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The European Union and Russian Federation Energy Relations: Petrification or Revival?

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Abstract

This thesis is devoted to understand the relationships between the European Union (EU) and Russian Federation (RF). The study is concentrated on the fields of energy (Oil and Gas) in their strategic partnership. The events during the last century in the global energy markets have put the European Union face to face with new challenges. Obviously, it is claimed that growth dependency on Russian energy supply may cause certain economic and political challenges to the EU. Member States import dependency, as well as a rapidly rising global demand on energy supply which will eventually increase the risk for energy security of the EU.

Russia is one of the significant energy suppliers; however Russia is not a trustworthy partner which uses energy resources for economic and political lever. This alarms the EU about the significance of common approach in the field of external energy policy.

The approaches of the EU and Russia to the International Relations (IR) are contradictory. The EU's approaches are more based on Institutionalism, Liberalism, and attempting to liberalize Russian energy market. By contrast, Russian approach based on Realism, which tries to undermine EU's energy policy. Overall, both sides' behaviors are aimed at tightening energy relation with each other. This policy may drive from the absence of reliable alternative energy supply and market.

The main objective of the thesis is to analyze problematic aspects in the EU and Russian energy relations, simultaneously assessing contradictions within the EU.

Keywords: European Union, Energy security, European energy policy, Energy Dialogue, Energy Charter Treaty, Interdependency, Institutionalism, Realism, Russia

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List of Abbreviations

AGR	Azerbaijan-Georgia-Romania- Interconnection
BCM	Billion cubic metres
BP	British Petroleum
BTC	Baku Tbilisi Ceyhan
BTE	Baku Tbilisi Erzurum
CEE	Central and Eastern European
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
DG	Director General
EC	European Community
ECSC	European Coal and Steel Community
ECT	Energy Charter Treaty
ED	Energy Dialogue
EEC	European Economic Community
EEP	European Energy Policy
EIA	Energy Information Agency
EU	European Union
FSU	Former Soviet Republics
IEA	International Energy Agency
IR	International Relations
ITGI	Italy-Turkey- Greece- Interconnection
MS	Member States
OPEC	Organization of the Petroleum Exporting Countries
PCA	Partnership and Cooperation Agreement
RF	Russian Federation
SU	Soviet Union
Tcf	Trillion cubic feet

TCP	Trans-Caspian-Pipeline
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
Toe	Tonne of oil equivalent
UN	United Nations
ЭСР	Энергетическая Стратегия России (Russian energy strategy)

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I. Introduction

1.1 Research Background

“The secret of politics? Make a good treaty with Russia”.

Otto von Bismark, 1863

In the last several decades energy issues have become vital in IR. Energy plays extremely important roles in the world economy and in the everyday lives of many people. The world’s population growth, lack of spare energy reserves, high energy prices, as well as increasing struggle among the energy consumer countries, have made consumer countries’ economies sensitive to energy disturbance (BP,2011:9, Monaghan & Jankovski,2006:7). European Commission estimates indicated that world’s energy demand may grow by 45 percent between 2006 and 2030; particularly in India and China it will approximately double (Commission, 2011:3).

Energy is a key element for the development of the world economy, in particular for modern economics. The United Nations (UN) energy report highlights that “energy today is at the heart of every economic, environmental and development issue” (UN, 2008:6). Nevertheless, energy is indispensable for all countries but possessed by only several. The situation in the global energy market changes “balance of power”, “which is now dominated by number of producer states”. As energy importer countries dependency grows, and “given high price of oil and gas spots, the geopolitical advantages are beginning to shift back towards producer states” (Monaghan & Jankovski, 2006: 7). Enormous energy assets provide opportunities for exporting countries, to use its natural resources as an economic and political power. These evidences indicate that energy is a security issue overall.

This issue gained attention in the European Union (EU) agenda, as a foremost economic power. Ensuring the security of energy supply is a principal priority of the Union, taking into consideration increasing dependency on imports. European Commission emphasized that

“Energy is life blood of our society and the prosperity of our people, industry, and economy are dependent on safe, secure, sustainable and affordable energy” (Commission, 2011:4). Indeed, energy is one of the important goods, it’s not merely question of “economics besides that comprises politics and it is often considered question of national security and strategy” (Geden, Marcelis & Maurer, 2006:9).

The EU is becoming increasingly dependent on foreign energy supply. Currently imports are approximately 50 percent of total energy consumption, according to estimation it will rise to 65 percent in 2030. Dependence on imports of gas is expected to rise dramatically from 57 percent to 84 percent by 2030, of oil from 82 percent to 93 percent (Commission, 2007:3). The European energy consumption is predominantly supplied by the Middle East and Russia, where about 70 percent of worldwide oil and gas supply originates. Dependency on Middle East energy supply is a risk, due to the fact that the region has always trouble with “war and terrorism”, as well as political instability. The crucial problems are that extremist groups aspire to destroy pipeline networks throughout the Middle East. Iran has problems with the western countries and the reason is because of the suspected nuclear power programs. Iran declared that energy exportation will cease if the country will be “enforced to abandon” peaceful nuclear energy programs. And key supplier Russia’s economic and political activities in the global energy market indicated that Russia employs its energy resources for political and economic leverage (Belkin, 2008: 2).

Currently, there has been rising interest in the EU and Russian energy partnership regarding natural gas and oil, managing the relationships with Russia is a key factor for energy security. Monaghan & Jankovski (2006) claimed “in the near future will be crucial to its long-term energy security” (2006: 7). Yergin (2006) point out that “energy interdependence and the rising scale of energy trade need ongoing cooperation between both producers and consumers to safeguard the security of the entire supply chain” (2006:78).

The current energy security issue has gained significance in the European agenda, since the boost in oil prices and the anxiety about energy supply scarcity in 1973. The energy crises displayed a need for enlarged energy policy cooperation among the Union members, and concerning Union and energy producer countries. It also sends a message to the Union that institutional and legal

frameworks are essential in terms of future supply. At the same time, it alerts European countries to investigate alternative energy supply (Belkin, 2008:3). Throughout history energy exporters were using their reserves as a political security (tools) in IR. At that time energy prices increased and enacted cut backs in oil exportation from the Organization of the Petroleum Exporting Countries (OPEC), as a result of their attitudes in the Arab-Israeli war. The oil crises brought new responsibilities to the countries ensuring security of energy supply. European countries identified Russia and other Eurasian countries as potential suppliers (Helen, 2010: 4).

Nearly 30 percent of Union energy consumption is imported from Russia and already imports half of its gas needs. According to the International Energy Agency (IEA) estimation the Union gas demand will increase from 540 billion cubic meters (bcm) to 800 bcm by 2030 (Goldthau 2008: 686). In this case, Russia is the most important energy partner of EU, though Russia is not a reliable partner. The fact is that the debate on it became a hot topic in last two decades and last two current occasions have brought concern about energy security. One of these is Russia's dispute with Ukraine over the gas and the similar kinds of event come about for oil supplies through Belarus in January 2007 (Coq & Paltseva, 2008: 23).

Europe is substantially dependent on Russian energy supply, while Russia employs natural resources for political purposes. This situation still remains. According to Baran (2007) the Union “will find itself in further danger” but there is simply no reliable and accessible alternative energy supply above all in the case of gas. Unlike oil, gas “[...] is extremely difficult and costly to ship via tanker; pipelines are the preferred method of transportation”. If an energy provider country declines to deliver gas or boosts energy prices, consumers don't have the opportunities to easily change supply sources. Baran also indicates that “the consumer state would have no choice but to accept the supplier's conditions or go without natural gas, an option that is all but unacceptable for most” (2007: 132).

Russia delivers gas to the Europe via the pipelines which are under the control of the state-owned energy company Gazprom (Goldthau, 2008: 689). The Union's dependence on Russian energy sources and Gazprom's monopoly over the Russian pipeline network and its right over natural

gas exports from Central Asian countries prevail as a security matter in EU-Russian energy relations (Heinrich, 2008: 1544).

1.2 Scope, Aim and Research Question

The expansion of demand for energy in the European and international energy markets has produced new kinds of risks and challenges for the energy security of the Union. The Union as one of the biggest energy market in the world increasing dependence on non-indigenous supply. It imports more than 50 percent of its consumption and it will rise to 70 percent in 2030. Growing dependency on external energy supply threaten the Union's energy security supply (Commission, 2006:3). The EU is importing its energy needs mainly from Russia, which is one of the largest oil and gas producer and exporter in the world. Russia embraces the world's enormous "natural gas reserves", "second largest coal reserves", and the "eight biggest crude oil reserves" (EIA, 2010:1). Therefore, energy is a significant characteristic of EU-Russian relations in general. The EU attempts to tighten its energy relations with Russia, due to the fact that Russia is a main gas provider and at the same time a key oil supplier. In present years, both sides attempt to develop energy relationships in the framework of the Energy Dialogue (ED). The main purposes are: strengthening relationships in different areas, mostly in economic security and political matter. Though both sides are interested in cooperation, there are still complications in the process.

The main problems originated from partners perception of partnership. The Union attempts to liberalize the Russian market. The EU aspires to assimilate partners into European system through the usage of its normative power (Helen, 2010:32). Mozorov pointed out that Russia itself is a normative power; the logic of conditionality is not applicable to EU's relation with Moscow (Mozorov in Aalto, 2008:46).

By contrast, Russian foreign policy, based on realist principles and national security, becomes main priority of the country (Helen, 2010:3). The gas sector and wide pipeline networks are under the control of Gazprom. The company has a distinctive position in the country and its

monopoly position on gas sector and transportation infrastructure undermined Union attempts (Goldthau, 2008: 689).

As known, one of the policy priorities of the Union is *diversification of supply sources*, in order to decrease dependency on Russian energy supply. However, Member States (MS) have different perceptions on energy security issues and their different interests are major sources which hamper Union energy policy (Helen, 2010: 1-2).

The EU and Russian energy relations are interdependent, in general. Russia is single important supplier for the Union, in its turn, Europe is important market for Russian energy, according to Monaghan & Jankovski (2006) if the Union diversifies its energy supply sources, Russia “will lose its primary energy market and this could undermine its economy”. The EU-Russian energy relations are based on mutual dependency. Neither the Union, nor Russia wants to lose the other side, which is a significant component to ensure security of stability of energy supply and economic security (2006:8).

This thesis is exploratory research, which is primarily focused on external aspects of energy policy, namely security of supply. The aim of this study is to investigate problematic aspects of the EU- Russia energy relations. The contradiction in EU-Russian energy relations sometimes reminds the Cold War. The authors’ intention is to give a deeper understanding of major contradictions between the European Union and Russia as energy partners and discuss contradictions within the European Union energy policy framework by addressing the following research question: - *What are the problematic aspects in the EU-Russian energy relations? The future perspectives of the EU-Russian energy relations: stagnation or revival?*

1.2.1 Outline

The paper started with short research background which provides information about how energy issues become vital in global energy market, as well as how energy issues become a problematic aspect in the EU agenda. Chapter two present theoretical frameworks and chapter three is dedicated to methodology. Chapter four, five, six and seven introduce empirical findings in

conjunction with an analytical frame. The last chapter consists of final conclusion, future research directions and reflections.

1.2.2 Limitation

There have been a number of delimitations which had negative influence on the paper to be a more coherent and reliable work. Foremost the thesis will be written within time frame, therefore it is not feasible. It is particularly hard, perhaps impossible to indicate all other pillars of energy, such as interior European energy market and sustainable development or alternative energy supply, such as renewable energy. The time frame and the absence of financial sources for a field work were limiting the scope of the thesis.

1.2.3 Literature

During the investigation this study author used different sources. The study mainly relied on primary sources, such as official documents, treaties, agreements and official energy strategies of Russia and the EU. Secondary sources formed on a basis of books, articles and original ideas of influential scholar in the IR.

II. Theoretical Framework for Analyzing EU-Russian Energy Relations

This chapter constitutes theoretical framework of the thesis. According to Burchill (1996) theory “makes the task of intellectual explanation possible. Without theory all we are left with are disconnected and randomly selected facts which tell us very little about the subject of our inquiry”(1996:88). Since the first oil shock energy security issue became important, simultaneously security them has been integrated into the hot debate of influential IR theories. The relevant theoretical approaches have been presented in order to familiarize the reader and to set out comprehensive framework for further investigation of this study. Simultaneously, those assist in order to understand objectives of research. Realism, Institutionalism, Liberalism and Interdependency are the main theoretical approaches in studying EU and Russian energy relationships.

2.1 Realist Approach and the Concept of Security

Realism is a widespread and influential theoretical tradition and a way to investigate activities of actors in IR. According to Walt (1998) “realism was dominant theoretical tradition throughout the Cold War”, due to the fact that “it provides simple but powerful explanation of war...imperialism and obstacles to cooperation” (1998:31). Donnelly presented realism as a “emphasizes the constraints on politics imposed by human nature and the absence of international government and together they make international relations largely realm of power and interests” (Donnelly, 2000:9), “instead being of single theory, realism is oldest and most prominent paradigm in International Relations”. Legro & Moravcsik (1999) defined realism as a “family of theories” (1999:9). Classical realist scholars assumed that “states, like human beings, had an innate desire to dominate others, which led them to fight wars” (Walt: 1998:31).

This study focuses on Neorealism which was developed by Waltz as a modern form of realism. Neorealism disregarded classical realists assumption about “human nature and focused on the effects of the international system” (Walt, 1998:31). Neorealists claimed that the international

system contains numerous enormous powers and “competition between the major powers in international system is the normal state of affairs” (Glaser, 1994:50). Actors seek opportunity in order to gain benefit of others, due to the fact that there are no reasons to faith each other (Mearsheimer, 1995:9). From the realist point of view the international system in anarchy and the states are the main actors in international relations. The lack of central control allows rational states to “maximize utility while minimize the cost” (Helén, 2010:16, Glaser,1995: 50). Waltz claimed absence of central authority leave states in “self-help” system; it means “they must rely on the means they can generate and the arrangement they can make for themselves”. At the same time make high risks and limit actors to use force, self-help “necessarily the principle of action in an anarchic order” (Waltz, 1979:111). In the “self-help” international system, states attempt to secure their individual survival, due to the fact that there is no supranational authority to defend them while threats ascend. The author also argues that the most important goal of the states is to ensure its survival “under anarchy by maximizing their power relatives to others”. The fact is that “the greater the military advantage one state has over other states, the more secure it is” (Mearsheimer, 1995:11-12). The international system comprises of a zero-sum game where one state tries to maximize its relative power and eventually faces others adversaries (Glaser, 1995:71). States compete for power in anarchic environment, however Waltz claims that the balance of power “prevail whenever two or more states coexist” in anarchic order “with no superior agent to come to the aid of states that may be weakening or deny to any of them the use of whatever instrument they think will serve they purpose” (Waltz, 1979:117-18).

Realists’ attitudes toward IR traditionally have been focused on national security. According to Mearshiemer (1995) “international relations is not constant state of war, but it is a state of relentless security competition, with the probability of war always in background” (1995:9). The concept of security can be defined as defensive or offensive framework. Security is generally defensive, that is derived from the notion of anarchy. In the anarchic world states preserve their own objectives and national security (Waltz, 1979: 111, 102-109). Scholars argued that war is only probable when “defense was easier than offence”. The defensive realists pursued their survival and “great power could guarantee their security by forming balancing alliance and choosing defensive military posture” (Walt, 1998:31). In this study energy security is an

offensive framework, since energy crises major energy importer western countries desire to use offensive strategy, means “optimizing of profits in relations with other actors” (Bely,2011:2).

The term security has gained a conspicuous position in the midst of up-to-date problems which faced by humankind. Sheehan (2005) claimed that “its political significance has been enormous during this period” (2005:1). There is not concrete and clear definition of security. Nevertheless, certain definitions presented by the scholars in the security study literatures. Müller claimed that security is “the absence of existential threats to the state emerging from another state” (Müller, 2002:369). According to, Wolfers security comprises from two senses, objective and subjective sense. “In an objective sense, measures the absence of threats to acquired values, in the subjective sense the absence of fear that such values will be attacked” (Wolfers,1952: 485).

Copenhagen school indicated two views of security study the wideners and traditionalist. Security matter “is easy for traditionalists, who, broadly speaking, equate security with military issues and the use of force” (Buzan, 1998:1). Most of scholars argued that traditionally security issue was a “contested concept”. Traditionally, security study literature has been dominated by “national security”, and broadly defined “in militarized terms” (Baylis, 2008:255).

In the last decades the traditional idea of security has been criticized by several writers, they argued the “expanded conception from the limits of parochial national security to include a range of other consideration” and included “political, economic, environmental, also military aspect” (Ibid.). Buzan explains economic security as “access to the resources, finance and markets necessary to sustain acceptable levels of welfare and state power” (Buzan, 1998:8).

2.1.1 Balance of Power and Cooperation in a Realist World

The “balance of power” theory took central place in the study of international relations. Morgenthau (1978) claimed “the aspiration for the power on the part of several nations, each trying either maintain or overthrow the status- quo, leads of necessity to a configuration that is called balance of power, and to policies that aim at preserving it” (1978: 173). Hegemony of single power impose threats to other states, therefore balance of power theorists suggest that

equal distribution power is essential in preserving peace and stability in IR. Equilibriums of power between the states preserve war due to the fact that “no single state or coalition of states possesses overwhelming power and thereby the incentive to launch war against weaker states” (Paul, 2004:5-6).

The utmost reasonable technique to gain balance of power is weaker states align between themselves as response to the powerful threatening state. Equilibrium of power against powerful actor is noticed as essential and valuable. Weaker states have a tendency to make coalition with weaker states, due to the strong states “might not respect them as much as other weaker states would” (ibid). According to Walt, states have two major goals in choosing balancing power; prevents risks for they survival as well as “joining the more vulnerable side increases the new member’s influence, due to the weaker side has great need for assistance” (Walt,1985:5-6). This “condition would lead to the weaker states to balance against, rather than bandwagon with more powerful rival” (Walt, 1998:31).

In the realist world cooperation between states has its bounds; due to the fact that the logic of national security and competition is taken over international politics. In realist words there are two aspects which impact cooperation of states. That is “relative gain” and phobia about “cheating”. During the cooperation actors can think about absolute gain or relative gain. When they think from standpoint of “absolute gain”, all actors are endeavoring to take full advantage and not care about other actors gains. By contrast, when they think from the relative gain point of view, an actor is not just thinking about its own gain, but as well how “well it does compared to the other side” (Mearsheimer,1995:9, 12). The author indicated that actors in the realist world are “concerned about balance of power they must be motivated primarily by relative gains”, therefore cooperation in a realist world overall sometimes impossible to gain, as well as it’s hard to preserve (Mearsheimer, 1995:12).

2.1.2 Geopolitics

Sempa (2002) indicated the significance of geography in geopolitical analyses; author describes geopolitics as “interaction among states and empires in a particular geographical setting”.

Geography plays central role in the study of IR, as well as it is the most necessary aspect, due to the fact that it is “the most permanent”. Geographical stance of a state sometimes offering opportunity, and impose restrictions, as well. Concurrently, geographical position presents opportunity for the decision-maker, thereby, “affects their decision-making in matters of foreign policy” (2002:5). Agnew (2003) claimed “the study of the impact of geographical distributions and divisions on the conduct of world politics” (2003:135).

A geographical position of the states has influenced the geopolitical coordination against the other land or sea power, throughout history. The crucial factors to the geographic position of the states are “population, economics, technology, military power and character of government” (Sempa: 2002:6). Geopolitics “draws the attention to the importance of geography and the certain geographical patterns that can be distinguished in political history” (Sloan & Gray 1999:1-2), and at the same time play essential role in the study of strategy and security (Sheehan, 2005:22).

Energy geopolitics is the heart of international energy security. For instance, the Suez Canal crises in the Middle East had negative influence on the “conceptualization of energy security”. The British-France-Israeli coalition attacked to the Canal in 1956 and as a result Egypt government decided to block the Canal and this incident brought a negative impact on European economy. The fact is that, the Canal had significant role in the energy security of the EU. During that period 69 million tons of oil from the Middle East shipped to the Union via this Canal (Bely, 2011:10-11). “The geographic factor in world history is the most fundamental because it is the most constant” (Sempa: 2002:9).

2.2 New-Institutionalism

After the Cold War European policy makers decided to establish security structures within Europe, as well as in the different parts of the world. Particularities of the new arrangement are grounded on global institutions, simultaneously they obviously discard organizing notion balance of power (Mearsheimer, 1995:5). Scholars believe that the institutions are significant to

encourage peace in the world. Western policymaker argued that with the help of institutions “we can encourage more durable and solid European security” (Ibid).

Institution can be significant and dominant power for maintain international stability and security of economic relations. Keohane (1993) indicated that “avoiding military conflict in Europe after the cold war depends greatly on whether the next decade is characterized by a continuous pattern of institutionalized cooperation”(1993:53). If we look back to history it is plausible to see that institutional theory is “as old as politics”. Plato, Aristotle, and Hobbes “long ago understood the significance of institution for structuring political behavior” (Steinmo, 2008: 151).

In the modern world institutions main purpose was to push states away from the war and ensure stability and peace in the world. Simultaneously, institutionalism is a response to realism due to the fact that, realism claims that the institution would not be significant prospect of stability. Realists argue that institutions are “basically reflection on distribution of power in the world. They are based on self-interested calculation of great power, and they have no independent influence on states behavior”. For that reason, an institution has not significant role in the promotion of the world peace and stability (Mearsheimer, 1995:7). By contrast, institutionalists claiming that institutions have important role in in the determine states behavior and peace in the world (Ibid).

After the Second World War new school (New-Institutionalism) in international relation was developed, “who see institutions key for cooperation” (Glaser, 1995:52). Unlike the old institutionalism new one claim that the “source of political power derived from informal relationship within and beyond of the institutions” Old institutionalism assumptions more focused on legal and formal “rules and procedures” (Bell, 2011:4).

New institutionalism is relatively new theoretical perspective which comprises from “both formal and informal structure that influence human behavior” (Aspinwall & Schneider 2000: 4). March & Olsen defined Institutions as “organizational arrangements that link roles/identities, accounts of situations, resources and prescriptive rules and practices. They create actors and meeting places and organize the relations and interactions among actors” (March & Olsen, 2009:5). At the same time institutions have significant role in establishing common rules and

norms (March & Olsen, 1998:943-44, Legro & Moravcsik, 1999:10).

Authors present that rules is “most common definition of the institutions”. A number of them claim on the formal, while other stress on informal norms. According to, Steinmo both formal and informal rules and norms are significant for politics, due to the fact that these formal and informal norms shape “who participates in a given decision and, simultaneously, their strategic behavior” (Steinmo, 2008:59).

There have three major types of institutionalism analyses in political science: “rational choice, sociological, and traditional (historical) perspectives” (Hall & Taylor 1996: 950). *Rational choice institutionalism* assumptions based on actors behavior and strategy at the same time they claim that the actors are rational. They believe that the purpose of actors with strategic behavior is to receive maximize gain and to be self-interested. Actors co-operate and make decisions according to maximize their own cost-benefit ideology (Wiener & Diez 2009: 126). This form of institutionalism stresses that the role of strategic behavior of actors within institutions and the outcome of interaction. In nutshell, they believe that the “actor’s behavior is driven from the strategic calculus” (Hall & Taylor 1996: 944-45). It is plausible to observe strategic behavior of actors in the case of EU- Russian energy partnership. For instance, EU member states within the EU common energy policy trying to protect its own national interest and they are trying to make energy policy based on national strategic interest.

Sociological institutionalism and constructivist approach, in contrast, indicated institutions more broadly. They argue that besides formal rules institutions’ “include informal norms, as well”. And they are not denying the plausibility strategic behavior of actors but “argue that such institutions constitute actors, shaping the way in which actors view the world” (Wiener & Diez 2009: 126). Sociological institutionalist argue that humans mostly follow a “logic of appropriateness” rather than following self-interested policy and maximize individual benefit. The major logic here is that people would first ask themselves “What should I do? What is appropriate?” rather than asking “what do I get out of X?” (Steinmo, 2008: 162-63).

Traditional institutionalism somewhere took up stance between these two approaches. In contrast to rational choice “calculus approach” traditional institutionalist approach indicate significance “cultural approach” (Jönsson & Tallberg, 2010:5). This approach is focusing on the historical

role and influences of “institutions over time” (Wiener & Diez 2009: 127). By contrast with first two approaches presented above, traditional institutionalist denying ‘functionalist’ “explanations for institutional design” and they believe that no more attention paid to historical legacies. Traditionalist institutionalism, in contrast, claim that “institutional choice in taken past can persist, or become *locked in*, thereby past decision shaping and compel policy potion later in time” (Ibid.).

Path Dependency is one of the distinctive feature of traditional institutionalism which Pierson presented path dependency as “that what happened at earlier in point time will affect the possible outcome of a sequence of event occurring at a later point in time period” (Pierson,2000:252).

Simultaneously the Author suggested institutions characterized as “positive feedback” it means insignificant changes in the beginning create big implications later on for the forms and structure of institutions (Pierson 2000: 252). Wiener & Diez discussed that “institutions generate incentives for actors to preserve and not abandon existing institutions and policies, and adapting them to changing political environments” (Wiener & Diez,2009:127).

To sum up, the main objectives of institutions established “legal-binding” framework, in order to establish “transparent and predictable rules of game within a market economy”. Indeed in the EU-Russian energy relations need development legal framework to facilitate supply of energy. The institutionalization is utmost important in order to avoiding from “discrimination” and settlement disputes between states (Bely, 2011:43-44).

2.3 Theory of Neoliberalism

Neoliberalism is indicated by many scholars as the most convincing challenge to the Neorealist thinking (Lamy, 2001:189). And this is one of the most influential up-to-date approaches to the IR, which was developed by Keohane and Nye. In the last decades disputes among neorealism and neoliberalism has took central place in IR discipline. However, the authors’ intention is not to describe this school entirely contradictory to neorealism (Powell, 1994:320). A dispute between neorealism and neoliberalism mainly focuses on the possibility of cooperation in anarchy and the role of institutions in facilitating cooperation (ibid: 330).

Neoliberals refuse neorealism stance on anarchy, instead neoliberalism claims that the absence of supranational authority cannot be reason for war. By contrast, neorealists claiming that lack of high authority, anarchy and “self-help” system produce unfaithful international system, which states not trust each other, all of them create difficulties in cooperation even sometimes cooperation is implausible (Proedrou, 2007:330, Glaser, 1995:50). According to, Baldwin in general, “neorealists see anarchy as a placing more severe constrains on state behavior than do neoliberals” (Baldwin, 1993:4).

Moreover, as mentioned above neorealists concern only with for relative gains when seeing cooperation. Overall, states do not want take part in cooperation arrangements, in which other participants think to maximize its own benefit (Proedrou, 2007:331, Mearsheimer, 1995:12). By contrast, neoliberals focus on only absolute gains. Baldwin portray the neoliberals view of “self-interest as one in which actors with common interests try to maximize their absolute gains [...] relative gains [...] are likely to be more important in security matter than in economic affairs” (Baldwin, 1993:6). Neoliberals suggest that states would concern with their welfare rather than concerning with their security. They claim that war is not forthcoming, “but only a possible outcome”. Simultaneously, they believe that cooperation is the only way for absolute gains. Though international system is anarchy there are opportunities for states to maximize benefit, due to the fact that anarchy does not mean a “state of war and chaos”. Neoliberals are rejecting that international politics is a struggle for power, whereas neorealist advocate it. However, neoliberals also are not denying the come across conflict (Proedrou, 2007:331).

2.4 Theory of Interdependency

Neoliberals suggest cooperation is significant in international system, instead of anarchy they focused on notion of interdependency. In the modern world states are dependent on each other in order to entirely accomplishment of their interest and objectives. The notion of interdependency is more broadly used in international political and economic studies. The major effort is to examine cooperative and conflictual matter in interstate relationships (Proedrou, 2007:332)

Interdependency was developed by Keohane and Nye. Authors rejected anarchy in international system and they claimed that it is indeed states are dependent on each other. Authors also discussed that after the Cold War traditional military power has become ineffective on certain issues, instead foreign economic competition increased. The traditional power become ineffective, it means the concept of power lacks precision. In particular, “different power resources may be needed to deal with different issues”. “At the same time domestic and foreign policy become linked”. A prevailing interdependency does not mean conflict will disappear. On the contrary authors suggest that conflict will taking new forms, may even probable boosting ((Keohane & Nye 2001:6-7).

Interdependency as a mutual dependency in international politics, characterized as reciprocal effects among the actors as where there are reciprocal costly effects of transactions. In fact, reciprocal effect has positive influence on increasing international transaction, for instance “flows of money, goods, and people” etc. It demonstrates that in the last several decades interconnection among the international actors is increasing. However, interdependency and interconnectedness should not be confused. Interdependency would act if there are have reciprocal costly effects of transaction. Otherwise there would be interconnectedness, if there is interactions do not have significantly costly effect (Keohane & Nye, 2001:6-8).

Milner & Moravcsik discussed that new forms of power were appeared in international system as most important alternative to the traditionalists’ idea of power (Milner and Moravcsik, 2009: 3). Keohane & Nye presented this new mode of power as a feature of asymmetry. Asymmetrical interdependency can be source of power which power is thought as control over resources. Power indicated as the capacity to obtain what you want from others. Interdependency presented as mutual dependency but it does not mean evenly balanced, no-equal distribution of the benefits and costs lies in the heart of the asymmetrical interdependence which can be source of influence for the less dependent actors in the negotiating procedure over an issue and in dealing with one another. Therefore, power is also indicates as the “potential to affect outcome” (Keohane & Nye, 2001:7-10). Asymmetrical interdependency provide great ability to the less dependent actors to

initiate and threaten changes in the cooperation with further dependent actor, the changes will be “less costly to the actor than to its partner”. In nutshell, it means less dependent actors have substantial political resources in cooperation with third parties (Keohane & Nye, 2001:10-11).

In order to understand the clear picture of the effects in interdependency two key dimensions are important, sensitivity and vulnerability of both interdependent sides. Sensitivity refers to “degrees of responsiveness within a policy framework how quickly changes in one country bring costly changes in another”. According to, Keohane & Nye sensitive interdependency can be economic and political and it was established by interaction within a policy framework, where the frameworks continue unaffected. The fact consists from that commitment to a certain pattern of international rules; create a problem to formulate new policies in short time. Best example for the sensitive interdependency is oil crises in 1973-74 and how price boost influenced the USA, Japan, and European. It could take many years to implement new policy in the field of energy and this sensitivity created by the lack of new policy in the field of energy (ibid).

High sensitivity alarmed states about their over dependency on foreign energy supply. Simultaneously, it hints to establish new policies to decrease their dependency and find new alternative supplies which that would decrease intensity of their dependence on foreign energy supply (Proedrou, 2007:332).

Vulnerability defined as “actors’ liability to suffer cost imposed by external event after the policies have been altered”. The second dimension vulnerability refers to degree of state weakness if one side of interdependent states embraces to terminate their interdependent relationships. For instance in several EU member states completely dependent on Russian gas supply, these countries would face harsh problems, due to the lack of alternative supplies (Keohane and Nye, 2001: 12-13). At the same time high vulnerability enable the most powerful side to usage in order to “achieve counter-payment in other sector” (Proedrou, 2007, pp.332-34).

2.5 Conclusion: Controversial Hypotheses

The theoretical chapter has provided tools in order to explain the EU-Russia energy relationship. As a result the author found out two controversial groups of theories, the first group contained

from realism where the main assumptions were the following; states are key actors in international relations and the international system is defined as competition among the great powers, in order to preserve its own survivals. International systems in anarchy contain actors that aspire to gain its own benefit. The application of realism to this study indicates that there are probabilities of war in the Union and Russian relations. The military matter is highest in their relationships, due to the fact that since 2000 Russia has pursued realist thinking foreign policy, in order to reassert lost stance in the global arena, as well as to preserve balance of power. Overall both sides are interested in gaining more power to others. Simultaneously, in anarchic world the Union's MS pursuing its own national interest rather than common. All indicated factors allowing author put forward first hypothesis from realist perspective. The **hypothesis is:** *there is a likelihood of conflict emergency between partners.*

Second group of theories contained arguments from New-institutionalism, Neoliberalism and Interdependency theories, which are focused on cooperation rather than conflict. The EU and Russian relations are reciprocal, while both sides are interested in cooperation, due to the fact that they need each other. Russia is the potential energy supplier for the Union, in its turn European market is significant for Russia in terms of revenues. The European market is more beneficial in comparison with other markets because it pays higher prices for oil and gas. Overall both sides are dependent on each other and they are interested in tightening cooperation using soft power. In this relationship both sides are seeking reciprocally beneficial outcome rather than pursuing relative gain. The partners' attitudes toward cooperation will reduce risks of conflicts. Therefore, the second **hypothesis is:** *the probability of conflict in the EU-Russia energy relations is very small.*

III Methodology

This chapter is concerned with methodological framework in order to analyse the EU-Russian energy partnership. “Having decided on a focus for the research, the research questions to which you seek answers, and overall research strategy that is appropriate for getting those answers, you now need to give thought to methods” (Robson, 2002: 223). Method is a technique to provide the arrangement of a study. Social research consists of two major types; qualitative and quantitative. The study has been focused on qualitative research methods to assist in-depth understanding of this.

3.1 Qualitative Research Design

Qualitative methods were developed as a critique of quantitative research methods and strategies (Flick, 2009:24). The central ideas of qualitative research are different from quantitative research. The crucial features of qualitative research are the “correct choice of appropriate methods and theories; the inclusion of different perspectives; the researchers’ reflections upon the research as part of a knowledge production; and a variety of approaches and methods” (Flick, 2009:14), qualitative method seems to “promise that we will avoid or downplay statistical techniques as well as mechanics of quantitative methods” (Silverman, 2010:8).

According to Bryman (2012) qualitative method is a research strategy that generally emphasizes “words instead of quantification in the collection and analysis of data” (2012:380). Neuman, discussed that there were several differences between quantitative and qualitative research methods. Foremost differences derived from data itself. Qualitative research methods are focusing on *soft data* (i.e., words, sentences, photos, symbols) collection techniques, rather than *hard data* (in the form of numbers) (Neuman, 2011:165). Another difference originates in “language of research” it means quantitative study is more focus on positivist principles and usage a “language of variables and hypotheses. However, qualitative studies focus more on principles from interpretative or critical social science”. Quantitative study emphasizes on measuring variables and test hypotheses, in contrast, author’s study emphasizes on specific cases which arise in “natural flow of social life” (ibid.). Therefore, qualitative data are more precise

and meaningful, instead of deficient, meaning that trying to convert social life into variables and numbers (Neuman, 2011:175).

The study focused on qualitative methods of research. During the analyses this study would conveyed through usage various kind of qualitative methods, such as case study, scrutiny of official documents of various kinds, and interview.

3.2 Qualitative Case Study

Case study is becoming widespread research method among the different professional in various discipline of social science for social research (Gomm, Hammersley & Martyn, 2007: 1). With taking into consideration advantages and disadvantages of the case study method, it has been selected as one of the appropriate method in order to investigate the study. Due to the fact that case study research allow investigator to understand complex social phenomena, simultaneously it can enhance and extend knowledge, as well as add strength to previously identified research. Case studies emphasize detailed appropriate analysis of a limited number of occasions or circumstances and their relationships. Case study is the extensive and useful method for qualitative inquiry. They can capture the process under study in a very detailed and exact way (Flick, 2006:134).

Yin (1994) indicated “the case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context [...], relies on the multiple sources of evidence [...], and [...] benefits from the prior development of theoretical propositions to guide the data collection and analysis” (1994:13). The case study taken up by several scholars, author mainly focuses on George & Bennet which produced standards and best practice about the case study methods. As the name case study implies the necessity of case. According to George & Bennet (2005) case is an “instance of a class of event” which the “class of event” refer to “a phenomena of scientific interest”, such as “revolutions, types of governmental regimes, kinds of economic systems, or personality types that the investigator choose to study with the aim of developing theory (or generic knowledge) regarding the cause of similarities or differences among instances (Cases) of that class of events” (2005:17-18). Consequently, case study is “well-defined aspect of historical

episode that the investigators select for analyses” as well as it possibly generalizable to further events (George & Bennet, 2005: 5, 18).

The study investigated event between the EU and Russia. It is important to emphasize ‘*social surveys gather only a relatively small amount of data from each case*’. A case may be about an individual, or any particular event, or any institution and sometimes it might be the whole national society. (Gomm , Hammersley and Martyn an 2007: 2-3).

Yin (2003) presented three distinctive approaches to the case study design, *descriptive, exploratory, and explanatory* case studies. In this study case study is more focused explorative rather than other two options, due to the explain case. The study focused on the case rather than theories (2003: 5-7).

Author interests in usage case study justifying hypothesis. As Stake mentioned, “*case studies can be used to test hypothesis, particularly to examine a single exception that shows the hypothesis to be false*” (quoted in Gomm, Hammersley and Martyn, 2007). Therefore, the selection and examine of case is important, in order to increase the validity and reliability of the study.

George & Bennet claim that case studies are strong precisely, where the other formal models and statistical methods are less influential. However, case study itself has strong and weak sides. Four, major advantages of case study method presented by the George & Bennet. First advantages of the case study it allow investigator to gain “high levels of validity” during the research. At the same time it helps to the researcher “to identify and measure the indicators that best represent the theoretical concepts the researcher intended to measure” (George & Bennet, 2005:19). The second advantages comprises from case study has powerful significance “in the heuristic identification of new variable and hypothesis”. It means during the research (such as interview and archival research), when researcher ask interlocutor “were you think X when you did Y” and he or she get response as “no I was thinking Z”, and researcher has not thought about Z as a causally relevant variable (Ibid: 20).A third advantage of case study is important for discovering “causal mechanism in individual cases”. Within a single case it is plausible to observe large number of intervening variables (ibid: 21). Fourth strength of case studies is

related to “their ability to accommodate complex causal relations such as equifinality, complex interaction effects, and path dependency” (ibid: 22).

Simultaneously there have several disadvantages of the case studies. According to George & Bennet (2005) a common critiques on the case study method is relate to case selection bias. Indeed, “selection bias” create a number of problem in the in the case study research, whereas, not as in statistical research (2005:24).

Yin’s (1994) critiques against case studies concern has been over the “lack of rigor” in research. At the same time “little basis for scientific generalization”, as well as case studies “take too long time, and they result in massive, unreadable documents”. Moreover, despite these facts “good case studies are very difficult to do” (1994: 9-11).

Author used case study methods in order to acquire detailed information about EU-Russian energy partnership. In the study ECT and ED could be better cases to test hypotheses and for analyses the process.

3.3 Data Collections Methods

Yin (1994) argued that collection of empirical evidence is an important strategy of the case studies methods. Empirical evidence for the case study research can come from different source of evidence. The author listed six most commonly used sources of evidence in the case study research; “documentation, archival records, interview, direct observation, participant-observation, and physical artifact” (2003:78). Neuman (2011) presented four types of data collection, interview, visual data, document and observation (2011: 51).

According to George & Bennet (2005) the case study will be effective if a general question is formulated and data is required. “Data requirement should be determined by the theoretical framework and research strategy [...] in order to achieve objectives of research”. The major aim of the study is to shape empirical evidence collection according to data requirements (2005: 86).

In the case of EU-Russian energy relationship several data collection methods have been used,

such as official documents from both sides, interview, and at the same time secondary sources are used.

Official Documents: Official documents are likely to be most appropriate data to every case study research. These types of evidence can take different forms for instance, “letter, memorandum [...],” writing reports, treaties and etc. (Yin, 2003:85). The EU’s and Russia’s official documents enable me to investigate the study, as well as enhance understanding in the case study.

Interview Method: Interview is one of the most prominent sources of evident collection strategies in both qualitative and quantitative research (Bryman, 2012:209, Yin, 1994:84). Without any doubt interview is a very widely used and essential style of doing qualitative research method in social research for collecting data. Gathering data through discussions with people and experts on particular topics can be very productive. Interviews can “yield rich insights into people’s experiences, opinions, aspirations, attitudes and feelings” (May, 1997:109).

May (2001) discuss that in order to gain better results, the investigator needs to know and understand the “dynamics of interviewing”. He or she must understand various methods of conducting interview (2001:20-21).

There are four types of interview methods used in social research (Robson, 2002:269). These methods are categorized as *structured*, *semi-structured*, *unstructured* and *group interview* (May, 2001:21). The study is conducted on a semi-structured interview, according to May (1997) since this type of interview “allows people to answer more on their own terms than the standardized interview permits” , and the interviewed issue’s perspectives are more likely to be expressed rather than by using standardized interviews or questionnaires (May,1997:111). Moreover, during the semi-standardized interview, respondent acquire more flexibility in answering, therefore this is a significant way of grasping the views of people and getting “deep information” (Robson, 2002:270). In this study experts in the field of energy have been selected. In order to avoid being bias, the author selected independent experts which specialized in the field of energy. The time consuming and travel costs limited the author

during the interview process. However, technological development provides opportunities for doing online interviews. This method would provide benefits, and also “corroborates certain facts that” which the author already recognized (Yin, 1994:85).

Interviewing has several strengths and weaknesses. Initially it is a flexible and adaptable method for investigating issues. At the same time, it allows researchers to collect a large amount of evidence, as well as a efficient method considering limited time and finance (Bryman, 2008:474). Furthermore, interviews yield richest detailed information rather than other data collection methods.

But all interviews require careful preparation such as making arrangements to “visit, securing necessary permissions- which takes time” (Robson, 2002:272-73), as well as transcribing the interview takes time (Gillham, 2000:9).

Reliability and validity: Reliability and validity are most important criteria for evaluation of social research (Bryman.2012:46). While conducting research it is essential to consider reliability and validity, as well as usefulness of methods. These concepts are vital criterion when judging credibility of study (Klenke, 2008:37-38). The author tried maintaining reliability and validity as much as possible in process of research. With the choose of case study author abled to narrow study to particular case to better understand about all information and interview method, documents analyses has enabled me to gather data, investigate and analyses of the EU-Russian energy relations.

IV Energy Geopolitics and Security: Energy Situations in the EU and Russia

The following chapter will provide information concerning energy security, as well as an energy situation in the Union and Russia. The target of the chapter is to carve out the basis for study, as well as acquaint readers with the energy situations of the partners.

4.1 Energy Supply Security

Gradually rising global demand, energy prices volatility and nationalization of energy in enormous supplier countries have complicated the global economic cooperation, simultaneously increased energy security issues. The notion of energy security has become vital in the EU which is highly dependent on non-indigenous energy supply. As one of the key global actors, the Union endeavors development market based relations, in order to promote stability and security in the world's energy market. By contrast, enormous energy producers employ energy as geopolitical tools (Doukas, Flamos & Psarras, 2008:14-15).

The term energy security comprises from several compound factors, connected to “supply and pricing”. The energy security is broadly used in security studies, however “its definitions [...] vague [...] often limited only to the economic aspects of the phenomena”. Palonkorpi defined energy security as an effort by energy consumers to “protect themselves from interruptions, which could endanger supply of energy as a result of an accident, terrorism, insufficient investment in energy infrastructure or insufficient organization of the energy markets”. The definition of energy security habitually stresses the essential to “secure sufficient supply and affordable price for energy” (Palonkorp, 2008: 1-3).

The European Commission stated “energy supply security must be geared to ensuring, for the well-being of its citizens and the proper functioning of the economy, the uninterrupted physical availability [...] at a price which is affordable [...] while respecting environmental concerns [...] security of supply does not seek to maximize energy self-sufficiency or to minimize dependence,

but aims to reduce the risks linked to such dependence” (Commission, 2000:2). Palonkorpi pointed out that indicated definitions “do not take into account political aspects of energy security”; notwithstanding energy security matter is on Union agenda since 2006 gas conflict between Russia and Ukraine. As a result of conflict over the gas prices and transit Russia disrupted exportation, which that influenced most of western European states. This dispute is reflecting the threats of high dependency on Russian energy reserves (Palonkorpi, 2008: 1-3).

In the energy security literature the security issue designated only from consumers standpoint. However, energy is not only security issue for consumer states, this is key element for suppliers as well. It has different meaning for energy “consumer” and “producer” countries they deduce concept meanings differently. There are dichotomies; security of supply and security of demand. Yergin (2006) notes that the energy importer and exporter countries aim regarding energy security (2006:70). An energy supplier is attempting to maintain “security of demand”, due to their need of safe “markets and stable income” (Monaghan & Jankovski, 2006:14). For instance, as an enormous energy producer Russia’s “aim is to reassert state control over strategic resources and gain primacy over the main pipelines and market channels through which it ships its hydrocarbons to international markets”. In its turn, consumer countries need secure supply source in order to maintain sufficient supply for affordable prices for to support its own industrialized and industrializing economies. In Europe, the “major debate centers on how to manage dependence on imported natural gas [...] most countries, aside from France and Finland, whether to build new nuclear power plants and perhaps to return to (clean) coal” (2006:70-71). These two approaches are interconnected it means low energy prices “would have a major knock-on effect on [...] economy”. So, low energy prices are undermining revenue based economies of producer countries. Lack of energy resources undermines consumer countries economy as well. For instance, devising fewer energy reserves can be reason for boost prices. Overall, energy prices have harmful influence on both importers, as well as on producer countries (Monaghan & Jankovski, 2006:14, Doukas, Flamos & Psarras, and 2008:16).

In this study the authors’ target is to analyze energy security concept from security of supply perspective. The security of supply took central place in national energy policies, as well as the

Union and global levels (Chevalier, 2006:1). Stabilization of energy security is necessary in order to achieve economic development and “well-being of citizens” of the EU (Commission, 2008:19). Security of energy supply has several important elements. *Affordable Energy*: is foremost economic aspect of energy security which dealt with price level and market behavior. It means “ensuring [...] availability of energy products and services on the market, at a price which is affordable for all consumers” (Commission, 2001:4). Ensuring sustainable and reasonable price for energy is significant to the Union as a global economic power. Political instability in Libya illustrates threats of lack of energy supply (Oettinger, 2011:8). At the same time, trustworthy and secured energy supply is necessary for “peace and prosperity” (Lowe, 2011:14). *Available and accessible*: in order to enhance energy supply security the following elements are important. The first and utmost necessity is ensuring reliable supply of energy. Therefore, it is necessary to diversify supply sources and transportation routes, as well as enhance transparency in “distribution and delivery of supply to the final customer” (Chevalier, 2006:2).

4.2 Energy Situation of the European Union

The Union has vulnerable energy situation, notwithstanding its economic and political assets. The contemporary depiction of energy security of the EU caused, through various indigenous and non-indigenous matters. The EU has plentiful vulnerability in energy situation which ascends fundamentally from several factors. These are originated from restricted local energy reserves in Union, MS over dependence and steadily growing dependence on imported fossil fuel, increasing competition in global market, “economic development” and “population growth”. Moreover, recent boosting in the price of oil and gas create concerns about the stability of reliable energy supplies. All of them are vital sources of threats to the European energy security and add to the Europe’s energy vulnerability (Council, 2005).¹

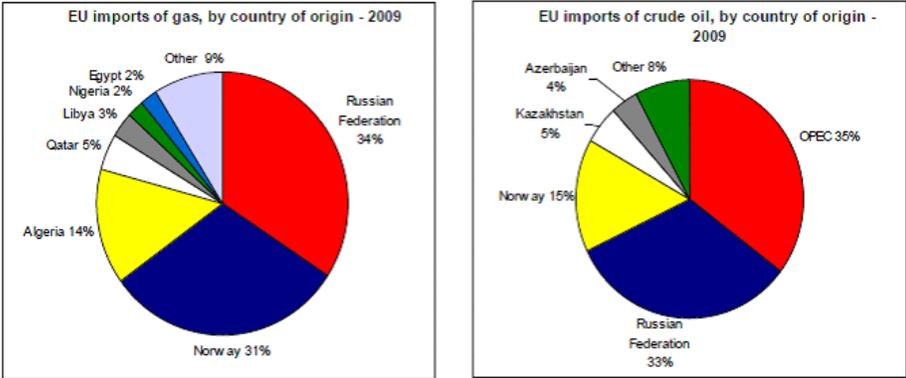
¹ Parliamentary Assembly Council of Europe webpage **Doc. 10458** 22 February 2005

The EU’s MS consume nearly 17 percent world energy supply (Belkin, 2008:5). However, MS itself possess only 0, 7 percent world proven oil reserves and 2 percent of the world’s proven gas reserves (EIA, 2008, European Commission, 2011:19). The Union does not have capability to cover its energy demand, nevertheless member states are possessing oil and gas. Energy producer states within the Union are capable just to fulfill only small part of energy demand.

Economic development and enlargement of the Union caused supplementary growth of energy demand, subsequently amplified import from giant producer countries. According to Eurostat estimates in 2009, Union total oil production 812.2 million toe. The United Kingdom (UK) is the largest energy producer in the Union with a 19.2 percent share. However, there have been considerable declines in UK production in comparison to a decade earlier (29.3 percent share in 1999). Only the UK, the Netherlands, and Denmark possess oil and gas, which to some extent fulfill their own domestic demand, but the rest of the EU is highly dependent on oil and gas import (Eurostat, 2011:31-37). Russia has preserved “its position as a main supplier of crude oil and natural gas and emerged as the leading supplier of hard coal” (Eurostat, 2011:41). (See:

Figure1)

Figure1



Source: Eurostat May 2011- Intra-EU trade excluded

This figure indicates that Russia became the principal supplier of oil and gas for the Union with 33% of oil and 34% of gas. Overall, Algeria, Norway and Russia have key roles in the energy security of the Union with 79.1 percent share (Eurostat, 2011: 31-37). In addition, Caspian oil and natural gas from Libya and Qatar also take small place as an alternative supplier (European

Commission, 2011:27).

4.3 Russian Federation as a Potential Energy Supplier

Fundamentally, oil and gas are playing central roles in European economic development. It has significant role in Russia's economy as well. Russia as the world's enormous energy producer has highest influences on global energy market. It owns "26 percent of world's total gas reserves, 23 percent of coal, and 13 percent of oil". Scholars argue that Russia could be an important alternative to the Middle East energy resources (Monaghan, 2007:275).

It is undeniable that energy reserves are vital, in order to expand a countries economy. Russia is one of the obvious examples where enormous oil and gas reserves has played significant role in determining the Russian economic well-being. At the same time, Russia has central role in the global energy security with the largest energy reserves. Besides that, geographical position increases significance of Russia for the importer countries. Proximity to the Caspian Sea and Central Asian increases Russia's role as exporter at the same time as a transit country. Monaghan and Jankovski pointed out "it is important to realize that Russia is 'triple-hatted'. It is a major energy producer, consumer and transit state" (Monaghan & Jankovski, 2006:7)

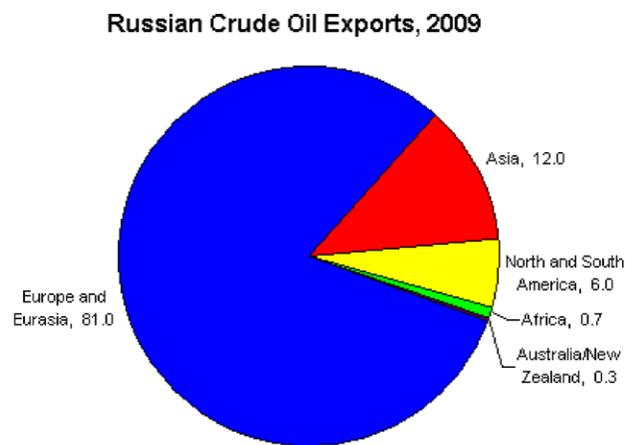
The European and Asian countries are major competitors for Russian energy reserves. However, the EU is most important consumer in the same time most important competitor. The insubstantial energy situation and high dependency on import expanding Russian role in EU energy security (Monaghan, 2007:285).

Russia possesses 60 billion barrels of "proven oil reserves" and most of oil deposits are founded in the western Siberia province (EIA, 2010:1-3, Monaghan & Jankovski, 2006: 18). In addition, Russia discovered potential enormous reserves in the other regions such as East Siberia, which is not fully explored (EIA, 2010:2). Currently, most of Russia's oil production controlled through the sated owned companies. After the fall of the SU, Russia's government had taken responsibility privatization of the oil industry. Many international private companies were

engaged in Russia's oil sector. Subsequent attempt by the foreign companies to raise their investments in Russia didn't succeed. Due to the fact that, state owned Rosneft attained the majority of oil fields and became the major oil producer in country (EIA, 2010:2-5).

Vast majority, Russian oil export goes to European market 81 percent, approximately 12 percent goes to Asia and 6 percent oil exports go to North and South America (EIA, 2010:2-5) (see: **Figure 2**).

Figure 2



Source: Global Trade Atlas, FACTS, and EIA.

Its oil is mainly transported via pipelines, at the same time via the rail and sea routes. Russia has three main oil export channels: foremost important one is Druzhba (Friendship), which exporting oil to the Europe. Second is Baltic Pipeline System, which decreasing Russian dependency on transit route. Third one is black sea. All of these oil pipeline network exceptions of the Tengiz-Novorossiisk are under the control of state owned Transnet (EIA, 2010:4-5). Currently, three main pipeline systems are taken into serious consideration: first one is to the US, second to China, and third is to Japan (Bahdat, 2005:142-3)

Gas Industry: Russia holds world's largest natural gas reserves. Its grip 47 trillion cubic meters (Tcm) of proven gas reserves and potential gas reserves are located in Siberia as well. Russia's gas is mainly goes to the "Commonwealth of Independent States" (CIS). Besides that, Gasprom

“has shifted much of its natural gas exports to serve the rising demand in countries of the EU, as well as Turkey, Japan, and other Asian countries” (EIA, 2010: 5-6). Russia provides its natural gas to the global energy market via seven main pipelines. Currently two major pipelines are targeted: the “South Stream pipeline (Russia-Serbia-Europe) dedicated to supply Central and Western Europe and the Nord Stream pipeline (Russia-Germany)”. The important thing is all pipeline infrastructures and gas sector is under the control of state owned Gazprom Company (EIA, 2010:7-8) To sum up, enormous energy resources, in addition, the wide shipping network enabled Russia to be “one of the world’s most important energy suppliers and the EU’s single most important supplier” (Monaghan & Jankovski, 2006:8).

V EU-Russia Energy Cooperation: Legal and Economic Basin

A new era was opened in the EU-Russia energy cooperation after the fall of the Soviet Union. This new cooperation grounded on “legal, institutional, economic and political mechanisms”. The EU and Russia are vital partners, therefore developing cooperation are significant for both, with “sharing common economic and political interests”. Energy security issue is important for Russia, as much as important for the EU. Cooperation between the EU and Russia is vital for both sides which have been demonstrated by their deep interest in the energy sector, due to the fact that EU endeavor secure supply of energy and Russia has expectations from this partnership in attracting investment. Taking into consideration decreasing domestic energy production within the EU and increasing dependency on Russian energy supply, and Russia’s need for investment, it would be advantageous for both sides to engage in cooperation (Smith & Kempe, 2006:3).

During an interview with Italian press in 2003, Russian president Vladimir Putin specified that “for us, Europe is a major trade and economic partner, and our natural, most important partner, including in the political sphere [...]. We are interested in developing relations with our partners in the United States, and on the American continent as a whole, and in Asia, but, of course, above all with Europe” (Putin, 2003: interview).

Cooperation among these two actors is evolving through different agreements such as *Partnership and Cooperation Agreement (PCA)*, Common Space, ED and ECT, however in this study the author will present the utmost insightful of them, in order to familiarize with conflictive and cooperative characters of the relationship. (Smith & Kempe, 2006:3). The PCA was signed in 1994 and entered into force in December 1st 1997. The major goals were setting out grounds for political and economic dialogue among the EU and Russia. The Commission specified “the proposed agreement has three main components: political dialogue, cooperation and trade” (Commission, 2004:3). Furthermore, PCA established institutional basis in the EU-Russian relationships at different levels. Summit of Head of States, according to art.6 and 8 of PCA shall take place at ministerial and at parliamentary level as well (PCA, 1996: art.6, 8).

Since end of the Cold War the Union has been interested in developing cooperation with Russia based on shared norms, values and rules. The importance of this was the *Energy Charter Treaty*

(ECT), which was the first political initiative after the cold war presented good opportunity to overcome economic difficulties in the European continent. The main purpose in establishing ECT was creating an instrument for “mutual beneficial cooperation between east and west” stronger in the field of energy (ECT, 1998:13).

The ECT and its Protocol on Energy Efficiency and Related Environmental aspects was agreed on in December 1994. It was first economic cooperation agreement proposed to unite overall fifty-two states, from the “former Soviet Union (SU), planned Central and Eastern European (CEE), EU’s MS, at the same time plus Norway, Switzerland, Turkey, as well as Australia and Japan”. However, the most important energy supplier Russia has signed the treaty but strongly opposed and rejected to ratify (Aalto, 2008:11).

The ECT came into force on April 1998, and the primary objectives of treaty focused on several areas namely for “protection and promotion foreign investment in the energy sector [...], free trade in energy materials, freedom of energy transit through pipelines and networks, energy efficiency and environmental protection, establishing mechanisms to resolve disputes between states or between an investor and state” (ECT, 1998:17). Russia did not ratify ECT due to its Protocol on Transit, which was one of the integral parts of treaty. The fact is that if Russia signs this treaty, it would allow independence for a number of countries to use the energy transportation system to transport their energy resources straight to Europe. Russian prime minister Putin in his speech at the Davos Economic Forum in 2009 stated: “Unfortunately, the existing Energy Charter has failed to become a working instrument able to regulate emerging problems. I propose we start laying down a new international legal framework for energy security” (Putin, 2009: speech). President Medvedev pointed out a similar idea in 2009 during the interview by the Spanish press. Medvedev stated that it is important to make a new version of ECT. “But what should it be like? It should not benefit just the consumers. Yes, a consumer is a vulnerable party. But sometimes we need to think about the producers as well, and the transit countries” (Medvedev, 2009).

The most problematic aspect of ECT is Art.7 which concerns legalizing transit issue, in order to have access to export pipeline network under the principles of “freedom of transit” for the energy

sector and non-discrimination. The stated aim is to ensure strong and clear rules and procedures for the transit of energy resources and goods, which can stimulate the proficient growth and usage of pipeline network for shipping energy resources and decrease the risk (ECT, 1998: Art.7). Aalto claimed that the “transit protocol would compel Russia to implement the principles of freedom of transit without distinction of the origin, destination or ownership of energy, and non-discrimination pricing” (Aalto, 2008:12).

The fact is that with ratification the of ECT and its transit protocol, Russia would presumably allow EU free access to Russia’s monopolized pipelines and open access allow the central Asian countries which owning substantial energy resources and needs stable pipeline network in order to deliver its energy to Europe. The geographic positions are not enabling those countries to export energy resources independently; transportation via Russian pipelines looks most appropriate (Aalto, 2008: 12).

To sum up, the principles of transit protocols are entirely contrary to the interest of the Russian government and Gazprom. For these reasons, the State Duma, stressed that it “could return to the question of ratifying the ECT only after the completion of negotiations on the Transit Protocol, which should find a place corresponding to clarify the provisions of the ECT”. Russian is not denying ratification of ECT, but Russia desires to change or bring several important rules and procedures which would avoid the breach of Russian and Gazprom interests (ФСК)

Energy Dialogue (ED); when the Russian side did not sign the transit protocol it became obvious that the ECT would not be efficient as estimated in relation to Russia. Therefore, the Union to secure its energy supplies made a further effort to put forward the EU-Russian energy dialogue. The EU obtained expected positive reaction from Russia (Aalto, 2008:13). Due to the fact that the energy relations among the Union and Russia are mutually dependent, it cannot be explained by one sided dependency. Russia is the one of the key supplier of oil and gas and in its turn, the EU is the foremost market for Russian energy (Monaghan & Jankovski, 2006:9). This reciprocal relationship is expected to grow in the Putin’s new presidential period (interview).

The major goal of the ED was to set out a framework for a comprehensive, stable and regulatory EU-Russia partnership, as well as increase reliability of energy security. According to Aalto major goal of the energy dialogue “is the typical diplomatic one of facilitating the flow of energy trade and investment by providing a political and institutional framework for increasing EU-Russian energy trade”. The main purpose of the Union was to increase energy supply security, as well as enhance investment opportunity in Russian energy market. Russia was always accused of having a closed energy market for foreign companies in the gas sector. Union’s effort is breaking Gazprom monopoly over the gas and pipeline network (Aalto, 2008:13).

Russia is interested in ED, due to the fact that it provided opportunity for attracting investment in order to modernize energy infrastructure, as well as expand energy exports. However, the problem within the Union impact on realization Russia’s aims (Aalto, 2008:14).

The joint progress reports since 2000 indicated that ED has considerable positive results in the different direction of energy cooperation. It established legal, institutional framework to resolve several problems in the EU-Russian energy cooperation. The progress reports allow me to conclude that partners be aware of the significance and inevitability of cooperation.

But the main problems in the cooperation derived from partners dissimilar “interpretations of the relationships and their priorities”. Russia attempting to attract investment and modernize “its energy infrastructure and protect itself”, whereas the EU intention is to liberalize, ‘reform and open up its market by creating a more positive business climate” (Monaghan & Jankovski, 2006:10).

5.1 EU Dependency on Russian Energy Supply: Risks and Challenges

The EU’s high import dependency creates risk and imposes challenges to the energy security, though both sides are interesting in cooperation. The risks are classified as short-term and long-term risks. The short-term risks are generally related to accident which cause to the supply shortfall, such as terrorism attack, whether or technical difficulties. But, the long term risks are

“separated into *economic* and *political* risks”. However, the long term risks consisting from long-lasting problems, for instance “imbalance of supply and demand” (Egenhofer and Legge, 2001:4).

The European Commission green paper (2000) indicated four major types of risk. The first is *physical* risk, instead of short and long term risk the commission classified it as permanent and temporary. Permanent risk “can occur when an energy source is exhausted or production is stopped”. This is what the EU faced in the last decades. Decreasing indigenous energy production in Europe is increased EU’s dependence on non-indigenous energy supply. The temporary risks stem from “geopolitical crisis or a natural disaster” (2000:64). The gas dispute between Ukraine and Russia in 2006 is obvious example for physical risk. Second, there is *economic* risk which has big impact on energy security supply. In the economic risk energy price is main factor, price change have negative influence for consumers. Price changes also influence energy exporter countries. For instance, in the case of Russia energy incomes has central role in state budget (Commission, 2000:64-65). Price decreasing may have impact on Russia’s economy. Therefore, energy price should be reasonable and stable (Egenhofer, 2006:5). The last two risks are *social* and *environmental* risks. The Commission claims that energy is an important factor therefore, any trouble in energy supply, influences the countries politics, social life, environment and economy (Commission, 2000: 65-66).

Russia is key supplier of the Union, with enormous energy reserves, geographical position, and monopoly power over the energy infrastructures. There are several factors which hamper security of stable and efficient energy supply. Foremost, energy supply shortfall will cause uncertainties due to the fact that Russia needs new investment for extracting oil and gas, but Russia “has less available capital to invest in new production”. Monopolization in Russia makes it hard to attract investment to the country. All energy production, exportation and transportation infrastructures are under the control of state owned companies, such as Gazprom and Rosneft (Mankoff 2009: 4). Second Russia is using energy for geopolitical purposes, due to the fact that Russia’s usage as political and economic tools in international politics “began with the move towards greater state interference in the energy sector in 2003-4”. Milov claimed that “the

conservative part of the Russian academic community had started to suggest that energy should become a key factor in Russian foreign policy in 2001-2” (Milov, 200:12-3). The author also argued that it is quite vague, for what purpose Russia uses energy in foreign policy. Is it global integration or maintaining dominance in geopolitics? The following factors are clarifying how energy used in foreign policy for what purpose.

- *“Using the fact of energy dependence/energy supplies from Russia in order to achieve certain political goals in relations with countries that are purchasing Russian energy”,*
- *“Using the potential opportunity of future supply expansion, primarily through new oil and gas pipeline projects (‘pipeline diplomacy’) to promote certain Russian interests in various countries”,*
- *“Engaging certain investors of the energy importing nations to participate in upstream oil and gas production projects in Russia (i.e. partial access to development of Russian oil and gas reserves) to promote a certain bilateral relations agenda with these energy importing nations”,*
- *“Getting control over the downstream energy assets (distribution and retail sales) in the energy importing nations in order to pursue both commercial and, presumably, political goals” (Milov,2006:14).*

The first and last situation is mainly indicated Russian policy regarding with post-Soviet countries (ibid).

For instance, Russian and Ukrainian gas price disputes in 2006 and 2009, as well as oil crises between Russia and Belorussia in 2007 are obvious examples, which indicated how and why Russia uses energy as a political tool. During the gas dispute Russia ceased gas supply; Ukraine is the country which is entirely dependent on Russia’s supply. This dispute had political as well as economic reasons. Economic reasons are to boost energy prices and take under the control energy export infrastructure of different countries. Politically hamper the policy interests of different powers in the neighbor states and also discipline post-soviet countries for their pro-western positioning (Milov, 2006:15-6).

Third and last factor influencing stable energy supply is the growing demand, and competition for Russian hydrocarbons in Asian market. Meanwhile, there have been tight relations among Russia and China and between Russia and Japan (MERF, 2003:12). Simultaneously, there are several projects which Russia is planning to construct in the near future.

5.2 European Union External Energy Policy

“I have described energy policy as the next great European integration project. And it's not hard to see why. A safe, secure, sustainable and affordable energy supply is key to our economic and strategic interests as a global player”
(Barroso 2011: 1)

Energy was a significant subject for the EU from the establishment of the Union. Provided that security of the supply become even more significant after the Union reached twenty seven member states. EU over dependency on foreign energy supply, especially dependency on Russia and energy related statistics alarmed energy security matter high on EU agenda. Rising demand, unpredictable prices and risks in energy supply, compelled of the Union to exert every effort for a common and coherent energy policy (Commission, 2006:3-4). The EU is one of the major oil and gas importers and huge numbers of MS are industrialized and industrializing countries in the world, these countries dependency on oil and gas rich countries undermine energy security. Therefore, development of a European energy policy (external energy policy) was important project from the establishment of the Union, through the European Coal and Steel Community (ECSC) treaty in 1951, and the European Atomic Energy Community (Euratom) Treaty in 1957. Energy still reminiscence important notwithstanding the shift in economics and geopolitics (Delors, 2010:3).

The European Council highlighted that “European countries are facing with several challenges in the field of energy: the continuing problematic circumstances on the oil and gas markets, the growing dependency on import and limited diversification achieved so far, high and volatile energy prices, growing global energy demand, security risks affecting producing and transit countries as well as transport routes” (Council, 2006:13).

During the last decades the Union has approved several policy documents and strategies in the

area of energy security. Certainly “European governments and European Commissioners routinely stress their belief that Europe’s energy predicament is acute and cite energy security as a priority issue for the Common Foreign and Security Policy (CFSP)” (Youngs,2007:2). This puts forward the significance of association in response to the existing situation. The fact is that the energy matter took place in the frames of European Energy Policy (EEP) and CFSP. Javier Solana in her speech mentioned the credible European external energy policy, specifically “solidarity and trust, dialogue and practical co-operation” which is desirable to stop “the defense of narrow, national interests at the expense of broader, European interests” (Solana, 2008: 1-3). The EU’s MS pursues their own national interest and external relations, but in fact Union seriously desires to generate coordinated European external energy policy. The EU needs common external energy policy and “speak with single voice” (Commission, 2006:1).

As stated the European Commission approved several documents regarding to energy policy, in particular external energy policy one of them Green Paper released in March 2006. The major proposes is to ensure a roadmap for an EEP (Commission, 2006:2). In addition green paper promised “a better integration of energy objectives into broader relations with third countries” (ibid). The main political obligation is to launch more effective unification all MS around the common EU’s external energy policy and work for entire interests of the Union (Youngs, 2007:1). Indeed, “a coherent external policy is essential to deliver sustainable, competitive and secure energy supply and solidarity among the MS” (Green Paper, 2006:13-24).

The approach was continued one year after the green paper; all MS emphasized need to increase common energy policy for the Union. Commissioner expressed the significance of new energy policy during the in March 2007 summit and MS approved an “Energy Policy for Europe” (Belkin, 2008:10). An Energy Policy for Europe focusing on three major subjects: “increasing European energy security, increasing sustainability and fostering the achievement competitiveness” (Commission, 2007:1-4).

One of the important points here is stressed on safeguarding energy security which is interconnected to energy geopolitics. The European Commission emphasized significance of ensuring solidarity among the MS and the diversification of energy supply basin and shipping

roads. The gas crises 2006 and oil crises in 2007 frightened the Commission and a number of member states about the necessity of increasing “foreign policy coordination in order to secure and diversify supply”. In particular, the major principles focus on rising “energy efficiency, promoting the use of renewable energy and alternative fuels and associated technologies” (Belkin, 2008:8).

Correspondingly, EU’s external energy policy priorities indicated in Art. 194(1) of the Treaty on the Functioning of the European Union (TFEU or ‘Lisbon Treaty’) (co-decision and qualified majority voting) sets out the four main aims of the EU’s energy policy: “to ensure the functioning of the energy market”; to “ensure the security of supply in the Union”; to “promote energy efficiency and energy saving, and develop new and renewable forms of energy”; and to “promote the interconnection of energy networks” (TFEU,2009: Art.194.1).

In a nutshell, diversification of energy supply source has become main policy priority, in order to secure energy supply. The Union has pointed out that the central Asian, Caspian and black sea regions could be a potential alternative (Belkin, 2008:8-9).

5.2.1 EU's Energy Policies Legal Basin

Legislative basin have significant role in the all field of policy. The lack of legislative basin has huge impact on energy policy of the Union. Basic legal documents will be examined in order to better understand, how legislative absence impacts energy policy.

The European Coal and Steel Community was formed in 1951. The goal in establishment of treaty as mentioned in art.2 “common market for coal and steel” of “economic development and rising living standards” of Member States. There was not one single article addressing energy policy in particular, notwithstanding the treaty was ultimately devoted to two precise reserves of energy, both of which stress the importance for assisting political and military purposes, rather than economics or energy policy (ECST,1951: Art.2).

Meanwhile the main objectives in the establishment of the European Atomic Energy Community

(EUROATOM) are stated in art.2, “development nuclear energy industry within the community” which all member states “can benefit from the development of atomic energy and to ensure security of supply”. This treaty was focused on nuclear energy and there also was no article concerning energy policy (EURATOM, 1956:Art.2-3).

During the Messina Conference (in June 1-3, 1955) minister of foreign affairs from the member states of ECSC decided establishment of European Economic Community (EEC). Art. 2 and 3 of the treaty indicate that the main goal of the treaty provide establishment of common market (ibid.). Thus continuing absence of legislation on energy policy resulted with huge problems for the EU. For instance during the energy crises in the 1970 and 1973 EU faced tremendous problems as a result of lack of legislation on energy.

After this, in 1992 the Treaty of European Community (EC) was established. During the analysis of the treaty it was impossible to find any article directly concerning energy policy. Art.2 of the treaty indicated major objectives of the treaty. “ The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing common policies or activities referred to in Articles 3 and 4, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, [...], a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of the environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States” (TEC,1952:Art.2). While there have been numerous articles in TEC, which indirectly focused on energy issues. For instance, art.195 intend the “establishment and functioning of the internal market”. It means free trade in the field of energy between the member states of EC (TEC, 1952:195). Art. 154 in the TEC indicate that “the Community shall contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures” (TEC 1952: Art.154).

In the conclusion the establishment of Lisbon treaty brought new legislative basin for the EU energy policy. The Lisbon treaty comprises from two treaties: Treaty on European Union (TEU) and TFEU. There have separate chapter in the TFEU that relate on energy issue. This treaty

ensured for the MS though, continues its right to “determine the conditions for exploiting its energy resources, its choice between different energy sources and the general structure of its energy supply” (TFEU, 2009:Art.194). The Lisbon treaty has two specific provisions:

Security of supply: Art. 122 indicate that the importance of solidarity, according to art.122 "in a spirit of solidarity between Member States [...] if severe difficulties arise in the supply of certain products, notably in the area of energy" (TFEU: Art.122)

Energy networks: Art.170, 171, and 172 clearly indicate the significances of trans-European networks, in the area of energy.

While art.216, 217, and 218 are relevant to external energy policy of the EU: these articles focused on international agreement with third countries and International organization. In the treaty of TFEU there are several articles concerning with internal energy market as well.

VI Solutions for Ensuring Sustainable Energy Supply

Throughout the study a number of indigenous and non-indigenous factors, which undermined security of energy supply, have been mentioned. The Union depends upon energy imports and approximately more than 80 percent oil and 60 percent of gas are being imported, in fact “much of the energy import comes from turbulent regions” (Clawson, 2000:35). The security problems mostly related with over dependence on Russian energy supplies. Russia is the largest partner for the EU, where 88 percent of Russia’s total oil and 70 percent of its gas is being imported by the EU. But, Russia is not a trustworthy partner using resources as a political pressure not only against Union, simultaneously upon the post-soviet and transit countries (Papava & Tokmazishvili, 2010:103).

Taking into consideration dependence on turbulence regions, Russia’s geopolitical objectives, and energy imports only from single source, plausible measures can be taken throughout the Union level. Overall, the EU needs diversifying its energy supply sources. Caspian coastal countries and central Asian countries energy basins provide potential alternative in this concern. However, the Union clashes with several obstacles to deliver Caspian energy reserves to Europe, foremost Russian endeavors and its monopoly policy and struggle from Asian market. Likewise, the Union lacks common energy policy undermining its diversification policies.

6.1 Diversification of the Energy Supply Source and the Transit Routes

As well known, diversification of energy supply source and transit route has been one of the primary priorities of the EU’s external energy policy. Dependency on unstable energy supply increasing risks for energy security of the Union (Mankoff, 2009:33). Diversification is a strategy which includes a number of components, such as construction of new transportation networks, “increasing supply from Scandinavia, North Africa and the Middle East”, however, in this study the authors intention is focusing primarily on Caspian Sea basin and Central Asian energy supply (Ibid). Despite Middle East “Europe must pay greater attention to its strategy toward the Caspian region for this to be successful”, therefore it is necessary to combine around

common foreign energy policy (Larsson, 2008:24). Consequently, speaking with “single voice” is very important in order to secure stability of supply.

Caspian coastal countries enormous energy reserves and South Caucasus transit corridor has emerged as a potential alternative for European market. Caspian Sea and central Asia rich with oil and gas, and most substantial energy deposits to be found mainly in Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan (Clawson, 1998:1). (See: **Table 1**)

Table 1

	Oil (World share) Tsnd. Mtoe	Natural Gas (World share) Trillion m³
Azerbaijan	1.0 (0.6%)	1.3 (0.7%)
Kazakhstan	5.3 (3.2%)	1.9 (1.1%)
Turkmenistan	0.1 (< 0.1%)	2.7 (1.5%)
Uzbekistan	0.1 (< 0.1%)	1.7 (1.0%)
Total	6.5 (~ 4.0 %)	7.6 (4.3%)

Source: BP: Statistical Review full Report Workbook 2008

As the production of oil grew in Azerbaijan (Azeri-Chirag-Guneschli field), it became indispensable to construct new pipelines, due to the fact that the capacity “Baku- Novorossiysk” and “Baku-Supsa” are capable transport only 11 million tons per year. Therefore, as a result the new oil pipeline Baku-Tbilisi-Ceyhan (BTC) was constructed, which carry Caspian oil bypassing Russia. The pipeline was constructed in 2005, reaching a “length more than 1,730 km, and capacity of pipeline up to 50 million tons of oil per year”. Simultaneously, the BTC oil pipeline offers opportunity to other Caspian countries alternative ways to export their oil to Europe. Since 2008 “Kazakhstani oil and in 2010 Turkmenistan oil started to be pumped through the BTC pipeline” (Ibrahimov, 2010:26-27).

Existing alternative gas pipeline is Baku-Tbilisi-Erzurum (BTE) or South Caucasus Pipeline (SCP), which carry gas from Shah Deniz deposits to Europe (Ibrahimov, 2010:65). However,

these pipelines are not giant alternatives to the Russia's energy supply, for instance BTC "does not make up more ten percent of the oil exports from Russia" and BTE "capacity accounts for just 2 percent of the Russian natural gas exports" (Papava & Tokmazishvili, 2010:104).

One of the main proposed new gas pipelines for ensuring security of gas supply, which could be a potential alternative, is the Nabucco initiative. The Nabucco gas pipeline was "initiated for transportation of natural gas from costal countries of the Caspian sea, such as Turkmenistan, Kazakhstan and probably from Uzbekistan". The main purposes of building this pipeline is to decrease state owned "Gazprom influences in the southern part of the EU", and deliver Caspian gas to Europe bypass Russia. The construction was supposed to deliver gas to Europe in 2013, but there had been several difficulties in the realization of the project and recently cost problem have arisen (Ibrahimov, 2010:66-8).

The Nabucco gas pipeline project has faced with a number of interruptions. There is still uncertainty about which countries would fill the pipeline. Azerbaijan is the only country agreed with EU in order to supply gas to Nabucco pipeline. Azerbaijan, Georgia, Romania signed memorandum in April 2010 to deliver "Liquefied Natural Gas (LNG) from Azerbaijan to Europe via Georgia and Romania". At the same time, Azerbaijan signed the agreement with Turkey in 2010, to "sell gas to Turkey and to other countries through Turkey" (CRS, 2012: 14-15).

During the European Commission president Jose Manuel Barroso visit to Baku in 2011, was signed a joint declaration to supply significant amount of gas to the EU. On the other hand, experts claim that Azerbaijan is not able to fill Italy-Turkey-Greece- Interconnection (ITGI) and Nabucco (ibid). Therefore, the European Council accepted opening talk with Azerbaijan and Turkmenistan to construct Trans-Caspian-Pipeline (TCP), in order to bring gas from Central Asia to Baku. TCP would provide natural gas for to fill Nabucco (Ibrahimov, 2010:68).

One of the big obstacles to the EU's diversification policy derived from Russia; the construction of Nabucco and TCP pipelines is not in the interests of Russia. In response Russia has counterproposal new pipeline projects, such as South and North stream; Papava & Tokmazishvili defined Russia's intention as "Pipeline Cold War". Russia's main goal is to be an Energy Empire that is myth in Russian policy since 2000 establishment "energy superpower". Unlike SU

Russia's goal is to become energy power, rather than military power. Russia is endeavoring to keep and strengthen its "monopolistic position" in several directions, and used every plausible ways for to prevent realization of these pipelines through territory of Georgia (Papava & Tokmazishvili, 2010:104-6).

Georgia has trouble in relation with Russia, at the same time number of unsettled indigenous problems weaken reliability of the south corridor transition route. Overall, transit routes unreliability and Russian position in the central Asian countries main factors undermined EU energy security (Monaghan & Jankovski, 2006: 16-17).

Russia's war with Georgia in 2008 "was clear signal to western investors that investments in Georgia are not safe and the Nabucco Pipeline is dead" (Rahr, 2008:253).

In nutshell, it is still unclear if the Caspian energy basin could be potential alternative, due to the fact that these regions are political unstable, at the same time Caspian countries had not yet achieved any agreement over the legal status of Caspian Sea (Wisniewski,2011:61). Russian Minister of energy denounced Councils open talk with Azerbaijan and Turkmenistan, Minister stated that Caspian Sea is littoral (CRS, 2012:15).

6.2 Energy Strategy and Policy of Russia

After the collapse of the Soviet Union Russia was become independent state, at the same time it was brought some challenges. Russian came face to face with difficult mission of shaping internal and external policy identities. It was difficult to abandon soviet ideology and policy identity, but "Moscow decided to abandon two main Soviet external policy instruments" ("these are an ideology and hard military power") and shift it to other policy approaches for to increase Russia's stance in the global realm. At present, energy is Russia's crucial political and economic priority and based on non- military and soft power in 21 century (Bochkarev, 2006:1-2).

Russia owns important energy reserves and developed energy sector which assists for to the economic development and for development and "implementing internal and external policies". One of the main principles of Russia's energy policy "integration into the world circulation of

energy resources, international cooperation in the field of developing and producing fuel and energy reserves, raising efficiency of their use and entering new energy markets are the key points of its national policy” (Yanovsky,2004:13-4).

Russia attempts to effectively use of natural reserves in order to “sustain economic growth, improve the quality of life of the population and promote strengthening of foreign economic positions of the country” (ЭСР, 2010:1).

Its foreign energy strategy regarding foreign countries is aimed at strengthen its stance in the international energy market and take full advantage of the efficiency of the exports, increasing competitiveness of Russia’s goods and services in the global market in forthcoming years (ibid.) and provide “Russian companies equal access to external market and financing” (Fredholm, 2005:3).

To gain sustainable benefit “for the state from the foreign economic activities with attention to assessing related policy impacts in the field of export, import and transit, and presence of Russian companies at world energy and capital markets” (Yanovsky,2004:13). It is sometimes “reminiscence of military strategy: Russia must support its companies in skirmish for reserve and energy market” (Fredholm, 2005:3-4).

Monaghan (2007) claims that Russian external energy policies stem from three main areas. First, *Russian relations with New Independent States* (NIS), which Russia using energy to punish states which endeavors moving away from Russian influence, as well as for pro-western policies (2007:281). Second *Russian relations with the EU*, in relation with the EU Russia’s proposition was to “develop bilateral relations with individual EU member states”, in order to enhance its position in “the EU more broadly”. Russia is trying to preserve its “image as a reliable supplier”, and “indeed enhance its position as the EU’s main gas supplier through seeking long-term contracts and improving infrastructure links with it, such as the Baltic Sea pipeline”. Russia thought to develop cooperation with the EU, its energy diplomacy toward Europe is “tinged with defensiveness”. Russia struggle to protect access to “European Downstream assets”, at the same time ensure European access to “Russian upstream assets” (Monaghan, 2007: 283-284). The

energy strategy also stresses the development of cooperation in the field on energy and simplifying the flow of foreign investment to Russia (Yanovsky, 2004:13-14 and ЭСР, 2010:41).

One of the aims of Russian energy strategies is to diversify the energy markets in the near future, and develop cooperation with Asian partners (ЭСР, 2010:41). At the present, Europe is the only potential market for Russia.

6.3 Lack of Common Energy Policy

Fundamentally, it is important to have common approaches in the EU, due to the fact that it is most significant aspects to be well thought-out and to be well-organized and efficient political Union. In fact, the common energy policy is one of the challenging subjects in the EU. It became more problematic especially after the 2004 and 2007 enlargement. More states with different interest around the decision making table would complicated the policy making process. MS are totally against “to speak with single voice” as mentioned in green paper (Green Paper, 2006:14) “The emergency of the Union as major actor in European energy policy, since 1985 has brought about a decisive shift in the importance of energy policy in the EU’s agenda” (Matlary, 1997:1). But the MS have dissimilar approaches about the common external energy policy; a number of states strongly against but several of them have common approaches with EU toward this matter. Therefore, the EU failed to secure any tangible expansion in the direction of common external energy policy (Overhaus, Maull &Harnisch, 2006:7).

The absence of coherent energy policy has negative influence on secure supply of energy. MS’s pursuing its national interests rather than community. Besides that, member states are developing bilateral relations with Russia, which is undermining EU’s attitude towards decrease dependency on Russia’s energy supply, as well as realization of some potential alternative pipelines. For instance, Germany has good bilateral relations with Russia; there have tight cooperation between German energy companies and Russia. Ruhrgas is the main gas company of German which “imports around 60 percent of Germany’s overall gas consumption”. Furthermore, Ruhrgas is main foreign shareholder of Gazprom with 6.4 percent of shares, and Wintershall is a main

partner of Gazprom in exploration and production (Westphal, 2008: 102-3). Gazprom dealt with Wintershall and acquired more stakes in “Wingas and exploration fields in Libya” (Ibid). The major goals of Gazprom became more active “midstream and downstream sector by buying share of RWE”, which is one of the major shareholders of Nabucco gas pipeline project (Westphal, 2008:104). The absence of coherent energy policy is one of the big challenges on the diversification policy priorities of the EU, and make energy situation in the EU more vulnerable, as well as, provide opportunity for Russia to realize its energy policy towards the EU

VII Application of Theories and Hypotheses Investigation

From the theoretical point of view the EU and Russian energy relations are deeply inconsistent. The EU is dependent on Russian energy supply, while Russia is one of the big oil and gas provider for the EU. However, Russia became an unreliable partner, due to the fact that Russia used its natural resources to increase its self-assurance on the global stage. Therefore, Russia became appreciated as “threats rather than partner” (Monaghan.2007:276). The Union’s approach to their relations, are based on institutionalism and liberalism. Institutionalism has significant role in the study of the Union policy (Laffan 2001: 710). In relation to energy security the Union approach is based on values and norms, and their beliefs that institutions are necessary for promoting peace, stability and security (Mearsheimer 1995: 5-8). The world that we live in is still “organized in terms of a geopolitical balance of power, based on diplomatic and military power”. However, the Union is attempting to organize its energy policy with help of soft power rather than hard power (Finon & Locatelli 2008: 426). The soft power uses various types of sources such as institutions, values, norms and culture in order to engender cooperation (Nye 2004: 7).

Taking into consideration the high dependency on Russia’s energy supply the EU endeavored to establish better institutional relations with Russia. The primary goals of Union is to establish legal frameworks, by offering ECT which aimed to provide a basis for rule the “rule of law” in the sphere of energy. The ECT can be defined as EU’s effort to export its own market principles (Helen, 2010: 10). Russia signed but did not ratify the transit protocol, which was opening up pipelines to the third parties. The formation of transit protocol has created conflictual matters in the Union and Russian energy relations, which aimed to liberalize Russian energy market, as well as transportation networks. With the signing of the transit protocol, Russia would be obligated to fulfill protocol principles. By agreeing this principles Russia is opening up free access central Asian and Caspian energy to the European market.

The main objectives of the Union is demonopolising Russian pipeline networks and “to align market principles”. But strong counteract from state owned Gazprom and its monopoly position in Russia as well as over the entire pipeline network undermined Union liberalization and

institutionalization attempt. The fact is that with demonopolising energy transportation infrastructure, Russia would undermine its own national and energy security. For Russia maintaining “security of demand” is significant, in order to protect its national interests and preserve its position in European market as a key supplier (Helen, 2010:10-11). Foremost, there are strong links between energy and economic security. Russian budget revenues mainly come from oil and gas sales. Overall liberalization would have negative effects on economic development. The transit protocol hampered its integrationist policy of the Union and Russia started to pursue “isolationist” and self-exclusion policy (Prozorov 2006:12).

By contrast, Russia gives central attention to realism in its foreign policy. Since 2000 geopolitical realism “has predominated in Russian foreign policy thinking” and the “highest value is accorded to the preservation of sovereignty, territorial integrity, and independence”. Russia recognizes international system as ‘zero-sum game’ terms (Light 2008: 15).

National interest is a priority in Russian foreign politics. Russia uses its natural reserves as a political lever, in order to recuperate its lost position in the global arena, above all on the post-soviet countries (Monaghan, 2007:276).

The EU comes to be apprehensive about Russia’s strong position on energy reserves and “these fears appeared justified” by the Ukraine gas dispute. “Putin’s personal involvement in the dispute made it appear that political motives were as important as economic factors”. The political factor is that Russia becomes worried about the post-soviet countries integration and pro-western policy. Therefore, Russia uses every plausible way to preserve its influence on post-soviet countries (Light, 2008:16).

Besides that, Russia has strong influence on the Caucasus and central Asian countries; it provides opportunity to undermine the Union diversification policy, while the EU is attempting to make new partnership in the energy sector with these countries. Experts characterized relationships between the partners as competition, rivalry, rather than cooperation (Light 2008: 25 and Helen, 2010:19).

7.1 Investigation of first Hypothesis

In the theoretical chapter the author hypothesized; *there is likelihood of conflict emergency between partners*. The hypothesis is based on principles of realism throughout thesis by revealing that the balance of power is shifting in the global energy market. The international system is anarchy and struggling for power being a crucial element of international politics between self-interested states.

Overall, realism is a better tool for clarifying problematic aspects of the EU-Russia relations. Waltz claimed that the states are main actors in international politics. The EU consists from twenty seven independent states. The lack of legitimacy of the Union over the member States has negative influence on energy policy. The fact is that the MS is pursuing national interest rather than community. For instance, in the case of North Stream gas pipeline it is observable absence of common energy policy in the EU, notwithstanding this pipeline would play essential role in the energy security of the Union. Overall, it is an actual specimen to comprehend interest divergence. The pipeline connects Russia and Germany through seabed of Baltic Sea. The main shareholders are Gazprom with 51 percent share, German E.ON and BASF. However, some Union member states are entirely against the pipeline.

Germany is the country which backing the pipeline; however, experts and politicians condemn the pipeline due to increasing dependence on Russia. In its turns, Poland, Latvia, Slovakia, Sweden, and Finland are contrary to the project. Due to the fact that Poland and Slovakia do not want to lose transit profits or can be a reason for energy dependence on Russia. The Baltic Sea coastal countries are worried that the project will raise environmental issues. According to Lucas “Finland wants the route shifted away from its coast” (Lucas, 2008:167). This example clearly shows that the Union has inability to speak with single voice as unitary actor in international realm, particularly in energy security matter. In its turn, Russia itself is federation which contained from several republics such as Dagestan, Tajikistan but all republics and provinces are under the control of Moscow. In many cases Russia has been essentially demonstrating the central role of the states in IR (Wieclawski, 2011:171).

One of the main principles of realism is anarchy; the lack of central authority would cause complicated cooperation. States are struggling for power in anarchic international system. Balance of power in the energy market is changed, now energy producer countries are more powerful, while military power is replaced with energy. States are struggling for energy reserves rather than military power. According to BP estimation “over the last 20 years world population has increased by 1.6 billion people, and it is projected to rise by 1.4 billion over the next 20 years”. At the same time, estimation indicates that “the world’s real income has risen by 87% over the past 20 years and it is likely to rise by 100% over the next 20 years. At the global level, the most fundamental relationship in energy economics remains robust – more people with more income means that the production and consumption of energy will rise” (BP,2011:9). Therefore, enormous energy consumer countries started to struggle for energy resources, in order to guarantee future energy supply. Asian market emerged as a competitor, such as India, China and Japan. Waltz described international system as a struggle for power; however, contemporary world’s politics is a struggle for energy reserves. Hence possibility of conflict is undeniable, due to the fact that struggle for reserves could be a potential reason for clash. Overall, struggle for reserves provide geopolitical benefit for energy producer countries (Monaghan & Jankovski, 2006: 7). Enormous energy assets provide opportunities for exporting countries, to use its natural resources as an economic and political power.

As well known, since the Cold War, balance of power has changed. The bipolar world shifted to unipolar. According to, the Haass after the collapse of SU “bipolarity gave way to unipolarity and international system dominated by one power”, however in the present day power is diffuse and nonpolarity is increasing (Haass, 2008:1). The authors claimed that “power is now found in many hands and in many places” (ibid. 2). Besides struggle for power Russia’s imperialist energy policy can be a source of confrontation between the Union and Russia. Since the Putin era a number of “qualities of *realpolitik* apparent more active in Russian foreign policy thought”. National interests have become major principles in relations with third world countries (Helen, 2010:17). The major purpose is to “restore Russian military and economics, and Russian prestige in the world generally”, and predominantly over the post-soviet countries (Helm 2007: 21).

Russia uses its energy resources as a political weapon, in order to reassert imperial power. Natural energy reserves has significant role in the development of Russia. Russian president Putin stated that natural reserves has important role to redefine Russian position in the world, as well as “restoration post-soviet economy”, economic development is necessary for to gain power, as well as influence international system (Helen, 2010:19). Gazprom is essential for the new imperium, Russia endeavoring increasing consumers countries dependency through monopolistic strategy.

7.2 Interdependence in the EU-Russian Energy Relations

“In energy sector, Russia needs Europe as much as Europe needs Russia”
Andris Piebalgs

The author also made a secondary hypothesis: *the probability of conflict in the EU-Russian energy relations is very small*. In the modern world states are dependent on each other, therefore states are looking for cooperation rather than confrontation. The EU and Russia understood the significance of cooperation and integration, in order to improve security and stability of energy. In the case of ED sides agreed on several principles; there are possibilities for cooperation and the fact that they need each other. The sixth progress report (2005) indicated positive result of ED. Parties in 2005 summit declared that the ED is the most important instrument in order to create sustainable, reliable and efficient use of energy. The partners have already succeeded to “facilitate the trade in energy production between Russia and EU”. “Ratification by Russia of the Kyoto Protocol”, as well as parties stated opening Russian market to European companies (2005:1-3).

Interdependence between EU and Russia is a vital component of cooperation, due to interdependence in energy relations is clear and observable. Partners are interested in enhancing cooperation in the field of energy, since both sides are dependent on each other. The Union imports most of its energy needs from the Russia, at the same time Europe is profitable energy market for Russia.

Obviously, the Union is to some extent dependent on foreign energy supply, and dependency is rapidly growing. Europe is one of the largest energy markets in the world and as mentioned it imports 50 percent of what it consumes, and the IEA estimated that EU dependency on foreign energy supply will growth to 70 percent in 2030. Dependence on imports of gas will probably increase dramatically from 57% to 84% by 2030, of oil from 82% to 93% (Commission, 2006:3). By taking into consideration dependency on foreign energy supply, Russia is the only energy partner for the Union. Since the Middle East is a politically unstable region, there have been wars, terrorism, etc., which produces threats to the stability of energy supply. Furthermore, indigenous production within Europe is decreasing. Therefore, “good prospects” for the expansion relations with Russia, simultaneously Russia’s geographical position increase its significance in energy security of the EU. Currently, EU imports 30 percent oil and 50 percent gas needs from Russia, according to estimation that will increase to 50 and 70 percent (Proedrou, 2007: 334).

In its turn, Russia needs the European market, as field of energy utmost important for Russia’s national and economic security. It estimated that over the 60 percent Russia’s budget revenues obtained from energy exportation. Energy takes enormous place in Russian exports, which “account for 54.5 per cent of total Russian exports” (Proedrou, 2007: 335). Russian economy is based on energy, and most of the income comes from energy export, therefore profitable energy market is necessary. It means that Russia itself is dependent on the market, precisely dependent on the EU. As mentioned throughout the thesis, one of the crucial priorities of Russian energy strategy is to diversify energy market. Asian market (China, India, Japan) growth demand for energy, in China and India it’s doubled. Therefore, Asia could be an alternative energy market, however, the realization of Asian market as an alternative; it is not plausible in next several years. There have a number of factors, which influences on realization of Russian market diversification policies, such as technical and financial, furthermore, the European countries “pay the highest price for gas imports”. For that reason, the Union’s market is more significant for Russia, rather than Asian market (Proedrou, 2007: 335). The European market is importing 70 percent of all Russian gas and 80 percent of all Russian oil exports (Commission, 2009).

In this study the author's intention is to demonstrate that the EU and Russian energy partnership are interdependent. Besides that, indicated cooperative and conflictual sides of partnership. The 'interdependence not only catalyzes the emergence of international cooperation, and also composes the origin of conflict' (Keohane & Nye, 2004:16-17). There are two key factors which can be reasons for the creation of conflict between the EU and Russia. These are partners' sensitivity and vulnerability toward each other (Keohane & Nye, 2001: 237). Sensitivity in the relationships is the first reasons, in the interdependent relations, changes in one country effect on other country, and reaction from other side can be reason of conflict. The EU is attempting to diversify energy transportation corridor and supply sources of energy supply in order to reduce dependence on a single source. In its turn, as a producer country, Russia endeavors to strengthen its role in the European market. For that reason, sensitivity clarifies "the conflicted character" of EU-Russian energy relationships (Proedrou, 2007:336).

Vulnerability also can be a reason of conflicts; it is defined as "an actor's [...] suffer cost imposed by external events", EU dependency on Russian supply is more vulnerable, therefore EU is trying to diversify its supply of energy (Keohane & Nye, 2001:237).

7.2.1 Sensitivity in EU-Russian Energy Relations

As mentioned above in the study of EU-Russian energy relationships, both sides are highly sensitive. After the Cold War the EU endeavored to create a legal framework in relations with Russia, in order to liberalize the Russian energy market and integrate Russia into the European market. Therefore, EU initiated ECT which was the vital aim to "strengthen the rule of law on energy issues", "facilitate the transit of energy on a non-discriminatory basis consistent with the principle of freedom of transit" (ECT, 1998:12, 15). However, Russia would not ratify transit protocol, and EU's plan was unsuccessful.

According to Proedrou the Union's intention with liberalized energy market is to ensure competition in the gas sector, due to the fact that Gazprom has monopoly position in gas market

of the EU. This monopoly power provides opportunity for Gazprom to boost energy prices. For this reason, the Union endeavors to promote competition and liberalize gas market, in order to “protect themselves from potential aggressive of Russia” (Proedrou, 2007:341).

As a response to Gazprom’s destructive policy the EU is trying to diversify its energy supply sources. This is main policy priorities of the external energy policy of the EU. The Caspian energy resources are the main alternative to the Russian energy supply. BTC and BTE oil and gas pipelines are potential alternatives. Besides that Caspian energy reserves is important in order to decrease vulnerability of the EU. Proedrou argues that “obstructive Russian policy regarding Caspian gas and oil, the EU is looking to North Africa to cover its energy needs. It attempts to increase its imports from Algeria, Libya and Nigeria in order to achieve a more balanced import policy” (Proedrou, 2007:343).

To sum up, Russia’s constructive position in ratification of ECT, Gazprom’s monopoly, and Russia’s policy in the Caspian region are those main obstacles in decreasing EU’s sensitivity.

Russian sensitivity: Russia itself is highly sensitive notwithstanding it is a key supplier. Energy has important role in the economy. Most of Russian energy exports go to the European market; fear here is that if the EU decreases import energy from Russia, it means Russia “would lose important part of its income” (Proedrou, 2007:336). Russia endeavor to promote its dominant position in the European energy market, due to the fact that EU pays higher prices than other markets. Therefore Russian energy strategy within Europe is divided into a number of economic and political objectives. Economically, Russia’s aims are to increase revenues, through obtaining European energy market, as well as European energy companies, distributor, and pipeline network. Politically Russia is trying to build new pipelines such as the North Stream and the South Stream. The new pipelines aim is to bypass transit countries, in order to decrease sensitivity. Russia is endeavoring to increase political influence on the Post-Soviet transit countries like Ukraine and Belorussia (Ehrstedt & Vahtra, 2008:21-22).

Caspian coastal and central Asian countries energy basin can be prospective alternative to Russian energy supply. While, Central Asian energy exports are under the Gazprom monopoly,

Russian president Putin proposed to launch the idea of the alliance of gas exporting countries, and establish the “gas OPEC”. Russia signed an agreement with Central Asian countries (Turkmenistan, Kazakhstan and Uzbekistan). Russia would buy these countries gas cheap and re-sell it to the Europe in double prices. Russia is the only transit corridor for the central Asian countries, in order to export its own natural resources to the European market (Cornell and Nilsson, 2008: 75-76). Finally Russia is trying to block several projects of the EU, such as the Nabucco gas pipeline. Moscow endeavors to create difficulties in the realization of these projects.

In this study the partners are interdependent. The lack of alternative profitable energy market for Russia, and lack of alternative enormous energy supply for the EU, enforces both sides to develop cooperation. The EU and Russian energy relationships are mainly cooperative, rather than conflictive, Russia delivers energy and Union provides money for the Russia Russia is the key supplier, EU is greatly dependent on Russian energy supply, if Russia would stop oil and gas exportation, EU’s dependency on Middle East will increase, which makes that region unstable. As mentioned throughout the thesis several member states of the EU entirely depend on Russian gas supply. If Russia would cease gas exportation, these countries will face the lack of alternatives (Proedrou, 2007:343-4).

In its turn, if the Union reduces oil import from Russia, it would have impacts on Russia’s budget. There are alternative energy markets for Russia’s energy, however according to Proedrou (2007) “it will be tremendously difficult for Russia to redirect its gas trade to the East, since no gas pipeline or LNG terminal is yet in operation that can bring gas to the Asian markets” (2007:343).

The EU and Russian energy relations are cooperative meaning that partners are interested in developing cooperation. This cooperation will increase during the Putin’s presidential period.

VIII Conclusion and Future Research Direction

To sum up, the thesis is dedicated to the largest energy market - the EU, and world's enormous energy producer - the Russian Federation energy relationships. The thesis examined the relationship via oil and gas. The main objective of the study was to find answers to the following research question: *What are the problematic aspects in EU-Russian energy relations? The future perspectives of the EU-Russian energy relations: stagnation or revival?*

Indigenous energy production decreases within the EU and rapidly increase dependency on non-indigenous energy supply, in particular, on Russia's energy supply, which is definitely evoking threats to the energy security, due to the fact that Russia is a problematic partner which utilizes natural energy reserves in the foreign policy rational.

As a soft power the Union is trying to decrease its dependency on Russia's oil and gas. The EU's main goals are to institutionalize the relation with Russia and liberate the Russian energy market, in order to secure supply source. There have been numerous factors which make the Union worried about its energy security. Therefore, the Union is attempting to carry across democratic norms and values to Russia and integrate Russia into the European market (Helen: 2010: 3). As well known, Russia itself is a normative power, which owns big heritage of the SU. As Mozorov stated the logic of conditionality is not applicable to the EU relation with Moscow. The Union's liberalist and Institutionalist based approach came face to face with strong resistance from realist based approach. By contrast, Russia's approach is based on state centrism, where national interests and national security is more important. It uses energy resources in the foreign policy in order to reassert its lost stance in the international realm.

In contrast liberalizing Russia energy under the control of regime, there are strong links between energy and the kremlin. Indeed the energy sector is under the control of state owned monopolist actor Gazprom and Rosneft. Russia's major goals influence the neighbor countries, as well as reduce the implementation of the EU diversification policy. The EU's member states inability, to combine around a common and coherent foreign energy policy is increasing threat to the energy security and hamper Union diversification policy. MS following its own national interest

which it provides opportunity for Russia, the fact is that Russia is trying to move in and improve its position in the European market with developing bilateral relation with MS.

Overall, energy relations between these two actors are cooperative, though there have been conflictual features. Due to the fact that, most of MS import major energy needs from Russia. The European energy market is significant for Russia. The partners are trying to develop cooperation in the frame of ED and several other agreements. As well know diversification is priority in EU energy policy as well as in Russian energy policy. However, diversification need new infrastructure, such as LNG terminals, pipelines and it takes time. Therefore realization of this policy priority during the next few years is almost impossible. Consequently, partners are interested in cooperation, “this cooperation is the result of the mutually high vulnerability of the two sides”. Subsequently partners have no sustainable alternatives. The Union has no alternative supply sources and Russia has no suitable alternative markets. For that reason, partners look for to encourage their cooperation, rather than confrontation.

There have been high degrees of sensitivity in the EU-Russian relationships, though sides are interested in cooperation. Both sides are trying to decrease “degree of sensitivity”, as mentioned, the Union endeavors to liberalize Russian energy market and diversify energy supply sources. In its turn, Russia is trying to impact the EU diversification policy using every possible ways, in order to promote its position in European market (Proedrou, 2007: 347).

To sum up, the author would like to present future research direction. The objective of the present research is to elucidate EU-Russian relations in the field of energy, particularly oil and gas. In the future the author is interested in investigating EU-Russian relationships in all fields. It is interesting to investigate domestic energy market in both sides. For instance, since the collapse of SU there have been enormous changes in Russian energy market, the state control over the energy sector has steadily been refurbished. As well it is interesting to analyze the re-nationalization process of energy in Russia, particularly the Yukos case who’s leader was Mikhail Khodorkovisky serving right now in prison as result of re-nationalization of energy policy. Besides that, analyzing internal energy policy of the Union, energy situation in the MS, and bilateral relation between Russia and individual MS are in the future interests of author.

8.1 Reflections

Russia emerged as a dominant energy power in the European market; notwithstanding political competition have been main aspect of the EU and Russian energy relations. The political instability in the Middle East expanded Russia's role in the energy market. Taking into consideration dependency on Russia's supply, the Union would target two kinds of energy strategies. Foremost, diversify supply sources however, diversification would influence relationships with Russia, as well as increase dependency. In order to diversify supply sources, the Union needs to construct new infrastructure, for instance pipelines, terminals, simultaneously it will require time. Therefore, the EU would more work on second strategy integration. As well known, with offering transit protocol the Union's integrating strategy was failed. At this time, the Union should endeavor integrating Russia into European market and align it to market principles.

In order to successfully integrate Russia, common and coherent European approach MS pursuing national interest and enjoying tightening bilateral relations with Russia. The unification and unified energy market would help decrease dependency, as well as help integrating Russia. The absence of central coordination sometimes gives rise to competition among the MS, individual states attempting to enhance relations with Moscow. The North Stream gas pipeline case clearly indicated the interest divergence.

The integration strategy seems more real rather than diversification. The Union attempted for diversifying energy supply sources. For instance, Nabucco gas pipeline project was initiated in 2002 but realization is still under question. This is because there are strong Russian impacts, at the same time the main gas suppliers for Nabucco which are central Asia countries are under the Russian influence. Geographically Russia is nearby and there are existing pipeline networks, therefore it is more appropriate for central Asian countries to ship their own natural reserves via Russia and also these countries have long term contact with Russia.

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Appendices

Appendix1: *Executive Summary*

Executive Summary

The research has focused on EU-Russia energy relations. In order to investigate the study four major theoretical approaches presented, these are realism, liberalism, institutionalism and interdependency. Theories employed to understand EU-Russian energy partnership. These wide approaches are “often viewed as contrasting and incommensurate paradigms of understanding international relations. But they can also be seen as potentially complementary since each of these differing theories tends to focus on particular elements and dimensions of the international system and exclude other parts” (Dannreuther,2010:13). Author find out two controversial groups of theories. The first group contained from Realism which main assumptions are states main actors, international system in anarchy and great powers struggling for power in this anarchy. The second group contained from new-institutionalism, neoliberalism and interdependency which all these theories focusing on cooperation rather than competition. As a result author suggested two hypotheses which was adverse each other. The first hypothesis derived from realist perspective and second hypothesis originated from interdependency perspective.

The Union as one of the foremost energy importer its energy security is facing with several challenges. These challenges originated from limited energy reserves and production within the Union, rapidly increasing global demand, and emergency competitions among the consumer countries. The Union energy security is facing serious challenges related to Union over dependence on Russia. The Union imports most of energy needs from Russia and dependence on Russian energy supply is rapidly rising, due to the fact that local energy production is declining. In its turn, Russia employs its natural resources for economic and political purposes. Therefore, Union needs to investigate alternative energy supply sources, in order to decrease dependency on single source. Over dependency on foreign energy supply and steadily rising energy demand, decreasing local energy production, political instability in the Middle East region are increasing

significance of Russia in the Union energy security. Currently Union imports nearly half of energy demand from Russia. MS of the Union are dependent on Russian gas supply, and a number of countries are entirely dependent on Russian gas supply, such as Eastern European states. The challenging factors over dependence on Russian energy supply become palpable during the gas crises in 2006 and oil crises in 2007. Russia utilizes its natural resources in foreign policy thinking. These factors compelled the Union for to diversifying supply sources. Diversification of supply sources was became a key priority of the EU energy policy.

In this case Caspian basin and central Asian energy rich countries founded as potential alternative energy supply sources for the whole Europe. BTC and BTE only exist pipelines which shipping Caspian oil and gas to Europe bypass Russia. Simultaneously, for decreasing dependence on gas Union proposed new project Nabucco initiative, in order to bring Caspian costal countries and likely Uzbekistan gas to Europe. However, realization of the Nabucco gas pipeline is under the question. Due to the fact that, there are have a number of factors which undermining realization Nabucco gas pipeline. These factors are mainly driven from lack of gas, costal problems.

Foremost obstacle originating from Russia, the fact is that Russia responds to Union energy supply diversification policy with using every plausible ways, in order to maintain its position as a chief supplier in European energy market. Gazprom is key actor in Russia's energy strategy, during the Putin visit to central Asian countries in 2007, Russia signed long term energy deals with these countries, in order to buy and export their energies via Russian pipeline networks. Gazprom monopolization is tremendous obstacle in realization of Union diversification policy. Simultaneously, as response to BTC, BTE and proposed Nabucco pipelines, Russia looking for to build new infrastructures, such as North Stream, south Stream, Blue Stream II etc.

As well known, lack of common external energy policy within the Union, provide opportunity for Russia in order to secure "energy demand". MS has good bilateral relation with Russia; Germany has good relation as wells take share in several project of Russia, such as North Stream gas pipeline. Besides that Gazprom endeavor buying shares in European energy companies. For instance, Gazprom acquired more share in German Wingas and its "exploration fields in Libya" (Westphal in Aalto, 2008:103).

Despite all these, both sides are interesting in developing cooperation, due to the fact that EU - Russia relations are interdependent. Russia needs Europe as much as Europe needs Russia. At present, Russia is only potential supplier, in its turn Europe is only potential market for Russia.

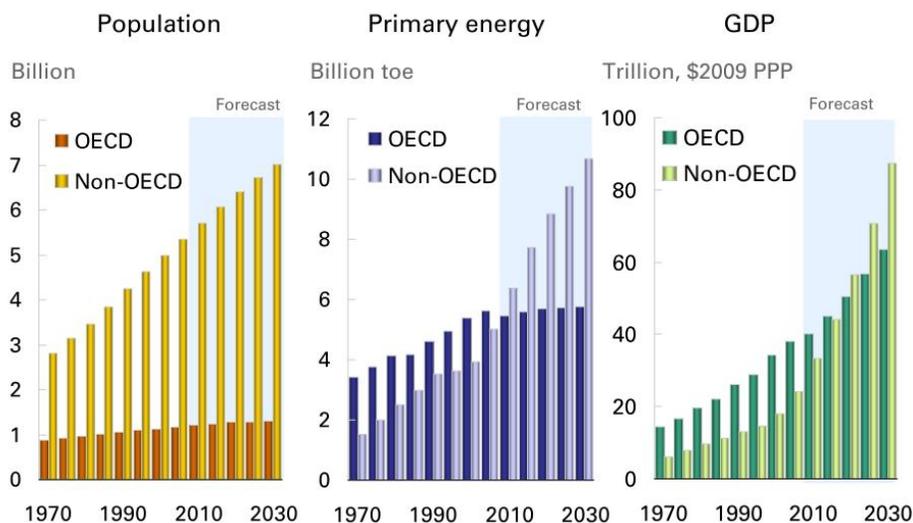
Appendix 2: Interview Guides

- Information: about the student and thesis purposes
- Information: about the respondent and his position?

Main research questions:

- How would you describe the EU's energy relations with the Russian Federation?
- What are the problematic aspects in EU-Russian energy partnership?
- What are the objectives of the EU's energy policy? Why Member States of the EU cannot combine around the common foreign energy policy?
- What are the objectives of the Russia's energy strategy?
- Why did EU feel and need to diversify energy supply source?
- To what extent EU has been successful in diversification of energy supply?
- What are the conflictual aspects of Energy Charter Treaty?
- What are the problematic sides of Energy Dialogue?
- Is the logic of conditionality applicable to the EU's relation with Moscow?
- How would you characterize present EU-Russian energy relations?

Appendix 3: World energy mix



Source: Energy Outlook 2030

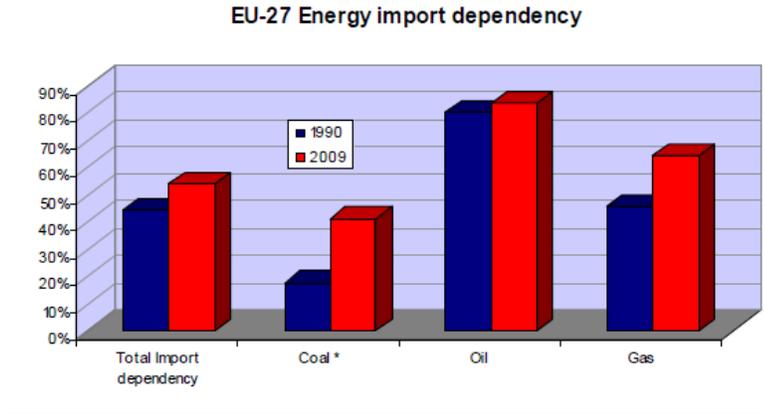
BP 2011

Appendix 4: Total energy production within the EU

	Total production of primary energy		Share of total production, 2009 (%)				
	1999	2009	Nuclear energy	Solid fuels	Natural gas	Crude oil	Renewable energy
EU-27	949.4	812.2	28.4	20.4	18.8	12.8	18.3
Euro area	447.9	448.4	39.8	14.6	17.1	3.3	23.4
Belgium	13.6	14.6	83.7	0.0	0.0	0.0	11.4
Bulgaria	9.1	9.7	40.8	47.0	0.1	0.3	11.6
Czech Republic	28.7	31.1	22.6	67.0	0.5	1.0	8.3
Denmark	23.8	23.9	0.0	0.0	31.5	55.4	11.5
Germany	137.2	127.5	27.3	35.9	8.7	3.6	21.7
Estonia	3.0	4.2	0.0	79.2	0.0	0.0	20.8
Ireland	2.5	1.5	0.0	38.2	20.8	0.0	40.2
Greece	9.5	10.1	0.0	81.1	0.1	0.8	17.9
Spain	30.5	29.6	46.0	12.3	0.0	0.4	40.2
France	125.8	128.5	82.3	0.0	0.6	1.0	15.2
Italy	29.4	27.3	0.0	0.2	24.0	19.0	54.0
Cyprus	0.0	0.1	0.0	0.0	0.0	0.0	91.5
Latvia	1.6	2.1	0.0	0.3	0.0	0.0	99.6
Lithuania	3.5	4.0	71.7	0.4	0.0	2.9	25.0
Luxembourg	0.1	0.1	0.0	0.0	0.0	0.0	75.5
Hungary	11.3	11.0	36.4	14.2	20.9	11.0	16.9
Malta	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	59.5	63.2	1.7	0.0	89.2	3.5	4.4
Austria	9.7	11.4	0.0	0.0	12.6	9.2	73.3
Poland	83.4	67.2	0.0	83.5	5.5	1.0	9.0
Portugal	3.4	4.9	0.0	0.0	0.0	0.0	97.2
Romania	28.1	28.5	10.6	23.0	31.4	16.4	18.5
Slovenia	2.9	3.5	42.0	32.9	0.1	0.0	24.5
Slovakia	5.5	5.7	64.5	11.4	1.5	0.3	21.4
Finland	15.4	16.4	37.1	13.3	0.0	0.9	47.8
Sweden	32.7	29.9	45.0	0.7	0.0	0.0	52.8
United Kingdom	278.6	156.3	11.4	6.4	34.4	44.2	3.3
Norway	209.7	215.9	0.0	0.8	42.0	51.5	5.6
Switzerland	12.0	12.7	56.5	0.0	0.0	0.0	37.5
Croatia	3.6	4.1	0.0	0.0	54.0	20.4	25.3
Turkey	27.5	30.3	0.0	57.3	1.9	8.1	32.7

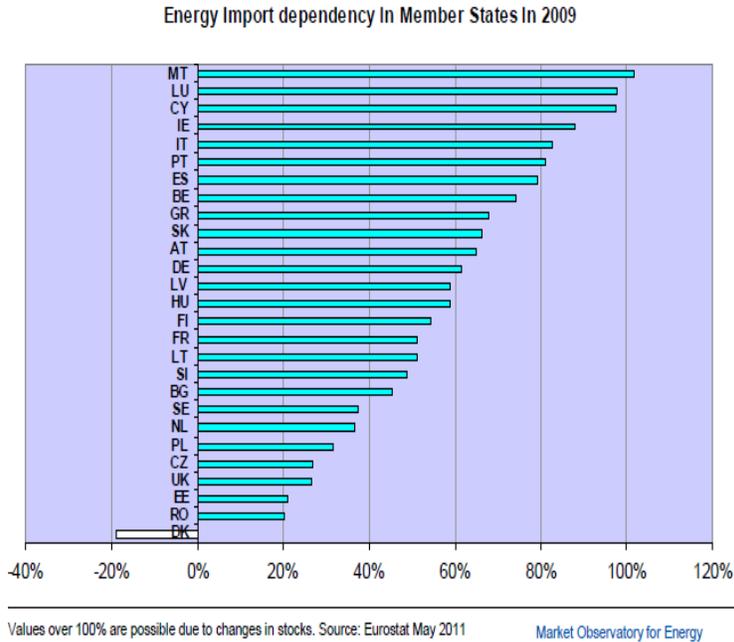
Source: Eurostat (online data codes: ten00076, ten00080, ten00077, ten00079, ten00078 and ten00081)

Appendix 5: EU-27 Energy import dependency



Source: Eurostat May 2011- * Coal and other solid fuels

Appendix 6: Energy import dependency in Member States in 2009

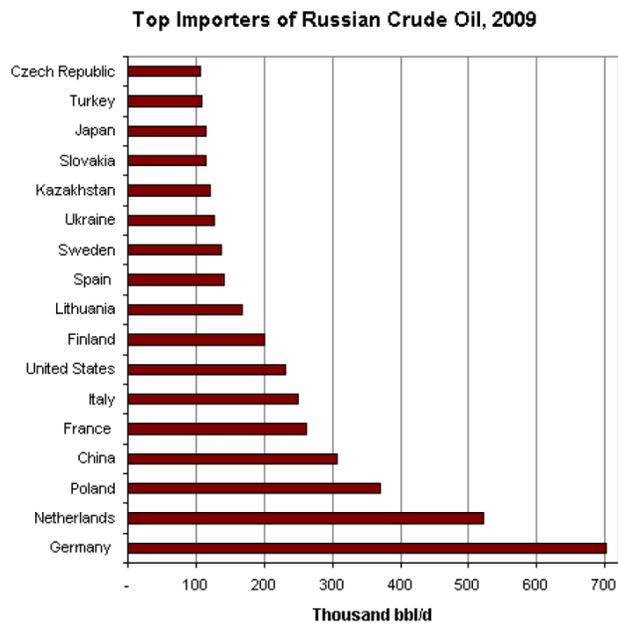


Appendix 7: Table 5: World oil reserves by country as of January 1, 2011 (billion barrels)

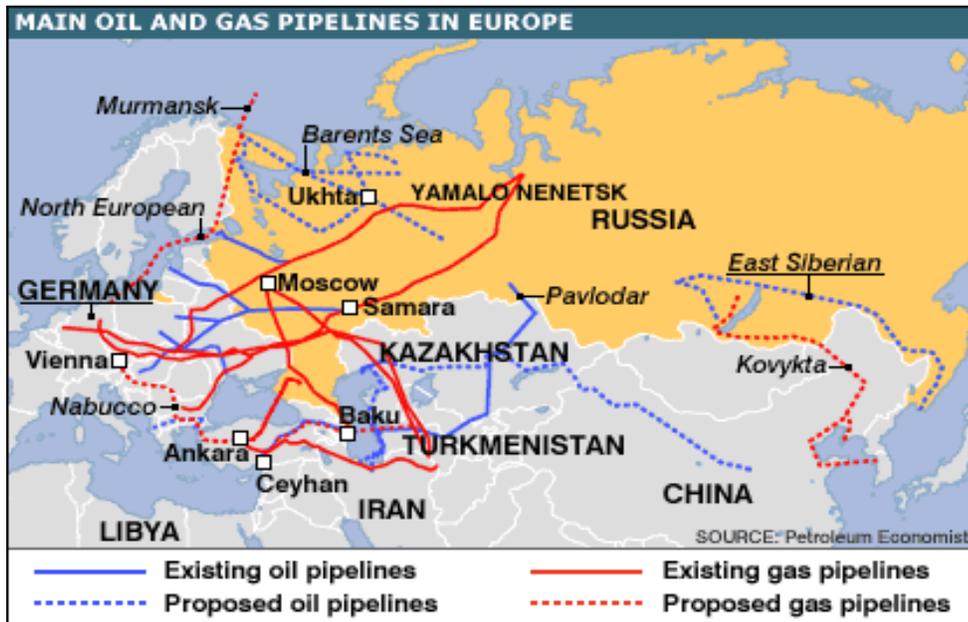
Country	Oil reserves	Percent of world total
Saudi Arabia	260.1	17.68
Venezuela	211.2	14.35
Canada	175.2	11.91
Iran	137.0	9.31
Iraq	115.0	7.82
Kuwait	101.5	6.90
United Arab Emirates	97.8	6.65
Russia	60.0	4.08
Libya	46.4	3.16
Nigeria	37.2	2.53
Kazakhstan	30.0	2.04
Qatar	25.4	1.73
United States	20.7	1.41
China	20.4	1.38
Brazil	12.9	0.87
Algeria	12.2	0.83
Mexico	10.4	0.71
Angola	9.5	0.65
Azerbaijan	7.0	0.48
Ecuador	6.5	0.44
Rest of world	74.9	5.09
World total	1,471.2	100.00

Source: *Oil & Gas Journal*.

Appendix 8: Top import of Russian Crude Oil, 2009



Appendix 9: Main Oil and Gas Pipelines in Europe



Source BBC news:

<http://news.bbc.co.uk/2/shared/spl/hi/guides/456900/456974/html/nn4page1.stm>

Appendix 10: Russian Gas Export Volumes in 2009

Destination	2009 Export Volumes (Bcf)
CIS Countries	2239
Western Europe	3267
Eastern Europe	1275

Source: Eastern Bloc Research

Appendix 11: Oil and Gas riches of the Caspian



Appendix 12: Main Oil and Gas pipelines in Europe

