

Russia's Energy Policy and Strategy in Europe
Featuring
Vladimir Socor, Jamestown Foundation
Moderated by Janusz Bugajski and Keith Smith (CSIS)

On April 21, 2008 Vladimir Socor, Senior Fellow with the Jamestown Foundation, spoke at CSIS about Russia's evolving energy policy and its impact on European and transatlantic stability. The event was hosted by the CSIS New European Democracies Project (NEDP) and co-chaired by NEDP Director Janusz Bugajski and CSIS Senior Associate Keith Smith.



Socor emphasized that Euro-Atlantic energy security and Europe's overdependence on Russian supplies were on the agenda of the recent NATO summit in Bucharest. This is the first time the Alliance has discussed energy as a security concern. The highest levels of dependence on Russian supplies are in the gas sector, and although there are a number of possible corridors for delivery, many proposed pipelines will not be completed soon enough to ensure stable supplies. According to Socor, energy security is not achievable on the national level, but has to be addressed on a European and Euro-Atlantic

level. Referring to the role of the U.S. in Euro-Atlantic energy security, he highlighted that an important trend in recent discussion has been to offer alternatives to bypass Russia in pipeline construction.

There are four major consumers of Russian gas: individual Russian consumers, Russian industrial consumers, the EU, and the Far East. In terms of possible new corridors for Russian supplies, we need to focus on two major pipeline projects: Nord Stream and South Stream. In order to secure energy supplies, European countries are forced to compete against each other for privileged positions in participating in the pipeline projects. They are also forced to accept Russia's conditions, placing Gazprom as the dominant gas supplier in the area. Through South Stream Russia will control the southern entry point for Middle Eastern and Caspian gas, while the spare capacity will be filled by Russian gas. South Stream will also compete with the Nabucco project.

Socor drew attention to the EU's Nabucco project that initially counted on Austrian OMV's gas imports from Iran, which is now under sanctions, and overestimated the supply capacity of Azerbaijan in the first phase of the project. The possible inclusion of Iraq and Egypt into the Nabucco project must also be taken with caution while Iran's participation remains crucial.

Turkey's alternative to Nabucco, Blue Stream II, has failed to materialize, as Russia decided to bypass Turkey and focus on South Stream. At the same time, many European governments are losing confidence in Nabucco. Austria's participation as a primary gas supplier in Europe in cooperation with Gazprom raises further concerns. At the same time, the October 2007 appointment of an EU coordinator for the project with a competent staff indicates that the EU is starting to take energy

security more seriously. One solution could be access to Central Asian gas supplies, including Turkmenistan, provided that there is U.S.-EU cohesion and a supply contract can be concluded.

According to Socor, both Nord Stream and South Stream are harmful to European energy security. Nord Stream crosses through the exclusive economic zones of Finland, Estonia and Sweden. South Stream would bypass Ukraine and Turkey, raising concerns that it will allow Moscow to apply more pressure on officials in Ukraine in exchange for securing energy supplies. Hence, it is important to attract Iran as an energy partner, while in the short term aiming to tap into Caspian Sea resources as much as possible.

Oil is of secondary importance. Russia absorbs most of the Central Asian exports and also controls the Burgas-Alexandroupolis pipeline project, thus controlling a large share of the EU market. The pipeline will be the first ever Russian state controlled pipeline on EU territory. Challenges in the region also include the movement of Kazakh and Azeri oil exports, which at the moment Russia has monopolized.

A possible solution can be the formation of an external EU energy security policy together with increasing access to Central Asian sources. Moreover, as energy is becoming a true security concern, a NATO decision making mechanism that brings together all Euro-Atlantic concerns would be vital.

Q&A Session



When asked about the desirability of partnering with Iran to ensure European energy security, Socor acknowledged that issues such as *nuclear energy and WMDs* are major concerns and need to be addressed between the U.S. and Iran before allowing Iran to establish a strong position on the European market.

In reference to an *Algeria-Libya-Iran* axis of energy supplies, Socor indicated that it was a plausible scenario since joint Gazprom-Algeria-Libya transport and marketing initiatives have been taking place with no reactions by the EU.

Concerns about *pricing policy* and Gazprom's privilege of setting prices in the market were also raised. Socor While Gazprom remains a determining factor, the EU is loosing in price agreements. Socor suggested that the EU should pursue a strategy to increase imports from Central Asian countries to challenge Russian dominance.

The decision at the *NATO summit in Bucharest* not to offer Membership Action Plans (MAP) to Ukraine and Georgia could not be seen as a manifestation of a long-term correlation between energy and NATO membership talks. CEE member states joined forces to support Ukrainian and Georgian accession to NATO, but MAPs do not deal with energy security but rather with consolidating democracy, security, and liberal institutions.

In search for new sources of oil and gas, the exploration of potential new areas and fields in *the Arctic* might present a fruitful opportunity and Russia is already showing interest. Nonetheless, costs remain too high.

Western European countries such as *Germany, Austria and Italy* try to pursue their individual energy security interests by maintaining good relations with Russia. As a result of the Schröder legacy, Germany is now very dependent on Russian supplies. At the same time, Russia lost some credibility in Western Europe after the 2006/2007 energy interruptions to Ukraine. Additionally, Lukoil cut out an intermediary corporation that handled Russian oil in Germany. In terms of reactions to such Russian moves, Socor mentioned two alternatives for Western companies. One is an opportunistic national response which involves the edging out of other EU consumers; the other is a strategic response that aims to bypass Russia and secure continuous energy supplies from the Caspian and Central Asia. The case of Italy is also unique since it has been a close ally of Gazprom, while the Italian gas market is the second biggest in Europe, after Germany. Austria's role is special as well since it appears to be positioned as Gazprom's hub for future gas supplies in the region. Interestingly, Austria, Hungary, Bulgaria, the Netherlands and Belgium were all offered such "hub" status and thus were forced compete for Gazprom's favors.

The nature of EU *energy corporations* is essentially non-government coordinated while in Russia, most energy companies are government owned and controlled. The economic culture is also different in Europe and in Russia. While in the West, corporations are profit-oriented and governments policy and security oriented, in Russia Rosneft and Gazprom raise investment by taking advantage of open European markets assisted by Russian state policy. The EU and the U.S. have not yet concluded an antidote to Russian government coordinated energy corporations.

The connection between *democratization and energy security* is clear. Institution building in energy supplying countries has been an ongoing concern of Western countries. For instance, Azerbaijan's increasing integration with the West is widely considered as a success. The democratization agenda should run parallel with the energy agenda.

Referring to *Western Europe and anti-trust law enforcement in new member states*, Socor believes that Western Europe neglects Eastern European energy problems and energy interruptions are not given proper attention.

As a *summary of Russian energy threat and its significance for the United States*, Socor raised the following points: (1) Europe's overdependence on Russian energy has a negative effect on NATO stability, (2) the U.S. should propose to the EU a joint consultative agency to safeguard energy security, (3) the U.S. and EU should promote a strategic Euro-Atlantic energy policy, (4) the future U.S. President should travel to Brussels to meet European leaders and launch a common consultative initiative on energy security, and (5) fostering U.S.- EU efforts to access and exploit Central Asian energy resources must be a policy priority.

Report prepared by CSIS research interns Thomas Shonosky and Brigitta Stumpf.