2015	2016
EU-28	967	951	910	843	772	759
China	1065	1124	1671	2236	2514	2361
United States	1659	1667	1631	1724	2023	1916
Middle East	1137	1324	1516	1624	1885	2043
Asia*	934	1062	1255	1497	1566	1615
Russia	968	978	1203	1280	1334	1374
Africa	773	884	1086	1172	1120	1108
Rest of the World	1760	2039	2286	2434	2598	2588
World	9263	10029	11558	12808	13811	13764

TOTAL 2016: 13764 Mtoe



EU energy consumption in 2016, Mtoe

2.2.3 Imports – Gases

RANKING

Mtoe and %	1995			2016		
EU-28 Ranking	MS	Imports	EU-28 Share	MS	Imports	EU-28 Share
Gases						
1	DE	55.3	30.7%	DE	81.6	22.9%
2	IT	28.6	15.9%	IT	53.5	15.0%
3	FR	28.1	15.6%	FR	41.2	11.5%
4	BE	10.4	5.8%	UK	40.8	11.4%
5	ES	7.5	4.2%	NL	32.9	9.2%
6	CZ	6.4	3.6%	ES	28.2	7.9%
7	PL	5.8	3.2%	BE	15.0	4.2%
8	HU	5.5	3.1%	PL	12.2	3.4%
9	AT	5.5	3.0%	AT	11.9	3.3%
10	RO	4.8	2.7%	HU	7.2	2.0%
11	BG	4.6	2.5%	CZ	6.7	1.9%
12	SK	4.5	2.5%	PT	4.3	1.2%
13	FI	2.8	1.6%	SK	3.6	1.0%
14	NL	2.8	1.5%	EL	3.5	1.0%
15	LT	2.0	1.1%	BG	2.6	0.7%
16	UK	1.5	0.8%	FI	2.1	0.6%
17	LV	1.0	0.6%	LT	1.9	0.5%
18	SE	0.8	0.4%	IE	1.7	0.5%
19	SI	0.8	0.4%	RO	1.2	0.3%
20	EE	0.6	0.3%	HR	1.1	0.3%
21	LU	0.6	0.3%	LV	0.9	0.3%
22	HR	0.2	0.1%	SE	0.8	0.2%
23	IE	0.1	0.0%	LU	0.7	0.2%
24	DK	0.0	0.0%	SI	0.7	0.2%
25	EL	0.0	0.0%	DK	0.6	0.2%
26	CY	0.0	0.0%	EE	0.4	0.1%
27	MT	0.0	0.0%	CY	0.0	0.0%
28	PT	0.0	0.0%	MT	0.0	0.0%
Top 5 Total		129.9	72.1%		250.0	70.0%
Total		180.2	100.0%		357.1	100.0%

Import of gas in the EU, in bcm

2.2.3 Imports – Gases

TOTAL

Mtoe	1995	2000	2005	2010	2015	2016
EU-28	180.18	242.43	323.75	366.96	343.93	357.10
Index 1995	100%	135%	180%	204%	191%	198%
BE	10.42	13.28	14.82	19.55	15.32	14.96
BG	4.56	2.74	2.46	2.13	2.52	2.59
CZ	6.43	7.48	7.60	6.98	6.16	6.72
DK	0.00	0.00	0.00	0.14	0.59	0.61
DE	55.32	61.09	78.90	78.80	85.92	81.61
EE	0.58	0.66	0.80	0.56	0.39	0.43
IE	0.09	2.48	3.01	4.48	3.62	1.70
EL	0.00	1.69	2.33	3.23	2.67	3.46
ES	7.52	15.47	30.25	31.96	28.18	28.19
FR	28.11	36.46	41.62	42.11	39.38	41.23
HR	0.22	0.91	0.93	0.87	0.87	1.05
IT	28.56	47.05	60.16	61.72	50.18	53.47
CY	0.00	0.00	0.00	0.00	0.00	0.00
LV	1.00	1.11	1.43	0.90	1.08	0.92
LT	2.03	2.07	2.49	2.49	2.14	1.89
LU	0.56	0.67	1.18	1.20	0.77	0.71
HU	5.53	7.35	9.81	7.91	5.68	7.23
MT	0.00	0.00	0.00	0.00	0.00	0.00
NL	2.76	12.48	16.44	18.45	29.16	32.89
AT	5.47	5.32	8.03	10.19	9.43	11.86
PL	5.84	6.64	8.57	8.91	9.99	12.19
PT	0.00	2.04	3.89	4.51	4.07	4.26
RO	4.79	2.71	4.19	1.82	0.16	1.18
SI	0.75	0.82	0.93	0.86	0.66	0.70
SK	4.53	5.71	6.05	5.00	3.69	3.62
FI	2.84	3.43	3.61	3.84	2.24	2.06
SE	0.76	0.78	0.84	1.47	0.72	0.82
UK	1.51	2.01	13.42	46.92	38.34	40.76

Import of gas in the EU, in bcm

	2016					
Mtoe	Nuclear	Solid Fuels	Renewables	Gases	Petroleum and Products	Waste, Non-Renewable
EU-28	216.7	132.3	210.7	107.5	88.6	14.5
Share (%)	28.1%	17.2%	27.4%	14.0%	11.5%	1.9%
BE	11.23	0.01	3.07	0.00	1.26	0.68
BG	4.08	5.11	1.92	0.08	0.23	0.03
CZ	6.24	16.12	4.28	0.18	0.25	0.30
DK	0.00	0.00	3.49	4.07	7.03	0.38
DE	21.83	39.73	39.48	6.55	7.45	4.51
EE	0.00	3.15	1.46	0.00	0.82	0.07
IE	0.00	0.68	0.97	2.48	0.11	0.07
EL	0.00	3.97	2.50	0.01	0.24	0.06
ES	15.13	0.74	17.69	0.05	0.32	0.24
FR	104.01	0.00	23.90	0.04	1.84	1.65
HR	0.00	0.00	2.28	1.37	0.83	0.01
IT	0.00	0.00	23.82	4.74	4.06	1.18
CY	0.00	0.00	0.12	0.00	0.01	0.01
LV	0.00	0.00	2.44	0.00	0.01	0.01
LT	0.00	0.01	1.50	0.00	0.08	0.05
LU	0.00	0.00	0.13	0.01	0.00	0.03
HU	4.16	1.46	3.19	1.43	1.08	0.13
MT	0.00	0.00	0.02	0.00	0.00	0.00
NL	1.02	0.00	4.71	38.18	6.33	0.68
AT	0.00	0.00	9.77	0.98	0.79	0.82
PL	0.00	52.31	9.03	3.55	1.74	0.74
PT	0.00	0.00	5.82	0.00	0.19	0.17
RO	2.91	4.24	6.10	7.78	4.04	0.08
SI	1.47	0.94	1.11	0.00	0.00	0.05
SK	3.86	0.45	1.60	0.08	0.40	0.20
FI	5.99	0.72	10.52	0.01	0.35	0.27
SE	16.28	0.13	17.38	0.01	0.15	0.79
UK	18.50	2.50	12.43	35.96	49.02	1.35

1.2.5 Energy Union and the energy institutions

The European Union is one of the biggest consumers of energy at the global level. The hydroelectric and renewable sources of energy represent about 12% and 13.5% of the total energy production. The EU has recognised that no less than 50 million people is affected by a condition of energy poverty: this has become one of the main focus of the last two Commissions. Moreover, the last two Commissions spotted policy coordination and connected infrastructure as a way to deepen internal interdependence, thus safeguarding single citizens and consolidating a stable and sufficient flow of energy.[56]

The pace of development in energy integration speeded up in 2014, when van Rompuy, president of the European Council at the time, called for an Energy Union to fulfil the ambitious perspectives that were forming in the European circles. In February 2015, the Commission, also, composed a strategy communication called "Energy Union Package. A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy".[57]

The European Union decided to build an energy union that could address security of energy supply, accessibility to energy for all, in a way that can boost the economy and attract investments, thus creating job opportunities. It is notable to state that Tusk's speech on energy transition was made after and in response to the crisis in Crimea, thus lighting the feeling that a speeding up of the process was connected to the will to face Russian energy challenge as soon as possible. Anyway, these objectives are feasible through measures to fight climate change and a wiser use of energy. The Energy Union set itself as an instrument to facilitate the transition to a low-carbon, secure and competitive EU economy. Energy Union's goals are: to achieve securing energy supplies, to expand the internal energy market, to increase energy efficiency, to reduce emissions and to decarbonise the economy, to support research and innovation. The policy areas concerned are security, solidarity and trust; fully-integrated internal energy

---

[56] F. Sassi, *Clima: il futuro d'Europa passa dalla transizione energetica*, ISPI online, May 2019, https://www.ispionline.it/it/pubblicazione/clima-il-futuro-deuropa-passa-dalla-transizione-energetica-23179, retrieved on 08.07.2019

[57] M. Ringel, M. Knodt, *The governance of the European Energy Union: Efficiency, effectiveness and acceptance of the Winter Package 2016*, in "Energy Policy 112", Elsevier, 2018, pp. 209-220

market; energy efficiency; climate action; research and innovation.[58] The Energy Union is aimed at making the connection between the European energy system and economy resilient, reliable, secure, more sustainable and based on power coming from renewable sources. A competitive, convenient and sustainable energy system supports the implementation of energy policies and fighting climate change in the European countries. An integrated internal market is necessary, as well as making it flexible so that it can include a growing amount of energy coming from renewable sources and direct investments in the right direction.[59]

Within the context of the Energy Union, in the last 4 years the EU has adopted three different "packages", i.e. three series of legislative acts aimed at addressing those concerns that the Energy Union was set for. The current scheme sees the umbrella of legislative acts formed by the "Summer Energy Package", the "Winter Energy Package" and the "Clean Energy Package". To have a detailed list of the legislative proposals, it might be useful to read through the Appendix of the IAI Document "Energy Union Watch – An Evaluation of four years of Energy Union" edited under the patronage of the project drafted by the IAI and Edison.[60] Moreover, the "Clean Energy for All Europeans" package includes 8 legislative proposals aimed at reaching 32% as a share of renewable energy in the energy mix of each EU Member State before 2030 and carbon neutrality.[61]

Even though further analysis of the European energy policy would set an interesting and useful background on which placing the EU - Russian energy relations and Nord Stream 2 case, it might result sufficient to present the EU energy legislative packages in general terms. What is important to state is that the Revision of the Gas Directive 2009/73/EC approved in 2019 is heir of a series of legislative procedures included in the Energy Union project. It is also peculiar to mention the fact that the Vice-President to the Energy

---

[58] M. Šefčovič, M.A. Cañete, *Energy union and climate: Making energy more secure, affordable and sustainable*, European Commission website, https://ec.europa.eu/commission/priorities/energy-union-and-climate_en, retrieved on 08.07.2019

[59] F. Sassi, Clima, op. cit., 2019

[60] N. Sartori, L. Colantoni, M. Bianchi, G. Murgia, *Energy Union Watch – An Evaluation of four years of Energy Union*, in "ECR Programme of IAI – Istituto Affari Internazionali", May 2019

[61] F. Sassi, Clima, op. cit., 2019

Union Maroš Šefčovič "worked for a greater involvement in the Russia-Ukraine dispute, finally launching the still ongoing trilateral talks."[62] Indeed, as we stated above, some pieces of legislation were dedicated to this dimension, including the Revision of 2019. It is also interesting to remind that the energy transition that the EU envisages sees natural gas as the transit fuel, though only in the medium terms, which will definitely affect the EU policy towards Russia, and vice versa.

The energy transition will be possible through a balanced project that includes internal policy-making and commercial and political relations held with its energy partners, especially those of the MENA area (Middle-East and North Africa) and the riparian countries of the Caspian Sea (as well as Russia, obviously). It is likely that in the next couple of decades we will witness some upsetting changes, considering the political developments in Libya, the stagnating Norwegian production and the approaching stop to production in the Netherlands. The changes might turn towards uniformity and synthesis in the interests of the EU Member States. A first test, in this sense, will take place at the end of 2019, when the EU will be called as a mediator in the Ukraine/Russian Federation dialogue.

To sum up, the EU acts internally and externally to secure a reliable energy system to its citizens. It is clarifying to present broadly the EU external energy policy traits. The EU Member States take part to some institutions that shape the progress of the energy dialogue. They are:

- Energy Community: this international organisation involves the EU and its neighbours with the goal of creating an integrated energy market all across Europe. It was established in October 2005 and is in force since July 2006. The Energy Community aims to extend the EU internal energy market rules and principle to its neighbours in South East Europe, in the Black Sea area and beyond. Through a legally binding framework, the Energy Community Treaty establishes a stable and regulatory market framework, creates an integrated market allowing energy trade, enhances the security of supply concern, improves the environmental policies with the use of renewables and energy efficiency,

[62] Sartori et al., *Energy Union* Watch, op. cit., 2019

develops competition at regional level. The Energy Community has nine contracting parties: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Georgia, Moldova, Montenegro, Serbia, Ukraine, together with the EU. Armenia, Norway and Turkey take part as observers, while Belarus applied for the observer status in 2016.[63] All the 9 contracting parties take part at the CESEC (Central and South Eastern Europe Energy Connectivity), a High Level Group, set up in 2015, that works to accelerate the integration of gas and electricity markets.

- Energy Charter: "the roots of the Energy Charter date back to a political initiative launched in Europe in the early 1990s, at a time when the end of the Cold War offered an unprecedented opportunity to overcome previous economic divisions. The Energy Charter Treaty plays a role as part of an international effort to build a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development. The Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects were signed in December 1994 and entered into legal force in April 1998. The Treaty was developed on the basis of the 1991 Energy Charter. Whereas the latter document was drawn up as a declaration of political intent to promote energy cooperation, the Energy Charter Treaty is a legally-binding multilateral instrument. The fundamental aim of the Energy Charter Treaty is to strengthen the rule of law on energy issues, by creating a level playing field of rules to be observed by all participating governments, thereby mitigating risks associated with energy-related investment and trade."[64] "Enforcement has traditionally been ensured through investor-state dispute settlement (ISDS), which today is under serious scrutiny due to concerns regarding legitimacy, transparency, impartiality, independence and accountability."[65] Notably, Russia

[63] Energy Community, https://www.energy-community.org/, retrieved on 10.07.2019
[64] Energy Charter, https://energycharter.org/process/overview/, retrieved on 10.07.2019
[65] E. Bonafé, A. Piebalgs, *The New International Energy Charter: Sustainable Energy Transition, Investment Dispute Resolution and Market Regulation*, Florence School of Regulation for European University Institute, Florence, 2017

never ratified the Treaty; moreover, not all of the EU Member States are part of the Charter (Italy, for example, withdrew in 2016).

- Eastern partnership: "the multilateral architecture of the Eastern Partnership was reviewed and endorsed at the Eastern Partnership Summit in 2017. The former Platform on Energy Security has become a multi-sectoral Platform covering energy and transport connectivity, energy efficiency, environment and climate change. Under that Platform the newly created Energy Panel continues bringing together representatives from the EU, Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine to discuss ways to promote energy security, renewable energy, energy efficiency, and nuclear safety. It also discusses the construction of missing infrastructure links and ways to bring partner countries' energy-related rules more in line with EU rules. The Panel meets twice a year. In November 2017, at the fifth Eastern Partnership Summit, an online inventory of energy cooperation was launched. This interactive tool brings together all activities taking place at bilateral and regional level in the field of energy as part of the Eastern Partnership."[66]

These three organisations are the institutions in which the EU is more directly involved. Alongside with them, we can also find IRENA (International Renewable Energy Agency), IEA (International Energy Agency) and others, with a more global character than the former three. Despite not being part of any of the three political frameworks that were mentioned, Russia is certainly concerned with the development of these European policies. Indeed, it is often said that Russia is trying to restore its influence across the former Soviet space, which includes also dealing with its neighbours in the energy fields. Therefore, the paper will proceed with a focus on the Russian energy system.

[66] Eastern Partnership (European Commission), https://ec.europa.eu/energy/en/events/eastern-partnership-energy-panel, retrieved on 10.07.2019

1.3 The Russian Federation – An Energy Superpower

Subchapter 1.3 contains a picture of Russian energy might. As it is known, Russia holds an enormous quantity of natural resources and is leader in the export of natural gas.
After the introduction of section 1.3.1, energy policy development of the Russian Federation is presented, in section 1.3.2. Here the "energy strategies of Russia" since 2003 are listed and analysed. Kusnetsova, Mastepanov, Bushuyev are authors included in the section.
Section 1.3.3 connects energy policy of the Russian Federation with its external dimension and interaction with international actors. The consequences of political tensions for Russian energy policy are pointed out, thanks to Indeo and Pastukhova's contribution.
Section 1.3.4 highlights Russian moves to face the challenges brought by a changing energy sector, shifting to greener solutions. Moreover, differentiation programmes of the EU pose issues for Russian traditional operations. Lanshina, Øverland, Boute, Proedrou are useful to the completion of the section.
Section 1.3.5 concludes the subchapter and the entire Chapter 1: power concept applied to the energy discourse is undertaken by the section, with reference to Strange, Keohane, Nye. Interdependence is included in the analysis, as well as structuralist arguments applied to the topic.

1.3.1 Introduction

The Russian Federation ranked as the second largest producer of natural gas in 2017[67], with more than 700 bcm produced. The United States, first in the ranking, produced about 830 bcm per year, in 2017. When it comes to reserves and capacity, the Russian Federation detaches the second position (after Iran) with a difference of more or less 150 trillion cubic meters (1688 tcm for Russia and 1191 tcm for Iran, 2018 estimates). The Russian government holds the duty to manage a huge amount of natural resources. Even though logic would suggest that Russia counts as one of the major powers in the global energy discourse, reality shows otherwise. Moscow is tightened between a Nietzschean *will to power* and the incapacity to strengthen its role in the global energy scenario. This situation reflects on the harder way in which Russia can ensure its energy security, which, as a constant for fuel suppliers, tends towards security of demand and stability of prices. This second part – stability of prices – slips from Russian government's hands: prices for natural gas – once determined by the international oil price, now conforming more to hubs' standards – are not much influenced by Russian power. Thus, Russian energy behemoth needs to deal with ensuring that demand keeps steady and that prices do not fall down abruptly. Russian economy is known to be excessively dependent on the export of natural resources, hence requiring Moscow to

[67] EIA, https://www.eia.gov/beta/international/, retrieved on 17.07.2019

act in order to avoid stops in export or a fall-down in revenues, lest the country's economy suffers recession and crisis.

We will discuss about Russian energy policy in general, then we will focus on the external relations that energy entertains, followed by a paragraph on Russian response to climate change and greening energy sector. Lastly, the chapter will end proposing the vision of an un-powerful Russia that struggles to emerge as an energy champion.

1.3.2 Russian energy policy[68]

Russia is the fourth producer of electricity, second exporter of oil, fourth producer and first exporter of refined petroleum products, second producer and first exporter of natural gas. Moreover, Russia possesses the largest reserves of natural gas, among the ten highest amount of crude oil reserves and is the third largest generator of nuclear power. Energy industry is for Russia a fundamental part of its economy and the Russian energy sector is a global giant. Internally, the energy sector covers roughly 30% of the total production industry, representing more or less 50% of the tax revenues and, impressively, 65% of the export share.[69] Gas reaches 6-7% of the Russian GDP and 14-15% of Russian export. The role of the fuel and energy system (hereinafter FES) in the Russian Federation developed from mainly satisfying internal demand (which, in Soviet times, meant supplying all the constituent Republics) to creating a way to preserve energy security and competitiveness on the global energy market. Russian FES is both responsible for internal stability and geopolitical mechanisms.

FES evolution in Russia might be divided in two parts: the first runs between 1850 and 1950, during which coal was the main energy resource; the second started in 1950 and went on until now, with oil, gas and electricity dominating the scene. The second part witnessed Russian production fulfilling internal demand and becoming the leading sector of the Russian industry.

---

[68] This chapter will be based on N. Kuznetsova, E. Kuznetsova, *Energy Strategy of the Russian Federation*, in "Mediterranean Journal of Social Sciences", vol. 6 n. 5, Rome, September 2015

[69] O. Zilberstein*, Assessment of the energy industry role in structure of the Russian economy and formation of national power safety indicators*, in "Economy and modern management: theory and practice: compendium of reports of 32nd international scientific-practical conference", 2014

To recap the development of the last two decades of Russian FES, we will start from 2002/2003: in those years, the country saw the first effects of the recovery programmes that the government underwent to face the 1990s crisis. The FES also received attention, as mineral extraction and export were subject to new taxes and dues. In the same period, Blue Stream – a gas pipeline that supplies Turky – was completed and made operational, while President Putin signed five enactments into law in concerns with the electrical industry. In August 2003, the first Energy Strategy of Russia was drafted, marking the new path of Russian energy policy.

-The first "Energy Strategy of Russia" comprised Russian energy policy for a period up until 2020; its goals were: effective use of natural resources and potential of energy sector for the purposes of sustainable economic growth, improvement of quality of life, and promotion of the country's global interests.[70] The document envisaged the utilisation of energy as a political instrument for economy development and for conducting internal and external politics. The role of the country in the energy market should support (and determines) its geopolitical influence. The report expected a GDP growth of 3.3 times by 2020, the price for crude oil at 30 USD/barrel and for natural gas at 138 USD/1000 cubic meters before 2020. ES-2020 envisioned the following minimum results: decrease of 8-10% in energy intensity and growth of energy effectiveness; fulfilment of the internal demand for primary fuel and energy resources; growth of the expenditure per person for fuel and energy balanced by a faster growth of personal income; a growth of 150% of yearly revenues in the FES by 2010, with a related increase of tax revenue; an augmentation of 45-64% of exports by 2020.

-Six years later, in 2009, the second Energy Strategy of Russia was approved, shifting the focus up to 2030. ES-2030 confirmed that most of the goals set by ES-2020 had been achieved or, at least, put into action. "Urals crude oil price grew from 27USD/barrel in 2000 to 94USD/barrel in 2008; export of fuel and energy resources grew 1.6 times from 2000 to 2008, exceeding the expectations of ES-2020 by 9.6%; GDP grew 65% from 2000 to 2008, which was an 11% deviation from ES-2020, actual surplus of extraction

[70] Ministry of Energy of Russian Federation, *Energy Strategy of Russia till 2020,* approved by the Decree N1234-r of Government of the Russian Federation, 28 August 2003

and production of fuel and energy resources was 26% compared to 2000 – 2.6 deviation from projections, internal demand for fuel and energy resource grew 10% compared to 2000 – 5% deviation from projections (partly explained by the global economic crisis).”[71]

The goals did not differ much from what had already been established: to maximise the utilisation and increase the effectiveness of the energy complex in order to sustain economic growth, improve the quality of life and strengthen the country’s global position.[72] Nevertheless, the new document carried some new items, such as the mention to shaping new priorities of development of energy industry concerning the economic transition that Russia planned in order to achieve innovation and a position of world leader in the XXI century. In general, the new document integrated the 2003 visions with an accentuated attention to the role Russia would cover in the global arena. This was due to external factors – BRIC first summit, ambivalence towards Russia, world financial crisis – and internal ones – improvement of internal socio-economic conditions, recovering from 1990s chaos. However, the final qualitative results of the first stage of strategy’s implementation were not achieved.

With this in mind, ES-2030 proposed three new stages of development of the Fuel and Energy System: recovery from crisis and modernisation of the industry, which meant new explorations and renewal of the industry; transition to innovative frameworks and creation of new infrastructures, mainly aimed at raising energy efficiency; economic development and modernisation, which involved new technologies and new energy tools.

-The FES in the Russian Federation was further supplemented in 2014, when “Energy Strategy of Russia till 2035” was conceived. “The strategy’s main idea is a transition from resource-extractive to resource-innovative development of FES. At the same time new role of FEC in the country’s economy will be illustrated through the transition from

[71] Kuznetsova, Kuznetsova, *Energy Strategy*, op. cit., 2015, p. 163

[72] Ministry of Energy of Russian Federation, *Energy Strategy of Russia till 2030*, approved by the Decree N1715-r of Government of the Russian Federation, 13 November 2009

‘engine for development’ to ‘stimulating infrastructure,’ that provides conditions for development of the Russian economy, including its diversification, growth of technological level, minimization of infrastructure limits.”[73] In this document, challenges were divided into two categories, i.e. internal and external. Into the first group, the Russian authorities inserted facing slow post-crisis economic development and the increasing dependency of the budget on FES, the increase of energy prices for consumers, the need to modernise technology in the energy sector. External challenges included low growth of demand for Russian energy resources, the transition to a state of regional self-sufficiency from a resource-globalisation one, facing increased competition, contrasting the effects of economic and technological sanctions.[74] “The central idea of ESR-2035 is the transition from resource to resource-innovative development of fuel and energy complex based on full use of domestic resources and innovative capabilities through the formation of long-term technological chains with their saturation innovative technologies.”[75]

Focus has been put on the progress of the oil and gas complexes in terms of production, transport and social infrastructure in Eastern Siberia and Far East. The Arctic region and the North of Russia are also mentioned in the document as hot spots for future projects. It seems interesting to report what Silantiev and Nurgalieva pointed out, basing their work on the analysis of ES-2035 made by Bushuyev, Gromov and Mastepanov.[76] They list the following points as pivots of ES-2035:

> *the stabilization of oil production; the creation in the East of the country of the infrastructure for 20–25 % of total production and 40 % of exports of oil and oil products; the increase of oil recovery factor up to 40–45 %; the preparation of explored reserves, infrastructure, and technologies for development of the Arctic shelf; the creation in the*

[73] Ministry of Energy of Russian Federation, *Draft Energy Strategy of Russia till 2035*, 2014

[74] A.M. Mastepanov, *ESR-2035. Paper presented at the seventh Japan–Russia Energy and environment dialogue*, Niigata, 30 Oct 2014

[75] Ibidem

[76] -V.V. Bushuyev VV, *Russian Energy (selected papers, reports, presentations). In three volumes. Vol. 3, World Energy and Russia (in Russian),* in *“*Energya”, Moscow, 2014

-A.I Gromov*, The concept of energy strategy in Russia for the period up 2050*., in “Energeticheskaya politika (in Russian), 2014

-A.M. Mastepanov, *ESR-2035*, op. cit., 2014

East of the country of the infrastructure for 15–20 % of total gas production and 35–40% of exports of gas; the increase of gas production of 35–45%; the deep processing of up to 25–30% of produced gas; the implementation of already planned projects: "South stream," "Power of Siberia," and the creation of LNG plants; the liquefaction (LNG) up to 8–11% of produced gas; the extension of the Unified Gas Supply Systems to Eastern Siberia and the Far East; the development of oil and gas infrastructure in the Far East, including the development of oil and gas fields of Sakhalin oblast (on the continental shelf of the Okhotsk sea) and oil deposits on the territory of the Republic of Sakha (Yakutia) (Talakan and adjacent fields); continued implementation of the projects "Sakhalin-1" and "Sakhalin-2"; the construction of the refinery in Primorsk region; modernization of oil terminals in Nakhodka and De-Kastri; the formation of the Yakut gas Centre (on the basis of the Chayanda field, with the prospect of development of adjacent fields – Srednebotuobinskoe, Taas-Urjahskoe, Verhnevilyuchanskoe, and others); the construction of new LNG plants in Vladivostok and Sakhalin; completion of construction of the gas pipeline "Power of Siberia"; the gasification of the Southern Federal District; and the formation of oil, gas and petrochemical clusters, large gas processing facilities and chemical plants.[77]

In ES-2035, many references to ES-2030 are present, mostly addressing the need to renovate the old document because of the new challenges Russia had to face.

Indeed, this is why the Russian government decided to establish a 5-years period between an Energy Strategy and the following one. Technological delay has been a great obstacle in achieving the goals set in the various ESs. In 2014, only 62% of the investments planned for the first phase of ES-2035 had been brought to energy industry: Minister of Energy Novak declared that Russia will need 2.5 trillion dollars of investments by 2035 to reach economically-sustainable levels. FES industry is still mainly based in Western Siberia and Urals-Volga Basin, even though the returns from the Western buyers is expected to decrease. More effort has been applied to the creation of infrastructures in East Siberia, Russian Far East, Russian Arctic, and other potential exploration fields, but uncertainties and difficulties make the future development of this

[77] V.V Silantiev, N.G. Nurgalieva, *Russian Federation: Energy Strategy*, in G. Tiess, "Encyclopedia of Mineral and Energy Policy", Springer-Verlag, Berlin Heidelberg, 2015

alternative unreliable. Revenues from exports are still dependent on European countries, but the ideological and political gap appeared in the last years lets catch a glimpse of the increasing difficulties that Russia will have in dealing with Western clients, if the situation keeps deteriorating.

1.3.3 Energy policy and external relations

What is the assumptions Russia made in the last years to shape its energy policy and plan it for the years to come?

First of all, tensions with Ukraine, the annexation of Crimea in 2014 and the consequent sanctions imposed by the European Union and the United States had effects on the direction Russian energy policy took. The traditional Western markets have slowly become more difficult to satisfy and, most of all, more difficult to appease from a normative point of view.

Moscow already foresaw a shift towards East for its energy power and system, which the tensions with the West have accelerated. As we saw, the Energy Strategy – 2035, drafted before the annexation of Crimea, already mentioned the strategic value that East-Asian markets were going to represent for the Russian export, as well as its energy development. Russia detains its main oil reserves in West Siberia and in the Volga-Urals region, but Eastern Siberia and the Artic region's deposits are promising, although not explored yet. For what concerns natural gas, Yamburg, Urengoy and Medvezh'ye are the biggest deposits, representing 40% of the total gas reserves of the Russian Federation. Because of the huge employment of these sites, production is esteemed to be decreasing in the following decades. That is why Russian companies are planning to activate new exploration projects in the Sea of Barents, on Yamal peninsula and on the Sakhalin island.[78] The picture shows a great disproportion oriented towards West, as more than two thirds of the Russian oil export and more than 90% of natural gas flows to Europe (or, if consumed internally, to Russian biggest cities and industrial sites,

[78] U.S Energy Information Administration, Russia. Country Analysis, March 2014

mostly situated west of the Urals). Oil export is managed by the state company Transneft, gas production and export are brought on by Gazprom.[79]
Gas is transported to Europe almost always via pipelines, that are economically convenient and have been built during the last decades. Asia receives Russian gas in the form of GNL and, at least until "Power of Siberia" pipeline is completed, will continue to do so.

The transit of gas through Ukraine has been considered a challenge for Russian authorities already since the first decade of 2000. Russian diversification strategy regards both shifting towards East and redirecting routes running towards West. European stiffening opinion about Russian intentions has convinced Moscow to apply changes to export guidelines and, therefore, to the strategies of the past. This is due to European will to diversify energy sources and Russian necessity to guarantee security of demand in accordance with the fact that relations with the EU are hardening and Asian markets are growing together with their energy demand. EU Third Energy Package made it more difficult for Russia to catch up with European legislation, in a situation in which EU Commission attitude is backed by Eastward EU Member States.[80]
What is certain is that two planned projects were cancelled in the last few years. The European project called "Nabucco" was annulled. South Stream, the Russian alternative to supply Europe bypassing third countries, was blocked by the EU.
These hints point at what Moscow opted for its Energy Strategy to 2035: reorienting to China and Asian markets its energy capability. The goal had been established in Russian élites' plans before the latest crises (ES-2030 already mentioned reorientation). Eastern partners enjoy technological know-how and economic potential that might hand Moscow important means to develop the underdeveloped infrastructure and production spots in Eastern Siberia. Especially China could help the Russian Federation in

[79] As pointed out before, Novatek is an independent company that manages LNG production; its operations are mainly located in the Artic regions. For further details, see Chapter 2
[80] It is sometimes stated that Juncker Commission was sometimes slightly too sharp in committing to Polish and Baltic requests. See, for instance, M. Soldavini, *Perché Mosca e Berlino Raddoppiano il Gasdotto Baltico*, limesonline.com, 03 January 2019, http://www.limesonline.com/cartaceo/perche-mosca-e-berlino-raddoppiano-il-gasdotto-baltico, where the author suspects a feverish behaviour in dealing with Nord Stream 2 project.

"enhancing the deposits of the Artic section and taking advantage of unconventional hydrocarbon reserves – and to implement the necessary processing and transport infrastructures (liquefaction terminals, gas pipelines) for export, weakening the harmful effects of European sanctions."[81] It is important to note that Moscow acts in a business oriented way in this, which is something the supporters of the claim of an assertive Russian energy policy might omit. Nevertheless, it would be superficial to analyse Russian shifting merely from an economic point of view. Indeo rightly points out that, more for what concerns gas, energy cooperation with China, South Korea, Japan offers the opportunity to export fuels without making them transit through third countries. This enhance energy security and control over resources. The exhausting spots in the West will leave the way to Eastern Siberia ones, which makes the whole shifting process easier and faster. Moreover, developing energy export in the East will mean accelerating internal policies addressed to the development of "Dal'niy Vostok" (Far East).

Even though some experts envisage a massive shift towards East of Russian fuel production, it is quite unlikely to witness that in the short-term, especially concerning gas. Rosneft and Transneft (the company that manages the infrastructures employed for energy transport) do carry oil from Russia to China and will increase the export volumes. However, the quota is still far from that which flows to Europe.

In the gas sector, sanctions prevented Russian companies from maintaining their exploration and development programmes. Moscow needed and still needs technologies coming from outside. If Western companies and governments are not eager to find compromises and keep harming West-Russian energy relations, it is feasible to see a concrete change of priorities for the Russian governments.

This will not happen until the difficulties of exploitation and of high costs linked to the start of the production activities in the Artic and East Siberia are not overcome.[82] Moreover, Russia will have to face the challenge set by American shale gas, which,

[81] Translation from F. Indeo*, La Russia dopo la Crimea: la fine di South Stream e la proiezione verso l'Asia*, p. 92, in "Rapporto Energia e geopolitica. Gli attori e le tendenze del prossimo decennio", edited by M. Verda, Milan, 2014

[82] Ibidem

apparently, has become quite a competitor in the global gas market and is expected to play a visible role in the future supply of Asian markets.
Should the "East" plan fail to concretise, Russia could still hope on the interdependent European partners. Maybe the EU is trying to differentiate and lessen dependence on Russia, but the process is not something that could happen overnight. Therefore, the Russian Federation will have to deal with a situation in which the old partners are reluctant to maintain the relationship as it was in the past and new partners who may result uninterested (read "economically not attracted") in the future. This poses serious concern for an economy that basically relies on foreign revenues.

"The process of establishing a common energy market in the Eurasian Economic Union (EAEU) is moving forward after Russia and Belarus succeeded in resolving important differences. This reorganisation of the energy space will also affect the European Union, because Russia and Kazakhstan are major oil and gas suppliers, and important export pipelines originate there. At the same time regulatory and technical fault lines are becoming apparent between the EU/European Energy Community and the EAEU – also affecting transnational physical infrastructure. Furthermore, the integration blocs overlap in sensitive regions like the Caucasus, the Black Sea region and the Baltic states."[83] Electricity and oil markets were addressed in 2016 and 2017 through programmes adopted by the Council of the Eurasian Economic Commission. The goal is the creation of a common energy market inside the EAEU, even though gas market harmonisation still lacks political support, especially because of Moscow-Minsk disputes. Nevertheless, the programmes propose a dual pricing mechanism for transnational gas trading inside the EAEU: state regulation adopted by bilateral agreements would lead the price of gas in bilateral trade, while market pricing will be adopted for long-term contracts and exchange trading. "Both the energy market concept and the existing agreements suggest that the harmonisation of norms and rules, the standardisation of pricing mechanisms and the codification of standards and data all relate initially only to energy trading within the EAEU. But the EAEU is also working

[83] M. Pastukhova, K. Westphal, *Eurasian Economic Union Integrates Energy Markets – EU Stands Aside*, SWP Comment, 5/2018, Berlin, 2018

on its external relations. In Asia it has encountered interest both among individual states – including India, Mongolia, Singapore and Vietnam – and from international organisations seeking economic cooperation with the EAEU and participation (also financial) in its integration processes. China naturally plays an outstanding role, and the EAEU heads of state lost no time initiating talks with Beijing in 2015. China is the second-largest trading partner for the EAEU, which regards it as a strategic economic partner in the Asia Pacific region."[84] Future will tell whether this process will lead to a rapprochement with the EU thanks to a standardised similar model or whether the EAEU will ride the Eastern wave and shift to Asia.

The answer is not easy to find. Meanwhile, Putin has pushed internal energy market in the direction of liberalisation, in the hope of shaking a sector that is far too bridled in the monopolistic system that has paralysed real development in the last decades. Moreover, adapting to climate change action could deliver a new wave for Russian energy system, in spite of the hard line needed. It is peculiar to note, though, that Proedrou estimates that even in the case Russia succeeds in developing a new constructive energy relation with China, this will not endanger too deeply the flows of energy to Europe, because the two lines are not in competition and could be managed more or less separately and simultaneously by the Russian authorities.[85]

Modernisation, liberalisation and (partial, at least) adaptation to the European legislative and market framework might set the path for Russia not to succumb under the wind of change in the energy area. Furthermore, the energy discourse will have to combine with political and geopolitical issues, such as dealing with the challenge of substituting obsolete gas-transit infrastructures in Ukraine with the will of the EU to prevent the country from falling apart. The paper will take this into question in a later stage. The following paragraph will discuss about Russian response to the greening of the energy sector.

[84] Ibidem

[85] F. Proedrou, *Russian Energy Policy and Structural Power in Europe,* in "Europe-Asia Studies", 2018

1.3.4 Response to a changing energy sector

"Renewable energy is highly relevant for Russia, for several reasons. First of all, Russia can benefit economically from giving greater priority to renewable energy sources, since this will improve its opportunities for energy exports by decreasing the domestic use of fossil fuels. Secondly, Russia can make the transition to renewable energy usage more most-efficient and cheaper by using mechanisms in the global climate regime that promote increased production of renewable energy. Thirdly, whereas fossil fuels are exhaustible, finite resources, renewable energy sources are not. This means that developing renewable energy sources will be necessary sooner or later. Being proactive in this development will undoubtedly be an advantage. Fourthly, Russia's vast size means that renewable energy solutions are the most economically viable option in certain isolated areas such as the Northwest. And finally, Russia enjoys several competitive advantages linked to its natural resource base and its strong tradition of research in the natural and technological sciences."[86]

Aleksey Zhikarev, director of the Russia Renewable Energy Development Association, answering some questions to journalists, claimed that renewable energy is not emphasised enough in the Russian energy policy. The national strategy set at 4.5% the target share of renewable energy by 2024 (previously by 2020). Russian energy strategy indicates an implementation of 25 GW of renewable energy by 2030, but this scenario is just one of the possibilities that Russia envisions; moreover, authorities and decision-makers do not seem to realise the importance of such a policy, which makes expert assume that the mechanism in place will reach just 1% as a share on the total electricity production.

The two support mechanisms in place at the moment are for the wholesale and retail markets. The former is based on guaranteed payments per installed capacity; for the latter, local companies are obliged to purchase electricity coming from RES to cover 5% of their network losses. "For example, if a grid operator supplies 100 GWh per year and has 10 GWh of network losses [10% curtailment], the 5% rule means 0.5 GWh has to

[86] I. Øverland, H. Kjærnet, *Russian renewable energy: the potential for international cooperation*, Routledge Taylor&Francis Online, Tromsø, 2009

be compensated for from renewable energy production. Unfortunately, this mechanism is still unsuccessful."[87] However, even though mechanisms are still not enough to enable Russia to really reach valuable results, ES-2035 might still contain important news for the renewables sector. RES in Russia will have a hard time, but they could still prevail over time.

Although the global trend is to reduce the share of energy coming from fossil fuels and increase the amount of energy coming from renewable sources, Europe will represent an opportunity for Russia to undergo a smoother change: the decommissioning of coal power plants and nuclear facilities gives the chance for new gas-combined plants. This will mean that Russia still has time to take a step to renewable sources, with the advantage of having to renovate its power production system rather than create it *ex-novo*. Furthermore, international pressure is already acting in oil and gas producing countries so that they invest more heavily in renewable energy. Russia is late in this because of poor policy-making resolution; however, Russia was an early leader in the development of RES, which underpins the possibility for the fossil fuels giant to catch up with the rest of the world.

"In an ironic twist, Russia was among the pioneers of the early development of renewable energy technologies. In 1930s, the Soviet Union launched a serial production of a number of small-scale wind turbines. In 1931, the then world's largest wind power plant was started near Balaklava (Crimea). It was later destroyed in the Battle of Sevastopol during the Second World War. Perhaps equally interesting, the USSR also developed one of the first uses of solar panels in spacecraft. The first Soviet spacecraft to use the energy of sun—Sputnik-3—went into orbit in 1958. In addition, the USSR had early plants for the production of biogas from wood and agricultural waste. In 1966, the first Soviet geothermal power plant was built on the peninsula of Kamchatka – the Pauzhetskaya plant. Initially its installed capacity was 5MW (MW); it has been

[87] A. Khashman, *Interview: Is Russia's embrace of renewable energy a reality or a myth?*, pv-magazine.com, 03 May 2019, https://www.pv-magazine.com/2019/05/03/interview-is-russias-embrace-of-renewable-energy-a-reality-or-a-myth/, retrieved on 26.07.2019

upgraded since then to a total of 12 MW."[88] In the 1960s and 1970s, the era of large power stations took over and Russia abandoned the path it took in the '30s. It was in the 2010s that Russia found its interest in RES again. From 2015, Russia started investing in renewable energy, but the only visible results can be found in hydropower sources. The power system of Russia is constituted by the Unified Energy System and a myriad of isolated smaller energy systems. The total installed capacity is about 230-250 GW. Wind power supplies 11 MW and solar power supplies 60 MW, that together comprise a little 0.03% of the total capacity. If we add hydropower, RES reach just 0.05% of the total.[89] Studies reveal that renewables might be competitive also in Russia, in spite of its fossil fuel enormous power. "In places that have abundant wind, large onshore wind power plants may be competitive with all other power plants except for natural gas reciprocating engine facilities, even with low domestic fossil fuel prices and high WACC [(weighted average cost of capital)]. In places with abundant sunshine, solar PV may be cheaper than diesel, gas peaking, IGCC and coal. And renewable energy technologies show much greater cost-competitiveness under lower WACC."[90] Russia has natural resources that grant it a competitive advantage in the development of any energy system, including renewables. Russian vast territory offers many different types of natural resources, not merely indicated under the fossil kind. In 2003, the International Energy Agency found that wind energy could represent a valuable alternative in various regions, such as Astrakhan, Kaliningrad, Volgograd. Solar energy reaches high potential in southern territories, such as North Caucasus, Black Sea and Caspian shores. In addition, geothermal resources can be found in Kamchatka, Kuril Islands, Lake Baikal. Finally, Russia is the world's largest producer of biomass.[91] The problem is the lack of profitable incentives to shift to a greener economy and energy production, as well as low energy efficiency that absorbs much of Russian energy effort. What is more, the political élites do not seem to take energy transition seriously. Truth

[88] T. A. Lanshina, J.A. "Skip" Laitner, V.Y. Potashnikov, V.A Barinova, *The slow expansion of renewable energy in Russia: Competitiveness and regulation issues*, in "Energy and Environment: Transition Models and New Policy Challenges in the Post Paris Agreement'", Energy Policy 120, Elsevier, 2018
[89] Ibi., p. 602
[90] Ibi., p. 603
[91] I. Øverland, *Russian renewables*, op. cit., 2009

be told, the Russian government did promote RES in the 2010s: they created a premium-based feed-in tariff and a capacity-based support scheme. It was the novel capacity-based scheme that was adopted in 2013 to support solar, wind and hydro power.

"Russia has also set strategic goals for its RES sector. It has been aiming to meet 4.5% of its total power generation by renewable energy except for large hydro by 2020 […]; by 2010 it was expected to reach 1.5% of power generation from RES, by 2015 – 2.5%. Short- and mid-term targets – 1.5% and 2.5% – have already been missed; in 2015, the deadline for the long-term target (4.5%) was extended to 2024 […]. Given that Russia currently generates less than 0.5% of its electric power from RES (excluding large hydropower), this is quite an ambitious target. The installed capacity goal for wind, solar PV and small hydropower plants by 2024 is 5.536 GW (Russian Government, 2017b) or about 2.5% of today's total installed generating capacity, which is also quite ambitious. Some Russian regions have started to develop regional legislation to support renewable energy. For example, in 2014, the Republic of Sakha (Yakutia) of the Russian Federation enacted a law on renewable energy (Republic of Sakha (Yakutia), 2014). There were also earlier attempts to develop regional legislative environments for RES development, e.g. in Tomsk region in 2000, in Krasnodar region in 2004, etc., however they did not result in any regulatory changes."[92]

The poor development of RES is due to a lack of political pressure and missed implementation, with short shot for what concerns goals. Fossil fuels and nuclear energy remain the priorities of the energy strategy. It is not because Russia does not recognise the economic, social and environmental benefits that the switch from fossil fuels to RES represent (both in industrial/populated areas and remote small villages). However, the approaches adopted are unlikely to be effective for investments, as the government fails to guarantee that RES tariffs are maintained unchanged during the payback period of those investments. Therefore, investors cannot rely on long-term regulated prices guarantees and power purchase agreements. This means that there is a double failure in

[92] Lanshina et al., *The slow expansion*, op. cit., 2018, p. 606

the Russian system, one represented by the government and one happening at market/investors level.[93]

Lanshina et al. enlist four possible policy projects that might improve Russian attitude towards RES: strong R&D support for the development of new technologies, support for projects that involve new renewable energy sources and their spreading in terms of popularity, the activation of functional carbon taxes, a regional and national economic development roadmap aimed at improving the economy and cost-efficiency of RES.

Looking towards the EU, the slow pace of Russian RES can become either a way to enhance cooperation, or, instead, a further reason to cool relations. Scientific cooperation is a field on which cooperation would form a win-win situation, as it involves mainly low-politics, accompanied by the fact that taking part to the global fight to climate change is surely one of the best activity countries, be they rival or partners, can undertake to improve their relationship. On the basis of the declaration made on 2000 on the EU-Russia Energy Dialogue and under the FP7 (Seventh Framework Programme[94]), Russia and the EU started including climate change to their joint energy policy, as well as enhancing strategic international cooperation with Russia, developing innovative operational and monitoring tools for large power systems, and so on.[95] Kyoto Protocol helped building international cooperation in the fight against climate change. As we know, the Protocol was a first real step in the fight but had to be substituted and enhanced by the Paris Agreement. However, since Russia has not ratified the Agreement yet, little could be done under its patronage in the EU-Russia energy dialogue related to renewables and climate change.

Cooperation in the RES sector is still feeble, though not inexistent. Many factors will influence the future development of the EU-Russia energy dialogue, and RES will definitely be part of it.

---

[93] A. Boute, *Off-grid renewable energy in remote Arctic areas: An analysis of the Russian Far East*, in "Renewable and Sustainable Energy Reviews 59", 2016

[94] Launched in 2007, the FP7 was aimed at providing and coordinating grants for various European projects in science and technology related EU interests.

[95] I. Øverland, *Russian renewables,* op. cit., 2009

What is peculiar is that, in spite of the great potential Russia holds, its institutions and political power fall short and demonstrate what might be interpreted as weak energy power.

1.3.5 Russian energy power

Power is probably the most discussed topic in international relations and political science. It would be misleading to engage the argument of defining what power is. What is useful in this context is to understand what role power plays in the Eurasian energy dialogue.

Keohane and Nye punctually highlighted the weight power brings with itself. If hard power is about coercion and the possibility to decide for the others, if soft power is the ability to make the other do what one wants without having them knowing it, the combination of the two is what leads a country to become a great *power*. In the energy dialogue, somehow the two delineations apply as well. Hard and soft power are two concepts that Nye and Keohane associate with interdependence, which is a condition that appeared more strongly with the end of the XX century's great wars and the consequent apparition of international organisations. "International regimes" and "interdependence" are the key concepts of their work, and it is important for us to understand that some facets of it apply to energy issue. Keohane and Nye assume that interdependence does not necessarily lead to cooperation nor it implies that the consequences of interdependence carry a benign substance for the actors involved. Interdependence is a broad term that refers to situations characterised by reciprocal effects among countries. This can be applied to situations such as the military interdependence between the Soviet Union and the United States. The authors distinguish between interdependence and *complex* interdependence. This latter refers to situations in which a number of countries that entertain multiple channels of contacts that connect societies. In this case, the state does not monopolise these contacts.[96]

[96] R.O. Keohane, J.S. Nye, *Power and Interdependence Revisited*, in "International Organisation, vol. 41", MIT Press, 1987

Whether energy dialogue between the EU and Russia falls into this categorisation is subject of analysis and debate.

Generally speaking, if interdependence involves powerful states that act in a realist way and are due to yield some power to the system that was created, complex interdependence hides a neo-liberal or constructivist connection. This happens because states are not able to handle directly a certain aspect of the issue they face (e.g. trade in liberal economies needs to unbridle from state control). If this happens, a part of the state power needs to be yielded to some different actors.

Talking about Russian energy power, however, it seems that the Russian government is not able to conduct energy policy in a tenacious way. And complex interdependence does not explain all of it. It might happen because of internal obstacles, such as monopolism, corruption, weak institutions. From a foreign-relations point of view, Russian energy power is sometimes addressed as huge and instrumental for Russian political goals. Evidence exists and is undeniable; nevertheless, deeper analysis reveals that Moscow does not happen to bear a free hand over the energy issue. Filippos Proedrou argues that hard power in the gas sector (but it could be stretched to the energy sector in general) is much less efficient than usually assumed and even counterproductive; soft power, instead, varies significantly across Europe and brings little evidence of tangible outcomes. According to him, structural power, which is by definition built on mutual relations and not on unilateral policy-making, is the kind of power that determines space for action and alternatives for the actors involved. Structural power is the capacity of actors to shape the rules of the game and refers to the power to construct the frameworks within which actors relate to one another.[97] Structural power enables the actors involved of mastering their resources in both the social and material dimensions. Proedrou cites a number of authors who addressed Russian hard power in the energy sector and reiterates: "Russia has used its dominant geopolitical and energy position to reap geopolitical (winning allies, penalising rivals and dis-incentivising their activities), political (encouraging/ discouraging electoral choices in

[97] S. Strange's definition reported in F. Proedrou, *Russian Energy Policy and Structural Power in Europe*, in "Europe-Asia Studies", Routledge Taylor&Francis Online, 2018

third countries), and economic advantages (contracts and pipelines) by means of supply interruptions, covert or explicit threats of interruptions in supply, transit avoidance and the diversification of export routes, outcompeting rivals, diverse pricing policies, exploitation of financial dependency, and hostile takeovers of corporate assets and infrastructure.[98] Even though these tactics have proved beneficial in the CIS (Commonwealth of Independent States) and in Eastern Europe (Belarus and Hungary), they proved counter-productive in the Baltic region, in Poland and Georgia. Moreover, coercion and hard choices sparked scepticism in Western Europe and spoiled Russian reputation of being a reliable supplier.

Energy policy cannot be interpreted in a mere hard-power vision; it contains many traits of structural power. In this kind of power, only rarely did Russia succeed in obtaining beneficial features. Contractual framework has developed non-transparently, which was evident in the differences with which Russia managed its clients (see, for example, the different strategy deployed for Ukraine and for Belarus in the last decade).

If Russia succeeded in creating business ties, durable contractual frameworks and even reached compromises within the legal set the EU has created over time, the main result Moscow obtained was internal division and greater interdependence among companies, which is something that led the European Commission and some member States to push for looser tights with their big neighbour. The EU Third Energy Package, shorter contracts, the political declarations are all evidence of the counterproductivity of Russian conduct of the last decades, when it acted coercively.

Further manifestation of the lack of room for manoeuvre of the Russian energy authorities is the abandoning of projects such as South Stream, as well as the great opposition to Nord Stream 2. Even in the case these projects carried economic advantages, much stronger structural power in the EU outclassed Russian "energy tool".

[98] Proedrou cites Larsson, *Sweden and the NEGP: A Pilot Study of the North European Gas Pipeline and Sweden's Dependence on Russian Energy,* Stockholm, FOI, 2006.; *Liutho, Energy in Russia's Foreign Policy*, Electronic Publications of Pan-European Institute 10/2010, available at: https://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-ja-tietopaketit/Documents/ Liuhto_final_netti.pdf; Proedrou, *EU Energy Security in the Gas Sector: Evolving Dynamics, Policy Dilemmas and Prospects*, Farnham, Ashgate, 2012

To sum up, in the relation with the EU, Russia often needed to succumb to its stronger neighbour and, when tried to undergo hard strategies, the outcome was never clearly beneficial for Moscow. Now that Russia is shifting towards East, its power will face even greater challenges, as the energy system will have to enter in a market that does not need to follow the path dependence way it does in Europe.

In a zero-sum game, Russia risks much in the developing of the energy sector; surely, it is less prepared to changes than its partners/competitors. Thus, we can claim that Russian energy power is such only in a hard power and realist vision of the matter, while, in terms of structural and soft power, Moscow has still a long road to go. "On the contrary, branding itself as an indispensable, crucial, and invaluable partner in a positive-sum game, namely a global energy transition towards a low-carbon global economy, would raise Russia's profile and render the West more receptive, and appreciative of, Russian policies."[99]

Far from this paper to blame on only one actor for the deterioration of energy relations between Russia and the EU. Nevertheless, it is duty for Russia to take a shift in the management of its energy partners, as well as the EU needs to understand that the Russian Federation still plays a very important role in shaping the future of the energy sector; therefore, restoring positive and constructive relations might result beneficial for both parts and, more importantly, would raise structural power of both parts in absolute terms.

[99] Proedrou, *Russian energy* policy, op. cit., 2018, p. 85

CHAPTER 2 – Russian and EU gas relation: state of art

Chapter 2 presents the state of art of the gas relations between Russia and the EU. It is a continuation of Chapter 1 and analyses more in depth the gas sector in the energy relations between Russia and the EU.
Chapter 2 is divided in three subchapters.

- *Subchapter 2.1 analyses gas relations between Russia and the EU in general terms.*
  The global competition of the supply of hydrocarbons increased in the last years, and new competitors entered aggressively the market (USA, Iran, Iraq, Australia). The entry of new competitors took place side by side with stagnation of demand in Russia, due to the global financial crisis and the consequent decrease of production in Russia's main destination markets. Export strategy has been based on some premises, such as: orientation of pipelines towards West (with a focus on Central and Eastern Europe), acting by maximising the volumes exported rather than raising prices, supply of gas based on oil-linked long-term contracts with "take-or-pay" and destination clauses, preference for bilateral contracts and intergovernmental agreements. The strategy changed in 2002, when Gazprom started considering Ukraine and Belarus as unreliable transit countries, therefore decided to plan new routes, like North and South Streams. In the 2010s, deceleration of GDP growth, industrial production and investments contributed to force Russian government to intervene and change gas policy, as the country was locked in a framework of low-stated regulated domestic gas prices. The new approach to the gas sector involved some moves towards liberalisation of the gas market (Novatek and Rosneft). The most difficult challenge the Russian Federation has to face in the second half of the 2010s is the changes in the energy sector that Europe has undertaken. (Low) demand is only partly sustained by (falling) own production; moreover, renewables, improved energy efficiency and differentiation processes threatens Gazprom's capability in the EU.
  The situation was complicated by the regulatory framework that the EU constructed. The European Gas Directive (98/30/EC), the Second Gas Directive (2003/55/EC) and the Third Gas Directive (2009/73/EC) influenced significantly EU gas market and consequently its main importing sources.
  Another shifting paradigm is the pricing of gas supplies. The hubs, i.e. the physical or virtual spots where gas is exchanged, are becoming more often the price benchmarks. This tendency is supported by the LNG boom, which makes the global gas market more fluid and price-sensitive. Moreover, it is expected that by 2025, volumes exported to East Asia could reach 60-80 bcm/year: Power of Siberia is a huge project that will see the completion of a pipeline connecting Eastern Siberia to China.
  Russian advantage lies on the extra volumes of gas (about 150 bcm) it could be able to produce. In this way, Moscow could lower its costs and provide Europe with cheap gas. These prerogatives pushed the Kremlin to plan the realisation of Nord Stream 2 and Turkish Stream.

Section 2.1.2 lists the principle pipelines in Europe: JAGAL, NEL, OPAL. In the future, Southern Gas Corridor, composed by South Gas Pipelines, TANAP, TAP, will be operative.
Principle pipelines between Russia and Europe: Nord Stream, Urengoy-Pomary-Uzhgorod, Yamal-Europe, Blue Stream, Turkish Stream (alternative to South Stream).

- *Subchapter 2.2 presents a briefing of the companies involved in the gas business.*
  Gazprom, subject of section 2.2.1, is the biggest Russian company that carries on the business of extraction, production, transport and sale of natural gas. In the name of security of supply, the EU has often depicted Gazprom as the energy weapon Russia deploys to fulfil its geopolitical interests. However, Russia is as much dependent on revenues from the EU as some EU Member States are on Russian supply, hence showing that Gazprom cannot act as freely as some critics suggest. Moreover, as it was stated in chapter 1, Gazprom and Russian government came out endangered from the interruptions of supplies during the 2006 and 2009 crises with Ukraine.

- *Subchapter 2.3 analyses the role of transit countries and the value of controversies between Russia and its partners.*
  As stated in section 2.3.1, Ukraine witnessed transit volumes that overreached 90 bcm/year with a peak in 2011 of 100 bcm/year. In terms of imported volumes, Ukraine was supplied with 25-40 bcm/year, but recorded a clear 0 of direct imports since 2016. The unstated reality is that Russia considers that certain volumes of gas transiting through Ukraine would still be compatible with security of supply. Transit diversification away from Ukraine is the best option for Moscow; nevertheless, Russia understands that this is not implementable yet. Market and political obstacles prevent total diversion.
  Section 2.3.2 shows the main controversies in the gas sector of last years. Disputes such as the Gazprom-Naftogaz arbitration, Russian claim to the WTO, the EU Competition investigation in Central and Eastern Europe, the OPAL exemption decision make it harder to maintain good relationships.

2.1 Gas relations between EU and Russia

This subchapter presents the state of art of the gas relations of the EU and Russia.
Section 2.1.1 shows the past, current and future development of gas relationship, including prices, strategies, regulatory framework and businesses involved.
Section 2.1.2 presents a list of the major pipelines through which gas is transported, both in European and Russian territory. Examples of interrupted projects such as South Stream or Nabucco are included.

2.1.1 Gas relations development

In the last decade, Russia had to face some major shifts in a list of different fields. Economic, market, domestic political and foreign related-policy upheavals formed what

could be perceived as a perfect storm.[100] Several internal and external factors combined and forced the Kremlin to face a completely new environment. The global competition of the supply of hydrocarbons increased, and new competitors entered aggressively the market (USA, Iran, Iraq, Australia). The entry of new competitors took place side by side with stagnation of demand, due to the global financial crisis and the consequent decrease of production in Russia's main markets. Stagnation of demand was registered in the internal market as well, caused by structural domestic economic inefficiency and lack of stimulus for entrepreneurship. Difficulty to access finances and investments was worsened by the sanction regime that was applied to Russia after 2014 because of geopolitical tensions and struggles.

The overall result was that Russia entered the 2010s in a difficult environment, where oil and gas prices were low and internal mechanisms needed to catch up to avoid total economic downfall. Revenues coming from hydrocarbons accounted for 50% of Russian federal budget in 2011-2014. It fell to 34% in 2016, a significant constraint that contracted Russian GDP growth from +6-8% for the period 2004-2008 to a "humble" +3.9% in 2015. As well as the shrinkage of revenues, the diminished demand for Russian resources had consequences for the global energy system, especially as long as gas industry was concerned. Indeed, the Russian Federation has always been a key player in the global gas market. In 2018, it stood as second world producer (after the USA) with almost 700 bcm/year, hitting 18.4% of global production; it was the first net exporter in terms of volumes, with an export totalling 217 bcm. At the same time, internal consumption makes up an important share of natural gas total production, reaching more than 50% of the total energy consumption and about 50% of the energy mix.[101]

Russia has had a long history of gas production. The relevance of natural gas export started during the Soviet times and became noteworthy during the '70s. The following table illustrates the growth of gas export to the biggest European countries until 2003.

[100] T. Mitrova, *The New Russian Gas Export Strategy After the Ukraine Crisis*, in M. Hafner, S. Tagliapietra, "The European Gas Markets: Challenges and Opportunities", Palgrave MacMillan, 2017

[101] Ibidem

Russian Gas Export to Europe 1973-2003 (Bcm)

	1973	1975	1980	1985	1990	1995	2000	2003
Germany	1.1	6.4	16.2	18.7	26.6	32.1	34.1	34.9
Italy	-	2.3	6.6	6.3	13.6	14.3	21.8	19.8
Turkey	-	-	-	-	3.3	5.7	10.2	12.9
France	-	-	3.7	7.3	10.6	13	12.9	11.2
Hungary	-	0.6	3.8	4	6.5	6.3	6.5	10.4
Slovakia	-	-	-	-	-	6.5	7.9	7.3
Czech Rep*	2.4	3.7	8.3	10.5	14.2	8.4	7.5	7.4
Poland	1.7	2.5	5.3	5.98	8.4	7.2	6.8	7.4
Austria	1.6	1.9	2.4	4.2	5.1	6.1	5.1	6.0
Finland	-	0.7	0.97	1.02	2.7	3.6	4.3	5.1
Romania	-	-	1.6	1.95	7.3	6.1	3.2	5.1
Bulgaria	-	1.2	4	5.5	6.9	5.8	3.2	2.9
Yugoslavia	-	-	1.8	3.9	4.5	1.2	1.5	1.9
Greece	-	-	-	-	-	-	1.6	1.9
Netherlands	-	-	-	-	-	-	-	2.3
Croatia	-	-	-	-	-	0.3	1.2	1.2
Slovenia	-	-	-	-	-	0.5	0.7	0.7
Switzerland	-	-	-	-	0.3	0.4	0.4	0.3
Macedonia	-	-	-	-	-	-	1.08	0.08
TOTAL	6.8	19.3	54.8	69.4	110	117.4	129.0	138.9

** 1970 – 1990 data for Czechoslovakia*

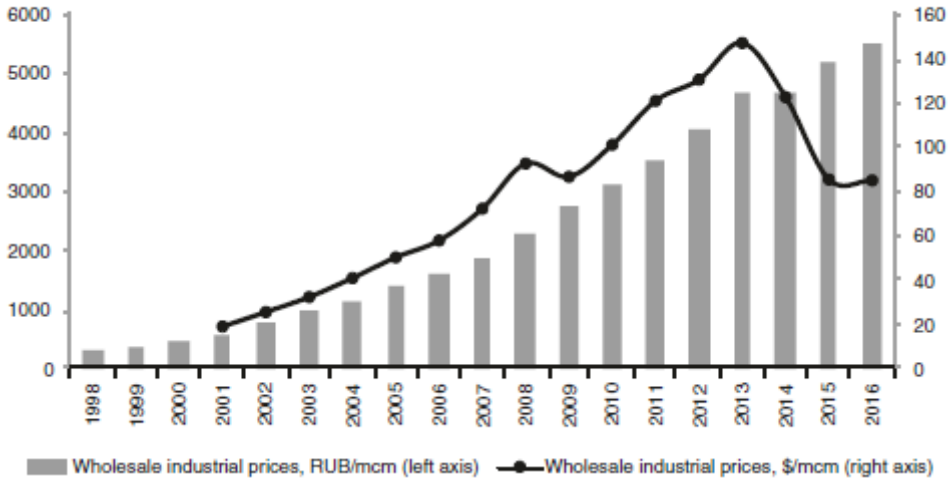
Source: J. Stern, Natural Gas in Europe - The importance of Russia, http://www.centrex.at/en/files/study_stern_e.pdf

Gas export strategy did not differ much over time and did not undergo revolutions after the collapse of the Soviet Union. Export strategy was based on some premises, such as: orientation of pipelines towards West (with a focus on Central and Eastern Europe), maximising the export volumes more than raising prices, supply of gas based on oil-linked long-term contracts with "take-or-pay" and destination clauses[102], preference for bilateral contracts and intergovernmental agreements.

[102] - Take-or-pay: "Take or pay provisions are generally included between companies with their suppliers which require that the purchasing firm take a stipulated supply of goods from the supplier by a certain date, at the risk of paying a fine to the supplier if they don't do so. This sort of agreement primarily benefits the supplier by reducing the risk of losing money on any capital spent to produce whichever product they are trying to sell." (retrieved from https://www.investopedia.com/terms/t/takeorpay.asp)
- Destination clause: it means clauses that designate a list of unloading terminals as destination spots of gas supply. In other words, the clause prevents buyers from reselling gas to other users.

The strategy changed in 2002, when Gazprom started considering Ukraine and Belarus as unreliable transit countries, therefore decided to plan new routes, like North and South Streams. Besides, the tendency to increase volumes instead of prices was redirected by the Kremlin in order to increase the added value of gas sales. In exchange for the improvement of revenues aspect of exports, Gazprom was appointed as international player representing Russian national interests.[103] Gazprom, thus, became an international company, able to funding joint ventures as well as directing investments in its exporting markets.

Starting from the new millennium, Russia enjoyed a period of extensive growth that was defined as a golden age for gas. Rising prices and stronger consumption guaranteed Russia with high levels of demand and, therefore, revenues.
Having gas price regulated on oil price, which raised in the '00s, Russia could benefit from high dividends from its sales. This helped Russia recover from '90s turmoil but prevented Moscow from getting ready for the constraints of the following years.



Source: Mitrova, The New Russian Gas Export Strategy After the Ukraine Crisis, p. 199

Indeed, in the 2010s the global financial crisis endangered the economies European countries and, thence, Russian gas clients' markets. Moreover, deceleration of GDP growth, industrial production and investments contributed to force Russian government

[103] T. Mitrova, *The new Russian* gas, op. cit., 2017

to act and change gas policy, as the country was locked in a framework of low-stated regulated domestic gas prices.

The new approach to the gas sector involved some moves towards liberalisation of the gas market. Gazprom yielded in four years more than 20% as a share of sales in the domestic market. Novatek, a private company, recorded a significant growth in production thanks to its investments on LNG; Rosneft, the Russian company specialised in the production of oil, reached the production of 62 bcm in 2015. Liberalisation was mainly focused on the LNG sector since 2013, pushed by lobbying activity of Rosneft and Novatek. This process could steer Russian government to rethink Gazprom role and unbundling. For the time being, Gazprom keeps its market role steady and does not fear competition. However, competition is increasing, and European strategies make it all but easy for Gazprom to maintain the status quo – notably, due to dependence on foreign revenues, it is most likely that the external demand shapes Russian energy policy.

The most difficult challenge the Russian Federation has to face in the second half of the 2010s is the changes in the energy sector that Europe has undertaken. Low demand is only partly sustained by falling own production; moreover, renewables, improved energy efficiency and differentiation processes threatens Gazprom's capability in the EU.

The situation was complicated by the regulatory framework that the EU constructed. The European Gas Directive (98/30/EC), the Second Gas Directive (2003/55/EC) and the Third Gas Directive (2009/73/EC) influenced significantly EU gas market and consequently its main importing sources. One of the latest and most critical action was the insistence on the unbundling principle: Gazprom has had and will have to deal with this issue to maintain its share on the European gas market. Some of the most active supporters of differentiation of gas sources will make it hard to escape from EU regulatory framework.

Another shifting paradigm is the pricing of gas supplies. The hubs, i.e. the physical or virtual spots where gas is exchanged, are becoming more often the price benchmarks. This tendency is supported by the LNG boom, which makes the global gas market more

fluid and price-sensitive. Contracts are touched by this shift, as the gap between prices in oil-linked long-term contracts and spot prices is leading to revision of contracts.

Truth be told, Gazprom realised it had to deal with new market needs already in 2009, when it negotiated agreements aimed at adjusting to market conditions and improving the competitive advantage of Russian supplies. Gazprom agreed contracts with some of the EU largest buyers, such as E.ON (Germany), ENI (Italy), Botas (Turkey, not EU), and GDF SUEZ (France). These actors accounted for about 40% of European consumption (including Turkey).[104] In this occasion, Gazprom had to make some concessions, like setting some of the prices at spot levels or lowering take-or-pay obligation rates.

The deterioration of political relations and the more difficult terms for Russia to operate with and in Europe pushed the Kremlin to plan differentiation schemes for the demand of gas. Hence, there was a shift towards East and Chinese markets. It is expected that by 2025, volumes exported to East Asia could reach 60-80 bcm/year. However, many difficulties, not last the growing competition from American LNG, still slows down a decisive shift to Asia of Russian gas export.

2.1.2 European and Russian pipelines

Gas trade has been bound until recently to a certain degree of rigidity associated to the physical characteristic of gas transit. Pipelines have been the means of transport until LNG revolution allowed for shipment of liquified gas. Furthermore, fracking and production of shale gas changed the location of gas production spots, leading to a renovation of the gas routes. It is expected that, by 2023, liquefaction capability will reach 200 bcm. Traditional gas exporters, like Russia, have to bear the rise of competition that is becoming gradually stronger.

This aspect will have a heavy impact on the possibility for Russia to opt for improving the marginalities of sales in Europe, if it wants to maintain its dominant position in the EU markets. Last section highlighted the tendency for the Russian government to try to

[104] T. Mitrova, *The new Russian gas*, op. cit., 2017, p. 212

earn more by selling the same volumes of gas, i.e. increasing the margins of gas production. However, LNG, shale gas and new competition will force Russia to rethink its strategy, as a growth in competition means that Russia will have to negotiate contracts and yield to lower prices.

Russian advantage, though, lies on the extra volumes of gas (about 150 bcm) it could be able to produce. In this way, Moscow could lower its costs and provide Europe with cheap gas. Still, Russia would need to increase the volumes of exported gas and achieve it in spite of toughening regulatory framework and European lowering demand (translated also as higher need to differentiate). These prerogatives pushed the Kremlin to plan the realisation of Nord Stream 2 and Turkish Stream, that were designed to limit Ukrainian and Belorussian specific weight for gas transit and increase export capacity. NS2 and Turkish Stream, if at full regime, should provide respectively 110 bcm (including NS1) and 31 bcm.

This is one possible strategy for Russia; another possibility is the shift towards East, linked to the realisation of Power of Siberia Pipelines. This possibility is still under verification and faces many challenges. Power of Siberia project connects Kovytkinskoe (near Irkutsk) and Čajandinskoe (North of Lake Baikal) deposits to the Chinese market[105].

LNG is advancing in Russia's options, mainly thanks to Novatek's business activities and lobbying. However, expectations show that, at its peak, Russian liquified gas should not represent a major share of global production (it reached 8% in 2018).[106]

- PIPELINES IN EUROPE:

Hence, European markets will be sprayed through traditional pipelines in the near future. Major pipelines that transport gas to and through Europe are: *JAGAL* (German section of the Yamal-Europe pipeline), *Langeled Pipeline* (Norway to England), *MIDAL* (Germany, connected to WEDAL and STEGAL), *NEL* (Germany, connects the Nord

[105] Gazprom, *Power of Siberia*, Gazprom.com, https://www.gazprom.com/projects/power-of-siberia/, retrieved on 26.09.2019

[106] M. Giuli, *I destini del gas passano per il triangolo Russia-Usa-Cina*, limesonline.com, 02 January 2018, http://www.limesonline.com/i-destini-del-gas-passano-per-il-triangolo-russia-usa-cina/103951, retrieved on 26.09.2019

Stream pipeline with the Rehden-Hamburg gas pipeline and MIDAL), *OPAL* (connecting Nord Stream to the existing pipeline grid in Middle and Western Europe). Pipelines that supply natural gas from Africa are: *Green Stream* (Libya-Italy), *Maghreb-Europe Gas Pipeline* (Algeria-Morocco-Spain), *Medgaz* (Algeria-Spain), *Trans-Mediterranean Pipeline* (Algeria-Tunisia-Italy). Then, some 15-20 pipelines cross the North Sea and bring gas to Northern Europe (Europipe I and II, Franpipe, NOGAT system, etc.).[107]

The Southern Gas Corridor will connect Italy to Azerbaijan via a 3.500 km pipeline. The Corridor includes three sections: the South Caucasus Pipeline, already existing and expected to be expanded, spans across Azerbaijan and Georgia. This section will be connected to TANAP (Trans Anatolian Pipeline), the portion that will cross Turkey. The last section is TAP (Trans Adriatic Pipeline), an infrastructure that will take gas through Greece and Albania into Italy. The Southern Gas Corridor is expected to start operating in 2020, even though predictions are still hard to make, at the time of writing.[108] The aim of the Southern Gas Corridor is to "free" the resources lying in the Caspian area from the post-Soviet infrastructure panorama; Russian influence on the region and dependence in Europe would be diminished. The Azerbaijani gas obtained a 25-years grant period of exclusive use of the pipeline, after which its employment could be contestable on the market (even allowing access to Russian gas).[109]

The Southern Gas Corridor (SGC) project was commenced by the agreement signed in 2011 by the Azerbaijani president Aliyev and was planned to supply 10 bcm to European markets. The project was chosen instead of Nabucco pipeline but reduced the programmed volumes from 30 bcm that would flow through Nabucco to 10 bcm.[110]

---

[107] See ENTSOG website and maps for further details, https://www.entsog.eu/

[108] BP, *The Southern Gas Corridor,* bp.com, https://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SouthernCorridor.html, retrieved on 27.09.2019

[109] Limes, *Non solo TAP: gas per l'Italia e per l'Europa*, limesonline.com, 07 April 2017, http://www.limesonline.com/non-solo-tap-gas-per-litalia-e-per-leuropa/98109, retrieved on 27.09.2019

[110] TAP section will provide 10 bcm, eventually expandable to 20 bcm. TANAP, however, could reach up to 60 bcm. Throughout next years, volumes will depend on Baku's capacity to increase its production. It is believed that, provided Baku succeeds in expanding production, TAP will supply 20 bcm by 2026. (see L. Joppen,

Nabucco was a projected proposed by the European Commission and aimed at limiting dependence on Russian gas, especially in Central-Southern Europe, the most dependent region of the Union. It was conceived as an alternative to South Stream, a Russian-led project (see below). The fact that Baku opted for SGC signed a half misstep for the EC differentiation programme. Nabucco would have developed Central and Southern European gas infrastructures, while SGC will not record as much progress there.[111]

- PIPELINES BETWEEN RUSSIA AND EUROPE:

Pipelines from Russia are: *Blue Stream* (through the Black Sea and Turkey), *Nord Stream* (through the Baltic Sea), *Bratstvo*, *Progress* and *Soyuz* Pipelines run parallel to *Urengoy-Pomary-Uzhgorod* pipeline (also called *Brotherhood*), *Yamal-Europe* (connection from the huge resources in the Yamal peninsula to Germany).[112]

Nord Stream 1 is connected to the German interconnector system and supplies gas to NEL (Nordeuropäische Erdgasleitung) and OPAL (Ostsee-Pipeline-Anbindungsleitung). These two routes were projected to carry gas from Greifswald to Central and Western Europe. NEL belongs to Gazprom, Wintershell, E.On, Gasunie and Fluxys, it carries gas to the Western German borders and supply the Netherlands and Belgium. OPAL is owned by Wintershell, Gazprom and E.On and directs gas towards south, until Czech Republic, from where it reaches Baumgarten in Austria, one of the most important hubs in Europe. It interesting to note that Baumgarten receives most of Russian gas that crosses Ukraine; when Nord Stream 2 is active, Germany would carry the burden of about the same amount of gas that Baumgarten has received annually so far.

The right to utilise OPAL pipeline is claimed by the Polish and the Slovaks, who want to utilise it to make Russian gas transit and reach Ukraine, where they would sell

Southern Gas Corridor: the final TAP, valve-world.net, https://www.valve-world.net/webarticles/2018/09/10/southern-gas-corridor-the-final-tap.html)

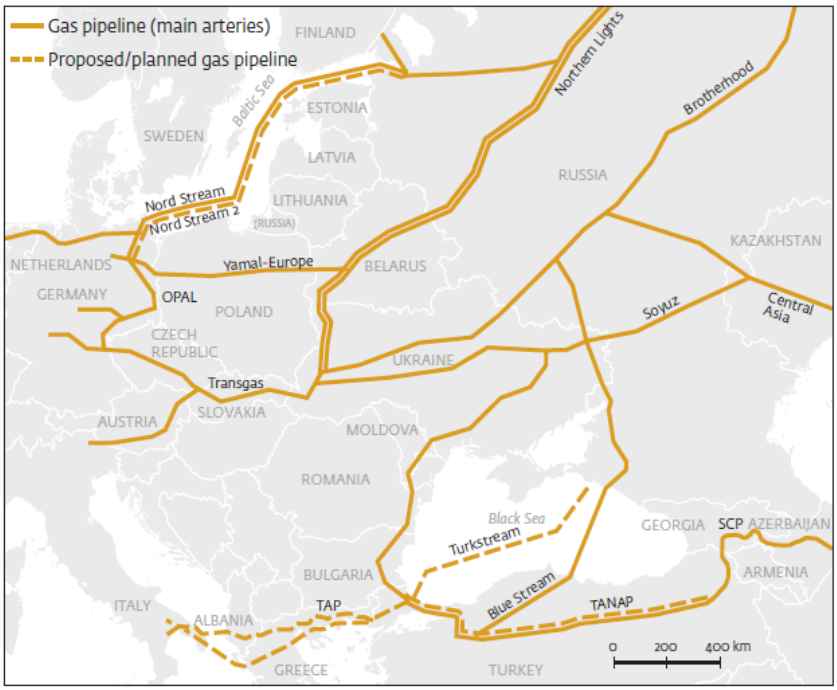
[111] F. Indeo, *Nabucco addio, per il gas l'Europa sceglie* TAP, limesonline.com, 04 July 2013, http://www.limesonline.com/gas-ue-nabucco-addio-leuropa-sceglie-il-tap/49352, retrieved on 27.09.2019

[112] For more details, consult Gazprom, http://www.gazpromexport.ru/en/projects/transportation/

volumes at European prices[113] (mind that Russia stopped direct export after the opening of the Gazprom-Naftogaz arbitration procedure and will probably cease direct supply to Ukraine after 2020).[114]

Nord Stream 2 will be connected to EUGAL, a new pipeline that will supply other European transport systems.

EUROPE'S GAS PIPELINE TIES TO RUSSIA



Map: Kauko Kyöstiö. Source: Zero Hedge.

South Stream was a project carried on by the Russian Federation as an attempt to avoid gas transit through Ukraine. The consortium that should have managed the project was formed by Gazprom, that held a 50% share, Edf and Wintershell (15% each) and some joint ventures (remaining 20%). The project was hindered by Brussels and could not reach realisation.[115] It would have spanned from Russian Black Sea cost to Bulgarian

[113] M. Soldavini, *Perché Mosca e Berlino raddoppiano il Gasdotto Baltico*, limesonline.com, 03 January 2019, http://www.limesonline.com/cartaceo/perche-mosca-e-berlino-raddoppiano-il-gasdotto-baltico, retrieved on 27.09.2019

[114] S. Pirani, *After the Gazprom-Naftogaz Arbitration: commerce still entangled in politics*, the Oxford Institute for Energy Studies (OIES), Oxford, March 2018

[115] D. Floros, *Tap e South Stream: i due pesi e le due misure dell'Europa*, limesonline.com, 26 April 2014, http://www.limesonline.com/tap-e-south-stream-i-due-pesi-e-le-due-misure-delleuropa/63367, retrieved on 27.09.2019

cost and then it would have reached Italy through the Balkan peninsula. It was expected to carry 30 bcm/year in the first stage and up to 60-65 bcm at a further stage.

When South Stream was dropped by the EU institutions, Moscow opted for an alternative project to undergo diversification of routes and guarantee security of transit. The project took the name of *Turkish Stream*: "the TurkStream pipeline will surface on the shore of the European part of Turkey near Kıyıköy with gas delivery point at Lüleburgaz for the Turkish customers, and a border crossing between Turkey and Greece in İpsala serving as delivery point for the European customers."[116] The pipelines is expected to start carrying Russian gas in 2020; the first string will supply Turkey with about 16 bcm/year, while the second will supply Southern and Central Europe with about the same volume. The European supply will be delivered up to Turkish-EU border, where the EU Member States will undertake its management and distribution.

- PIPELINES IN RUSSIA:

The list of major pipelines on the Russian territory includes: Bovanenkovo – Ukhta (1 and 2), Dzhubga – Lazarevskoye – Sochi, Gryazovets – Vyborg, Minsk – Vilnius – Kaunas – Kaliningrad, Pochinki – Gryazovets, Power of Siberia, Sakhalin – Khabarovsk – Vladivostok, SRTO – Torzhok, Ukhta – Torzhok (1 and 2). Russia has been developing LNG production, especially focused on Sakhalin peninsula, in the Far East, and north of Saint-Petersburg.[117]

Power of Siberia is a noteworthy project: with a length of 3.000, it will take the first place as the longest pipeline in Russia. It will deliver 38 bcm/year to Chinese clients.

[116] Gazprom, *TurkStream*, gazpromexport.ru, http://www.gazpromexport.ru/en/projects/, retrieved on 27.09.2019

[117] Gazprom websites clearly lists Russian projects and existing pipelines. See more on https://www.gazprom.com/projects/

2.2 Gas business

This subchapter includes an analysis of the role of Gazprom for gas relations between Russia and the EU. Historical development, current strategies and response to EU changing legislative framework of the Russian company are included in section 2.2.1.
Section 2.2.2 presents a small description of the EU companies involved in the gas business, including TSOs. Naftogaz will be listed together with them.

2.2.1 Gazprom

Gazprom is the biggest Russian company that carries on the business of extraction, production, transport and sale of natural gas. Its majority share is owned by the Russian government, while the remaining shares are listed on public stock markets of Moscow, London and Frankfurt. Its current assets are calculated to be worth 4.212.230 million rubles (about $65 billion), reaching more than $300 billion in terms of total assets.[118] The company has been the most important gas business of Eurasia since its foundation, in 1989, and was responsible to supply European markets with Russian gas. It agreed many contracts with European partners throughout the decades, achieving many remunerative agreements that allowed it to further develop and increase its investments and revenues. However, the increasing will of the EU and the EC to differentiate from dependence on Russian gas changed the traditional paradigm on which Gazprom-EU companies or governments were based.

In the 2010s, Gazprom agreed to renegotiate 60 supply contracts with 40 European clients. This move showed Gazprom's will to undertake more flexibility in its relationships with European partners. Moreover, Gazprom started increasing the number of gas trading operations in accordance with the gas hubs system, i.e. flexible contracts at market prices instead of long-term agreements (20-25 years) at fixed prices. This attitude meets some of the requirements of the EU legislative framework imposed on the gas market operators in order to promote liberalisation and competition.
The EC decided to apply some obligations to gas companies operating in the EU; obviously, since Gazprom is the largest external gas business, these obligations targeted Gazprom in many concerns. For example, Gazprom had to accept removing destination clauses and facilitating the supply to more isolated markets. Furthermore, the EC legally

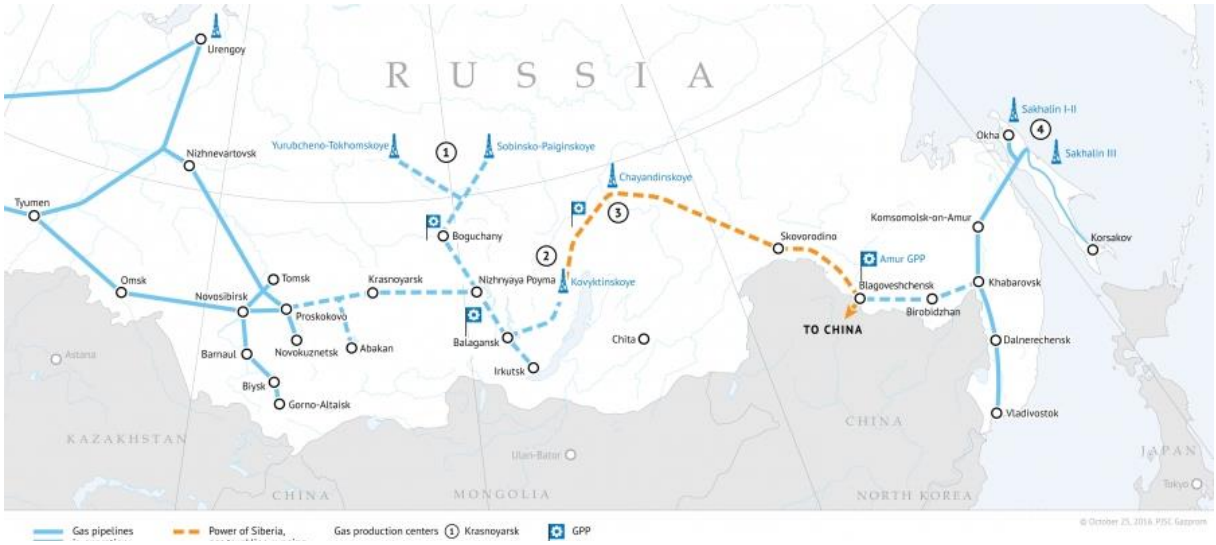
[118] PJSC Gazprom, *IFRS Consolidated Interim Condensed Financial Information (Unaudited)*, June 2019

prevented Gazprom from employing its dominant position in the European markets to obtain advantageous privileges in the utilisation of energy infrastructures.

Gazprom considered that adapting to EU regulatory shifts was a better way to maintain its position in the most lucrative market, rather than recklessly thwarting EU changing attitude in the legislative framework. Nevertheless, considering that the EU has been undergoing a differentiation strategy that will threat Gazprom activities in the future, the Russian company has developed alternative strategies. To reduce the risk connected to transit countries, Gazprom initiated projects such as Nord Stream 2 and Turkish Stream to bypass Ukraine and Belorussia; moreover, Russia booted cooperation with China in the energy sector in order to enjoy the opportunities to differentiate final clients. The breakthrough moment of the Sino-Russian cooperation was the 2014 *Purchase and Sale Agreement* that established that Russia would supply 38 bcm/year for 30 years. Power of Siberia pipeline falls into the list of planned infrastructures.

China is expected to double its demand of gas by 2035, giving Gazprom the great opportunity of employing Russian Siberian resources and, at the same time, creating an alternative destination market other than the European ones.

Through the eastern route, Gazprom envisages to secure a market share of 13% of consumption and 25% of annual gas import.[119]



Retrieved from https://gastopowerjournal.com/projectsafinance/item/7111-russia-china-eastern-route-gas-pipeline-works-on-schedule-gazprom

[119] Courtesy of C. Frappi, who handled his draft titled *La Geopolitica dell'Energia della Federazione Russa*, an article to be published in "Nuova Secondaria", N. 1, 2019.

Rising competition from LNG and the tendency for China and other Eastern Asia markets to opt for liquified gas – LNG is less dependent on physical transportation routes and more flexible in terms of prices – pushed Russia to rethink its energy industry. Moscow started a resolute programme to increase liquefaction of natural gas in north-west Siberia and far-east Siberia; the Kremlin opted for introducing an exception in the monopolistic system that Gazprom enjoyed for many decades. Indeed, a partial liberalisation of the gas production industry allowed a private company, Novatek, to undertake the role of major company in the LNG production and trade.
This step curtailed Gazprom activities but was a move that could improve Russian energy security by differentiating its actors and strategies.

One of the reasons for which Russia pushed on the development of its LNG production was the gas deficit that the US recorded in the '00s. Russia developed a project that would supply the Americans with liquefied gas coming from the Barents Sea. The field would have been Shtokman and would have provided the US with volumes reaching up to a 10% share of US gas market.[120]
The project was firstly postponed and recently (in 2019) suspended because of the shale gas revolution in the US. The American gas market will be largely fulfilled by internal production, which saw an upheaval and strong increase in the 2010s thanks to fracking practices. Moreover, political frictions made it more difficult for the two countries to carry on such a considerable project.

Liberalisation of gas market in Russia is one of the challenges Gazprom has to bear with. As it was stated above, Gazprom has also to face obstacles that the EU institutions are setting, sometimes acting as if they were targeting Gazprom solely.
In the name of security of supply, the EU has often depicted Gazprom as the energy weapon Russia deploys to fulfil its geopolitical interests.[121]
Even though the question is disputable, Gazprom did issue unfair pricing in some occasions. The Baltic states benefited from concessionary gas prices for 17 years after

[120] T. Mitrova, T. Boersma, *The Impact of US LNG on Russian Natural Gas Export Policy*, Center on Global Energy Policy, Columbia SIPA, New York, December 2018
[121] See Danilin, *Gazprom as an Energy* Weapon, op. cit., 2017

independence, which was seen as a "reward" mechanism to secure political cooperation. The fact that subsidies are granted by the exporting country means that the exporter has the power to interrupt the "reward" mechanism and sell gas at higher prices. From this perspective, since some EU countries are more dependent on Russian gas than others, Gazprom could be seen as the weapon to secure political concessions.

Indeed, Gazprom raised gas prices to Ukraine when Kiev started diverging from Moscow political centrum and getting closer to the EU. The consequence was that the EU and Western governments became more eager to prevent Gazprom from having such room for manoeuvre. EU investigations are the counter-mechanism to limit this power and will be an important factor in arranging new contracts.[122]

"The Russian monopoly is thought to reach and preserve its dominant position by acquiring infrastructure assets, promoting new export pipeline routes and hindering competing projects. Some scholars mention supply shutoffs as an asset at Gazprom's disposal."[123] However, Russia is as much dependent on revenues from the EU as some EU Member States are on Russian supply, hence showing that Gazprom cannot act as freely as some critics suggest. Moreover, as it was stated in chapter 1, Gazprom and Russian government came out endangered from the interruptions of supplies during the 2006 and 2009 crises with Ukraine. Gazprom lost part of its reputation as a reliable partner and unleashed European reaction, as policy-makers insisted more on the concept of differentiation since that time.

Thus, Gazprom will have some difficult time in the next future to maintain its role in the European market. The company has more than one option to preserve its existing market share. Boussena et al. suggest that Gazprom could undertake alternative long-term strategic actions other than simply defending volumes by means of a price war. As stated above, Gazprom has already shown acceptance of the new structures of the European markets and the related institutional and regulatory framework. For example,

---

[122] Danilin refers to В.А. Кулагина (Kulagina), *Газовый рынок Европы: Утраченные иллюзии и робкие надежды (Gazovyi rynok Evropy: utrachennye illjuzii i robkie nadezhdy)* , НИУ ВШЭ (NIU VShE), 2015. See that paper for further details on contract revisions

[123] Danilin, *Gazprom as an Energy* Weapon, op. cit., 2017, p. 96

"in 2013, Gazprom started to implement a new price discount model with so-called retroactive payments. According to this model, the company has to compensate its customers for the difference between contract price and spot price by the end of the year."[124] Boussena claims that this approach will be kept in the future. Gazprom has an excessive capacity estimated to be between 100 and 150 bcm per year. Such excess capacity means that the company can adjust to output and exports to suit its strategy in response to EU gas market. Long-term contracts were more rigid on this aspect than the current and future short-term contracts. Despite highlighting unpredictability, short-term fluid contracts could adapt to Gazprom's strategy, in particular considering that Gazprom does not have the capacity to decide whether or not to act as the supplier of last resort. Indeed, short-term and adaptable contracts will probably make it easier for Gazprom to differentiate its final clients and secure security of demand.[125]

Number of entities bringing natural gas into the country, 2003-2017

	2003 (*)	2010 (*)	2017 (*)
EU-28	174	300	457
Belgium	4	4	23
Bulgaria	2	3	4
Czechia	6	24	24
Denmark	3	2	:
Germany	27	22	26
Estonia	2	1	1
Ireland	8	13	11
Greece	1	3	6
Spain	12	18	32
France	10	16	29
Croatia	1	2	9
Italy	23	63	70
Latvia	1	1	6
Lithuania	4	5	5
Luxembourg	2	4	5
Hungary	10	22	40
Netherlands	c	c	:
Austria	5	15	48
Poland	11	17	48
Portugal	1	7	9
Romania	4	19	18
Slovenia	2	4	9
Slovakia	1	7	9
Finland	1	1	1
Sweden (*)	1	2	1
United Kingdom	32	25	23
North Macedonia	:	1	4
Serbia	:	:	2
Turkey	6	13	19
Bosnia and Herzegovina	:	:	2
Moldova	:	:	2

: Data not available
c Confidential data
Note:
(*) 2003, 2010: Total for the EU excludes the Netherlands (confidential data)
(*) 2017: Total for the EU excludes data for Denmark and the Netherlands (not available)
(*) 2017 data estimated
Detailed table (2003-2017) available in 'Source data for tables and graphs'
Source: Eurostat (This data is not yet available in the Eurostat dissemination database)

eurostat

[124] For more examples, see Mitrova, *The New Russian Gas Export Strategy After the Ukraine Crisis,* op. cit.
[125] S. Boussena, C. Locatelli, *Gazprom and the complexity of the EU gas market: a strategy to define*, in "Post-Comunist Economies" 29:4, Routledge Taylor&Francis online, 2017

2.2.2 EU companies

In the period 2003-2010, the number of companies with a market share above 5% that either produced natural gas or brought natural gas into the country increased from 53 to 75. Since 2010, the number decreased to 66.[126] If all gas businesses are taken into account, more than 450 entities were involved in bringing gas inside the EU Member States' territories (see table above).

Traditionally, European energy supply was based on national and regional markets with vertically integrated companies. When the Energy Union was conceived, the leitmotif was to liberalise and unbundle the energy market. It was opted to transit towards a competitive and innovative industry, where monopolistic practices would be thwarted and challenged by increasing competition. The legislative acts the EU implemented were aimed at establishing common rules for a single European market for energy. The three packages of liberalisation were created in 1996, 2003 and 2009. They changed the environment of the gas sector in the EU and pushed for phasing out inefficient firms.[127]

As long as transmission system operators are concerned, ENTSOG associates the national companies that are charged of managing gas within EU Member States. The European Network of Transmission System Operators for Gas (ENTSOG) is an association of Europe's transmission system operators (TSOs). ENTSOG was created on 1 December 2009 by 31 TSOs from 21 European countries. The creation of the ENTSOG was initiated by the adoption of the European Union third legislative package on the gas and electricity markets. It aims to promote the completion and cross-border trade for gas on the European internal market, and development of the European natural gas transmission network. Some of the most preminent members are: GRTgaz (France), GASCADE (Germany), NEL Gastrasnport GmbH (Germany), Snam Rete Gas (Italy), Gasunie Transport Service (Netherlands), Gaz Transmission Opera (Poland), GNI (UK).[128]

---

[126] European Commission, *Natural Gas market indicators*, European Commission website, https://ec.europa.eu/eurostat/statistics-explained/pdfscache/8894.pdf, retrieved on 30.09.2019

[127] D.J. Tulloch, I. Diaz-Rainey, I.M. Premachandra, *The impact of regulatory change on EU energy utility returns: the three liberalization packages*, in "Applied Economics", 50:9, Routledge Taylor&Francis Online, 2018

[128] For the complete list of ENTSOG Members, consult ENTSOG, https://www.entsog.eu/members

Naftogaz is the biggest national gas company of Ukraine and plays an important role in the EU-Russian energy relationship. “Naftogaz of Ukraine is a vertically integrated oil and gas company engaged in full cycle of operations in gas and oil field exploration and development, production and exploratory drilling, gas and oil transport and storage, supply of natural gas and LPG to consumers.”[129] Ukraine’s system to manage natural gas pipelines is operated by Urktransgaz, a subsidiary of Naftogaz.

The company was founded in 1998 and is currently the major employer in Ukraine. It has developed multifaceted relations with Gazprom, which sometimes involved disputes, such as the trial at the Arbitration Institute of the Stockholm Chamber of Commerce (it expects to receive more than $2.5 billion from Gazprom).

After 2014, the company has been receiving gas coming from reverse flows, mainly of Slovakian origins. Naftogaz – and Ukraine – committed themselves to respect EU regulatory framework and unbundling principle. In the near future, Ukraine and its national gas company will have to implement their commitments.

Since 2014, Urktransgaz, Naftogaz subsidiary, is a permanent observer of the ENTSOG.

[129] Naftogaz website, http://www.naftogaz.com/www/3/nakweben.nsf/0/3A25D65C2606A6C9C22570D800318869, retrieved on 30.09.2019

2.3 Transit countries and controversies

In this subchapter, the first section highlights the main characteristics of the three countries through which Russian gas is transported, i.e. Ukraine, Belarus and Moldova. 2006 and 2009 gas crises with Ukraine are included, as well as a short excursus of the development of the Russo-Ukrainian energy relations over time. The same has been done for Belarus and Moldova.
Section 2.3.2 lists the major disputes and controversies that took place between Russia and the European actors. They are: Gazprom-Naftogaz arbitration, WTO investigation on Russian call, EU Competition Investigation in south and east Europe, OPAL exemption decision.

2.3.1 Transit countries

- UKRAINE:

Ukraine is the country through which Russian gas directed to the EU markets has traditionally transited the most. Ukraine witnessed transit volumes that overreached 90 bcm/year with a peak in 2011 of 100 bcm/year. In terms of imported volumes, Ukraine was supplied with 25-40 bcm/year, but recorded a clear 0 of direct imports since 2016. The table shows the levels of Russian gas imported by Ukraine or transited through the country between 2009 and 2017. Lower levels of supply were resumed in 2018.

Year		2009	2010	2011	2012	2013	2014	2015	2016	2017
Imports	Under contract	26.9	36.5	40	24.9	12.9	14.5	6.1	0	0
	Other	0	0	4.8	8.0	15.0	5.1	10.3	11.1	14.1
Transit volume		95.8	98.6	104.2	84.3	86.1	62.2	67.1	82.2	93.4

Source: Gazprom and Naftogaz Ukrainy

Retrieved from Pirani, After the Gazprom-Naftogaz arbitration, op. cit.

The stop to direct import of Russian gas was caused by the political and military tensions after Euromaidan and the annexation of Crimea, but Russia had previously argued that the transit dimension of security of supply was weak and would be weak until diversification projects would be completed. The same principle, security of supply, has been used by Ukraine to support an opposite argument, i.e. only investing in Ukrainian transit infrastructures and changing the legal and contractual basis on which they operate could security of supply be improved.
In spite of declared totally diverging positions, the unstated reality is that Russia considers that certain volumes of gas transiting through Ukraine would still be compatible with security of supply. Transit diversification away from Ukraine is the best option for Moscow; nevertheless, Russia understands that this is not implementable yet.

It is highly unlikely to diverge from Ukraine 100% of gas exports towards Europe in 2020, when old contracts will have expired. Political opposition from the EU, as well as regulatory constraints on the start of activities of alternative routes like NS2 or Turkish Stream, will make it impossible to renounce to Ukraine.[130]

Ukraine received Russian gas throughout the post-Soviet period according to arrangements that included both supply to and transit through Ukraine. In 2006, commercial contracts were signed with no underpinning by intergovernmental agreements; in 2009 supply and transit contracts were signed separately. This meant that after 2014, transit contracts could remain in force even if the supply stopped and that European markets could be supplied by Russian gas that transited through Ukraine. Even supply contracts remained in forced but were subject to multiple amendments. The role of the EC was heavy, as trilateral talks were probably the main reason for which those contracts could still be served.

Direct supply, as stated above, was interrupted in the summer of 2014, since talks on price discounts and debts for gas delivered broke down. At this point, Gazprom and Naftogaz opened litigation at the commercial arbitration court in Stockholm (see next section).

As winter approached, the EU, Ukraine and Russia agreed at a trilateral political agreement amendment in the supply contract. The so called "winter package 2014-2015" opened the way for a resumption of direct imports; however, considering direct imports did not resume at previous levels, the importance of the winter package was in that it marked the start of price competition between directly imported gas and reverse flow volumes.[131]

-2006 gas crisis: "In the summer of 2004, the Russian government, Gazprom and the Ukrainian government agreed the arrangements for delivery of Central Asian (mostly

[130] More details on the matter will be provided in Chapter 3.2

[131] S. Pirani, K. Yafimava, *Russian Gas Transit Across Ukraine Post-2019: pipeline scenarios, gas flow consequences, and regulatory constraints*, Paper NG 105, the Oxford Institute for Energy Studies (OIES), Oxford, February 2016

Turkmen) gas to Ukraine and settlement of past debts were agreed. Aside from the financial arrangements, the agreement included a number of other provisions designed to establish more predictability in the relationship over the next five years. A Gazprom loan to the Ukrainian gas company Naftogaz allowed it to pay past gas debts, and to provide an agreed foundation for at least five years of deliveries of Turkmen gas and transit of Russian gas to Europe. This agreement foresaw deliveries of Russian gas to Ukraine of 21-25 Bcm/year for the period 2005-09, as a barter payment for transit of gas to Gazprom's European customers. For this barter agreement – under which no actual money changed hands between the parties – the notional price of Russian gas sold to Ukraine was $50/mcm and the notional tariff for transit of Russian gas across Ukraine was $1.09375/mcm/00km."[132] Following political tensions, relationship between Gazprom and Naftogaz deteriorated. Supplies to Europe were curtailed, apparently with no real reason. Gazprom insisted it was supplying the correct contractual volumes to its European customers, while Ukraine insisted that it was not taking gas from the transit pipelines to Europe to which it was not entitled. In the end, Naftogaz admitted it withdrew gas intended for the European markets, leading Gazprom to cut supplies in the beginning of January 2006. On 4th January 2006, a five-year agreement was signed, and supply resumed.

-2009 gas crisis: "The two sides failed to agree a price for Russian gas supply to Ukraine and a tariff for the transit of Russian gas to Europe before previous agreements expired on 31 December 2008. Russian exports to Ukraine were cut off on 1 January. Exports to 16 EU member states and Moldova were drastically reduced on 6 January and cut completely from 7 January. Deliveries to both Ukraine and other European countries restarted on 20 January following the signing of two new ten-year contracts. The most seriously affected countries in the Balkans experienced a humanitarian emergency, with parts of the populations unable to heat their homes. Significant economic problems, but not of a humanitarian kind, were also caused in Hungary and Slovakia."[133]

---

[132] J. Stern, *The Russian-Ukrainian gas crisis of January 2006*, the Oxford Institute for Energy Studies (OIES), Oxford, January 2006

[133] S. Pirani, J. Stern, K. Yafimava, *The Russo-Ukrainian gas dispute*, op. cit.

Russian awareness of the risks connected to transit gas through Ukraine arose in the 2000s and were not only concerned with political arguments: infrastructures were considered obsolete and in need of renovation. For instance, concerns on the Ukrainian storage capability were part of both European and Russian analyses. Furthermore, the 2006 and 2009 crises showed that Naftogaz could fail to pay for imported supplies. After the 2006 and 2009 gas crises and the 2014 political clash, the risk connected to transit through Ukraine has increased; the pipelines integrity risk is an additional concern Russian officials consider in their assessment. The Urengoy-Pomary-Uzhgorod pipeline accident statistics suggest that it should be addressed with high priority. Already in December 2014, the European Investment Bank loaned $150 million to finance one fourth of the modernisation costs for Urengoy-Pomary-Uzhgorod.

Austria, Greece, Italy, Bulgaria, Croatia, Hungary, Romania, Slovenia receive high amounts of Russian gas via infrastructures connected to Ukrainian system. Nord Stream 2 and Turkish Stream appear as a logical solution for Gazprom to supply its major clients, provided transit through Ukraine is considered too risky.

- BELARUS:

Belarus is another transit country for Russian gas directed to Europe. It imports over 85% of its energy needs and detains leverage on the transit of energy sources to European markets. In 2018-2019, almost 40 bcm were agreed to transit through Belarus territory. "The contract on gas transit through Belarus in the 2015-2017 period has been extended to the end of 2019. The calculated cost of gas transit through Belarus in 2018 is $360 million.

The operator of the Belarusian gas transmission system is OJSC Gazprom Transgaz Belarus, a company wholly owned by Gazprom. Aside from Yamal-Europe, which handles about 85% of gas transit through Belarus, there are a number of other transit routes to Poland and Western European countries (about 70% of total volume) and to Ukraine, Lithuania and Kaliningrad region."[134]

[134] Interfax.com, *Gazprom expects to maintain gas transit through Belarus at 39.3 bcm in 2018-2019 – report*, interfax.com, 15 June 2018, http://www.interfax.com/newsinf.asp?pg=5&id=838995, retrieved on 30.09.2019

A crisis was in the gas transit was recorded in 2007, when a dispute on prices and discounts was a reason to threaten gas transit. Another episode happened in 2010 and led to renegotiation of contracts.[135]

- MOLDOVA:

"Moldova´s energy security depends on Russian gas and electricity delivered from Transnistria. The limited options for diversification of energy routes and supplies make the country reliant on political stability in Romania and Ukraine. Domestically, the full implementation of EU energy standards will require a strong political will of the Moldovan elite, as it would diminish Gazprom´s dominance and undermine the influence of vested interests on the energy market. According to the Maplecroft's report, a global risk consultancy, in 2011 Moldova was ranked as the ninth riskiest country in the world in terms of short-term energy security. Indeed, Moldova imports 98 per cent of its energy, mainly from Russia and Ukraine. The key factor in the country's energy instability is an unsecured, politicised route via Transnistria, a breakaway region sustained by Russia. The separatist enclave is the only route for Chisinau to obtain gas and electricity. The lack of interconnectors with its European neighbours makes Moldova extremely dependent on amicable relations with Moscow and Tiraspol. […] Despite a series of disruptions to energy supply in the Black Sea region over the last years, Moldova failed to diversify its energy sources. Russia's Gazprom supplies 99 per cent of gas demand and indirectly controls the Moldovan natural gas market in terms of supply, transmission and distribution. Gazprom owns 50 per cent in Moldovagaz, Moldovan-Russian joint stock company, and another 13 per cent in shares in Transnistria. In turn, Moldovagaz owns Moldovatransgaz, a transmission system operator, and controls 70 per cent of distribution networks. Currently, the gas contract between Moldovagaz and Gazprom runs until December 31st 2019."[136]

---

[135] For further details, see K. Yafimava, *The June 2010 Russian-Belarusian Gas Transit Dispute: a surprise that was to be expected*, oxfordenergy.org, July 2010, https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG43-TheJune2010RussianBelarusianGasTransitDisputeASurpriseThatWasToBeExpected-KatjaYafimava-2010.pdf?v=cd32106bcb6d, retrieved on 30.09.2019

[136] M. Shagina, *Moldova´s fragile energy security*, neweasterneurope.eu, 14 March 2018, http://neweasterneurope.eu/2018/03/14/moldovas-energy-security/, retrieved on 30.09.2019

2.3.2 Disputes

In the last decade, more than one dispute raised between Russian and European/Ukrainian actors. This section will list them and give a little explanation of their background and development.

- Gazprom-Naftogaz Arbitration:

In 2015, Gazprom and Naftogaz opened a dispute on the contracts they signed in January 2009. Following Ukrainian governments considered those contracts as damaging for the national interests, thus requesting renegotiation. During Yanukovych mandate as president, which Russia considered more prone to rapprochement policies, contracts were modified and allowed for a discount of roughly $100/mcm for Russian gas destined to Ukraine. In exchange, Russia obtained a 25-year extension on the lease of the Black Sea naval base in Crimea. When Yanukovych was overthrown and Russia annexed Crimea in 2014, the Russian government proposed that imports for the second quarter of 2014 would be priced at $385/mcm, a price that still included the discount applied; the new Ukrainian government, however, was more sceptical, particularly about the fact that the discount was granted in exchange for the Black Sea naval base lease extension. Ukraine proposed new renegotiations, while Russia opted to fall back on the contract terms. At this point, the mutual claims were taken to arbitration, which caused a stop in the imports of Russian gas. Only in the last months of 2014 would Russia restore imports, though at a much lower level.

"The largest claims in front of the tribunal were: from Gazprom under the take-or-pay clause of the supply contract, and for payment of the full contract price for the second quarter of 2014; from Naftogaz for amendment of the price and price formation mechanism in the supply contract, for failure to use contracted transit capacity and for amendment of the transit terms and tariffs. The total claims lodged were reported most consistently as $38.7 billion by Gazprom (plus $5.3 billion in additional claims made in early 2017), and $26.6 billion by Naftogaz, leading to suggestions that the arbitration case was the largest ever. All the claims were dealt with by one tribunal"[137] Naftogaz claimed that it had been overcharged by Gazprom for gas purchased between May 2011

[137] S. Pirani, *Gazprom-Naftogaz,*op. cit., 2018, p. 3

and April 2014 of $6 billion. The Tribunal accepted that price revision was required and indicated that prices should be in line with those quoted on NetConnect Germany, the German gas exchange. Naftogaz's retrospective claims were rejected by the tribunal.
The Tribunal also ordered Naftogaz to pay $2.02 billion.
In November 2014, Gazprom claimed Naftogaz failed to take contracted volumes between 2010 and 2014 under the take-or-pay clause. "From November 2015 onwards, Naftogaz ceased taking direct imports of Russian gas entirely. In January 2017, Gazprom invoiced Naftogaz for a further $5.319 billion under the take-or-pay clause, for volumes contracted but not taken in 2016, and Naftogaz announced publicly that it would not pay this until the arbitration was completed."[138]
The take-or-pay clause was ruled to remain active but at a lower level, i.e. 4 bcm/year, which represented 80% of the 5 bcm annual contracted quantities for 2018-2019. The destination clause that prohibits resale of Russian gas was ruled to be null and void. This means that Ukraine will be able to legally receive gas from the West, once it applies EU regulatory framework (especially the unbundling principle).
The Tribunal implicitly accepted that Naftogaz is not responsible for the payment of the gas delivered to the separatist areas of Donetsk and Lugansk, as Kiev does not have the control of these regions.
"The tribunal delivered its final decision, on the transit contract, on 28 February 2018. It found that Gazprom had defaulted on its obligation to transport the minimum volumes stated in the contract and ordered it to pay Naftogaz $4.63 billion. Taking into account the $2.02 billion owed by Naftogaz to Gazprom under the supply contract, and the $4.63 billion owed by Gazprom to Naftogaz under the transit contract, the net payment required at the end of the arbitration was estimated at $2.56 billion. This figure may have included some interest owed by Naftogaz."[139] Gazprom had to transit a minimum of 110 bcm/year across Ukraine in 2018-2019.
Gazprom protested and appealed to the decisions made by the Tribunal. Its officers cancelled the planned resumption of direct gas exports to Ukraine, they called on

[138] S. Pirani, *Gazprom-Naftogaz,* op. cit., 2018, p.4
[139] S. Pirani, *Gazprom-Naftogaz,* op. cit., 2018, p.5

Naftogaz to initiate the termination of contracts and lodged an appeal with the Stockholm arbitration court against the decision on the supply contract. "The Arbitration Institute of the Stockholm Chamber of Commerce ruled in favour of Naftogaz on February 28, 2018, in a dispute in which it claimed USD 4.63 billion from Gazprom as compensation for failing to deliver the agreed volumes of natural for transportation on transit through Ukraine. According to Naftogaz, the net payment that Gazprom will have to make to it is USD 2.56 billion since the arbitration institute previously ordered Naftogaz to pay Gazprom for gas supply arrears."[140]

- Russia claim before the WTO:

In April 2014, Russia claimed that the Third Energy Package was incompatible with the multilateral trade rules and did not respect the non-discrimination principle of the World Trade Organisation. The summary of the case is given by the European Commission website:

> *"Through its panel request Russia challenges the WTO-consistency of certain provisions of the Third Energy Package and of certain related implementing measures of some Member States, in particular: - the unbundling of transmission system operators and transmission networks from activities in the production and supply of natural gas and electricity; - the certification requirements in relation to transmission system operators where the system operator or system owner is controlled by person(s) from third countries; - certain infrastructure-related exemptions, which also apply to the requirement to grant access to natural gas network capacity by transmission service operators (i.e. third party access). Russia also challenges the rules on projects of common interest under the TEN-E Regulation No 347/2013, which aim inter alia at boosting the EU's energy security by diversifying sources. Russia's main argument is that the Third Energy Package and the TEN-E Regulation discriminate de jure and de facto against Russian*

[140] Ukranews.com, *Gazprom's Debt To Naftogaz After Two Stockholm Arbitration Proceedings Up 10% To USD 2.8 Billion*, ukranews.com, 24 September 2019, https://ukranews.com/en/news/655711-gazprom-s-debt-to-naftogaz-after-two-stockholm-arbitration-proceedings-up-10-to-usd-2-8-billion, retrieved on 29.09.2019

services and service suppliers and against gas of Russian origin."[141]

In August 2018, the WTO panel confirmed its analysis that did not find basis to the claim concerning the alleged EU discrimination against Russian pipeline transport services, service suppliers or against Russian natural gas.[142]

- The EU Competition Investigation into Gazprom's Sales to Central and Eastern Europe:

"On 4 September 2012 the Competition Directorate (DG COMP) of the European Commission (EC), having carried out unannounced inspections ('dawn raids') at the premises of several companies in ten EU Member States one year earlier, opened formal proceedings against Gazprom for possible abuse of a dominant position under Art. 102 of the Treaty on the Functioning of the European Union (TFEU) in upstream gas supply markets in several central and eastern European member states. It stated that Gazprom may have (a) divided gas markets by hindering the free flow of gas across member states; (b) prevented the diversification of supply of gas; (c) imposed unfair prices on its customers by linking the price of gas to oil prices. […] In April 2015, more than two and a half years after the investigation had started (and a further year after the initial 'dawn raids'), DG COMP issued a statement of objections, setting out its preliminary view that Gazprom was hindering competition in the gas supply markets in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Slovakia by imposing territorial restrictions (including export bans, destination clauses, and other measures), pursuing an unfair pricing policy in Bulgaria, Estonia, Latvia, Lithuania, and Poland (with such unfairness resulting partly from price formulae indexing gas prices to a basket of oil products), and making gas supplies to Bulgaria and Poland conditional on obtaining unrelated commitments concerning gas transport infrastructure (South

[141] European Commission, *WTO cases: cases involving the EU*, European Commission website, 25 July 2017, http://trade.ec.europa.eu/wtodispute/show.cfm?id=644&code=2, retrieved on 29.09.2019
[142] European Commission, Press Release, 10 August 2018, https://europa.eu/rapid/press-release_IP-18-4942_en.htm, retrieved on 29.09.2019

Stream and Yamal–Europe pipelines). DG COMP referred to these practices as abuses of dominance (Art. 102), although the strength of its position varied on each of the objections, being strongest in respect of territorial restrictions and, arguably, weakest in respect of unfair pricing policy."[143]

In the end, Gazprom agreed to remove barriers to competition in Eastern and Central European gas markets. Gazprom has proposed commitments concerning all the matters issued by DG COMP in respect of territorial restrictions, prices and infrastructure. This would prevent any further abuse of Gazprom's dominant position. Pricing has been uniformed and reduced for those markets that are not currently interconnected to Western Europe, where Gazprom used to apply cheaper prices.

The dispute was closed in May 2018, when the EC made the following obligations legally binding for Gazprom: removal of barriers to the free flow of gas in Central and Eastern Europe (CEE), taking steps towards the integration of gas markets in CEE, ensuring competitive gas prices in CEE in the future, removing demands obtained by leveraging of market position.[144]

- <u>The OPAL Exemption Decision:</u>

In June 2009, the European Commission (EC) adopted an exemption decision ("The June 2009 exemption decision"), which prevented Gazprom from being able to utilise more than 50 per cent of capacity in the OPAL pipeline (one of Nord Stream 1's onshore extensions). This led to a situation in which capacity in OPAL (and Nord Stream 1) remained underutilised as there was a continuous lack of demand from third parties. In October 2016 the EC revised its decision and allowed Gazprom to bid for the remaining 50 per cent of OPAL capacity alongside third parties at auctions organised by the PRISMA platform ("The October 2016 exemption decision"). The decision effectively guaranteed the third parties' access to up to 20 per cent, as Gazprom was not allowed to outbid them for that share. Furthermore, the decision allowed the EC significant room

[143] J. Stern, K. Yafimava, *The EU Competition Investigation into Gazprom's Sales to Central and Eastern Europe: a comment on commitments*, NG 121, the Oxford Institute for Energy Studies (OIES), Oxford, July 2017

[144] European Commission, *Antitrust: Commission imposes binding obligations on Gazprom to enable free flow of gas at competitive prices in Central and Eastern European gas markets*, European Commission website, 24 May 2018, https://europa.eu/rapid/press-release_IP-18-3921_en.htm, retrieved on 29.09.2019

for manoeuvre, both in respect of judging whether conditions for a further increase of capacity offered to third parties are met, as well as in respect to the certification of OPAL's operator (OPAL Gastransport). In November 2016 the German regulator (BNetzA), OPAL Gastransport, Gazprom, and Gazprom Export signed a settlement agreement ("The November 2016 settlement agreement") bringing the rules of operating the OPAL pipeline in line with the October 2016 exemption decision. In December 2016 the first auctions were held for OPAL capacity."[145]

However, the Polish gas firm PGNiG took legal action against the decision, claiming that this move threatened Polish security of supply as less gas would transit through its territory. Even though the CJEU initially seemed to allow for annulling the limitation to OPAL utilisation by Gazprom, in September 2019 the European Court of Justice ruled that the 50% limitation would be kept active. The consequence is that Ukrainian negotiating position could be improved in the last quarter of 2019, when new contracts will have to be agreed.[146]

[145] K. Yafimava, *The OPAL Exemption Decision: a comment on the CJEU's ruling to reject suspension*, Energy Insight: 18, the Oxford Institute for Energy Studies (OIES), September 2017

[146] A. Barteczko, A. Koper, P. Blenkinsop, *EU's top court overrules decision on Gazprom's access to Opal pipeline*, euronews.com by Reuters, https://www.euronews.com/2019/09/10/eus-top-court-overrules-decision-on-gazproms-access-to-opal-pipeline, retrieved on 29.09.2019

CHAPTER 3 – Nord Stream 2 and its challenges

Chapter 3 stands as the core of the paper and presents Nord Stream 2 case-study. The case exemplifies the way in which politics and trade are entangled in a difficult paradigm within the energy dialogue between Russia and the EU. After Chapters 1 and 2, in which the general aspects of the energy and gas relations were defined, this Chapter gives a more technical and specific analysis of the topic.
Chapter 3 is divided into three subchapters.

- *Subchapter 3.1 analyses Nord Stream 2 case-study, which is used to show how politics and economics could clash and generate unexpected and unwilled results.*
  Nord Stream 2 – as depicted in section 3.1.1 – is a gas pipeline that will run parallel to the already existing Nord Stream infrastructure, doubling the overall maximum capacity of natural gas flow from 55 to 110 bcm per year. The new building will mirror the existing one: positioned along 1,230 km on the bottom of the Baltic Sea, it will directly connect the two onshore terminals of Ust'-Luga, near St. Petersburg, and Greifswald in Mecklenburg-Vorpommern, passing through the exclusive economic zones (Zee) of Finland and Sweden as well as for Russian, German and Danish territorial waters (near the island of Bornholm). Gazprom lacked the economic capacity to develop and employ its Urengoy gas reserves; therefore, it let European healthier companies to enter its gas circuit in exchange for investments and contracts, in order to guarantee security of demand.
  Nord Stream 2 was both a commercial instrument as well as a tool to improve security of demand and security of transit. In many authoritative newspapers it is claimed that the project is a profitable investment that respects EU legislation; in as many authoritative newspapers, NS2 is considered as a mere geopolitical tool Russia and Germany are deploying to pursuit their national interests, at the expenses of the other EU Member States.
  Some of the main concerns that the opposers to NS2 raise are that NS2 would bring replacing volumes, annulling Ukraine's importance. Through NS2, Gazprom tried to disengage from Brotherhood and Soyuz pipelines, running through Ukraine. Secondly, it is expected that the direct link created by Russia and Germany could cut out Eastern Europe, making them at the mercy of discriminating tariffs, which is one of the biggest fears Poland and the Baltic states feel; lastly, increasing dependence on Russian gas through NS2 is seen as a neo-imperialistic tool that expansionist Russia employs to generate internal turmoil within the EU and to coerce its European neighbours, in particular Ukraine.
  In section 3.1.2, Amended Gas Directive is explained. Directive 2009/73/EC – often referred to as Gas Directive – is part of the Third Energy Package. It establishes common rules for the transmission, the distribution, the supply and the storage of natural gas. It lays down the rules for organizing natural gas sector, market access, the

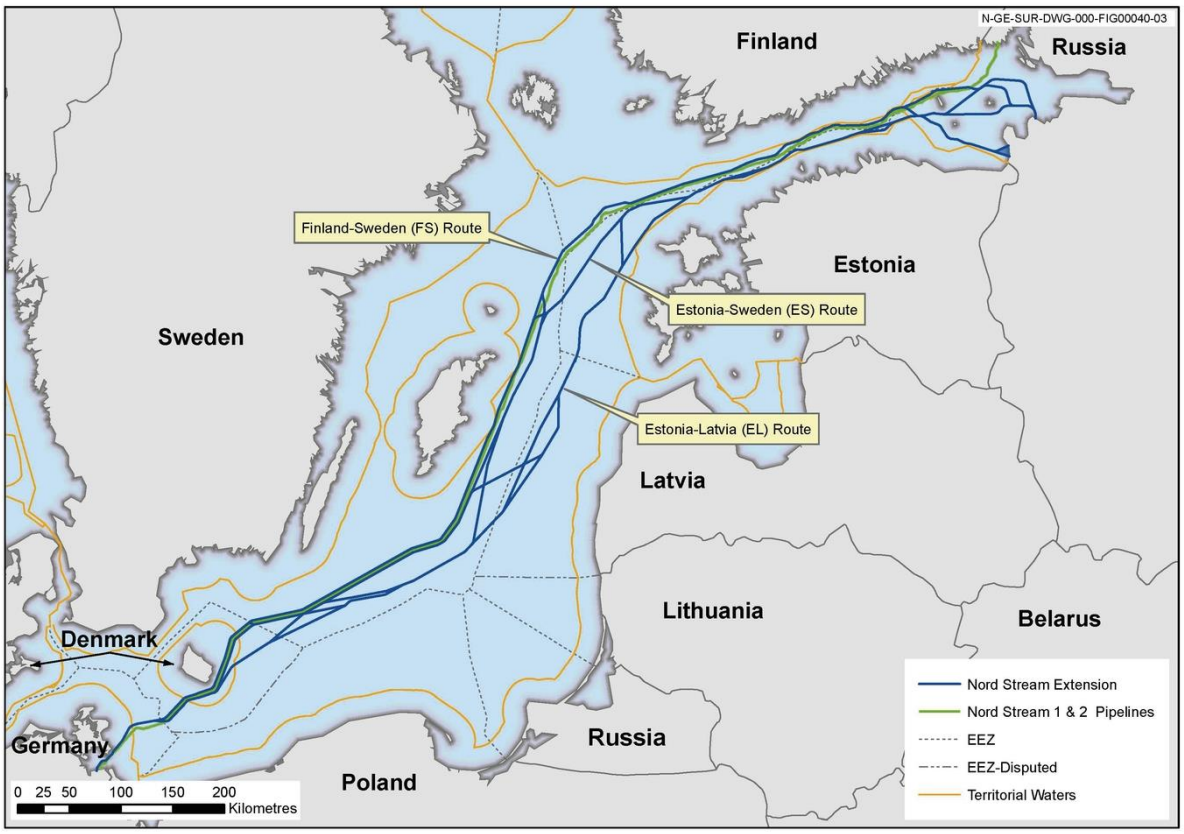
criteria and applicable procedures for issuing transmission, distribution, supply and gas storage licenses, as well as the principles of system management.
The key requirements of the Directive are highlighted in section 3.1.3 and 3.1.4: unbundling of transmission from supply and production businesses, third party access (TPA) and regulated and transparent tariffs. The 2019 Revision aimed to apply these rules also to third countries/suppliers. If Nord Stream 2 project is taken under the lens, it is risky to state that European gas market will undoubtedly benefit from 2019 Revision. Considering that the EU is not ready to implement a complete diversification of supply in the gas sector, Russian unacceptance or inability to comply with European legislative framework might unleash retaliatory measures from the Russian side that will be detrimental for the European gas market.

- *Subchapter 3.2 is concerned with the difficulties linked to the completion of Nord Stream 2. Regulation of NS2 will probably constitute a negotiating instrument for the trilateral talks on post-2019 Ukraine gas transit. In a positive sum-game, this would result in a compromise that could satisfy all the parties involved. Nevertheless, experience has showed that the relationship between Russia and the West has become more similar to a zero-sum game. What the anti-NS2 countries fear the most is that Russia could achieve a much larger geopolitical room for manoeuvre in Eastern Europe, as it would be able to deliver gas to central and Western Europe even without letting its gas transit through the territory of those Eastern countries. Nevertheless, Russian dependency on the export of raw materials, its main source of revenues, is higher than the need of Russian gas for the European Union.*
  Section 3.2.2 and 3.2.3 depict the role of Ukraine in the development of NS2 project and the consequences it will have on Kiev.
  In spite of exclusively low prices, Kiev has been in arrears with payments and happened to divert – illegally – gas aimed at the EU markets to its own internal use. Supply interruptions in 2006 and 2009, seen by the Western world, passed as evil deeds Russia perpetuated in order to subjugate its smaller neighbour. Admittedly, Russia did appear to act in a coercive fashion, or, at least, was guilty of ignoring the consequences of its unilateral decisions.
  However, as highlighted in section 3.2.4, Russia has been proceeding with a revision of its main companies' modus operandi so that they can comply with the EU institutionalised ruling and legislation. Another example of this is the acceptance of the EU's regulatory approach by Gazprom in certain situations.

- *In subchapter 3.3, challenges for Russia in Europe are shown in relation with Russian tendence to change approach within the energy dialogue with its partners. It is expected that NS2 will be at the centre of the trilateral talks as a means to find a suitable compromise, showing that constraints and frictions in bilateral relations might end up in disrupting commercial projects such as NS2. In case no agreement is reached, this would mean that political factors would have overridden commercial ones. Furthermore, as shown in sections 3.3.2 and 3.3.3, various actors – such as Poland and the USA – might hide interests diverging from NS2, but influential in the EU-Russian energy relations development.*

3.1 Nord Stream 2

Subchapter 3.1 sets the case-study employed by this paper. Nord Stream 2 is a natural gas pipeline that will connect Russia and Germany.
Section 3.1.1 offers a briefing on the main characteristics of Nord Stream 2 project, such as its cost, the reasons for building and the way it will connect to existing infrastructures.
Section 3.1.2 builds upon Yafimava work, which presents the way amendments to Gas Directive of the EU address and influence the project advancement of NS2. In this part, the historical developments are reported.
Section 3.1.3 is concerned with the same topic as the previous one but focuses on the specificities of the amended Directive. The aspects related to NS2 touched by the amendments are tariffs, access to third parties and unbundling. The exemption regime is included.
In section 3.1.4 – continuation of the previous one – Yafimava illustrates different possible scenarios for the future. The section is divided into topics like Directive's requirements, exemption, intergovernmental agreement, risk of delay, legal constraints, conclusions.



Retrieved from https://www.euractiv.com/section/energy/news/all-eyes-on-denmark-after-sweden-awards-nord-stream-2-permit/

3.1.1 Nord Stream 2 – A link between Russia and the EU

Nord Stream 2 is a gas pipeline that will run parallel to the already existing Nord Stream infrastructure, doubling the overall maximum capacity of natural gas flow from 55 to 110 bcm per year. The new building will mirror the existing one: positioned along 1,230

km on the bottom of the Baltic Sea, it will directly connect the two onshore terminals of Ust'-Luga, near St. Petersburg, and Greifswald in Mecklenburg-Vorpommern, passing through the exclusive economic zones (Zee) of Finland and Sweden as well as for Russian, German and Danish territorial waters (near the island of Bornholm).[147] The German section of Nord Stream 2 will have to meet EU laws at the border between German territorial sea (12 nautical miles) and its Exclusive Economic Zone (which has a limit of 200 nautical miles around the coastline).

Already in 2009, the International Energy Agency assumed that by 2030 at least 75% of Gazprom's total gas production would come from new fields on the Yamal Peninsula.[148] The gradual shift of production to the north had important implications for the relative costs of the transportation options, as far as Nord Stream (1) project is concerned. The predecessor of Nord Stream 2 (NS2) showed competitiveness for the Northern route as compared to the Ukrainian one. This is because the distance from the Yamal Peninsula to the Russia-Ukraine border is longer than the distance from the Yamal Peninsula to the Nord Stream entry point, in Vyborg.[149] The study conducted by Chyong et al., made at the Cambridge University in 2010, explored the economic value of the first Nord Stream 1 project: "three factors contributed to the positive economic value of the Nord Stream pipeline system: the lower transportation cost compared to existing options (the economic fundamentals of the project); the impact of Nord Stream on lowering Ukraine's transit fee; the insurance against transit disruption risks through Ukraine."[150] The successful results NS1 brought to the parties involved economic – as well as geopolitical – considerations. This launched the idea of doubling the existing infrastructure and realise Nord Stream 2.

Nord Stream 2 doubles Nord Stream 1, which started being operative in 2011 with a capacity of 55 bcm – it was allowed to trade only 50% of its capacity for the first period of its activity. OPAL pipeline underwent a limitation regime for the first years of its

[147] M. Soldavini, *Perché Mosca e Berlino*, op. cit., http://www.limesonline.com/cartaceo/perche-mosca-e-berlino-raddoppiano-il-gasdotto-baltico?prv=true, retrieved on 31.05.2019

[148] IEA, *World Energy Outlook 2009*, Paris

[149] C. K. Chyong, P. Noël, D. M. Reiner, *The Economics of the Nord Stream Pipeline System*, Cambridge Working Paper in Economics 1051, Cambridge, September 2010

[150] Ibidem

operations, as the EC applied a 50%-limit to the volumes of Russian gas that could transit through this pipeline. The *ratio* was the belief that OPAL infrastructure made its clients too dependent on Russian gas, which went against the principles of diversification proposed by the Energy Union. It has been stated that the limitation to OPAL pipeline was a demonstration of how technicalities can be used by the EU as a means to pursuit geopolitical goals[151] (see OPAL exemption, section 2.3.2).

In June 2015, Gazprom and the German company BASF signed an agreement that would double the existing pipeline transit, increasing the volumes of traded gas towards Greifswald to 110 bcm per year. The following September, other Western companies joined the consortium: thus, Gazprom owned 51% of the consortium's quotas, BASF/Wintershell - 10%, E.On (Germany) – 10%, OMV (Austria) – 10%, Royal Dutch Shell (Netherlands) – 10%, Engie (France) – 9%.

The project was planned to guarantee Germany a great deal of gas which it would later distribute throughout Europe. Meanwhile, Gazprom seized the opportunity to overcome the obstacles laid by the EU through the Third Energy Package and the relative friction that had emerged with the European Commission. In the end, as we will see, the project provoked harsh reactions; however, in the beginning, Gazprom thought to have found a way to both comply with European rules while diminishing the reliance on Ukrainian transit routes.

Nord Stream 2 idea appeared after the South Stream project was given up because of the strong influence the European Commission exercised on the Balkan countries for their dissuasion. Nord Stream 2 was planned to avoid the unbundling matter by delivering Russian gas to a European consortium at the border with the EU, at Greifswald. This tactic included a formal halt to the commercial interests and activities of Gazprom at the border with the EU; however, the Russian company would keep commercial involvement by agreeing partnerships with the European energy companies. These companies would manage and sell Russian gas throughout Europe.

[151] M. Paolini, *Nord Stream 2, colpo doppio oppure a salve?*, limesonline.com, 03 February 2016, http://www.limesonline.com/cartaceo/nord-stream-2-colpo-doppio-oppure-a-salve, retrieved on 15.08.2019

The European partners had interests in making agreements with Gazprom on cheap gas, which, at the time, was subject to flexible (and low) prices. In spite of such low prices, Gazprom considered advantageous to invest in a project that would give vent to the excess gas it detained, even though the market situation was not favourable for sellers. Gazprom lacked the economic capacity to develop and employ its Urengoy gas reserves. Thus, it let European healthier companies to enter its gas circuit in exchange for investments and contracts, in order to guarantee security of demand. Moreover, Gazprom judged (and still does) Ukrainian gas transit as unreliable and not convenient. Therefore, Nord Stream 2 was both a commercial instrument as well as a tool to improve security of demand and security of transit. Germany repeatedly showed the will to rise to rank as "the" European gas hub; former German Chancellor Gerhard Schröder, president of the NS1 and NS2 consortium, symbolises this will.
Nord Stream 1 brought with it the realisation of two internal pipelines: NEL (Nordeuropäische Erdgasleitung) and OPAL (Ostsee-Pipeline-Anbindungsleitung), which were projected to spread Russian gas to the important Western European gas markets.

In many authoritative newspapers it is claimed that the project is a profitable investment that respects EU legislation; in as many authoritative newspapers, NS2 is considered as a mere geopolitical tool Russia and Germany are deploying to pursuit their national interests, at the expenses of the other EU Member States and the Energy Union, as well as Ukraine. It is a matter of sterility of information to claim that the project is solely an additional pipeline built in order to fulfil the increasing European demand of gas or Russian supply excess. Indeed, it was conceived in a time when the price of gas was very low and when, due to 2008 recession, the industrial activities of the EU were not as demanding as the building of a new pipeline only for commercial reasons would require.
Soldavini points out some of the main concerns that the opposers to NS2 raise: a) the 55 additional bcm are not such (additional) but replacing volumes. Through NS2, Gazprom tried to disengage from Brotherhood and Soyuz pipelines, running through Ukraine. Or at least, diminish Russian dependence on its South-Western neighbour; b) moreover, it

is expected that the direct link created by Russia and Germany cut out Eastern Europe, making them at the mercy of discriminating tariffs, which is one of the biggest fears Poland and the Baltic states feel; c) lastly, Soldavini includes the claim that increasing dependence on Russian gas is a neo-imperialistic tool that expansionist Russia employs to generate internal turmoil within the EU and to coerce its European neighbours, in particular Ukraine.[152]

The author considers coarse the (mainly American) claim about the need to reduce at any cost the European dependence on Russian energy. First of all, since the beginning of the new millennium, gas prices have been sensitive to the short-term ups and downs: LNG influences prices at the major transit hubs. There, stock markets are formed, and bilateral long-term contracts are indexed according to their trends, as well as prices. Russia can afford to sell very cheap gas, which the EU has the greatest incentive to buy. Cheap prices combine with increasing demand from the European side, due to lowering internal reserves and because of the rising role natural gas is going to have in most of the energy transition scenarios. It might appear paradoxical, but Russia shows as the most reliable supplier, as well as the cheapest. "Despite all the upheavals of this decade – the war in Ukraine, the changes in the Western energy mix with the massive injection of renewables and the general efficiency – the total import via pipes has returned to match 2007 values (about 262 bcm), while domestic production fell by almost 50 bcm per year (from 307 to 261 bcm). This means that in 2017 we have imported "traditionally" (therefore net of GNL) almost exactly what we produce of ours. […] Nord Stream 2 is all but a redundant infrastructure."[153] And this confutes the first claim, i.e. NS2 has not commercial value but mostly geopolitical reasoning. For the confutation of the second and third points, refer to section 3.1.4.

Concerning the works for the laying of NS2 pipes, the operations in Russian waters began in September 2018 and by November over 200 km between Russia, Germany and the Finnish Zee had already been completed. "According to rumours (Reuters) the first

[152] M. Soldavini, *Perché Mosca e Berlino*, op. cit., http://www.limesonline.com/cartaceo/perche-mosca-e-berlino-raddoppiano-il-gasdotto-baltico?prv=true, retrieved on 16.08.2019
[153] Ibidem

tranche of external financing, amounting to 1.5 billion euros, would be paid by European majors by the end of 2018 - the final cost being expected to be 9.5 billion euros. All relevant administrative authorizations in each section of the project have already been obtained, including the activation of the Espoo Convention on transboundary pollution, of which Moscow is not a signatory."[154] NS2 will fill European gas infrastructures through EUGAL, a 485 km pipeline that will run from Germany up to the Czech border.

3.1.2 Amendment to the Gas Directive 73/2009/EC

This section seeks to present the *iter* of the "Directive of the European Parliament and of the Council of 17 April 2019 amending the Gas Directive in order to improve the functioning of the European Union's internal energy market."[155] The discussion and adoption of the final version of the document was the following:

> *"The European commission presented the proposal on 8 November 2017. The European Parliament's plenary session adopted its negotiating position on 11 April 2018 and member states' ambassadors backed a general approach on behalf of the Council of the European Union on 8 February 2019. An informal agreement between the institutions on a compromise text was reached on 13 February. The Parliament formally endorsed the draft amendment on 4 April, followed by the Council on 15 April."*[156]

---

[154] Ibidem

[155] The whole section was built thanks to different sources. If not stated otherwise, the sources to which refer are:

- Council of the European Union, *ST 6351 2019 INIT*: Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/73/EC concerning common rules for the internal market in natural gas - Analysis of the final compromise text with a view to agreement, Council of the European Union, February 2019.
- Italian Foreign Affairs Ministry, Document in preparation to the "Audizione dell'ambasciatore Massari Alle Commissioni Congiunte Senato e Camera Sullo Stato Dei Negoziati Sui Principali Dossier Europei Di Interesse Dell'Italia", 02.04.2019, https://italiaue.esteri.it/rapp_ue/it/ambasciata/news/dall-ambasciata/2019/04/audizione-dell-amb-massari-alle.html
- K. Yafimava, *Gas Directive amendment: implications for Nord Stream 2*, Energy Insight: 49, The Oxford Institute for Energy Studies (OIES), Oxford, March 2019

[156] European Union, *Directive (EU) 2019/692 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas*, europeansources.info, 03 May 2019, https://www.europeansources.info/record/directive-eu-2019-692-amending-directive-2009-73-ec-concerning-common-rules-for-the-internal-market-in-natural-gas/, retrieved on 31.05.2019

The proposal for a revision of Gas Directive 2009/73/EC was redacted by the European Commission in 2017 but did not record much progress in the first months after its drafting. The EU Council seemed to be willing to reject the proposal throughout 2018, during the Bulgarian and Austrian presidencies, as a qualified majority could never be reached.

The *ratio* behind that was the concern that Nord Stream project's doubling, Nord Stream 2, raised in some chambers of the high-level political environment of in the EU institutions. In order to avoid an impact coming from NS2 that was considered too consistent for the European market, the Commission designed this revision, which would be able to stop – or regulate – the outcome of the project. EU law is generally applied to Member States' territory, as well as their territorial waters and their Exclusive Economic Zones. However, the Gas Directive of 2009 does not explicitly refer to the rules applying to gas pipelines to and from third countries, leaving a vacuum in the direct application of gas rules to those areas. Moreover, the Directive did not address interconnectors, that are gas transmission pipelines connecting two or more Member States.

Directive 2009/73/EC – often referred to as Gas Directive – was part of the Third Energy Package. It establishes common rules for the transmission, the distribution, the supply and the storage of natural gas. It lays down the rules for organizing natural gas sector, market access, the criteria and applicable procedures for issuing transmission, distribution, supply and gas storage licenses, as well as the principles of system management. Under this regulation, Member States need to make sure that undertakings owning a transmission system act as a TSO (Transmission System Operator). It also regulates the development of infrastructures and new projects, which need to apply EU rules and undergo provisions linked to projects patronised by ENTSOG, the European association of TSOs.[157] The key requirements are the unbundling of transmission from

[157] Snamretegas.com, *Directive 2009/73/EC of the European Parliament and of the Council*, pianodecennale.snamretegas.it, http://pianodecennale.snamretegas.it/en/legislative-and-regulatory-framework/directive-2009-73-ec-of-the-european-parliament-and-of-the-council.html, retrieved on 10.08.2019

supply and production businesses, third party access (TPA) and regulated and transparent tariffs.

The 2019 Revision aimed to apply, through amendments, the rules in force for European Union Member States also to third countries and, therefore, gas suppliers. The greatest effects will fall on the "unbundling" of gas supply companies, for which, in the European Union, it is necessary to separate the control of production and distribution of gas. The reason behind the 2009 Directive was to ensure the maximum possible competition and its development within the EU internal market. With regard to the 2019 Revision, on the other hand, it is possible to note a certain influence generated by political issues; in particular, the feeling that Poland, the Baltics and others are driven by Russophobic sentiments in the matter is justified by the fact that, when negotiating at the Coreper[158] meetings of the EU Council, these countries have often shown to be favourable to many of the proposals suggested by the Commission, which was eager to reach compromise before the EU elections would interrupt bureaucratic procedures in the second quarter of 2019. The EC submitted proposals for a Directive which sought to empower the Commission's mandate to negotiate new contracts with third countries. Yafimava states that the proposal of amendment was thought "*ad-hoc*" to contrast NS2 project.[159]

2019 Revision includes a) a change to the definition of "interconnector", b) a derogation regime thanks to which already existing pipelines are allowed for a 20-years period before complying with new rules, c) the possibility for new pipelines (completed after the entry into force of the revision) to be exempted from specific EU rules, under request of the country in whose territorial waters the interconnection with third countries' structures takes place (Germany in NS 1&2 case).

A blocking minority was formed by Germany, Austria, the Netherlands, Belgium and France: these countries tried to halt the procedure that would carry to completion of the amendment. However, it was displaced when, in February 2019, the French declared they would support the amendment. Thus, the Romanian presidency succeeded in

[158] *Comité des représentants permanents*, Committee of Permanent Representatives, whose defined role is to prepare the agenda for the ministerial Council of the European Union meetings.
[159] Yafimava, *Gas Directive Amendment*, op. cit., 2019, p. 1

accelerating the process. The Revision argument had been postponed for many months, due to sceptic attitude of the precedent presidencies of the European Council (Bulgaria and Austria) in 2018, but strong pressure was exercised in the institutional environment, especially after the energetic pulse Jerzy Buzek – Polish PPE representative in the European Parliament – blew. The Romanian presidency, in the first months of 2019 speeded up the practice and obtained a final compromise by the Member States, in particular after France withdrew from the blocking minority cited above: a French-German arrangement of February 2019 limited the scope of the Directive to the territory or territorial sea of the country where first landing/connection takes place, assigning to that country solely the responsibility to apply the Directive. These three aspects, together with the European Parliament willingness to yield to the requests of the Romanian presidency during the Trialogues (i.e. deleting the inclusion of Exclusive Economic Zones, expanding the short 5-years period for derogations, limiting the invasive role of the EC in the matter of derogation), allowed Bucharest's representation to achieve meaningful goals in few weeks.

The cumbersome topic highlights the difficulties that the European Union Member States are facing within the energy sphere: political frictions between the traditionally anti-Russian countries and the "old-Europe" countries came to the surface without even an attempt to cover them under the veil of European fraternity (not ignoring the fact that this same veil is becoming thinner and thinner in many other issues within the Union). *Politico,* the political journalism company, the day after the amended proposal of the Commission was endorsed at the trialogue of 12th February, gave an interesting assessment based on wondering who, according to the newspaper, fared the best. Apparently, the outcome was not the best one ever for any of the parties, but, definitely, there were those who could feel more satisfied, including the Romanian presidency, which deserved the accolade for its celerity. The text adopted was the result of a Franco-German compromise proposal, which would suggest that Germany could feel satisfied with the outcome. Actually, Germany had been trying to scuttle the Directive entirely, as it would endanger the continuation of NS2 operations. Indeed, Germany had to cope with the impossibility to stop the Directive revamp; however, the compromise proposal

included a language which gave Member States the option to ask for exemptions from EU rules, after the Commission gives the green light. After all, despite not being the hoped outcome for Germany, this solution might secure the NS2 project activation by the end of 2019 or the beginning of 2020, leaving Germany half-way satisfied. More opportunely, the Franco-German compromise was a limitation to the damage that an unmodified Revision would have carried to Nord Stream 2.

The EP approved on 4th April the Revision of Directive 2009/73/EC[160] with 465 votes in favour, 95 against and 68 abstentions. The EP declared that this step would guarantee legal certainty to operators as well as a higher level of competition for gas supply to the Union. As already stated, the revision guaranteed that ownership of pipelines (infrastructures operators) entering the EU territory was 'decoupled' from the ownership of gas supplying companies. Gas pipelines coming from third countries will have to be accessible to operators other than gas suppliers, like already happens inside the EU Member States' territory. This should improve competition and market functionalities.

The initiator of the proposal, Buzek, commented the adoption of the Revision by claiming that from that moment on competition would be guaranteed in a steadier way. Nevertheless, if Nord Stream 2 project is taken under the lens, it is risky to state that European gas market will undoubtedly benefit from 2019 revision. Considering that the EU is not ready to implement a complete diversification of supply in the gas sector, Russian unacceptance or inability to comply with European legislative framework might unleash retaliatory measures from the Russian side that will be all but beneficial for the European gas market. Moreover, lack of compliance would threat Russian ability to maintain the existing level of supply.

Truth be told, the EU has been carrying on differentiation policies for many years and more than one example show that the Russian Federation is often eager to maintain good

[160] European Parliament, *Gas naturale: norme UE estese ai gasdotti provenienti da Paesi terzi*, European Parliament website, 04 April 2019, http://www.europarl.europa.eu/news/it/press-room/20190402IPR34673/gas-naturale-norme-ue-estese-ai-gasdotti-provenienti-da-paesi-terzi, retrieved on 29.05.2019
See also: European Commission, Press release, 12 February 2019, https://europa.eu/rapid/press-release_MEX-19-1070_en.htm?locale=en

commercial relations with its Western clients. It goes without saying that such a claim corroborates the idea that Russia is not able and willing to use energy as a weapon for its geopolitical assertion as freely as its main opposers claim.

3.1.3 Amended Gas Directive and its application to NS2

When the amended Directive is transposed into German law, the German regulatory authority will have to make sure Nord Stream 2 complies with the EU rules. This means that it will have to respect three main points that the Directive seeks to apply to pipelines connecting EU Member States' territory with third countries. These three aspects are the unbundling requirements, access for third parties and transparency of tariffs.

Directive's requirements:

As long as tariffs are concerned, it is necessary for the German regulatory authority to fix or approve the methodologies applied in order to calculate and establish the tariffs of transmission and connection to the national networks. It is necessary to fix also the procedures for the allocation of capacity and for the access to cross-border infrastructures. These requirements have to be published under article 41 of the Gas Directive. However, the Directive is not clear on the necessity of publishing tariff methodologies for cross-border infrastructures, as they refer more specifically to national networks only. Nevertheless, Yafimava claims that it would be desirable for NS2 to publish its tariff methodology for sake of transparency. [161] Despite not having published the methodologies yet, it is expected that NS2 tariffs will be 20% lower than the tariff indicated in the contracts stipulated with Ukraine in 2009. This forecast signals a certain degree of competitiveness and, consequently, little future concern in publishing its methodology.

The second aspect to take into account is TPA – access to third parties: this rule does not apply to the Russian section of NS2. Thus, Gazprom has the right to control and manage the pipeline until it enters the territory of one of the EU MS (Member State). Gazprom is the owner of the Russian Unified Gas Supply System (UGSS), which is the

[161] Yafimava, *Gas Directive Amendment*, op. cit., 2019

legitimate entity controlling export of NS2 pipeline. TPA will apply to the German section of NS2: in principle, NS2 could offer capacity access to any third party. The fact is that, at the moment, there is no third party that detains gas to put into the Russian section of NS2 at Ust'-Luga and that can export it, thus making the possibility of TPA practically unfeasible. A solution could be that Gazprom sells some of its gas outside the long-term contracts with the EU at an auction; this gas could be injected in Ust'-Luga and exported to Europe. Otherwise, Gazprom could sell gas belonging to another Russian company and deliver it to its EU clients. This would mean that Gazprom could exercise monopoly over the pipeline gas exports, with a third party being able to request short- or mid-term capacity both in the Russian and the German sections for transporting gas. Yafimava illustrates that this capacity could match the capacity reservation quotas applied to EUGAL pipelines, which is 10% of the capacity for the short-term bookings and 10% for the mid-term. This 20% represents the reserved capacity out of the total gas allocated via auctions and booked under 20-years contracts in March 2017. Therefore, Gazprom could let third parties control 20% out of the amount that it is legally prevented from employing, thus creating no commercial damage or breach of binding contracts.

The most arduous requirement to deal with is the unbundling principle, as it would most likely call for changes in pipeline ownership or operatorship. The Directive states that the involved Member State (Germany) may decide not to apply ownership unbundling "as regards the part of the transmission system connecting a Member State with a third country, between the border of that Member State and the first connection point with that Member State's network, where the transmission system belonged to a vertically integrated undertaking" on the date of adoption of the amended Directive.[162] Accordingly, the Directive allows for other types of unbundling, which Yafimava lists as follows:

a) An independent system operator (ISO) that would operate the system while the ownership would remain with a vertically integrated company;

[162] Article 9, Directive 73/2009/EC as amended in 2019.

b) An independent transmission operator (ITO) that would be preserved as part of the vertically integrated company, in case the TSO (transmission system operator – GASCADE for Germany) remains independent;
c) Another form of unbundling which guarantees independence of the TSO more than an ITO.

Provided one of the listed types is adopted, there is more than one scenario under which the ownership unbundling would be avoided, while assuring the compliance with Directive requirements on unbundling (it is assumed that none of the parties involved would opt for an ownership change).

-First: one of these scenarios sees the operatorship of the entire NS2 pipeline transferred to one of Gazprom's transportation subsidiaries. Gazprom owns regional transportation companies which have access to the Russian gas transmission system, and which can operate NS2 in Gazprom's behalf. By long-term lease agreements, these subsidiaries, which already manage transport in their areas of responsibility (corresponding to Russian geographic regional boundaries), could operate NS2 like Gazprom Transgaz Krasnodar does – it operates and owns 51% of South Stream Serbia.
If this picture was considered unfeasible, a new TSO might be founded, owned by a Russian and a German company. This TSO would jointly operate the entire pipeline.
One last option for this scenario – i.e. transferring the operability of the entire pipeline – is the creation of a new Gazprom subsidiary and put it in control of the infrastructure. All the three options included in this scenario would need examination by the German regulatory authority to confirm they comply with the Directive's requirement in the German section.

-Second: the second scenario considers only modifications to the German section. Operatorship rights could be transferred to an existing (e.g. GASCADE) or a new German TSO. GASCADE holds a 50.5% stake in the EUGAL pipeline, which will be irrorated by NS2 gas: therefore, GASCADE would be the most likely TSO to be assigned operatorship, in case this scenario was chosen. Otherwise, a joint operator could unify more than just one TSO.

Whatever the scenario and the relative options are, it is important to point out that the operator will have to be certified by the German regulatory authority. However, if NS2 is completed on schedule, that is by the end of 2019, the Directive will not have been transposed into German law, thus allowing the pipeline to start its operations without a new certification.

The European Commission is in power to raise objections on the start of operations before a definitive certification is issued. Yet, the German regulatory authority should take the same decision, which is quite unlikely, considered that a Polish TSO started operations on the Yamal-Europe pipeline in 2010 even if it obtained a certification only 5 years afterwards. It would create quite a big sensation was the Commission to opt for such a strong decision.

The option of transferring NS2 operatorship rights to a new or existing, Russian or European (or joint), TSO seems as the most straightforward and feasible choice. This would cause the smallest regulatory change and the least regulatory uncertainty, according to Yafimava.

Exemption:

An obstacle might raise in case Gazprom refuses to transfer operatorship to a different TSO. In this case, the Russian company would have to apply for an exemption of the unbundling requirement. The derogation regime – the Italian and Spanish delegations at the EU Council were eager to make sure it would be agreed – is not applicable to Nord Stream 2, as the infrastructures eligible for derogations need to be completed before the adoption of the amended Directive. This is not the case for NS2.

The request for exemption needs to be made to the German regulatory authority, after the Directive is transposed into German law. Afterwards, the exemption request must be notified to the European Commission, which has to approve or reject the request.

It is Gazprom in charge of requesting an exemption, since there is no other party that could apply for it. It is presumable that Gazprom would apply for an exemption just in case the German authorities show reservations on the certification of the pipeline.

The exemption criteria of the Directive include the obligation for the investment to enhance competition in gas supply and security of supply (as indicated in article 36.1 a)), not to be detrimental to competition or to the internal functioning of the gas market; the amendment proposal is more specific and requires the exemption not to be detrimental to competition in *relevant* markets which are likely to be affected by the investment. This last point links to the opposition Poland has shown towards NS2 project: it is likely that, in case of an exemption request, Poland would claim that its gas market is concerned and that NS2 is detrimental to competition within the Polish market. It is object of discussion whether the EC would opt for pleasing the Polish claims or whether it would assess the entire project as a progress in meeting the Energy Union objectives in terms of energy security and improvement of the fight to climate change. An important factor to consider here is that there is a new Commission at the door of the next mandate, and it is quite risky to forecast anything like this.

It is also possible that the EC opts for a slowdown translated into the possibility to take a four-months suspension of the operations during which the Commission would decide on the issue, after assessing the German regulatory authority opinion.

<u>Intergovernmental agreement:</u>

Yafimava points out an inter-governmental agreement between Germany and Russia or the EC and Russia as a third possible way to reach compliance with the amended Gas Directive for Nord Stream 2. However, she also highlights the difficulty this approach carries, both because of the decrease of incentive for the Russian government to enter negotiations after the approval of the amendment and its consequences, and the deterioration of the relationship between Russia and the West in general terms.

Actually, the European Commission sought to obtain a negotiating mandate from the European Council in 2017. The goal was to ensure that NS2 could operate in accordance with a mutually agreed regulatory framework which would incorporate European law

and international law, taking into account the impact of the pipeline and the Ukrainian situation.[163]

The EC failed to obtain the mandate, because the European Council judged that the EC could disbalance its role from trying to genuinely attempt to ensure that Ukraine would still be targeted as important transit countries to employ to ensure that NS2 would not be built or would be delayed significantly. Moreover, it was opinion of the Council's legal Service that such a mandate was not necessary, as there was no conflict of laws and no rationale for it. It is shared opinion that the reason for the EC to push for the approval of the amended Directive could be justified by the will to opportunely create a conflict of law that would entail a mandate to be approved. In that case, the mandate would place the EC in a stronger position.

However, an intergovernmental agreement is very unlikely to be chosen as a way out, especially because the amended Directive leaves little room for the European side to conceive a solution, and even less incentive for the Russian side to come to terms with a partner that seems eager to disrupt the built path.

3.1.4 Amended Gas Directive and its application to NS2 (part II)

Risk of a delay:

The three points that the amendment to the Gas Directive focuses on are not the only concern to take into account. There is an issue linked to the permit that the Danish government has to apply for NS2 to pass through its territorial sea. A decision on allowing the pipe-laying south of Bornholm island is pending, as the Danish government raised issues on foreign and security policy ground, after the environmental one was understood not to be relevant or sufficiently consistent to stop the construction. Even though the foreign and security policy ground is not expected to be able to stop the construction, a subsequent legal action would threaten to delay the finalisation of the

[163] Legal Service of the Council of the European Union, *Negotiating Directives: Annex to the Recommendation for a Council Decision authorising the opening of negotiations on an agreement between the European Union and the Russian Federation on the operation of the Nord Stream 2 pipeline, Council document 10249/17 ADD 1*, as quoted in the Opinion of the Legal Service of the Council

project. At the time of writing, the Danish authorities have not published a response yet. Nord Stream AG expects the delay to involve some $660 million of extra costs.[164]

If NS2 obtained the permit to be built within the third quarter of 2019, probably it could be operative by the end of 2019. If not, the risk is to witness a shortage of supply for next year, or at least the first months thereof (obviously, the coldest and the ones during which gas demand is higher). This is due to the expiration of the contracts that granted gas transit through Ukraine.

It is common knowledge that Gazprom considers Ukraine an unreliable partner and wishes to reduce its gas transit through the country. Yafimava estimates that, excluding the Ukrainian corridor, Russia exported 135 bcm of gas in 2018, through Nord Stream, Blue Stream, Yamal-Europe and a pipeline connected to Finland. If the level of demand remains the same in 2020, i.e. 200 bcm, Gazprom will face a 65 bcm shortage of export capacity. This means that, if NS2 is not operative by the end of 2019, 65 bcm will need to transit through Ukraine; if only one string of NS2 is operative, still 50 bcm of gas will need to cross Ukraine (this scenario implies that Turkish Stream is completed and is fully operational, which is all but certain). Delays in the completion of the NS2 pipelines would mean a significant issue, both for the company and even for the security of supply of Europe and Russia.

It is important to highlight that estimations forecast a decrease to 30-60 bcm of natural gas passing through Ukraine, if NS2 and Turkish Stream are fully operational. Far from being best solution for Ukrainian and Eastern Europe, this value could constitute a valuable compromise. The cited estimations are based on Yafimava work, in which other authors are cited and referred to: Rogers, Pirani, Sharples' works are fundamental for shaping the general character of the issue.[165]

---

[164] Euronews.com, *Exclusive: Denmark's Nord Stream 2 route request could cause eight-month delay, cost 660 million euros – operator*, euronews.com by Reuters, 08 August 2019, https://www.euronews.com/2019/08/08/exclusive-denmarks-nord-stream-2-route-request-could-cause-eight-month-delay-cost-660-million-euros-operator, retrieved on 14.08.2019

[165] - S. Pirani, *Russian gas transit through Ukraine after 2019: the options*, Oxford Energy Insight 41, the Oxford Institute for Energy Studies (OIES), Oxford, November 2018

If the delay forces Gazprom to keep transit through Ukraine, there is going to be even further difficulty in dealing with the negotiation of new contracts. Employing the NS2 tool by the EU to obtain bigger concessions from Russia is a risky and uncertain strategy. It is not only *cycles and counter cycles of history* to suggest that Russia would not be eager to accept what it may believe is a unilateral and disadvantageous agreement; Russian élites showed no doubt in their declarations about the response the EU would get in case controversies arise on a voluntary basis.[166]

Legal constraints:

In spite of the possibility for the opposers to NS2 to act via the institutionalised tools of the European Union, there is some limitation to the room for manoeuvre: "The EC and/or the German regulatory authority's ability to use the amended Directive to impose changes in respect of the operation of NS2, that would result in restrictive regulatory treatment and have negative commercial impact, would be limited by legal constraints reflected in general principles of EU law, such as legal certainty and protection of legitimate expectations, non-discrimination, non-retroactivity. […] Application of the Gas Directive to a project which had been initiated at the time when it did not apply to pipelines from third countries would be at odds with the principle of legal certainty as well as non-retroactivity."[167]

Moreover, contracts for the supply of EUGAL pipeline have been agreed with terms of 20 years. If NS2 is not made operative as scheduled, there is a high risk that the contracts could not be served. Was the EU to create a gap exceeding 20% of the total capacity of Nord Stream 2, EUGAL would lack the gas to supply its clients.

- J. Sharples, *Ukrainian gas transit: still vital for Russian gas supplies to Europe as other routes reach full capacity*, Oxford Energy Comment, OIES, May 2018

- Rogers is cited by Pirani with no specific reference to the work from which ideas and concepts are taken. Research on the topic was joint and shared by the two.

[166] See, for example, Kremlin.ru, *News conference following Russian-Bulgarian talks*, kremlin.ru, 30 May 2018, http://www.en.kremlin.ru/events/president/news/57608; or Gazeta.ru, *Запасы России: когда закончатся нефть и газ?*, gazeta.ru, 26 February 2019, https://www.gazeta.ru/interview/nm/s12198073.shtml (in Russian)

[167] Yafimava, *Gas Directive Amendment*, op. cit., 2019, pp. 12-13

The fact that NS2 would be *de facto* the only pipeline affected by the amendment and the fact that an eventual halt could be contested before the WTO as a means of discrimination (similar to the dispute opened by Russia on the EC OPAL exemption) suggests that NS2 would be in a strong legal position to contest measures potentially taken by the European partners.

Nevertheless, the EU (or a part thereof) might be interested in opening a legal action as this would slow down the development of the project and, as analysed by some experts, would decrease the level of Russian gas imported in an unconventional but very hazardous, as far as security of supply principle is concerned, way.

Secondly, it is not conceivable that NS2 stakeholders would be eager to open a litigation, even administered from a strong position, as this would definitely delay the start of the operations; considered the mainly economic nature of the project, it is clear that any limitation to operability, in terms of time or volumes, is detrimental for the returns on the investment.

Conclusions:

This section was based on Yafimava's assessment on the Gas Directive amendment and its implications for Nord Stream 2. Also referring to other authors, she gauges the level of influence the amended Directive will have on the NS2 project.

To sum up: the final estimation is that Gas Directive might be responsible for a delay in the start of the operations, but not for a total halt.

> *"The Gas Directive amendment, which is on course to be signed into law in May 2019, will enter into force in July 2019, and is due to be transposed into member states' law within the subsequent nine-month period, is unable to halt construction of NS2 – as some EU member states had hoped. However, it is capable of delaying the start of NS2 operations (if it is not built before the amended Directive has been transposed into German law) or suspending its operation (if it started before the amended Directive has been transposed into German law). The amendment has also created significant regulatory uncertainty about the degree of utilization of NS2, and consequently the degree of utilization of the EUGAL pipeline to which NS2 is planned to be*

connected. Nonetheless, it is unlikely that a significant cap – that is higher than the reservation quotas already applied in respect of EUGAL capacity (10 % for mid- and 10% for short-term capacity) – would be imposed either by the German regulatory authority or by the EC on Gazprom's utilization of capacity in NS2 due to significant pre-existing legal constraints."[168]

As a way for NS2 to fulfil Gas Directive amendments' requirements, the most likely and less disruptive option is to transfer ownership and/or operatorship to an existing or a new TSO. The combination of choices concerns the nationality of the TSO – it could be European, Russian, or joint – and the section of pipeline – the entire structure or only the German section. This possibility is less problematic in terms of regulatory change and regulatory uncertainty than an exemption or an intergovernmental agreement.
The German regulatory authority will have to establish the regularity of the procedure and, in affirmative case, would have to grant a certification to confirm that NS2 complies with the three principles listed above, i.e. TPA, unbundling and tariff clarity.

Lastly, provided the Danish permit is received within the end of the third quarter of 2019, which is all but certain considered the miniscule progress witnessed in the last half-year, there are several scenarios under which NS2 could proceed in compliance with the amended Directive:

- The German regulatory authority can confirm the compliance with the Directive after it is transposed into German law. Possibly, methodology for capacity access and tariffs will be published, a new or existing TSO will be entitled with the operatorship (or ownership) of the pipeline, a certification will be issued, during whose accreditation NS2 might start operating. The EC could raise an objection, but this would result in a suspension only in case the EC refers Germany to the CJEU, and the latter orders a suspension.
- If German regulatory authority shows unwillingness to confirm compliance or to issue the certification to Gazprom, the Russian company needs to apply for an exemption. If so, the German authority and the EC might accept, suspend or

[168] Yafimava, *Gas Directive Amendment*, op. cit., 2019, p. 13-14

reject the request. The EC would have the power to suspend NS2 operations until a final exemption decision is made. The Polish government might have a role in this, as it could sue the EC on the basis of its reluctance for NS2 project, which the Polish sees as a proof of overdependence on Russian gas.

- Regulation of NS2 will probably constitute a negotiating instrument for the trilateral talks on post-2019 Ukraine gas transit. In a positive sum-game, this would result in a compromise that could satisfy all the parties involved. Nevertheless, experience has showed that the relationship between Russia and the West has become more similar to a zero-sum game, lately. Therefore, it would not be much of a surprise if the negotiations result in clutter and vexation.
- Clutter and vexation, if combined with failure to conclude a post-2019 Ukraine transit contract and failure to complete Nord Stream 2 before the end of 2019 (or suspension of its operation due to certification or exemption processing), would pose a serious threat to the European supply, as the EU clients would lack more or less 65 bcm of gas if the consumption levels remain similar to those of 2018. Even assuming the first string of Turkish Stream is operational by the beginning of 2020, some 50 bcm will still be needed.

This scenario-*crescendo* indicates how much there is to lose in the event negotiations and certifications do not comply with the regulatory and political sets. The catchphrase is the usual: time will tell us.

3.2 Hostility to Nord Stream 2

Subchapter 3.2 keeps the argument of Nord Stream 2 and portrays the difficulties the project has had since its first conception.
The first section presents general facts about the hostility over Nord Stream 2 and its architects. The second half of the section is a reprise of section 3.1.1. Soldavini, Stulberg and Nicolazzi are cited.
Section 3.2.2 opens the question of Ukraine's role in Nord Stream 2 scenario. It is stated that Nord Stream 2 does not necessarily mean disruption for Ukrainian energy system and that collision of interests are not the only aspect to consider. Pirani and Siddi widely argues this statement.
Section 3.2.3 resumes the Ukrainian question and presents Siddi's analysis of possible future scenarios for Ukraine. Maintaining the status quo is not considered the best option for Kiev in these paragraphs.
Section 3.2.4 highlights the response strategies Russia has been employing to contrast the challenges brought by European competitors and adversaries. It is argued that Russia has demonstrated clearer will to underpin a regulatory approach to the disputes than it used to in the past, rather than coercive tools.

3.2.1 General acknowledgement

Brussels appeared stubborn in its partying with NS2 opposers with not much argumentation. Poland – not in contrast with Tusk, president of the European Council – pushed, and supported afterwards, Maroš Šefčovič, president of the Energy Union of the EU, so as that he could partake to the faction of those who believe that NS2 is a redundant infrastructure that gives the EU just more dependence on one supplier. Šefčovič claims that infrastructures operating today are sufficient to fulfil European energy needs, thus titling Nord Stream 2 as a mere instrument Russia is deploying to delete Ukraine from its gas maps.[169] Most of the European infrastructures for gas transportation are underemployed and are able to carry more gas; however, the difference between the transit potential and the gas actually consumed does not emerge from political reasoning. Firstly, it is the low demand of the last decades that left pipelines "half" empty; as it was said, the trend is expected to change because of the increased value natural gas will cover in the energy transition of the EU.[170] Secondly, gas infrastructures are not employed at their maximum because of the lack of economic convenience; for example, a project to connect Spanish gas system to the French one – something that Spain would need to do, since its infrastructures do not connect with the rest of the continent properly, making Spain almost isolated from the European gas

[169] M. Paolini, *Nord Stream 2, colpo doppio oppure a salve?*, op. cit. http://www.limesonline.com/cartaceo/nord-stream-2-colpo-doppio-oppure-a-salve, retrieved on 26.08.2019
[170] See Chapter 1 for further details

connections – was planned in 2014, but have not reached completion in the following five years. This happened because of the small economic improvement the project would bring.[171] This second point shows that, when economic factors are taken into account, Russia often offers the most economically convenient results.

Thirdly, EU suppliers are not equally reliable, not necessarily from a geo-political point of view: the Netherlands and Norway are expected to decrease their supply significantly, Algeria plots an increase in its internal consumption, Libya is evidently on the brink of chaos. Russia, unexpectedly for some, might set up as the most reliable supplier. "The redundancy of our infrastructure would allow us to virtually do without it. But the evolution of the export capacity of other suppliers could make us discover that a significant part of our excess capacity is not redundant infrastructure, but only useless infrastructure."[172]

Šefčovič might be right in claiming that, quantitatively, Nord Stream 2 is a superfluous project; however, keeping a blind eye on the aspects just mentioned may appear suspiciously biased.

Truth be told, much of the opposition is based on the idea that NS2 would destroy any relevance Ukraine plays in the energy scenario, which is something that would mine the very approach on which EU neighbouring policy is based.

Ukraine has entered Brussels' field of attraction a long time ago and abandoning a partner like Ukraine would pose questions on the fundamentals of the Union. Kiev was inserted in the Energy Union by extending to its legislation the Third Energy Package rules. Stakeholders, the German government, the European Commission, the anti-Russian block, Ukraine are all actors involved in the play; all of them have justified

---

[171] Euractiv.com, *Spanish MIDCAT pipeline to replace 10% of Russian gas imports*, Euractiv.com with Reuters, 28 March 2014, https://www.euractiv.com/section/energy/news/spanish-midcat-pipeline-to-replace-10-of-russian-gas-imports/, retrieved on 26.08.2019, and Euractiv.com, *Study for EU questions France-Spain gas pipe plan*, Euractiv.com with Reuters, 18 April 2018, https://www.euractiv.com/section/energy/news/study-for-eu-questions-france-spain-gas-pipe-plan/, retrieved on 26.08.2019. Even though it was estimated to be a project that would carry benefit for the community, the later evaluations showed inconvenience and lack of reasons to complete it.
For further details, see also A. Gurzu, *The Franco-Spanish ghost gas pipeline*, politico.eu, 31 October 2018, https://www.politico.eu/article/the-franco-spanish-ghost-natural-gas-pipeline-midcat-miguel-arias-canete-enagas/, retrieved on 26.08.2019

[172] M. Nicolazzi, *Il Complotto del Gasdotto*, limesonline.com, 27 December 2017, http://www.limesonline.com/cartaceo/il-complotto-del-gasdotto, retrieved on 26.08.2019

reasons to hog the blankets. What is sure is that the front is divided and heterogeneous, with political and economic aspects intersecting and overlapping.

What the anti-NS2 countries fear the most is that Russia could achieve a much larger geopolitical room for manoeuvre in Eastern Europe, as it would be able to deliver gas to central and Western Europe even without letting its gas transit through the territory of those Eastern countries. The spokesman for this school of thought is Poland, which is evidently the most Russophobe member of the EU.[173] Moreover, the advocates of Russian expansionism tend to focus their attention to the fact that Russia might decide unilaterally to stop the supply of gas towards the European Union, thus unleashing disastrous effects concerning the security of supply of Western countries.[174] It would be a lack of academic honesty to highlight only the concerns some scholars have about Russian power on supply, considering that some of the most worried actors still explain the dependence issue that this situation raises. Unlike the rhetoric utilised by some Western media and, sometimes, by policy-makers, especially in the easternmost rank of the European Union, the fear that increasing the import of Russian gas would endanger Europe because of its dependency is contrasted by data and statistics. The Russian dependency on the export of raw materials, its main source of revenues, is higher than the need of Russian gas for the European Union. Paraphrasing Massimo Nicolazzi, the prospect that Russia could stop the supply of gas is not too much of a risky statement, if it was not for the enormous share of the total income that the revenues coming from the contract with the Europeans bring to the Russian state. At the time of writing, Nicolazzi reports that out of the almost $75 billion from the export of fuels, $32 was formed by the gas sector only; 75% thereof came from European countries. In 2017, Europe imported 583.3 bcm of natural gas (with an actual consumption of 579.5 bcm); Russian gas counted for 207.1 bcm, which represents more than 35% of the total.[175] Undeniably,

[173] A. Gurzu, *Nord Stream 2: Who fared best*, politico.eu, 13 February 2019, https://www.politico.eu/article/the-winners-and-losers/, retrieved on 26.08.2019

[174] A. Withnall, *Putin's gas threat: What happens if Russia cuts the gas to Europe?,* Independent.co.uk, 27 February 2015, https://www.independent.co.uk/news/world/europe/putins-gas-threat-what-happens-if-russia-cuts-the-gas-to-europe-10074294.html, retrieved on 26.08.2019

[175] M. Nicolazzi, *Il Complotto del Gasdotto*, op. cit., http://www.limesonline.com/cartaceo/il-complotto-del-gasdotto, retrieved on 14.05.2019

Russia represents the most pivotal element for European energy policy. However, Polish fears are misleading.

Next lines are the continuation of the last paragraph of section 3.1.1. Nord Stream 2 will follow a parallel route to Nord Stream 1. NS1 was estimated to be a PCI (project of common interest) by Decision 1364/2006/EC. Back then, the project attracted similar perplexity to the ones raised by Eastern European governments today. As an alternative, the Eastern countries proposed a doubling of the Yamal-Europe pipeline, which, apparently, would not be considered as a coercive energy tool. Poland, on whose territory Yamal-Europe brings natural gas, was probably more interested in maintaining the advantageous transit rights rather than hitting NS1 regardless. The progressive anti-Russian posture did exacerbate the issues NS2 would raise. In other words, Polish position was far from being aimed at thrusting community security of supply.

American LNG is often claimed to be a valid substitute to Russian natural gas; however, Russian gas costs one third less than what East Asian countries are ready to pay for LNG. This means that the LNG exporters (read USA) are essentially more attracted by Asian markets than by European reliable-though-less-profitable partners. NS2 opposers need to be eager to pay the differential between Russian gas and the prices paid by Asian buyers. Moreover, Qatar and Algeria, the major exporters to the EU, have more competitive prices than the American shale gas (LNG). Nevertheless, forecasts agree on depicting a scenario in which Russian gas and LNG will compete quite heavily in the next 30 years, especially when the focus is on incoming volumes, out of the contracts already in place. If LNG keeps being more remunerative in other spots than in Europe, if European gas production falls as much as it is believed now, Russian gas will still consolidate its market share in the European markets. That is why Gazprom is often accused to pursuit safeguarding of volumes at all costs, when, provided the presence of some hint of truth, it is more market reasoning that pushes the company to plan and design. Indeed, the increase of demand attracts new investors, especially in LNG production; natural gas producers need to conform to the market challenges. Which is something Eastern European countries do not do: regasification terminals in Poland

(Świnoujście) and Lithuania (Klaipėda) still need to demonstrate their potential for amortisation.[176]

Sodavini states that Moscow's interests are not in conflicts with this kind of strategy. Rather, NS2 is estimated to become a project that allows those interested in reaping the benefits of it regardless of the actions perpetuated by those who value differentiation as much as opposers of NS2 do. "What is certain is that the image of the oligopolist who plots prices thanks to low production costs and unlimited reserves can now be archived."[177]

As long as point three of section 3.1.1 is concerned, NS2 does pursuit some political aims. It is no secret that Gazprom and the Russian government consider Kiev as an unreliable partner. NS2 is planned to reduce drastically the volumes of gas transiting through Brotherhood and Soyuz pipelines. In the last decade, Gazprom had already been employing Ukrainian pipelines largely for summer *refill*: when the winter peaks of demand strike, Yamal-Europe keeps its volumes regularly, NS increases the transit abruptly, while Brotherhood and Soyuz see their employment diminishing considerably; meanwhile, during summer lows, Ukrainian transit is concerned mostly with gas that is handled for the European strategic reserves and as emergency backup.

Therefore, it is easy to imagine a further decrease of volumes passing through Ukraine when NS2 is operative. If Turkish Stream becomes operative as well, Gazprom forecasts a decrease of 90% for Brotherhood-Soyuz system, leading to 10-15 bcm per year in combination of the two pipelines.

Russia used energy supply as a tool to deploy its foreign policy, especially when coercion was to be used[178], but this appears to be related to a limited number of cases and aimed at a limited number of targets. Until now, interdependence has been the key word in the EU-Russia energy relations. It is near-sighted not to include 2014 crisis between the Russian Federation and Ukraine. Support to the separatist republics in

[176] What is more, these projects can receive a European investment that goes up to 75% of the total.

[177] M. Nicolazzi, *Il Complotto del Gasdotto*, op. cit., http://www.limesonline.com/cartaceo/il-complotto-del-gasdotto, retrieved on 17.08.2019

[178] A. N. Stulberg, *Out of Gas?: Russia, Ukraine, Europe, and the Changing Geopolitics of Natural Gas*, in "Problems of Post-Communism", Taylor&Francis Online, 2016, p. 112

Donetsk and Lugansk as well as the annexation of Crimea resulted in an abrupt cut to Russian and Ukrainian relations. Nevertheless, as far as the gas context is concerned, Gazprom-Naftogaz (Ukrainian oil and gas national company) grudge dates back to when the Soviet Union collapsed. Since 1993, Ukraine enjoyed low prices for gas imports from Russia because of the guarantees it obtained. For this reason, the country failed to modernise and improve its energy infrastructure, which made it one of the least energy-efficient country of the world. Then, in spite of exclusively low prices, Kiev has been in arrears with payments and happened to divert – illegally – gas aimed at the EU markets to its own internal use. Supply interruptions in 2006 and 2009, seen by the Western world, passed as evil deeds Russia perpetuated in order to subjugate its smaller neighbour. Actually, the already divergent visions Ukraine and Russia were having flew into a series of skirmishes that in the end led to the interruptions of flows during winter high-demand periods.

It is rightly pointed out that Ukraine and the EU clients suffered because of the necessity to draw from strategic reserves that should not be taken into consideration in normal times. However, Russian image as a reliable partner got spoilt dramatically, and Moscow can be taken responsible only in a certain measure. Gazprom was depicted as an evil entity being used as an expansionist political tool. Even if there might be some truth in this claim, it is too often forgotten that, as a company, it has to deal with markets in order to secure its position and consolidate its power to operate.

For this reason, Gazprom decided to diminish its reliance on Ukraine as a transit country for its gas, apparently because of *risk management* calculation. When Yanukovych government was deposed and a new one – less close to Moscow – was elected, Gazprom applied a +81% to prices for Ukrainian buyers: Kiev could not sustain such an increase. One reckless choice for Gazprom was the denial to the interruption requests for the separatist regions, for whose consumptions the Russian company presented the bill to Naftogaz.

As Ukraine obtains 2-3% of its GDP from transit fees, a halt would draw the country in an even more difficult economic situation. The European Union took charge of the

burden and should support Kiev's government with economic aid. It is a matter of future debate whether this aid would cost more to the EU than the saving due to NS2.

Hence, point three is more difficult to confute, because some political calculation does, actually, appear in the development of the energy matter between Russia and the EU. Admittedly, Russia did appear to act in a coercive fashion, or, at least, was guilty of ignoring the consequences of its unilateral decisions. However, it is the goal of this section to highlight that it would be quite conceited to impute to political calculus solely the actions that Russia has carried forward in its energy relations.

3.2.2 Ukraine and Nord Stream 2 (part I)

One of the main concerns for the anti-NS2 front is the future of Ukraine. It is claimed that Kiev could miss the opportunity to gather relevant incomes from the transit fees that it is collecting at the moment thanks to contracts with Gazprom. "Ukraine stands to lose about three billion US dollars of transit fees if a deal cannot be struck."[179]

The contracts currently in place for the transit of Russian gas through Ukraine were agreed in 2009 on a time frame of ten years – they are expiring at the end of 2019. The new negotiations started in a tense climate, reasons for which the EU took the role of mediator and put in place two rounds of trilateral talks.[180] Notably, negotiations are quite difficult and positions harsh, as a final compromise (if any) is expected for the very last moment, i.e. the end of this year. Some factors have not materialised yet: the new European Commission needs to settle, a new Parliament in Ukraine will be elected in October, following the Presidential elections of last April. Certainly, it will be necessary to wait the developments of next months in order to understand the exact direction policy-makers will undergo. The parties are distant, at the moment. The EC, in

[179] C. Stam, *Russia uses gas as a lever for annexation, says Ukraine official*, euractiv.com, 15 January 2019, https://www.euractiv.com/section/energy/news/russia-uses-energy-as-a-tool-to-further-annexation-says-ukraines-energy-official/, retrieved on 02.09.2019

[180] The first one was held in July 2018 and the second one in January 2019 (Tass.com, *Russia, EU and Ukraine to hold gas talks on January 21 in Brussels*, tass.com, 09 January 2019, https://tass.com/economy/1039235 and European Commission, *Statement by Vice-President for Energy Union Maroš Šefčovič following the trilateral talks with Russia and Ukraine on the future of gas transit via Ukraine*, European Commission Press Release website, 21 January 2019, https://europa.eu/rapid/press-release_STATEMENT-19-562_en.htm)

Šefčovič's words, proposed 60 bcm as yearly transit volumes through Ukraine, plus 30 bcm/y of flexible quantity for a period of ten years.[181] These data shows to be unrealistic and way too ambitious. The distance is highlighted even by the uncertainties connected to the realisation of Nord Stream 2 and TurkStream, both of which are object of American suspicion and might enter into the list of American sanctioned projects.
Ukraine adopted the EU rules on energy under the 3rd Platform of the Eastern Partnership programme. [182] Thus, Ukraine insists on signing new transit contracts with Russia under the EU rules.[183] At the same time, Naftogaz and Gazprom's dispute over the 2009-2019 contracts raises a legal issue, which, as well as the implementation of what requested by the Gas Directive of the first months of 2019 (i.e. the decoupling of the ownership of the companies involved in the production and in the distribution of gas), creates an impervious landscape for the future of the energy relations between Russia and Ukraine. However, Siddi[184] suggests that Russia has been proceeding with a revision of its main companies' *modus operandi* so that they can comply with the EU institutionalised ruling and legislation. Another example of this is the acceptance of the EU's regulatory approach by Gazprom by seeking a rule-based settlement in the outstanding antitrust dispute with the European Commission.[185]

Simon Pirani and his colleagues at the Oxford Institute for Energy Studies consider that even in a scenario where Nord Stream 2 is completed before the end of 2019, Ukraine will still figure in the list of transit countries. The most likely scenario, however, is one in which Nord Stream 1 is fully employed (55 bcm), one string of Turkish Stream is completed and made operational and no other transit diversification pipelines are operational (including NS2, which they consider hard to be operational by January

[181] M.-A. Eyl-Mazzega, *Russia-Ukraine Gas Relations: The Mother of All Crisis or a New Start to 2030?*, Édito Énergie, Ifri, 19 April 2019
[182] G. Gotev, *Russia plays for time in EU-mediated Ukraine gas transit talks*, Euractiv.com with Reuters and AFP, 22 January 2019, https://www.euractiv.com/section/energy/news/russia-plays-for-time-in-eu-mediated-ukraine-gas-transit-talks/, retrieved on 30.04.2019
[183] Ibid.
[184] M. Siddi, *EU-Russia energy relations: from a liberal to a realist paradigm?,* in "Russian Politics 3", Finnish Institute of International Affairs, 2017
[185] J. Stern, K. Yafimava, *The EU Competition Investigation of Gazprom's Sales in Central and Eastern Europe: A Detailed Analysis of the Commitments and the Way Forward*, Paper 121 (the Oxford Institute for Energy Studies), Oxford, 2017

2020). A less-likely scenario includes the completion of both NS2 pipeline and the two strings of Turkish Stream. In this case, Pirani considers that stopping the transit through Ukraine would still be problematic for Gazprom, as they would meet a deficit of infrastructure for the expected volumes of demand and because seasonal factors would threat the fulfilment of contracts conditions. The projections show an expected demand of 185-187 bcm of Russian gas from Europe in 2020 and 192-225 bcm in 2022. If these data are confirmed, it is believed that, under the first scenario (i.e. with only one string of Turkish Stream and only NS1 operational), Gazprom will need 50-52 bcm to transit through Ukraine in 2020. This claim indicates why Ukraine has hope that NS2 will not be operational by 1st January 2020.

However, provided no NS2 will finally be granted permissions and certification to become operational, the volumes that need to transit through Ukrainian territory will definitely be lower in the period 2021-2025. Nevertheless, on the assumption that European demand remains steady and internal production decreases, Ukrainian capacity would still be required, especially during peaks of demand and during technical interruptions of other lines.[186]

Difficulties are represented, besides, by the fact that Gazprom and Naftogaz interrupted dialogue in 2015, worsened by the arbitration disputes of the last years. The EC, as stated above, tried and tries to mediate, but political factors and divergent internal positions make it hard to find a valuable compromise. Nevertheless, all the parties have much to lose from a non-agreement *finale*. Apparently, many parties involved (read, as well as the Ukrainian government, Germany, the EC, and, unexpectedly, Gazprom cadres) declare their interest in maintaining Ukrainian transit. The negotiating positions are far, though. Ukraine claims some 40 bcm/year and long-term contracts; Gazprom is eager to guarantee transit only under economically-convenient bases: 10-15 bcm/year and short-term contracts. Moreover, Gazprom expects the lift of the arbitration dispute before any terms is approved. Evidently, the negotiation process shows many uncertainties. The dispute risks to complicate NS2 situation, as the EC might be eager

[186] S. Pirani, *Russian gas transit through Ukraine after 2019: the options*, Oxford Energy Insight 41, the Oxford Institute for Energy Studies (OIES), November 2018

to slow down the initialisation process until more clarity is set about Ukraine and its future. It is likely that NS2 keeps being at the centre of the trilateral talks as a means to find a suitable compromise, as the EC could become less stringent on legal requirements in exchange for more generous concessions from Gazprom's side.

Therefore, it seems necessary for all the parties involved to agree on some terms that will avoid major disruptions and further escalation between the EU and Russia. Pirani states that any agreement, due to the poor relationship in place and the unpredictable development of Russian-Western energy dialogue, will probably include short-term arrangements, like one-year contracts with provisions for renewal or, less likely, three- or five-year contracts. The EC role here would be to assure that these contracts are in line with the EU *acquis* on energy market, considered that Ukraine is a member of the Energy Community and is bound to follow EU rules.

These are the expectations for contracts after 2019:

- in terms of volumes, under the first scenario (one string of TS and inoperative NS2), Russia would need to book 46-90 bcm/year transit capacity through Ukraine, with a progressive decrease in volumes, according to the starting of operations of the differentiation pipelines.[187]

- as long as tariffs are concerned, it is useful to recall the prices that have been in place in the last years. In 2016, "Ukrainian gas transportation tariffs moved to an entry-exit basis, away from the previous volume basis, in line with market reforms designed to align its regulations with the EU. Cross-border entry tariffs were set at $12.47/mcm (thousand cubic meters), and exit tariffs at $31.03-$32.80/mcm for the large-volume exit points to Slovakia and Hungary, and $23.12-$28.99 for smaller-volume exit points to Poland and Romania. The exit tariffs are: $32.80/mcm (Uzhgorod, to Slovakia), $31.03/mcm (Beregove, to Hungary), $25.73/mcm (Drozdovychy, to Poland), $23.12/mcm (Orlivka, to Romania), $28.99 (Tekove, to Romania)."[188]

[187] A reason for which shorter contracts are preferred by Gazprom, since this would make it easier for the company to reduce volumes gradually.

[188] S. Pirani, *Russian gas transit*, op. cit. 2018, p. 7

Naftogaz statements suggest a tariff of about $20.60/mcm across Ukraine. The projected tariff levels are comparable with tariffs to be charged by Nord Stream 2. Still, "tariffs for Nord Stream 2 have been projected by Aleksei Miller, CEO of Gazprom, as $2.10/mcm/100 km, i.e. around 20% lower than the current tariff under the 2009 contract [with Ukraine].[189] Moreover, the distances cover by Russian gas from Yamal peninsula and Greifswald in Germany – where Nord Stream 1 & 2 end up – are shorter than the route drawn through Ukraine. This means that, even at the same rates, Gazprom would still opt for NS 1&2 to supply Europe. The disadvantage for Ukraine will become harsher as production in Yamal rises at an inversely proportional rate to the decrease of production in West Siberia, closer to Ukraine.

- another element that has to be discussed is determining which basis will be set for new contracts. Historically, Naftogaz obtained commodity charges, the same as the other CIS countries.[190] Yet, Gazprom is trying to shift to a capacity-based system. "Gazprom's transit requirements could be satisfied under a contract with capacity-based tariffs, but its strategy implies that it will seek considerable flexibility, e.g. by booking capacity in one pipeline but having the option to access capacity in others. Since 2010, it has used its transit diversification pipelines as base-load and only transited through Ukraine residual volumes, which are higher at peak times. This approach can be expected to continue after 2020."[191]

These elements contribute to tangle the way to compromise. Indeed, it also possible that no agreement is reached and 2020 will start with no contracts in place. Pirani suggests that in case no agreement is reached, this would mean that political factors would have overridden commercial ones. Just to cite some of the consequences that might crop up, South and East Europe may suffer from temporary shortages of gas that would hard

[189] Ibi., p. 8. See also Tass.com, *Gas transit via Ukraine 20% more expensive than supplies through Nord Stream 2 — Gazprom*, tass.com, 16 June 2016, https://tass.com/economy/882294, retrieved on 02.09.2019

[190] Commonwealth of Independent States. It was created in December 1991 and a present unites Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan. Turkmenistan has been an associate State since 2005, while Georgia withdrew in 2008 and Ukraine ceased to participate to CIS agenda in 2018, after having been an associate State.

[191] Ibi., p. 8

testing European reserve capacities. TANAP pipeline, delivering Azerbaijani gas from Shah Deniz II spot up to Italy, is expected to supply 11-13 bcm/year in 2020, provided the Albania-Italy TAP section is completed on schedule.[192] In addition, the first string of Turkish Stream could supply Turkey with 14 bcm/year, out of which about 2 bcm/year could be destined for South East Europe. The combination of the two may mitigate a supply crisis, but Southern Europe would suffer loss in their economy and Central Europe – a region that receives gas from Ukrainian territory and includes Slovakia, Hungary, Austria and Czech Republic – would need to test the availability of interconnectors from other markets and storages.

What is clear is that a no-agreement scenario would bring a risk of disruption to European gas systems, especially in the event the crisis continues for several months. In this event, big markets like Italy might undergo major crisis.

3.2.3 Ukraine and Nord Stream 2 (part II)

Gazprom and Naftogaz would suffer from a supply interruption, in terms of lost revenues and deterioration of commercial relationships. Nord Stream 2, thus, becomes an important card to play for all the actors involved. It is general interest to avoid further escalation as long as Nord Stream 2 is concerned. Gazprom and Germany would miss a significative commercial opportunity; the European Union would risk unleashing retaliation from the Russian side, as well as a meaningful threat to its energy security; Ukraine is the party that most of all hopes for a different ending than the starting of operation of the new pipeline; however, a profitable compromise could suggest a modernisation of the Ukrainian gas infrastructure, while continuous – though limited – flow is guaranteed by Gazprom (which, like some analyses suggest, might be in need of Ukrainian transit in any case).

"The planned 55 bcm/year capacity of Nord Stream 2 equates to 150 mmcm/d. If European demand for Russian gas exports did not rise from the 2017 level in the coming years, then Nord Stream 2, and the planned EUGAL pipeline would be just about

[192] Nevertheless, even in the case the TAP section is not ended in time, Azerbaijani gas could be purchased in Greece and distributed to other South East European countries.

sufficient to replace gas transit via Ukraine at times of peak daily demand. However, the expectation of higher daily European imports of Russian gas in the coming years suggests that Ukrainian transit will still be needed."[193] If Nord Stream 2 is commissioned at full capacity some time before 2025, Gazprom could transport all of its supply on non-Ukrainian routes. Still, keeping a certain amount of volumes through Ukraine might enter into Gazprom preferable options, because of the reasons cited above; moreover, Gazprom detains ship-or-pay obligations in Slovakian pipelines, which are a continuation of the Ukrainian route. From a political perspective, Russia has a lot to achieve from the decision of suspending total deviation from Ukraine, that is in other terms, maintaining transit.

Eyl-Mazzega considers the following as a possible – and reasonable – compromise: as well as prolonging current contracts in a temporary manner, with no take-or-pay or ship-or-pay clause, Gazprom could offer a five-year agreement with some margins of flexibility. The author indicates what a sustainable compromise could be:

- *A 300bcm capacity reservation over 10 years, including yearly and seasonal variations + flexibility at 10% and a technical gas price reflective of market adjustments. The ship-or-pay level could specify that 2/3 of capacities are to be used in the first five years and 1/3 during the next five years. Overall, the transport tariff would be adjusted to a similar level than in Central Europe and reflective of soft modernisation needs. All in all, the total transportation costs for the 300bcm would represent €10-12 billion.*

- *A Gazprom-Naftogaz Sales&Purchase agreement on a shorter term basis, over 3-5 bcm/y, with a take or pay clause. The tariff would be the NetConnect Germany (NCG) hub price delivered at the Ukrainian-Russian border.*

- *EU backed credits for soft modernization of the UPU[194] corridor accompanied by a specific consideration given to the fact Gazprom will have to conduct some modernization investments as well on its*

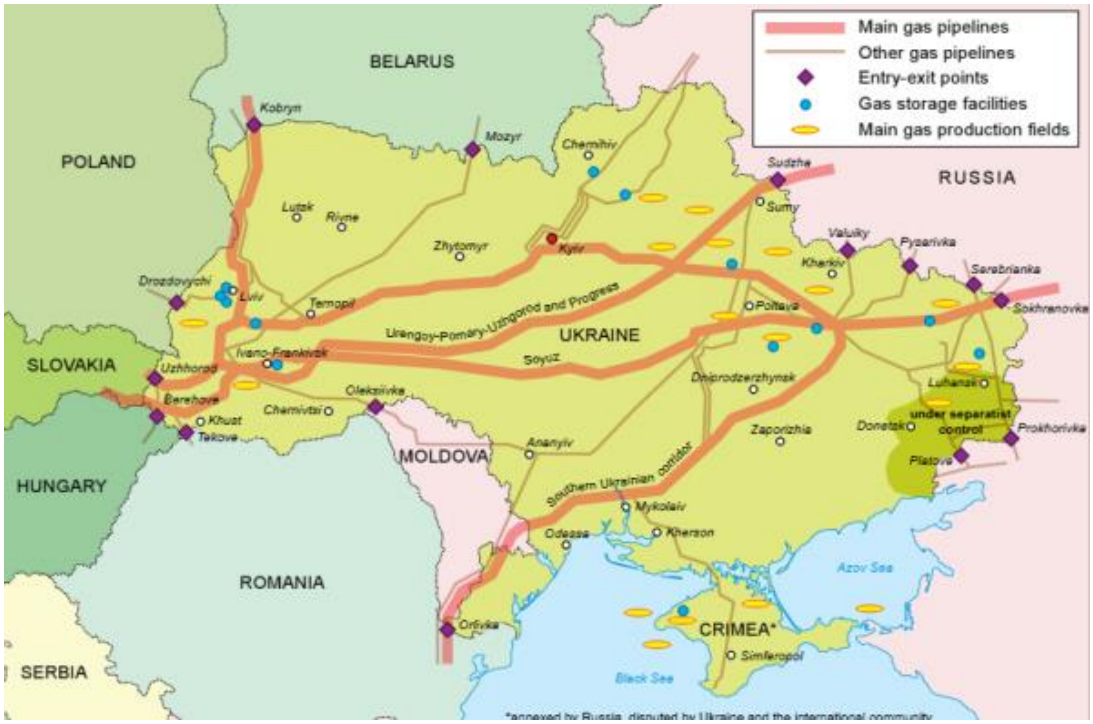
[193] S. Pirani, *Russian gas transit*, op. cit., 2018, p. 15
[194] Urengoy-Pomary-Uzhgorod

own system which could also be entitled to such a support (not possible currently due to sanctions).

- *Naftogaz limits the latest Stockholm arbitrations on the undervalued transit tariff.*
- *Parties commit to obeying to arbitrage rulings – Gazprom must pay if the Svea appeal is lost;*
- *An EU-Russia agreement offering guarantees and laying out prospects for preparing the longer term future: the decarbonisation of Russian gas supplies to Europe in injecting first green hydrogen and possibly biomethane to the gas supplied and in a second stage, in removing its CO2 content, either in Russia, or at consumption sites; and starting work on large reforestation in Russia and Ukraine when Russia ratifies the Paris Agreement on climate.*[195]

Future is challenging for Kiev: the volume of gas transit will be minimised in most of the scenarios that experts envisage. For the sections that will still be in place, it is necessary for the government to employ a policy of modernisation and renovation. Urengoy-Pomary-Uzhgorod (UPU) pipeline will need to be upgraded, and, at the same time, the legal status of Ukrainian national company Naftogaz will undergo modification, under the unbundling principle that the EU gas market reforms set. Almost two thirds of Ukrainian infrastructure are aged and underdeveloped, due to lack of investment since the collapse of the Soviet Union. Naftogaz annual reports for 2014-2017 did not give much hint about the real status of gas infrastructure in the territory.

[195] M.-A. Eyl-Mazzega, *Russia-Ukraine Gas Relations*, op. cit., 2019



The Ukrainian main gas pipelines. Source: OIES, Pirani, 2018

Even though Naftogaz advocated the cancellation of Nord Stream 2, its planning shows some shadows of realism, as the company business plan – the Master Plan published in conjunction with the Energy Charter secretariat – includes the recognition that both NS2 and TS will be completed and made operational. Naftogaz projected to modernise and reconstruct Soyuz, UPU and Progress pipelines – belonging to the western transit corridor –, and Elets-Kremenchuk-Kryvyi Rig and Ananiev-Tyraaspil-Izmail pipelines – part of the southern transit corridor, but did it in a way that makes it clear that the awareness of the imminent diversification of routes limits the room for investment in these infrastructures.[196] Nevertheless, this does not necessarily mean that Ukraine has no possibility of improving and adapting its gas transit system.

In conclusion, considered that at the beginning of 2020 Gazprom and the EU will still need to employ Ukraine as a transit country with a capacity ranging between 52 and 90 bcm/year, Ukraine has a better negotiating position than it would have in case the new alternative routes were completed on schedule. Once acknowledged this, it is not

[196] Energy Charter Secretariat, *Master Plan: Ukrainian Gas Transmission System (UGTS) Priority Objects Modernisation and Reconstruction* (Ukrtransgaz presentation), retrieved from https://energycharter.org/fileadmin/DocumentsMedia/Presentations/CBP-Ukraine_GTS.pdf

difficult to understand the reasons for which the EC and the European Council accelerated the *iter* of the amendment of the Gas Directive in the first months of 2019. In this way, NS2 opposers obtained an important delay for the start of operations, which means giving Ukraine a further opportunity to remain an integral part of the European gas market.

Nevertheless, this section of the paper highlighted that Kiev should not rely too much on maintaining the status quo, since this strategy did not pay off much in the last decades. Obviously, the diversification process Gazprom is carrying on does not take direct advantage to Ukraine and its gas system. However, this process might enrich Kiev of the opportunity to rethink its strategies and tactics.

It is meaningful to remind that a valuable compromise and the creation of a win-win situation in every deal is possible if the parties involved are eager to do that; hardly could the best solution be found, if political hostilities and frictions influence actors too deeply. And a regardless block of Nord Stream 2 project seems far from being a way to build a positive-sum game. Surely, economic analysis has something to say on the topic. Indeed, Eyl-Mazzega states that Russia still wants to continue transiting gas through Ukraine, if the route is safe and competitive.[197] He warns, however, that relying on the certainty that Europe will be in great need of Russian gas could unleash a runaway from the usual partner in order to find new ways to boost the European economy, e.g. through LNG or sharp increase in the deployment of renewables.

Trilateral talks were carried on in September 2019: the outcome will be visible at the end of the year.

3.2.4 Russian response to hostility

In this paragraph, the response that Russia and Gazprom have delivered after the Amendment to Gas Directive was adopted in the beginning of 2019 is shown.

Rightly or not, Moscow feels unfairly targeted by the European legislator, as it considers that the Amendment to the Gas Directive was delivered specifically to contrast the doubling of Nord Stream. Nord Stream 2 investment is calculated to reach between €9.5

[197] M. -A. Eyl-Mazzega, *Russia-Ukraine Gas Relations*, op. cit., 2019

and €11 billion, half of which is financed by Gazprom, and the rest covered by Wintershell, Uniper, Shell, Engie and OMV. Its length is 1.225 km and it is projected to supply Europe with 55 bcm/year of natural gas coming from Yamal peninsula, where 32 gas fields are gauged to store reserves for 16.7 trillion cubic meters (Bovanenkovo Gas Field will feed NS2 with its 4.9 trillion cubic meters after a journey that will permit gas to reach Germany in three or four days). The multibillionaire investment can potentially secure Europe's rising gas demand.[198]

Nordic and Baltic Sea countries, Poland and Ukraine fear that the doubling will dangerously increase the European dependence on its unreliable gas supplier, as well as cutting gas transit fees from Ukraine. Kiev foresees a decrease in revenues of about 3% of its annual budget, roughly corresponding to its annual defence budget. This consideration, as well as the belief that bypassing Ukraine would mean a freer hand for intervention – and allegedly invasion – by the Russian side, which would not be in the need to consider damages to export infrastructures, makes it all more difficult for Moscow to deal with the situation. What the Kremlin sees as a commercial project is not granted the same approach by the above-mentioned countries and the United States. There is no point in stating that NS2 has no political value at all; Henning Kothe, chief project officer, declared that Nord Stream 2 is the shortest way for gas to reach Europe, thanks to a 2.000 km-shorter route than that through Ukraine.[199] But this is not the only reason to the project to be realised. Russia wants to minimise the risks connected to the Ukrainian transit.

The amended Directive might lead to legal uncertainties for the European companies involved in the project. Moreover, the countries that have interests in the realisation of the project had to face a *fait accompli* that hit the construction of an already initiated (and financed) project. Another issue the Nord Stream 2 consortium has to deal with is that it is necessary to wait for a permission from the Danish government for the laying

[198] Experts expect the EU gas consumption to remain stable, while its internal production will decrease visibly in the next few years, reason for which alternative suppliers (or sources of energy, e.g. renewables) will expand their role in the EU energy mix.

[199] A. Brzozowski, *In northwest Siberia, Russia's flagship gas project defies pipeline politics*, euractiv.com, 24 May 2019, https://www.euractiv.com/section/global-europe/news/in-northwest-siberia-russias-flagship-gas-project-defies-pipeline-politics/, retrieved on 02.09.2019

of the tubes in Denmark exclusive economic zone. The first legal appeal NS2 Consortium issued was against the Danish Energy Agency, which asked for a rerouting of the Danish section on an environmental basis.

In April 2019, then, NS2 AG – the Swiss-based company in charge of managing NS2 and owned by Gazprom – initiated legal proceedings against the EU under the Energy Charter Treaty (ECT).[200] The investor indicated its wish to settle an amicable settlement that, following negotiations, could provide a valuable compromise to both parties. The *ratio* was the supposition that the EU has reserved a discriminatory treatment to NS2 investment, contrary to the ECT; it is also claimed that the EC has violated the fair and equitable treatment standard, one of the linchpins for investor protection under the ECT.[201] Although the EU gas market rules in the Directive are not discriminatory in principles, in practice the Amendment appears to constitute an unfair and inequitable treatment to NS2, as the only possibility for derogation applies to pipelines that are completed before the date of entry of the Amended Directive. This means that NS2 is the only pipeline where a final investment decision had been made and significant capital was committed, but that has not been completed before the adoption of the Directive, i.e. 23 May 2019[202]. Hence, NS2 does not fit in the list of projects to which a derogation is applicable. Obviously, this outcome did not befall from "a series of unfortunate events". "It has been clear from an early stage that the only reason for the amendment to the current gas market rules is to target Nord Stream 2 project. The various positions taken by the EU and the Commission have been highly controversial. First, the Commission claimed that EU energy law already applied to offshore pipelines such as Nord Stream 2, even though it had never applied the gas market rules to such pipelines – including Nord Stream 1. Once this claim was refuted by its own legal services, the Commission maintained that an intergovernmental agreement between EU

[200] It is important to remind that Russia pulled out from the ECT, not before the Yukos dispute was concluded under its legislative background (to see more in detail, check BBC.com*, Council of Europe in dispute with Russia over Yukos case*, bbc.com, 20 January 2017, https://www.bbc.com/news/world-europe-38691148)

[201] This standard seeks to ensure stable and predictable investment conditions, which includes the protection of legitimate expectations and protection from retroactive changes to laws.

[202] G. Gotev, *Nord Stream 2, EU drifting towards legal arbitration*, euractiv.com, 19 July 2019, https://www.euractiv.com/section/energy/news/nord-stream-2-eu-heading-towards-legal-arbitration/, retrieved on 02.09.2019

and Russia was a legal necessity for the construction of Nord Stream 2, and the EU had the exclusive competence to draw this up. This time the Council legal service shot down these claims and, as a reaction, the Commission proposed the urgent enactment of the new amendment. It is no surprise that the outcome is that these new rules are retrospectively applied to one single project: Nord Stream 2. […] If the case continues beyond the current negotiations, it will be another important precedent for EU energy policy. The EU Energy Package case initiated by Russia in the WTO context raised certain concerns over discrimination against Russian natural gas. Given the peculiar treatment of Nord Stream 2 by the EU, such a claim would necessarily also pose questions as to the EU's adherence to the rule of law."[203]

The three-months period the EU was provided for consultation on undergoing an arbitration procedure expired on 12 July 2019, with unresolved concerns. "The risks of such an arbitration for the EU are potentially huge. Under the standard procedure, three arbiters would be designated to rule on the legal claims. Given the multi-billion cost of the project, the Commission might end up paying huge amounts of taxpayers' money as compensation and fine."[204]

A further response that Gazprom delivered is the appeal to the EU Court of Justice to complain against a violation of the non-discriminatory principle enshrined into EU law. Nord Stream 2 AG asked the Court to annul the amendments to the Gas Directive on 26 July 2019 on the basis of an infringement of the EU-law principles of equal treatment and proportionality. The step was a bit of a surprise, as it appeared that NS2 would explore the possibility of resorting to legal arbitration rather than seeing a legal annulment. The reason is probably that an ECT arbitration would have taken longer than an action for annulment, which holds an expected timeframe of at least 20 months. "The CJEU will assess whether the contested act conforms to EU law. It may decide to annul

[203] K. Talus, L. Hancher, *Exploring the limits of EU's unbelievable behaviour on Nord Stream 2*, euractiv.com, 29 May 2019, https://www.euractiv.com/section/energy/opinion/exploring-the-limits-of-eus-unbelievable-behaviour-on-nord-stream-2/, retrieved on 02.09.2019

[204] G. Gotev, *Nord Stream 2, EU drifting towards legal arbitration*, op. cit., https://www.euractiv.com/section/energy/news/nord-stream-2-eu-heading-towards-legal-arbitration/, retrieved on 02.09.2019

the act, for example, because of infringement of the EU treaties or of any rule of law relating to their application; or misuse of powers. If the Court rules in favour of the plaintiff, it may annul the contested act in its entirety or certain provisions only. Nord Stream 2 has requested the CJEU to annul the amendment to the Gas Directive in its entirety."[205]

It is clear that arbitrations and tribunal disputes are not what the parties should aim at; however, it is not unthinkable that setting rules through a sort of legal dialogue, be it holder of a disruptive more than constructive character, is something that keeps the parties linked and open to embark on further contact. In the absence of dialogue, the relationship can only collapse.

[205] Euractiv.com, https://www.euractiv.com/section/energy/news/nord-stream-2-takes-unusual-legal-step-against-the-commission/, 02.09.2019

3.3 Challenges for Russia in Europe

This subchapter focuses on the challenges that Russia has to face in dealing with Europe in the energy field.
Section 3.3.1 analyses the decoupling concept: Frappi's work highlights how competition in the EU markets is pursued and how this represent a constraint for the way Russia traditionally dealt with energy in the EU.
In section 3.3.2, the Trimarium/Three Seas Initiative is displayed in terms of the way it challenges Russian influence in central and eastern Europe. The list of projected infrastructures is set.
The Three Seas Initiative is a US sponsored set of projects. Section 3.3.3 gives a picture of American interests in the EU energy sector. The US has never hidden reluctance towards NS2. LNG industry in the US will play a role in the future of Russian gas export.

3.3.1 Decoupling

The consideration of Europe for the importance of Ukraine sets a major obstacle for Gazprom's business in the European continent. Yet, it is not the only difficulty that Gazprom and the Russian government must face in order to maintain their market share in Europe. Sometimes the fact that even raw materials exporters need to run some kind of security strategy is neglected; Russia does not differ in this. The concerns that importers and exporters have to deal with are specular and symmetrical. Energy security is bound to stability, predictability and adequacy, in terms of volumes and prices. This three-headed system should eradicate the theory of an "energy weapon" that exporters shall be able to deploy. Indeed, it would be a serious miscalculation to overlook the steps Gazprom had to take in order to conform to the EU legislative and market dynamics of the last decade. Omitting the unregular and unpredictable supply and demand trends and the contraction of demand that the EU registered since 2008, it is important to highlight that Gazprom had to abide the advent of LNG, as well as the graft of gas from new sources, such as the East Mediterranean and Caucasus, which increased substantially the volumes of supply.

However, these last points are concerned mainly with business activities; what is necessary to point out is that the EU initiated a policy of diversification that entangled the internal normative dimension and the external diplomatic one. This meant, first of all, shifting from a *bottom-up* to a *bottom-down* setting as far as infrastructures are concerned.[206] Brussels offered incentives and financing to those infrastructures that have

[206] C. Frappi, *La Geopolitica dell'Energia*, op. cit., 2019

been considered to carry common interest (e.g. PCIs under the TEN-E regulation). In this case, if the main goal was to promote new routes and new carriers to improve the differentiation process, the collateral effect (or maybe the primary reason) was to reduce what was perceived to be an excessive dependence on Russia.

In this perspective, it is not hard to comprehend Russian fears and urgency to react in order to maintain its share in the European market, not much as the "energy weapon" that has been preached, but more as a logical and commercial way to survive. Then, the way Gazprom ruled to achieve what it believed it needed is questionable and, for certain aspects, despicable.

However, what Gazprom was challenged with was the will of the Commission to realise a fourth community gas channel that would supply Southern-East Europe: Southern Gas Corridor (SGC) planned to supply Europe with gas from Caspian and Middle East reserves. This is not only a competing system for Russian gas, but it also threats further the entering into operation of Nord Stream 2, in terms of timing. If NS2 is not operational at the beginning of 2020, it might suffer the competition of SGC and lose some market share.[207]

As well as SGC, Gazprom needed and still needs to face the challenge posed by LNG and shale gas from the United States. This confrontation will be vivid in particular in Eastern Europe, an area where the American influence and commercial clout is stronger. The Trimarium projects (subject of next section) threat Gazprom ability to operate in Eastern EU. Trimarium includes regassification spots in Lithuania and Poland: since 2016, the EC has trodden on a path aimed at increasing utilisation of LNG.

Furthermore, from the legislative point of view, Russia was target of the European pursuit of market transparency and anti-trust. The Third Energy Package entered into force in 2009 and introduced in a bursting manner the *unbundling* principle, according to which distribution and transportation of energy have to be operated by a company

[207] Nevertheless, it is not claimed that SGC is a competitor for NS2 in general terms. The quota that SGC can supply is smaller than the NS 1&2 system. it is claimed, here, that a delay in employing NS2 can result in an initial advantage for SGC, which, in case is completed on time, could supply the EU for the first months of 2020.

different from that which produce it.[208] Clearly, a healthy principle aimed at enshrining competition in the gas market resulted in one of the biggest challenges in Gazprom's history. The Third Energy Package prevented Gazprom from investing in the construction of new routes in the communitarian territory and keeping the control on them. Moreover, the consequence of the Package was to preclude Gazprom the full employment of pipelines in the EU.

Alongside, the EC opened an investigation (2012) and issued a formal complaint (2015) to Gazprom on the basis of art. 101 and art. 102 of the Tfeu. According to these two articles, it is punishable to limit competition and to abuse of one's dominant position. Therefore, Gazprom was accused of having abused its dominant position in the small Eastern European markets so as to preserve its position and profitability.

Thus, the EC forced Gazprom to remove the "destination clauses" that it used to include in its contracts with European partners, which prevented re-exporting to third parties and contributed to the fragmentation of the European markets.[209]

The diversification principle became the guiding light for Russian energy policy as well, which, as it was said, has been focused on maintaining market share and, at the same time, reducing dependence on European partners. Frappi indicates four dimensions around which Russian policy started turning: diversification of commercial practices, of export routes, of final markets and of transport vectors.[210]

Gazprom needed to adapt to European legislation and its attempt to direct Russia towards a path of decoupling from the community energy system. The company introduced relevant changes to its supply contracts, such as discounts, limitation to *take-or-pay* clauses and indexing prices to "spots" level, shifting away from the oil index.

Then, to face 2012 anti-trust procedure, Gazprom agreed to price gas according to Western European levels and give up on its dominant position in taking advantage of

---

[208] "Unbundling is the separation of energy supply and generation from the operation of transmission networks. If a single company operates a transmission network and generates or sells energy at the same time, it may have an incentive to obstruct competitors' access to infrastructure. This prevents fair competition in the market and can lead to higher prices for consumers.", retrieved from European Commission, *Third energy package*, European Commission website, https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation/third-energy-package, on 04.09.2019

[209] C. Frappi, *La Geopolitica* dell'Energia, op. cit., 2019

[210] Ibidem

infrastructures, as well as the removal of "destination clauses", which made the re-directing of flows towards more isolated markets easier.
The rational Russian response was to guarantee its state company the possibility of strengthening its resilience to risks, such as those connected to transit countries. Seen from this point of view, it seems like bypassing Ukraine is not much of an energy weapon, strictly speaking. Therefore, NS2 resulted as a commercially logical way to keep the same level of supplies for the EU with a consequent reduction of risks, represented by Ukrainian adverse government and obsolete infrastructures, not to mention the Byelorussian-Polish bottleneck.

To sum up, Russia had to face numerous challenges in order to avoid decreasing its energy security in connection with its European partners. It was challenged by a decrease in the demand, an increase in the number and strength of competitors and, lastly, the huge legislative changes that the EU undertook. "In such a scenario, the progressive increase in exports and Russian share in the European market seems to be able to draw a privileged road for the normalization of Euro-Russian and for the re-launch of bilateral relations with the EU. As demonstrated by the energy sector, pragmatic reasons may lie ahead of diplomatic ones, replacing the logic of competition with that of a mutually beneficial cooperation founded on the enhancement of interdependence."[211]

Before entering into the last chapter of the paper, it seems useful to present two other aspects of the obstacles Russia found in dealing with the EU energy market in the last decades. The first is concerned with the Trimarium projects, whose implementation might become a further issue for Russian hand in the EU; the second is concerned with the American influence and competition within the EU.

[211] Ibi., p. 5 (It is opinion of the author of the work that Frappi briefs and depicts remarkably the message and the goal of this paper. The last chapter will investigate this view more in details).

3.3.2 Trimarium

Gas accounts for 15% of Moscow's share of export revenues[212], but it is easier to find argumentation about Eastern EU Members' dependency on Russia than the contrary. Eastern Europe used to be, and still is, deeply dependant on Russian gas supply. These countries have not developed a way to access different suppliers' sources, which is connected to the lack of infrastructure in that part of the continent. This concern was one of the engines that pushed twelve EU countries to develop the Trimarium initiative. Trimarium is a forum dedicated to the infrastructural cooperation that Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia and Bulgaria created in 2015. The project is based on two main aspects: development of transport infrastructures and implementation of energy interconnections. As the topic is quite wide, we will focus only on the gas sector.

These twelve countries are characterised (maybe with the exception of Austria) by a poor and backward status of energy infrastructures, power grids, gas pipelines, interconnectors and so on. The cause is that they exited their Communist era in chaos and backwardness. Today, these countries are eager to catch up with Western European countries. As long as energy is concerned, the perceived threat of a Russian coercive behaviour in the energy sector made the governments of the Three-Seas Initiative (3SI, i.e. Trimarium) realise that their countries were too dependent on their former "protector".

The result of the 3SI is the planning of a north-south corridor, which can connect Świnoujście LNG terminal on the Baltic Coast to Krk Island LNG terminal, in Croatia. Alongside, the Northern Gateway, a Baltic pipeline that connects Norway to the Polish gas market, is expected to improve the gas system of this part of Europe.

"Investors are Gaz-System (Poland), Gassco (Norway) and Energinet (Denmark). The main Polish gas distributor, Pgnig, is also involved with its subsidiary Pgnig Upstream Norway, which holds shares in twenty reserve deposits in the North Sea. The estimated cost is €1.6-2.2 billion, it will have a capacity of 10 bcm/year, it will be completed by

[212] M. Siddi, *The Role of Power in EU–Russia Energy Relations: The Interplay between Markets and Geopolitics*, in "Europe-Asia Studies", 2018, pp. 1552-1571

2022 and will also work in reverse flow. To be effective, however, these investments will have to be supported by interconnectors between the Visegrád Group countries, their Trimarium neighbours and even Ukraine. […] The Polish-Slovak interconnector should unite Strochocin and Vel'ké Kapušany. Its annual capacity will be 4.7 bcm towards Slovakia and 5.7 towards Poland. The main investors are Gaz-System and the Slovak Eustream, which have allocated €83 million. The project is supported by 108 million from the European funds of the Connecting Europe Facility (CEF). The Czech-Polish interconnector, on the other hand, will go from Libhošt ’in the Czech Republic to the border town of Hat’ and then continue to Kędzierzyn Koz´le. It will have a capacity of 5 bcm towards the Czech Republic and 2.5 in the opposite direction. Costs have not been estimated, although investors are known: Gaz-System will be joined here by the Czech Netgas. As for the Polish-Ukrainian interconnector, its planned route runs from Hermanowice in Poland to Bil’e Volycja in Ukraine, passing through Strochocin station. The expected capacity is between 5 and 8 bcm and in addition to the usual Gaz-System the other investor is Uktranshaz.”[213]

Retrieved from https://www.ceep.be/north-south-gas-corridor-poland-croatia-join-efforts/

[213] P. Z. vel Grajewski, *La Nuova Europa Longitudinale: il Trimarium visto dalla Polonia*, limesonline.com, 28 December 2017, http://www.limesonline.com/cartaceo/la-nuova-europa-longitudinale-il-trimarium-visto-dalla-polonia, retrieved on 04.09.2019

The aim of the 3SI is declared to be economical; nevertheless, some hints suggest that political calculus is present. Warsaw and Kiev do not hide their energy security concerns; the interconnection projects look like a response to an alleged threat. Poland and Slovakia would be damaged by a suspension of the transit through Ukraine. The Baltic states were never too silent about their anti-Russian sentiment. For example, after a deal to connect power grids by 2025 between the Baltics and Poland was signed in June 2018, Mrs Grybauskaite, Lithuanian President, stated: "This is the last millstone tied to our feet, keeping us from real energy independence. That tool of blackmail, which was used (by Russia) to buy our politicians and meddle in our politics, will no longer exist."[214]

This comment, as many others, came regardless the fact that Russia never threatened to cut power or even threatened to do so; it is interesting to point out that Kaliningrad enclave is connected to Russia's power grids through systems that transit through the Baltic states. The most immediate means to overcome dependence on Russia is, apparently, LNG coming from the US. From the 3SI countries' point of view, this is the only way to decouple from Russia in the energy and gas sector. Nord Stream 2 and Trimarium are, in a way, competitors for the supply of the Central and Eastern EU.
American president, Donald Trump, attended July 2017 Trimarium meeting in Poland. The interest of the US in the initiative has always appeared to be high; American Secretary of Energy, Rick Perry, was also present, showing the importance the 3SI could reach for the Atlantic partner.[215] The reduction of Russian supplies, in the projections of the American administration, should be superseded by American LNG or American investments aimed at developing the energy sector in Central and Eastern Europe.
Note that, however, American LNG is way more expensive and more flexible in terms of destination routes than it is Russian natural gas.

---

[214] A. de Carbonnel, A. Sytas, *Baltic states to decouple power grids from Russia, link to EU by 2025*, Reuters.com, 28 June 2018, https://www.reuters.com/article/us-baltics-energy-eu-russia/baltic-states-to-decouple-power-grids-from-russia-link-to-eu-by-2025-idUSKBN1JO15Q, retrieved on 05.09.2019
[215] A. Triggiano, *Trimarium, quali potranno essere i possibili sviluppi dopo Bucarest 2018?*, reportdifesa.it, 28 September 2018, http://www.reportdifesa.it/trimarium-quali-potranno-possibili-sviluppi-bucarest-2018/, retrieved on 05.09.2019

The economic convenience of American supplies still needs much investigation and analysis; it is true, though, that political calculus might overcome economic logics. Yet, it is subject of doubts whether the efforts made by the Eastern European countries to decouple from Russia and embrace the American salvific advent will be paid in the same way by the Atlantic partner, in case its LNG and shale gas finds more remunerative markets in the future, such as East Asian ones.

Divergences exist, it is not deniable. Hungary and Bulgaria, historically closer to the Kremlin, do not share the same feeling as the other 3SI members. Bulgaria, for example, did not endorse the Amendment of Gas Directive within the European Council Coreper meeting, resulting as the only country to vote against it. However, the aim of the project overcomes these divergences.

Surely, the US is pushing much to influence the energy policy of the EU, or at least of some of its Member States. Next section deal with the American interests and actions within the topic and about the construction of Nord Stream 2.

3.3.3 US interests and influence

The United States have multiple times showed their reluctance for Nord Stream 2 project. In April 2019, US Ambassador to the EU Gordon Sondland criticised the EC for its behaviour regarding Nord Stream 2. He claimed that the EC used the rule-of-law argument as a convenient excuse for facilitating Germany's aims of becoming the European hub for gas and to justify its inability to stop the construction process. He went on by stating that history teaches Europe that Russia is the wrong place to hang one's hat, probably ignoring that energy relations had already been established in the middle of the Cold War. He ended his interview by warning that the US is not willing to show up "in the middle of January when Russia cuts off gas", again with no mention to the fact that it is exactly a delay in the operations of NS2 to threat the supply of Russian gas to the EU.[216]

[216] A. Gurzu, *US ambassador criticizes Commission on Nord Stream 2*, politico.eu, 11 April 2019, https://www.politico.eu/article/us-ambassador-criticizes-commission-on-nord-stream-2/, retrieved on 05.09.2019

If we go further down the line, we could add that in the 1960s and 1980s, US administrations tried to prevent the construction of those same pipelines in Ukraine that they are now eager to safeguard.[217] Of course, it is not possible to judge the American work only in relation to what the national security reasons suggested half a century ago. Nevertheless, it is interesting to note that what was seen as an instrument the "evil empire" deployed to attract the Europeans is now object of the opposite concern.

In response to the annexation of Crimea, the US issued a series of sanctions that targeted Russia in different manners. In August 2017, the Congress broadened the existing sanctions against Russia in response to Russian intervention in the Syrian civil war and Russian interference in the 2016 US presidential campaign (*Countering America's Adversaries Through Sanctions Act of 2017 – CAATSA*). Amending the UFSA (*Ukraine Freedom Support Act of 2014*), CAATSA introduced the possibility to issue sanctions targeting Russian energy exports. More specifically, Section 232 of the CAATSA enables the American President to impose sanctions to persons involved in the construction, modernisation or repair of energy export pipelines if a single investment exceeds $1 million or if more than $12 million are invested within twelve months. The list of potential targets includes Nord Stream 1 and 2, Blue Stream and Turkish Stream, but also pipelines passing through Belarus, Poland and, paradoxically, even Ukraine.[218] "Since the current US sanctions are designed to complicate future oil and gas exploration and extraction for Russian companies, their impact on Russia's current oil and natural gas production and energy exports has so far been rather minimal. However, they have dissuaded companies from investing in expensive projects and developing new large deposits, instead encouraging them to concentrate on boosting production from previously developed fields and re-opening small fields. As a result, current production and exports of crude oil and natural gas in-creased despite the sanctions."[219]

[217] S. Lohmann, K. Westphal, *US-Russia Policy Hits European Energy Supply*, swp-berlin.org, 06 February 2019, https://www.swp-berlin.org/10.18449/2019C06/, retrieved on 05.09.2019
[218] ibidem
[219] ibidem

The aversion towards Nord Stream 2 is not the sole demonstration of a changing relationship between the US and Germany. Trump has criticised Germany for many issues, such as Germany's defence spending, its stance on Iran, Merkel's resistance to banning China from major infrastructure projects and Germany closeness with Russia in Nord Stream 2 project.[220] In July 2018, at the NATO summit, Trump assumed, wrongly, that Germany depends for 60-70% of its energy supply from Russia. The reality is that, in 2017, Germany imported 26.7% of its energy resources from the Russian Federation.[221] Energy is an important factor in the relation between the two (and more broadly between Russia and the EU), but such criticism reveals a hysteric attitude towards the German-Russian relationship.

Criticism does not target Germany only; the EU and the Commission have been object of the American politicians, and energy is one of the topics on the list. American interests in the 3 Seas Initiative sound too scant to justify the attitude employed. Even the will to increase LNG exports to Europe – and more specifically to Eastern Europe – seems not enough, considered that LNG and shale gas are much less dependent on stable destinations, as transport vectors can carry them towards the most remunerative spots, which at the moment and for the foreseeable future are represented by East Asia.
Therefore, it is more plausible to assume that American interests are mainly concerned with limiting Russian activities, and, more importantly, insisting on Russian decoupling from Europe. Whether the EU would benefit from this kind of brutal decoupling is difficult to assess. Contrary to what Sondland stated[222], if history taught Europe something is that the Russian neighbour should not be treated constantly as an enemy. Moreover, relying for gas on the Atlantic partner, provided it is something achievable at some point in the future, does not necessarily means increasing European energy security. Russian supply system has proven to be reliable and efficient throughout the decades. Can it be stated the same about American interests? This is not to assume that

[220] R. Staudenmaier, *Why is Donald Trump ignoring Germany?*, DW.com, 22 August 2019 https://www.dw.com/en/why-is-donald-trump-ignoring-germany/a-50126743, retrieved on 06.06.2019
[221] 43.65 Mtoe of gas, 36 Mtoe of oil and 10 Mtoe of coal, retrieved from M. Giuli, *Quanto e come la Germania dipende dalla Russia*, limesonline.com, 12 July 2018, http://www.limesonline.com/energia-trump-germania-dipende-russia-nord-stream-2-gasdotto/107746 on 06.09.2019
[222] US Ambassador to the EU

the US does not consider the EU as a fundamental partner and one to closely cooperate with. Nevertheless, disruption in the energy sector and total change of direction seem to many a way too politicised attitude. Politically and ideologically led behaviours have often proved to lead to the wrong outcome.

CHAPTER 4 – Gas and energy relations in a geopolitical environment

Chapter 4 is the final part of the paper and sums up what was proposed in the previous Chapters. After presenting energy policy and its theorisation in Chapter 1, gas relations between the EU and Russia in Chapter 2, NS2 case-study and the way it portrays the concepts listed beforehand, Chapter 4 aims at placing energy and gas relations on a broader platform. Ideology, geopolitics, theory of international relations and historical developments form such platform.
Chapter 4 is divided into four subchapters.

- *Subchapter 4.1 introduces the whole Chapter and highlights the importance that gas will have in the near future.*

- *Subchapter 4.2 is characterised by the analysis of the role of power in energy relations. For Russia, being too dependent on European markets leads to little dynamism. For Europe, depending on Russia generates the risk of reducing clients' market power and the possibility for competition to make prices lower. Energy has a value in tying up producers and consumers. Power, unbundled from the geopolitical concept thereof, might create beneficial ties between producer and consumer.*
  In section 4.2.2 it is state that he Pavlovian reflex that outlines and depicts the Russian image in the energy framework should be subject of further analysis. The argument is that a politicised and geopolitical attitude towards differentiation appears to be deleterious. This is valid if applied to the Russian side as well, obviously. The refusal to become a contracting party of the Energy Charter Treaty, the differences in prices applied to its European neighbours, the little elasticity to make up for the lack of energy infrastructure development in Ukraine are examples of an unconstructive approach.
  Somehow similarly, the EU has increased its geopolitical attitude since the Ukrainian crisis, but the roots of this approach can be traced back to the EU Green Papers issued since the beginning of the XXI century. As argued in section 4.2.3, the point is to underline that politicisation of the issue often brings to limited results and unleash unexpected consequences, which are pernicious on the long run. Moreover, depicting "the other" as the only responsible is a callow attitude, as well as one that ignores evidence and critical thinking.

- *Indeed, subchapter 4.3 investigates the Russophobic feeling in Europe. Structural and congenital Russophobic tendency has been present in the Western world for centuries, as shown in section 4.3.2 . Today, Putin's strong hand is seen by the West as a coming back of the usual authoritarian regime that has characterised Russia for most of its existence. This acknowledgement is accompanied by an intrinsic underestimation of Russian potentiality and stubborn incognizance of the uproarious development of the country – this is part of section 4.3.3. Section 4.3.4 brings a picture of the neo-Eurasianist argument that has found new life in the post-Soviet years and started*

representing a radical position of Russian anti-Western élites. It is claimed that Eurasianism contains some hints of renovated expansionism and nostalgia for Soviet territorial extension. Primakov doctrine, on a similar line, posits that a unipolar world organised by a single global centre of power (the United States) is unacceptable to Russia. Putin's policy tends to regime preservation, be it economic or security driven. Sometimes, this is translated in apparently not rational choices, but reveals that the Kremlin maintains an unchanged nature of power. This attitude is perceived as dangerous by the West. It is necessary to redirect on the cooperation trails what is now become a dangerous path towards competition and rivalry.

- *Subchapter 4.4 concludes the paper by explaining the reason for the title choice (see section 4.4.1) and provides, in section 4.4.2, a scholar approach to EU-Russian relations. Human cognition cleaves the social world into "self" and "other" (Hegelian resonance), which, in politics, is translated into political categories. Distance between categories is enhanced by inability to conceive the entirety of the features of a given context, which embed an enemy-like structure.*
  One possible way out of the vicious circle of energy supply securitisation is leading energy experts' work and analyses, thanks to which energy shall be established as an important economic tool for interdependence, rather than a tool to perceive diverging geopolitical goals. Indeed, it is the aim of the paper to pursuit and help buid the way to a new approach through which studying EU-Russian energy relations.
  Section 4.4.3 explains the role that ideas hold in the energy dialogue. The goal of the section is to argue that the perception of the "other" influences the outcome of energy policy and energy dialogue between the EU and Russia.

4.1 Gas geopolitics

This subchapter is an introduction for chapter 4 and to the following subchapters. Projections by EU commissioner for climate action and energy, Cañete, are reported, as well as official estimates for the future of energy in the EU.

The short and mid-term projections include a transitional function for gas, which makes the Russian-EU energy relations a pivotal aspect of the policies of both parties in the near future. The importance of gas pipelines might sometimes be forgotten in the political debates, but the scenario in which the biggest exporter of natural gas, Russia and one of the biggest importers, the EU, will face an increase in the employment of gas, the possibility of having improved and more efficient pipelines will play a big role in the energy economics. Considering that the EU is already shifting towards a greener production of energy, natural gas will cover the role of transition fuel in a mid-term future. As Miguel Arias Cañete, the EU's commissioner for climate action and energy,

stated, "natural gas offers the flexibility that can complement variable electricity generation coming from renewables,"[223] Gas will support the transition to a system in which the energy demand will be fulfilled for more than 50% by electricity, whose production will derive from renewable energy sources, such as wind or solar power. Gas, despite not being expected to rule the energy sector for more than a handful of decades, carries the characteristics to be a fundamental piece of the decarbonisation strategy. Moreover, e-gases, power-to-x (conversion of power from the electricity sector into another energy carrier[224]) and hydrogen are the only kinds of gas present in the EU scenario after 2050.[225] This means that the whole gas industry will need to face dramatic challenges in the second and third part of the century.

It is interesting to note how much energy and gas are influential in the (geo)political issues that are currently on between Europe and Russia. The energy and climate policy undertaken by the EU is pushing for a decarbonised future, which could mean that the European strategy would lead the EU Member States to need less Russian gas. Nevertheless, the process of "cleaning" the energy production will take at least 30 years and most of the scenarios foreseen by the EU institutions consider gas as a transition means. Thus, the idea of giving up on the Russian gas does not seem very feasible in the medium term. Nevertheless, in the assessment of the status of the relations, it would be a great mistake to ignore the Russophobia and dislike for the Kremlin politics that some member States showed: their influence in the decision-making process within the Union will definitely have a ponderous weight in the further development.

Energy consumption is characterised by a strong inertia. Shifting from one to another operator is highly costly, as much as changing energy source. Russian supplies do not differ in this, therefore any change in the EU-Russian energy relations will take a great deal of time. Today's interdependence carries many convergent interests, foremost in

---

[223] F. Simon, *Cañete sees gas as 'a bridge' to reach EU's clean energy goals*, euractiv.com, op. cit., https://www.euractiv.com/section/climate-strategy-2050/news/canete-sees-gas-as-a-bridge-to-reach-eus-clean-energy-goals/, retrieved on 13.05.2019

[224] European Commission, *The role and potential of Power-to-X in 2050*, METIS Studies: Study S8 – Study, Directorate-General for Energy (European Commission), EU publications, 04.2019

[225] F. Simon, *Cañete sees gas as 'a bridge' to reach EU's clean energy goals*, euractiv.com, op. cit., https://www.euractiv.com/section/climate-strategy-2050/news/canete-sees-gas-as-a-bridge-to-reach-eus-clean-energy-goals/, retrieved on 13.05.2019

terms of commercial exchange. Yet, both parties suffer from a level of diversification that is too low to guarantee energy security. For Russia, being too dependent on European markets leads to little dynamism and slow adjustment towards zero of demand growth. For Europe, depending on Russia means being at the mercy of transit countries (if demand could not be supplied by alternative routes), but, more importantly, it generates the risk of reducing clients' market power and the possibility that competition makes prices lower.[226]

Therefore, an analysis of the political relations, both in the energy sector and in general terms, seems necessary. Chapter 4 includes some reflections on the current situation.

[226] M. Verda, *Europa-Russia/2: una convivenza energetica*, in A. Ferrari, "Oltre la Crimea, Russia contro Europa?", ISPI, Milan, 2014

4.2 The role of power in energy relations[227]

This subchapter is concerned with the role that power plays in shaping energy relations, taking from scholars such as Siddi, Kustova, Goldthau (section 4.2.1).
It continues by offering a different point of view on the labelling that the EU and Russia have been appointed in the past, with reference to Siddi, Simonia (section 4.2.2).
The last part includes some criticism to the politicisation of energy issues (section 4.2.3).

4.2.1 Power in energy relations

Energy has a value in tying up producers and consumers. It is positive for both sides to maintain good commercial links over striking geopolitical challenges. Unbundling these two aspects could reveal beneficial for political relations, in spite of the tendency of subordinating the economic aspects to the *Realpolitik* shades of international relations. But *Realpolitik*, as the wording itself suggests, belongs to those actors who base their power upon the realist concept thereof. The European Union, considered as a weak realist actor in the international scenario[228], would probably achieve better results separating itself from the classic concept of world power. As an "international experiment", this union of States shall pursuit a different way to influence global tendencies. Commercial agreements over political clashes might result in a new way to interpret the relation between powers, one in which coercive power come after the mutual benefits that cooperation would bring.

Contemporary international relations are undoubtedly unchained from the historical or classic concept of power, according to which a country can be defined as powerful just after assessing its military and coercive might. Realist thinkers of international relations find it difficult to assess the importance of a country or an international actor in the global arena without focusing on its ability and actual possibility to maintain or establish the balance of power through armaments.[229] However, the last decades have shown us that war and explicit demonstration of strength are not the only means through which nations exert their power. A whole different school of thought created by Nye and

[227] The section takes its structure and argumentation from: M. Siddi, *The Role of Power in EU-Russia Energy Relations: The Interplay between Markets and Geopolitics*, in "Europe-Asia Studies", Routledge Taylor&Francis Online, 2018
[228] M. Siddi, *The role of Power*, op. cit., 2018
[229] H.J. Morgenthau, K. W. Thompson, *Politics among nations: The struggle for power and peace*, New York, 1993

Keohane's work considers interdependence as a thin link that countries create in their diplomatic intercourses. This can apply also to the energy sector and the geopolitics of energy, in particular if we take the commercial and political situation between Russia and the EU into consideration.

However, what emerges from a scientific analysis of the energy question in that energy dimension in EU – Russia relationship is undertheorized. Siddi points out a remarkable dearth of nuanced analysis on the role of power in EU-Russia energy relations.[230] Kustova also argues that energy power tends to be simplistically associated with resource ownership and management, which is an equation that necessitates further analytical and methodological grounding.[231] Indeed, most scholars depicts the EU as a liberal actor in external energy policy and Russia as a geopolitical player. Goldthau and Sitter restate the message and argue that the EU constitutes "a formidable regulatory state".[232] They state that its rule-based single market reaches beyond the EU borders and becomes a liberal tool because of its ability to formulate, monitor and enforce a set of market rules in certain contexts. EU legislative framework includes fines and penalties that might drive EU partners to exclusion or to be assertively bound to adapt. Undoubtedly, the rationale the EU has applied to European market has safety and harmonisation tinges; nevertheless, it is argued that at times it can develop into an external policy instrument that has geopolitical effects.

Therefore, association of Russian energy policy with state control and geopolitical ambition does not necessarily stand alone in the EU-Russian energy scenario. It is undeniable that state control of the country's enormous resources makes Russia an energy superpower with decisive influence on global energy markets and on international politics.[233] However, as Romanova points out, as well as being dominated

---

[230] M. Siddi, *The role of Power*, op. cit., 2018

[231] I. Kustova, *EU-Russia Energy Relations, EU energy integration, and Energy Security: The Art and a Roadmap for Future Research*, in "Journal of Contemporary European Research" 11, 3, 2015

[232] A. Goldthau, N. Sitter, *A liberal Actor in a Realist World? The Commission and the External Dimension of the Single Market for Energy*, in "Journal of European Public Policy", 21, 10, 2014

[233] T. Romanova, *Is Russian Energy Policy Towards the EU Only about Geopolitics? The Case of the Third Liberalisation Package*, in "Geopolitics", 21, 4, 2016

by the geopolitical paradigm, Russia has also adapted to – and adopted – legal and market instruments in its relationship with the EU.[234]

4.2.2 Changing paradigm

The question to undertake is that the Pavlovian reflex that outlines and depicts the Russian image in the energy framework should be subject of further analysis, especially in its comparison with other actors' external energy policy, such as the EU or the USA. Judge et al. suggest that subsuming the entirety of EU-Russia energy relations under great power politics denies the complexity and the multifaceted character of their relation, as it neglects the importance of non-governmental stakeholders and path dependence influence.[235] Indeed, Simonia, one of Russia's leading energy experts, suggests that "academics should increasingly be considering ways in which the vicious circle of energy supply securitisation can be stopped, as well as finding more concrete ways of establishing energy as an important economic tool for interdependence."[236] The challenge posed by a reductionist approach to the question is not only a matter of scholar argumentation, it also influences real political decisions and directions. Reducing energy relations to power paradigm defines a situation that is chained to "the diktats of power politics, which are defined in terms of fundamentally incompatible self-images and worldviews held by the EU and Russia. In this form, energy relations are understood as part of a zero-sum game between a postmodern, liberal EU, which pursues an energy policy based on free and open markets, and a modern mercantilist Russia that utilises its substantial energy resources as a weapon, or as a means of exerting its power in the international system. As Klinke[237] has identified, such reductionism permeates many media and academic accounts of EU-Russian energy relations, and often contains the implicit or explicit argument that Russia is at fault and should converge with the EU's liberal value system."[238]

---

[234] Ibidem
[235] Judge et al., *Challenging* reductionism, op. cit., 2016
[236] N. Simonia, *Foreword*, in Kuzemko, Belyi, Goldthau, Keating, "Dynamics of Energy Governance in Europe and Russia", Basingstoke: Palgrave, 2012, p. 10
[237] I. Klinke, *Postmodern Geopolitics? The European Union eyes Russia*, in "Europe-Asia Studies", 64/5, 2012
[238] Judge et al., *Challenging* reductionism, op. cit., 2016, p. 754

Instead, it is argued that the EU deployed different types of power in its relationship with Russia. Particularly after the Ukraine crisis, the EU deviated from an exclusively liberal and market approach and underwent a geopolitical path in order to comply with its differentiation programme. Southern Gas Corridor appears to be driven by geopolitical considerations. Moreover, the will to maintain Ukrainian gas transit in spite of commercial disadvantage and consequent deterioration of the relationship with its historic supplier shows that a completely liberal approach has far gone. Let us be clear: differentiation is a way that will work in the long term and that will bring much benefit to the EU. The argument is that a politicised and geopolitical attitude towards this goal appears to be deleterious or, at least, not as efficient as it would be if an unbiased approach was undertaken.

This is valid if applied to the Russian side as well, obviously. The refusal to become a contracting party of the Energy Charter Treaty, the differences in prices applied to its European neighbours, the little elasticity to make up for the lack of energy infrastructure development in Ukraine are examples of an unconstructive approach.

Even though Russia, through Gazprom's strategies, has partly accepted the EU regulatory framework and underwent a rule-based settlement of the disputes it was involved in the last years, its attitude in the post-Soviet space is geopolitical and, often, assertive. The Russian leadership claims that the country has foreign policy interests in its post-Soviet neighbourhood, and the control of energy supplies and their relative exporting routes is a fundamental piece to achieve national goals.[239] What Siddi points out, though, is that the EU can also act geopolitically, showing that the picture of an assertive when not coercive Russia has to be laid on a shelf of complexity, not of reductionism and oversimplification. Siddi, and also Bosse[240] and Kuzemko[241], state that the EU has increased its geopolitical attitude since the Ukrainian crisis, but the roots of this approach can be traced back to the EU Green Papers issued since the beginning of

[239] D. Trenin, *Russia's Spheres of Interest, not Influence*, in "The Washington Quarterly", 32, 4, 2009
[240] G. Bosse, *The EU's Geopolitical Vision of a European Energy Space: When "Gulliver" meets "White Elephants" and Verdi's Babylonian Kin*, in "Geopolitics", 16, 3, 2011
[241] C. Kuzemko, *Ideas, Power and Change: Explaining EU–Russia Energy Relations*, in "Journal of European Public Policy", 21, 1, 2014

the XXI century.[242] Evidence of this is the reasoning behind the justification of pipelines such as Nabucco and Southern Gas Corridor, to the extent that they were planned to supply gas to Ukraine via reverse flow: this element was seen as a way to counter Russian influence and power.

4.2.3 The risks of politicisation

The failure in implementing EU geopolitical strategies was more a demonstration of its geopolitical weakness than a proof of the major role regulatory power plays in the EU policy making. However, it is argued that it is, indeed, regulatory power to mark EU energy policy, meaning that it deploys a less coercive approach in the international scenario. Still, this does not exempt EU from the accusation of exercising coercive policy through soft power and regulatory tools. The adoption of norms liberalising its internal market – such as the Third Energy Package – allows the EU to use it regulatory power to shape gas trade with Russia and, more importantly, it permits to achieve better terms regardless Russian needs.[243] Nord Stream 2 is the last of the elements that confirm this theory. The project has been thwarted in spite of its commercial value and following geopolitical reasoning. The EC risks being accused of "making political use of its regulatory power – that is, abusing legislation for political purposes – which would discredit its impartiality as watchdog of the internal energy market."[244] In April 2014, Russia filed a dispute within the WTO arguing that the Third Energy Package discriminated against Russian pipelines. This example is a double-edged sword in defence of the claim that the EU can act geopolitically, and that Russia is somehow adapting to normative and regulatory methods, rather than achieving goals through geopolitically tools.

Coming to NS2 case, Gazprom has endorsed a strategy that aims at conforming to EU market requirements. It is not claimed that Gazprom has been acting in name of cooperation and "friendship of peoples": it was necessary for Gazprom to change its

[242] See, in particular, Bosse, *The EU's Geopolitical Vision*, op. cit., 2011
[243] M. Siddi, *The role of* Power, op. cit., 2018
[244] J Grigorjeva, M. Siddi, *Nord Stream 2: Opportunities and Dilemmas of a New Gas Supply Route for the EU*, Jacques Delors Institute, Berlin, 2016

business strategy in order to maintain its market share and to resist the challenges that its most remunerative and consistent client started to pose. Partial liberalisation in Russia (see Novatek and LNG production), difficulties in shifting towards East, global LNG challenge and EU's will to differentiate forced Gazprom to undertake a new thinking of its role.

Siddi has argued that "the EU–Russia energy relationship has been challenged by both divergent understandings of energy security and the exercise of different forms of power, which each side saw as undermining its own interests. [However,] the Commission's strategy has involved the regulation of Gazprom's activities in the EU market, encouraging it to abandon monopolistic practices. It also attempted to channel EU–Russian energy relations towards the commercial rather than the geopolitical playing field. This strategy is conducive to the depoliticization of the EU–Russian energy relationship, which has been commercially beneficial for both sides."[245] This statement could apply to various elements, such as NS2, Ukraine or the future increment in the employment of green energy solutions.

The aim of this section was not to highlight who failed the most in making the energy relationship as jarring as it is now; the point is to underline that politicisation of the issue often brings to limited results and unleash unexpected consequences, which are deleterious on the long run. Moreover, depicting "the other" as the only responsible is a callow attitude, as well as one that ignores evidence and critical thinking.
Indeed, next subchapter will deal with questioning what is the reason for such misunderstanding in the EU-Russia relation and for the consequent deterioration of non-governmental ties.

[245] M. Siddi, *The role of Power*, op. cit., 2018, p. 1567-1568

4.3 The return of Russophobia

This subchapter deals with the question of anti-Russian tendency that characterises certain aspects of Western policy.
Section 4.3.1 presents three examples of modern anti-Russian propaganda, taken by Vitrenko, Sondland, Trani statements.
Section 4.3.2 traces the historical roots of Russophobia.
Section 4.3.3 reports the effects on today's relations of misleading approaches that take place between Russia and the EU. Section
4.3.4 analyses Eurasianism and Primakov doctrine and their role in influencing Moscow's policies.

4.3.1 Examples of modern propaganda

This section will start with an example of a misled analysis of the NS2 situation.

Yuriy Vitrenko, chief commercial officer at Naftogaz, stated, in January 2019, that Germany is trying to contrast the European Commission in adopting the Third Energy Package, which would impose European rules on the gas infrastructure transporting gas from third countries[246]. This would make it difficult for Gazprom to operate in the context of Nord Stream 2. According to his statement, Germany is openly striking the EU goals in order to obtain Russian gas at a cheaper price, which gives a market advantage to German companies over the other European companies. In addition, other criticism came from the U.S. Ambassador to the EU, Gordon Sondland, who criticized the European Commission for not putting more effort into killing Nord Stream 2 pipeline[247]. Criticism appears to target EU actors at various levels, highlighting the importance of the matter. Mr Vitrenko also claimed that Russia is trying to disrupt the transit system through Ukraine so that the population will refuse to cope with a government who cannot guarantee good life-standards because of the missing revenues for the gas transit fees.[248] Moreover, considering the US Ambassador to the EU's

[246] C. Stam, Russia uses gas as a lever for annexation, says Ukraine official, op. cit., https://www.euractiv.com/section/energy/news/russia-uses-energy-as-a-tool-to-further-annexation-says-ukraines-energy-official/, retrieved on 30 April 2019
[247] A. Gurzu, *US ambassador criticizes Commission on Nord Stream 2*, op. cit., https://www.politico.eu/article/us-ambassador-criticizes-commission-on-nord-stream-2/, retrieved on 30 April 2019
[248] C. Stam, Russia uses gas as a lever for annexation, says Ukraine official, op. cit., https://www.euractiv.com/section/energy/news/russia-uses-energy-as-a-tool-to-further-annexation-says-ukraines-energy-official/, retrieved on 30 April 2019

comment, Russia seems to be willing to cut off the gas supply during winter months, in case the political situation or the diplomatic relations do not suit its view[249].
This sounds unrealistic: the most used debating tool used by experts on energy issues is that Russia and Europe are so interdependent that none of them could stop importing or exporting gas supply. Russia exports 60% of its gas to Europe (see, for example, Judge et al.).[250]
This example can be used to trace the characteristics of the misperception of the relationship between the Russian world and the West.

Next passage is taken from a small article the president of the Italian-Russian Chamber of Commerce, Vincenzo Trani, issued in 2019. It is clear that a non-academic consideration of the actual relationship between the West and Russia as this one lacks scientific depth and could be driven by commercial interests. Therefore, it is important to read the following lines just as an appeal that a public figure aiming to improve the commercial relations between two countries gave out in order to sensitise the audience. The article is significantly titled "Russia: two weights and two measures. When mathematics becomes a political opinion." Summarising briefly Trani's article, he points out that numbers show unequivocally and objectively theories and reasoning. Problems appears when numbers are subjugated to political goals. Trani believes that information (and numbers) are used in a biased manner in the West information channels when addressing Russia. What during the cold war was an action of discrediting the opponent on technology and military power, today is filling medias with fake-news or inaccuracy, with the aim of sabotaging commercial appeal in the international scenario and misleading public opinion. Trani takes an article of the Financial Times to exemplify its claim. In there, he argues that numbers and data are inaccurate and easily refutable with basic financial instrument and analysis, but that the article, last of a series, presents distorted facts and piloted information that target the creation of an unreal scenario. The same newspaper deployed August rallies in Moscow[251] as a clear signal of the failure of

[249] A. Gurzu, *US ambassador criticizes Commission on Nord Stream 2*, op. cit., https://www.politico.eu/article/us-ambassador-criticizes-commission-on-nord-stream-2/, retrieved on 30 April 2019
[250] Judge, Maltby, Sharples, *Challenging* Reductionism, op. cit., 2016
[251]Trani did not indicate which article he was referring to. Financial Times website may contain it.

the economic state of the country, giving high media prominence to it. Instead, the upgrading mark *Fitch* gave the Russian Federation the day after the rallies – from BBB- to BBB, same rating given to Italy, Portugal and Bahrain – was basically untold. Propaganda, according to Trani, has had dramatic consequences: subverted data tell a reality that does not exist, as the average monthly revenue for a Russian citizen went from 56$/month in 1999 to 790$/month in June 2019.[252] Trani highlights the fact that, as well as depicting an unreal image of Russia, the attitude that the Western media are able to undertake could mislead investors and deviate European companies away from potentially remunerative ventures.

4.3.2 Historical roots of Russophobia

Vitrenko, Sondland and Trani's are examples that reveal a much deeper issue: a structural and congenital Russophobic tendency in the Western world. The roots of such an attitude are older than one might expect and characterised the relation with the Russians in many occasions throughout history.

Western Russophobia has employed two argumentations, repeated over time: first, Russia is inherently expansionist, imperialist and annexationist; second, Russia is a despotic, dictatorial, totalitarian autocracy. The common factor is the clash against the Euro-American values that sets the basis of the Russian political logic.[253]

A historical *excursus* highlights that Russia has never invaded Western Europe; rather, it opposed to invasions *from* Europe. Modern Russophobia pivots on a political-religious substrate that developed in today's forms in France in the 18th century. Napoleon made sure that a false testament drafted by Peter the Great – in which the tsar entrusted his successors so that they would subjugate Europe – was widespread before the campaign of Russia in 1812, so that the European people could develop an aggressive sentiment against the Russians. The same attitude was adopted by the English after 1815, when royal interests clashed with Russian influence in Central Asia and China; tensions resulted in the kick off of the Crimean war in 1853.

[252] V. Trani, *Russia: due pesi e due misure. Quando la matematica diventa un'opinione politica*, September 2019
[253] G. Mettan, *Mille anni di Russofobia e propaganda*, limesonline.com, 28 December 2017, http://www.limesonline.com/cartaceo/mille-anni-di-russofobia-e-propaganda, retrieved on 15.09.2019

The Germans experienced their Russophobic *momentum* in the XX century, when their need for vital space (*Lebensraum*) clashed with the Russian possessions in Eastern Europe. The consequences of those tensions are well known, as they resulted in a life toll that took millions of lives during the WWII.

More difficult to define and to delineate was the appearance of the American Russophobia. McCarthyism and containment policy were expression of something that went beyond the struggle to secure spheres of influence that characterised the post-WWII period. The clash assumed ideological connotations, which was useful to hide the geopolitical and hegemonic claims the USA deployed in managing foreign relations and internal policies.

From this point of view, it is less enthralling to observe that Russophobia did not end together with the cold war. Guy Mettan, a Swiss journalist and politician[254], considers that two personalities were responsible for the continuity that the American élites engaged in dealing with Russia. The first is Brzezinski, national security adviser during Carter's presidency with Polish roots. He kept influence in the American foreign affairs management well beyond the end of the cold war. He was a supporter of an Eastward expansion of NATO and a theoriser of the benefit Russia would obtain in case it was disjointed into its geographical regions.

The second personality is Joseph Nye, Deputy Under Secretary of State during Carter's mandate and Under Secretary of Defence with Clinton, as well as prominent scholar. His influence as a scholar is based on the assumption that the US can employ the capacity of persuading other countries and their public opinion through *soft power*. The American ability to operate through ONG, think tanks and lobbyism is seen by Mettan as an instrument to fire public opinion – and channel it – on hot topics of international interest. Russia often comes out as the enemy, as the evil entity that subverts the West, instigates populism and nationalism, meddles with Western governments. "The

[254] It is very important to note that Mettan obtained Russian citizenship and was appointed as vice-president of the Swiss-Russian Chamber of Commerce. His personal interests might have influenced the image of Russia he depicts. However, this text tries to step away from biased or non-impartial opinions. The reference text was retrieved from a prominent geopolitical magazine as *Limes*, on whose *bona fide* this author trusts.

depiction of the *evil* is one of the fundamental dimensions of the narrative outlined by the storytellers of hybrid wars."[255]

The goal of this kind of propaganda, as back in the beginning of the "orthodox matter" with the German emperors and the Roman Pope trying to demonise the East on a religious basis in the Middle Ages, is to delete Moscow from the European consciousness (in figurative terms). The results, however, might hide counteracting consequences, as the opposers to the Western *status quo* could deviate towards the Kremlin in order to obtain support or even just affiliation.

4.3.3 Contemporary anti-Russian attitude

The origins of today's frictions can be traced back to the first years after the collapse of the Soviet Union. Post-Soviet Russia seems to the Americans and Europeans to be transforming into a Western-style democracy, but the West saw Russia as a much weaker and almost insignificant player in the international scenario. Russia was excluded from NATO – an organisation that many expected to disappear, considered that its mission elapsed together with USSR dismantling – and the European Union, which was to expand up to Russian borders without ever including it in the project. In the first years of the '90s, Russia could not even try to redirect Western reasoning, as it was too busy avoiding the total collapse of its economy.

When Putin raised to power, authority was seen in Russia as the way to reconstruct the country and liberate it from the bad that it was affected by. Stability, even reached through authority, appeared a better choice than chaos and social breakdown. However, Putin's strong hand was seen by the West as a coming back of the usual authoritarian regime that has characterised Russia for most of its existence. This acknowledgement was accompanied by an intrinsic underestimation of Russian potentiality and stubborn incognizance of the uproarious development the country was witnessing.

[255] Ibidem

Elision of Russia from the panorama of the global powers' club was a short-sighted mistake that the ruling countries made, believing to have reached "the end of history"[256]. Intolerable humiliation best described the feeling Russian nationalists were inflicted. Concrete examples of what the Russian Federation saw as lack of international consideration were the American attack to Iraq, a commercial partner of the Kremlin, and the unconditional support of coloured revolutions in Ukraine and Georgia.[257] By the end of the Georgian war in 2008, the Western world realised that Russia could no longer be an underestimated subject of its policy, while Russia had already recovered from '90s chaos and achieved awareness of its potentiality as renovated power. The relations, though, had already deteriorated when this acknowledgment took place. "The EU, as well as the United States, set out along a dangerous path of alienating Russia without making provision for dealing with the consequences. […] where much of the West has gone wrong, […] so that the West has consistently been surprised and discomfited by Putin's moves, is that while Western analysts are well aware of Russia's limits and constraints, the West has failed to understand the weaknesses in its own position – weaknesses that give Russia significant ability to damage Western interests at relatively low risk and cost."[258] In other words, since it approaches international relations with a realistic and unsentimental policy-making, Russia does not hesitate to pursue its national interests even in case this collides with Western expectations or *modus operandi*, based on the conviction that liberal markets and democracy could be spread around the world. Eastern Europe's historical dislike for the Kremlin broadened the gap between the West and the Russian Federation.

Mead states that the ideal approach for the West would be to develop policies able to face Moscow's challenges and, at the same time, reinforce internal cohesion. Taking the EU into account, it is clear that talking with only one voice would transform the Union

[256] Francis Fukuyama's famous book, *The end of history*, is seen by many as a hasty and incomplete analysis of international relations. The liberal democracies failed in recognising the challenges that the new age would bring, delaying their response to them. The lack of "a Russian policy" can be inserted in this context.
[257] W. R. Mead, *Washington and Brussels: Rethinking Relations with Moscow?*, in A. Ferrari, "Putin's Russia: Really Back?", ISPI, Milan, July 2016
[258] Ibi., p. 41-42

in a much more effective and credible actor, compared to the hybrid institution it represents now.[259] The weaknesses of the EU in the context of the dialogue with Russia is evident; for example, the Ukrainian crisis was faced differently by Member States: some were given the opportunity to influence the outcome (Normandy format included France and Germany), some were fast to depict the crisis as a clear intention for Russia to invade Europe (Baltic countries, Poland), others were worried by the negative consequences for trade the sanctions regime would have (Italy, among the others).

4.3.4 Russian uniqueness sentiment and multipolarity

Russia has developed, over time, different goals and different interests from those of the West. It aims at consolidating its regional influence and, eventually, raise its impact at the global level. One step was the foundation of the Eurasian Union project.

The project's name evokes significant meaning for the Russian people. The Eurasianist movement was created in the 1920s-1930s by famous Russian emigrants, such as Trubetskoy, Jakobson, Florovskij, who claimed that Russia constitutes a unique geographical and historical area that could not be associated to the European cultural space.

The neo-Eurasianist argument has found new life in the post-Soviet years and started representing a radical position of Russian anti-Western élites. It is claimed that Eurasianism contains some hints of renovated expansionism and nostalgia for Soviet territorial extension.[260] This aspect raises suspicion in the West, especially in the former-Communist countries of Eastern Europe and in the United States.

However, experts find it exaggerated to limit Putin's policy to the Eurasian discourse. Alexander Dugin, theorist of neo-Eurasianism, is believed to detain a heavy political weight in the upper circles of Russian politics. However, it seems an overestimation to grant him such a role as to influence Putin's policy-making. "The Eurasian project advanced by the Russian leadership in recent years should instead be studied in its

[259] W. R. Mead, *Washington and* Brussels, op. cit., 2016

[260] A. Ferrari, *Russia and the Eurasian Economic Union. A Failed Project?*, in A. Ferrari, "Putin's Russia: Really Back?", ISPI, Milan, July 2016

concrete political and economic significance, without attributing an ideological interpretation that seems largely groundless."[261]

The same could apply to another concept, named after former foreign and prime minister Primakov: Primakov doctrine, which current Foreign Minister Sergey Lavrov celebrated as a concept that will be studied by future historians[262], "posits that a unipolar world organised by a single global centre of power (the United States) is unacceptable to Russia".[263] Instead, Primakov claimed that Russian foreign policy should aim at the creation of a multipolar world managed by all the major world powers, so that Russia should not challenge the American hegemony alone. According to Primakov doctrine, multipolarity should overcome the instability that a unipolar and single-led world carries. Undoubtedly, this doctrine has influenced Moscow in the last decades. However, the degree of sticking to these commandments varied throughout the XIX century, basically in correspondence with Russian capabilities to steer its development path.[264] Therefore, limiting Russian foreign policy to Primakov doctrine is a reductionist exercise. Surely, Russian power is best described from the realist and hard power point of view. Nevertheless, as was pointed out above, in the energy context, the Russian Federation has shown more than once to be eager to apply rule of law and liberal principles.

Rather, Putin's policy tends to regime preservation, be it economic or security driven. Sometimes, this is translated in apparently not rational choices, but reveals that the

---

[261] A. Ferrari, *Russia and the Eurasian Economic Union*, op. cit., 2016, p. 120. See also: F. Lukyanov, *Nedorazumenie po-evrazijski*, in "A Eurasianist misunderstanding", Gazeta, 28 August 2012, http://www.gazeta.ru/column/lukyanov/4735037.shtml, or
N. Popescu, *Eurasian Union: the real, the imaginary and the likely*, retrieved from http://www.iss.europa.eu/publications/detail/article/eurasian-union-the-real-the-imaginary-and-the-likely/

[262] Tass.com, *Lavrov predicts historians may coin new term: the Primakov Doctrine*, tass.com, 28 October 2014, https://tass.com/russia/756973, retrieved on 18.09.2019

[263] A. Cohen, *The 'Primakov Doctrine': Russia's Zero-Sum Game With the United States*, Heritage Foundation, December 15, 1997, https://www.heritage.org/report/the-primakov-doctrine-russias-zerosum-game-the-united-states, as cited in E. Rumer, *The Primakov (Not Gerasimov) Doctrine in Action*, in "The return of global Russia", Carnegie Endowment for International Peace, June 2019, https://carnegieendowment.org/2019/06/05/primakov-not-gerasimov-doctrine-in-action-pub-79254

[264] E. Rumer, *The Primakov (Not Gerasimov) Doctrine in Action*, in "The return of global Russia", Carnegie Endowment for International Peace, June 2019

Kremlin maintains an unchanged nature of power.[265] The EU should revise its Russian policy in order to change the trend that has been established in the last decade., because it is the EU to have more capability to shape it. "Russia's rapprochement with Europe is only in the second instance a foreign policy exercise. Its success or failure will primarily depend on the pace and depth of Russia's economic, political and societal transformation. Russia's 'entry into Europe' cannot be negotiated with Brussels. It has to be first 'made in Russia' itself."[266] Brussels and European governments need to understand that Russia cannot be defined under Western political principles. That does not mean that the EU should accept passively every move the Kremlin makes; rather, it is necessary to redirect on the cooperation trails what is now become a dangerous path towards competition and rivalry. The point is to highlight that "the idea that the responsibility of the deterioration of these relations completely depends on Moscow appears largely groundless and affects not only the correct awareness of reality but above all the possibility of finding a way out."[267] The stakes are high: energy, trade, security, climate change, fighting terrorism.

In this context, the Ukrainian crisis and the future of gas transit through its territory represent a fundamental piece of the entire puzzle. Reaching a compromise could be a step towards enhanced cooperation in the energy sector. As a spill-over effect, the new deal could extend to other issues, such as neighbouring policies or state security.

[265] C. Claudìn, N. de Pedro, *The EU and Russia after Crimea: Is Ukraine the Knot?*, in A. Ferrari, "Beyond Ukraine: EU and Russia in Search of a New Relation", ISPI, Milan, 2015

[266] D. Trenin, *A Russia within-Europe: Working towards a New Security Arrangement*, CEPS ESF Working Paper, no. 6, March 2002

[267] A. Ferrari, *EU-Russia: What Went Wrong?*, in A. Ferrari, "Beyond Ukraine: EU and Russia in Search of a New Relation", ISPI, Milan, 2015

4.4 Gas relations: an un-cold war

This subchapter concludes Chapter 4 and the entire paper. Its aim is to suggest a rethinking of energy relations through a better comprehension of the power of ideas and images in such a multifaceted context as the energy one.
The first section, 4.4.1, introduces the topic.
Section 4.4.2 lists the works of scholars such as Casier, Kowert, Radoman, Simonia, Judge, in order to build a strong argumentation about the fact that the way the image of the "other" is represented influences politics and relations.
Section 4.4.3 takes from Kuzemko and Zimmerman to present the conclusion of the paper, i.e. ideas have a significant role to play in the Energy Dialogue and reflecting on their value allows to build a more cooperative and beneficial settlement in the EU-Russian energy relations.

4.4.1 Warming-up the impasse

This section concludes the paper and aims at taking up the main subject of the previous pages. *An un-cold war*, the subtitle of this work, through a word pun, recalls the cold war age, when the American/West side countered the Soviet bloc in an ideological and geopolitical confrontation. The negation – *un*-cold – refers to the fact that gas is used in large part for housewarming and power generation. Going beyond word puns, the reference to the cold war reveals a situation in which some symmetries can be traced. The current gas and energy relations between the European Union and the Russian Federation are facing some constraints. These difficulties stem from the intrinsic belief that politics are entangled in a struggle between parties that have national/regional interests. As in the cold war age, the two parties are having troubles in dealing with each other for lack of reciprocal comprehension and will to understand the other. This applies to the political aspect of their relations, but could be transposed to the energy sector as well. The energy dialogue is witnessing a biased, unclear and reductionist approach that risks increasing the dangerous misunderstanding between Moscow and the European governments.

However, as in the second half of the XX century, the stakes are high enough to prevent total disruption of the relationship. Therefore, the title of this section and of the paper was chosen to remind that, even when evidence seems to outline a warfare regime, dialogue and compromise can be found. Clearly, it is not argued that today's energy dialogue reaches levels of danger for security as high as nuclear threat or military confrontation during the cold war. However, as an analogy, misunderstanding the

other's signals and arrangements can provide a climate of confrontation that leaves no space for cooperation, unless policy makers and their advisors change their attitude and undertake a different path.

That is why this last subchapter examines scholars' approach to the energy dialogue between the European Union and the Russian Federation from a point of view that differs from the rhetoric of the inevitable progressive deterioration of their tie.

4.4.2 EU-Russian relations: a scholar approach

Casier indicates that this kind of rhetoric derives from what he calls "attributional bias". Taking from Kowert[268], he claims that human cognition cleaves the social world into "self" and "other" (Hegelian resonance), which, in politics, is translated into political categories that exaggerate the identities of the in-group from those of the out-group. Kowert argues that there is a tendency to exaggerate differences between political groups and to underestimate differences within these groups. This tendency includes attributing the behaviour of political out-groups to the intent or desires of those same groups; then, perceived increase in power of those out-group strengthens the tendency to assume their intent. This perception creates attributional bias.[269]

What Casier builds from this analysis is that, when the attributional bias concept is linked to Construal-Level Theory (CLT)[270], distance between actors is enhanced by inability to conceive the entirety of the features of a given context. This concept rests upon a constructivist approach to international relations.[271] In the case of energy dialogue, Casier argues that the combination of attributional bias to CLT happens in situations of high-level construal, i.e. when competing frames – see note 221 – are

[268] P. Kowert, *Agent versus Structure in the Construction of National Identity*, in V. Kubalkova, N. Onuf, and P. Kowert, "International Relations in a Constructed World", M.E. Sharpe, New York, 1998

[269] ibidem

[270] Construal-Level Theory is a social psychology theory that helps understand how, at an abstract level, "one tends to overlook enormous complexity of day-to-day relations and replace it by simple explanations". See T. Casier, *Great Game or Great Confusion: The Geopolitical Understanding of EU-Russia Energy Relations*, in "Geopolitics", 21:4, Routledge Taylor%Francis Online, 2016

[271] See Wendt, for example: competing frames can become more consequential to the extent that international cultures connoting deeper "enemy" type structures resonate with actors' interpretations of "events" (A. Wendt, *Social Theory of International Politics*, Cambridge University Press, Cambridge, 1999

characterised by abstract, coherent and superordinate mental representations. When high-level construals apply to energy relations, they "are more prone to be embedded in 'deep enemy like structures'."[272] In other words, literature and experts, but also policy-makers and governments, tend to analyse the energy dialogue between the EU and Russia as a simplification and abstraction of the reality, which, actually, is composed by the activities of many different actors, at many different levels. In doing this, through attributional bias and high-level CLT, negative dynamics, ideologized interpretations and misleading political reasoning have been set by the two parties.
Hence, a logic of competition and zero-sum game is set, leading to a spiral of distrust and increasing distance.[273] Put on a geopolitical scene, this could bring to serious concerns for diplomatic relations and security.

Indeed, we have witnessed many setbacks in the energy relations: the EC anti-monopoly investigation into Gazprom of 2012, various provisions of the Third Energy Package that made it more difficult for Gazprom to operate in Europe, 2006 and 2009 Ukrainian crises, the commercial dispute between Gazprom and Naftogaz and the Stockholm Commercial Court arbitration, opposition to new pipelines like Nord Stream 2. The pursuit of increasing diversification can be read as a form of geopolitical shift. Radoman argues that such mutual diversification, instead of leading to improvement of energy security, causes an energy security threat that endangers both parties; Radoman calls this situation a security dilemma.[274] As stated above, Simonia suggests that one possible way out of the vicious circle of energy supply securitisation is leading energy experts' work and analyses, thanks to which energy shall be established as an important economic tool for interdependence, rather than a tool to perceive diverging geopolitical goals.[275] Therefore, as Judge et al. point out, "all too often such analyses are guilty of different forms of geopolitical reductionism that overly simplify the complexities of this relationship and discount potential dynamics that could facilitate cooperation in the

[272] T. Casier, *Great Game or Great Confusion*, op. cit., 2016
[273] Ibidem
[274] J. Radoman, *Securitization of Energy as a Prelude to Energy Security Dilemma*, Western Balkans Security Observer – English Edition 4, 2007
[275] Simonia, *Forward*, op. cit., 2012

future."[276] Judge et al. agree with Casier on the claim that reducing the current state of EU-Russian energy relations to a conflictual rhetoric is a misleading exercise. As was the case during the cold war, a continuity of trade is present and ties the two parties in many different manners. The issue is that this consideration is often omitted from analyses. Thus, considering the EC simply as a liberal actor, relegating Gazprom activities to instrument employed by the Russian government, highlighting the divisive aspects of neighbouring policies of the EU and those of Russia risks creating an unreal depiction of reality. Clearly, it is difficult to take into consideration every single aspect of the energy relation; however, it is important to bear in mind that the projection of "the other" influences the essence of the relationship itself. "While broader geopolitical relations between the EU and Russia are currently facing significant challenges, the multi-layered political, economic, and commercial interests that drive the EU-Russia energy relationship will ensure that the specifically energy-focused aspect of the EU-Russia relationship will remain durable even in the face of geopolitical challenges."[277]

4.4.3 The power of ideas in the Energy Dialogue

It is needed, in order to pursue a convergence of policies and common views on energy cooperation, that the *bureaus* of the EU and Russia undertake a way through which common goals could be achieved. It is not an easy job, but the final outcome could be worth the burden. A constructivist point of view on the matter tries to underpin that ideas have a value on shaping the characteristics of the energy dialogue.

Kuzemko points out that ideas are a powerful instrument to construct policies. More specifically, she states that market liberal ideas over EU internal policy have been reflected in the construction of its foreign energy relations. The EU has tried to promote EU policies beyond its borders and to normalise energy relations with third parties. During the '90s, for instance, the EU was able to set the terms of negotiations with Russia with a role of rule-giver. On this framework, the Partnership and Cooperation Agreements (PCAs), the Energy Charter Treaty (ECT) and the EU-Russia Energy Dialogue were established; EU's aim for such institutionalisation was to transfer liberal

[276] Judge et al., *Challenging Reductionism*, op. cit., 2016, p. 754
[277] Ibi., p. 760

rules to the Russian side. The power of ideas, in this context, was that of legitimising the EU to spread its system to third countries with the belief of improving the energy market in absolute terms.[278] Liberalisation is undeniably beneficial for the energy market; however, misunderstanding that Russia needs time and institutionalisation to adapt, as well as not giving it the possibility to negotiate different terms, was a first step towards the deterioration of the relationship.

At the same time, Russian nationalism resurgence curtailed the potential development of future cooperation. Moreover, the increased control that the State has assumed throughout the years after the collapse of the USSR has placed resources management in the domain of "state instrument". The Russian government and élites have employed energy more and more as a political tool to achieve national goals and appease national interests. Therefore, the Kremlin had to change the perception of energy from that of the West. As was seen in the first chapter, energy security includes many different aspects that sometimes differ according to the role taken into account: for consumers, security of supply and suitable volumes are the priority; for the producer, security of demand and investments to develop the energy system are the prerogative to cope with the energy matter. This intrinsic difference is exacerbated by the ideological gap that exists between the two parties. Zimmerman indicated that "changing energy governance practices have taken place within a context wherein wide sections of Russian society consider that Western ideas, and recommended forms of governance, work neither in nor for Russia."[279] This marks a contrast in the perception of how to govern energy, while highlighting the importance that ideas hold, as well as the perception of the "other" in setting policies and strategies.

As a reverse example, Smith's mention to monopolism and corruption in the Russian territory that he uses to sharpen his attack to Russian approach to energy policy – which

[278] Kuzemko, *Ideas, Power and* Change, op. cit., 2014

[279] W. Zimmerman, *The Russian People and Foreign Policy: Russian Elite and Mass Perspective, 1993-2000*, Princeton University Press, Princeton, 2002

he sees as a geopolitical instrument that Moscow deploys to dominate post-Soviet space – results as an oversimplification and stereotyping of Russian politics.[280]

The aim of this section was to argue that the perception of the "other" influences the outcome of energy policy and energy dialogue between the EU and Russia, making ideas a powerful element in the analysis of the energy dialogue. The denial of this concept leads to biased and misperceived depiction of reality. Realist and liberal views on energy do not comprehend the multiplicity of aspects that the energy dialogue hides. Geopolitics, as well, are a simplistic and reductive lens through which understanding the complicacy of EU-Russian relations, like the *a priori* opposition to Nord Stream 2 highlighted.

Therefore, this paper tries to suggest that dialogue and reciprocal images are important in shaping real day-to-day contacts between these two actors. Understanding that the mutual benefit springing from cooperation could erase the divergences that for decades have characterised Western-Russian relationship might set the first step towards a new kind of partnership, one in which misperception leaves room to steady coexistence.

[280] K. C. Smith, *Russia and European Energy Security: Divide and Dominate*, Center for Strategic and International Studies (CSIS), October 2008

Conclusion

This paper covered a topic that will have a great impact on the development of future relations between the European Union and the Russian Federation. Energy dialogue has been one of the themes that have characterised the link between Russians and Europeans since the energy management entered into politics.

As was highlighted in Chapter 1, gas trade underpins many aspects of the traditional energy dialogue. Moreover, gas will have a major role in the energy transition that the EU seems to be undertaking. Therefore, understanding how gas can be either a tool for cooperation or a hindrance for freezing of relationships is decisive step in assessing energy global governance.

Chapter 1 exposed concepts that are typical of the energy issues and that underlie the theoretical approach to the discipline. Energy security and global governance of energy were the basic pieces upon which Chapter 1 was built. Energy security creates motion in energy policy and is the concept on which most policy-makers focus. Energy security may differ for each of the actors involved, but what Chapter 1 tried to point out is that there is a certain degree of symmetry between supplier and client, who have to deal with the need to secure transit and affordability of supply.

As well as security, energy partners are usually involved in a situation of interdependence, which makes them less able to act freely than it might be expected. Interdependence creates a binding structure that allows energy partners to create strong ties. Global governance, energy security and interdependence are concepts that should be taken into consideration when assessing EU-Russian relationship, in order to avoid reductionist – and deleterious – approaches to the matter.

To improve the quality of a dynamic and in-depth analysis of the affair, Chapter 1 offered an analysis of the EU energy policy and of the Russian energy policy. The EU invested much on making its energy market liberalised, cohesive and resilient. Competition and connected infrastructures have been the key words for decades.

The Russian Federation has to deal with a situation of enormous potential countered by actual inability to emerge as the global leader in the energy field Russia aims to. For this reason, lately Russian politicians have focused more on making energy as a tool to pursuit national goals. This does not necessarily mean that Russia acts coercively in the energy field – indeed, it has demonstrated will to conform to the EU regulatory framework in many occasions; rather, Russia is shifting towards a new way to manage energy, which involves also differentiating clients and traditional supply routes. In this context, we can find the shift towards East Asia and the acceleration of LNG production, as well as circumscribed liberalisation of the internal gas market.

Chapter 2 carries on the topic and analyses more in detail the gas relations between the two partners. By showing the current state of art of the gas relations, the paper seeks to explain how commercial and geopolitical elements are interchained. Changes in one actor's environment cause changes in the other's, reciprocally. Different interests do not necessarily lead to different positions, if dialogue is constructive and the parties are willing to find the reciprocally-beneficial solution, as in a positive-sum game. Pipelines building and diversion from transit countries considered as unreliable – read Ukraine, principally – are part of the discussion of Chapter 2. This chapter helped building the basis for the case-study presented in Chapter 3.

Nord Stream 2 case-study in Chapter 3 was helpful to set a concrete example of how politics and economics are intertwined and how their combination is relevant in the energy sector. Nord Stream 2 represents an exemplification of the power that regulatory and legislative tools have on energy. The Revision of Gas Directive presented in Chapter 3 clearly points out this argument: by pursuing liberalisation and ensuring competition, the EU has thwarted Russian position in the European gas market. It is still difficult to discern whether this kind of moves will be beneficial or detrimental for EU energy sector. All in all, Nord Stream 2 project and the Amended Gas Directive hit the target by pointing out the influence political manoeuvres have in the energy dialogue.

Such influence was analysed from a slightly different point of view in Chapter 4, where geopolitics and theories of international relations took the stage. When geopolitical

reasoning comes into play, it often carries controversial characters and effects that are difficult to assess. Even taking only energy-security into account, EU-Russian energy dialogue cannot be subject to geopolitical mechanisms that do not consider the multiplicity and multidimensional aspects of the energy issue. As was highlighted in Chapter 1, a reductionist approach risks carrying misleading solutions and unwilled outcomes.

Moreover, it is necessary to understand the value of constructivist elements and the value that power exercises in the energy dialogue. Chapter 4 showed that the way power is assessed and treated influences the outcome of the issues of energy field. The EU has acted more geopolitically since the Ukrainian crises, while Russia is entangled in troubles managing energy and internal policies, which makes it behave as a realist international actor – and not always acting rationally. Ideas and depiction of the "other", when combined with geopolitical and realist thinking, are a dangerous instruments, especially if employed by policy-makers that take for granted the diverging attitude the EU and Russia seem to undertake.

Therefore, the final aim of this paper is to sensitise on the importance of reassessing the ideological vision that underlies the relationship between the Western world and the Russian Federation. To avoid a new escalation of misunderstood signals similar to that which brought to the cold-war freezing of contacts, it is necessary to revise the value of the EU-Russian energy dialogue.

Natural gas will be responsible of warming up houses as well as energy relationships in the near future.

Bibliography

Primary sources

1. BP, *The Southern Gas Corridor*, bp.com, https://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SouthernCorridor.html

2. Council of the European Union, *Analysis of the final compromise text with a view to agreement*, Council of the European Union, February 2019

3. Council of the European Union, *Negotiating Directives: Annex to the Recommendation for a Council Decision authorising the opening of negotiations on an agreement between the European Union and the Russian Federation on the operation of the Nord Stream 2 pipeline, Council document 10249/17 ADD 1*

4. Council of the European Union, *ST 6351 2019 INIT*: Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/73/EC concerning common rules for the internal market in natural gas - Analysis of the final compromise text with a view to agreement, Council of the European Union, February 2019

5. Eastern Partnership (European Commission) https://ec.europa.eu/energy/en/events/eastern-partnership-energy panel

6. EIA, https://www.eia.gov/beta/international/

7. Energy Charter, https://energycharter.org/process/overview/

8. Energy Charter, *Master Plan: Ukrainian Gas Transmission System (UGTS) Priority Objects Modernisation and Reconstruction* (Ukrtransgaz presentation), https://energycharter.org/fileadmin/DocumentsMedia/Presentations/CBP-Ukraine_GTS.pdf

9. Energy Community, https://www.energy-community.org/

10. Energy Community, https://www.energy-community.org/aboutus/whoweare.html

11. ENTSOG, https://www.entsog.eu/

12. ENTSOG, https://www.entsog.eu/members

13. Euroepan Union, https://europa.eu/european-union/sites/europaeu/files/docs/body/treaty_on_european_union_en.pdf

14. European Commission, *Antitrust: Commission imposes binding obligations on Gazprom to enable free flow of gas at competitive prices in Central and Eastern European gas markets*, European Commission website, 24 May 2018, https://europa.eu/rapid/press-release_IP-18-3921_en.htm

15. European Commission, Article 9, Directive 73/2009/EC as amended in 2019

16. European Commission, Directorate-General for Energy (European Commission), EU publications, 04.2019

17. European Commission, Document ST 6351 2019 INIT*: Proposal for a Directive of the European Parliament and of the Council amending Directive 2009/73/EC concerning common rules for the internal market in natural gas*

18. European Commission, *Energy strategy and energy union*, European Commission website, https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union

19. European Commission, *EU energy in Figures*, statistical pocketbook published in 2018

20. European Commission, *Natural Gas market indicators*, European Commission website, https://ec.europa.eu/eurostat/statistics-explained/pdfscache/8894.pdf

21. European Commission, *Presidency Conclusion of 4th February 2011*, European Commission website, 4 February 2011, https://ec.europa.eu/research/era/docs/en/brussels-european-council-4-february-2011-presidency-conclusions.pdf

22. European Commission, Press Release, 10 August 2018, https://europa.eu/rapid/press-release_IP-18-4942_en.htm

23. European Commission, Press release, 12 February 2019, https://europa.eu/rapid/press-release_MEX-19-1070_en.htm?locale=en

24. European Commission, Study by the AFET Committee, Policy Department for External Relations, Directorate General for External Policies of the Union, PE 603.868 - April 2018, published on http://www.europarl.europa.eu/thinktank/en/home.html

25. European Commission, *Third energy package*, European Commission website, https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation/third-energy-package

26. European Commission, *WTO cases: cases involving the EU*, European Commission website, 25 July 2017, http://trade.ec.europa.eu/wtodispute/show.cfm?id=644&code=2

27. European Parliament, *Gas naturale: norme UE estese ai gasdotti provenienti da Paesi terzi*, European Parliament website, 04 April 2019, http://www.europarl.europa.eu/news/it/press-room/20190402IPR34673/gas-naturale-norme-ue-estese-ai-gasdotti-provenienti-da-paesi-terzi

28. European Union, *Directive (EU) 2019/692 amending Directive 2009/73/EC concerning common rules for the internal market in natural gas*, europeansources.info, 03 May 2019, https://www.europeansources.info/record/directive-eu-2019-692-amending-directive-2009-73-ec-concerning-common-rules-for-the-internal-market-in-natural-gas/

29. Eurostat, *EU imports of energy products - recent developments*, Eurostat.eu, May 2019, https://ec.europa.eu/eurostat/statistics-explained/pdfscache/46126.pdf

30. Gazprom, http://www.gazpromexport.ru/en/projects/transportation/

31. Gazprom, https://www.gazprom.com/projects/

32. Gazprom, *IFRS Consolidated Interim Condensed Financial Information (Unaudited)*, PJSC Gazprom, https://www.gazprom.com/f/posts/72/802627/gazprom-ifrs-2q2019-en.pdf

33. Gazprom, *IFRS Consolidated Interim Condensed Financial Information (Unaudited)*, June 2019

34. Gazprom, *Power of Siberia*, Gazprom.com, https://www.gazprom.com/projects/power-of-siberia/

35. Gazprom, *TurkStream*, gazpromexport.ru, http://www.gazpromexport.ru/en/projects/

36. IEA, *Gas 2018 - Analysis and Forecasts to 2023*, IEA Publications - International Energy Agency, June 2018

37. IEA, *Gas 2018 - Analysis and Forecasts to 2023*, International Energy Agency, June 2018

38. IEA, https://www.iea.org/topics/energysecurity/

39. IEA, *Tracking Clean Energy Progress*, iea.org, https://www.iea.org/tcep/

40. IEA, *World Energy Outlook 2009*, Paris, 2009

41. Investopedia, https://www.investopedia.com/terms/t/takeorpay.asp

42. Italian Foreign Affairs Ministry, Document in preparation to the *Audizione dell'amb. Massari Alle Commissioni Congiunte Senato e Camera Sullo Stato Dei Negoziati Sui Principali Dossier Europei Di Interesse Dell'Italia*, 02.04.2019, https://italiaue.esteri.it/rapp_ue/it/ambasciata/news/dall-ambasciata/2019/04/audizione-dell-amb-massari-alle.html

43. Legal Service of the Council of the European Union, https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:FULL:EN:PDF

44. Ministry of Energy of Russian Federation, *Energy Strategy of Russia till 2020*, approved by the Decree N1234-r of Government of the Russian Federation, 28 August 2003

45. Ministry of Energy of Russian Federation, *Energy Strategy of Russia till 2030*, approved by the Decree N1715-r of Government of the Russian Federation, 13 November 2009

46. Naftogaz, http://www.naftogaz.com/www/3/nakweben.nsf/0/3A25D65C2606A6C9C22570D800318869

47. Snamretegas.com, *Directive 2009/73/EC of the European Parliament and of the Council*, pianodecennale.snamretegas.it, http://pianodecennale.snamretegas.it/en/legislative-and-regulatory-framework/directive-2009-73-ec-of-the-european-parliament-and-of-the-council.html

48. UNFCCC, https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf

49. UNFCCC, *What is the Paris Agreement?*, unfccc.int, *https*://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement

50. UNFCCC, *What is the United Nations Framework Convention on Climate Change?*, unfccc.int, https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change

Volumes, monographs, miscellaneous

1. Autsvik O. G., *The Energy Union and security of gas supply*, in S. Brown, "Energy Policy", Elsevier, 2016

2. Bergamaschi L., Sartori N., *The Geopolitcs of Climate. A Transatantic Dialogue*, IAI Papers, Rome, June 2018

3. Bosse G., *The EU's Geopolitical vision of a European Energy Space: When "Gulliver" meets "White Elephants" and Verdi's Babylonian Kin*, in "Geopolitics", 16, 3, 2011

4. Boussena S., Locatelli C., *Gazprom and the complexity of the EU gas market: a strategy to define*, in "Post-Comunist Economies" 29:4, Routledge Taylor&Francis online, 2017

5. Boute A., *Off-grid renewable energy in remote Arctic areas: An analysis of the Russian Far East*, in "Renewable and Sustainable Energy Reviews 59", 2016

6. Buchan, D., *Energy Policy: Sharp Challenges and Rising Ambitions*, in H. Wallace, M. A. Pollack, A.R. Young, "Policy-making in the European Union", 7th ed. Oxford: Oxford University Press, 2015

7. Bushuyev V.V., *Russian Energy (selected papers, reports, presentations). In three volumes. Vol. 3, World Energy and Russia (in Russian)*, in "Energya", Moscow, 2014

8. Casier T., *Great Game or Great Confusion: The Geopolitical Understanding of EU-Russia Energy Relations*, in "Geopolitics", 21:4, Routledge Taylor&Francis Online, 2016

9. Cherp A., Jewell J., Goldthau A., *Governing Global Energy: Systems, Transitions, Complexity*, in "Global Policy Volume 2, Central European University, Budapest, 2011

10. Claudìn C., de Pedro N., *The EU and Russia after Crimea: Is Ukraine the Knot?*, in A. Ferrari, "Beyond Ukraine: EU and Russia in Search of a New Relation", ISPI, Milan, 2015

11. Cohen A., *The 'Primakov Doctrine': Russia's Zero-Sum Game With the United States*, Heritage Foundation, December 15, 1997, https://www.heritage.org/report/the-primakov-doctrine-russias-zerosum-game-the-united-states

12. Costescu A., Manitsas E., Szikszai A., *State of implementation of the Third Energy Package in the gas sector*, Publications Office of the European Union,

2018, https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/state-implementation-third-energy-package-gas-sector

13. D.J. Tulloch, I. Diaz-Rainey, I.M. Premachandra, *The impact of regulatory change on EU energy utility returns: the three liberalization packages*, in "Applied Economics", 50:9, Routledge Taylor&Francis Online, 2018

14. De Maio G., Sartori N., *Le relazioni tra Russia e Italia*, in "Osservatorio di Politica Internazionale, IAI, Rome, November 2018

15. Eyl-Mazzega M.-A., Mathieu C., *La Dimension Stratégique de la Transition Énergétique. Défis et réponse pour la France, l'Allemagne et l'Union européenne*, IFRI publications, April 2019

16. Ferrari A., *EU-Russia: What Went Wrong?*, in A. Ferrari, "Beyond Ukraine: EU and Russia in Search of a New Relation", ISPI, Milan, 2015

17. Ferrari A., *Russia and the Eurasian Economic Union. A Failed Project?*, in A. Ferrari, "Putin's Russia: Really Back?", ISPI, Milan, July 2016

18. Florini A., Sovacool B.K., *Who governs energy? The Challenges facing global energy governance*, in "Energy Policy", Elsevier, 2009

19. Floros D., *Tap e South Stream: i due pesi e le due misure dell'Europa*, limesonline.com, 26 April 2014, http://www.limesonline.com/tap-e-south-stream-i-due-pesi-e-le-due-misure-delleuropa/63367

20. Folke C., Carpenter S., Elmqvist T., Gunderson L., Holling C.S., Walker B., *Resilience and Sustainable Development: Building Adaptive Capacity in a World of Transformation*, in "A Journal of the Human Environment", 2002

21. Frappi C., *EU Energy Security Policies and Azerbaijan*, in "The EU Eastern partnership: common framework or wider opportunity? EU-Azerbaijani perspectives on cooperation", Milan, Egea Bocconi, 2013

22. Frappi C., *La Geopolitica dell'Energia della Federazione Russa*, in "Nuova Secondaria", N. 1 2019

23. Frappi C., Verda M., *Sicurezza energetica, gas naturale e rapporti russo-europei*, in "Paper per il XXIV Convegno SISP, Venice, 2010

24. Giuli M., *I destini del gas passano per il triangolo Russia-Usa-Cina*, limesonline.com, 02 January 2018, http://www.limesonline.com/i-destini-del-gas-passano-per-il-triangolo-russia-usa-cina/103951

25. Giuli M., *Quanto e come la Germania dipende dalla Russia*, limesonline.com, 12 July 2018, http://www.limesonline.com/energia-trump-germania-dipende-russia-nord-stream-2-gasdotto/107746

26. Goldthau A., Sitter N., *A liberal Actor in a Realist World? The Commission and the External Dimension of the Single Market for Energy*, in "Journal of European Public Policy, 21, 10, 2014

27. Gromov A.I., *The concept of energy strategy in Russia for the period up 2050*., in "Energeticheskaya politika (in Russian), 2014

28. Hadfield A., *EU-Russia Strategic Energy Culture: Progressive Convergence or Regressive Dilemma?*, in "Geopolitics", Routledge Taylor&Francis Online, 2016

29. Hubert F., Ikonnikova S., *Investment Options And Bargaining Power: The Eurasian Supply Chain for Natural Gas*, in "The Journal of Industrial Economics, Vol. 59, No. 1", March 2011

30. Indeo F., *La Russia dopo la Crimea: la fine di South Stream e la proiezione verso l'Asia*, p. 92, in M. Verda, "Rapporto Energia e geopolitica. Gli attori e le tendenze del prossimo decennio", Milan, 2014

31. Indeo F., *Nabucco addio, per il gas l'Europa sceglie* TAP, limesonline.com, 04 July 2013, http://www.limesonline.com/gas-ue-nabucco-addio-leuropa-sceglie-il-tap/49352

32. Johnson C., Derrick M., *A Splintered Heartland: Russia, Europe, and the Geopolitics of Networked Energy Infrastructure*, in "Geopolitics", Routledge Taylor&Francis Online, 2012

33. Judge A., Maltby T., Sharples J. D., *Challenging Reductionism in Analyses of EU-Russia Energy Relations*, in "Geopolitics", Taylor&Francis Online, 2016

34. Kaveshnikov N., *The Issue of Energy Security in relations between Russia and the European Union*, in "European Security", Routledge Taylor&Francis Online, 2010

35. Keohane R.O., Nye J.S., *Power and Interdependence Revisited,* in "International Organisation", vol. 41, MIT Press, 1987

36. Kustova, I., *EU-Russia Energy Relations, EU energy integration, and Energy Security: The Art and a Roadmap for Future Research*, in "Journal of Contemporary European Research" 11, 3, 2015

37. Kuzemko C., *Ideas, power and change: explaining EU–Russia energy relations,* in "Journal of European Public Policy", 2014

38. Kuznetsova N., Kuznetsova E., *Energy Strategy of the Russian Federation*, in Mediterranean Journal of Social Sciences, vol. 6 n. 5, Rome, September 2015

39. Lanshina T.A., Laitner J.A. “Skip”, Potashnikov V.Y., Barinova V.A., *The slow expansion of renewable energy in Russia: Competitiveness and regulation issues*, in “Energy and Environment: Transition Models and New Policy Challenges in the Post Paris Agreement'”, Energy Policy 120, Elsevier, 2018

40. Limes, *Non solo TAP: gas per l’Italia e per l’Europa*, limesonline.com, 07 April 2017, http://www.limesonline.com/non-solo-tap-gas-per-litalia-e-per-leuropa/98109

41. Lunden L.P., Fjaertoft D., Overland I., Prachakova A., *Gazprom vs. other Russian gas producers: The evolution of the Russian gas sector*, in “Energy Policy”, Elsevier, 2012

42. Mead W. R., *Washington and Brussels: Rethinking Relations with Moscow?*, in A. Ferrari, “Putin’s Russia: Really Back?”, ISPI, Milan, July 2016

43. Mettan G., *Mille anni di Russofobia e propaganda*, limesonline.com, 28 December 2017, http://www.limesonline.com/cartaceo/mille-anni-di-russofobia-e-propaganda

44. Mitrova T., *The New Russian Gas Export Strategy After the Ukraine Crisis*, in M. Hafner, S. Tagliapietra, “The European Gas Markets: Challenges and Opportunities”, Palgrave MacMillan, 2017

45. Nicolazzi M., *Il Complotto del Gasdotto*, limesonline.com, 27 December 2017, http://www.limesonline.com/cartaceo/il-complotto-del-gasdotto, retrieved on 26.08.2019

46. Paolini M., *Nord Stream 2, colpo doppio oppure a salve?*, limesonline.com, 03 February 2016, http://www.limesonline.com/cartaceo/nord-stream-2-colpo-doppio-oppure-a-salve

47. Pirani S., *Reducing European Dependence on Russian Gas: distinguishing natural gas security from geopolitics*, NG 92, the Oxford Institute for Energy Studies (OIES), October 2014

48. Pirani S., *Russian gas transit through Ukraine after 2019: the options*, Oxford Energy Insight 41, the Oxford Institute for Energy studies (OIES), November 2018

49. Pirani S., Stern J., Yafimava K., *The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment*, the Oxford Institute for Energy Studies (OIES), Oxford, February 2009

50. Pirani S., Yafimava K., *Russian Gas Transit Across Ukraine Post-2019: pipeline scenarios, gas flow consequences, and regulatory constraints*, Paper

NG 105, the Oxford Institute for Energy Studies (OIES), Oxford, February 2016

51. Popescu N., *Eurasian Union: the real, the imaginary and the likely*, retrieved from http://www.iss.europa.eu/publications/detail/article/eurasian-union-the-real-the-imaginary-and-the-likely/

52. Proedrou F., *Russian Energy Policy and Structural Power in Europe,* Europe-Asia Studies, 2018

53. Radoman J., *Securitization of Energy as a Prelude to Energy Security Dilemma*, Western Balkans Security Observer – English Edition 4, 2007

54. Ringel M., Knodt M., *The governance of the European Energy Union: Efficiency, effectiveness and acceptance of the Winter Package 2016,* in "Energy Policy 112", Elsevier, 2018

55. Romanova T., *Is Russian Energy Policy Towards the EU Only about Geopolitics? The Case of the Third Liberalisation Package*, in "Geopolitics", 21, 4, 2016

56. Rumer E., *The Primakov (Not Gerasimov) Doctrine in Action*, in "The return of global Russia", Carnegie Endowment for International Peace, June 2019, https://carnegieendowment.org/2019/06/05/primakov-not-gerasimov-doctrine-in-action-pub-79254

57. Rumer E., *The Primakov (Not Gerasimov) Doctrine in Action*, in "The return of global Russia", Carnegie Endowment for International Peace, June 2019

58. Rutland P., *Russia as an Energy Superpower*, in "New Political Economy", Taylor&Francis Online, 2008

59. Samokhvalov V., *Relations in the Russia-Ukraine-EU triangle: 'zero-sum game' or not?,* Occasional Paper n° 68, Institute for Security Studies, September 2007

60. Sartori N., Colantoni L., Bianchi M., Murgia G., *Energy Union Watch – An Evaluation of four years of Energy Union,* in "ECR Prgramme of IAI – Istituto Affari Internazinali", Rome, May 2019

61. Sassi F., *Clima: il futuro d'Europa passa dalla transizione energetica*, ISPI online, May 2019, https://www.ispionline.it/it/pubblicazione/clima-il-futuro-deuropa-passa-dalla-transizione-energetica-23179

62. Sharples J. D. *The Shifting Geopolitics of Russia's Natural Gas: Exports and Their Impact on EU-Russia Gas Relations,* in "Geopolitics", 2016

63. Siddi M., *The EU's Energy Union: a Sustainable Path to Energy Security?*, in "The International Spectator", 2016

64. Siddi M., *The Role of Power in EU–Russia Energy Relations: The Interplay between Markets and Geopolitics*, in "Europe-Asia Studies", Taylor&Francis Online, 2008

65. Silantiev V.V., Nurgalieva N.G., *Russian Federation: Energy Strategy*, in G. Tiess, "Encyclopedia of Mineral and Energy Policy", Springer-Verlag, Berlin Heidelberg, 2015

66. Simonia N., *Foreword*, in Kuzemko, Belyi, Goldthau, Keating "Dynamics of Energy Governance in Europe and Russia", Basingstoke: Palgrave, 2012

67. Soldavini M., *Perché Mosca e Berlino Raddoppiano il Gasdotto Baltico*, limesonline.com, 03 January 2019, http://www.limesonline.com/cartaceo/perche-mosca-e-berlino-raddoppiano-il-gasdotto-baltico

68. Thaler P., *The European Commission and the European Council: Coordinated Agenda setting in European energy policy*, in "Journal of European Integration", Routledge, Taylor&Francis Online, 2016

69. *The role and potential of Power-to-X in 2050*, METIS Studies: Study S8 – Study

70. Trenin D., *Russia's Spheres of Interest, not Influence*, in "The Washington Quarterly", 32, 4, 2009

71. Tulloch D.J., Diaz-Rainey I., Premachandra I.M., *The impact of regulatory change on EU energy utility returns: the three liberalization packages*, in "Applied Economics", 50:9, Routledge Taylor&Francis Online, 2018

72. Ulvestad M., Overland I., *Natural gas and CO2 price variation: impact on the relative cost-efficiency of LNG and pipelines*, in "International Journal of Environmental Studies", vol. 69, Taylor&Francis Online, 2012

73. vel Grajewski P.Z., *La Nuova Europa Longitudinale: il Trimarium visto dalla Polonia*, limesonline.com, 28 December 2017, http://www.limesonline.com/cartaceo/la-nuova-europa-longitudinale-il-trimarium-visto-dalla-polonia

74. Verda M., *Europa-Russia/2: una convivenza energetica*, in A. Ferrari, "Oltre la Crimea, Russia contro Europa?", ISPI, Milan, 2014

75. Yafimava K., *The June 2010 Russian-Belarusian Gas Transit Dispute: a surprise that was to be expected*, oxfordenergy.org, July 2010, https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/NG43-

TheJune2010RussianBelarusianGasTransitDisputeASurpriseThatWasToBeExpected-KatjaYafimava-2010.pdf?v=cd32106bcb6d

76. Yergin D., *Ensuring Energy Security*, in "Foreign Affairs", https://www.foreignaffairs.com/articles/2006-03-01/ensuring-energysecurity

77. Zilberstein O., *Assessment of the energy industry role in structure of the Russian economy and formation of national power safety indicators*, in "Economy and modern management: theory and practice: compendium of reports of 32nd international scientific-practical conference", 2014

Essays and Analysis

1. Aalto P., *The EU–Russian Energy Dialogue Europe's Future Energy Security,* University of Tampere, Ashgate Publishing, New York, 2008

2. Andoura S., *La Solidarité énergétique en Europe : de l'Indépendance à l'Interdépendance*, Institut Jacques Delors, July 2013

3. Baumann F., *Energy Security as Multidimensional Concept*, CAP Policy Analysis, 2008.

4. Belyi A., *Russia's Position on the Energy Charter,* Meeting Summary of 27 April 2012 in HSE University, Moscow. Published on chathamhouse.org

5. Berchicci A., *Sicurezza Energetica e Geopolitica del Gas in Europa*, Università degli Studi di Firenze, 2015

6. Bonafé E., Piebalgs A., *The New International Energy Charter: Sustainable Energy Transition, Investment Dispute Resolution and Market Regulation*, Florence School of Regulation for European University Institute, Florence, 2017

7. Bordonaro F., *La sicurezza energetica nelle relazioni internazionali e le implicazioni di carattere politico-militare. Scenari e prospettive per l'Italia*, Ricerca Cemiss, 2009

8. Boute A., *Greening Europe's energy supply by developing Russia's renewable energy potential*, Russia Renewable Energy Program (The World Bank Group), Russian Federation, 2012

9. Bouzarovski S., Bradshaw M., Wochnik A., *Making territory through infrastructure: The governance of natural gas transit in Europe,* University of Manchester, Manchester, 2015

10. Brown M. B., Gagliano T., Rewey C., *Energy Security*, National Conference of State Legislatures paper, 2003

11. Chyong C. K., Noël P., Reiner D. M., *The Economics of the Nord Stream Pipeline System*, Cambridge Working Paper in Economics 1051, Cambridge, September 2010

12. Cohen A., *The 'Primakov Doctrine': Russia's Zero-Sum Game With the United States*, Heritage Foundation, December 1997

13. Costescu A., Manitsas E., Szikszai A., *Publications Office of the European Union*, 2018

14. Danilin N., *Gazprom as an Energy Weapon. Perception of Threats to Energy Security of the EU*, RSUH/RGGU Bulletin Series "Political Science. History. International Relations", Moscow, 2017

15. Eyl-Mazzega M.-A., *Russia-Ukraine Gas Relations. The Mother of All Crises or a New Start to 2030?*, IFRI publications, April 2019

16. Ferrari A., Tafuro Ambrosetti E., *Russia and China. Anatomy of a Partnership*, ISPI publications, Milan, May 2019

17. Grigorjeva J., M. Siddi, *Nord Stream 2: Opportunities and Dilemmas of a New Gas Supply Route for the EU*, Jacques Delors Institute, Berlin, 2016

18. Henderson J., *Evolution in the Russian Gas Market – The Competition for Customers*, NG 73, The Oxford Institute for Energy Studies (OIES), January 2013

19. Kettell S., *Oil Crisis*, in "Article History", Encyclopaedia Britannica

20. Kovacic Z., Di Felice L. J., *Complexity, uncertainty and ambiguity: Implications for European Union energy governance*, Elsevier, 2019

21. Losz A., Boersma T., Mitrova T., *A Changing Global Gas Order 3.0*, Columbia SIPA, New York, April 2019

22. Lukyanov F., *Nedorazumenie po-evrazijski*, in "A Eurasianist misunderstanding", Gazeta, 28 August 2012, http://www.gazeta.ru/column/lukyanov/4735037.shtml

23. Mastepanov A.M., *ESR-2035. Paper presented at the seventh Japan–Russia Energy and environment dialogue*, Niigata, 30 Oct 2014

24. Mitrova T., Boersma T., *The impact of US LNG on Russian Natural Gas Export Policy*, Columbia SIPA, New York, December 2018

25. Morgenthau H. J., Thompson, K. W., *Politics among nations: The struggle for power and peace*, New York, McGraw-Hill, 1993

26. Øverland I., *EU Climate and Energy Policy: New Challenges for Old Energy Suppliers*, Norwegian Institute of International Affairs, January 2019

27. Øverland I., Kjærnet H., *Russian renewable energy: the potential for international cooperation*, Routledge Taylor&Francis Online, Tromsø, 2009

28. Pastukhova M., Westphal K., *Eurasian Economic Union Integrates Energy Markets – EU Stands Aside*, SWP Comment, 5/2018, Berlin, 2018

29. Pirani S., *After the Gazprom-Naftogaz Arbitration: commerce still entangled in politics*, the Oxford Institute for Energy Studies (OIES), Oxford, March 2018

30. Pirani S., *Russian gas transit through Ukraine after 2019: the options*, the Oxford Institute for Energy Studies (OIES), Oxford, November 2018

31. Pirani S., *Russia-Ukraine transit talks: the risks to gas in Europe*, the Oxford Institute for Energy Studies (OIES), Oxford, May 2019

32. Popescu N., *Eurasian Union: the real, the imaginary and the likely*, retrieved from http://www.iss.europa.eu/publications/detail/article/eurasian-union-the-real-the-imaginary-and-the-likely/

33. Sassi F., *Clima: il futuro d'Europa passa dalla transizione energetica*, ISPI online, May 2019

34. Sharples, J. D., *Ukrainian gas transit: still vital for Russian gas supplies to Europe as other routes reach full capacity*, Oxford Energy Comment, OIES, May 2018

35. Siddi M., *EU-Russia energy relations: from a liberal to a realist paradigm?*, in "Russian Politics 3", Finnish Institute of International Affairs, 2017

36. Siddi M., *Russia's Evolving Gas Relationship with The European Union: Trade Surges Despite Political Crises*, Finnish Institute of International Affairs, September 2018

37. Sidortsov R., *At the Crossroads of Policy Ambitions and Political Reality: Reflections on the Prospects of LNG Development in Russia*, Michigan Technological University, November 2017

38. Smith K. C., *Russia and European Energy Security. Divide and Dominate*, Center for Strategic International Studies, October 2008

39. Stern J., *Security of European Gas Supplies: The Impact of Import Dependence and Liberalization*, Royal Institute of International Affairs, London, 2002

40. Stern J., *The Russian-Ukrainian gas crisis of January 2006*, the Oxford Institute for Energy Studies (OIES), Oxford, January 2006

41. Stern J., Yafimava K., *The EU Competition Investigation of Gazprom's Sales in Central and Eastern Europe: A Comment on Commitments*, the Oxford Institute for Energy Studies (OIES), Oxford, April 2017

42. Stern J., Yafimava K., *The EU Competition Investigation of Gazprom's Sales in Central and Eastern Europe: A Detailed Analysis of the Commitments and the Way Forward*, NG 121, the Oxford Institute for Energy Studies (OIES), Oxford, July 2017

43. Stulberg A., *Out of Gas?: Russia, Ukraine, Europe, and the Changing Geopolitics of Natural Gas, Problems of Post-Communism*, Taylor&Francis Online, 2015

44. Sziklai B., Kóczy L., Csercsik D., *The Geopolitical Impact of Nord Stream 2*, Institute of Economics, Discussion Papers, Centre for Economic and Regional Studies, Hungarian Academy of Sciences, Budapest, 2018

45. Trani V., *Russia: due pesi e due misure. Quando la matematica diventa un'opinione politica*, Italian-Russian Chamber of Commerce, September 2019

46. Trenin D., *A Russia within-Europe: Working towards a New Security Arrangement*, CEPS ESF Working Paper, no. 6, March 2002

47. Verda M., *Energia e Geopolitica: Gli attori e le Tendenze del Prossimo Decennio*, ISPI, 2014

48. Verda M., *Politica estera e sicurezza energetica. L'esperienza europea, il gas naturale e il ruolo della Russia*, Edizioni Epokè, Novi Ligure, 2012, p.18

49. Wendt A., *Social Theory of International Politics*, Cambridge University Press, Cambridge, 1999

50. Yafimava K., *Gas Directive amendment: implications for Nord Stream 2*, Energy Insight: 49, The Oxford Institute for Energy Studies (OIES), Oxford, March 2019

51. Yafimava K., *The Council Legal Service's assessment of the European Commission's negotiating mandate and what it means for Nord Stream 2*, The Oxford Institute for Energy Studies (OIES), October 2017

52. Yafimava K., *The OPAL Exemption Decision: a comment on the CJEU's ruling to reject suspension*, Energy Insight 18, the Oxford Institute for Energy Studies (OIES), September 2017

53. Zimmerman W., *The Russian People and Foreign Policy: Russian Elite and Mass Perspective, 1993-2000*, Princeton University Press, Princeton, 2002

Press items

1. Barteczko A., Koper A., Blenkinsop P., *EU's top court overrules decision on Gazprom's access to Opal pipeline*, euronews.com by Reuters, https://www.euronews.com/2019/09/10/eus-top-court-overrules-decision-on-gazproms-access-to-opal-pipeline

2. BBC.com, *Council of Europe in dispute with Russia over Yukos case*, bbc.com, 20 January 2017, https://www.bbc.com/news/world-europe-38691148)

3. Brzozowski A., *In northwest Siberia, Russia's flagship gas project defies pipeline politics*, euractiv.com, 24 May 2019, https://www.euractiv.com/section/global-europe/news/in-northwest-siberia-russias-flagship-gas-project-defies-pipeline-politics/

4. de Carbonnel A., Sytas A., *Baltic states to decouple power grids from Russia, link to EU by 2025*, Reuters.com, 28 June 2018, https://www.reuters.com/article/us-baltics-energy-eu-russia/baltic-states-to-decouple-power-grids-from-russia-link-to-eu-by-2025-idUSKBN1JO15Q

5. DiSavino S., Rising LNG demand to exert more pull on U.S. natural gas prices, Reuters.com, 20 December 2018, https://www.reuters.com/article/us-usa-lng-prices-analysis/rising-lng-demand-to-exert-more-pull-on-u-s-natural-gas-prices-idUSKCN1OJ0H9

6. Euractiv.com, *Spanish MIDCAT pipeline to replace 10% of Russian gas imports*, Euractiv.com with Reuters, 28 March 2014, https://www.euractiv.com/section/energy/news/spanish-midcat-pipeline-to-replace-10-of-russian-gas-imports/

7. Euractiv.com, *Study for EU questions France-Spain gas pipe plan*, Euractiv.com with Reuters, 18 April 2018, https://www.euractiv.com/section/energy/news/study-for-eu-questions-france-spain-gas-pipe-plan/

8. Euronews.com, *Exclusive: Denmark's Nord Stream 2 route request could cause eight-month delay, cost 660 million euros – operator*, euronews.com by Reuters, 08 August 2019, https://www.euronews.com/2019/08/08/exclusive-denmarks-nord-stream-2-route-request-could-cause-eight-month-delay-cost-660-million-euros-operator

9. European Commission, *Commissioner Arias Cañete to discuss role of gas in clean energy transition*, European Commission website, 22 March 2017, https://ec.europa.eu/energy/en/news/commissioner-arias-ca%C3%B1ete-discuss-role-gas-clean-energy-transition

10. European Commission, *Statement by Vice-President for Energy Union Maroš Šefčovič following the trilateral talks with Russia and Ukraine on the future of gas transit via Ukraine*, European Commission Press Release website, 21 January 2019, https://europa.eu/rapid/press-release_STATEMENT-19-562_en.htm

11. Gazeta.ru, *Запасы России: когда закончатся нефть и газ?*, Gazeta.ru, 26 February 2019, https://www.gazeta.ru/interview/nm/s12198073.shtml

12. Gotev G., *Nord Stream 2, EU drifting towards legal arbitration*, euractiv.com, 19 July 2019, https://www.euractiv.com/section/energy/news/nord-stream-2-eu-heading-towards-legal-arbitration/

13. Gotev G., *Russia plays for time in EU-mediated Ukraine gas transit talks*, Euractiv.com with Reuters and AFP, 22 January 2019, https://www.euractiv.com/section/energy/news/russia-plays-for-time-in-eu-mediated-ukraine-gas-transit-talks/

14. Gotev G., US threatens EU companies with sanctions over Nord Steam 2, Turkish Stream, Euractive.com with AFP.com, 14 January 2019, https://www.euractiv.com/section/global-europe/news/us-threatens-eu-companies-with-sanctions-over-nord-steam-2-turkish-stream/

15. Gotev G., US warns Hungary and neighbours against Turkish Stream, Euractiv.com with Reuters.com, 14 November 2018, https://www.euractiv.com/section/global-europe/news/us-warns-hungary-and-neighbors-against-turkish-stream/

16. Gurzu A., *Nord Stream 2: Who fared best*, politico.eu, 13 February 2019, https://www.politico.eu/article/the-winners-and-losers/

17. Gurzu A., *The Franco-Spanish ghost gas pipeline*, politico.eu, 31 October 2018, https://www.politico.eu/article/the-franco-spanish-ghost-natural-gas-pipeline-midcat-miguel-arias-canete-enagas/

18. Gurzu A., *US ambassador criticizes Commission on Nord Stream 2*, politico.eu, 11 April 2019, https://www.politico.eu/article/us-ambassador-criticizes-commission-on-nord-stream-2/

19. Gustafson T., The Future of Russia as an Energy Superpower, Harvardpress.com, 20 November 2017, https://harvardpress.typepad.com/hup_publicity/2017/11/future-of-russia-as-energy-superpower-thane-gustafson.html

20. Interfax.com, *Gazprom expects to maintain gas transit through Belarus at 39.3 bcm in 2018-2019 – report*, interfax.com, 15 June 2018, http://www.interfax.com/newsinf.asp?pg=5&id=838995

21. Joppen L., *Southern Gas Corridor: the final TAP*, valve-world.net, https://www.valve-world.net/webarticles/2018/09/10/southern-gas-corridor-the-final-tap.html

22. Khashman A., *Interview: Is Russia's embrace of renewable energy a reality or a myth?*, pv-magazine.com, 03 May 2019, https://www.pv-magazine.com/2019/05/03/interview-is-russias-embrace-of-renewable-energy-a-reality-or-a-myth/

23. Kremlin.ru, *News conference following Russian-Bulgarian talks*, kremlin.ru, 30 May 2018, http://www.en.kremlin.ru/events/president/news/57608

24. La Repubblica, *Live Earth, il mondo unito dalla musica in 2 miliardi per la maratona di Gore*, laRepubblica.it, 07 July 2007, https://www.repubblica.it/2007/07/sezioni/spettacoli_e_cultura/live-earth/live-earth-concerti/live-earth-concerti.html

25. Lohmann S., Westphal K., *US-Russia Policy Hits European Energy Supply*, swp-berlin.org, 06 February 2019, https://www.swp-berlin.org/10.18449/2019C06/

26. Lukyanov F., *Nedorazumenie po-evrazijski*, in “A Eurasianist misunderstanding”, Gazeta, 28 August 2012, http://www.gazeta.ru/column/lukyanov/4735037.shtml

27. Salameh M. G., How Putin Is Turning Russia into the World’s Energy Superpower, RCEM.eu, 22 August 2018, https://www.rcem.eu/views-on-energy-news/energy-superpower/

28. Šefčovič M., Cañete M.A., Energy union and climate: Making energy more secure, affordable and sustainable, European Commission website, https://ec.europa.eu/commission/priorities/energy-union-and-climate_en

29. Shagina M., *Moldova´s fragile energy security*, neweasterneurope.eu, 14 March 2018, http://neweasterneurope.eu/2018/03/14/moldovas-energy-security/

30. Simon F., Cañete sees gas as ‘a bridge’ to reach EU’s clean energy goals, Euractive.com, 11 February 2019, https://www.euractiv.com/section/climate-strategy-2050/news/canete-sees-gas-as-a-bridge-to-reach-eus-clean-energy-goals/

31. Stam C., *Russia uses gas as a lever for annexation, says Ukraine official*, euractiv.com, 15 January 2019, https://www.euractiv.com/section/energy/news/russia-uses-energy-as-a-tool-to-further-annexation-says-ukraines-energy-official/

32. Staudenmaier R., *Why is Donald Trump ignoring Germany?*, DW.com, 22 August 2019 https://www.dw.com/en/why-is-donald-trump-ignoring-germany/a-50126743

33. Talus K., Hancher L., *Exploring the limits of EU’s unbelievable behaviour on Nord Stream 2*, euractiv.com, 29 May 2019, https://www.euractiv.com/section/energy/opinion/exploring-the-limits-of-eus-unbelievable-behaviour-on-nord-stream-2/

34. TASS.com, *Gas transit via Ukraine 20% more expensive than supplies through Nord Stream 2 — Gazprom*, tass.com, 16 June 2016, https://tass.com/economy/882294

35. TASS.com, *Lavrov predicts historians may coin new term: the Primakov Doctrine*, tass.com, 28 October 2014, https://tass.com/russia/756973, retrieved on 18.09.2019

36. TASS.com*EU and Ukraine to hold gas talks on January 21 in Brussels*, tass.com, 09 January 2019, https://tass.com/economy/1039235

37. The Economist, *The Nord Stream 2 gas pipeline is a Russian trap*, in "The Economist", February 2019

38. The Guardian, *Think we should be at school? Today's climate strike is the biggest lesson of all*, TheGurdian.com, 15 March 2019, https://www.theguardian.com/commentisfree/2019/mar/15/school-climate-strike-greta-thunberg

39. Triggiano A., *Trimarium, quali potranno essere i possibili sviluppi dopo Bucarest 2018?*, reportdifesa.it, 28 September 2018, http://www.reportdifesa.it/trimarium-quali-potranno-possibili-sviluppi-bucarest-2018/

40. Tusk D., *A United Europe can end Russia's energy stranglehold*, in "Financial Times", 2014

41. Ukranews.com, *Gazprom's Debt To Naftogaz After Two Stockholm Arbitration Proceedings Up 10% To USD 2.8 Billion*, ukranews.com, 24 September 2019, https://ukranews.com/en/news/655711-gazprom-s-debt-to-naftogaz-after-two-stockholm-arbitration-proceedings-up-10-to-usd-2-8-billion

42. Williams M., Heavens L., Sanctions bill on Nord Stream 2 coming soon: U.S. energy secretary, Reuters.com, 21 May 2019, https://www.reuters.com/article/us-usa-ukraine-perry/sanctions-bill-on-nord-stream-2-coming-soon-u-s-energy-secretary-idUSKCN1SR0SG

43. Withnall A., *Putin's gas threat: What happens if Russia cuts the gas to Europe?*, Independent.co.uk, 27 February 2015, https://www.independent.co.uk/news/world/europe/putins-gas-threat-what-happens-if-russia-cuts-the-gas-to-europe-10074294.html