

## **Briefing Memo**

### **EU Energy Security Policy – With a Viewpoint of Import Dependence on Russia -**

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The problem of import dependence for energy is an issue of importance in energy security. One of these problems is the use of energy for political purposes by a resources-exporting country, or the so-called energy weapon theory, and there has arisen the wary view of Russia's decision to suspend the supply of natural gas in the recent Russia-Ukraine dispute over natural gas as the use of the energy weapon by Russia. For the European Union (EU), which depends on Russia for 30% of its crude oil imports and 40% of natural gas imports, maintaining stable relations with Russia is an important factor in its energy security and the EU cannot stay free of concerns over the use of energy for political purposes by Russia. This article examines how the EU administers its energy security policy to deal with this challenge and also how the Russia-Ukraine dispute over natural gas is affecting the process of the EU's policy implementation.

#### **Energy Security Policy Related to the Problem of Import Dependency**

Security policy represents a series of activities and operations to define the values to be safeguarded, to identify potential threats to these values and to prepare and administer with precision countermeasures against such threats. The basic principles of energy security policy derived from this line of thinking should be, in order to protect the stability and development of society and the economy, which are founded on energy, and to deal with the threat of surging international energy prices stemming from supply disruptions or supply-demand tightening due to political uncertainty in producing countries or along energy transportation routes, or from accidents and natural disasters, to (1) diversify and ensure the security of energy sources, supplier countries and transit routes; (2) continue with exploration and development of energy resources, and improve energy efficiency; and (3) employ a variety of ways and means comprehensively to counter such a threat, including the development of stockpiling mechanisms and the multilateral system of coordinated responses. The energy security problem as organized in this manner can be classified as a nonconventional security issue as the threat does not involve the use of military force by a state and the value being threatened is not the independence of a state.

On the other hand, the argument about the use of an energy weapon is close to a conventional security issue on the following grounds. Firstly, it involves the stronger state control of energy resources and decisions on exports are likely to be swayed by political motives. Secondly, energy,

which is essential for sustaining the lives of citizens is held hostage to create the risk of external intentions being imposed in sovereignty-related areas such as diplomacy and national security. It is desirable not to depend on any countries that intend to use energy resources for political purposes. In reality, however, it is almost impossible to prove such intentions, and under many circumstances, importing nations have to purchase energy even from countries with troublesome political backgrounds from the standpoint of economic efficiency. Thus, as a realistic policy response to the problem of the use of energy for political purposes, it is important to (1) create a mechanism that would keep resources-exporting countries from using energy for political purposes; (2) prevent transactional disputes that could develop into political issues; and (3) take preparatory measures to be able to confine the repercussions in the event of supply disruptions and other developments caused by resources-exporting countries.

### **The Problem of the EU's Dependence on Imports from Russia**

The problem of the EU's dependence on Russia for energy is closely linked to the expansion of the EU. As Central and Eastern European countries that were reliant on Russia for energy supplies successively joined the EU since 2004, the problem of heavy import dependence on Russia as the EU as a whole came to the fore. The problem has been amplified by the energy situation surrounding the EU. More specifically, until the mid-1990s, European countries had satisfied their energy demand largely with the ample supply of domestically produced coal as well as with oil and gas produced in the region. Since the latter half of the 1990s, however, Europe grew increasingly conscious of the necessity to raise the ratio of natural gas with the relatively small environmental load out of concern over environmental problems caused by massive consumption of coal, and furthermore, the long-term downtrend of energy production in the region has made it necessary for Europe to increase energy imports from Russia.

The essential question that confronted the EU regarding the use of energy for political purposes by Russia seems to have been the possibility of the effectiveness of the EU's external policy being compromised by the uncritical spread within Europe of the wariness over Russia's use of energy as a weapon regardless of Russia's real intentions. In other words, because of large differences in import dependence on Russia by country and because of similarly large differences in vulnerabilities to the potential suspension of supplies from Russia by country, there is the genuine concern that these differences may be reflected in the differences in European countries' awareness of possible Russian threats, causing them to fail to reach an agreement on the high-priority policies of the EU and the North Atlantic Treaty Organization (NATO): policy toward Russia and policy to support the stabilization and democratization of neighboring countries. Specifically, while dependence on Russian energy stands high at between 70% and 100% for Central and Southeastern European countries including the Czech Republic, Hungary, Slovakia and Bulgaria, which joined the EU in

2004 and 2007 as well as for the Baltic states, the dependence on Russia of major countries in the EU is relatively low, at 32% for Germany, 27% for Italy and 16% for France, with Britain and Spain not importing any natural gas from Russia. On the part of Russia, meanwhile, it is possible to fuel a sense of crisis among Central and Southeastern European countries with a strong sense of vigilance against Russia and thereby indirectly influence Europe's external policies by merely hinting at the possibility of energy supply disruptions without actually suspending the flows of energy exports. In other words, the EU appears to have been confronted with the problem where even when major European countries try to implement a foreign policy within the framework of the EU or NATO, the effectiveness of that policy could be severely limited unless they simultaneously develop an energy security policy that could deal with the possible use of energy for political purposes by Russia. Below, this article reviews the developments in the EU's energy security policy and the impact of the Russia-Ukraine dispute over natural gas that broke out in that process, from the viewpoint of efforts to tackle the problem of dependence on Russia.

### **Developments in the EU Energy Security Policy and the Russia-Ukraine Natural Gas Dispute**

The EU embarked on course to realize a common energy security policy in 2000, prior to its eastward expansion. First, the European Commission (EC), the executive arm of the EU, in 2000 released the Green Paper to articulate the idea of an energy policy in preparation for the expansion of the EU and underscored the need for the policy's realization. At the same time, the EC established an energy dialogue with Russia and put into place the mechanism for EU cooperation in the sustainable development of the energy sector, which underpins the Russian economy. The EC, in its pursuit of diversification of energy supply sources, also sought to strengthen energy cooperation with promising resources-rich countries in the Caspian Sea area and Central Asia other than Russia; and launched the Nabucco pipeline scheme for carrying natural gas from the region to Central and Southeastern European countries, and the Baku scheme, a framework for multilateral energy cooperation with countries in the region, in 2004. Furthermore, recognizing that the political and economic situation in Ukraine, through which 80% of Europe-destined Russian natural gas passes, could become a destabilizing factor in EU-Russia relations, the EC in 2005 established a comprehensive framework for energy cooperation with Ukraine, and provided support for the democratization and stabilization of Ukraine under this framework.

However, the common energy security policy was not formulated in time for the EU expansion in May 2004, and the EU was confronted with the Russia-Ukraine dispute over natural gas in January 2006, which culminated in the suspension of the supply of Russian natural gas due to a rupture in price negotiations. The supply actually suspended in the dispute was only natural gas destined for Ukraine and the impact on consuming countries in Europe was minimal. However, taken aback by Russia's gas supply suspension, which exposed the EU's lack of preparedness for such a

contingency, the EU strongly denounced Russia for its action. The denunciation contained an element of views that interpreted the supply suspension by Russia as the use of the energy weapon. In the background was Russia's strong opposition to the actions of Ukraine in seeking integration into Europe and of Western nations' support of the country's bid as inroads into its traditional sphere of influence. Russia's action was taken as a counterblow to the announcement of Ukraine's intention to join NATO and the EU in 2005 by the pro-Western government of President Viktor Yushchenko, installed after the Orange Revolution of 2004, and the support for the plan by NATO and the EU. Specifically, arguments suspicious of Russia's intentional countermeasure went that Russia tried to underline the Yushchenko government's economic mismanagement by raising natural gas prices, discredit Ukraine as a gas transit country by suspending the supply of natural gas, and put distance between Ukraine and Europe.

The Russia-Ukraine dispute prodded the EU into accelerating its moves toward the realization of the common energy security policy. In March 2006, immediately after the dispute, the EC came up with policy recommendations that emphasized the enhancement of energy efficiency, diversification of energy supply sources and strengthening of the stockpiling system, and sought to formulate an energy policy for the European Union." The objectives of the policy precisely are to lower the dependence on Russia for energy, get prepared for possible supply disruptions and reduce the threat of supply suspensions. After its intensive efforts to persuade member states, the energy policy was endorsed at the EU Summit meeting held in March 2007.

Reflecting on its failure to avert the Russia-Ukraine gas dispute, the EC decided to step up efforts to strengthen and broaden the framework for cooperation with Ukraine. One of those efforts was the launch of the Eastern Partnership scheme in December 2008. The scheme is the framework for multilateral cooperation between the six neighboring countries, including pipeline transit countries like Ukraine, Belarus and Georgia, and the EU, designed to promote the stabilization of relevant regions and countries necessary to develop diverse energy transportation routes in an integrated manner, with the pipeline that goes through Ukraine at its core.

In the meantime, the EC reviewed the European energy policy on an ongoing basis, and based on that review, came up with the Second Strategic Energy Review in November 2008. Salient points in the strategic review included financial guarantees for projects to develop energy transportation routes, with the Nabucco pipeline at its core, and the Southern Corridor scheme, a framework for multilateral cooperation designed to strengthen the EU's relations with natural gas supplier countries and transit countries for the Nabucco pipeline.

The EU also sought to deepen cooperative ties with Russia, and the core scheme to that effect are

negotiations to conclude a new Partnership and Cooperation Agreement (PCA) with Russia, which began in July 2008. The contents of the PCA take into account Russia's particular set of circumstances where the country wants to secure stable revenue from energy exports while at the same time hoping to break away from an economy heavily dependent on energy exports.

The natural gas dispute between Russia and Ukraine in 2009 erupted just as the EU was pursuing the above-described energy policy. In the 2009 dispute, Russia completely shut down the supply of natural gas on the grounds that Ukraine was illegally siphoning natural gas destined for consuming countries in Europe. European consumers dependent on Russian gas carried through Ukraine were faced with the worst-case scenario of the gas supply shut off in midwinter.

The EU tried to mediate between Russia and Ukraine and break the deadlock by sending a monitoring mission to Ukraine, while further accelerating the development of its energy security policy. The EU Summit, held on March 19-20, 2009, fully endorsed the recommendations of the EC's Second Strategic Energy Review by, among other measures, incorporating financial guarantees for projects to develop and improve energy transportation routes into the European Recovery Programme. On March 23, an international investment conference on the modernization of Ukraine's gas transit system was convened, where an agreement was reached on a pipeline development project with joint capital infusion by companies from relevant countries. The project is designed to prevent disputes by effectively placing the Ukraine gas sector under multilateral surveillance. Furthermore, the first Eastern Partnership summit meeting was held on May 7 and the first Southern Corridor summit meeting on May 8, put the EU's policy to diversify and stabilize energy supply sources into full swing. Regarding its relationship with Russia, the EU is hoping to see progress in negotiations to conclude the PCA at the EU-Russia summit meeting on May 22-23.

### **Synergy between the EU Energy Security Policy and the Natural Gas Dispute**

The physical impact of the Russia-Ukraine dispute over natural gas in 2009 was more serious than the dispute in 2006. However, European views that suspect the Russian use of the energy weapon weakened, rather than intensified, in 2009, and Central and Southeastern European countries seriously affected in the dispute showed calm reactions. This is indicative of the effect in containing the uncritical spread of the energy weapon arguments of the progress in the EU's energy security policy, which was rather stagnant until the gas dispute of 2006 but was given strong momentum by another flare-up of the gas dispute in 2009. It can also be interpreted as showing European countries' high expectations placed on the further progress of the energy security policy going forward.

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