

# **EXPLAINING THE CONTROVERSY IN THE EUROPEAN ENERGY POLICY TOWARDS RUSSIA**

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Submitted to  
**Central European University**  
Department of International Relations and European Studies

*In partial fulfillment of the requirements for the degree of Master of International Relations  
and European Studies*

Supervisor:  
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*Word Count: 14,402*

**Budapest, Hungary  
2007**

## **Abstract**

Energy is at the heart of European economic activity. Without the supply of energy, the European economy will die. As the European Union does not have enough natural resources to satisfy its energy consumption, the growing demand is met by imports. The role of Russia in this respect is significant, since this country is the world's largest exporter of natural gas and the second largest exporter of oil. Moreover, Russia is the biggest energy supplier for the EU.

The main purpose of this thesis is to explain the European energy policy towards the Russian Federation. Such an explanation is needed because this policy seems to be controversial. On the one hand, after the 2006 energy dispute between Ukraine and Russia, the European Union issued documents in which it raised doubts about the reliability of Russia as an energy supplier and thus called for diversifying its energy sources. On the other hand, in 2006 and 2007 Brussels backed up two strategic pipeline projects, which will increase the dependence on Russian gas and oil products. Moreover, several EU countries have signed new long-term contracts for gas supply with Moscow.

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## Introduction

Energy is at the heart of European economic activity. Without the supply of energy, the European economy will die. As the European Union does not have enough natural resources to satisfy its energy consumption, the growing demand is met by imports. The role of Russia in this respect is significant, since this country is the world's largest exporter of natural gas and the second largest exporter of oil. Moreover, Russia is the biggest energy supplier for the EU.

The energy trade between Brussels and Moscow has been growing since the 1970s, when the Arab oil embargo served as “a wake-up call” for Europe, which realized that in order to prevent any future supply disruptions, it has to diversify its energy sources. So the Soviet Union at that time was seen by the European countries as an alternative of the OPEC<sup>1</sup>.

At present, Europe faces a similar challenge. Its growing dependence on Russian energy imports raises questions about how reliable a supplier the Russian Federation is. Until recently, the EU countries were confident about their energy partnership with Moscow. After the 2006 Russia-Ukraine energy dispute, however, this confidence weakened. In several documents published after the 2006 dispute, the EU Commission has brought the attention of the member states to the need for Europe to decrease its dependence on energy imports and to diversify its energy supplies. So one could assume that, similarly to the oil embargo of the 1970s, the Russia-Ukraine gas dispute served as “a wake up call” for Europe which decided to focus on decreasing its dependence on Russian energy imports. However, reality shows that the Union is not doing much in this direction.

In fact, Brussels is backing up projects with the Russian Federation which will actually increase rather than decrease the dependence on Russian hydrocarbons. In addition,

several EU countries have strengthened their energy partnership with Moscow, signing long-term contracts for energy supply. So, examining the European energy policy towards Russia, the following question arises: *Why does the EU continue to increase its energy dependence on Russia, although it calls for reducing this dependence?* This question has not been extensively discussed in the literature, and I believe that it is crucial for understanding the factors that define the European policy in this very important area.

In the main part of the present thesis, I argue that the controversy in the European energy policy towards Russia is due to the fact that there are two camps within the Union which try to influence the EU-Russia energy relations. The first one consists of mainly new member states like Poland and the Baltic countries. Analyzing how this camp sees the EU-Russia energy dialogue, I am focusing on the specific position of Poland, as this country has the actual capacity to make its voice heard within the European Union.

The Polish group believes that further engagement with Russia, especially in the energy field, is dangerous because the Kremlin is not to be trusted. This camp maintains the idea that the EU should use its power resources in order to provoke reforms in the Federation in line with the European values of democracy, human rights and the rule of law. In particular, the Union should increase its flexibility in the energy field and focus on diversifying its energy sources. This would reduce its dependence on Russian energy supplies and would provide mechanisms for a more assertive policy towards Moscow.

The second camp which tries to influence the EU-Russia energy dialogue is composed of old member states like Germany, France, the United Kingdom and Italy. Here, I concentrate on the study of one country – Germany, which is known as the main advocate of increasing interdependence with Moscow. It is thought in Berlin that common projects in the energy field are crucial for strengthening the EU's partnership with the Federation. Moreover,

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<sup>1</sup> Vince Morelli, "The European Union's Energy Security Challenges", CRS Report for Congress, September 2006, [fas.org/sgp/crs/row/RL33636.pdf](https://fas.org/sgp/crs/row/RL33636.pdf), 3.

Germany and the other representatives of the “old member states camp” believe that building interdependence rather than alienation may influence domestic reforms in the Union’s largest neighbor.

Both Poland and Germany agree that a more democratic Russia with an open market economy is a preferable partner. Therefore, both of them stress the need for the EU to use energy relations in order to bring Russia closer to the European family of values. However, Warsaw and Berlin differ in their perceptions of how this may be achieved. This difference is explained in the thesis through the theoretical framework of interdependence as formulated by Robert Keohane and Joseph Nye.

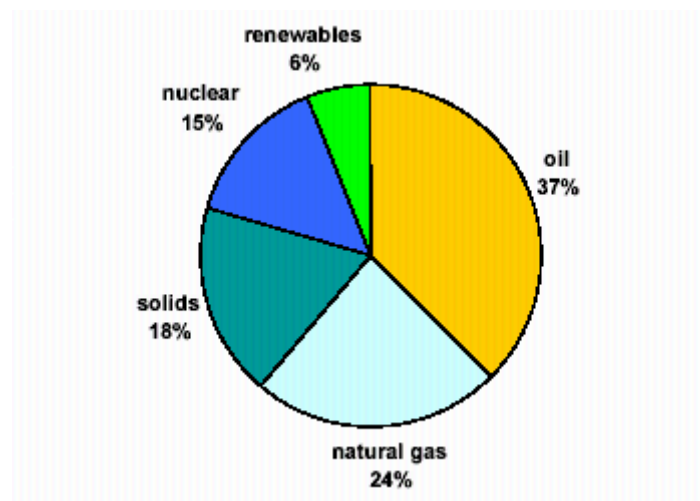
To sum up, the main purpose of the thesis is to explain the existing controversy in the European energy policy towards Russia. I believe that my approach to the problem will contribute to the better understanding of the European energy policy in general and the EU-Russia energy dialogue, in particular. Having in mind that energy is at the heart of the relations between Brussels and Moscow, the current research will also add to the broader study of the EU-Russia strategic partnership.

# Chapter 1 – The Controversy in the European Energy Policy towards Russia

## 1.1. Europe's growing energy dependence

Energy is at the heart of the economic development of the European Union. According to data presented in the Annex to the Commission's Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", in 2004 the energy consumption of the European Union<sup>2</sup> was estimated at 1745 million tonnes of oil equivalent (mtoe)<sup>3</sup>. As shown in Figure 1, oil and natural gas were the most important fuels, accounting for 37 and 24 percent of the total consumption, respectively.

*Figure 1. Total energy consumption of the EU by fuel in 2004.*



**Source:** Commission Staff Working Document: Annex to the Green Paper, 8.

Solid fuels<sup>4</sup> and nuclear energy came third and fourth, with 18 and 15 percent, respectively. The share of nuclear energy has been growing since the oil crisis of the 1970s, when the EU focused on the need to diversify its sources of energy. However, in recent years

<sup>2</sup> European Union of 25 member states, without Bulgaria and Romania.

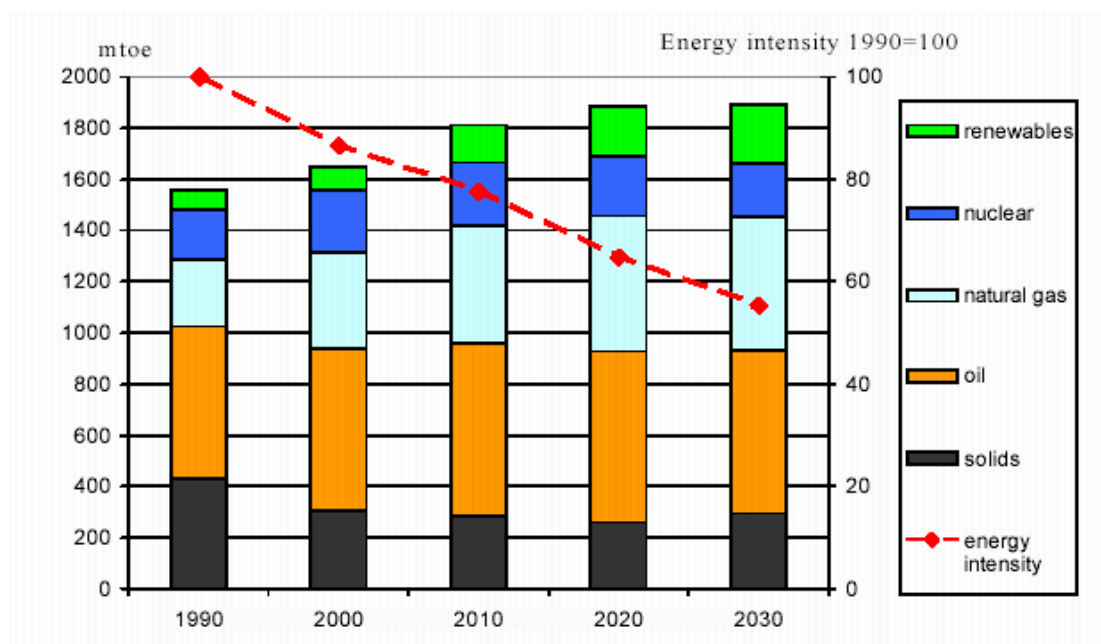
<sup>3</sup> Commission Staff Working Document: Annex to the Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", 2006, [http://ec.europa.eu/energy/green-paper-energy/doc/2006\\_03\\_08\\_gp\\_working\\_document\\_en.pdf](http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_working_document_en.pdf), 7.

<sup>4</sup> Solid fuels include coal, lignite and peat.

due to safety concerns, investment in new nuclear plants has considerably decreased<sup>5</sup>. Although in 2004 the share of renewables was the smallest one, it is currently growing. Renewables are preferred because they are more environment-friendly and offer a possibility for the EU to decrease its dependence on hydrocarbons.

Figure 2 shows the EU-25's current as well as the projected energy consumption by fuel. The growing consumption is expected to be met by natural gas and renewables, which will increase their market shares. However, oil will continue to be the most important source of energy.

**Figure 2. Total Energy Consumption by Fuel and Energy Intensity<sup>6</sup>**



Source: Annex to the 2006 Green Paper, 10.

According to the data from 2004, half of the energy consumption of the EU was produced within the Union, while the other half was imported<sup>7</sup>. As the Annex to the 2006 Green Paper shows, import dependence was particularly high for oil (81 percent of the total

<sup>5</sup> Annex to the 2006 Green Paper.

<sup>6</sup> Energy intensity is the ratio between energy demand and GDP; a decline of this indicator means therefore an improvement, which reflects better energy efficiency as well as structural change towards more services and less energy-intensive industries, (Annex to the 2006 Green Paper, 6)

<sup>7</sup> Annex to the 2006 Green Paper, 9.



oil consumption) and natural gas (54 percent). In geographic terms, 27 percent of the total oil consumption was imported from Russia, 19 percent from the Middle East, 16 percent from Norway and 12 percent from Africa. As for natural gas, 25 percent of the total consumption came from Russia, 15 percent from Norway and 14 percent from North Africa.

Analyzing the pace of the economic growth and the limited energy resources in Europe<sup>8</sup>, experts predict that by 2030 European dependence on energy imports will continue to grow, reaching 70 percent<sup>9</sup>. In the case of oil, dependence is expected to reach 94 percent and for natural gas 84 percent<sup>10</sup>. As Gawdat Bahgat points out, these predictions show that EU energy security is strongly related to the security of supply from the global hydrocarbon market<sup>11</sup>. Recognizing the growing interdependence between the EU and major hydrocarbon-producing regions, the European Commission in its 2006 Green Paper states that the security of supply should include building energy partnerships with these regions<sup>12</sup>. The role of Russia in this respect is significant, as Russia is the world's largest exporter of natural gas and second largest exporter of oil<sup>13</sup>.

## 1.2. The Energy Dialogue with Russia

The role of Russia as an energy supplier for the EU has been growing since the energy crisis of the 1970s. The Arab oil embargo made it clear for the European countries that, first, there is a need for more cooperation on energy issues, and second, Europe has to work on

<sup>8</sup> The EU member states possess 0.6 percent of the world's proven oil reserves and 2.0 percent of proven natural gas reserves. Energy Information Administration, Country Analysis Briefs: European Union, January 2006, [http://www.eia.doe.gov/emeu/cabs/European\\_Union/Energy.html](http://www.eia.doe.gov/emeu/cabs/European_Union/Energy.html)

<sup>9</sup> Green Paper "Towards a European Strategy for the Security of Energy Supply", (Luxembourg: Office for Official Publications of the European Communities, 2001), 2.

<sup>10</sup> Annex to the 2006 Green Paper, 11.

<sup>11</sup> Gawdat Bahgat, "Europe's energy security: challenges and opportunities", *International Affairs* 82: 5 (2006), 964.

<sup>12</sup> Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", COM 2006, 105 final, 15.

diversifying its energy sources in order to prevent any future supply disruptions<sup>14</sup>. So, as Vince Morelli points out, during the post-embargo period, the European countries looked at Russia as an alternative supplier of energy<sup>15</sup>. After the end of the Cold War, the removal of the ideological barriers created a possibility for the EU-Russia energy relations to be further developed. These relations were formalized in 2000 at the Sixth EU-Russia Summit, which gave a start to the EU-Russia Energy Dialogue. As noted in the Joint Declaration adopted in the Summit, the energy dialogue provides

an opportunity to raise all the questions of common interest relating to the sector, including the introduction of cooperation on energy saving, rationalization of production and transport infrastructures, European investment possibilities, and relations between producer and consumer countries<sup>16</sup>.

According to Dov Lynch, the EU-Russia Energy Dialogue is based on the mutual recognition of three important facts<sup>17</sup>. First, trade in energy is vital both for the Union and the Federation. As it was shown, in 2004 imports from Russia satisfied 27 percent of the total oil and 25 percent of the total gas consumption of the EU, representing 30 and 50 percent of the total oil and gas imports, respectively. Viewed from Moscow, the European market has great significance as well. In 2003, 58 percent of the total Russian oil and 65 percent of the total gas exports were to the European Union<sup>18</sup>

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<sup>13</sup> Energy Information Administration, Country Analysis Briefs: Russia, April 2007, <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>

<sup>14</sup> Vince Morelli, "The European Union's Energy Security Challenges", CRS Report for Congress, September 2006, [fas.org/srgp/crs/row/RL33636.pdf](http://fas.org/srgp/crs/row/RL33636.pdf), 3.

<sup>15</sup> Ibid.

<sup>16</sup> Joint Declaration, EU-Russia Summit, Paris, 30.10.2000, [http://ec.europa.eu/comm/external\\_relations/russia/summit\\_30\\_10\\_00/statement\\_en.htm](http://ec.europa.eu/comm/external_relations/russia/summit_30_10_00/statement_en.htm)

<sup>17</sup> Dov Lynch, "Russia faces Europe", Chaillot Papers N60, (The European Union Institute for Security Studies: May 2003), 63.

<sup>18</sup> EU summaries of legislation, "EU/Russia energy partnership", <http://europa.eu/scadplus/leg/en/lvb/l27055.htm>

Second, European demand for energy will increase in the future and third, to be able to satisfy the EU energy needs, the Russian energy sector will need reform and investment. Otherwise stated, the EU-Russia Energy Dialogue is based on “a simple bargain – Europe’s investment in return to Russia’s oil and gas”<sup>19</sup>.

The results of the energy dialogue between the EU and the Russian Federation have been mixed so far. On the one hand, the dialogue provided the possibility for officials from both sides to meet regularly and to discuss issues of common interests. In 2002, a Technology Center was established to promote new energy technologies and facilitate the attraction of investment in the energy sector in Russia<sup>20</sup>. Furthermore, in 2005 during the UK Presidency of the EU, which sought to prioritize the energy relations with Russia, a Permanent Partnership Council (PPC) was held, which further structured the energy dialogue. In particular, the PPC strengthened the cooperation between the EU and Russian business and political authorities, which are currently represented in four thematic groups: energy efficiency, trade, infrastructure and investment<sup>21</sup>.

On the other hand, the energy relations between the Union and the Federation have been impeded by the reluctance of Moscow to ratify the Energy Charter Treaty<sup>22</sup>. The Treaty was signed in 1994 and entered in force in April 1998. It was a result of an international effort to build a legal foundation for energy security, based on the principles of open, competitive markets and sustainable development<sup>23</sup>. Ratification by the Kremlin of the Treaty by and especially of its Transit Protocol, Kremlin would guarantee open competition within the Russian energy sector, which is currently dominated by state-owned companies. This

<sup>19</sup> Gawdat Bahgat, “Europe’s energy security: challenges and opportunities”, 969.

<sup>20</sup> Technology Center website, [www.technologycentre.org](http://www.technologycentre.org)

<sup>21</sup> Joint EU Presidency and European Commission Press release on the EU-Russia Permanent Partnership Council on energy, (London: October 2005), [http://ec.europa.eu/external\\_relations/russia/summit\\_10\\_05/ip05\\_1218.htm](http://ec.europa.eu/external_relations/russia/summit_10_05/ip05_1218.htm)

<sup>22</sup> Vince Morelli, “The European Union’s Energy Security Challenges”, 11.

<sup>23</sup> Energy Charter Secretariat, [www.encharter.org](http://www.encharter.org)

means that foreign investors would be granted rights to own Russia's gas deposits as well as export pipelines.

Despite the existing tension related to the Energy Charter Treaty, energy trade with Russia has been seen by Brussels as stable and reliable. In its Green Paper "Towards a European Strategy for the Security of Energy Supply", approved in 2000, the European Commission defines the Russian Federation as a reliable supplier, which despite some difficulties has so far fulfilled its supply obligations under its long-term contracts with the EU<sup>24</sup>. In particular, the Commission states that "the continuity of supplies from the former Soviet Union, and then Russia, over the last 25 years is testimony to an exemplary stability" and that "a long term strategy in the framework of a partnership with Russia would be an important step to the benefit of supply security"<sup>25</sup>. Furthermore, Russia is defined as "a cooperative partner" who "has never suggested curtailing its energy supplies to the Union, in particular to the EU-15"<sup>26</sup>.

In the Communication of the European Commission to the Council and the European Parliament estimating the development of the EU-Russia Energy Dialogue between 2000 and 2004, the Commission defines Russia not only as the most important energy partner of the Union but also as "the most promising [...] alternative to the Middle East as energy supplier to Europe"<sup>27</sup>.

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<sup>24</sup> Green Paper "Towards a European Strategy for the Security of Energy Supply", 23.

<sup>25</sup> Ibid, 40.

<sup>26</sup> Interviews with EU officials committed in June and July 2005, quoted in Dov Lynch, "Russia faces Europe", 10.

<sup>27</sup> "The energy dialogue between the EU and the Russian Federation between 2000 and 2004", Communication from the Commission to the Council and the European Parliament, (Brussels: 13.12.2004), 2.

### 1.3. The Russia-Ukraine energy dispute of January 2006: Is Russia a reliable source of energy?

As it was discussed in the previous part of the thesis, till 2006 Russia was seen from Brussels as a reliable source of energy. The Russia-Ukraine energy dispute from January 2006 over the price of natural gas sold to Ukraine, however, raised concerns in Europe about the risks of dependence on a few energy suppliers. Ukraine plays a significant role for the EU energy security, as it connects Russia with the European energy market. Data show that in 2005 roughly 29 percent of OECD Europe's natural gas imports and 78 percent of Russia's natural gas exports transited Ukraine en route to Europe<sup>28</sup>.

The Russia-Ukraine gas dispute dates back to 2005, when Gazprom announced that it would introduce market rules in its gas trade with former Soviet republics. Practically, this meant that the buyers would purchase gas at much higher prices. As Gawdat Bahgat points out, the new policy of Gazprom was largely seen as “a punishment” for the Ukrainian President Viktor Yushchenko, who had led the so-called Orange Revolution and pursued a pro-western foreign policy<sup>29</sup>. In response to Kiev’s refusal to accept the higher prices, Gazprom reduced the supplies to Ukraine. This had direct consequences for several European countries. France, Italy, Austria, Hungary, Poland and Slovakia reported a fall in supplies of between 25 and 40 percent<sup>30</sup>. Although the crisis was resolved in a short time (by January 4 Russian gas deliveries to Europe were back to normal), it raised doubts in Brussels about the reliability of Russia as major energy supplier and particularly, about the existing tendency in Moscow energy to be used as “a political weapon”<sup>31</sup>.

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<sup>28</sup> Energy Information Administration, Country Analysis Brief: Ukraine, <http://www.eia.doe.gov/emeu/cabs/Ukraine/Background.html>

<sup>29</sup> Gawdat Bahgat, “Europe’s energy security: challenges and opportunities”, 961.

<sup>30</sup> “Russia Vows to End Gas Shortage”, January 2, 2006, *BBC News Website*, <http://news.bbc.co.uk/1/hi/world/europe/4575726.stm>

<sup>31</sup> Eneko Landaburu, Keynote speech “Europe’s External Energy Relations: present and future challenges”, Public hearing “Towards a Common European Foreign Policy on Energy”, European Parliament Committee on Foreign Affairs, (Brussels: February 2007), 4.

In light of the events in Ukraine, the European Commission published the Green Paper "A European Strategy for Sustainable Competitive and Secure Energy," which indicated two main energy challenges for the Union: the growing dependence on energy imports and the fact that the world energy reserves are concentrated in a few countries<sup>32</sup>. In order to tackle these challenges, the Commission calls for the establishment of a coherent external energy policy, which would allow member states to respond to common external problems<sup>33</sup>. Furthermore, in order to facilitate the creation of a common external energy policy, the Commission underlines the need for policy on securing and diversifying energy supplies, and building energy partnership with producers and transit countries. The policy on diversifying energy supplies should include formulating clear priorities for the upgrading and construction of new infrastructure necessary for the security of EU energy supplies<sup>34</sup>. The construction of new gas pipelines linking the Caspian Sea, North Africa and the Middle East is considered to be very important, as according to the Commission, the main problem on the gas market is the lack of competition between the suppliers<sup>35</sup>.

Discussing the importance of enhancing the energy partnership with producers and transit countries, the Commission highlights the role of Russia. In particular, the Green Paper stresses that the energy dialogue based on transparency and reciprocal access to energy markets and infrastructure<sup>36</sup> should be included in the new Partnership and Cooperation Agreement (PCA) with the Federation. In addition, efforts should be intensified in the G8 to secure rapid ratification of the Energy Charter Treaty by Russia.

In June 2006, several EU countries, together with the European Commissioner for energy Andris Piebalgs, agreed to speed up the proposals formulated in the Commission's

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<sup>32</sup> See Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", COM 2006, 105 final.

<sup>33</sup> Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", 14.

<sup>34</sup> Ibid, 15.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

2006 Green Paper on a policy for securing and diversifying energy supplies. In particular, Piebalgs and the Ministers of Energy of Austria, Hungary, Romania, Bulgaria and Turkey signed a statement for prioritizing the project for building the Nabucco gas pipeline<sup>37</sup>, which will transport gas from the Caspian region to Europe<sup>38</sup>. The importance of the Caspian region as an alternative source of energy is confirmed in two other EU documents adopted in 2007.

In the Presidency Conclusions of March 2007, the Council calls for enhancing the security of supply mainly by diversifying the energy sources and transport routes<sup>39</sup>. Furthermore, it calls for intensifying the relationships with Central Asia, the Caspian and the Black Sea regions. A month later, the Commission proposed the Black Sea Synergy – an initiative which aims at prioritizing the cooperation with the Black and Caspian Sea regions<sup>40</sup>. In particular, the Commission points out the significance of the construction of new energy projects and indicates as a positive initiative the project for building new trans-Caspian trans-Black Sea energy corridor, which will provide options for additional gas exports from Central Asia to the EU<sup>41</sup>.

To sum up, the Russia-Ukraine gas dispute served as “a wake-up call” for the EU. According to Jonathan Stern, the main lesson that the EU learnt from this crisis was that “it is not wise for any country or region to become overly dependent on a single supplier or a single supply route”<sup>42</sup>. As a result of the 2006 crisis, the EU put the need for diversifying its energy suppliers high on the agenda. The 2007 energy dispute between Russia and Belarus<sup>43</sup>

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<sup>37</sup> Nabucco Pipeline will be connected near Erzurum (Turkey) with the Tabriz-Erzurum pipeline, and with the South Caucasus Pipeline, connecting Nabucco Pipeline with the planned Trans-Caspian Gas Pipeline.

<sup>38</sup> Ministerial Statement on the Nabucco Gas Pipeline Project, (Vienna, 26 June 2006), [http://www.euractiv.com/29/images/Joint\\_Statement\\_Nabucco\\_draft\\_final\\_23%206%202006\\_b3\\_mit%20Name\\_n\\_tcm29-156382.doc](http://www.euractiv.com/29/images/Joint_Statement_Nabucco_draft_final_23%206%202006_b3_mit%20Name_n_tcm29-156382.doc)

<sup>39</sup> Energy Policy for Europe, 18.

<sup>40</sup> “Black Sea Synergy – A New Regional Cooperation Initiative”, Communication from the Commission to the Council and the European Parliament, (Brussels: 11.04.2007).

<sup>41</sup> Ibid, 15.

<sup>42</sup> Jonathan Stern, “The Russian-Ukrainian Gas Crisis of January 2006”, (Oxford Institute for Energy Studies: January 2006), 13.

<sup>43</sup> As in the case of Russia-Ukraine dispute, the Russia-Belarus energy dispute started when Gazprom demanded an increase in gas prices paid by Belarus. It escalated on January 8, 2007, when the Russian state-owned pipeline company Transneft stopped pumping oil into the Druzhba pipeline which runs through Belarus.

as well as the current tension in Russia-Estonia relations<sup>44</sup> raised even more the European fears that Russia is using its energy resources as a political weapon. In January 2007, the President of the EU Commission Jose Manuel Barroso and German Chancellor Angela Merkel, whose country currently holds the EU Council Presidency, criticized the Russian actions and said that they disturb the cooperation between the Union and the Federation<sup>45</sup>. Despite the criticism against Russian policy towards its neighbors and the Commission's call for diversifying energy sources, Brussels backed up initiatives which will increase rather than decrease the importance of Russia as major energy supplier for the EU. This poses questions about the coherency of the European energy policy towards the Federation.

#### **1.4. The controversy in the European Energy Policy towards Russia**

In the current thesis, the European energy policy towards the Russian Federation is defined as controversial. On the one hand, after the energy dispute between Ukraine and Russia, the European Union issued documents in which it raised doubts about the reliability of Russia as an energy supplier and thus called for diversifying its energy sources. On the other hand, in 2006 and 2007 Brussels backed up two strategic pipeline projects, which will increase the dependence on Russian gas and oil products. Moreover, several EU countries have signed new long-term contracts for gas supply with Moscow.

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<sup>44</sup> The tension between Estonia and Russia rose over the decision of the government in Tallinn to remove the bronze statue of a Red Army soldier from the center of the capital to a military cemetery. Rioting caused by the decision has left one person dead and a dozen injured. To Russians, the statue is seen as a sacred memorial to Red Army soldiers who defeated Nazism. Estonians view it as a reminder of Soviet occupation. Following the events in Tallinn, Russia cut off deliveries of oil products to Estonia. Although, Moscow said that this move was due to the railway maintenance, the halted oil deliveries raised concerns in Europe.

<sup>45</sup> "Merkel, Barroso say 'no acceptable' to halt energy deliveries without consultations", *International Herald Tribune*, January 9, 2007, <http://www.iht.com/articles/ap/2007/01/09/europe/EU-GEN-Germany-EU-Energy.php>



The first project, Nord Stream, launched in 1997, is about constructing a gas pipeline from Russia to Germany under the Baltic Sea<sup>46</sup>. The project is planned to be implemented by the Nord Stream Company based in Switzerland, which was established following an agreement between Gazprom and the German-owned BASF and E.ON in September 2005. Gazprom owns 51 percent of North Trans Gas shares, and the German partners BASF and E.ON each own an additional 24.5 percent.

When completed, the Nord Stream will provide gas from Russia directly to Western Europe. This means that the energy supply through this pipeline will not depend on transit countries, or as Ariel Cohen points out, the European countries will be “less concerned about whether the relationship between Russia and its former allies might disrupt Europe’s main source of gas”<sup>47</sup>. Therefore, the project is in line with the Commission’s call for diversifying the energy routes and thus was declared to be part of Trans-European Network-Energy Guidelines. However, it goes against the EU’s strategy to diversify its sources of energy in order to increase its security of supply.

According to the initial plans, the 1,200 kilometer pipeline would pump 27.5 billion cubic meters of natural gas per year from Vyborg, Russia to Greifswald in northern Germany. In a second phase, a parallel pipeline would double this capacity<sup>48</sup>. Most of the natural gas to be supplied by Gazprom via Nord Stream will come from the Yuzhno-Russkoye oil and gas field, which is one of the largest fields in the world. Nord Stream will later be fed with additional gas supplies from fields in Yamal Peninsula, Ob-Taz bay and Shtokmanovskoye<sup>49</sup>. So, the pipeline will increase the Russian capacity to export gas for Europe. This means that the Nord Stream will increase the European dependence on Russian energy imports.

<sup>46</sup> See Nord Stream project official website, [www.nord-stream.com](http://www.nord-stream.com)

<sup>47</sup> Ariel Cohen, “The North European Gas Pipeline Threatens Europe’s Energy Security”, *The Heritage Foundation*, October 2006, <http://www.heritage.org/Research/Europe/bg1980.cfm>

<sup>48</sup> [www.nord-stream.com](http://www.nord-stream.com)

<sup>49</sup> Shtokmanovskoye is one of the world’s largest natural gas fields. It lies in the Russian portion of the Barents Sea. According to data of the Energy Information Agency, the field contains reserves of 19 billion barrels of oil

The second project is the Burgas-Alexandroupolis oil pipeline, which will transport Russian and Caspian oil from the Bulgarian Black Sea port of Burgas to the Greek Aegean port of Alexandroupolis. The project was proposed in 1993 but the final agreement was signed in 2007 by the involved ministers of Russia, Bulgaria and Greece. In March 2007 the Commissioner Piebalgs welcomed the finalization of the agreement, stressing the importance of the Burgas-Alexandroupolis pipeline for the European energy supply<sup>50</sup>.

The pipeline is expected to start operating with a transport capacity of 15-23 million tons of oil per year, and then this capacity will be increased to 35 million<sup>51</sup>. It will allow Russia to increase its oil export capacity to Europe. At present, a large portion of Russia's oil is shipped by tankers through the Bosphorus Straits. However, shipments are currently limited by Turkey for environmental and safety reasons<sup>52</sup>. Bypassing the Straits, the Burgas-Alexandroupolis pipeline will provide Russia the possibility to raise oil exports to Europe. At the same time, it will increase European energy dependence on the Federation.

Apart from raising the Russian supply capacity by realizing two strategic pipeline projects, several EU countries strengthened their energy partnership with Moscow. In 2006, Gazprom and the major French gas distributor Gaz de France signed a long-term natural gas supply contract to expire in 2030<sup>53</sup>. The Wintershall company in Germany also guaranteed its imports of gas from the Federation in a contract that will start in 2010 and last until 2030<sup>54</sup>. Last but not least, in November 2006, the Italian gas company ENI extended its current long-term contract with the Russian state-owned giant till 2035<sup>55</sup>.

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equivalent. Natural gas reserves were discovered in 1988, but due to the extreme arctic conditions the field has not been developed. Currently, Gazprom is giving priority to the project.

<sup>50</sup> EU press releases, IP/07/335, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/335>

<sup>51</sup> Transneft website. Burgas-Alexandroupolis pipeline project, <http://www.transneft.ru/Projects/Default.asp?LANG=EN&ID=229>

<sup>52</sup> Bernard Gelb, "Russian Oil and Gas Challenges", CRS report for Congress, January 3, 2006, 4.

<sup>53</sup> "Russian company to sell natural gas directly to French consumers", International Herald Tribune, December 19, 2006, <http://www.iht.com/articles/2006/12/19/business/gazprom.php>

<sup>54</sup> "News Analysis: Like it or not, many countries are locked into Gazprom", International Herald Tribune, January 5, 2006, <http://www.iht.com/articles/2006/01/05/business/assess.php>

<sup>55</sup> ENI official website, [www.eni.it](http://www.eni.it)

The question is: Why does the EU continue to increase its energy dependence on Russia, although it calls for reducing this dependence? The following part of the thesis provides a detailed answer to this question.

## Chapter 2 – Explaining the controversy

The controversy in the European energy policy towards Russia is due to the fact that there are two camps within the Union which try to influence the EU-Russia energy relations. The first one consists of mainly new member states like Poland and the Baltic countries. Analyzing how this camp sees the EU-Russia energy dialogue, I will concentrate on the specific position of Poland as the country has the actual capacity to make its voice heard within the European Union<sup>56</sup>.

The Polish group believes that further engagement with Russia especially in the energy field is dangerous because the Kremlin is not to be trusted. This camp maintains the idea that the EU should use its power resources in order to provoke reforms in the Federation. In particular, the Union should increase its flexibility in the energy field and focus on diversifying its energy sources. This would reduce its dependence on Russian energy supplies and would provide mechanisms for more assertive policy towards Moscow.

The second camp, which tries to influence the EU-Russia energy dialogue, is composed of old member states like Germany, France, the United Kingdom and Italy. Here, I will again focus the study on one of the countries – Germany, which is known as the main advocate of increasing interdependence with Moscow. It is thought in Berlin that common projects in the energy field are crucial for strengthening the partnership with the Federation. Moreover, Germany and the other representatives of the “old member states camp” believe that building interdependence rather than alienation may induce domestic reforms in the Union’s largest neighbor.

The two camps have different points of departure. The first one bases its approach on the idea of asymmetrical vulnerability as a source of power, while the second develops its

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<sup>56</sup> Poland is among the biggest EU members with 27 votes within the Council (Germany, France, the United Kingdom and Italy have 29 each) and 54 members of the European parliament.

policy on the concept of mutual vulnerability. Yet, both the Polish and the German positions are shaped by the European strategy on Russia, which aims at influencing reforms in the Federation in line with the European values of democracy, human rights and the rule of law. So, before discussing in more details how the two camps try to influence the EU-Russia energy dialogue, I will present the European strategic approach towards the Russian Federation.

## **2.1. The European strategic approach towards Russia**

Russia is currently one of the most important partners of the European Union and its largest neighbor. It is not surprising then that in the core EU documents dealing with Russia, the Union stresses the need for building a strategic partnership with the Federation. Viewed from Brussels, a strategic partnership means mainly securitizing its direct neighborhood by promoting reforms in line with the fundamental European values of democracy, human rights and the rule of law.

The first document that reflected the EU perceptions of strategic relations with Russia was the Partnership and Cooperation Agreement signed in 1994 but in force from 1997. It established an institutional framework for regular consultations between the European Union and Russia in a wide range of policy areas and at all levels. Moreover, it envisaged the Union to provide economic and technical assistance to the government in Moscow in order to conduct domestic reforms.

In 1995, during the Madrid European Council, the Union formulated its “Strategy for future EU/Russia relations”, where it expressed its belief that “good relations with a

democratic Russia are essential to stability in Europe”<sup>57</sup>. The document continues that the Union is committed to establishing strong relations with the Federation in order to “promote the democratic and economic reform process, to enhance the respect of human rights, to consolidate peace, stability and security in order to avoid new dividing lines in Europe and to achieve the full integration of Russia into the community of free and democratic nations”<sup>58</sup>.

The EU commitment to integrate Russia in “the European family” was reaffirmed in the Common Strategy on Russia, approved at the Cologne European Council 1999, where the Union stressed that cooperation with Russia is needed in order to anchor the Federation in “a united Europe free of new dividing lines”<sup>59</sup>. In particular, the EU set four areas of action, best summarized by Larissa Kuzmitcheva<sup>60</sup>: first, the consolidation of democracy, the rule of law and public institutions; second, the integration of Russia in the common European economic and social space; third, stability and security, and last but not least, the common challenges on the European continent.

Analyzing the 1995 and 1999 documents dealing with the EU-Russia strategic partnership, it may be concluded that the EU does not regard Russia as a hard security threat any more. This means that member states do not fear territorial invasion launched by the Kremlin. However, they fear the existence of soft security threats coming from three areas: justice and home affairs, energy and environment. In his speech on the EU-Russia partnership, the Union’s High Representative for Foreign and Security Policy Javier Solana noted that

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<sup>57</sup> Presidency Conclusions, Annex 8 “European Union’s Strategy for Future EU/Russia Relations”, Madrid European Council, 15 and 16 December 1995.

<sup>58</sup> Ibid.

<sup>59</sup> Common Strategy of the EU on Russia, 1999/414/CFSP, 157/1.

<sup>60</sup> Larissa Kuzmitcheva, “Russia and European Security and Defense Policy: Problematic ‘Strategic Partnership’?”, *Central European Political Studies Review* 6, 2004, 4.

Today, Europe no longer faces major war as its main security fear. But the heritage of the Cold War has left its security threats...that include economic, environmental, and social issues...<sup>61</sup>

The security perceptions of the EU concerning Russia are furthermore reflected in the European Security Strategy, accepted in 2003. The document states that in contrast to the Cold War period, Europe does not fear anymore military invasion launched by a third country<sup>62</sup>. The security challenges that the EU currently faces are terrorism, the proliferation of weapons of mass destruction, regional conflicts, state failure, and organized crime. The partnership with Russia in order to tackle these problems is seen as crucial. As part of the Union's neighborhood, Russia is considered to be a source of soft security threats. So, there is a necessity for stronger cooperation with and assistance to neighboring countries, including Russia, in order to enhance the security in Europe.

In May 2003, at the St Petersburg Summit the EU and Russia confirmed their commitment to further strengthen their strategic partnership. They agreed to create four common spaces: economic and environment; freedom, security and justice; external security; and research, education and culture<sup>63</sup>. In particular, the four common spaces aim at increasing trade and investment opportunities between the Union and the Federation; strengthening co-operation in the field of justice and home affairs to tackle the common threats of organized crime, terrorism and other illegal activities of a cross border nature; intensifying co-operation on security issues and crisis management, to address new threats such as terrorism, the proliferation of weapons of mass destruction (WMD), regional conflicts and state failure and last but not least, reinforcing people-to-people contacts. Brussels and Moscow agreed that the

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<sup>61</sup> Javier Solana, "The EU-Russia Strategic Partnership", Speech Stockholm, October 1999, [http://www.consilium.europa.eu/cms3\\_applications/applications/solana/details.asp?cmsid=246&BID=107&DocID=59417&insite=1](http://www.consilium.europa.eu/cms3_applications/applications/solana/details.asp?cmsid=246&BID=107&DocID=59417&insite=1)

<sup>62</sup> "A secure Europe in a better world", European Security Strategy, December 2003, 13.

cooperation in all these fields should be based on common values of democracy, human rights and the rule of law.

Overall, after the end of the Cold War, the EU countries changed their perceptions of Russia. In particular, they do not see her as a hard security threat anymore, which means that they do not fear military invasion on their territory launched by Moscow. What they fear is the existing political and economic instability in Russia, which creates soft security threats for the Union. So, the main incentive behind the EU strategy towards Russia is to reduce these threats, helping her to reform in line with the European values<sup>64</sup>.

## **2.2. Explaining the controversy in the European energy policy towards Russia**

As it was discussed in the introductory part of the second chapter, the controversy in the European energy policy towards Russia is due to the fact that there are two camps within the Union which try to influence this policy. The first one shows skepticism about increasing the energy interdependence with Moscow, while the second promotes the idea of active engagement with the Russian Federation in all fields, mainly energy. Using Keohane and Nye's concept of interdependence the following section studies how the two camps try to shape the EU-Russia energy dialogue.

### **2.2.1. Theoretical framework: Keohane and Nye's concept of interdependence**

In their book, *Power and Interdependence*, which was first published in the 1970s, Keohane and Nye aim at providing a new theoretical model for analyzing world politics.

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<sup>63</sup> EU-Russia: the four common spaces, DG External Relations,  
[http://ec.europa.eu/external\\_relations/russia/summit\\_11\\_04/m04\\_268.htm](http://ec.europa.eu/external_relations/russia/summit_11_04/m04_268.htm)



According to the authors, world politics is seen from two opposite perspectives<sup>65</sup>. The first one is the modernist approach, which focuses on the importance of the growing economic and social transactions and points out the decline of the military force. The second is represented by realism, which is built on three basic assumptions<sup>66</sup>. In particular, realists argue that, first, states regarded as coherent units are the principal actors on the international level; second, force is the most effective instrument of foreign policy, and third, international relations are dominated by high politics.

For Keohane and Nye, neither of the two approaches succeeds in explaining the reality<sup>67</sup>. Modernists underestimate the importance of military power in the relations between states, while realists, who remain limited in their three assumptions, fail to capture the character of the changes that are taking place in world politics. In order to fill the gap between the two approaches, the authors formulate the concept of interdependence.

Keohane and Nye argue that a situation of interdependence exists when there is mutual dependence between international actors, or the actors are mutually exposed to costly effects. Simply said, in a relationship between two international actors any change in these relations, provoked by one of the actors or a third actor, may have costly effects on both of the actors. By costly effects the authors mean effects that have particular consequences for the actors. The general point about these consequences is that “people care about them”<sup>68</sup>.

Furthermore, contrary to the modernist approach, which argues that interdependence is translated in mutual benefit and lack of confrontation, Keohane and Nye claim that in a relationship characterized by interdependence a confrontation of interests still exists. In addition, power continues to play an important role in such a relationship. In this respect, the

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<sup>64</sup> Larissa Kuzmitcheva, “Russia and European Security and Defense Policy: Problematic ‘Strategic Partnership’?”, *Central European Political Studies Review* 6, 2004, 4.

<sup>65</sup> Robert Keohane and Joseph Nye, *Power and Interdependence*, (New York: Longman, 2001), 3.

<sup>66</sup> Ibid, 23-24.

<sup>67</sup> Ibid, 4.

<sup>68</sup> Ibid, 236.

concept of interdependence is similar to realism. However, Keohane and Nye's idea of power differ from the realist concept in the sense that for Keohane and Nye military capabilities is not the only source of power.

To begin with, the authors define the meaning of power. According to them, power is the ability to influence someone's behavior or otherwise stated, it is the ability to control the outcome<sup>69</sup>. Furthermore, they make a distinction between behavioral power and resource power<sup>70</sup>. The first one is indeed translated into the capacity to obtain the outcomes you want, while the second one is associated with the possession of the resources which define your ability to obtain the outcomes you want. Behavioral power, according to Keohane and Nye, is divided into hard and soft power. Hard power is translated into the ability to make others do something that they otherwise will not do, while soft power is related to the capacity to influence others' mind. Simply said, soft power is the ability to make others think that they made the right choice<sup>71</sup>. Or in Keohane and Nye's words, actors use soft power in order to achieve the desired results "through attraction rather than coercion"<sup>72</sup>.

Without undermining the importance of military resources, the authors argue that they are not the only source of power. In particular, they claim that in a situation of interdependence power may be derived from the asymmetry in the relationship. As it was mentioned, Keohane and Nye's beliefs differ from the modernist school in the sense that they do not regard interdependence as a situation of mutual and equal benefits. According to them, relations of interdependence are in most of the cases characterized by asymmetry. This means that in a relationship between two actors, one is more dependent on this relationship than the other, which means that in case of changes in the relationship one has to bear higher costs

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<sup>69</sup> Ibid, 10.

<sup>70</sup> Ibid, 220.

<sup>71</sup> Joseph Nye, "Soft Power", *Foreign Policy*, No.80, Fall 1990, 166.

<sup>72</sup> Robert Keohane and Joseph Nye, *Power and Interdependence*, 220.

than the other<sup>73</sup>. The existing asymmetry may be used by the less dependent actor, which is not necessarily the stronger one in a military sense, to influence his counterpart. Thus, asymmetry in the relationship and not only military potential may be source of power.

The link between power and interdependence is further explained by Keohane and Nye through the introduction of two important concepts: *sensitivity interdependence* and *vulnerability interdependence*. While the first one translates into how quick changes in one country influence costly changes in another, the second is related to the country's ability to respond to negative externalities. In energy trade, for example, sensitivity is measured by the level of imports<sup>74</sup>. Vulnerability, on the other hand, is translated into costs of interruptions of the energy trade relations and costs of undertaking measures to cope with the situation.

Vulnerability, according to Keohane and Nye, shows the structure of the interdependence, or which actor can "set the rules of the game"<sup>75</sup>. Thus, vulnerability is more relevant to understanding the link between power and interdependence because the ability to answer to negative externalities provides power resources to actors<sup>76</sup>. If two countries are equally dependant on the trade relations between them, the country possessing more power is the one which in case of change in the relationship (a decrease in the amount of trade) has the capacity to bear more easily the costs of the change (find another trade partner or substitute the trading goods).

It should be underlined here that according to Keohane and Nye, having the resources that provide power capabilities does not translate into actual capacity to use the power. This means that knowing the distribution of the asymmetry in a relationship does not allow us to predict which actor will control the outcomes. First, it is very difficult to measure asymmetries and when they are many, to define the linkages between them. Second, effective

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<sup>73</sup> Ibid.

<sup>74</sup> Joseph Nye, "Review: Energy and Security in the 1980s", *World Politics*, Vol. 35, No.1, (October, 1982), 128.

<sup>75</sup> Keohane and Nye, *Power and Interdependence*, 13.

<sup>76</sup> Ibid, 11.

usage of power is strongly related to the bargaining process. In his article “The changing nature of world power”, Nye compares the ability to transform power resources into the effective control of the outcomes with card play. According to him, through bargaining some countries may use their resources more effectively, as some card players “win despite being dealt weak hands”<sup>77</sup>. Thus, the actual capacity of one of the involved parts in a relationship to influence the outcome may be measured only if the bargaining process is taken into consideration<sup>78</sup>.

Last but not least, even if one of the actors in a relationship possesses power resources, it may refrain from using them in order not to provoke changes in the relationship. In the example of trade relations between two countries, if one of the countries decides to decrease its vulnerability dependence in the other and thus tries to diversify its trading partners, this may provoke counter-strategies<sup>79</sup>. Feeling less secure, the other country may try to decrease its vulnerability as well, either by looking for new partners or by substituting the trading goods. Such behavior is likely to create mistrust between the countries, and as a consequence, to create costly effects for the trade relationship and the countries themselves. So, if the courtiers want to keep the close trade ties between them, they will most probably refrain from trying to run the asymmetrical vulnerability in their favor. Instead, they will try to maintain a situation of mutual vulnerability, in which both sides will face costly effects if there is any change in the relationship, and thus, any of them will be interested in disrupting this relationship.

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<sup>77</sup> Joseph Nye, “The changing nature of world power”, *Political Science Quarterly*, Vol. 105, No. 2, (Summer, 1990), 178.

<sup>78</sup> For more details about the link between asymmetrical interdependence, bargaining and influence over the outcomes, see R. Harrison Wagner, “Economic interdependence, Bargaining Power and Political Influence”, *International Organization*, Vol. 42, No.3, (Summer, 1988). Wagner argues that economic interdependence may be used for political influence only if both of the actors are better off which means that if the stronger actor wants to successfully exercise political influence over the weaker, he should sacrifice some of his bargaining gains.

<sup>79</sup> Ibid, 14.

To sum up, in *Power and Interdependence*, Keohane and Nye question the capability of the realist and modernist approaches to provide an adequate theoretical framework of world politics. The authors offer a better model for explaining reality, which they call complex interdependence<sup>80</sup>. This model is based on the assumptions that in a large number of issue areas (1) “actors other than states participate in world politics”; (2) “a clear hierarchy of issues does not exist” and (3) “force is an ineffective instrument of policy”<sup>81</sup>. Contrary to the modernist view, Keohane and Nye argue that in complex interdependence power continues to define the relations between international actors, but unlike realists, they claim that the direct link between military capabilities and power is not that obvious. Sources of power may be also the distribution of resources and vulnerabilities within each area.

In the following two sections of the thesis, I will use Keohane and Nye’s framework to explain the specific positions of “the leaders” of the two camps that try to influence the European energy policy towards Russia, namely Poland and Germany.

### **2.2.2. The EU-Russia energy dialogue viewed from Warsaw**

Poland is the leader of the “new member states camp”, which is actively trying to influence the EU-Russia energy relations. Her position is characterized by skepticism about building close energy ties with Moscow. Viewed from Warsaw, the Kremlin often uses natural resources in its foreign relations for blackmailing and thus cannot be a reliable energy supplier for the European Union. According to Poland, the European energy policy towards Russia should be based on two pillars: developing a common European stance in dealing with Moscow and decreasing import dependence by diversifying energy sources. Being united and less dependent, the Union is believed to increase its bargaining power towards the Federation.

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<sup>80</sup> See Chapter 2 “Realism and Complex Interdependence” in Keohane and Nye, *Power and Interdependence*.

<sup>81</sup> Ibid, 24.

In Keohane and Nye's words, the European Union should try to run in its favor the asymmetry in its relations with the Russian Federation, in order to increase its capacity to control the outcomes of the relationship. Before explaining the specific Polish position regarding the EU-Russia energy relations, I will examine the factors that determine this position.

### **2.2.2.1. Roots of the Polish position towards the EU-Russia energy dialogue**

It may be argued that Poland's stance towards the energy partnership between the EU and Russia is influenced by two factors. The first one is historical experience and the second is Polish regional ambitions.

The geopolitical position of Poland between Germany and Russia/the USSR was a source of security threats for the country in the past<sup>82</sup>. Although the fear of territorial invasion does not exist anymore, Poland is still suspicious towards its big neighbors. This strong influence of the past in the current Polish foreign policy may be exemplified with the statement of the Polish defense minister, Radek Sikorski, who said in 2006 that the proposed Russian-German North European gas pipeline reminded him of the Ribbentrop-Molotov pact that carved out the Russian and German spheres of influence in Europe before Hitler invaded Poland<sup>83</sup>.

It should be underlined here that despite some political, legal and cultural tensions left by the Second World War<sup>84</sup>, there has been very positive development in Polish-German relations. Germany and Poland are currently members of the same military alliance and the

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<sup>82</sup> See Marcin Zaborowski and Kerry Longhurst, "America's protégé in the East? The emergence of Poland as a regional leader", *International Affairs* 79, 5 (2003).

<sup>83</sup> "Polish DM Likens Pipeline Deal to Nazi-Soviet Pact", *Radio Free Europe*, April 30, 2006, [http://www.rferl.org/features/features\\_Article.aspx?m=04&y=2006&id=EB61F3CC-87B2-4BF2-A572-4175D1663F7E](http://www.rferl.org/features/features_Article.aspx?m=04&y=2006&id=EB61F3CC-87B2-4BF2-A572-4175D1663F7E)

same economic-political union. Actually, Berlin was one of the promoters of the Polish entrance both in NATO and in the European Union<sup>85</sup>. Last but not least, in 1994 during the celebration of the 50<sup>th</sup> anniversary of the outbreak of the Warsaw Uprising, the President of the Federal Republic of Germany, Roman Herzog, acknowledged the historical harms that Germans had done to the Polish people.

Unlike Germany, Russia has not acknowledged her wrongdoings towards Poland yet. According to Warsaw, Moscow sees history from a different angle and ignores some material truth with regard to the Second World War<sup>86</sup>. However, Polish concerns vis-à-vis its former direct neighbor are not related that much to the past but to the fact that Russia has not overcome some past habits. The Russian foreign policy is perceived to be founded on the concept of zero-sum game and the use of power<sup>87</sup>. Moreover, the Kremlin is accused of not getting over its imperial ambitions<sup>88</sup>. This is exemplified by Russia's behavior during the energy disputes with Ukraine and Belarus, which, in the Polish opinion, clearly indicate that the autocratic regime in Moscow is prone to use energy as political weapon.

At present, the tension in the relations between Warsaw and Moscow is related to the Russian decision to ban the imports of Polish meat. The ban was introduced in 2005, and according to the Kremlin, it is due to sanitary problems. In the Polish opinion however, the ban is politically motivated because of Poland's support for the 2004-2005 Orange revolution in Ukraine<sup>89</sup>. In response, in November 2006 during the EU General Affairs Council, Warsaw blocked the negotiations on new Partnership and Cooperation Agreement (PCA) with

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<sup>84</sup> For more detailed analysis of the problems left from the past in the Polish-German relations see Jerzy Kranz, "Shadows of the past in Polish-German relations", *The Polish Quarterly of International Affairs*, No. 1, 2005.

<sup>85</sup> Roman Kuzniar, "A shift or a continuation? Polish foreign policy after the elections", *The Polish Foreign Affairs Digest*, Vol. 5, No. 4, 2005, 29.

<sup>86</sup> Ibid, 36.

<sup>87</sup> Ibid.

<sup>88</sup> See Roman Kuzniar, "A shift or a continuation?"; Włodzimierz Cimoszewicz, "Landscape beyond the Horizon: Foreign Policy of the Republic of Poland after Accession to the European Union", *The Polish Quarterly of International Affairs*, No. 2, 2004.

<sup>89</sup> Dan Bilefsky, "EU fails to agree on plan for Russia ties", *International Herald Tribune*, November 13, 2006, <http://www.ihf.com/articles/2006/11/13/news/eu.php>

Russia<sup>90</sup>. The Polish Foreign Minister, Anna Fotyga insisted on two preliminary conditions to the opening of talks with Moscow<sup>91</sup>. First, Russia would have to ratify the Energy Charter Treaty and the Transit Protocol. Although in 2006 the Finish Presidency suggested that the new PCA will include the key provisions of the Energy Charter Treaty, Fotyga said that for Warsaw this will not be sufficient. The second condition is that Russia should lift the ban on Polish meat.

Overall, Poland has not forgotten her historical experience, which still influences her attitude towards the neighboring countries and Russia. Although territorial invasion is not considered to be a direct threat anymore, Warsaw proves to be suspicious towards some initiatives of its former enemies – Germany and Russia. If relations with Germany have been developed in a very positive direction especially after the 1990s, the same cannot be said about the relations with Russia. In Poland's view, good bilateral ties with the Federation are difficult to be established because concepts such as “morality, decency or common good are still foreign to Moscow's policy”<sup>92</sup>. These historically defined perceptions of Russia as an actor who sees international relations as power relations explain why Warsaw does not trust Russia as a major energy supplier.

The Polish position towards the EU-Russia energy dialogue is also influenced by Warsaw's ambition to be a regional leader. After the collapse of the Soviet Union, Poland started perceiving its role as a bridge between the East and the West. Particularly, Warsaw has sought to act as a promoter of the principles of democracy and market economy in the East<sup>93</sup>. The significance of this role increased after the Polish accession to NATO and the EU.

<sup>90</sup> The current Partnership and Cooperation Agreement is in force till December 2007.

<sup>91</sup> Joseph Curtin, “Energy policy newsletter”, *Institute of European Affairs*, November 2006, [http://www.iea.com/images/managed/publications\\_attachments/Energy%20Newsletter%20November.doc.pdf](http://www.iea.com/images/managed/publications_attachments/Energy%20Newsletter%20November.doc.pdf), 4.

<sup>92</sup> Roman Kuzniar, “A shift or a continuation?”, 36.

<sup>93</sup> Gisela Muller-Brandek-Bocquet, *The Future of the European Foreign, Security and Defense Policy after Enlargement*, (Baden-Baden: Nomos, 2006), 55.



At present, Poland's Eastern policy concentrates on promoting democratic reforms in Ukraine, Russia and Belarus.

Since the 1990s, Warsaw has developed special relations with Ukraine. This former Soviet republic has crucial importance for Poland's security. An independent, stable and democratic Ukraine is seen as "the best barrier" between Poland and Russia<sup>94</sup>. Warsaw supported the Ukrainian accession in the Council of Europe and is currently backing up Ukraine's integration in NATO and the European Union. So the main aim of Poland's policy towards its Eastern partner is to contribute to the establishment of a stable and pro-European Ukraine which will securitize Poland's and in general EU's direct neighborhood.

Contrary to the relatively successful bilateral relations with Ukraine, Warsaw faced some problems with building the same ties with Russia and Belarus. In both cases democratic reforms have been seen as "painfully slow"<sup>95</sup>. In Poland's view, only the European Union has the capacity and the instruments to influence domestic changes in these two countries. So Warsaw sees its relations with Moscow and Minsk mainly in the context of the EU's foreign and security policy. With regard to the Polish-Russian relations, Poland believes that after its accession in the EU, the asymmetry in terms of size and potential has been neutralized<sup>96</sup>. Otherwise stated, Warsaw feels more confident to deal with Russia from the position of an EU member than as a single country. This is why Poland's stance in regards to the EU-Russia energy dialogue is in favor of a common European approach which will be able to promote more effectively reforms in the Federation.

As it was previously mentioned, these two factors, namely historical experience and regional ambitions, shape Polish position vis-à-vis the energy partnership between Brussels

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<sup>94</sup> Michal Naturski and Anna Herranz, "The impact of German-Russian and Polish-Ukrainian special relations on European foreign policy: energy supplies and visas in the EU neighborhood", Paper presented for the conference "Reflecting on a wider Europe and beyond: norms, rights and interests" organized by the Central and East European International Studies Association (CEEISA), 4<sup>th</sup> Convention University of Tartu, Estonia, 25-27 June 2006, 7.

<sup>95</sup> Marcin Zaborowski and Kerry Longhurst, "America's protégé in the East?", 1021.

and Moscow. They explain why Warsaw does not trust Russia as major supplier of energy and why it insists on strengthening the European capacity to induce reforms in the Federation.

#### **2.2.2.2. The Polish energy proposal**

The Polish vision about the energy relations between the European Union and the Russian Federation was clearly formulated in 2006. On March 8, 2006 during his visit in Berlin, Polish president Lech Kaczynski presented an energy strategy paper which aimed at guaranteeing the energy security of the EU member states in cases of supply disruption similar to the Russia-Ukraine energy dispute of 2006<sup>97</sup>. The paper says that in such situations, the EU needs to have mechanisms to provide assistance to the affected countries in “a fast, effective and coordinated manner”<sup>98</sup>.

In his article published in *International Herald Tribune*, Judy Dempsey provides a short summary of the content of the Polish proposal<sup>99</sup>. In particular, Poland suggests that the EU members sign a treaty which includes four main elements. First, a mutual energy-security guarantee clause, under which signatories would support each other “in the event of a threat to their energy security from natural or political causes”<sup>100</sup>. These guarantees will be shaped following the NATO article 5 in which member states are obliged to provide assistance to any other member that is put in danger. The second element includes building the technical infrastructure to allow cooperation. This includes developing the infrastructure for transporting, transmitting and storing energy. The third element is related to the need for the EU to diversify its energy sources and routes. The last part of the proposal concerns the

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<sup>96</sup> Włodzimierz Cimoszewicz, “Landscape beyond the Horizon”, 17.

<sup>97</sup> Judy Dempsey, “EU urges an energy pact with Russian”, *International Herald Tribune*, March 9, 2006, <http://www.ihf.com/articles/2006/03/08/news/energy.php>

<sup>98</sup> Polish energy proposal cited in Judy Dempsey, “EU urges an energy pact with Russian”.

<sup>99</sup> As an English version of the Polish proposal is not available online, I used the summary of the document published in *International Herald Tribune*.

countries towards which the energy alliance will be opened. The document states that only EU and NATO members will be invited to sign the treaty.

The Polish proposal is based on two main ideas: developing a common European stance regarding energy security issues and decreasing energy dependence on particular sources of energy. It is openly directed against Russia. First, the document discusses as worrisome the energy dominance of the Russian state-owned gas company Gazprom. Furthermore, it recalls the Russia-Ukraine and Russia-Belarus energy disputes, which disrupted energy supplies to Europe. Last but not least, the proposed treaty which aims at increasing energy solidarity leaves Russia outside, as it is to be opened only to NATO and EU member states.

The Polish position vis-à-vis the EU-Russia energy dialogue was reaffirmed at the Spring European Council held in Brussels on 23-24 March 2006. In particular, Poland, supported by the Baltic States, said that the European Union needs to take immediate actions to reduce its energy dependence on Russia and adopt a much tougher and collective stance in dealing with the Federation<sup>101</sup>. As discussed in the previous section of the thesis, Warsaw has actually showed that it plans to “play tough” with Russia, vetoing the negotiations on the new PCA. The Polish conditions for lifting the veto are that Moscow signs the Energy Charter Treaty and lifts the ban on Polish meat. What Poland needs, is support by all EU members, and Warsaw seems to be very determined to receive it. In May 2007, Polish officials said that Poland will maintain its veto on talks on a new EU-Russia agreement, unless the EU members form a united front on the issue of energy<sup>102</sup>. Warsaw wants the EU to issue a declaration in which the 27 member states confirm that they stay together on energy. Such a

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<sup>100</sup> Ibid.

<sup>101</sup> Judy Dempsey and Dan Bilefsky, “EU unity on power is elusive”, International Herald Tribune, March 23, 2006, <http://www.ihf.com/articles/2006/03/22/business/energy.php>

<sup>102</sup> “EU energy declaration is price for lifting Russia veto: Poland”, Eubusiness, 15 May 2007, [http://www.eubusiness.com/news\\_live/1179230405.89/](http://www.eubusiness.com/news_live/1179230405.89/)

declaration is to guarantee the energy security of the EU countries in the context of their relations with Russia.

The Polish initiatives show that Warsaw is trying to lead the EU-Russia energy dialogue in two directions: forming a common energy stance towards the Federation and increasing flexibility by diversifying energy sources. Being united and less dependent, the Union is believed to gain more power and thus, to develop a more assertive policy towards its largest neighbor. In the energy field this would mean that the EU can influence the Kremlin to ratify the Energy Charter Treaty and reform its energy sector by liberalizing it. Generally speaking, the Union's power coming from the gained energy flexibility is to be used to influence a democratic and market economy transition in the Federation. Translated into the language of Keohane and Nye, Poland believes that the European Union should try to run in its favor the asymmetry in its relations with the Russian Federation in order to increase its capacity to control the outcomes of the relationship.

#### **2.2.2.3. Poland and the concept of asymmetrical vulnerability as source of power**

According to Keohane and Nye, relations of interdependence are in most of the cases characterized by asymmetry. This means that in a relationship between two actors, one is more dependent on this relationship than the other, which means that in case of changes in the relationship one has to bear higher costs than the other<sup>103</sup>. The existing asymmetry may be used by the less dependent actor to influence his counterpart. Thus, asymmetry in the relationship may be a source of power.

The source of power in a relationship characterized by interdependence is further explained by Keohane and Nye through the concepts of *sensitivity interdependence* and

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<sup>103</sup> Robert Keohane and Joseph Nye, *Power and Interdependence*, 220.

*vulnerability interdependence*. The first one translates into how quick changes in one country influence costly changes in another, whereas the second is related to the country's ability to respond to negative externalities. Presenting the theoretical framework in the second part of Chapter 2, I gave the example of energy trade, where sensitivity is measured by the level of imports, while vulnerability is translated into the costs of interruptions of the energy trade relations and the costs of undertaking measures to cope with the situation. It was also discussed that vulnerability, according to Keohane and Nye, shows which actor can "set the rules of the game"<sup>104</sup>. Thus, vulnerability is more relevant to understanding the link between power and interdependence because the ability to answer to negative externalities provides power resources to actors<sup>105</sup>.

Looking at the data about the EU-Russia energy interdependence, one is to assume that Russia is actually more dependent on the European market than the Union is dependent on the Russian energy imports. According to the Energy Information Agency, energy exports have been a major driver of Russia's economic growth over the last five years, as Russian oil production has risen strongly and world oil and gas prices have been relatively high<sup>106</sup>. In 2005 the oil and gas sector represented around 20 percent of Russia's GDP, generated more than 60 percent of its export revenues and accounted for 30 percent of the foreign direct investments in the country<sup>107</sup>. The European Union is the key market for Russian hydrocarbons exports. In 2003, 58 percent of the total Russian oil and 65 percent of the total gas exports were to the European Union<sup>108</sup>. This means that the Union supports a large part of the Russian economy.

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<sup>104</sup> Ibid, 13.

<sup>105</sup> Ibid, 11.

<sup>106</sup> Energy Information Administration, Country Analysis Briefs: Russia, April 2007, <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>

<sup>107</sup> Ibid.

<sup>108</sup> EU summaries of legislation, "EU/Russia energy partnership", <http://europa.eu/scadplus/leg/en/lvb/l27055.htm>

In fact, there is a possibility for Russia to diversify its energy markets, which means to decrease its vulnerability dependence on the EU. Facing fast economic growth, countries like China, India, Japan and the United States show rising interest towards Russia as an energy source. In order to diversify its energy clients, however, the Federation needs, first, to increase its capacity to satisfy the growing demand by developing new energy fields, and second, to expand and upgrade its pipeline infrastructure. This requires time and huge investments of which, according to some<sup>109</sup>, Russia is not in possession. These two problems are determined by the specifics of the Russian energy sector. On one hand, the government has limited the access of foreign investors. On the other hand, the leading domestic companies Gazprom and Rosneft are currently heavily in debt, which explains why so far they have avoided developing the large energy fields that would provide long-term gains<sup>110</sup>.

At the same time, the Union may be defined as more flexible than Russia because it has the capacity to develop renewable sources of energy and the possibility to diversify its energy suppliers. So, if the EU starts actively diversifying its energy sources, it will decrease its vulnerability dependence on the energy relationship with Russia. As the Russian dependence is expected to remain the same, because of Moscow's incapacity to diversify the energy markets, the Union, according to Keohane and Nye's concept, will increase its power towards the Federation. As it was already discussed, Poland believes that this advantage should be used by Brussels to induce domestic reforms in Russia. In Warsaw's view, only in the context of *realpolitik*, will the Union be able to provoke changes in the political, social and economic process in its largest neighbor<sup>111</sup>.

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<sup>109</sup> See Andrew Monaghan and Lucia Montanaro-Jankovski, "EU-Russia Energy relations: the need for active engagement", EPC Issue Paper No. 45, March 2006 and Bernard Gelb, "Russian Oil and Gas Challenges", CRS report for Congress, January 3, 2006.

<sup>110</sup> Andrew Monaghan and Lucia Montanaro-Jankovski, "EU-Russia Energy relations: the need for active engagement", 20.

<sup>111</sup> Roman Kuzniar, "A shift or a continuation?", 36.

The Polish stance towards the EU-Russia energy relations does not receive strong support within the Union<sup>112</sup>. During the Spring Council of 2006, the “old member states camp” led by Germany criticized the Polish proposal, arguing that the alienation of Russia will have a negative impact on the EU energy security.

### 2.2.3. The German vision about the EU-Russia energy partnership

Within the “old member states camp” Germany is the most active country which tries to shape the EU-Russia energy dialogue. Similarly to Warsaw, Berlin thinks that the Russian energy sector needs to be reformed. Moreover, Germany is also concerned about the way Moscow uses energy resources in its policy towards the neighbors. Following the Russia-Belarus energy dispute, for example, German Chancellor Angela Merkel said that the disruption of energy supplies destroys the trust between the Union and the Federation<sup>113</sup>.

Again similarly to Poland, Germany wishes to see a more democratic Russia with an open market economy. An authoritarian and nationalistic regime in the Federation is viewed from Berlin as a potential threat that could lead to social and territorial disintegration<sup>114</sup>. According to foreign minister Frank-Walter Steinmeier, effective dialogue with Moscow is possible on the basis of mutual principles<sup>115</sup>. So, the EU should focus on promoting its common values and supporting the democratic reforms in the Federation<sup>116</sup>. However, contrary to Warsaw, Berlin does not believe that *realpolitik* is the best strategy to achieve this. During the 2006 Spring European Council, German officials criticized the Polish proposal for

<sup>112</sup> Judy Dempsey and Dan Bilefsky, “EU unity on power is elusive”.

<sup>113</sup> Ahto Lobjakas, “EU: Proposed Energy Policy Overhaul Accompanies Supply Woes”, Radio Free Europe, January 10, 2007, <http://www.rferl.org/featuresarticle/2007/01/f7a61d68-4fc7-453c-b6e8-38f173f01b98.html>

<sup>114</sup> Michal Natonski and Anna Herranz, “The impact of German-Russian and Polish-Ukrainian special relations on European foreign policy”, 10.

<sup>115</sup> Frank-Walter Steinmeier, “Interaction and Integration”, *Internationale Politik*, Spring 2007, 54.

<sup>116</sup> Ibid.

the creation of a “European energy NATO”<sup>117</sup> against Russia, underlining that isolating Moscow will have a negative impact not only on European energy security but also on the EU-Russia strategic relations. Supported by the rest of the old member states camp, Germany said that it is better for Brussels to engage the Kremlin in a long term energy relationship beneficial to both sides<sup>118</sup>.

As in the case of Poland, the German position towards the energy dialogue between the European Union and the Russian Federation is influenced by the German historical experience. After the Second World War, the Federal Republic of Germany (FRG) faced the necessity to define its approach towards the East and especially the Soviet Union in order to solve the question of reunification. The following section describes how, trying two different strategies, Germany learnt that while dealing with Russia it is more successful to rely on economic and political rapprochement rather than on policy of isolation and strength.

### **2.2.3.1. Roots of the German position towards the EU-Russia energy dialogue**

As it was previously mentioned, the current German stance vis-à-vis the European energy policy towards Russia is defined by the German historical experience of dealing with Russia/the USSR after the end of the Second World War. This experience is studied in detail by Angela Stent. In her book *From embargo to Ostpolitik: the political economy of West German-Soviet relations 1955-1980*, she observes the importance of trade in shaping the relations between the FRG and the Soviet Union<sup>119</sup>. This book is very useful for my analysis of the German position towards the EU-Russia energy dialogue because it presents the formation of the German perceptions of strategic relations with the Russian Federation.

<sup>117</sup> Simon Araloff, “EuroSummit 2006: Old Europe prefers Russia to Poland”, *Axis Information and Analysis*, March 24, 2006, <http://www.axisglobe.com/article.asp?article=754>

<sup>118</sup> Judy Dempsey and Dan Bilefsky, “EU unity on power is elusive”.



Stent argues that after the end of the Second World War, the main priority of the West German foreign policy was the reunification with the German Democratic Republic (GDR). The need to find a solution to the German question defined the West German approach towards the USSR.

The author distinguishes two periods in the formation of the German *Ostpolitik*. The first one spreads from the beginning of the 1950s till the end of 1960s and is characterized by the strong influence of the United States over Bonn's foreign policy. During this first period, the German *Ostpolitik* is described as a "policy of strength"<sup>120</sup>. The FRG was refusing to recognize the existence of the German Democratic Republic, believing that this would help the reunification. Furthermore, following the demand of Washington, Bonn was using economic levers to exert political pressure over Moscow. Particularly, in 1962-3, obeying "an American order"<sup>121</sup>, West Germany imposed a pipe embargo against the Soviet Union.

Pipe trade was in the heart of the economic relations between GDR and USSR in the early 1960s. At that time, the Soviet Union was engaged in building the so-called Friendship pipeline, which was planned to transport oil from Baku to Poland, Czechoslovakia and East Germany. However, the Soviets did not have the technology and capacity to produce large-diameter steel pipes, which were vital for the realization of the project and for the energy industry in general. So, pipes were imported from West Europe, particularly from the FRG.

The US, however, feared that any technology export to the Soviet Union would increase its economic and military power. This fear grew even more after the Cuban missile crisis. As a result, Washington decided to impose an embargo on the export of large-diameter pipes to the USSR. Although there was some opposition in the FRG against disrupting the economic relations with Moscow, the decision of Bonn "to obey" was explained with loyalty

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<sup>119</sup> Angela Stent, *From embargo to Ostpolitik: the political economy of West German-Soviet relations 1955-1980*, (Cambridge: Cambridge University Press, 1981).

<sup>120</sup> Ibid, 127.

<sup>121</sup> Ibid, 93.

towards the United States, which was the only actor that could guarantee West German security and territorial integrity<sup>122</sup>.

As Angela Stent notes, the American and German attempt to use economic levers to create negative externalities for the Soviets and thus to punish them for their foreign policy, did not work<sup>123</sup>. Not only did it not provoke change in the Soviet foreign strategy, but it actually helped the USSR to develop an autonomous productive capacity that it might not have had developed without the embargo<sup>124</sup>. Furthermore, the embargo had equally negative consequences for West Germany, whose steel industry needed to export its production<sup>125</sup>.

The failure of the pipe embargo marked the end of the first period of the Bonn's *Ostpolitik*. According to Stent, the main lesson that West Germans learnt was that "policy of strength" had not achieved any concession with regard to the German reunification. This brought about the development of a new, more flexible approach towards Moscow, which was highly prioritized in the 1970s by Chancellor Willy Brandt.

Brandt's strategy towards Russia was based on the belief that the solution of the German question passes through Moscow. So, the main purpose of the 1970s *Ostpolitik* was to engage the Soviets into dialogue rather than alienate them<sup>126</sup>. Brandt adopted Egon Bahr's 1963 formula of "change through rapprochement", which argued that change in the political status quo is possible on the basis of close ties with the Soviet Union<sup>127</sup>. This was achievable, on the one hand, through improving the political dialogue with the USSR, and on the other, through increasing the economic interdependence with the Soviets.

Concerning the political dimension of the new *Ostpolitik*, in August 1970 West Germany agreed to sign the Renunciation of Force Treaty, with which Bonn accepted the

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<sup>122</sup> Ibid, 125.

<sup>123</sup> Ibid.

<sup>124</sup> Ibid, 33.

<sup>125</sup> Ibid, 100.

<sup>126</sup> Ibid, 176.

post-Second World War boundaries and thus in practice recognized the existence of the German Democratic Republic. The treaty helped neutralize the previously existing tension in the West German-Soviet relations. Further rapprochement was achieved in the economic field, where GDR prioritized trade relations with the USSR in two dimensions: the export of steel pipes and the import of hydrocarbons.

In February 1970 a natural gas agreement in fulfillment with the new *Ostpolitik* was signed with the Soviet Union. West Germany was to export steel pipes, while the USSR agreed to deliver to the German Ruhrgas natural gas over a twenty-year period beginning October 1973. The contract significantly increased the economic interdependence between Bonn and Moscow, which was used by Germany to engage the Soviet Union in a dialogue<sup>128</sup>. According to Stent, this approach proved to be more successful than the previously used “policy of strength”. It brought the FRG closer to the solution of the German question, creating possibilities for Bonn to influence developments in the GDR<sup>129</sup>.

To sum up, Angela Stent argues that based on its experience, Germany has learnt that it is unsuccessful to use economic pressure in political bargaining with Moscow<sup>130</sup>. This “lesson” currently influences the German stance towards the EU-Russia energy dialogue. In particular, Berlin criticizes proposals, like the Polish one, that suggest Europe to take a tougher position vis-à-vis Russia. What Germany is advocating for, is Brussels to increase the mutual dependence in the energy field with Moscow. This is believed to create transparency and build trust between the two partners, and thus provide security for the EU energy supplies. Moreover, the strategy of increasing interdependence is thought to bring Russia closer to the European family of values.

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<sup>127</sup> Angela Stent, *Russia and Germany Reborn: Unification, the Soviet Collapse, and the New Europe*, (Princeton: Princeton University Press, 1999), 21.

<sup>128</sup> Angela Stent, *From embargo to Ostpolitik*, 176.

<sup>129</sup> Ibid, 247-248.

### 2.2.3.2. EU-Russia energy dialogue viewed from Berlin

Berlin believes that close EU cooperation with Russia is vital for the security in the Union's direct neighborhood. Energy in this respect is considered crucial, as it is in the heart of the relations between Brussels and Moscow. From the German point of view, the Federation is a reliable supplier of hydrocarbons for the Union and an alternative outside the OPEC<sup>131</sup>. So, Berlin advocates that the EU energy policy towards Russia should aim at further binding her to the European market. This German position is reflected in the German EU Council Presidency strategy towards the Russian Federation.

The German Presidency strategy towards Russia is based on two pillars: renewing the negotiations on the successor to the Partnership and Cooperation Agreement and intensifying economic relations, especially in the energy field<sup>132</sup>. Presenting the Presidency program in December 2006, Foreign Minister Steinmeier underlined that reaching consensus within the Union on the new PCA with Russia is vital for the long-term ties between the Union and the Federation<sup>133</sup>. The agreement is to create a solid basis for relations between Brussels and Moscow in all important fields. Among others, according to the German Presidency program, energy should be prioritized. In particular, the Union has to seek to strengthen the role of the Federation as its major energy supplier. It is interesting that the document does not even discuss<sup>134</sup> what was previously stated in the 2006 Green paper on energy, namely that the EU

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<sup>130</sup> Ibid, 18.

<sup>131</sup> Interview with Federal Minister Steinmeier in WirtschaftsWoche on "energy hysteria", the demonization of globalization and German interests in Europe, 22.01.2007, <http://www.auswaertiges-amt.de/diplo/en/Infoservice/Presse/Interview/2007/070122-WiWo.html>

<sup>132</sup> Europe Succeeding Together, Presidency Program 1 January to 30 June 2007, [www.eu2007.de/includes/Downloads/Praesidentschaftsprogramm/EU\\_Presidency\\_Programme\\_final.pdf](http://www.eu2007.de/includes/Downloads/Praesidentschaftsprogramm/EU_Presidency_Programme_final.pdf), 21.

<sup>133</sup> Press conference launching the German EU Council Presidency, Introductory remarks by Federal Foreign Minister Steinmeier, 19.12.2006,

<http://www.auswaertigesamt.de/diplo/en/Infoservice/Presse/Rede/2006/061219-Bruessel.html>

<sup>134</sup> "Europe succeeding together", 8.

needs to decrease its dependence on Russian supplies<sup>135</sup>. This confirms the German perception of Moscow as a reliable energy partner.

Berlin's position towards the EU-Russia energy partnership is further presented in an article written by Foreign Minister Steinmeier, published in *Internationale Politik*. In his article entitled "Interaction and Integration"<sup>136</sup>, Steinmeier argues that in the age of globalization Europe should integrate Russia rather than isolate her<sup>137</sup>. Particularly, he underlines that strategies of "containment, indifferent coexistence or merely selective cooperation with Russia are not in Europe's interest"<sup>138</sup>.

Furthermore, the Foreign Minister stresses the centrality of the EU-Russia cooperation on energy issues. Currently, he says, there is mutual dependency: Europe is dependent on Russian oil and especially gas products, while Russia needs the European market for her exports<sup>139</sup>. According to Steinmeier, this mutual dependence should be strengthened through mutual investments in the energy sector<sup>140</sup>. This will increase transparency and thus guarantee the security of European energy supplies<sup>141</sup>.

Deepening the energy interdependence with Russia does not aim, in the German Foreign Minister's words, only to securitize European energy supplies. In perspective this approach is to bring Russia closer to the European community of values<sup>142</sup>. Otherwise stated, an European energy policy towards the Russian Federation, based on the idea of increasing mutual dependence would be more successful in influencing the democratic transition in Russia than a policy of containment or isolation.

<sup>135</sup> Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", 15.

<sup>136</sup> The title of the article sounds very similar to the Bahr's formula of "change through rapprochement".

<sup>137</sup> Frank-Walter Steinmeier, "Interaction and Integration", *Internationale Politik*, Spring 2007, 52.

<sup>138</sup> Ibid.

<sup>139</sup> Ibid, 53.

<sup>140</sup> Ibid.

<sup>141</sup> Interview with Federal Minister Steinmeier in WirtschaftsWoche on "energy hysteria", the demonization of globalization and German interests in Europe.

<sup>142</sup> Securing the energy supply – what foreign policy can do. Interview with Federal Foreign Minister Steinmeier on Inforadio, 14.10.2006, <http://www.auswaertigesamt.de/diplo/en/Infoservice/Presse/Interview/2006/061014-SteinmeierRBB.html>

Analyzing Steinmeier's strategic approach towards Russia, Alexander Rahr highlights that the German Foreign Minister's main concern is that a failure to engage Russia could push her to unite with China against the West<sup>143</sup>. Using Keohane and Nye's words, Germany fears that if the EU does not bind Russia in the energy field but on the contrary concentrates on diversifying its energy sources, a situation of an "energy security dilemma"<sup>144</sup> may be created. According to Berlin, such a situation may be avoided if the Union increases the mutual vulnerability with the Federation in the energy field.

### **2.2.3.3. Germany and the idea of mutual vulnerability**

Discussing the use of asymmetrical vulnerability as a source of power in a relationship characterized by interdependence, Keohane and Nye stress that two things have to be kept in mind. First, it is very difficult to define the asymmetries, or which actor has the actual capacity to influence the outcomes of the relationship. So, any actor who tries to run in his favor the asymmetries in a particular relationship should base his strategy on a careful analysis of the actual capacities of his counterpart.

In the case of EU-Russia energy relationship, the problem with defining the asymmetry means that it is difficult to determine which one of the partners is more dependent on the relationship. It may be true that currently the asymmetry runs in favor of the Union, which appears to be more flexible. Yet, there is one fact that should not be forgotten, and this is that the energy resources in general are finite. Combined with the growing world's energy demand, this means that in the future the EU will face growing competition for the Russian energy. Therefore, the asymmetry in the energy partnership between Brussels and Moscow

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<sup>143</sup> Alexander Rahr, "Germany and Russia: A special relationship", 141.

<sup>144</sup> Andrew Monaghan and Lucia Montanaro-Jankovski, "EU-Russia Energy relations: the need for active engagement", 8.

will run in favor of the latter. Having this fact in mind, Germany proposes the EU to work on strengthening the energy partnership with Russia rather than trying to decrease its dependence.

According to Berlin, Europe will have to fulfill its demand of hydrocarbons in the next 30 years, and the role of Russia in this respect is crucial<sup>145</sup>. The current energy partnership between the Union and the Federation is based on mutual vulnerability. Europe is dependent on Russian oil and especially gas products, while Russia needs the European market for her exports<sup>146</sup>. This situation should be maintained in the future in order to prevent any disruption in the partnership.

The second issue that according to Keohane and Nye should be kept in mind by actors, who try to use asymmetrical vulnerability to control the relationship, is that any use of economic pressure in a relationship characterized by interdependence may lead to mistrust, which is likely to have negative impact on this relationship. If developing its energy security the EU focuses on decreasing its vulnerability dependence on Russia by diversifying energy sources and routes, it will push Russia to undertake counter strategies to diversify its energy markets. This may create a situation of an “energy security dilemma”. The energy security dilemma is a variation of the military security dilemma, which supposes that when one state is suspicious of the other’s military preparations, it may begin its own preparations in case the other threatens it. Following Keohane and Nye’s argument, such rival strategies would have a negative impact on the EU-Russia energy dialogue and would have negative consequences for both the Union and the Federation.

According to the authors, if two interdependent actors want to keep the close ties between them, they will most probably refrain from trying to run the asymmetrical vulnerability in their favor. Instead, they will try to maintain a situation of mutual vulnerability in which both sides will face costly effects in case of any change in the

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<sup>145</sup> Interview with Federal Minister Steinmeier in WirtschaftsWoche on “energy hysteria”, the demonization of globalization and German interests in Europe.

relationship, and thus any of them will be interested in disrupting this relationship. This idea is actually the basis of the German position towards the EU-Russia energy dialogue.

As it was discussed in the previous part, Germany argues that in order to securitize its energy supplies, the EU should further engage Russia in the energy field rather than decrease the hydrocarbon imports from the Federation. Otherwise stated, Berlin advocates that the EU should maintain a situation of mutual vulnerability with Moscow, which would create mutual transparency and thus, would lead to confidence building. This, it is believed in Berlin, would also allow the flow of ideas which is likely to create incentives in Russia, “through attraction rather than coercion”<sup>147</sup>, for reforms in line with the European values.

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<sup>146</sup> Frank-Walter Steinmeier, “Interaction and Integration”, 53.

<sup>147</sup> Robert Keohane and Joseph Nye, *Power and Interdependence*, 220.



## Conclusion

The main purpose of this thesis was to explain the European energy policy towards the Russian Federation. As I argued, such an explanation is needed because this policy seems to be controversial. On the one hand, after the energy dispute between Ukraine and Russia, the European Union issued documents in which it raised doubts about the reliability of Russia as an energy supplier and thus called for diversifying its energy sources. On the other hand, in 2006 and 2007 Brussels backed up two strategic pipeline projects, which will increase the dependence on Russian gas and oil products. Moreover, several EU countries have signed new long-term contracts for gas supply with Moscow.

This thesis has argued that the existing controversy in the European energy policy towards Russia is due to the fact that there are two camps within the Union which try to influence this policy. The first one is represented by Poland, while the second by Germany. I chose to focus my study on the specific positions of these two countries because both of them are very active with regard to energy issues and have the actual capacity to make their voice heard within the EU.

Although both Poland and Germany agree that a more democratic Russia with an open market economy is a preferable partner for the Union, and thus both of them stress the need for the EU to use energy relations in order to bring Russia closer to the European family of values, they differ in their perceptions of how this may be achieved. The difference in the positions of Warsaw and Berlin was explained in the thesis through the theoretical framework of interdependence as formulated by Robert Keohane and Joseph Nye. In particular, in order to help the better understanding of the Polish and German stances towards the EU-Russia energy dialogue, I used Keohane and Nye's ideas of asymmetrical and mutual vulnerability. I argued that while Warsaw advocates that the EU should run in its favor the asymmetry in the relationship with Moscow by diversifying its energy sources, Berlin argues that such use of

power will not succeed in dealing with Moscow. In the German point of view, the security of energy supplies may be achieved on the basis of mutual vulnerability, which is to create mutual transparency and build trust.

I believe that my thesis will contribute to the better understanding of the European energy policy and in particular of the EU-Russia energy dialogue. Moreover, I think it is a good basis for further research in the field. As energy is still in the realm of national policies rather than within the competences of the EU, it would be interesting and useful for an even better understanding of the Union's energy policy if the position of the rest of the member states was studied.

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