

HAPSc Policy Briefs Series

Vol 4, No 1 (2023)

HAPSc Policy Briefs Series



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doi: [10.12681/hapscpbs.35189](https://doi.org/10.12681/hapscpbs.35189)

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To cite this article:

Asllani, K. (2023). Navigating the Complexities of the European Union - Russia Energy Relations. *HAPSc Policy Briefs Series*, 4(1), 105–110. <https://doi.org/10.12681/hapscpbs.35189>

Navigating the Complexities of the European Union - Russia Energy Relations¹

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Abstract

The European Union and Russia are both important players on the global stage when it comes to energy. Russia is the second largest supplier of natural gas right after the USA, while the European Union is one of the world's largest consumers of energy. As expected, throughout the years cooperation has blossomed between them in the aforementioned area. Due to the fact that both parties have been working closely together, tensions have arisen regularly. The European Union's effort to lessen its dependency on Russian energy has been one of the main issues of dispute between the two partners. Concerns over Russia's use of its energy resources as a political weapon, particularly in light of the invasion of Ukraine and its repercussions, have been the primary motivators for this development. The European Union should aim to increase the use of renewable energy sources, implement new procedures and upgrade existing infrastructure in order to diversify its energy supply.

Key words: energy, security, European Union, Russia, unbundling, renewable energy, diversifying, gas pipelines.

Introduction

The European Union's reliance on Russian gas is a pressing issue that has been monopolizing conversations and raising concerns among member states for many years. Despite that, the European Union only recently started taking substantial steps in the direction of energy security. Russia's invasion of Ukraine was the climax of an ongoing chain of conflicts, the severity of which the European Union seems to have undermined. The rise of natural gas prices and the consequential large fiscal measures the EU utilized to ensure energy affordability resulted in alarming inflation pressures. These developments demonstrate that despite the concerning number of warning signs, the European Union has neglected to find ways to lessen its dependence on imports of energy from Russia, which weakens its geopolitical power and makes it vulnerable to disruptions in the global energy market. This paper detects past mistakes, examines the European Union's attempts to combat the issue and outlines effective ways to guarantee energy security.

Where is the problem located?

In order to understand the complexity of this partnership we must view it through a historical lens. The European Union has been facing energy security problems since 1973 when the oil embargo

¹ To cite this paper in APA style: Asllani, K. (2023). Navigating the Complexities of the European Union - Russia Energy Relations. *HAPSc Policy Briefs Series*, 4(1), 105-110. <https://doi.org/10.12681/hapscpbs.35189>

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imposed by OPEC during the Arab-Israeli war led to dramatic price increases. The majority of the member states suffered through severe energy shortages since they were heavily dependent on imported oil. Later on, the construction of the Trans-Siberian Gas Pipeline followed by the collapse of the Soviet Union created ideal circumstances for cooperation with the Russian Federation, considering the European Union's pressing need to diversify its energy mix after the oil embargo. The rise of Vladimir Putin, who demonstrated an unprecedented and undoubtedly strategic interest in increasing energy exports resulted in Russia inheriting the role of the main energy provider in Europe. Specifically in the 1990s, Russia was the dominant supplier of natural gas to the EU, accounting for 63 billion cubic meters of the region's gas imports (Stern, 2006).

A decade later, conflicts started to emerge. In Ukraine near the end of 2004, a pro-Kremlin leader was overthrown by the "Orange Revolution" and was replaced by Viktor Yushchenko who favored closer ties with the West. In retaliation, Gazprom started negotiations led by Putin and demanded Ukraine pay \$220 to \$230 for 1,000 cubic meters of natural gas when it traditionally used to cost \$50. Disagreements over the price resulted in significant decreases in the gas pressure of the pipes supplying numerous European nations in 2006 and 2009 (Reuters, 2009). Both gas supply disruptions lasted for about two weeks and had a considerable impact on the economies of the affected EU countries such as Poland, Slovakia, Hungary, and above all Bulgaria and Romania (Pirani, 2009). The action can be interpreted as a strategic Russian method that aimed to weaken the pro-Western party and paint the portrait of Ukraine as an unreliable gas transit country with the intention of promoting a new pipeline. As expected, in 2011 the Nord Stream pipeline, which bypasses Ukraine and delivers gas directly to the EU, began operating.

A few years later, the Revolution of Dignity in Ukraine alarmed President Putin since he feared that a similar scenario might unfold in Russia. A propagandistic campaign was launched that served a dual purpose: to discourage any attempts of revolution in Russia by showing the consequences of instability in the neighboring area and to portray the eventual annexation of Crimea as an act of heroic salvation and not a blatant violation of international law. The European Union's stance was not indifferent; the EU strongly condemned the annexation of Crimea and imposed diplomatic sanctions targeting individuals involved in the destabilization of Ukraine (Kruk, 2009).

Nonetheless, although the Russian Federation had revealed its intentions to gain power by consistently taking advantage of its position as an energy supplier, since 2010, the European Union's energy production had been steadily declining. Several factors had led to the drop, with the most important one being the switch to renewable energy sources, which have a lower carbon footprint than fossil fuels but are more expensive to produce. Furthermore, the lack of stricter measures is

apparent when taking into consideration the fact that by 2020 Russia was providing 19.3% of hard coal and 41.1% of natural gas to the European Union (Eurostat, 2023a). These numbers are concerning and reveal that the EU hadn't been properly prepared to satisfy the rising need for energy as the population and economy of the European Union continued to grow. Moreover, the escalating demand for power was and continues to be fueled by an unprecedented usage of electronic devices and appliances in homes while in the transportation industry, the utilization of vehicles, trucks, and airplanes keeps increasing steadily. At the same time, the availability of traditional sources of energy is decreasing. Since many of the oil and natural gas reserves in the EU have been depleted, their extraction is becoming more challenging and expensive.

According to the Economist (2021), in the second half of 2021 price increases for electricity and natural gas were noted, which continued to be abnormally high at the start of 2022 as well. Despite President Putin's assurances that the country would provide more supplies in case of emergency, Russia not only stopped supplying the European Union with gas through the Yamal pipeline in October and December 2021 but also demanded the approval of Nord Stream 2, although the pipeline failed to adhere to the European Union's regulatory framework. The tension was exacerbated on February 24, 2022, when Russia invaded Ukraine making energy security one of the most pressing issues that the European Union has faced in recent years.

The European Union's legal framework

The EU has made some progress in reducing its dependence on Russian energy, including attempts at completing an internal market in the area of energy and implementing stricter regulations on the imports of energy from non-EU countries. The internal energy market is an initiative aimed at creating a more transparent, customer-oriented, and adaptable market across all EU member states. More specifically, it is designed to promote the liberalization of the energy sector through the adoption of energy packages that contain directives that among other things provide customers with a wider range of suppliers to choose from, boosting competitiveness.

The third energy package contains one of the most important regulations regarding energy security: Directive 2009/72/EC of the European Parliament. The regulation was adopted in July 2009 in response to the gas supply disruption that was previously mentioned and introduces a new practice known as 'unbundling' that guarantees independence and transparency. According to the directive, member states or non-EU players that wish to operate in the EU's energy market must take the necessary measures to ensure the separation of energy production and energy distribution. Unbundling aims to prevent monopolistic activities, provide fair and equal access to the transmission

system, and safeguard consumer interests. Apart from that, a body of independent regulators was created in order to ensure the application of the legislation. Moreover, the fifth and most recent energy package ‘Fit for 55’ includes provisions that also target the European Union’s sustainability goals such as the reduction of emissions by at least 55 percent.

The REPowerEU is another noteworthy project, proposed by the European Commission on May 2022, that outlines three main objectives that aim to strengthen the European Union’s energy security:

1. Saving by turning off the lights, minimizing the usage of air-conditioning, choosing public transportation over driving, etc
2. Diversifying the energy mix by collaborating with more international partners
3. Accelerating clean energy by investing in renewable energy.

The Council decided to include the plan in the Recovery and Resilience Facility which basically allows member states to finance investments and innovations as long as they facilitate REPowerEU objectives.

The legal basis for most of the regulations is found in the Treaty on the Functioning of the European Union. More specifically, article 194 of the TFEU sets out the general principles and objectives of the European Union's energy policy, which include maintaining the efficiency of the energy market, guaranteeing the security of the energy supply, encouraging resource efficiency, and safeguarding the energy environment.

Conclusions and Recommendations

As previously mentioned, Europe's shift towards Russia in the 1980s was partly motivated by concerns regarding energy security and attempts of cutting back on its links with the Middle East following the disastrous effects of the oil embargo. The European Union is currently facing a similar dilemma in trying to reduce its dependence on Russia while ensuring its energy needs are met. Therefore, in order to prevent recurrence of the incident the European Union must reflect on past mistakes and refrain from repeating them. The solution lies in diversifying the energy sources and utilizing a multifaceted strategy.

Financing is required for the creation of renewable energy sources such as solar, wind, and hydropower. These energy sources are plentiful, sustainable, and can aid in reducing reliance on fossil fuels. With the proportion of renewable energy in the EU's overall energy consumption rising from 9.6% in 2004 to 21.8% in 2021 (Eurostat, 2023b), the EU should keep promoting the advancement of renewable energy technology through finance, research, and other efforts in order to meet the target

of 42.5% renewable energy by 2030 (Petrequin, 2023). Apart from that, the European Union should invest in liquefied natural gas and encourage the use of alternative fuels such as biogas and hydrogen, in order to provide Europeans with a wider range of suppliers.

Furthermore, the infrastructure for energy transmission and distribution needs to be improved. This is a crucial step in resolving the EU's energy security problem, which entails expanding the transmission network and adding new power plants, as well as improving the infrastructure that already exists so that energy can be delivered to where it is needed, increasing interconnections between member states. The Southern Gas Corridor is a network of pipelines and infrastructure projects that are intended to transport natural gas from the Caspian region to the European Union. The Southern Gas Corridor project started construction in the early 2010s but has encountered a lot of obstacles and delays since then. The main component of the Southern Gas Corridor is the Trans-Anatolian Natural Gas Pipeline (TANAP), which will transport gas from Azerbaijan through Turkey to Europe. From there, the gas will be distributed to Italy and other parts of western Europe through the Trans Adriatic Pipeline (TAP), and to central and eastern Europe through the Ionian-Adriatic Pipeline (IAP). As of 2023, the project is not yet complete, and undoubtedly has the potential to provide a new source of natural gas for the European Union that will help reduce its dependence on Russia and increase energy sovereignty by guaranteeing higher resilience and enhanced integration.

As for legal framework solutions, a unified approach to the energy security problem may be proven to be extremely beneficial. The best way to enhance the European Union's position against third countries would be to implement a common external energy policy that would move discussions with third parties from the member states level towards the EU level. This lack of unity was apparent in the aftermath of Russia's invasion, where calls from the EU and member states to reduce imports of Russian fossil fuels did not result in more forceful stances (such as sanctions) (Mišík, 2022).

The deepening of the EU is not an easy process and many member states are hesitant to give up on core competencies since they feel that their sovereignty is being threatened. Until all member states reach the level of trust that would allow further integration, better-starting positions in negotiations with their energy suppliers might result from more transparency within the European Union regarding the costs of imported energy since price discrimination is part of Russia's political strategy.

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