

THE EVOLVING RUSSIAN CHALLENGE TO EU ENERGY SECURITY

The intensity of Russian threat to the EU energy security has diminished in terms of major supply interruptions but evolved in forms of indirect attacks, primarily on the integrity of policy-making by using “hybrid warfare” means. The immediate aim of Russia’s heavy investments in the construction of new pipelines is to minimize gas transit through Ukraine, which has a potential to result in a disruptive “gas war” by 2020. China is not supportive of Russia’s energy intrigues in Europe, and Turkey seeks to reduce dependency upon Russian gas import. Mid-term prospects in the European gas market are not favorable for Russia, but in the short-term, Moscow’s propensity to energy securitization or “weaponization” may be restrained.

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Political attention and research on the Russian challenge to the EU's energy security has notably declined in the last couple of years, despite Russia maintaining its share in the EU import of oil and natural gas. This decline of interest is partly due to Russia scaling down the aggressive nature of its energy policy. Indeed, despite the protracted armed conflict with Ukraine, the transit of Russian gas through this country has not suffered any major interruptions, like the two-week long “gas war” in January 2009. To a significant degree, however, the shift in attention is caused by the fast-progressing changes in the conceptualization of EU's energy security, in which problems pertaining to the environment and climate now claim greater priority than possible disruptions of supply. The Russian leadership remains a firm believer in the key role of hydrocarbons in world energy business as well as a cynical sceptic regarding renewable sources. The Energy Security Doctrine, approved by President Vladimir Putin on 13 May 2019, identifies international efforts to progress in “green energy” as a challenge to Russia's oil-and-gas industry.¹

Nevertheless, Russia's prudent behavior in the European energy markets does not mean that the prospect of “weaponizing” gas flows has disappeared. In fact, Kremlin has an unshakable confidence in the value of the supplies under its control and could instantly resort to interrupting the export deliveries intended for its European customers as political expediency dictates. What Russia needs for this threat to be efficacious is to stimulate the dependency of some European states, particularly Germany and Austria, on pipeline-delivered Russian gas by making it cost-competitive. Instead, what Russia is actually doing is constructing new high-cost pipelines, which does not help it grow in the increasingly competitive European market. This article examines four key directions in Russian energy connections with Europe: the Baltic area, the Ukrainian interface, the Southern corridor, and the Arctic.

The Troublesome Nord Stream-2

It would be an understatement to describe the *Nord Stream-2* project as controversial. This gas pipeline has generated so much disagreement within the EU, and instigated such firm opposition from the USA that its implementation was delayed – possibly even subjecting its operators to US sanctions. This deep political discord may appear overblown since the project is a mere follow-up to the *Nord Stream-1* enterprise, which constructed the longest sub-sea pipeline with the capacity of 55 billion m³ from Vyborg to Greifswald in 2011–12. The new pipeline is set to double

¹ The document is available at the Kremlin website <http://kremlin.ru/acts/news/60516>; Expert comments can be found in Yekaterina Kravchenko, “Putin signed new energy security doctrine. What it prepares Russia for?” *Forbes.ru*, 14 May 2019, <https://www.forbes.ru/biznes/376041-putin-podpisal-novuyu-doktrinu-energobezopasnosti-k-chemu-ona-gotovit-rossiyu>

this capacity, but the partnership with *Gazprom*, which attracted some criticism during the short-lived “reset,” has become troublesome in the period of new confrontation caused by Russia’s aggression against Ukraine.²

The economic rationale for the project is far from solid because the demand for natural gas in Europe is not growing, but the broadly accepted guidelines in increasing the diversification of supply require the construction of new liquefied natural gas (LNG) terminals. As one of the main proponents of the new pipeline, Germany draws attention to the interruptions in gas flows that many states experienced in the past, and thus maintains the argument that wider import channels increase the reliability of supply. On the other hand, as the main opponent, Poland argues that the Kremlin-controlled *Gazprom* cannot be treated as a reliable supplier and is in fact, a major conduit in the export of Russian corruption in Europe.³ At the start of 2019, Germany managed to negotiate a compromise with the European Commission so that *Gazprom* would remain the sole owner of the pipeline. According to this arrangement, Germany would also ensure the due execution of relevant EU directives.⁴

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In the following months, however, the opposition to the project increased, not least due to the strong criticism from the Trump administration, supported by the US Congress.⁵ The threat of sanctions has not only added further tension to the uneasy relations between the US and the EU, but also encouraged Denmark to deny the final approval for the construction of the half-built pipeline, pausing the project.⁶ *Gazprom* tries to mobilize every possible support from its partners (German *Wintershall* and *Uniper*, Austrian *OMV*, French *Engie*, and *Royal Dutch Shell*, which together have

² A taste of the previous criticism can be gained from Christoph-Alexandre Paillard, “Gazprom, the Fastest Way to Energy Suicide,” *IFRI*, March 2007, <https://www.ifri.org/en/publications/enotes/russieneivisions/gazprom-fastest-way-energy-suicide>

³ One useful in-depth investigation is Ilya Zaslavskiy, “Corruption Pipeline: The Threat of Nord Stream 2 to EU Security and Democracy,” *The Free Russia Foundation Paper*, 2017, <https://www.4freerussia.org/corruption-pipeline-threat-nord-stream-2-eu-security-democracy>

⁴ Viktor Agayev, “Shaky gas equilibrium,” *Kommersant*, 18 February 2019, <https://www.kommersant.ru/doc/3880960>

⁵ Giovanna De Maio, “Nord Stream 2: A failed test for EU unity and trans-Atlantic coordination,” *Brookings Institution*, 22 April 2019, <https://www.brookings.edu/blog/order-from-chaos/2019/04/22/nord-stream-2-a-failed-test-for-eu-unity-and-trans-atlantic-coordination>

⁶ Samantha Sulton, “US Congress would undermine Transatlantic Alliance with Nord Stream 2 sanctions,” *Atlantic Council Blog*, 31 May 2019, <https://www.atlanticcouncil.org/blogs/new-atlanticist/us-congress-would-undermine-transatlantic-alliance-with-nord-stream-2-sanctions>

invested up to five billion euros in the project). However, the political support for this not entirely commercial enterprise is weakening even in Germany, where the increasingly influential Green Party treats the *Nord Stream 2* as a part of the heritage of the disgraced former Chancellor Gerhard Schröder.⁷ One additional argument against the project has emerged after the severe pollution of oil in the *Druzhba* pipeline, which raised concerns about the safety of energy infrastructure on Russian territory.⁸

Overall, the political quarrels about the construction of *Nord Stream 2* have reinforced the security imperative to reduce the EU's dependency on Russian gas supply.

The Ukrainian Epicenter

The severe crisis in Russian-Ukrainian relations caused by the Russian annexation of Crimea in Spring 2014 and the subsequent aggression resulting in the emergence of the Donbass war zone inside the European security system constitute the main focus of the evolving confrontation between Russia and the West – as well as a major source of risk for European energy supply. Seeking to reduce its vulnerability from Moscow's pressure, Ukraine has minimized direct gas import from Russia, relying instead on re-export from Poland, Hungary, and Slovakia. *Gazprom* strongly disapproves such re-direction of “Russian” gas, and the Kremlin prepares to curtail it in an opportune moment to have maximum impact.⁹ Kyiv is lobbying in Brussels for guarantees of a continuing transit of substantial amounts of Russian gas through the pipeline system on its territory, while the EU is trying to provide reassurance to Ukraine— who is a key state in the Eastern Partnership.¹⁰ The main rationale for *Gazprom*'s huge investments in constructing new pipelines, including the *Nord Stream-2*, is to completely eliminate the transit through Ukraine—which is seen as an unreliable and profiteering intermediary in Russia's energy ties with the EU. The Kremlin spares no expense in advertising the benefits of importing cheap and ecological Russian gas for Europe. In a recent high-profile conference in Berlin,¹¹ Russia argued that Ukraine is a choke-point in this energy flow.

The delay with constructing the *Nord Stream-2* makes it necessary for Moscow to negotiate a new transit deal with Kiev, but its preference for a low-volume and

⁷ Alan Riley, “Nord Stream 2: Gazprom's desperate moves,” *EU Observer*, 5 June 2019, <https://euobserver.com/opinion/145087>

⁸ Sergei Kiselev, “Druzhba has affected the Nord Stream 2,” *Nezavisimaya Gazeta*, 29 May 2019, http://www.ng.ru/economics/2019-05-29/100_153429052019.html

⁹ Ben Aris, “Ukraine faces a bleak winter as Russia prepares to cut off gas,” *The Moscow Times*, 6 May 2019, <https://www.themoscowtimes.com/2019/05/06/ukraine-faces-a-bleak-winter-as-russia-prepares-to-cut-off-gas-a65496>

¹⁰ Simon Pirani, “Russian gas transit through Ukraine after 2019: The options,” *Oxford Institute for Energy Studies*, November 2018, <https://www.oxfordenergy.org/publications/russian-gas-transit-ukraine-2019-options>

¹¹ Oleg Nikiforov, “Russian gas in Europe: Arguments pro and contra,” *Nezavisimaya Gazeta*, 10 June 2019, http://www.ng.ru/ng_energiya/2019-06-10/9_10_7595_gaz.html

short-term contract differs far from Ukraine's insistence on a high-volume and long-term agreement guaranteed by the EU.¹² While such a gap between two opposing views would have been hard to bridge in the best of times, the current state of relations between the two post-Soviet neighbors are definitely far from that. For Putin's regime, every step Ukraine takes in reforming its economy and improving its cooperation with the EU constitutes a security challenge. Furthermore, the election of young and dynamic Volodymyr Zelensky as Ukraine's sixth president is quite displeasing for the ageing and "irreplaceable" Russian leader. Gas business between Russia and Ukraine is not only politicized but heavily securitized, therefore, energy ties will inevitably come into play in the further mutations of this intractable conflict separating and transmuting the two states.

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The Turkish Connection

The goal of Russian energy-security strategy in circumventing Ukraine from the southern flank interplays with the aim to increase authority over development and transportation of hydrocarbon resources in the Caspian and the Eastern Mediterranean area. Turkey is the key state in all these maneuvers – hence why Kremlin puts a great effort in cultivating a strategic partnership with Turkey, granting her particular priority within the energy connection. Even during the sharp deterioration of relations caused by the intercept of a Russian jet in the Syrian border area in late 2015, the gas export to Turkey continued without interruptions, unlike the enforced delay in the construction of the Akkuyu nuclear power plant.¹³ The main project for Russia is the *TurkStream* pipeline across the Black Sea, which has replaced the *South Stream* project, is due to be completed by the end of 2019.¹⁴ Moscow is to keep proceeding with the second stage of this project in order to double the capacity of the pipeline, but Ankara has serious reservations regarding the dependency on Russian gas import.¹⁵

¹² Anastasiya Bashkatova, “Victims of gas wars,” *Nezavisimaya Gazeta*, 28 April 2019, http://www.ng.ru/economics/2019-04-28/1_7568_transit.html

¹³ Pavel K. Baev and Kemal Kirisci, “An ambiguous partnership: The serpentine trajectory of Turkish-Russian relations in the era of Erdogan and Putin,” *Brookings Report*, September 2017, <https://www.brookings.edu/research/an-ambiguous-partnership-the-serpentine-trajectory-of-turkish-russian-relations-in-the-era-of-erdogan-and-putin>

¹⁴ On the history of competition in this energy “corridor,” see Pavel K. Baev and Indra Øverland, “The South Stream versus Nabucco pipeline race,” *International Affairs*, Vol. 86, No. 5 (2010), pp. 1075-90.

¹⁵ Yuri Barsukov and Olga Mordyushenko, “Gazprom multiplies the streams,” *Kommersant*, 14 February 2019, <https://www.kommersant.ru/doc/3883531>

The problem for Turkey is not only the disbalance in the bi-lateral trade caused by the high costs of Russian gas, but also *Gazprom's* pronounced ambition to capture the market in South-Eastern Europe, which clashes with the Turkish vision of establishing a “gas hub.” Despite the fiasco of the EU-backed *Nabucco* project, President Recep Tayyip Erdoğan has been cultivating relations with Azerbaijan in order to ensure a swift progress in the construction of the TANAP pipeline.¹⁶ This achievement is supposed to be the first step in the broader plan of bringing gas from Turkmenistan to Europe via the long-planned Trans-Caspian pipeline, which had previously been blocked by Russia, currently becoming feasible again.¹⁷ Moscow feels obliged to lift its objections after the signing of the painstakingly negotiated agreement on the status of the Caspian Sea in August 2018, perhaps assuming that the bulk of Turkmen gas resources is contracted for export to China.¹⁸

A new high-output gas producing area is the Eastern Mediterranean, where Russia tries to enter into key projects, particularly in Egypt, to ensure that export flows would not endanger its share in the competitive European market.¹⁹ Although Turkey has interests in these projects as well, Russia is not at all keen to establish any joint ventures. Moreover, Russia is perfectly content with the fact that the pace of the gas field development is slowed down by geopolitical controversy.²⁰ Russia's policy of acquiring stakes in various new enterprises may be useful for political purposes, however it is not particularly profitable commercially, and in the mid-term cannot prevent the breakthrough of new gas flows into Europe.

In the expanding southern gas “highway,” Russia may succeed in re-directing its own exports around Ukraine, but given the recent expansion of Eastern Mediterranean supply, it will hardly be able to protect its share in southeastern European and Turkish markets.

The Arctic Prospects

The excitement about the development of off-shore hydrocarbon reserves in the Arctic has notably evaporated since the beginning of the decade as cost estimates and opposition from various environmentalists have risen to new heights. The fiasco

¹⁶ “TANAP to strengthen Turkey's energy position in the region,” *Daily Sabah*, 21 February 2019, <https://www.dailysabah.com/energy/2019/02/21/tanap-to-strengthen-turkeys-energy-position-in-region>

¹⁷ Luke Coffey and Efgan Nifti, “A trans-Caspian gas pipeline: Start small but aim big,” *National Interest*, 16 May 2019, <https://nationalinterest.org/feature/trans-caspian-gas-pipeline-start-small-aim-big-58012>

¹⁸ Peter Leonard, “Caspian agreement may trigger a cascade of energy projects,” *Eurasianet*, 8 August 2018, <https://eurasianet.org/caspian-agreement-may-trigger-cascade-of-energy-projects>

¹⁹ Varsha Koduvayur & Greg Everett, “Russia's gas web ensnares Europe,” *Foreign Policy*, 17 April 2019, <https://foreignpolicy.com/2019/04/17/russias-gas-web-ensnares-europe>

²⁰ Diego Cupolo, “Cyprus gas discoveries spark US-Russian gamesmanship,” *Deutsche Welle*, 4 May 2019, <https://www.dw.com/en/cyprus-gas-discoveries-spark-us-russian-gamesmanship/a-4858334>

with the large-scale *Shtokman* project in the Barents Sea (*Statoil* and *Total* were partners) could have taken *Gazprom* by surprise in 2012, but it has learned many lessons since then, primarily to do with accommodating the demands of customers regarding prices and conditions.²¹ The Arctic, nevertheless, remains an interesting proposition not least due to the Bovanenkovo field, which is located on the Yamal peninsular beyond the Polar circle, that supplies Europe through a direct pipeline.²² The off-shore exploration is hit by Western sanctions, but the proposition on developing these resources remains interesting for international companies in mid-term horizon of planning. Russian politics has no such horizon.

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A new turn in the Arctic energy development occurred with the arrival of China as the key partner in the strategically significant Yamal-LNG project, which in reality does not bring any revenues to the Russian state. The transportation of LNG expands the navigation on the Northern Sea Route, at least until the first major accident, which is probable due to the Russian tendency to push up the mark of acceptable risk. For that matter, two ships were stuck in ice near Pevek, Chukotka in January 2017 and a tanker was immobilized by drifting ice in December 2017.²³ What could have constituted a challenge to European gas supply is the construction of the *Altai* pipeline from Yamal to China. So far, however, Beijing has been firm in refusing to grant Moscow the freedom of intervening in re-directing gas flows from the West to the South.²⁴

²¹ Sadina Zawadski, “Europe saved \$8 billion on gas bill in 2018 due to LNG, reforms: IEA,” *Reuters*, 7 June 2019, <https://www.reuters.com/article/us-gas-iea-lng/europe-saved-8-billion-on-gas-bill-in-2018-due-to-lng-reforms-iea-idUSKCNIT80JR>

²² Atle Staalsen, “Biggest Arctic gas field now in full production,” *Barents Observer*, 8 December 2018, <https://thebarentsobserver.com/en/industry-and-energy/2018/12/biggest-arctic-gas-field-now-full-production>

²³ “Blow to Northern Sea Route as voyages of two icebreakers are broken by ice,” *Siberian Times*, 24 January 2017 <https://siberiantimes.com/other/others/news/n0857-blow-to-northern-sea-route-as-voyages-of-two-icebreakers-are-broken-by-ice/>; Atle Staalsen, “Emergency in Arctic waters as oil tanker gets stuck in ice, drifts ashore,” *Barents Observer*, 4 December 2017, <https://thebarentsobserver.com/en/arctic/2017/12/emergency-arctic-waters-oil-tanker-gets-stuck-ice-drifts-ashore>

²⁴ Viktor Katona, “A renewed gas pipeline is a geopolitical game changer,” *Business Insider*, 18 September 2018, <https://www.businessinsider.com/the-altay-pipeline-sino-russian-geopolitical-game-changer-2018-9?r=US&IR=T>

Concluding Remarks

Russia is set to remain a major energy and natural gas supplier to Europe, but its ability to instrumentalize and even “weaponize” this business in the evolving confrontation with the West is far from certain. The opening of new export channels to China does not increase this ability. Furthermore, Russia’s positions in the global energy markets have the prospect of weakening due to the arrival of many new suppliers with lower production costs. Russia’s unreliability as a key supplier may be caused not only by ulterior political motives but also by technical failures caused by the mixture of corruption, incompetence, and physical deterioration of its main infrastructure.

The main goal of Russia’s massive investment in constructing new pipelines (*Nord Stream-2* and *TurkStream*) is to circumvent Ukraine and eliminate gas transit through the Ukrainian gas infrastructure system, which can indeed be achieved by the mid-2020s at a considerable cost and with no additional revenues. In the immediate future, however, Russia will still have to negotiate a new transit deal with Ukraine, which can result in the obvious disagreements escalating into a new conflict that would affect the EU supply. Unlike the previous “gas wars” in 2005 and 2009, this one will happen in the situation of a smoldering armed conflict in Eastern Ukraine and the evolving confrontation between Russia and the West. Thus, the security risks have the potential to be much higher.

Moscow has gained experience in using energy export for indirect attacks on the EU’s integrity and policy-making in combination with other “hybrid warfare” means. *Gazprom* and *Rosneft*, as well as *Novatek*, are ingrained within Kremlin’s EU-hostile policies to a greater extent than *Huawei* is within China’s authoritative policies. Diversification of energy supplies, prosecution of illicit capital transfers and money laundering remain necessary instruments in the EU arsenal of counter-measures against the Russian threat to its energy security.