THE WEAK BALANCING, THE STRONG BANDWAGONING IN THE ENERGY REALM: THE CASE STUDY OF GERMANY AND POLAND AND THEIR ENERGY RELATIONSHIP TO RUSSIA

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Abstract

According to realist IR theory, there is anarchy on the international scene, which means there is no overarching supreme power above the states that would provide protection to any of them in case of aggression by a dominant power. Therefore the most important goal of individual states is survival. Balance of power theory says that for states to survive, they must either balance, that is, "ally in opposition to the principal source of danger," or bandwagon, meaning, "ally with the state that poses the major threat."[1] For this same reason, the lack of protection, nations also thrive to maximize their national security, of which energy security became a cornerstone by the 20th century. In light of the above we have been witnessing a strange phenomenon in Europe that seems to contradict the basic theories on nations' survival.

Germany, the EU's strongest economy seems to bandwagon with Russia, when it comes to energy, while its eastern neighbor, Poland, strives to balance Russian energy hegemony. In other words, the research question we are trying to find an answer for is the following: Why does Germany, the most powerful country in the European Union tend to bandwagon with Russia, while Poland, a much weaker EU country, strives to balance in relation to energy provision? This strikes as a puzzle and is a topic that is worth researching.

[1] Stephen M. Walt, "Alliance Formation and the Balance of World Power", *International Security* 9, no. 4 (1985): 3-43.

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Pali, this is for you.

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List of Abbreviations

bcm	billion cubic meters
CEFIC	European Chemical Industry Council
IR	International Relations
kb/d	thousand barrels per day
LNG	Liquid Natural Gas
Mt	million tons
MS	Member States
TPES	Total Primary Energy Supply
WWII	World War Two

INTRODUCTION

In the international scene the most important goal of individual states is survival. This utmost purpose is explained, among numerous others, by a major international relations theory: the balance of power theory. A prominent IR scholar, Stephen Walt, describes balance of power theory this way: in case of a potential threat, a nation to survive must either balance, that is, "ally in opposition to the principal source of danger," or bandwagon, meaning, "ally with the state that poses the major threat."[2] The countries must do so because there is anarchy on the international scene, which means that there is no overarching supreme power above the states that would provide protection to any of them in case of aggression by a dominant power.

For this same reason, the lack of protection, nations also thrive to maximize their national security, which is the other relevant IR theory in terms of states' survival. From the old approach of militarization as the only means of achieving national security, by the 20th century the concept expanded to include non-military aspects of securitization, such as economic security, energy security, and even environmental security.

Energy security, which concerns this paper, has been defined in numerous ways. Perhaps the most widespread definition, also used by the well-known energy expert, Daniel Yergin, describes security of energy as "the availability of sufficient supplies at affordable prices."[3] Two of the fundamental sources of energy in our time, oil and gas, are concentrated in a few geographical regions. Political stability of these regions aside, it poses a challenge for net oil- and gas-importing

[2] Stephen M. Walt, "Alliance Formation and the Balance of World Power", *International Security* 9, no. 4 (1985): 3-43.
[3] Daniel Yergin, "Ensuring Energy Security", *Foreign Affairs* 85, no. 2 (2006): 69-82, pg70-71, accessed Feb 12, 2014,http://www.jstor.org/stable/20031912

nations to access these fossil fuel sources, have a continuous flow of these sources, at stable, reasonable prices.

In light of the above we have been witnessing a strange phenomenon in Europe today that seems to contradict the above basic theories on nations' survival. The countries in question are Russia, the largest energy supplier of the EU; Germany, with the strongest economy in the Union; and the relatively new EU-member state, Poland, a direct neighbor of Russia and former satellite state of its predecessor, the Soviet Union. Germany and Poland are both energy importers of Russian fossil fuels. Moscow, taking advantage of its crucial strategic role as the primary energy provider to most European states, has been known to use its status as a foreign policy tool; a number of nations have been subjected to the Kremlin's arbitrary decision to cut off oil or gas supplies to influence the government in question to change its standing on a political matter.

Russia having this reputation, it is safe to assume that both Germany and Poland actively seek to reduce their energy dependence on the EU's largest neighbor and its dreaded hegemony not-so-long ago, whose political elite still actively applies Cold-War-tactics to reach a political goal. It is also a logical inference that as a strategic political decision, Germany seeks to balance Moscow, while Poland, having fewer resources and a much smaller political weight, is more likely to bandwagon, and this tendency strongly applies to their energy politics.

Notwithstanding, we have been witnesses of Germany making a series of decisions that either increase its energy dependence on Russia or in some other way puts the country in a bandwagoning position. A prime example of this behavior was the construction of the Nord Stream pipeline, which, without a doubt, increased the dependence of not only Germany but also the entire EU.[4] Another sign of Germany's alliance-seeking efforts with Russia in the energy realm have

[4] Name Author/Editor, "Nord Stream Pipeline Feeds Europe's Natural Gas Dependence", *Stratfor Geopolitical Diary* (Oct2012): 1, accessed Feb 12, 2014,

been its reluctance to actively support the EU's efforts to create a single European energy market. Last but not least, intertwined German-Russian business relationships, which amounted to 37 billion euros worth of German exports in 2013, are also making Berlin seek closer ties with Moscow, despite the disapproval of many member states of the EU.[5]

In contrast, Poland has been actively seeking ways to reduce its dependence on Russian energy and to balance the Eastern European hegemon at the same time. Varsaw makes a special effort trying to diversify away from Russian resources by researching its shale gas resources or by building a new LNG terminal, for example. The Polish government is also the "flag-bearer" of the single European energy market; most recently the President himself reminded the European Union that the lack of a single market and the ability to purchase natural gas as a single entity costs the Union approximately 30 billion euros per year.[6] Another balancing approach of Poland is regional alliances with the Baltic States, as well as strengthening ties with the United States, both in order to decrease Moscow's stronghold.

Based on the overall actions of the two governments the conclusion is that in terms of energy politics, Poland is the one that balances Russian influence, while Germany seems to bandwagon. This phenomenon confutes both the Balance of Power theory and the National Security theory and is a puzzle that is worth researching.

2014, http://eds.a.ebscohost.com/eds/detail?vid=4&sid=c875858b-9bf8-46fc-a1e9-f5bfe1f9d44c%40sessionmgr4002&hid=4208&bdata=JnNpdGU9ZWRzLWxpdmU%3d#db=bth&AN=87041183

[5] Alison Smale and Stanley Reed, "German Firm's Sale to Russians Draws Fire", *The New York Times*(March 17, 2014): 1, accessed MARCH 28, 2014,http://www.nytimes.com/2014/03/18/business/international/german-firms-sale-to-russians-draws-fire.html

[6] Name Author/Editor, "Poland's Tusk Says Eu Energy Divisions Cost 30 Billion Euros/year", *Reuters* (wed May 21, 2014): 1, accessed Wed May 26, 2014, http://www.reuters.com/article/2014/05/21/us-ukraine-crisis-eu-tusk-idUSBREA4K0RN20140521

While energy politics is a popular research subject today, much less literature exists on the application of certain IR theories on a particular energy policy setting, and even less conduct an actual comparison study of energy consuming nations, while applying the realist framework to and testing it on their cases. Therefore I hope that the practicability of this thesis will contribute to the existing literature this way. The study is also worth investigating because it can shed light on nations' seemingly irrational actions, especially those that have a direct effect on their national security.

While writing this thesis, significant events – namely, Russia's annexation of Krimea and with that, 25 years of a peaceful era in post-war European history possibly ended. As the thesis was already actively ongoing when Euromaidan shook the world, the Ukrainian events and their effect on Russian-Polish and Russian-German (energy) relations was not the scope of this thesis. Nevertheless, researching the effect of Ukraine's destabilization by Russia in Russian-European energy relations could well be an interesting continuation of this paper.

The body of the thesis is structured according to the following: first the theoretical framework will be discussed. Next, energy security will be reviewed in the European framework, and the EU's energy policy vis-à-vis Russia. This is followed by an overall review of Germany's energy map, its energy-related historical background and its bilateral relations with Russia. The same information will be shared regarding Poland. Eventually, in the analysis the theory will be applied to the cases and answer seeked to the thesis question, followed by a short conclusion.

Methodology

After coming across the puzzle that Germany and Poland don't quite behave as theory suggests, the goal was to apply the balance of power theory to the cases while monitoring everything through the "energy policy-lens." The hypothesis will be investigated through statistical

data in the energy sector, as well as an overall analysis of the European, the German, the Polish, and the Russian energy policy framework. Bilateral trade and political agreements will be examined, as well as business practices assessed. Presidential speeches, expert opinions, energy studies, and a multitude of reliable articles will be analyzed to find an answer for our research question.

CHAPTER 1. THEORETICAL FRAMEWORK

1.1. IR Theories of National Security

In the following chapter some relevant International Relations (IR) theories will be introduced and analyzed which can potentially explain Germany and Poland's differing attitude to Russia in their energy dealings. Theories can help us recognize universal "rules" in states' behavior towards other states on the international scene, and due to those rules, explain consequential behaviors in their political or economic inter-state affairs.

For the sake of explaining the position of the two countries in question, we must analyze realist IR theories, which primarily deal with nations' security and power. (The reason why nations' energy industry is considered a security and power question will also be explained in this chapter.) The basic tenet of all realist IR theories is that in international relations the most important goal of individual states is survival, since states need to survive to be able to pursue other goals. Survival is not a given precondition because there is anarchy on the international scene. Anarchy among the nations doesn't mean global chaos; it simply means that there is no overarching supreme power above the states which would make decisions in interstate disputes or which would provide protection to any of them in case of aggression by a dominant power. There is no "government of governments;" as the well-known IR theorist, John Mearsheimer once put it.[7] This anarchical situation also gives some powerful states the opportunity to gain more power by conquest, which again threatens other countries' existence. The lack of protection makes all nations, regardless of their level of power, security maximizers. That is, states' survival becomes conditional of their national security.

[7] John J. Mearsheimer, "The False Promise of International Institutions", *International Security* 19, no. 3 (10/05/2009): 5-49, pg 10, accessed 03/05/2014, http://www.jstor.org/stable/2539078

National security has been described in multiple ways, lacking any universally agreed definition. Very simply termed by political scientist Harold Lasswell, national security is "freedom from foreign dictation."[8] Harold Brown, a former U.S. Secretary of Defense, gave a more detailed definition: "National security then is the ability to preserve the nation's physical integrity and territory; to maintain its economic relations with the rest of the world on reasonable terms; to preserve its nature, institution, and governance from disruption from outside; and to control its borders."[9] This term rightfully includes multiple aspects of states' quest for self-preservation; from the old approach of militarization as the only means of achieving national security, by the 20th century the concept expanded to include non-military aspects of securitization, such as economic security, energy security, and even environmental security. The reason why these aspects became part of the securitization agenda is multi-faceted. However, it is interesting to see that economic security became embedded in national security when it became clear that energy security – or rather the lack of it – can have disastrous implications on a nation's daily economic activities. As economics professor Donald Losman points it out, it was none other than the 1973 oil embargo – which brought the entire US economy to a halt – that marked economic security becoming part of the securitization process.[10]

1.2. Energy Security

Energy security, which concerns this paper, has been defined in numerous ways. Perhaps the most widespread definition, also used by the well-known energy expert, Daniel Yergin,

[8] Joseph J. Romm, *Defining National Security: The Nonmilitary Aspects* (New York: Council on Foreign Relations Press, 1993), 79.
[9] Harold Brown, *U.s. National Security* (publication place: ABC-CLIO, Inc., 2008), 1.
[10] Donald Losman, "Economic Security: A National Security Folly?", *POLICY ANALYSIS NO. 409* (August 1, 2001): 1, accessed February 18, 2014, http://www.cato.org/publications/policy-analysis/economic-security-national-security-folly

describes security of energy as "the availability of sufficient supplies at affordable prices."[11] Two of the fundamental sources of energy in our time, crude oil and natural gas, are concentrated in a few geographical regions. Political stability of these regions aside, it poses a challenge for net oil- and gas-importing nations to access these fossil fuel sources and have a continuous flow of these sources at stable, reasonable prices. As Winston Churchill once put it, "Safety and certainty in oil lie in variety and variety alone."[12] Even though his remark was a reference to his WWII game-changer decision to convert the fleet of the Royal Navy from coal to oil for its power source, – a move that contributed to the defeat of the German Navy by Britain – the message is universal; to be able to run a stable economy, a government shall strive to have access to both a variety of energy sources and a variety of suppliers of these sources at the same time.

It is not only military advancement that made energy security become an integral part of national security. In 2006 Barack Obama, then a US senator, made a speech, subtly dubbed "Energy Security is National Security," at an energy-coalition assembly. In his address he emphasized the OPEC countries' influence on US foreign policy, the disastrous effects of global warming, and the creation of "new jobs and entire [sic] new industries," among other motivating factors to gain energy independence from foreign powers.[13] Many of these states are politically unstable or simply don't hold the same democratic values as America; both important aspects that can have a disastrous effect on energy supply, and subsequently, on the national security of the

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11 Donald Losman, "Economic Security: A National Security Folly?", *POLICY ANALYSIS NO. 409* (August 1, 2001): 1, accessed February 18, 2014, http://www.cato.org/publications/policy-analysis/economic-security-national-security-folly
Daniel Yergin, "Ensuring Energy Security", *Foreign Affairs* 85, no. 2 (Mar-Apr 2006): 1, accessed Mar 1, 2014, http://www.jstor.org/stable/20031912

12 Ibid, p 69.

13 "Energy Security Is National Security - Remarks of Senator Barack Obama," Best Speeches of Barack Obama through his 2009 Inauguration, February 28, 2006, accessed June 1, 2014, http://obamaspeeches.com/054-Energy-Security-is-National-Security-Governors-Ethanol-Coalition-Obama-Speech.htm

United States or any other country, for that matter. However, he best summed up his entire speech in a well-phrased sentence:

> "It's a realization that for all of our military might and economic dominance,
> the Achilles heel of the most powerful country on Earth is the oil we cannot live without."[14]

1.3. Balance of Power Theory

Now that we effectively argued why energy security is a fundamental element of national security, let's take a look at the realist IR theories to find the one that best describes the behavior of both Berlin and Warsaw towards Moscow. The basic assumptions are that (1) both Germany and Poland consider energy security a part of their national security agenda; (2) both Germany and Poland look upon Russia as Europe's primary energy provider, whose fail to deliver would have disastrous consequences on their economies and subsequently, their national security; (3) both countries are aware that Russia does not hesitate to use its powerful energy supplier role as a foreign policy tool to extract political concessions; and (4) both Germany and Russia make all possible efforts to prevent Russia from creating a situation that can be potentially dangerous from a national security point-of-view by manipulating energy supplies.

In light of the above the most fitting realist IR theory that will provide the basis of this thesis is the balance-of-power theory. The theory fundamentally is about alliance formation, and two famed neorealists, Kenneth Waltz and Stephen Walt both intensively applied it to be able to explain significant world events.

[14] ibid

According to Kenneth Waltz, founder of neorealism and a prominent balance-of-power theorist, certain assumptions must be established about the theory itself. The first assumption is that the states "are unitary actors, which, at a minimum, seek their own preservation, and, at a maximum, drive for universal domination.[15] The second assumption is that the states, or the ones who act for the states, are rational actors that will apply the logical methods at their disposal in order to achieve the state's ultimate goal of survival and prosperity. These methods can be either internal or external. Increasing economic capability, strengthening one's military "muscle", and coming up with viable strategies would qualify as internal methods. External efforts include building up and strengthening alliances or weakening or decreasing the opposition's alliances in size.[16] Applying the external method of "aligning" requires at least three participants, but, as Waltz states, this is not necessary because "in a two-power system the politics of balance continue, but the way to compensate for an incipient external disequilibrium is primarily by intensifying one's internal efforts."[17] This is an important thought that, as we will see, has a significance in Poland's interstate positioning. Another important assumption, which becomes the condition for these states to operate among one another, is that these states coexist in a self-help system, in which there is no supranational power that would serve or give special treatment to any of them, or would prevent them from using whatever methods serve their goals of survival or predominance, according to Waltz. What we get is a formation of balances of power.[18] This international system works just like a market in economics. It provides a platform for the players to have certain kinds of interactions among one another, dictated by the very nature of this platform.[19]

[15] Kenneth Waltz, *Theory of International Politics* (publication place: Addison-Wesley Pub. Co., 1979), 118.
[16] ibid
[17] ibid
[18] ibid
[19] ibid

Waltz also clarifies the essence of the self-help system. He states that in a self-help system states have to fend for themselves, otherwise they will be left behind other nations and they will also be subject to danger. This system requires its players to form alliances, thus creating balances of power. A precondition of that is the ever present need for self-preservation. Now, that does not have to be a predominant feature of all states; it is enough if only a few nations strive for an increase of power. However, the fact that it is unknown whether any states have intentions to destroy or overpower other states, keeps them "on their toe".[20]

Here come in the two ultimate ways to keep a dominant power in "check" or rather to react to the dominant power as an external threat: balancing and bandwagoning. Our other brilliant neorealist, Stephen Walt, simply describes balancing as "allying with others against the prevailing threat" and bandwagoning as "alignment with the source of danger."[21] He goes on to claim that if balancing is more prevailing on the global stage than bandwagoning, the result is more security for the international community because there is a united stand taken against the dominant power. However, if bandwagoning is the main tendency, it causes an unsecure structure because the hegemon striving for power can attract more countries to align with him, and this way the entire alliance will be more powerful than the opposing group of nations.[22]

1.3.1. Balancing and Bandwagoning Behavior

The entire balancing-bandwagoning concept is built on the assumption that nations try to fend off being dominated by more powerful nations via forming alliances. The ultimate purpose of alliance formation is self-protection against threat posed by stronger, more resourceful states or blocs of

[20] Kenneth Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley Pub. Co., 1979), 118.
[21] Stephen M. Walt, *The Origins of Alliances - Alliances: Balancing and Bandwagoning* (publication place: Cornell University Press, 1967), 110-17, p110, accessed March 10, 2014,http://www.ou.edu/uschina/texts/WaltAlliances.pdf
[22] ibid

states.[23] There are two reasons why states decide to balance. One is letting a dominant state become too powerful threaten their very existence.

Walt also points out that "to ally with the dominant power means placing one's trust in its continued benevolence".[24] Therefore strategically speaking, it is a wiser choice to form an alliance with nations that are not able to dominate the allies, instead of joining a powerful state that easily can. The second reason is that teaming up with weaker nations gives the state the opportunity to have a greater influence in its newly formed alliance, since they need more of a support, therefore this latter is a wiser decision.[25]

Walt makes an important observation based on the theoretical literature. The general idea, he says, is that states decide on balancing or bandwagoning based on capabilities. However, there are other factors that state leaders take into consideration when deciding on which side to take. Power is not the only aspect, he argues; a more exact statement would be that "states tend to ally with or against the foreign power that poses the greatest threat."[26] This can be the case when a weaker power actually poses more of a threat, regardless of its weakness, urging states to align with the great power; Nazi Germany in WWII was one such power, according to Walt. Besides the strength of the state, aggregate power, geographic proximity, offensive power, and aggressive intentions must also be considered when a state intends to form alliances.[27]

[23] ibid
[24] ibid
[25] idem p111
[26] Stephen M. Walt, *The Origins of Alliances - Alliances: Balancing and Bandwagoning* (publication place: Cornell University Press, 1967), 110-17, p112, accessed March 10, 2014,http://www.ou.edu/uschina/texts/WaltAlliances.pdf
[27] ibid

1.3.2. Balancing and Bandwagoning - Implications

Walt then deals with the question of which balance-of-power method has more validity, since this has a direct effect on politics. He claims that if balancing is more dominant, the aggressor is the one provoking the other states to form an alliance against it. This has an effect on integrity, because when allied states withstand the hegemon, they do so for the sake of their own self-interest, not as a response by pressure of the others in the alliance. Therefore the chance of allied states to defect is minuscule.[28] As a consequence, political leaders will also realize that acts reflecting domination will encourage balancing, which in return discourages aggressive behavior.

Bandwagoning, on the other end, is a much more competitive form of alliance, according to Walt.[29] In this case the most aggressive nations are practically being recognized for their belligerence by the weaker countries, if the latter choose to ally with them because of their strength. This results in more intense international competition because "a single defeat may signal the decline of one side and the ascendancy of the other."[30] The danger of that is that in a bandwagoning situation it can cause further defections and an overall setback in power relations. What is more, when politicians observe that bandwagoning is becoming more and more common, they are more likely to use aggressive measures, and this is valid for both aggressors and status quo powers, says Walt.[31] While the aggressor would use force thinking that the rest of the states probably choose not to balance against it, the status quo nations will act the same way because "they will fear the gains their opponents will make by appearing powerful and resolute."

Finally, Waltz sheds light on the fact that states can make a serious mistake when they misjudge other nations' aptitude to either balance or bandwagon, because they adjust their policies

[28] ibid
[29] idem p113
[30] ibid
[31] ibid

to the assumed action, which can be greatly damaging if the states in question decide to act the opposite way. If a country's leadership makes policies assuming balancing when bandwagoning is in order, their good faith and cautious actions can cause the allied countries to desert, leaving them defenseless. However, if a country's political elite pursues bandwagoning policies (meaning, applying threats and power on a regular basis) when in reality balancing is taking place, the remaining nations will make an increased effort to resist the aggressor.[32]

This latter can be observed currently in Russia and Poland's relationship. Russia is trying to pressure Poland to yield towards selling energy facilities to Russian owned energy conglomerates, applying multiple methods; the only result is Poland's increasing opposition to let Moscow get involved in Poland's energy ownership relations and Warsaw's intensified lobbying in Brussels to get the EU form a unified energy market.

[32] ibid

CHAPTER 2. ENERGY SECURITY IN THE EUROPEAN CONTEXT

2.1. The European Unified Energy Market – or rather, the lack of it

2.1.1. EU Energy Industry Regulations

According to the European Union's legislation summary, the organization has set the goal to create an overall energy policy that includes the full scale of energy sources, from fossil fuels to renewable energy sources to nuclear energy generation. The aim is to meet the energy challenges of the continent, such as increasing energy import dependence, climate change, or the challenge to have access to affordable, secure energy for all consumers.[33]

Multiple energy initiatives were born throughout the years to address the above goals in the form of documents, green papers encouraging discussions among policy makers and energy suppliers, policies, and finally the Treaty of Lisbon.

Long overdue, the Treaty of Lisbon, signed in 2007 and entered into force in 2009, was the first in a series of EU treaties that included a chapter on energy regulation at the European level. The purpose of the chapter, according to the Treaty, was "the establishment and functioning of the internal market and […] the need to preserve and improve the environment," emphasizing the "spirit of solidarity between Member States."[34]

Article 194 of the document set up the following objectives for the Union in the energy realm:

(a) ensure the functioning of the energy market;

(b) ensure security of energy supply in the Union;

[33] "Summaries of Eu Legislation - Energy," Europa, accessed March 15, 2014,http://europa.eu/legislation_summaries/energy/index_en.htm

[34] "Article 194," The Lisbon Treaty, 2013, accessed March 17, 2014, http://www.lisbon-treaty.org/wcm/the-lisbon-treaty/treaty-on-the-functioning-of-the-european-union-and-comments/part-3-union-policies-and-internal-actions/title-xxi-energy/485-article-194.html

(c) promote energy efficiency and energy saving and the development of new and renewable forms of energy; and

(d) promote the interconnection of energy networks[35]

The chapter emphasized that the above goals are not intended to limit or intervene with the Member States' jurisdiction in selecting and extracting their energy resources, or to determine the composition of their energy industry in any way.[36] Therefore the treaty, besides emphasizing the need for the strengthening of EU-wide cooperation in the energy realm, maintained the member states' right to make decisions in energy-related questions on the national level, thus severely weakening their solidarity.

An additional section was included in Article 122 of the Treaty, which says:

"… the Council, on a proposal from the Commission, may decide, in a spirit of solidarity between Member States, upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products, notably in the area of energy."

This clause was included for the special request of Poland, which demanded that the Treaty make guarantees of mutual assistance among Member States in case certain members or an entire region of the EU is cut off from supply of energy sources.[37]

[35] ibid
[36] ibid
[37] Dorthe Wolfsgruber and Gunnar Boye Olesen, "The Lisbon Treaty and Sustainable Energy," INFORSE Europe - International Network for Sustainable Energy, December, 2010, accessed June 1, 2014,http://www.inforse.org/europe/eu_table_lisbon.htm

According to the European branch of the International Network for Sustainable Energy, Article 194 represents a commitment towards energy policy harmonization in the European context, since the preceding EC Treaty did not place energy issues in the EU's scope of authority. Nevertheless, the Union has made previous efforts to affect the energy sector by regulating the internal market, the environment, or the competition policy areas.[38]

A working paper by EU policy researcher Jan Frederik Braun analyzes whether the Article made a significant impact on the share of responsibilities in the energy field; in other words, if a new policy era has begun with the Treaty in the energy realm or if the energy sector has not been significantly impacted in terms of ownership of responsibilities. His conclusion is that the inclusion of the energy competency in the Treaty did not have a large impact on the policymaking process.[39] The new measures that make energy a common mandate between the EU and the member states do little to specify which particular provisions belong under the EU umbrella, which makes the "solidarity" aspect hard to implement. In vain does the EU adopt provisions to face energy security challenges if the member states have no legal obligation to act on the "spirit of solidarity".[40] Nevertheless, the new Treaty enhances the Member States' unified representation towards non-EU countries by newly added institutional actors, such as the EC President or the High Representative.[41]

[38] ibid
[39] Jan Frederik Braun, "Eu Energy Policy under the Treaty of Lisbon Rules: Between a New Policy and Business as Usual" (politics and Institutions, EPIN Papers, City, Date), 8, accessed March 19, 2014,http://www.ceps.eu/book/eu-energy-policy-under-treaty-lisbon-rules-between-new-policy-and-business-usual
[40] Jan Frederik Braun, "Eu Energy Policy under the Treaty of Lisbon Rules: Between a New Policy and Business as Usual" (politics and Institutions, EPIN Papers, City, Date), 2, accessed March 19, 2014,http://www.ceps.eu/book/eu-energy-policy-under-treaty-lisbon-rules-between-new-policy-and-business-usual
[41] Jan Frederik Braun, "Eu Energy Policy under the Treaty of Lisbon Rules: Between a New Policy and Business as Usual" (politics and Institutions, EPIN Papers, City, Date), 8, accessed March 19,

2.1.2. Lack of a unified EU Energy Market

The lack of a unified energy market poses a serious problem for two main reasons. For one, a fragmented EU market, without an integrated market, energy demand, and bargaining power, is not able to get a favorable price for fossil fuels or raw materials of any kind. The European member states have been making bilateral agreements with the large suppliers, Russia included, with more or less success, as far as price is concerned. This shortcoming costs Europe heavily in the form of industrial competitiveness.[42] As it was highlighted at a Competitiveness Council meeting in February this year, Europe's extremely high energy prices have been making it increasingly difficult for the continent's large manufacturers to compete with, for example, the United States. In Europe energy prices, more exactly, electricity and natural gas, cost two-to-three times more than on the other side of the Atlantic or in Russia.[43] The shale gas revolution, which made the United States a gas exporter country out of an importer in a matter of years, undoubtedly had a role in it. To make matters worse, Europe has been pursuing an ambitious climate policy, where energy prices are subordinated to environmental measures. Carbon costs, surcharges, and taxes were introduced to reduce carbon emission and to subsidize alternative (solar and wind) power generation. However, these energy sources are both "largely uncompetitive and unreliable", according to a European Chemical Industry Council (CEFIC) representative. As he explains, alternative energy sources have been given priority access to the grids, which hinders the energy market liberalization of the EU and the creation of a unified internal market for energy.[44]

2014,http://www.ceps.eu/book/eu-energy-policy-under-treaty-lisbon-rules-between-new-policy-and-business-usual

[42] Georgi Gotev and Frédéric Simon, "Eu's Re-Industrialisation Dream 'hostage' of High Energy Prices,"*Euractiv - News*, 26/02/2014, 1, accessed March 20, 2014, http://www.euractiv.com/specialreport-industrial-renaiss/eu-industrialisation-plan-hostag-news-533723

[43] ibid

[44] ibid

According to the representative "EU policies should instead focus on diversifying energy supplies, putting in place a functioning single energy market, and introduce climate policies that encourage rather than hinder growth in the manufacturing sector."[45] Even though the change of direction in energy policy making would cause dissatisfaction among the environmentalists, it would also help curbing the high EU unemployment rate, which currently counts around 20 million people out of jobs.[46]

The second serious consequence for the EU not having a single, unified energy market is that the Union becomes subjected both economically and politically to its largest energy supplier, Russia. The extent of this dependence, and how Moscow uses its number one energy supplier role towards the EU will be discussed in the next section.

2.2. Russia – The Energy Provider for the EU

Russia plays a major role in the European energy market. It is the EU's largest provider of imported energy, supplying 34.5 % of all of Europe's crude oil and 31.8 % of all its natural gas imports in 2010.[47] Since Russia is the number one energy exporter of the EU in both these sources, providing over three times as much oil and gas as the next three exporter (not considering Norway, a non-EU but European Economic Area-member)[48], it is safe to say that the EU's dependence on Russian energy is uncomfortably huge.

[45] ibid
[46] ibid
[47] "Main Origin of Primary Energy Imports, Eu-27, 2002-2010 (% of Extra Eu-27 Imports).png," European Commission - Eurostat, October 12, 2012, accessed March 21, 2014,http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=File:Main_origin_of_primary_energy_imports,_EU-27,_2002-2010_(%25_of_extra_EU-27_imports).png&filetimestamp=20121012131852
[48] "File: Main Origin of Primary Energy Imports, Eu-28, 2002–12 (% of Extra Eu-28 Imports) Yb14.png," European Commission - Eurostat, May 14, 2014, accessed May 21, 2014,http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/File:Main_origin_of_primary_energy_imports,_EU-28,_2002%E2%80%9312_(%25_of_extra_EU-28_imports)_YB14.png

However, Russia equally relies on the EU for export markets. In 2009, 80 % of Russia's oil exports and 70 % of its gas exports ended up in the European Union[49]. The European countries made some effort to diversify in the first decade of the new millennium. They managed to reduce their dependence on Russian gas from 45 % in 2002 to 31.8 % in 2010. As for crude oil, they were not successful; the rate of import from Russia actually increased between 2002 and 2010, from 29.2 % to 34.5 %.

According to a CENAA analysis on the nature of the energy relationship between the EU and Russia, there are three distinctive features of the two powers' relations, all of which have an adverse effect on the overall dynamics of this energy affair.[50] The first feature is an asymmetrical interdependence between them, as Russia is more dependent on the EU's energy market than the Union is on Russia's fossil fuel supplies.[51] The study supports this assumption by the fact that the EU can turn to other energy supplies, such as nuclear, renewables, or LNG, or other suppliers (e.g. Norway, North Africa for gas; Libya, or Saudi Arabia for oil) which makes its vulnerability vis-à-vis Russia relatively low. At the same time, Russia is more vulnerable to unforeseen changes in the two parties' energy relations because it "does not have real alternatives of diversification of natural resources (natural gas or oil) in the short and medium term."[52] However, in regards to this statement some distinction needs to be made between "old" and "new" Europe. The old member states can diversify in terms of suppliers, supply routes, or energy types much easier than the newly joined East-

[49] "Energy from Abroad - Eu-Russia Energy Relations," European Commission - Energy, accessed March 22, 2014, http://ec.europa.eu/energy/international/russia/russia_en.htm
[50] Tichý Lukáš, "Controversial Issues in the Eu-Russia Energy Relations," Centre for European and North-Atlantic Affairs, 2012, p2, accessed March 23, 2014, http://cenaa.org/analysis/controversial-issues-in-the-eu-russia-energy-relations/
[51] idem p4
[52] ibid

Central European countries. As a matter of fact, the new MS have a huge disadvantage and an overly reliant position towards Moscow, since many of them receive an overwhelming percentage of oil and gas import from Russia. So, while the EU overall has a more advantageous position towards Russia in terms of dependency, the interdependence becomes asymmetrical for the former Eastern bloc, benefiting the Kremlin.[53]

The second feature is that the interests and goals of the two superpowers' energy industries are fundamentally different. The first and most important difference is that the EU's goal is to increase its variety of energy sources, energy suppliers, and transit routes on the short and medium term; on long term, however, the ultimate aim is to reduce dependence on energy import of any kind. Russia, on the other hand, strives to cement its energy supplier status in Europe and aims to maintain the EU's heavy dependence on Russian import. These contrasting objectives have multiple manifestations from both sides. The EU energy policy's objective is a fully liberalized internal electricity and gas market, as well as gas supply diversification by developing alternate pipelines. The "southern corridor," that is, a new pipeline – or system of pipelines – which would deliver gas from either the Caspian, the Black sea, the Central Asian or the North African and Middle Eastern regions, without crossing Russian territory or supplying Russian gas, is aimed to fulfill that goal.[54]

The Russian interests dictate an entirely opposing set of policies, partly because Russia's energy policy has contrasting features: competitive market elements paired with increasing state influence.[55] For Russia the main source of income is the EU, primarily from gas exports, therefore it is in the Kremlin's utmost interest to increase its influence (via its state-owned gas giant, Gazprom) on the European continent and maintain the EU's energy dependence. European sales

[53] ibid
[54] idem p7-8
[55] idem pg5

make up 60 % of Gazprom's revenues, and the gas company's revenues make up a staggering 20 % of the Russian state budget and 10 % of Russian GDP.[56]

Russia does not use its energy power role only for economic purposes. On the political stage it strives to be in the same league as the United States, China, or India. Energy gives the Kremlin the power to defend its sovereignty and promote its influence, especially towards the former Soviet member states.[57] The 2006 and 2009 gas disputes with the Ukraine, during which Russia turned off the gas flow to both its western neighbor and many EU countries due to Ukraine's non-payment and alleged siphoning off Russian gas, perfectly demonstrate the Kremlin's willingness to use energy as a foreign policy arm, which gives the EU MS, especially on the "eastern front," much to worry about. These events, however, also established Russia as a potentially unreliable energy provider that will subject its contractual commitments to political ambitions. The CENAA study also reaffirms the EU and Russia's "certain level of mutual distrust"[58], besides the obvious interdependence. However, while the EU accepts and works within the framework of mutual interdependence, Russia refuses to be dependent, either economically or politically, on any other political actor. On the contrary, it aspires to make other nations dependent on Moscow. This attitude is reflected in the Kremlin's behavior, which sees energy politics as a zero-sum game. The same motives made Russia refuse ratifying the Energy Charter Treaty: signing the document would have forced Russia "to open up its network for cheaper gas from Central Asia […] and the ratification would [have] jeopardized the system of long-term contracts for supplies of Russian gas to Europe that Russia relies on."[59] In essence, the two powers' different objectives get in the way of increased cooperation in the energy sector.

[56] ibid
[57] ibid
[58] idem pg9
[59] idem pg10

CHAPTER 3. THE CASE STUDY OF GERMANY

3.1. German Energy Statistics

3.1.1. The German Oil Sector

Oil is the most significant energy source in Germany, though its importance has been steadily declining for a few decades.[60] Currently it makes up 32 % of the total primary energy supply. The country's oil production is insignificant; it adds up to about 2 % of the domestic use, which means that almost the entire oil consumption must come from imports.[61] German oil import was 2,515 kb/d in 2011 and the source of import is fairly well diversified. The countries of the former Soviet Union give about half (50.8 %) of all oil imports, 25 % comes from mostly European OECD countries, and 18.2 % is imported from OPEC, more exactly Nigeria, Algeria, Libya, and Angola.[62] Oil comes in two main channels to Germany: pipelines and seaports. The four cross-border pipelines deliver oil from Western Europe (from Italy, France, and the Netherlands) and from Russia. Three of the seaports are located on the Northern Sea, while one is on the Baltic coast.[63]

3.1.2. The German Natural Gas Sector

Natural gas consumption, similarly to oil consumption, has been on the decline as well; gas usage dropped about 10 % between 2006 and 2012.[64] Interestingly, government officials expect the

[60] "Oil and Gas Security - Germany," International Energy Agency, 2012, p3, accessed April 1, 2014,http://www.iea.org/publications/freepublications/publication/GermanyOSS.pdf
[61] idem p6
[62] ibid
[63] ibid
[64] idem p18

share of natural gas in the TPES to increase on the medium run; at the same time, they expect gas consumption to decrease on long term due to energy efficiency measures.[65]

Gas import is significant; Germany produces about 14 % of all necessary gas (which rate has been steadily declining), the other 86 % must be fulfilled from imported resources. In 2010 the three main natural gas providers were Russia, delivering 39 % of all import, followed by Norway with 35 % and the Netherlands with 22 %.[66] Germany does not own any LNG terminals but plans have been made for three new regasification terminals in Rostock, on the Baltic Sea, and Wilhelmshafen, on the North Sea.[67] Currently all German imported gas comes through cross-border pipelines, including the Nord Stream pipeline, which delivers gas underneath the Baltic Sea directly from Russia to Germany with a capacity of 55 bcm.[68] Due to its central location in the European Union, the country is also becoming a transit hub for both Russia and Norway, delivering gas to other markets. Berlin created an entry and exit system for gas in line with EU requirements, reduced the number of markets to two, and improved both competition and the pricing mechanisms, thus creating a more liquid market.[69]

The production of unconventional gas by hydraulic fracturing – that is, shale gas fracking – has been a highly controversial issue in Germany. The government under Merkel has been keen to develop domestic sources of energy, especially after it decided to phase out nuclear power. While fracking on conventional reserves has been practiced in Germany since the 1960s, last year a draft regulation initiative gave way to hydraulic fracturing, with the stipulation that drilling in drinking

[65] ibid
[66] idem p19
[67] "Energy Delta Institute - Energy Business School - Germany,", accessed April 3, 2014,http://www.energydelta.org/mainmenu/energy-knowledge/country-gas-profiles/country-profile-germany#t42794
[68] "The Pipeline," Nord Stream, accessed Apr 3, 2014, http://www.nord-stream.com/pipeline/
[69] "Oil and Gas Security - Germany," International Energy Agency, 2012, p19, accessed April 2, 2014,http://www.iea.org/publications/freepublications/publication/GermanyOSS.pdf

water protection areas would be prohibited.[70] However, after massive resistance from both opposition party members and the people regarding the use of toxic chemicals in fracking and their potential effect on drinking water quality and the environment, there was a temporary ban placed on the procedure at the end of 2013 "until environmental issues are resolved."[71] The challenge arises from the fact that energy prices in Germany are four times higher than, for example, in the United States, where shale gas extraction slashed gas prices and turned the country from a gas importer into a gas exporter.[72] While both industry experts and business lobbies state that fracking should be considered as a way to balance Russia and maintain manufacturing competitiveness[73], the resistance of both the public and the opposition government might mean that shale gas fracking is not a viable option of domestic gas production in Germany in the foreseeable future.

3.1.3. The German Coal Sector

Germany was one of the world's top ten coal producers in 2012, having produced 197 million tons that year.[74] In brown coal production, which is the most polluting type of fuel, German production stood at first place worldwide, producing 185 Mt that same year.[75] The produced coal is used in the manufacturing and energy producing sectors. In 2013 electricity

[70] Stefan Nicola and Tino Andresen, "Germany Agrees On Regulation to Allow Fracking for Shale Gas,"*Bloomberg*, Feb 26, 2013, 1, accessed Apr 13, 2014, http://www.bloomberg.com/news/2013-02-26/germany-agrees-on-regulation-to-permit-fracking-for-shale-gas.html
[71] Stefan Nicola, "Germany Agrees On Regulation to Allow Fracking for Shale Gas," *Bloomberg*, Nov 8, 2013, 1, accessed Apr 14, 2014, http://www.bloomberg.com/news/2013-11-08/no-fracking-in-germany-for-now-backed-in-merkel-coalition.html
[72] Stefan Nicola and Tino Andresen, "Germany Agrees On Regulation to Allow Fracking for Shale Gas,"*Bloomberg*, Feb 26, 2013, 1, accessed Apr 13, 2014, http://www.bloomberg.com/news/2013-02-26/germany-agrees-on-regulation-to-permit-fracking-for-shale-gas.html
[73] Christopher Helman, "China-Russia Gas Deal Should Unleash a Euro-Fracking Revolution," *Forbes*, 5/21/2014, 1, accessed May 22, 2014, http://www.forbes.com/sites/christopherhelman/2014/05/21/china-russia-gas-deal-should-unleash-a-euro-fracking-revolution/
[74] *World Coal Association*, Coal Statistics, August 2013, 1, accessed Apr 16, 2014,http://www.worldcoal.org/resources/coal-statistics/
[75] ibid

production from brown coal reached its highest level since 1990; a controversial statistical data, considering Germany's world leading efforts to reduce greenhouse gases and to increase the percentage of green energy sources in power generation.[76]

The dilemma with coal production is very similar to that of shale gas; its availability could help Germany have a more balanced mix of energy sources, which in turn could reduce the country's dependence on fossil fuel imports. In addition to pollution, a number of small villages have already been "sacrificed" to large-scale coal production, which also does not sit well with the general public.[77] However, if Berlin wants the country to stay competitive at world markets, it needs to take advantage of coal, which is readily available in huge quantities. Therefore Berlin has a serious challenge to balance its desire to reduce fossil fuel imports and replace the soon-to-be phased out nuclear power with coal production, and its responsibility to address both environmental concerns and Germans' dissatisfaction.

3.1.4. The German Nuclear Energy Sector

In early 2011 nuclear energy provided about a quarter of Germany's total electricity, from a total of seventeen reactors.[78] After the 1970s nuclear phase-out as a policy resurfaced again in 1998 when the Green Party, as part of the newly elected coalition government, was voted into the Parliament. With their influence the nuclear exit law was instituted.[79] In 2009 this law was then cancelled by Merkel who recognized that a too early phase-out would threaten the goal to reduce

[76] Stefan Wagstyl, "German Coal Use at Highest Level Since 1990," *Financial Times*, January 7, 2014, 1, accessed April 18, 2014, http://www.ft.com/intl/cms/s/0/e6470600-77bf-11e3-807e-00144feabdc0.html#axzz33Dq30oms

[77] "German Coal Mine Turns Village Into Ghost Town," *AFP - The Local*, 08 Sep 2013, accessed April 10, 2014,http://www.thelocal.de/20130908/51811

[78] "Nuclear Power in Germany," World Nuclear Organization, April, 2014, accessed April 22, 2014,http://www.world-nuclear.org/info/country-profiles/countries-g-n/germany/

[79] "Germany: To Phase Out or Not to Phase Out?," K1 Criticality Project, accessed Apr 22, 2014,http://k1project.org/germany-to-phase-out-or-not-to-phase-out/

greenhouse emission targets, besides other consequences.[80] After the Fukushima Daiichi catastrophe in 2011, the grave nuclear power plant damage in Japan caused by a strong earthquake and tsunami, public pressure rose significantly to divert the country away from nuclear power. Berlin once again decided to overturn its decision and accelerate the phase-out of its nuclear power plants[81]. Eight out of the seventeen working reactors were shut down immediately, with plans to complete the closure of all the remaining reactors by 2022.[82] However, as Dr. Miranda Schreurs, director of the Environmental Policy Research Centre and Professor of Comparative Politics at the Freie Universität Berlin points it out, without the vibrant renewable energy sector that is hoped to become the motor of economic development one day, carrying through the nuclear phase-out policy would not have been possible.[83]

Currently the challenges are the following: nuclear power is clean, which, in light of the increasing production of the highly polluting coal, now seems a little more attractive option than two years ago. At the same time renewable energy sources are not 100 % reliable due to their dependence on weather conditions. Last but not least, Russia's increasing "muscle-flexing" as an energy provider to Europe makes nuclear phase-out a decision to rethink in the Bundestag.

3.1.5. German Renewable Energy Sources

Germany has made a huge leap in the past couple of decades in terms of developing its renewable energy sources. While the percentage of renewables in electricity production was approximately 3 % in 1990, it went up to 25 % by 2012.[84] Also in 2012 the makeup of renewable

[80] ibid
[81] Miranda A. Schreurs, "The Politics of Phase-Out", *Bulletin of the Atomic Scientists* 68, no. 6 (November 2012): 1.
[82] "Germany: To Phase Out or Not to Phase Out?," K1 Criticality Project, accessed Apr 22, 2014,http://k1project.org/germany-to-phase-out-or-not-to-phase-out/
[83] Miranda A. Schreurs, "The Politics of Phase-Out", *Bulletin of the Atomic Scientists* 68, no. 6 (November 2012): 1.
[84] ibid

energy generation was the following: 36 % wind, 22 % biomass, 21 % solar, 15 % hydropower, and 4 % other renewables.[85] Renewable energy sources are the basis of the so-called Energiewende, or Energy Transition, the country's flagship renewable energy program. The initiative has multiple purposes. It plans to "fight climate change, reduce energy imports, stimulate technology, and reduce the risk of nuclear power" as its main targets.[86] Renewables benefited many small- and medium-sized German enterprises and have created about 380,000 new jobs in the past decade or so, making the renewable energy industry one of the fastest growing segments of the German economy.[87] Clean energy sources help reduce CO2 emissions and help diversify the German economy so that it does not have to rely on traditional imported energy sources as heavily. Nevertheless, wind and solar power still has major challenges. They cannot be stored or delivered long distances, and energy generation is largely dependent on the weather conditions. Moreover, renewable energy costs are expensive, which causes Germany to pay 50 % more for its energy prices than the average in Europe.[88] These are still important challenges that the German government must take into consideration.

[85] "Germany: 26% of Electricity Renewable," Real Clear Energy, July 30, 2012, accessed April 30, 2012,http://www.realclearenergy.org/charticles/2012/07/30/germany_26_of_electricity_renewable_106644.html

[86] "Energy Transition - the German Energiewende," Energy Transition, accessed April 22, 2014,http://energytransition.de/

[87] Miranda A. Schreurs, "The Politics of Phase-Out", *Bulletin of the Atomic Scientists* 68, no. 6 (November 2012): 1.

[88] "German Energy Prices 50% Higher Than Eu Average: Mckinsey," EurActiv, February 07, 2014, accessed April 24, 2014, http://www.euractiv.com/sections/energy/german-energy-prices-50-higher-eu-average-mckinsey-269844

3.2. The German-Russian Energy Relations – Past and Present

German-Russian energy relations go all the way back to the 1960s and '70s, when the foundation of West Germany's famous Ostpolitik (Eastern Policy) was established. Egon Bahr, Chancellor Willy Brandt's adviser came up with the idea of "Change through Rapprochement," a political attitude of engagement rather than confrontation, to normalize the relationship between East and West Germany.[89] This approach, which the Bundestag hoped would make the communist regimes change curse eventually and start heading down on the path towards democracy, was soon applied to the Soviet Union as well. By the 1970s this appeasement approach had a strong economic undertone. "Wander durch Handel," that is, "Change through Trade," was the new slogan, as both the Bundestag and the Kremlin saw advantages in strengthening the two countries' economic relations.[90] Eventually it was the Soviet Minister of Foreign Affairs, Anatolii Gromyko, who suggested the "Gas for Pipelines" deal that both heads of state enthusiastically agreed on.[91]

German Chancellor Gerhardt Schröder took this relationship with Russia to a whole new level by becoming personal friends with Putin and launching the multi-billion dollar Nord Stream gas pipeline project just days before he left office in 2006. The project was a lucrative business and a strategic political move for both Germany and Russia. The Russian state-owned Gazprom owns 51 % of the pipeline, and two German energy companies, E.ON and Wintershall, the latter a BASF subsidy, each own 24.5 – 24.5 %.[92] The pipeline did not only reduce Germany's dependence on

[89] David J. Kramer, "Germany and Russia: The End of Ostpolitik?," *The American Interest*, 13 November 2012, 1, accessed April 29, 2014, http://www.the-american-interest.com/articles/2012/11/13/germany-and-russia-the-end-of-ostpolitik/
[90] http://www.economist.com/news/briefing/21599410-angela-merkel-and-her-foreign-minister-crisis-throwback-worse-times-which-war
[91] David J. Kramer, "Germany and Russia: The End of Ostpolitik?," *The American Interest*, 13 November 2012, 1, accessed April 29, 2014, http://www.the-american-interest.com/articles/2012/11/13/germany-and-russia-the-end-of-ostpolitik/
[92] Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (New York: Oxford University Press, 2008), 1. p157

Middle Eastern energy sources; it also made Russian energy more safely accessible by bypassing mainland transit countries. Nevertheless, the circumstances, in which Schroder pushed through the pipeline project to end up becoming the chairman of its board a mere 10 days after leaving office, created a huge controversy among both the German political elite and the general public, who suspected massive pre-arrangements between Schröder and his confidantes and the Kremlin. Nord Stream thus embodies the intertwinement of business interests and geopolitical interests both in Germany and Russia.

Throughout the years, due to the increasing energy and economic cooperation, Germany became sort of a representative of interests for Russia in Europe. Even though Russia is only Germany's 11th largest trading partner as of last year, Russia-bound German exports support 300,000 jobs for Germany.[93] And of course, over one-third of German oil and gas import comes from Russia.

As Stephen Larrabee, author of the article "Russia, Ukraine, and Central Europe: The Return of Geopolitics" points it out, "Germany's deepening relationship with Moscow has made Germany more hesitant to take or support actions that would antagonize Russia and damage Berlin's expanding web of economic ties with Moscow."[94] Several past actions – or a lack of them, thereof – proved this observation to be correct. For example, Berlin was highly supportive of Poland's admission into NATO. However, it was much less enthusiastic about the Baltic states' acceptance as NATO members, in fear of angering the Kremlin.[95] Germany also discouraged the

93 *The Economist*, Germany's Russia Policy: Which War to Mention?, 22 March 2014, 1, accessed May 01, 2014, http://www.economist.com/news/briefing/21599410-angela-merkel-and-her-foreign-minister-crisis-throwback-worse-times-which-war

94 http://jia.sipa.columbia.edu/russia-ukraine-and-central-europe-return-geopolitics/ The Berlin-Moscow Tango

95 ibid

US to create missile defense in Eastern Europe, and hindered efforts to formulate an EU-wide policy toward Russia.[96]

Professor Szabo from the German Marshall Fund agrees: Berlin has been the negotiator between the West and Russia for quite some time while trying to tone down the EU and the US' criticism towards the Kremlin.[97] At the same time he stresses that the "Change through Trade" notion has made possible for German businesses to "continue to make large profits in Russia while human rights and democracy advocates can be told that this is contributing to the gradual democratization of Russia."[98]

Nord Stream proved to be an excellent strategic decision for Germany from another standpoint: secure flow of energy even in case of disputes between Russia and its neighboring transit countries. The Kremlin's 2006 and 2009 gas disputes with Ukraine, which occurred after the preliminary negotiations for Nord Stream had already started, resulted in Russia stopping the flow of gas to Ukraine, and consequently, for a large chunk of the European continent, Germany included. Many countries and the EU in general called into question the reliability of Russia as an energy provider and its willingness to use energy as a foreign policy arm. German media suggested increased diversification of source countries, such as the inclusion of the Caspian region and North Africa; it also proposed an increased diversity of sources of energy, such as LNG or nuclear power.[99]

Nord Stream was a particularly large "blow" for Germany's eastern neighbor, Poland. Being a transit country of Russian gas to Germany, Warsaw had a legitimate fear that reducing its

[96] Steve Szabo, "Germany Faces Tough Choices On Russia," GMF Blog - Expert Commentary, December 11, 2013, accessed May 1, 2014, http://blog.gmfus.org/2013/12/11/germany-faces-tough-choices-on-russia/
[97] ibid
[98] ibid
[99] http://www.wsws.org/en/articles/2006/01/gazp-j05.html

transit status would make the country more vulnerable to Russian influence. The country's defense minister back in 2006, Radosław Sikorski, even went as far as calling the new pipeline project the Molotov-Ribbentrop Pact, indicating that Germany and Russia once again made a deal in which Poland's interests were completely ignored.[100]

When Angela Merkel got voted into power, many – especially the East-Central European region – hoped that "Schröderization," that is, pleasing of the Kremlin at any cost, would end. While Merkel has taken more of a firm stand against Putin than her predecessor in questions of using energy to extract political concessions, the attitude towards Moscow remained largely unchanged: oral reprimand on the political stage without consequences.[101]

The current Ukraine crisis is a perfect example of Germany being a "toothless tiger". Lots of rhetoric is coming from the Bundestag, cautiously criticizing Putin and requesting a stop to the further escalation of the crisis. Nevertheless, no significant sanctions have taken place so far, [102] partially because of Germany's hesitation to anger his largest Eastern business partner.

All in all, German-Russian energy relations are stronger and more closely intertwined than ever before, despite Putin's growing track record of violation of human rights and democratic values. While both countries are heavily invested in maintaining the Russian-German economic status quo and have a lot to lose in case of an irreversible conflict, right now it is Germany that yields to Russia, rather than Moscow seeking Berlin's approval.

[100] "Nord Stream 'a Waste of Money', Says Poland," January 11, 2010, accessed May 1, 2014,http://www.euractiv.com/energy/nord-stream-waste-money-poland/article-188727.
[101] David J. Kramer, "Germany and Russia: The End of Ostpolitik?," *The American Interest*, 13 November 2012, 1, accessed April 29, 2014, http://www.the-american-interest.com/articles/2012/11/13/germany-and-russia-the-end-of-ostpolitik/.
[102] as of early April, 2014

3.2.1. German-Russian Strategic Goals

According to Oxford economics fellow Dieter Helm, Russia's intentions concerning Germany have been (1) "building up its relationship with Germany as the pipeline and contracting hub" and (2) disabling alternative energy routes from the Caspian sea area, primarily by rerouting those sources via the traditional Russian pipelines.[103] These objectives serve multiple purposes. One is to maintain Germany as the number one customer of Russian energy in Europe and thus maintaining a steady flow of petro-money back to Moscow. Another one is Russia making itself indispensable in the EU's pursuit of traditional energy sources in the relative vicinity of Europe, such as the Caucasus or the Caspian region. But the Kremlin goes even further: it does everything it can in its power to prevent the EU member states and these energy rich regions to strike a deal between each other and thus become competing energy sources for Russia. Therefore Moscow, taking advantage of the underdeveloped transit routes of Central Asia, has been buying up cheap Caucasian and Caspian oil and gas and selling them on European markets at global market prices and, of course, pocketing the substantial difference.

3.2.2. Future Energy Prospects

As for the future, Germany has really ambitious plans. After the Fukushima Daiichi catastrophe in 2011, the grave nuclear power plant damage in Japan caused by a strong earthquake and tsunami, Berlin decided to accelerate the phase-out of its nuclear power plants, a plan the German Parliament enacted back in 2001[104]. One goal of the energy transformation program, better known as *Energiewende*, is to replace nuclear power, which currently accounts for about 23 % of

[103] Dieter Helm, "Russia, Germany and European Energy Policy," Open Democracy, December 14, 2006, accessed May 4, 2014, http://www.opendemocracy.net/globalization-institutions_government/energy_policy_4186.jsp

[104] http://ehis.ebscohost.com/eds/pdfviewer/pdfviewer?vid=2&sid=f23ff3e4-cb0f-4973-94eb-6d102e6ebb91%40sessionmgr13&hid=16 p30

total energy production, with renewable energy sources.[105] Renewables make up approximately a quarter of the energy mix and the country aims to double that by 2022, when the last of the nuclear power plants is planned to finally shut down.[106] From a strategic point-of-view this vaulting ambition of the Germans means less dependence on Russian energy – or any foreign energy source, for that matter – in the not so distant future.

[105] ibid p32
[106] Miranda A. Schreurs, "The Politics of Phase-Out", *Bulletin of the Atomic Scientists* 68, no. 6 (November 2012): 1. http://content.ebscohost.com/pdf27_28/pdf/2012/BAS/01Nov12/83158550.pdf?T=P&P=AN&K=83158550&S=R&D=f5h&EbscoContent=dGJyMNHX8kSep7Q4zOX0OLCmr0uep7NSs6%2B4SLSWxWXS&ContentCustomer=dGJyMOHb7H3z6O2IuePfgeyx43zx%20p37 p37

CHAPTER 4. THE CASE STUDY OF POLAND

Germany's eastern neighbor and a relatively new European Union member state, Poland has been a significant energy producer and consumer in Europe. Even though the two countries' size and geographical setting are similar, Poland's energy composition and energy policies greatly differ from those of Germany. Poland must rely heavily on energy imports supplied mainly by one country, Russia; therefore Warsaw's number one priority is energy security.[107]

4.1. Polish Energy Statistics

4.1.1. The Polish Oil Sector

The second largest energy source in Poland is oil, with its share having increased two-fold to 25 % between 1988 and 2009.[108] Poland's own production levels are insignificant; only add up to about 5 % of the total oil demand.[109] Unfortunately there is a significant imbalance in the oil supply of the country. A single supplier, Russia provides about 94 % of the demand via the Druzhba pipeline. Another minuscule amount, 2 % of the total import comes from Algeria, and another 1 % from the UK and Norway.[110] This not only means that Poland relies heavily on imports but also that there is no diversification in terms of its supplier base or transit routes. As far as refined oil products are concerned, 60 % came from the former Soviet Union and 40 % from European OECD countries.

[107] Name Author/Editor, "Poland", *Energy Policies of Iea Countries* (2013 May): 1-190, accessed May 4, 2014,http://www.iea.org/publications/freepublications/publication/Poland2011_web.pdf. page 10
[108] Name Author/Editor, "Poland", *Energy Policies of Iea Countries* (2013 May): 1-190, accessed May 4, 2014,http://www.iea.org/publications/freepublications/publication/Poland2011_web.pdf page 115
[109] ibid
[110] ibid

4.1.2. The Polish Natural Gas Sector

In 2009 the share of natural gas was 13 % of the total primary energy supply in Poland, 2 % higher than in 2000. According to industry predictions this share will slightly increase to 14.5 % by 2030. Demand is slowly but steadily increasing year by year; according to forecasts gas demand will be 52 % higher in 2030 than in 2009.[111] In absolute numbers, demand was 13.3 bcm in 2000 and increased to 16.4 bcm by 2009.[112] This increase is partially due to the fact that modern and efficient gas fired plants, which are also much less subject to popular opposition, increasingly replace old, coal-fired power plants.[113] About one-third of the total gas supply is domestically produced; the other two-third is imported.[114] The vast majority of imported gas (82 % of all gas imports in 2009) comes through the Yamal-Europe pipeline and its branch, Yamal II from Russia via Belarus. Germany provided another 11 % of the Polish gas import that year. LNG is being imported by Poland but currently that amount is negligible.[115] This imbalance in sources of supply makes Poland very vulnerable to potential disruptions of gas flow. The current construction of Poland's first LNG terminal is one of the multiple efforts to counter-balance Russia's energy hegemony in the gas sector.

According to the US Energy Information Administration Poland possesses an estimated (but not confirmed) 4.1 tcm of shale gas, considered the largest in Europe. Even the more conservative projections put the shale gas reserves at half a trillion cubic meters, which could

[111] Name Author/Editor, "Poland", *Energy Policies of Iea Countries* (2013 May): 1-190, accessed May 4, 2014,http://www.iea.org/publications/freepublications/publication/Poland2011_web.pdf page 97
[112] ibid
[113] Name Author/Editor, "Poland", *Energy Policies of Iea Countries* (2013 May): 1-190, accessed May 4, 2014,http://www.iea.org/publications/freepublications/publication/Poland2011_web.pdf page 98
[114] ibid
[115] ibid

make Poland self-sufficient for about 65 years.[116] Nevertheless, the industry is still only at the exploratory phase; production is not expected to start before 2015.[117] Considering the fact that the largest portion of Poland's gas consumption comes from Russian supply and Russia's notoriety to use energy as a foreign policy arm, it's understandable why Warsaw wants to harness the opportunity does shale gas turn out to be a viable and sustainable source of energy.

4.1.3. The Polish Coal Sector

Poland is the second largest coal producer in Europe, following Germany.[118] It produced 158.4 Mt of coal in 2012, while the country's consumption was 144 Mt. This surplus allowed 14.8 Mt of coal to be exported.[119] According to 2011 statistics, coal generated 89 % of heat and 92 % of the electricity needs in the country.[120] Nevertheless, the cheap and abundant source of energy comes at a price of heavy air pollution. Coal is the most pollutant fossil fuel of all, and the large percentage used in electricity generation presents Poland with the challenge to reduce its CO2 emission targets. The EU set the goal to reduce CO2 emissions by 20 % from 1990 levels to 2020, which Warsaw agreed; however, it blocked the proposal to increase that target to 25 %, citing a potential 1.5 billion dollar increase in costs as a reason.[121] Poland does plan to make the transition from a coal-fuelled industry to a more diverse makeup of energy sources, such as natural gas, nuclear power, or renewables. However, it is going to need a cautiously planned, gradual shift in its energy

[116] http://www.shalegas-europe.eu/en/index.php/resources/shale-opportunities-in-europe/poland#inline0 Poland
[117] ibid
[118] http://www.eia.gov/countries/country-data.cfm?fips=pl
[119] *International Energy Statistics*, Us Energy Information Administration, 2013, 1, accessed May 5, 2014,http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=1&pid=1&aid=2
[120] http://www.worldcoal.org/resources/ecoal-archive/ecoal-current-issue/coal-profile-poland/ Coal Profile: Poland
[121] http://www.bbc.com/news/world-radio-and-tv-17813431

composition to reach the EU-proposed 80-95 % reduction target by 2050, which was the reason Poland vetoed proposals in 2012 that suggested milestones to achieve that goal.[122]

4.1.4. Nuclear Power in Poland

Unlike Germany, Poland has had no nuclear power plants in the past and is now in the planning phase of building its first one. In the 1980s construction started with Soviet backing to establish a nuclear plant in Żarnowiec, Northern Poland, but it never came to realization due to the collapse of the Warsaw Pact. The same site is the strongest contender to build the new power plant and construction is expected to start in 2019.[123] There are several reasons why Warsaw has now decided to turn to nuclear power, while other – new and old – EU member states have been generating nuclear power for decades. The most important reason is the goal of a "diverse energy portfolio."[124] On the one hand, Poland needs to become less dependent from its eastern "neighbor", Russia. Less reliance on Russian oil and gas requires a wider range of energy sources. On the other hand, the country needs to "diversify away from coal" so that it can hold its obligation to meet its CO2 emission target.[125] Last but not least, nuclear power is considered the cheapest energy source with low greenhouse gas emissions.[126] The plans include the first nuclear reactor to be operational by 2019, while the second one could be up and running by 2035.[127]

4.1.5. Polish Renewable Energy Sources

Renewable energy in Poland is still in its infancy. Since the country is a huge coal producer, electricity production is secured and therefore there has not been a significant focus on generating costly renewable energy. Recently this attitude has changed, however, due to increasing

[122] ibid
[123] http://www.world-nuclear.org/info/Country-Profiles/Countries-O-S/Poland/
[124] ibid
[125] ibid
[126] http://oilprice.com/Alternative-Energy/Nuclear-Power/Poland-Plans-Nuclear-Future-Despite-Public-Wariness.html
[127]http://www.world-nuclear.org/info/Country-Profiles/Countries-O-S/Poland/

pollution attributed to coal fuelled power and electricity generation, and the efforts to become less dependent on Russian energy. The green energy initiatives that have taken place in recent years include riverside hydroelectric plants and wind farms, run by municipalities[128] as well as biomass. The share of renewable energy in electricity generation was 8 % in 2011[129]. Plans are to increase this number to 26 % by 2030.[130]

4.2. The Polish-Russian Energy Relations – Past and Present

Poland's energy relations with Russia – more exactly, the Soviet Union – go back to socialist times, when COMECON, the Council for Mutual Economic Assistance, was created. The Soviet Union established COMECON and made the East-Central European communist countries, including Poland, member states, in order to enhance economic relations and trade among themselves and to discourage the Soviet bloc nations to apply for the West-provided Marshall aid. This unity gave birth to the Druzhba ("Friendship") oil pipeline in the 1960s, which delivered oil from the USSR to the entire Eastern Bloc. The pipeline transported oil to Poland via today's Belarus, and continued to deliver all the way to East Germany. Poland was an active participant in the manufacturing of the pipes themselves.[131] As part of a COMECON-wide common venture the Soviet Union provided Poland with oil in exchange of machinery, equipment, industrial consumer goods, and "political support without the expenditure of freely convertible foreign currency."[132]

[128] http://www.paiz.gov.pl/polish_law/renewable_energy Legal framework for renewable energy projects in Poland / 1. Renewable energy in Poland
[129] http://www.map.ren21.net/PDF/ProfilePDF.aspx?idcountry=138
[130] http://www.iea.org/publications/freepublications/publication/Poland2011_web.pdf page 134
[131] *Pecob's Energy Policy Studies: Druzhba* (Italy: Portal on Central, Eastern and Balkan Europe, publication year), file:///Users/krisztikotka/Downloads/PEPS_EnIn_Druzhba%20(2).pdf p3
[132] http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+su0396) Soviet Union: A Country Study

The route of the Yamal-Europe pipeline connects the same countries, providing much needed natural gas to the entire region. The two countries' energy collaboration included Poland helping to lay the gas pipelines, while the USSR helped increase Poland's coal production in return. Moscow and Warsaw also cooperated in the expansion of nuclear power.[133]

Throughout the years Poland's energy consumption has risen steadily, and as a consequence, its dependence on Russian energy – primarily oil and gas – increased parallelly. The use of coal – of which Poland has substantial amounts – for electricity and power generation has been discouraged by the European Union for environmental purposes,[134] which makes Poland even more dependent on Russian fossil fuels. This means that today Poland is highly exposed to the risks of the safe provision and transport of Russian oil and gas. Recent history confirms that risks are plentiful. While in the 1970s, during the OPEC embargo, the Soviet Union was considered a reliable alternative to Middle Eastern oil exporters, by the 2000s it is considered a threat to European energy security, an indication that perceptions about Russia's energy provider status has significantly shifted.[135] The loss of trust was triggered mainly by the 2006 and 2009 gas disputes between Russia and its energy transporter neighbor, Ukraine. Their conflict over non-payment and Ukraine's alleged tapping of the flow of gas destined for Europe resulted in Moscow turning off the gas flow completely. We must also remember the dozens of occasions when Russia deliberately disrupted the flow of oil or gas to its neighbors for political reasons, such as the halt of oil to Estonia over the displacement of a Red Army memorial in Tallinn in 2007 or to Lithuania

[133] http://www.nytimes.com/1984/05/22/business/soviet-and-poland-in-economic-pact.html
[134] http://www.academia.edu/1820416/Russian-Polish_energy_security_relations_A_case_of_threatening_dependency_supply_guarantee_or_regional_energy_security_complex_dynamics pg33
[135] ibid pg 28

when Vilnius decided to sell one of the country's refineries to a Polish firm instead of a Russian one.[136]

Poland and the entire East-Central European region is minimally diversified energy-wise, compared to Western Europe, which can rely on energy from Northern Europe, North Africa, the Middle East, as well as Russia. As a consequence, Moscow sells Russian oil and gas at a highly inflated price to these countries, compared with prices charged to the West. In 2012 Warsaw paid an already renegotiated price of $525 for 1000 cbm of gas, which, however, was still 30 % more than the continental average.[137] According to the Economist, the price this year is $500, compared to Germany's $370 per 1000 cbm.[138]

Poland has been on the forefront in its efforts to diversify both the type of its energy sources and the source countries for its energy needs. For this goal Warsaw has been considering oil and gas import from Canada[139], and since April this year it has been able to get Russian gas from Germany through the Yamal-Europe pipeline, which was originally designed to pump gas only one way, from Russia to the West.[140] Polish president Donald Tusk has also been a strong proponent of a unified European gas market in order to "confront Russia's monopolistic position with a single European body charged with buying its gas".[141] Warsaw's ambitious diversification plans include construction of an LNG station, which is expected to be operational this year. Warsaw signed a deal with Qatar, the world's biggest liquid gas producer, to import LNG from 2015. However, LNG prices are estimated to be about 40-50 % higher than the natural gas Poland

[136] http://www.auctus.vcu.edu/PDF/SOSCI_1_HANSON.pdf pg 7-8
[137] http://www.naturalgaseurope.com/poland-continuing-quest-for-a-better-natural-gas-deal
[138] http://www.economist.com/blogs/easternapproaches/2014/04/donald-tusks-energy-union
[139] http://www.theglobeandmail.com/news/world/poland-presses-for-shift-from-russian-gas-as-ukraine-standoff-escalates/article18182218/
[140] http://www.economist.com/blogs/easternapproaches/2014/04/poland-and-russia
[141] http://www.economist.com/blogs/easternapproaches/2014/04/donald-tusks-energy-union

currently buys from Russia[142], therefore Polish LNG import is expected to be moderate in the coming years.

Poland has great expectations from the establishment of a North-South LNG corridor that would be able to deliver gas between Poland's newly built LNG terminal and Croatia's terminal on the Adriatic Sea crossing the Czech Republic, Slovakia, and Hungary. The project has numerous obstacles to realize just yet: conflicting domestic political agendas, differing levels of market liberalization in the individual nations, or varying levels of progress in building their infrastructure. Nevertheless, there are high hopes that interconnecting these neighbors' natural gas pipelines and establishing underground gas storage facilities would make the region more secure against fluctuations in Russia's gas supply – politically motivated or not.[143]

Diversification of energy sources would also make Warsaw less susceptible to Russian efforts to extract political concessions. Following the Russo-Ukrainian gas dispute in 2009 RosUkrEnergo was withdrawn from the regional gas trade, forcing Poland to increase its purchased volume from Russia. The Kremlin-controlled Gazprom immediately tried to exert political influence on Poland by attempting to modify crucial terms of the deal and gain ownership advantages in facilities.[144]

A very important feature in the Polish-Russian energy partnership is this: Poland is not only an energy-hungry neighbor that also transports Russian oil and gas. Poland is also a European Union member, and an increasingly influential one.[145] Putin needs to be cautious about angering Poland; in the near past it happened that Warsaw was able to halt very important discussions between Russia and the EU as a result of Moscow's mistreatment of Poland.

[142] http://www.reuters.com/article/2013/09/09/poland-energy-lng-idUSL6N0H22WR20130909
[143] http://www.pism.pl/files/?id_plik=15698 Report pg5
[144] http://www.worldpoliticsreview.com/trend-lines/7204/global-insider-russia-poland-relations
[145] http://www.worldpoliticsreview.com/trend-lines/7204/global-insider-russia-poland-relations

4.3. Comparison of German and Polish Energy Industries

Based on the energy map of each country the following observations can be made: With regard to oil, Germany is in a much better position. Though it is the number one energy source in the country, the need for oil has been steadily declining, while in Poland oil is the second most important energy source, but consumption has been on the rise. As for supply, Germany is well diversified both in terms of suppliers and supply routes. Poland, on the other hand, is fully dependent on Russian supplies coming through a single pipeline.

In Germany almost a quarter of energy use comes from gas, the vast majority of which is imported. Polish gas consumption is about half of the German rate in the full energy spectrum, and Warsaw is less dependent on import than Germany (86 % vs. 67 %). Nevertheless, Germany is well diversified in terms of source, while Poland fully relies on Russia as gas supplier.

In terms of coal production and consumption, both countries have vast reserves. Unfortunately coal is considered the most polluting energy source, therefore both nations had to cut back on its use to be able to limit CO2 emission.

The two countries have a very different approach to nuclear power. While it has been a main source of energy in Germany, efforts have been made to phase it out in the foreseeable future. Poland, on the other hand, is ready to construct its first nuclear power plant to make nuclear power part of its energy makeup.

Renewable energy has been on the rise in both nations, however, Germany is light years ahead of its eastern neighbor in terms of renewable power generation. While Poland has been only experimenting with renewables at a basic level, Berlin sees the future in renewable energy to produce cheap, clean energy and become less energy independent in the foreseeable future.

CHAPTER 5. ANALYSIS AND INTERPRETATIONS

5.1. Applying the Theory to the Case - Germany

In the case of Germany we can observe multiple signs of the bandwagoning policy. Germany has been eager to maintain good relations with Russia, to the point of overlooking Moscow's regular practices to extract political concessions from its neighbors via energy, and of serious abuses of human rights and of democratic values. Berlin's passive behavior can be explained in two ways: (1) it wants to ensure the continuous flow of energy and (2) it wants to protect the massive business investments and economic relations of German companies with Russia.

The uninterrupted flow of oil and gas from Russia is crucial for Germany. On the one hand, Berlin proved this when it teamed up with Moscow to build the Nord Stream pipeline a few years ago, despite protests and objections from Poland, the Baltic States, and even from Scandinavian nations, and despite the fact that a new pipeline would deepen its dependence on Russia. On the other hand, a combination of the energy policies of the Bundestag in the last several years – namely, its Energiewende and its nuclear phase-out – created a situation of increased need for inexpensive, reliable source of energy, primarily natural gas. Renewable resources do not produce enough electricity yet and they are unreliable at times; as for nuclear energy, the shutdown of the eight reactors two years ago generated a shortage in electricity generation. While the ambitious plans were great, they were conceived at a bad time; energy prices soared in Germany while they crashed in the U.S. due to their shale revolution, threatening German competitiveness, which the Kremlin took advantage of.

It can also be observed that Germany has been reluctant to support the idea of a single European energy market that Poland has been so enthusiastically backing. One reason is that

Germany pays about 30 % less for natural gas than its eastern neighbor. Germany would possibly lose both its low gas price it currently pays and its special position with Russia if it were not able to make bilateral deals with Moscow any more.

Germany's bandwagoning tendencies also manifest in its reluctance to criticize Russia in its many autocratic maneuvers, despite the fact that the cornerstone of the EU's foreign politics is promotion of democratic values.[146] Schröder was particularly cautious not to bash Putin's foreign policy moves, which made the former chancellor not only stay neutral regarding Russia's invasion of Chechnya, for example, but encourage the West to "moderate its view of Moscow's actions."[147] He famously called the Russian president a "flawless democrat" despite Putin's suppression of the media or the activities of NGOs and civil societies in Russia.[148] Schröder's overwhelming support of Putin definitely paid off when he received the position of Chairman of the Board of Nord Stream, the controversial pipeline he managed to push through. His successor Merkel continued the friendly tone after her election to chancellorship in 2005 despite the fact that her party, the Christian Democratic Union, had previously criticized Russia for its actions against human rights. Her attitude was a signal that Germany's view of the Russian way of conducting foreign or domestic politics should not be in the way of economic cooperation between Berlin and Moscow.[149]

Business relations between Russia and Germany are very much intertwined, both in the energy sector and in other industry branches, which also makes Berlin bandwagon with Russia. In the energy industry a recent sale of Dea, the oil and gas exploration subsidiary of the German

[146] http://www.ecfr.eu/content/entry/ecfr_fride_working_papers_democracy_promotion
[147] http://www.nytimes.com/2001/09/26/world/nation-challenged-russians-schroder-urges-milder-view-moscow-role-chechnya.html
[148] http://www.spiegel.de/international/schroeder-on-russia-it-would-be-wrong-to-place-excessive-demands-a-444944.html
[149] http://analize.lt/publikacijos/lithuanian-energy-security-in-the-light-of-eu-russia-energy-dialogue/174-divide-and-conquer.html

electric utilities company RWE to the L1 Energy investment group, the latter owned by Russia's second richest oligarch with close ties to the Kremlin and Rosneft, Mikhail Fridman, caused controversy. As the Global Marshall Plan group reported, the German Parliament and the Ministry of Economic Affairs decided not to veto the deal, which surprised many analysts that considered the deal another step towards Germany's deepening dependence on Russian energy.[150] As another example, the German chemical company, BASF, has gas field interests in Siberia, while Gazprom managed to purchase gas storage facilities in Germany, a deal considered an "exchange" between the two industry giants.[151]

According to the New York Times there are approximately 6,000 German companies conducting business in Russia.[152] These companies range from high tech electronic and engineering firms, such as Siemens, to car companies, like Volkswagen, to wholesale retailers, such as Metro. The stakes are high, as well as the benefits to reap once a business deal is made. Volkswagen is planning to invest €1.2 billion to expand its plants in Russia this year. Building materials manufacturer Knauf already employs over 5,000 people in the country. Metro has been entertaining plans to take its Russian subsidiary public. The new Siemens CEO, Joe Kaeser, visited Russia three times in the first three months of his taking office to discuss future investments.[153] These and many other firms conducting business in Russia provide work to about 300,000 people back in Germany.[154]

[150] http://www.globalmarshallplan.org/en/german-dependence-russian-energy-unlikely-decrease
[151] http://www.spiegel.de/international/europe/germany-to-play-central-but-expensive-role-in-sanctions-against-russia-a-959019.html
[152] http://www.nytimes.com/2014/03/18/business/international/german-firms-sale-to-russians-draws-fire.html
[153] http://www.spiegel.de/international/europe/germany-to-play-central-but-expensive-role-in-sanctions-against-russia-a-959019.html
[154] ibid http://www.spiegel.de/international/europe/germany-to-play-central-but-expensive-role-in-sanctions-against-russia-a-959019.html

Intensive bilateral business and energy partnerships make Germany and Russia economic allies. Deep economic interests, as much as Putin's expectations from his allies to share a "common political view" will urge Germany to defend Russia's anti-democratic actions, or at least not to challenge them sharply, which makes the relationship a unique sort of a political partnership at the same time. According to an interesting study, in which Mark Leonard and Nicu Popescu categorize EU MS states based on their policy approaches to Russia, Germany is in a category of "strategic partnership" with Russia, which is defined as "a 'special relationship' with Russia which occasionally undermines common EU policies."[155] The economic relationships between the two countries, attitudes of the German political elite toward Russia and its actions, and German policies reflecting those relations and attitudes described above all indicate that Germany practices a bandwagoning style of politics, rather than a balancing act in order to prevent an excessive Russian political leverage over the country. The German attitude also proves right that "Solidarity [the] EU has been advocating is more of a theoretical concept rather than a tangible strategy".[156]

5.2. Applying the Theory to the Case – Poland

Based on Poland's actions and the direction taken by Warsaw as described above we can make the conclusion that Poland is leading a balancing type of politics. All policies, political decisions, rhetoric, and support of certain EU legislations in the energy realm indicate that Warsaw is trying its utmost to balance the Kremlin and Putin's aggressive politics of expanding its sphere of influence via energy as a foreign policy arm. This is openly communicated by Warsaw and clearly identifiable in both its domestic and external politics.

[155] http://analize.lt/publikacijos/lithuanian-energy-security-in-the-light-of-eu-russia-energy-dialogue/174-divide-and-conquer.html
[156] ibid

On the domestic front this balancing effort is mostly recognized by the numerous attempts – some successful, others less – to diversify its energy makeup, which would make it possible for Warsaw to steer away from Russia. Recently the country backpedalled on its promise to reduce coal consumption; while currently coal is the most environmentally damaging fossil fuel, the use of which the EU also discourages, the Polish government indicated that it would likely be a primary source of energy for years to come.[157] Warsaw also supports the latest technology to make clean gas out of coal, thus addressing the environmental challenges.[158] The country's efforts in transforming its gas import and consumption is also noteworthy. Shale gas extraction has potential in Poland, even though the early estimates were a bit too enthusiastic, and this potential is fully supported now even by EU officials, in light of the Ukraine events. The new form of gas was labeled as "one of the indigenous sources of energy" in Europe, and as a significant gesture towards further researching its potential, it was skipped as a potentially destructive energy source on the environment.[159] Poland did its own support on shale, introducing a bill that attracts investors and simplifies the bureaucracy around the extraction process.[160] The other source of gas, alternative to pipeline gas from Russia, is LNG – also on the forefront in Poland. As mentioned earlier, an entire corridor, intercepting the continent, is on the planning table, which would be the first channel delivering gas in a South-North direction, instead of the traditional East-West route.

Last but not least, Russia's newly reawakened plans for nuclear energy have also gained momentum in the name of energy diversity, despite the recent accident in Japan and a very memorable one in the 1980s that occurred very close to Poland, in Chernobyl, today's Ukraine. The decision is important because, on the one hand, Russia has been building a plant in

[157] http://bankwatch.org/our-work/projects/coal-fired-power-plants-poland
[158] http://www.bbc.com/news/world-europe-24997778 live report
[159] http://www.reuters.com/article/2014/03/14/europe-shale-ukraine-idUSL6N0MB1WI20140314
[160] ibid

Kaliningrad, with the intention to export the generated power to Poland, Lithuania, and Germany, though as of 2013 the Kremlin has suspended the plan to go through a "revision"[161]. On the other hand, Germany's cancellation of nuclear power negatively affects the EU market and – as a EU official suggested –"Poland could play a major role in bringing Europe to an energy policy based on "solidarity," in concert with France and the UK,"[162] both of which are considered nuclear powerhouses in Europe. While all these efforts do not mean that Poland will cease to import gas or oil from Russia – especially because oil and gas contracts are long-term agreements –, they definitely mean that the increased diversity of sources will give Moscow a tougher time to negotiate its energy prices or to threaten to stop the flow altogether.

Poland's balancing intentions can be observed in its international energy politics as well, on three different levels: in its regional policymaking, primarily with the Baltic states and Ukraine; on the EU level, reflected in its efforts to influence European politics; and on a wider international level, above all with the United States, which is a large power and Russia's "adversary" at the same time, suitable for Poland to balance Russia.

Poland's intention to build close energy relationships with Estonia, Latvia, and Lithuania, is crucial in its balancing efforts vis-à-vis Russia. As a matter of fact, the Baltic States and Poland share the common goal of balancing Moscow, which has a hard time accepting that it lost control in the domestic and foreign politics of these countries. Currently the Kremlin is trying to regain influence in these nations not only by gaining ownership in their energy infrastructure but also by "oil sanctions, 'gas isolation' and dissuasion of Western firms from investing in Baltic energy

[161] http://www.osw.waw.pl/en/publikacje/analyses/2013-06-12/russia-freezes-construction-nuclear-power-plant-kaliningrad
[162] http://www.confrontations.org/en/publications-en/articles-and-interventions/2151-confronting-polish-society-and-nuclear-power-at-ee-in-warsaw

projects."[163] Poland and Lithuania agreed on Warsaw's participation in the new nuclear power plant (NPP) at Visaginas[164] and discussions are also taking place regarding the construction of a gas interconnector pipeline, connecting Poland to Lithuania with a capacity of 2.3 bcm per year.[165]

On the EU level Poland has two main objectives to maintain its balancing politics: exerting maximum influence on the Union to (1) create a single, unified internal energy market, and (2) to diversify the EU's energy sources, its supplier base, and its transportation routes. Warsaw is actively pursuing both of them.

The creation of a common European energy market has been indispensable for a long time, and Poland regularly reminds the EU of that. Warsaw's efforts to convince the Union go back to 2006, when the first major, all-European gas cutoffs occurred. At an energy summit later that year then-president Lech Kaczynski warned the Member States "to avert situations in which Europe would be compelled to act in defense against 'energy weapons'… [which] could be stopped by countering it with a united policy.[166]" Most recently President Tusk reminded the EU that the lack of a single common energy market and the failure to unite when negotiating gas contracts with Russia costs the Union about 30 billion euros a year.[167] In 2006 the EU Commissioner for Energy, Andris Piebalgs himself admitted that "Energy security is better delivered through a common European approach rather than 27 different approaches."[168] Though the problem is recognized,

163 http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf pg1

164 http://www.notre-europe.eu/media/balticstateseu-energypolicy-grigas-ne-jdi-july13.pdf?pdf=ok p72

165 http://www.notre-europe.eu/media/balticstateseu-energypolicy-grigas-ne-jdi-july13.pdf?pdf=ok p78

166 http://www2.polskieradio.pl/eo/print.aspx?iid=43531

167 http://www.reuters.com/article/2014/05/21/us-ukraine-crisis-eu-tusk-idUSBREA4K0RN20140521

168 http://www.industryweek.com/global-economy/eu-calls-unified-energy-policy-following-blackouts

there is still a lack of unified willingness from the Member States to act in one common voice, which poses an obstacle for Poland in its balancing efforts.

Poland's balancing attempts on the international level, outside Europe, are also recognizable. Warsaw strives to make strategic alliances with powers that can't easily be influenced by Russia's energy weapon strategies. The recent Polish-American strengthened bilateral relations are a prime example. In 2012 the U.S. activated an aviation detachment team on Polish soil as a base for joint training and common operations exercises, which also serves as a potential air support to NATO.[169] There has also been a common project of establishing a missile defense system in Poland in the past decade. After heavy Russian rejection the program changed course in 2009 under Obama, and there was intense speculation whether the program was scrapped to please Moscow or because it really did not meet the perceived threat of Iran, as the White House claimed.[170] While these initiatives are not energy-related attempts, they well demonstrate Poland's strong will of balancing.

[169] http://www.af.mil/News/ArticleDisplay/tabid/223/Article/475155/aviation-detachment-keeps-us-polish-training-running-smoothly.aspx
[170] http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-Strengthening-Missile-Defense-in-Europe/

CONCLUSION

This thesis searched for an answer as to why two European countries, Germany and Poland, do not act in their international dealings as IR theory would dictate. Balance of power theory dictates that states, in order to survive, must either balance or bandwagon the hegemon. Germany, a powerful EU country with an extremely strong economy, tends to bandwagon Russia in the energy realm, while Poland, a weaker nation and a relatively new member to the EU, which was once under the power of Russia's predecessor, shows balancing ambitions. The answer lies in their motivating factors to pursue their primary objectives, national security.

Germany's primary goal is maintaining its inexpensive oil and gas flow from Russia, its largest supplier, which the country has managed to maintain via bilateral agreements. Also, German businesses have huge stakes and investments in Russia, and to maintain that, along with the massive profits they reap every year, Germany must keep friendly relations with Moscow, both in the economic and in the political sphere. For this reason it is not in Germany's best interest to create a unified single energy market. Therefore we can form the conclusion that Berlin's attitude is very close to a form of balancing strategy towards Russia in the energy sphere.

Poland's primary goal is to fight against Russia, which used to hold the entire Eastern bloc as fully subdued satellite states. With Putin's rise to power we can notice this hegemonic attitude once again. Moscow once again uses all "soft" weapons – and primarily the weapon of energy – to exert influence over the former Socialist countries, therefore it is crucial for Warsaw's to fend off Russia's energy weapon as a foreign policy arm. For this goal the country first and foremost strives to reduce its dependency on Russian oil and gas as much as it is able to. The emphasis on the creation of a single unified energy market, the energy diversification efforts, and making strategic

alliances in and outside the region all point in the direction of Poland's goal to balance Russia's hegemonic pursuit.

The two countries' example therefore shows that traditional, realist IR theories, such as the balance of power theory in this case, are always subjected to the regional and unique circumstances of power-struggle and national security concerns of the given countries.

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