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**The EU-Russia Energy Dialogue: Russia's
Energy Policy towards the EU**
**Case Study: the EU-Russia Natural Gas Dispute
in 2009**

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Declaration

I, Lukáš Vojáček, hereby declare that this thesis, entitled “*The EU-Russia Energy Dialogue: Russia’s Energy Policy towards to European Union; Case Study: the EU-Russia Natural Gas Dispute in 2009*” submitted as partial requirement for the Euroculture MA Program, is my own original work and expressed in my own words. Any use made within it of works of other authors in any form (e. g. ideas, figures, texts, tables, etc.) are properly acknowledged in the text as well as in the list of references.

I hereby and also acknowledge that I was informed about the regulations pertaining to the assessment of the Euroculture MA thesis and about the general completion rules for the Master of Arts Program Euroculture.

Lukáš Vojáček

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In this place I would like to thank to those persons who have contributed to the creation of this thesis.

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ABSTRACT

This thesis deals with the European Union-Russia energy dialogue and puts an emphasis on the Russia's energy policy towards the EU in the field of natural gas production and its supply to European markets. As a starting point, the work explicates the complexity of the EU-Russia relations in general and gradually moves its focus towards the concept of energy security and its different understandings, the concept of geopolitics, the disunity of the EU in relation to the Russian Federation in terms of its common energy policy, the Russia's natural gas production capabilities, maps the Russian natural gas production companies and the network of pipelines, introduces new natural gas pipelines constructions, discusses the extent of politization of the natural gas sector in Russia, and Russia's energy policy towards Ukraine and Belarus as transit countries. By answering questions raised in the thesis of the work, this work attempts to contextualize the research results and relate them both to the theory and practice. Using the empirico-analytical approach, the work describes and comments both on primary sources, such as concepts and official energy strategies of the Russian Federation, and secondary sources that are represented by various studies, essays, and articles and are subsequently related to the theories introduced in the work. The case study, the EU-Russia natural gas delivery dispute, points out and reveals the regularities and commonalities in the complex context of EU-Russia energy relations in the past 10 years.

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1. INTRODUCTION

The Russia-Ukraine energy dispute in January 2009 caused many European Union member states to face a situation of limited or no gas supplies over a relatively long period of time. The conflict has reminded the European political elites not only of the fact that the extent of Europe's dependence on Russian gas is tremendous, but also of the fact that the EU-Russia energy relationships are very complex. A closer analysis of the modern EU-Russia relationships shows that the wide range of interactions between the EU and the Russian Federation since the collapse of the Soviet Union up to now has been of both negative and positive character, which led to a deeper cooperation in some spheres on one side, and to an evolution of a mutual suspicion and even hostility, on the other one. Not surprisingly, the Russian Federation has established itself as an economic and ideological alternative to the EU, having a different approach to the concept of security, sovereignty, power, etc. Thus, the new challenge to the EU does not necessarily have to lie only in the threat of gas or oil cut-offs, but also in the numerous objections and oppositions in the UN. The apparent differences between the EU's and Russia's views can be evidenced by a number of examples such as the diverse opinions on military operations in Yugoslavia, on approach to the conflict in Chechnya, or on the war in Georgia in 2008. The enlargement of the EU in 2004 and 2007, which brought the EU and Russia much closer to each other and made them real neighbours, was expected to make the cooperation between the powers easier, but the opposite was the truth. However, no matter how difficult the existing cooperation is, the EU and Russia have also managed to reach many agreements in areas such as common policies on fight against the terrorism, cooperation within the Interpol project, etc.

In the year of 2003, the summit in Saint Petersburg defined four main areas of interests in which the dialogue between the EU and Russia would be taking place in the upcoming years. The area relevant to the research question of this work, which will be introduced later on, was also discussed - it was the political-economic dimension of the relationship which deals with business matters on macroeconomic and microeconomic levels, and, also, with energy issues and security issues. As it can be seen, the EU-Russia energy relations comprise an important arena in which numerous interests of the most diverse character become manifested. Since it is not only the EU's and Russia's

interests, but also the transit countries' interests, that are being pushed forward here, the character of the relationship becomes even more complex.

The aim of this thesis can be divided into two parts. The first one is to characterize the Russian energy policy towards the European Union in a wide context of mainly political and economic character within a span starting in the year of 2000 when Vladimir Putin became the President of the Russian Federation and ending in the year of 2009. Such a period of time might seem to be relatively long, but it is necessary to examine the Putin's era in order to define the conditions under which the energy policy of this period was formed and what were the factors which had an impact on it or made it develop its particular way. Secondly, the practical part of this work, which is to focus on the natural gas crisis in 2009 as an example examining the role of all the actors involved, is to show Russia's energy policy implementation and thus demonstrate the weaknesses and future challenges of the EU-Russia interaction in the energy issues.

In order to do such a research, it is necessary to take into account a wide range of factors having an impact on the arena in which the EU-Russia interaction takes place. What makes the work interesting is the difference between Russia and the EU in terms of their political character. Russia is a federal state while the European Union is a specific actor of a non-state character being described as a structure heading for a political integration. That is why it can be supposed that any kind of interaction between these two actors will have to do with different perceptions and understandings of various issues, especially in the energy ones.

The topicality of the energy questions lies in a new emphasis on the importance of national energy securities. This new stress on security as such dates back to the beginning of the 21st century when the world began to face new phenomena of threats such as terrorism, natural disasters, unstable political situations in transit countries, etc.¹ As a result, the concept of energy security began to gain a new dimension. At the same time, this dimension has primarily to do with the ensurance of long-term growth of national economies and the maintenance of their competitiveness on the energy market.

¹ Lupták, L. "Konceptualizácia energetické bezpečnosti." In *Evropská energetická bezpečnost*, by Š. Waisová. Plzeň: Vydavatelství a nakladatelství Aleš Čeněk, 2008, p. 162-171.

Moreover, there are other aspects such as high extent of dependence of some customers on other suppliers, and a growing demand for natural resources by countries such as India and China. However, this research is aimed at the European dimension in Russia's energy policy that is why the energy relations to other countries, no matter how important they might be in relation to the formation of Russia's energy policy, will be omitted here.

The fact of Russia and the EU being different from each other brings us back to the diametrical difference between the two powers in terms of their policies implementation. Generally speaking, the energy policy might be used as an instrument employed purposely in order to reach particular goals or national interests.² Whereas Russia is traditionally associated with the concept of geopolitics and perceived as its advocate, the EU represents what is referred to as a soft power, meaning that the body spreads particular values and promotes the power of law. As far as the EU's energy policy is concerned, its position within the European integration process is very specific. Paradoxically enough, it was the energetics that initiated the whole idea of common European market which later on developed into what we call the European Union now. In spite of this fact, energy policies of individual states do not seem to be affected by the integration process much and remain in the competencies of individual member states which have the right to decide themselves about their energetic matters such as proportions of different energy sources usage.³ However, the non-existence of the common European energy policy is known to the political elites and that is why there have been seen attempts to develop a concept of the common European Energy Policy (by the way during the Czech Republic's presidency of the EU in 2009), but they mostly failed as the EU-Russia energy relations are governed by bilateral agreements made between the Russian Federation and the individual European states.⁴ In addition to it, this very fact makes the topic of energy relations very sensitive in the sense that the

² Černoč, Filip. "Vliv ropné zbraně na zahraniční politiku USA a Evropy." Dissertation, Brno, 2006, p. 7-27.

³ *Euroactiv*. 31 August 2007. <http://www.euroactiv.com/en/energy/eu-energy-mix-aiming-diversity/article-163228> (accessed February 5, 2011).

⁴ Neuman, Marek. *CRCEES: Centre for Russian, Central and East European Studies*. 2009. <http://assessingaccession.eu/Documents/CRCEES%20Neuman%202010-01.pdf> (accessed April 8, 2010).

energy sector is largely monopolized and the states tend to keep their influence in such a strategic field. Last but not least, it is also important to bear in mind that the technical aspects of these relations and the involvement of the third countries serving as transit countries.

1.1 HYPOTHESIS

To provide a relevant background as a basis for the research and to set up the frames and context in which the research will be carried out, it is necessary to give a more concrete characterisation of the environments in which all the actors involved in the dispute take actions. These characteristics will be based on research that has been already done and has been used by the author as a preliminary research. That is why these characteristics are supposed to serve as a starting point or as a hypothesis for the author's research and, at the same time, are meant to be a subject to verify or falsify. According to the EU, whose viewpoint is represented by audits and surveys by numerous institutions dealing with energetics, Russia's foreign policy is strongly economized, which is demonstrated on both ideological and practical levels.⁵ This very fact became apparent after Vladimir Putin was elected the President of the Russian Federation. That is why the aim of the author's research is to verify or falsify the following hypothesis:

Thanks to its natural gas reserves Russia established itself as an influential geopolitical actor having its own understanding and perception of energy security, which becomes manifested in the concept of its energy policy towards the European Union and the transit countries. Striving to become an important geopolitical actor, Russia has politicized its energy sector. However, the country, being aware of the existence of economic interdependence between itself and the European Union, is a reliable supplier whose timely and satisfactory natural gas supplies may be affected by transit countries.

The beginning of Putin's presidential period will be used in this work as an outset of the span meant to be analyzed as it was Putin's office that is associated with ideological,

⁵ Leonard, Mark, and Nicu Popescu. "A Power Audit of EU-Russia Relations." *International Relations and Security Network*. November 2, 2007. <http://www.isn.ethz.ch/isn/Current-Affairs/Policy-Briefs/Detail/?lng=en&id=91773> (accessed March 15, 2010).

political, and economic changes that are attributed to his authoritarian way of governing Russia which resulted in Russia's being perceived as a power using geoeconomics as an inseparable part of geopolitics of the country. All these circumstances make the Russia's energy policy be seen as highly centralized and under control in terms of the energy production and its distribution.⁶ The gap between Russia and the EU in the field of energy issues lies mostly in the divergence of the actors' characteristics in the arena of international politics, their different approach to the concept of energy security, and different importance of this phenomenon for both of them. Despite the relationship of interdependence and a mutual need to complement each other, the energy dialogue becomes even more complex as there are also other interests being pushed within this interaction.

The analysis of Russia's energy sector could be approached from different points of view ranging from geological, geographical to economic ones. However, the aim of this thesis is to define the Russia's energy policy towards the EU and to characterize its specifics in terms of policy analysis with paying a sensitive attention to the context of Russian reality and to the security dimension. Nevertheless, a unilateral attitude to the research is not possible either for even the perspective of energy security cannot do without taking into account above-mentioned aspects related to the geological, geographical, and economic spheres. Thus, by introducing such research question, it has been raised a large number of questions that must be answered so that the target of the work is met. The questions are of the most diverse character and comprise a wide area of research that includes, among others, the origins of imports of gas into EU and its percentages, Russia's proposals and views on the further cooperation with the EU, new strategies and suggestions of natural gas supplies to the EU countries, Russia's energy strategies towards the transit countries, new pipelines construction policies and their technical parameters, etc. The attention will be also drawn to the developments in EU-Russia energy relations in the recent past, including the technical aspects of the energy issues such as the Russian deposits of gas and conditions of its extraction, numerical data on the gas production compared to other producers in the world, and the percentages of individual EU-member states' dependence on the deliveries from

⁶ Prorok, Vladimír. „Energetická bezpečnost - pojetí a přístupy.“ V *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty*. Praha: Professional Publishing, 2009, 34-39.

Russian Federation. This work will also include mapping of the Russian oil extraction companies being engaged in gas production and its distribution, including their relation to the government and their political engagement. Although it is the Russia's energy policy towards the EU that is the focus in this work, the European perspective will be also outlined, however, in a marginal way only. The European point of view is supposed to serve just as an opposing pole or a subject to compare the Russia's perspective to, which will make the research outcomes clearer in the background of the EU's viewpoint and generally more contributing as the Russia's point of view has not been examined much so far. Despite of the fact that the problems of energy issues are known to be a subject of frequent and unpredictable changes, this work is meant to develop a behavioral pattern of Russian federation applying its energy policy towards the EU and transit countries, which will be supported not only by relevant theoretical background, but also evidenced by real and statistical data. The case study of 2009 Russia-Ukraine natural gas supply dispute, which is part of the thesis, will serve as a real example of Russia's energy policy implementation and is expected to show possible parallels or possible discrepancies with both the theories introduced in the thesis and the energy sector features. This section of the work will be partly independent of its first part as it needs its own introduction and conclusion. Also, the methodology of the research will be different. Yet the research is planned to be done in the context of the work's theoretical framework when trying to answer the crucial questions related to the dispute. The Dispute section will consist of an overview of Russia-Ukraine gas disputes in the recent past, general analysis of the 2009 gas dispute - cause of the conflict, its development, achievements and solutions reached, and the impacts on both the EU and Russia as a consequence of both powers' energy policies implementations. The goal of this part is to discover the weaknesses, challenges, and possible dangers in the further development of the EU-Russia energy relations and refer to them in the context of Russia's energy policy.

2. THEORIES AND METHODOLOGY

Since the topic of energy issues is extremely complex, it is complicated to choose the right methodological approach. It is important to bear in mind several facts. The EU-Russia energy relations are being realized on two levels, the level of high politics and the level of low politics. Naturally, both of them are considerably interconnected and complement each other. The energy policy can be seen as a part of foreign policy and is thus related to the high politics level, the international one, while the low politics level is represented by economic and business relations, including the energy relations, or other individual spheres of cooperation. Thus the energy problems become a subject of both the high politics and low politics, which makes any kind of research done in order to explain the possible causes of a phenomenon or its impacts on it less transparent and clear. Moreover, the situation within the EU is even more complicated if we take into consideration the existence of individual energy policies across the EU-member states that are not unified and remain within the remit of the individual member states. Furthermore, because of its strategic function, they cross the dimension of national interests as they become involved in EU's foreign policy and EU's Security policy. This fact brings the focus to another difficulty of the research: the concept of energy security. There are numerous definitions that might be understood differently throughout the political arena. As it has been already suggested earlier in the work, the energy issues include a large variety of problems concerning not only the energy consumption and distribution, but, also, the relations between the distributors, transporters and consumers come to play. That is why the energy policy is a result of an interaction between a wide range of actors and manifestation of their most diverse interests of political, economic, and other characters. In addition to it, what makes the research more complicated is the fact that Russia's political system shows features of hybrid democracy that tends to authoritarianism, which manifests itself in the way Russia's pursues its national interests. Since this work will deal with Russia's energy policy towards the EU, the research will use the empirico-analytical approach as it best serves the purpose of it and attempts to find generalizations and regularities in the development of a particular problem. In the course of the research a combination of 2 theories will be used: the descriptive and systematic ones. The descriptive one will be used for the collected sources analysis (technical aspects of EU-Russia energy relations) while the systematic

theory will be used for relating the empirical data to the theories introduced in the first part of the thesis.

3. SOURCES

Since the thesis focuses on Russia's energy policy, the specifics of the EU's energy policy will not be in the centre of our attention. Yet the current state of the EU's energy policy is necessary to be mentioned as well. For a brief introduction of the EU's energy policy, only secondary sources will be used. The energy policy of the European Union will not be a subject of the research and will be based on outcomes resulting from research that has been already done, i.e. reports and studies dealing with the energy issues from the EU's perspective. These analyses usually come from such institutes as Oxford Institute for Energy Studies, Pan-European Institute Turku School of Economics, etc. The literary sources used for the research as such are both of primary and secondary character. The primary sources utilized for an analysis of internal and external dimensions of Russia's energy policy comprise materials such as conceptual documents and doctrines published by Russian authorities in charge. These are the official documents, resolutions, articles, essays, interviews, and comments issued by the Ministry of Energetics of the Russian Federation or published by other institutions such as the Institute of Energy Strategy, Institute of Energy Policy, etc. Among those sources there can be found crucial documents for our research. They include documents such as *Strategiya nacionalnoi bezopasnosti Rossiiskoi Federacii do 2020/2030 goda*, *Koncepciya energeticheskoi strategii*, *Koncepciya vneshnei politiki Rossiiskoi Federacii*, etc. Also, Putin's dissertation will be discussed as it deals with the role of natural resources in the national economy. Other sources of high content quality can be also found at www.energoacademy.ru, www.rossia.su, www.kremlin.ru and so on. A great attention will be also paid to secondary literature addressing the problems of energy security and dealing with energetics in general. In this place it is necessary to mention analyses, studies and articles by Daniel Yergin and Jonathan Stern. In the theoretical part, publications by theorists such as Kenneth Waltz as a representative of the neo-realist theory will be consulted on one hand, and representatives of the Copenhagen school on the other one. Among those who represent theories introduced within this ideological framework are Barry Buzan and Ole Wæver (*People, States and Fear: The National Security Problem in International Relations, 1983*). For a general overview of EU-Russia energy relations from various points of view, their history and development, books by Pami Aalto and Richard Sakwa will be consulted. Other secondary sources will be consulted in order to cover the technical matters of the relations. For these purposes data from the Statistical Review of World

Energy webpage will serve as another source. Within the case study there will be analyzed such primary sources as official statements of Naftogaz Ukrainy as well as Gazprom, newspaper articles dealing with the crisis, and interviews or comments on the event. The sources will be mainly of Russian and Ukrainian origin

4. RUSSIA AND ITS ENERGY POLICY IN THE CONTEXT OF ITS FOREIGN POLICY

Obviously, there are three basic concepts that will be addressed in this work: firstly, energy security, secondly, energy policy, and, lastly, the foreign policy. The way in which they will be treated in this work, however, will be of different quality as all of them could be a subject of a separate research. All these concepts are mutually interconnected and influence one another. Energy security becomes a part of other policies. The first one is the national one, the second one is the foreign policy, and the third one is the global level.⁷ The energy policies on the national level are formed by governments which introduce their national energy strategies in their conceptions. The conceptions usually deal with the structure of energy sources, especially the combination of different energy sources which is called energy mix. What is understood by the energy mix is an optimal combination of sources used for production of energy in accordance with the production capabilities of the country.⁸ Possible risks are naturally connected with the situation on the energy market, with the sufficiency of supplies, with the possible problems of atomic energy usage, with the environmental problems that have to do with possible mining limitations, etc. The higher level of the energy relations, the foreign policy, is being strongly influenced by energy relations.

The EU-Russia energy relations serve as a good example and give evidence that energy might be used as an instrument of foreign policy. The global dimension of these relations is related primarily to the security of pipelines and routes used for transportation of these sources that might be endangered by natural disasters, wars, terrorism, and so on. In addition to it, a great role is also played, as suggested many times, by transit countries which have gained an international influence and power thanks to their role within the process of energy sources transit. Even though this work limits itself to the field of natural gas issues, when it comes to the price of natural gas,

⁷ Kuchyňková, Petra. „Vývoj vztahů Ruské federace a Evropské unie v kontextu problematiky energetické bezpečnosti.“ Dissertation, Brno, 2010.

⁸ *Euroactiv*. 31 August 2007. <http://www.euroactiv.com/en/energy/eu-energy-mix-aiming-diversity/article-163228> (accessed February 5, 2011).

the oil prices must be also discussed as they actually set up the prices of natural gas.⁹ Basically, what can cause the price of oil to grow is several factors such as an unstable currency rate of dollar, fear of natural sources deficiency and speculations on the energy markets.

4.1 EUROPE IN RUSSIA'S FOREIGN POLICY CONCEPT THROUGHOUT THE 1990'S UNTIL PRESENT

As it has been said in the introductory part, the interaction between Europe and Russia in the course of centuries was of both positive and negative character. Russia's progress and advancement under Peter II to the Baltic Sea has been traditionally understood as Russia's expansion to the European territory which triggered a neverending search for identity of the country and positioning itself somewhere between Europe and Asia. On one hand, Russia attempted to be a part of Europe, on the other one, the country built on its uniqueness and cultural and ideological divergence. Later on Russia's attempts to imitate Europe in terms of its cultural, economic, and political heritage has changed into its own identity, originating from its own cultural and ideological traditions. In the modern history, the collapse of the Soviet Union in 1991 brought about many geopolitical changes that had a great impact on the security and foreign policy of the Russian Federation.¹⁰ Especially in the 1990's, Russia was confronted with the problem of the NATO's "expansion" resulting in admitting post-soviet republics in Eastern Europe as its members, and, also, the economic depression on the internal level and the loss of the reputation of a dreaded superpower, made the identification of Russian population with the newly emerged state even more complicated.

At the beginning of the 1990's, Europe was perceived by Russia as a potential business partner and thus many bilateral agreements were made. In addition to it, Russia showed interests to become a member of Council of Europe, United Nations, and later

⁹ Švihlíková, I. "Ropa: strategická komodita - poptávka, nabídka a cena." In *Energetická bezpečnost, Geopolitické aspekty*. Praha: Professional Publishing, 2009, p. 15-18.

¹⁰ Sakwa, Richard. *The Rise and Fall of the Soviet Union, 1917-1991*. London: Routledge, 1999, p. 472-482.

on a member of the World Trade Organization, which signaled the country's gradual intention to become an influential actor in the field of international relations. Within the Concept of Foreign Policy of the Russian Federation, naturally, in terms of its political and economic focus, it was the USA that was put in the first place while Europe "ended up" as second. As for the foreign policy towards the EU, the 1993 concept put an emphasis on three priorities: Western European countries, Central and Eastern European countries, and the Baltic countries.¹¹ In connection with these facts the phenomenon of geoeconomics, a theory that stresses the importance of mutual interconnections among countries, has become even a more important element in the Russia's foreign policy discourse, which can be seen in the current Russia's Foreign Policy Concept. According to the concept Russia is supposed to play a significant role together with Western and Asian oil and natural gas producers in international projects, particularly in the energy ones.

In the second half of the 1990's the emphasis in Russia's foreign policy was put on the UN and its member states. What was also typical of the foreign policy at that time was the diversion from the USA and Europe and a greater stress on a restoration of strategic political and economic relations with Asian countries such as China, India, etc. This fact was a compensatory act for leaving the West out from the centre of the country's attention. However, Europe was not totally ignored. Some closer ties with European countries such as Italy, the UK, France, Germany, etc. were being developed. Also, in international politics, Russia strived to become an active actor which opposes the western political and security interests embodied by NATO, and created an effective counterweight to the EU by its objections within the UN.

Now that the economic crisis has shown the vulnerability of the western economies and the weaknesses of the systems the economies are based on, the economic and financial focus has moved to the East. Thus, it is Russia, China, India, etc. that are perceived as future economic powers with a tremendous economic potential. As the evidence shows, the current Russia's foreign policy is distinguished by a stress on geopolitics, which becomes manifested not only in Asia, but also in Europe, and energetics is supposed to be a key instrument in the reestablishment of Russia's

¹¹ *Foreign Policy Conception of the Russian Federation (1993)*. In: Melville, A., Shakleina, T. (2005): *Russian Foreign Policy in Transition: Concepts and Realities*, p. 27–61.

influence as well as a reputation of a “sovereign democracy“, as it is called by Vladimir Putin, and energy power.

4.2 PUTIN’S NEO-REALISM

In *Mezinárodní politika* (2001, transl.: International Politics) by Oskar Krejčí, the theory of neo-realism is characterized as the Realistic School’s reaction to two changes.¹² Firstly, it was a change in social environment as a consequence of technological revolution, and a growth of non-governmental actors in international relations as well as an increase in mutual dependence between states. Secondly, it was Easton’s Systems theory and behavioral approach to international relations. There were three major works that encouraged the neo-realistic approach to form: R. Rosecrance’s *Action and Reaction in World Politics* (1963); K. Waltz’s *Theory of International Politics* (1979); and R. Gilpin’s *War and Change in World Politics* (1981). The crucial point in the concept of the neo-realistic theory lies newly in disregarding the role of philosophic anthropology in the international relations.¹³ Thus, in the theories of neo-realists there is no conservative concept of human nature as an important aspect any more. What is still argued in the theories is the anarchic character of the world political system and state-centric tendencies in the process of choosing the main actor within the system. Therefore, in the centre of their attention, anew, there is a structure of the system which determines the states’ behaviour rather than the neverending human desire for power. That is why neo-realism is sometimes called structural realism.¹⁴ The behaviour of the state is thus shaped by the efforts to ensure security, not to fulfill the desire for power. However, it is also generally accepted that in a hierarchical structure it is complicated to distinguish between the desire for power and the efforts to ensure the security. The theory is being backed up with the fact that structure as such, forms political relations between governmental and non-governmental institutions and limits them at the same time. According to neo-realists, the international structure results from the interactions between the states and, afterwards, the structure forces them to act in a

¹² Krejčí, Oskar. *Mezinárodní politika*. Praha: Ekopress, s. r. o., 2001, p. 525-526.

¹³ Krejčí, Oskar. *Mezinárodní politika*. Praha: Ekopress, s. r. o., 2001, p. 526-527.

¹⁴ Krejčí, Oskar. *Mezinárodní politika*. Praha: Ekopress, s. r. o., 2001, p. 527-528.

particular way. Once there exists such a structure, it is out of control of individual actors. The structure forces the actors to act to such an extent that there more or less automatically emerges a certain power balance between states which is a sort of consequence of their self-preservation efforts, and, as Krejčí explains further, neo-realists put an emphasis on distribution of power in such a system. Despite growing interdependence among states in a globalized world, the power is distributed unevenly.¹⁵ Yet this very fact plays the major role in the system creation and becomes a basis for numerous agreements and pacts without which, as the theory claims, a settlement of disputes is not possible. In the course of history it has been the interaction between the most powerful states that had determined the general characteristics of the system and international relations. Therefore it is the change in distribution of power that causes the system itself to change. In practice it means that the most powerful states strive to become either politically dominant, or to maintain their power, or to deprive the other actors of the dominance over the world system. Neo-realists point out the mutual dependence between states and understand it as a new fight for hegemony. At the same time, they do not deny that besides conflicting interactions there are also cooperative acts, apart from the governmental actors there are also non-governmental and supranational international organizations as an element of the world political system. However, the state is the most important actor which can modify and keep a control over everything that it is dependent on, including the international and supranational organizations. As P. Viotti and M. Kuappi claim, mutual dependence does not mean equality – the concept contains an element of an ability to hurt the other one. That is why the mutual dependence as an ability to hurt is seen as a source of power over the other one.¹⁶ Thus, the growing interconnections of national and social activities can guarantee peace as much as it cannot. For this reason the states must be examined in terms of power. In the neo-realistic theory the attributes of the individual actors are rather given than variable.¹⁷ Any changes in the actors' behaviour are not a result of their possible internal change, but a change in the system itself. Generally speaking, the

¹⁵ Krejčí, Oskar. *Mezinárodní politika*. Praha: Ekopress, s. r. o., 2001, p. 528.

¹⁶ Viotti, P. R., a M. V. Kuappi. *International Relations and World Politics: security, economy, identity*. New Jersey, USA: Pearson Prentice Hall, 2007, p. 53.

¹⁷ Keohane, R. O. "Theor of World Politics: Structural Ralism and Beyond." In *Neorealism and its Critics*, by R. O. Keohane, 132. Columbia, South Carolina, USA: Columbia University Press, 1986.

neo-realistic theory is too anarchic and hierarchized not enough. It is concentrated on the interaction between actors which have similar functions.

Putin's election the President of the Russian Federation is usually associated with an establishment of neo-realism in Russia's foreign policy which distinguishes itself both by its economization and by its focus on the relations with the western economies, or the European Union.¹⁸ Even before Vladimir Putin became the President of the Russian Federation, there were seen tendencies of centralization of both economic and political character, especially when Putin became the Prime Minister of Russia. Later on, when he was elected the President, the centre of power moved towards the presidential position and together with his election the President there appeared mainly ideas of euroasiasm and nationalism in the foreign policy discourse. The era of Putin's presidency can be briefly characterized as a consolidation of power and as an enhancement of repressive power. Putin took an advantage of its previous position in KGB and used his contacts to create a collective of highly loyal people and his supporters. For example, the personality of Sergei Ivanov, the former Security Council of Russia member and former Minister of Defence, is known to have a close relationship with Putin. It was Ivanov who mainly participated in creation of *National Security Concept* and the *2000 Army Doctrine* and thus significantly contributed to strengthening the prestige of Russia abroad. Later on the people loyal to Putin managed to penetrate the economic sphere and Russian business, which enabled the country to takeover the control over strategic economic sectors and deprive itself of oppositional voices such as that one of Michail Khodorkovskiy.¹⁹ Another phenomenon which is traditionally connected with Putin's power centralization is the economy being subordinate to politics. What it means is that the state strives to keep its influence in the strategic economic spheres and attempts to fight the possible internal and external competitors by creating considerable obstructions. The country's trend to limit the presence of foreign money in strategic spheres as much as possible is double-edged because Russia, as predicted now, might not be able to finance its further economic

¹⁸ Sakwa, Richard. *Putin: Russia's Choice*. London: Routledge, 2004, 73-78.

¹⁹ Orttung, R. W. "Energy and State-Society Relations: Socio-Political Aspects of Russia's Energy Wealth." In *Russian Business Power: The Role of Russian Business in Foreign and Security Relations*, by R. W. Orttung, A. Wenger and J. Perovic. Oxon: Routledge, 2006, p. 51-65.

development in the future. However, there are at least some investments made by Russia abroad. They help the country to enhance its political and economic influence.²⁰

When Putin was leaving the office in 2008 he decided to support openly Dmitriy Medvedev in the upcoming presidential election and by doing so Putin indicated the direction meant for Russia to go. By preferring Medvedev as a former board of directors member in Gazprom to other candidates, Putin unofficially confirmed the intention of the country to pursue the politicization of Russian economy on its way to a geopolitical power. It is thus obvious that, in comparison to other directions Russia has taken before, the stress was newly put mainly on principles that were advocated by supporters of geopolitics. The concept of geopolitics, dealing with the impacts of geography on the politics, is a theory that originated from the concepts of geographic determinism and social darwinism and explains the developments and current affairs in states having such geographic specifics as natural sources, high-quality soil, etc.²¹ It was geopolitics that pointed out the importance of international politics and its global character. As a theory, it supposes an analysis of geography, history and social science with reference to spatial politics and patterns at various scales which range from the national level to the international one. The latest developments in geopolitics in the context of Russia can be found in *Osnovy geopolitiki. Geopolititscheskoye buduschtccheye Rossii* by A. G. Dugin who provides a detailed view on Russia's geopolitics. Together with other political scientists Dugin discusses the recent events in the field of international politics and relations, and determines Russia's position in them. Dugin's ideas lead to a conclusion that Russia is to become a superpower disposing of great geopolitical power, and find itself on a way to become a modern empire, not a state, and, at the same time, is supposed to choose a way of geopolitical revolution, not a way of socio-political evolution. According to Dugin, Russia will become a continental geopolitical power if it wins an access to the seas in the South.²²

²⁰ Orttung, R. W. "Energy and state-society relations: socio-political aspects of Russia's Energy Wealth." In *Russian Business Power: The Role of Russian Business in Foreign and Security Relations*, by R. W. Orttung, A. Wenger and J. Perovic. Oxon: Routledge, 2006, p. 65-70.

²¹ Krejčí, Oskar. *Mezinárodní politika*. Praha: Ekopress, s. r. o., 2001, p. 507.

²² Dugin, Aleksandr. *Osnovy geopolitiki: Geopolititscheskoe budustchee Rossii*. Moscow: Arktegeya, 1997, p. 375-377.

4.3 RUSSIA AND ITS ENERGY POLICY IN THE CONTEXT OF ITS FOREIGN POLICY CONCLUSION

After the collapse of the Soviet Union the newly arisen country had hard times when it faced a severe economic depression and lost its reputation of a dreaded country. In the process of its identity search Russia stood at several crossroads. This particular uncertainty about the future development of the country, its ideological orientation, and later changes and reconsiderations of the country's political and economic focus, becomes manifested especially in the concepts of Russia's foreign policy in the 1990's. On its way to what Putin calls „sovereign democracy“, Russia has strengthened its position in the field of international politics by becoming a member state of the United Nations, World Trade Organizations, etc. Now that the ideological direction of the country has settled down and is clearer than anytime before, mainly thanks to Putin's centralization of power and politicization of the state economy, Russia, being aware of the fact that the world's attention has been turned to the East after the economic crisis, has established itself as a powerful geopolitical actor pursuing its national interests in a much more effective way. Thus, it is Putin that is associated with the birth of neo-realism in Russia as a theory that is based on a growth of non-governmental actors in international relations as well as an increase in mutual dependence between states. Since the theory of neo-realism supposes a particular structure within the political system resulting from the interaction between the states, the behaviour of individual states is determined by the system itself in which the states strive to ensure their security rather than to fulfill their possible desire for power. The interaction between the states and their self-preservation effort generate a relatively balanced structure that entitles the states to behave in a particular way. Although the power is distributed unevenly among the states and the power of the states must be examined, the system cannot do without such a distribution because only in these conditions numerous agreements are made to ensure a settlement of possible problems. Then, these conditions of one state being hurt by the other one and vice versa can guarantee peace as much as it can't at the same time.

5. THE CONCEPT OF ENERGY SECURITY

In this chapter, the concept of energy security and its possible ambiguity in the political discourse will be introduced. As it is known, the concept of the energy security is very broad and its definition is extremely arguable. The number of various definitions, which will be provided here, shows a wide range of understandings of the concept and tremendous differences in its perception.

The history of the energy security concept goes back to the times of the first oil cut-off which led to the first oil shocks in 1970's. That is why it was the U.S. as the first country that was affected by such a crisis, namely by an oil embargo, which caused the country to suffer from no oil supplies for approximately 5 months. What it indicates is that it was the importers in particular that, under such critical circumstances, had to deal with the development of energy security concept as the prices of energy sources, especially oil, jeopardized their national security, i.e. threatened their economic stability and general well-being and prosperity.²³ That is why, as a reaction to these newly emerging threats, the importing countries engaged themselves in actions such as modernization, diversification, and structural changes that were meant to prevent the national economies from being endangered repeatedly.²⁴ As the time passed, other changes followed. This time they were related to environmental aspects because the energy sources consumption was growing and was affecting the environment in a negative way. This fact brought about numerous energy consumption alterations and the first concepts of renewable sources usage. However, among these diversification plans, the atomic energy, whose „reputation“ was shattered after the Tschernobyl accident, was not very popular and thus neglected.²⁵

The complexity of energy relations can be understood better if the question is asked what actors are involved in these relations and what roles they play in them. For these purposes the work by Vladimir Prorok, a Czech associate professor working with the

²³ Prorok, Vladimír. „Energetická bezpečnost - pojetí a přístupy.“ V *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty*. Praha: Professional Publishing, 2009, p. 14-19.

²⁴ “Globalization.” *Evolving the Concept of Energy Security*. <http://www.globalization101.org/index.php?file=issue&pass1=subs&id=327#> (accessed February 5, 2011)

²⁵ Lupták, L. “Konceptualizácia energetické bezpečnosti.” In *Evropská energetická bezpečnost*, by Š. Waisová., Plzeň: Vydavatelství a nakladatelství Aleš Čeněk, 2008, p. 160-169.

Department of Political Science at the College of Economics in Prague, has been chosen. His contributive comments on gas transportation to Europe and EU-Russia energy relations will be also used for the analysis in this work. In his work called *Energy Security: Conception and Attitudes* (2009), as the title itself suggests, Prorok develops different methodological approaches to energy security, identifies the actors being involved in the energy relations, and articulates various patterns.²⁶ According to Prorok, from the energy security point of view, there are distinguished several subjects:

- a) producers (owners of the sources),
- b) distributors,
- c) consumers,
- d) other subjects such as environmental organizations, etc.

As far as the consumers' strategy is concerned, there are two strategies that can be implemented: firstly, hard power tactics which can be used only by economically and technically developed countries (USA), secondly, a way typical of the EU, i.e. soft power, which attempts to find an agreement between producers and consumers. Prorok introduces the actors' strategies and argues that each group has specific goals to pursue. Consumers are usually unified in pushing their interests, initiate constructions of alternative transportation routes, invest into alternative energy sources and protect and supervise the quality of transportation routes. Prorok adds that no matter what the agreement is like it is a result of power politics of the actors that is why both the producers and consumers strive to consolidate their positions. Thus, on the other hand, the producers act in that sense that they maintain and strengthen their monopoly, block the alternative transportation routes, strengthen their army capabilities, and undermine the consumers' unity by differential treatment.²⁷

To be able to deal with the concept of energy security it is necessary to know what is understood by the notion of security. For this very purpose it has been decided to consult Barry Buzan's work which is considered as fundamental reading in relation to security studies. In his book *Security: A New Framework for Analysis* (1997), Buzan sums up the crucial ideas of the Copenhagen School and makes a great point by

²⁶ Prorok, Vladimír. „Energetická bezpečnost - pojetí a přístupy.“ V *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty*. Praha: Professional Publishing, 2009, p. 16-17.

²⁷ Prorok, Vladimír. „Energetická bezpečnost - pojetí a přístupy.“ V *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty*. Praha: Professional Publishing, 2009, p. 16-18.

dividing the concept of security into five sectors: social, environmental, economic, political, and military.²⁸ The energy security is a part of them. The most respected and the most used definition of energy security is that one by Daniel Yergin who defines the energy security as “availability of sufficient supplies at affordable prices“.²⁹ However, as it has been already said, different countries interpret the concept differently. Those countries which export the energy sources traditionally focus on maintaining the security of demand, which ensures the revenues in national budgets. For example, Russia’s aim is to keep its control over strategic resources and gain primacy over the main pipelines. For China, for example, the energy security lies in the ability to satisfy the energy needs of its growing economy, to adjust to its new dependence on global markets and to become self-sufficient. For the EU, in energy issues, for example, now it is highly important to find a way to manage its dependence on imports of natural gas.³⁰ Yergin goes on to say that it is important to respect several principles in order to ensure energy security:

- a) it is diversification of supply for it reduces the impact of a disruption by providing alternatives,
- b) the second principle is flexibility which enables the particular country to reduce the negative consequences of energy shocks and recover from them as soon as possible, this principle includes development of strategic reserves, etc.,
- c) Yergin also mentions the recognizing the reality of integration; the oil market, for example, is only one; it is a complex and worldwide system that consumes about 86 million barrels of oil every day; for all consumers, security resides in the stability of this market,

²⁸ Buzan, B., O. Waever, a J. Wilde. *Bezpečnost. Nový rámec pro analýzu*. Brno: Centrum strategických studií, 2005, p. 5-14.

²⁹ Yergin, Daniel. *Ensuring Energy Security*. 2006. http://www.un.org/ga/61/second/daniel_yergin_energysecurity.pdf (accessed February 5, 2011).

³⁰ Yergin, Daniel. *Ensuring Energy Security*. 2006. http://www.un.org/ga/61/second/daniel_yergin_energysecurity.pdf (accessed February 5, 2011).

d) the fourth principle lies in the importance of being well informed because high-quality information makes the markets work well; another aspect of this point is the reliability of the information because spreading fears, rumors, accusations, etc. results in possible crises.

In addition to it, Yergin adds two more principles: the globalization of the energy security system and involvement of other countries in transportation of the sources and protection of these transportation routes - chains.³¹

For a comparison, there are other definitions. For example that one by Dr. David von Hippel, a senior assistant at Nautilus Institute in Eugene, Oregon, who deals with energy security and has developed and evaluated the energy security implications of different energy paths in countries such as China, Japan, etc. In his *Framework for Energy Security Analysis*, he provides a relatively extensive definition of energy security, but, at the same time, avoids some important factors³². He introduces the concept of energy security as follows:

A nation-state is secure when the fuel and energy services are sufficient to ensure:

- a) survival of the nation,
- b) protection of national welfare,
- c) minimalization of risks associated with supply and use of fuel and energy services.

The national energy policy dimensions of energy security within each of these three objectives of energy security must address economic, technological, environmental, social, and cultural and military/security-related dimensions. Energy policies must also deal with the domestic and international (regional and global) implications of each of these dimensions. Thus, national energy policies should be evaluated on the basis of each of the three basic objectives as manifested in the domestic and international

³¹ Yergin, Daniel. *Ensuring Energy Security*. 2006. http://www.un.org/ga/61/second/daniel_yergin_energysecurity.pdf (accessed February 5, 2011).

³² Hippel, von David. *Globalasia*. 1998. http://globalasia.org/pdf/issue1/Hayes,Hippel_GA11.pdf (accessed February 10, 2011).

implications of each dimension³³. This definition is very noteworthy as it also discusses the consequences beyond national borders.

Since this theory was developed by an American, it has been decided to provide another definition of energy security which includes the European perspective and was elaborated on the basis of international relations point of view. Its author, Andrei Belyi, has contributed to the definition of energy security in a significant way. In his article called *New dimensions of Energy Security of the Enlarging EU and the Impact on Relations with Russia* (Journal of European Integration), Belyi follows the ideas of the Copenhagen School, but he relates the individual sectors of energy security to the energy security. What follows from that is that, in terms of politics, the energy security means energy self-reliance (independence); within the military sector the energy security has a negligible impact; in the economic sector the energy security becomes involved in relation to political opinions based on unpredictability of the energy market; in the social and environmental sectors the energy security manifests itself in terms of environmental threats, pollutions, atomic energy security, etc.³⁴ What is important to note is that Belyi relates the energy security to geopolitics and gives an example by comparing the International Energy Agency and Organization of the Petroleum Exporting countries which both create the international geopolitical dimension, while the energy issues are a part of business relations.³⁵

5.1 RUSSIA'S CONCEPT OF ENERGY SECURITY

The Russia's energy policy is mainly based on two crucial official documents: the Energy Strategy of the Russian Federation until 2030 and the Concept of Energy Security.

³³ Hippel, von David. *Globalasia*. 1998. http://globalasia.org/pdf/issue1/Hayes,Hippel_GA11.pdf (accessed February 10, 2011).

³⁴ Belyi, Andrei. "New Dimensions of Energy Security of the Enlarging EU and their Impact on Relations with Russia." *Journal of European Integration*, Vol. 25, 2004: 351-359.

³⁵ Belyi, Andrei. "New Dimensions of Energy Security of the Enlarging EU and their Impact on Relations with Russia." *Journal of European Integration*, Vol. 25, 2004: 360-369.

According to the *Concept of Energy Security of the Russian Federation* which deals with the national energy security, the aims to ensure energy security are defined as follows. The main aim is the protection of citizens, society, and the nation from any dangers caused by both internal and external factors that might lead to a deficiency in energy sources that are necessary for maintaining an economic stability at reasonable and affordable price not only in conditions of relative economic well-being, but also in emergencies.³⁶ What is understood by ensuring energy security in a case of emergency is such a supply of energy that can prevent a) standard of living decline and worsening of health conditions; b) emergence of social conflicts; c) rapid economic decrease; d) political stability violation, etc. The energy security is also being realized by means of economic, legal, scientific and technical measures which are supposed to create satisfactory conditions for managing critical situations, for protection of interests in terms of energy resources potential, for dynamic economic growth, for abilities of authorities to react adequately and appropriately, for being able to import and export energy sources in accordance with international and internal agreements, etc.

5.2 THE CONCEPT OF ENERGY SECURITY CONCLUSION

The concept of energy security has a wide range of definitions, understandings, and is perceived differently. Prorok identifies the actors in energy relations, attributes certain roles to them, classifies their strategies, and articulates several methodological approaches to the concept. Buzan divides the concept of security into five sectors and argues that energy security is a part of them. Another aspect of energy security is discussed by Daniel Yergin who defines the principles of its preservation and adds his well-known and widely-spread definition of energy security which is characterized as *availability of sufficient supplies at affordable prices*. By providing other definitions by David von Hippel and Andrei Belyi, and the definition itself by the Russian Federation in the *Concept of Energy Security* shows the complexity of the concept, and reveals the topic's multi-paradigmaticity

³⁶ *Koncepciya energeticheskoj bezopasnosti*. <http://www.ecoteco.ru/?id=673> (accessed February 10, 2011).

as it includes aspects of social, political, and environmental character. Thus the concept of energy security may be understood, interpreted, and implemented by individual countries, actors in the energy relations, in different ways.

6. THE CONDITIONS OF THE ENERGY POLICY WITHIN THE EUROPEAN UNION

The energy issues within the European Union are dealt with in the concept of Common Security and Defence Policy (CSDP). A concept of Common Energy Policy as such does not exist that is why the bad shape of the EU in terms of energy has been often criticised, but no serious reactions to the appeal are being observed as the energy policies towards Russia are governed by bilateral agreements across the EU-member countries.³⁷ As some claim, the threat to energy security does not lie as much in Russia's energy strategies as in the EU's inability to act all as one. As frequently pointed by the Czech Republic during its EU-presidency in 2009, the EU is not unified in the questions of energy. Being aware of it, Russia benefits from that as it helps to promote its own interests inside the EU on the basis of bilateral agreements with EU-member countries, especially with those which do not see Russia as a potential threat.

6.1 THE EUROPEAN UNION ENERGY POLICY FRAGMENTATION

According to European Council on Foreign Relations audit (ECFR) which examined the EU-Russia relationship and was based on an analysis by experts in all 27 EU member states as well as on interviews with officials from the EU institutions and member states, the European Union is very fragmented when it comes to energy issues.³⁸ The report identifies several different energy policy approaches to Russia and classifies individual members of the EU according to the criterion of loyalty to Russia. The countries that are known for defending Russia in the EU are called "Trojan Horses". This group is not big as it is represented by Greece and Cyprus only. Those countries that have a good relationship with Russia are called "Strategic Partners". There are 4 countries belonging to this group: France, Germany, Italy, and Spain. The third group, "Friendly Pragmatists", consists of Austria, Belgium, Bulgaria, etc. What is typical of this group is that these countries put their business interests above their political goals and do not pay much attention to matters such as human rights violation

³⁷ Marek Neuman. *CRCEES: Centre for Russian, Central and East European Studies*. 2009. <http://assessingaccession.eu/Documents/CRCEES%20Neuman%202010-01.pdf> (accessed April 8, 2010)

³⁸ Mark Leonard and Nicu Popescu. "A Power Audit of EU-Russia Relations." *International Relations and Security Network*. November 2, 2007. <http://www.isn.ethz.ch/isn/Current-Affairs/Policy-Briefs/Detail/?lng=en&id=91773> (accessed March 15, 2010)

which is a crucial issue for the fourth group which comprises the Czech Republic, Denmark, Sweden, the United Kingdom, etc. These countries are called “Frosty Pragmatists“. Their approach to Russia is consistent as far as their values are concerned, but is generally thought to be passive. These countries start acting in a more active way when they feel their interests are being jeopardized. As a matter of fact, they have never been active enough to be able to shape the EU policies on important matters towards Russia. The last group’s name is “New Cold Warriors“. This group is represented by Lithuania and Poland as countries with traditionally hostile relations to Moscow. The insufficient unity of the EU in terms of a common energy policy is not the only problem within the energy dialogue. Another threat lies in possible decrease in gas production by Russia and possible diversification of oil exports or possible shifts in supplies to the benefit of China, India, etc. Even though the spectrum of the diversification is very wide, generally speaking, there are two main groups of states the first of which sees Russia as a potential partner being able to integrate gradually into the EU principles and norms. The other group of states advocates the opinion that Russia is a threat.

6.2 THE POSSIBLE EUROPEAN UNION ENERGY POLICY DEVELOPMENTS

To give a better picture of what the possible scenarios for the energy sector are like, it has been decided to make an overview of what the main possible developments are. As Marek Neumann outlines in his study³⁹, the ideal solution would be a common European Energy Policy (EEP) that would unify the EU-member states’ energy interests, which would lead to a creation of common approach towards the Russian Federation. Secondly, there might be no further developments within the energy sector, meaning that the energy relations between Russia and individual member states would be determined by bilateral agreements and, thus, would stay on the same level. Another scenario considers the idea of the EU’s energy interests expansion towards those third countries which are interested in cooperation with the EU. Some efforts related to this idea can be already seen in the joint Nabucco pipeline construction project, but what still plays a great role is the extent to which Russia would be incorporated into this

³⁹ Marek Neuman. *CRCEES: Centre for Russian, Central and East European Studies*. 2009. <http://assessingaccession.eu/Documents/CRCEES%20Neuman%202010-01.pdf> (accessed April 8, 2010).

newly emerging relations. Finally, there is a possibility of the EU becoming a nuclear energy power station that would be governed by common European Nuclear Energy Policy. However, this is not likely to happen as the implementation of such a project would be conditioned by the EU-member states consensus on the very sensitive question of atomic energy usage and the communication of the idea to Russia. The insufficient unity of the European Union has been pointed out many times so far. Basically, the EU member states can be divided into those which are self-sufficient in terms of gas and oil production (Belgium, the Netherlands, the UK), and to those which are dependent on imports of natural gas and oil from abroad.

As a reaction to the current affairs in energy issues, in November 2010 a new legal framework was created when the new Regulation concerning measures to ensure security of gas supply was published in the Official Journal of the EU and entered into force in December, 2010.⁴⁰ Actually, this document is based on the lessons drawn from the Russia-Ukraine gas crisis in January 2009 and should strengthen the prevention and crisis response mechanisms. In accordance with the Regulation, the member states are encouraged to act as follows: to identify risks to security of gas supply through the establishment of a risk assessment; to establish preventive action plans and emergency plans to address the risks identified; ensure gas supplies to households and a range of protected customers for at least 30 days under severe conditions; to deal effectively with any major gas disruption; to create transparency of all emergency measures and public service obligations relating to security of gas supply and enhance exchange of information on gas contracts; to allow the market players, i.e. gas suppliers and transmission system operators, to secure supplies for as long as possible and ensure that the right measures are taken by the competent authorities of the member states, in a coordinated way at regional and EU levels, in case market measures alone are no longer sufficient, etc.

⁴⁰ *Euroactiv*. December 2010. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:295:0001:0022:EN:PDF> (accessed February 10, 2011).

6.3 THE CONDITIONS OF THE ENERGY POLICY WITHIN THE EUROPEAN UNION CONCLUSION

It is obvious that the EU's energy policy towards Russia is not unified and any steps taken in order to change the current situation within its structures cannot be considered as highly effective. Even though there exist possible scenarios of further development, the EU hardly finds a common denominator in energy issues as the EU member states energy relations are treated within individual bilateral agreements between the specific member state and Russia. Thus, the relations between the member states and Russia differ as well as the extent of their natural gas dependence on Russia. However, certain steps have been taken in the form of a regulation concerning security of natural gas supply to Europe to prevent such crises as that one of 2009.

7. THE NATURAL GAS AS A COMMODITY

This chapter will deal with the role of natural gas on the world energy market and will provide factual and statistical data overview of natural gas pipelines bringing natural gas from Russia to Europe, and its capacities. As it has been mentioned before, it is oil that is considered to be the main energy source while natural gas plays a role of a substitute. This fact makes the natural gas to come in the “second place“, right after oil, which has an impact on its price. That is why the energy market is governed by a principle of “the higher price of oil the higher the price of gas“.

7.1 THE CONSUMPTION AND PRODUCTION OF NATURAL GAS

The world consumption of natural gas is growing. Exact data on its production as well as on its consumption differ significantly as there exist different measure and evaluation methods and, at the same time, the probability of the fact that producers and consumers misuse the data as well as various energy surveys and studies for their own purposes is very high. That is why it is necessary to pay a special attention to the selection of sources used and constantly prove their reliability. In this thesis there will be a use made of the data available mainly at the *Energy Information Administration* webpage: www.eia.doe.gov, and the *World Factbook* webpage: www.cia.gov, known as the *CIA World Factbook*, which is provided by the Central Intelligence Agency of the United States (CIA). Other sources will include official webpages devoted to certain projects or constructions of pipelines.

According to the latest data, the largest reserves of natural gas can be found in the following countries:

Table 1.⁴¹

The World Natural Gas Reserves

Rank	Country	Natural Gas Proven Reserves (m³)	Date of Information
1	Russia	180,650,000,000,000	January, 2009
2	Iran	33,100,000,000,000	January, 2009
3	Qatar	25,260,000,000,000	October, 2010
4	Turkmenistan	7,940,000,000,000	January, 2009
5	Saudi Arabia	7,319,000,000,000	January, 2009
6	United States	6,731,000,000,000	January, 2009
13	China	2,460,000,000,000	January, 2009
16	Norway	2,313,000,000,000	January, 2009
17	European Union	2,259,000,000,000	January, 2009
-	World	180,650,000,000,000	January, 2009

As it is obvious, Russia disposes of the largest natural gas reserves in the world. Other prominent countries were listed to indicate their position on the world natural gas reserves scale. The European Union's natural gas sources are mainly represented by countries such as the Netherlands, the United Kingdom, Italy, Germany, Spain, Romania, Poland, Denmark, etc. The largest reserves of natural gas in Europe are found in the territory of Norway.

⁴¹ EIA. <http://www.eia.doe.gov/naturalgas/data.cfm> (accessed March 3, 2011).

Table 2.⁴²**World Natural Gas Production**

Year	Natural Gas Production (m³)	Percent Change	Date of Information
2004	2,578,000,000,000		
2005	2,637,000,000,000	2.29 %	2001
2006	2,674,000,000,000	1.40 %	2003
2007	2,822,000,000,000	5.53 %	2004
2008	3,021,000,000,000	7.05 %	2007

The table shows a tremendous growth in world natural gas production as a result of an increasing demand. The amount of produced natural gas on the world energy market is represented by about 500,000,000,000 m³, which is a growth as high as 7% within a four years' period of time from 2004 to 2008.

Table 3.⁴³**Natural Gas Production – Countries**

Rank	Country	Natural Gas Production (m³)	Date of Information
1	Russia	656,200,000,000	January, 2009
2	United States	490,800,000,000	January, 2009
3	Canada	178,200,000,000	January, 2009
4	Iran	101,000,000,000	January, 2009
5	Algeria	84,400,000,000	January, 2009

⁴² EIA. <http://www.eia.doe.gov/naturalgas/data.cfm> (accessed March 3, 2011).

⁴³ EIA. <http://www.eia.doe.gov/naturalgas/data.cfm> (accessed March 3, 2011).

The biggest natural gas producer is Russia. At the same time, Russia is the biggest natural gas exporter delivering significant amounts of natural gas to customers in the Commonwealth of Independent States, in countries of the EU, as well as Turkey, Japan, and other Asian countries.

Table 4.⁴⁴

World Natural Gas Consumption

Year	World Natural Gas Consumption	Percent Change	Date of Information
2004	2,555,000,000,000		2001
2005	2,599,000,000,000	1.72 %	2001
2006	2,675,000,000,000	2.92 %	2003
2007	2,819,000,000,000	5.38 %	2004
2008	3,198,000,000,000	13.44 %	2007

As shown in the table number 2, the production is growing, but the consumption, as it can be seen in table number 4 is growing even faster. Within a four years' period of time from 2004 to 2008 the consumption has increased by 13.5% and is supposed to grow more.

⁴⁴ EIA. <http://www.eia.doe.gov/naturalgas/data.cfm> (accessed March 3, 2011).

Table 5.⁴⁵**Natural Gas Consumption – Countries**

Rank	Country	Natural Gas Consumption (m³)	Date of Information
1	Russia	610,000,000,000	2009
2	United States	604,000,000,000	2009
3	Iran	98,190,000,000	2009
4	Germany	98,840,000,000	2009
8	Italy	82,640,000,000	2009
-	European Union⁴⁶	505,400,000,000	2007

According to the table number 5, Russia and the United States are considered to be the biggest consumers of natural gas. The data on the extent of their consumption vary and are strongly dependent on the type of the information source. It is also necessary to notice the fact that the amount of natural gas consumed and exported by Russia does not match with the amount of its production. This phenomenon is caused by Russia's purchasing the natural gas from other extraction companies in Asia and selling it and distributing it further at different prices. The biggest consumers within the EU, as the table shows, are Germany and Italy. The European Union as a whole is the third biggest consumer of natural gas in the world.

The tables have been included in order to provide a picture of what the world natural gas production and consumption are like and in order to indicate Russia's exclusive and dominant position on the natural gas market, and, on the other hand, to show the EU's natural gas dependence on the Russian Federation. These facts are important to consider in connection to the relation between economics and geopolitics that will be discussed

⁴⁵ EIA. <http://www.eia.doe.gov/naturalgas/data.cfm> (accessed March 3, 2011).

⁴⁶ Eurogas. *Natural Gas Consumption in EU 27*. 2008. <http://www.eurogas.org/uploaded/08P141%20-%20Press%20release%20on%20Evolution%20of%20Gas%20Consumption%202007.pdf> (accessed March 3, 2011)

later on in this work. According to EuroActiv,⁴⁷ 40 %, of the EU's gas imports originate from the Russian Federation. 30 % originate from Algeria and 25 % of gas imports to the EU come from Norway. The data based on the *Commission Green Paper* on security of energy supply (published in 2000) predicts that the EU's dependence will climb to 70% in 2030 if no other alternatives of natural gas supply are considered.

7.2 THE NATURAL GAS PIPELINE SUPPLYING EUROPE WITH NATURAL GAS

The existing system of pipelines providing Europe with the natural gas was built up at the end of 1950's. This network was meant to distribute oil and natural gas among the Soviet republics and the former COMECON countries. The pipelines served both as a connection between the Soviet Union and other satellite countries, which was to deepen the dependence on the USSR on one hand, and as an important financial means bridge between the West and the East, which was to create the first germ of interdependence on the other one. The first imports started as early as in the 1960's and were based on bilateral agreements that had been made by countries such as France, Italy, etc. for a period as long as 20 years. The first non-communist country to have received natural gas from Russia was Austria in the 1960's.

The modern relationship between the EU and Russia in terms of the natural gas transportation has witnessed several turning points. In 1991, the relationship was to be treated by the obligations specified in the *Energy Charter Treaty*. The charter was signed by more than 30 European countries, but Russia refused to do so. In 1997, a document called *Partnership and Cooperation Agreement* was to regulate the relationship in terms of economic cooperation. In 2000, *Energy Dialogue*, as another stage of EU-Russia interaction in the field of energy issues, was launched.⁴⁸ Even

⁴⁷ Euroactiv. *The Dependence of the EU on Russian Gas*. 2009. <http://www.euractiv.com/en/energy/geopolitics-eu-energy-supply/article-142665> (accessed March 3, 2011).

⁴⁸ Kuchyňková, Petra. „Vývoj vztahů Ruské federace a Evropské unie v kontextu problematiky energetické bezpečnosti.“ Dissertation, Brno, 2010.

though it celebrated its 10th anniversary in 2010, there has not been achieved much as the *Energy Charter Treaty* has not been ratified by Russia yet. Obviously, the European investments on the Russian energy market are not still worth Russia's attention. Seemingly, Russia expects positive developments in relation to China and India and sees new possibilities of revenues on different energy markets.

Russia's position of providing the EU with natural gas is basically unshakeable and the EU's dependence on external natural gas imports is expected to grow and is forecast to reach an extent of up to 80% in 2020, which will strengthen the role of Russia as a natural gas supplier on the energy market.⁴⁹ The predicted growth will be a natural consequence of both bigger natural gas consumption, termination of some currently used natural gas deposits in the Nord Sea, the EU's enlargement by other countries, and possible aversion towards the nuclear energy in Europe as an environmentally unfriendly substitute for natural gas.

There are two main natural gas pipelines originating in the Russian territory bringing natural gas to Europe: Yamal-Europe natural gas pipeline and the Brotherhood natural gas pipeline.

Table 6.⁵⁰

Yamal-Europe Natural Gas Pipeline

Originating in – Terminating in	Transit Countries	Capacity (m³/per year)
Russia – Germany	Russia, Belarus, Poland, Germany	33,000,000,000

The construction of **Yamal-Europe** natural gas pipeline started in 1994 and was finished in 1996. The construction in German territory was carried out by a German

⁴⁹ Euroactiv. *The Dependence of the EU on Russian Gas*. 2009. <http://www.euractiv.com/en/energy/geopolitics-eu-energy-supply/article-142665> (accessed March 3, 2011).

⁵⁰ OAO Gazprom. <http://www.gazprom.ru/> (accessed March 4, 2011).

Company Wintershall-WINGAS, by Gazprom and EuRoPol in Poland, and by Gazprom in Belarussian territory.⁵¹

Table 7.⁵²

The Brotherhood Natural Gas Pipeline

Originating in – Terminating in	Transit Countries	Capacity (m³/per annum)
Russia – Germany/Italy	Russia, Ukraine, Slovakia, the Czech Republic/Austria, Germany/Italy	44,000,000,000

The **Brotherhood natural gas pipeline** is the second major pipeline providing Europe with natural gas. It consists of three parts. The first one, called Brotherhood, starts in Western Siberia and joins Soyuz pipeline in the region of Ural and continues via Ukraine to the Slovak capital Bratislava where it divides into a stream leading to the Czech Republic and Germany, and to a stream going via Austria to Italy where it terminates.

⁵¹ *OAO Gazprom*. <http://www.gazprom.ru/> (accessed March 4, 2011).

⁵² *OAO Gazprom*. <http://www.gazprom.ru/> (accessed March 4, 2011).

The Picture shows the main natural gas pipelines originating from Russia and going to Europe:

Picture 1.⁵³

Russian Natural Gas Pipelines to Europe



7.3 THE PLANNED NATURAL GAS PIPELINES

In connection with growing consumption of natural gas in Europe and worldwide there have appeared projects introducing ideas of constructing new pipelines in order to ensure sufficient gas deliveries among the EU member states and other European countries. The urge to diversify the energy sources is not a one-sided initiative. The need to have other energy sources for the safety's sake comes from the EU's side, while the need to have more customers of more diverse character is a part of Russia's diversification plans.

The **Nord Stream pipeline**, which [www. gazprom. ru](http://www.gazprom.ru) describes as a completely new pipeline providing Europe with abundant amount of natural gas, is currently being built.⁵⁴ On the list of major customers that will benefit from the pipeline there are countries such as Germany, Great Britain, Denmark, the Netherlands, France, etc. For

⁵³ Wikipedia-Picture. 2007. http://en.wikipedia.org/wiki/List_of_natural_gas_pipelines (accessed March 5, 2011).

⁵⁴ OAO Gazprom. <http://www.gazprom.ru/> (accessed March 4, 2011).

the next decade it has been forecast that the consumption of gas in the EU will grow by 200,000,000,000 m³, which means nearly by 50 %. The Nord Stream pipeline should satisfy a half of this deficit, i. e. 25 % of the future demand, and should guarantee a sustainable growth and security because the risks of possible delivery disputes are to be significantly reduced as the transit countries will be excluded from the transportation process, as the picture provided below shows. The pipeline will be 1224 kilometres long and should be built mainly by Gazprom (51%), by German companies Wintershall Holding, E.ON Ruhrgas, by a Dutch company N. V. Nederlandse Gasunie and Suez S. A. and is supposed to be finished in 2012. The capacity of it will secure more than 50,000,000,000 m³ of natural gas for Europe in the future.⁵⁵

Picture 2.⁵⁶

The Nord Stream Pipeline



The **South Stream** natural gas pipeline, as well as the Nord Stream, also, should reinforce the energy security in Europe and cover the predicted consumption of natural gas in the future. The South Stream project is also one of the Gazprom's attempts to diversify the natural gas deliveries to Europe. This pipeline will be 900-1,000 kilometres long and will be laid at the bottom of the Black Sea and should provide approximately 63,000,000,000 m³ of natural gas every year.⁵⁷ Once the Russian

⁵⁵ *Nord Stream*. <http://www.nord-stream.com/en/> (accessed March 5, 2011).

⁵⁶ *Vzniku plynovodu předcházejí odstřezy nevybuchlé munice*. 2010. <http://www.enviweb.cz/clanek/energie/84417/vzniku-plynovodu-predchazeji-odstrezy-nevybuchle-munice> (accessed March 5, 2011).

⁵⁷ *South Stream*. <http://south-stream.info/?L=1> (accessed March 5, 2011).

territory and the territory of Bulgaria are connected with the pipe, there are two possible directions being considered. One of them could lead from Bulgaria through Serbia to Hungary and terminate in Austria, while the other one could transport natural gas through Greece to Italy. In the period of time from 2008 to 2010, the conditions of the project realization were accepted by Bulgaria, Serbia, Hungary, Austria, and Italy as countries taking part in the pipeline construction. However, the major portion of work on the pipeline (up to 50%) is planned to be done by the Gazprom company. The work should be completed by the year of 2015.⁵⁸

Picture 3.⁵⁹

The South Stream Pipeline



Another alternative of diversifying the natural gas supplies is the **Nabucco pipeline** project. According to www.nabucco-pipeline.com, this project is estimated to cost approximately € 7,9 billion and is regarded as the largest European infrastructure project in terms of the number of countries involved. The pipeline is planned to be 3,900 kilometres long and annually should secure supplies as large as 31,000,000,000 m³. The construction of the pipeline should begin in the year of 2012 and is supposed to be finished and able to operate fully in 2015. Nabucco pipeline will transport natural gas from the east of the Turkish territory, will continue to Austria, crossing Bulgaria, Romania, and will terminate in Hungary.⁶⁰ In comparison to the Nord Stream pipeline

⁵⁸ *OAQ Gazprom*. <http://www.gazprom.ru/> (accessed March 4, 2011).

⁵⁹ *Allrussias*. http://www.allrussias.com/essays/hobley_diss_15.asp (accessed March 5, 2011).

⁶⁰ *Nabucco Pipeline*. <http://www.nabucco-pipeline.com/portal/page/portal/en/press/Facts%20Figures> (accessed March 5, 2011).

and South stream pipeline the Nabucco project does not involve any Russian company and is based on cooperation among the EU member states only. However, the joint venture brings other countries into play such as Turkey. The shareholders are a Bulgarian company Bulgarian Energy Holding, a Turkish company Botas, a Hungarian company MOL, an Austrian company ÖMV, a German company RWE, and a Romanina company Transgaz.⁶¹

Picture 4.⁶²

The Nabucco Pipeline



Table 8.

The Estimated Pipeline Costs Overview

Pipeline	Costs
Nord Stream	€ 8 billion ⁶³
South Stream	€ 19 billion to € 24 billion ⁶⁴
Nabucco	€ 8 billion ⁶⁵

⁶¹ *Nabucco Pipeline*. http://www.nabucco-pipeline.com/portal/page/portal/en/press/Facts%20_Figures (accessed March 5, 2011).

⁶² *Nabucco Pipeline*. http://www.nabucco-pipeline.com/portal/page/portal/en/press/Facts%20_Figures (accessed March 5, 2011).

⁶³ *Nord Stream*. <http://www.nord-stream.com/en/> (accessed March 5, 2011).

⁶⁴ *South Stream*. <http://south-stream.info/?L=1> (accessed March 5, 2011).

⁶⁵ *Nabucco Pipeline*. http://www.nabucco-pipeline.com/portal/page/portal/en/press/Facts%20_Figures (accessed March 5, 2011).

The table shows the approximate construction costs. Even though the data differ, the extent of financial means needed for Nabucco pipeline construction is comparable to that one of the Nord Stream pipeline. The South Stream pipeline is the most expensive one.

Yamal II was another way of diversifying the imports of Russian natural gas to the EU. The idea was being considered in 2007 when the plan to make a new pipeline starting in Belarus, and going through Poland to Slovakia was introduced. This idea was mainly supported by Belarus and Poland and seemed to be extremely advantageous as the estimated length of the pipeline was only 700 kilometres and was supposed to provide approximately 10,000,000,000 m³ per year.⁶⁶ Since transporting gas via „problem“ transit countries is not a priority for both Russia and the EU, and a tendency to avoid a large number of transit countries as much as possible when bringing gas to Europe can be seen, the project has become unpopular and is not considered as a reasonable solution to the current energy supplies problems. The Yamal II pipeline can be seen in the picture number 1.

7.4 THE NATURAL GAS AND RUSSIA'S ECONOMY

In the late 1990's Russia was having difficult times as it was going through an extensive economic and financial crisis. After Vladimir Putin became the President in 2000, there were made many political and economic reforms which helped the country to break out of the economic depression. Although the results were not so striking, the Russian economy has become stronger and finally reached a growth as high as 8% GDP in 2009.⁶⁷ However, what is alarming is the fact that the economic growth had to do mostly with the oil and natural gas extraction which are still the core of Russia's seeming prosperity. Seemingly, one of the biggest challenges for Russia in the future is the diversification of its economy. For example, the national budget comprises up to

⁶⁶ Nicola, Stefan. *Belarus Lobbies for Yamal II*. http://www.spacewar.com/reports/Analysis_Belarus_lobbies_for_Yamal_2_999.html (accessed March 7, 2011).

⁶⁷ CIA. <https://www.cia.gov/library/publications/the-world-factbook/> (accessed March 3, 2011)

40% of oil and natural gas extraction incomes, which is approximately 25% of Russia's GDP, and nearly 60% of incomes originating from the export of the energy sources.⁶⁸

From the analysis based on official conceptual documents of Russian Federation such as the *Foreign Policy Concept of the Russian Federation*, the *Energy Strategy of the Russian Federation until the Year of 2030*, the *Energy Security Concept*, etc. it follows that Russia strives to reestablish itself as political and economic power in order to be able to influence the international politics on the global scale. Russia declares that the country disposes of large energy sources reserves that serve as the basis for its further economic development as well as its instrument for both internal and external political purposes.⁶⁹ The control over the domestic energy market as well as other energy obligations are mainly carried out by the Ministry of Energy of the Russian Federation that is responsible for realization of a wide range of objectives such as supporting the internal energy market companies as well as helping and promoting the Russian energy companies abroad.

7.4.1 NATURAL GAS EXTRACTION COMPANIES IN RUSSIA

Since the number of natural gas extraction companies is relatively large, the attention will be paid mainly to Gazprom as a significant representative of the Russian energy market which plays the most prominent role both on the national and the international levels. Among those extraction companies that are also regarded to be of a notable importance there are Lukoil and Rosneft. However, it is Gazprom that disposes of a monopolous position in many respects. For example, the company keeps control over all the gas pipelines in Russia and is responsible for about 90% of the natural gas production in the Russian territory.⁷⁰ No wonder, Gazprom's contributions to the

⁶⁸ Balabán, M. "Zahraniční a bezpečnostní politika Ruské federace v závěru první dekády 21. století a její předpokládaný vývoj." *Vojenské rozhledy*, Vol.16, No 2, 2008.

⁶⁹ "Energetičeskaya strategiya na period do 2030 goda." *Ministry of Energy of the Russian Federation*. <http://www.ipng.ru/uf/EnergyStrategy2030.pdf> (accessed December 10, 2010).

⁷⁰ *OAO Gazprom*. <http://www.gazprom.ru/> (accessed March 4, 2011).

Russia's national budget in form of tax is tremendous and is alleged to make up to 25%.⁷¹ The strength of this colossus lies in several facts. Firstly, as far as the domestic prices are concerned, Gazprom keeps them low, which enables the company to sustain its strategic influence on the domestic energy market. Secondly, as Johnson claims, Gazprom buys gas from independent extraction companies and sells it to other consumers at higher prices.⁷² Such a concept is ridiculous if it is taken into consideration the following facts: firstly, the consumption on both domestic and external energy markets is growing, secondly, the production is decreasing as a result of outdated infrastructure, finally, Russia's tends to increase the amount of its exportation (China, India) and the number of its transportation obligations (Nord Stream and South Stream pipelines construction). The current system is obviously untenable and thus condemned to fail.

The holding Gazprom unifies approximately 100 companies in which Gazprom has a majority share and keeps a control over the gas supply infrastructure. Its tendency to penetrate the European energy market is obvious and, for example, can be evidenced by Gazprom's share in the Hungarian MOL company which is to take part in the Nabucco pipeline construction.⁷³ Gazprom's domestic customers are mostly unreliable companies and consumers whose financial conditions do not always allow them to pay in accordance with the terms that were set up in the contracts. That is why, what Gazprom builds on, is the revenue that comes from the consumers in Europe. This income is estimated to comprise up to two thirds of Gazprom's total revenue.⁷⁴ Within the EU-Russia energy relations, it is not only the price of gas that is highly subsidized, but also Gazprom's reluctance to invest into the existing infrastructure that terrifies and, at the same time, jeopardizes the EU. The existing natural gas pipelines are aging and need to be repaired. Also, there is a need to develop and modernize existing oil and natural gas extraction plants in order to satisfy the demand for these energy sources both in Europe and Asia.

Table 8.

⁷¹ CIA. <https://www.cia.gov/library/publications/the-world-factbook/> (accessed March 3, 2011)

⁷² Johnson, D. "EU-Russia Energy Links: A Marriage of Convenience?" *Government and opposition*, Vol. 40, No 2, 2005.

⁷³ Kuchyňková, Petra. „Vývoj vztahů Ruské federace a Evropské unie v kontextu problematiky energetické bezpečnosti.“ Dissertation, Brno, 2010.

⁷⁴ Johnson, D. "EU-Russia Energy Links: A Marriage of Convenience?" *Government and opposition*, Vol. 40, No 2, 2005.

The Overview of Natural Gas Extraction Companies

Name of the Company	Founded in the Year of	Place of Natural Gas Extraction	Shared by	Other Facts
Gazprom ⁷⁵	1989	Gulf of Ob in Yamalo-Nenets Autonomous District in Western Siberia and Yamal Peninsula.	Russian Federal Agency for Federal Property Management (38 %); Gazprombank (41%); Rosneftegaz (11%); Gerosgaz (3%); others.	The biggest extractor of natural gas in the world and an owner of the largest gas transmission system in the world. It produces 549.7 billion m ³ of natural gas annually. Gazprom's activities make up 10% of the Russian GDP. ⁷⁶
Lukoil ⁷⁷	1991	Western Siberia, Urals, Bolshekhetskaya Depression, Kazakhstan, Uzbekistan, Azerbaijan, and the Caspian region.	Vagit Alekperov (20%), Leonid Fedun (9%), ConocoPhillips (20%), Yamal Development LLC (51%); Arctic Russia B. V.	Oil and gas company. The largest producer of oil in Russia. Lukoil owns significant oil refining capacities both in Russia and abroad.
Sever-Energo ⁷⁸	Founded as Enineftegaz in 1998	Yamalo-Nenets region	Gazprom (51%), Italian companies (49%): Eni (60%), Enel (40%)	Founded on the basis of former assets of Yukos. Produced natural gas is purchased by Gazprom.
Itera	Founded	Yamalo-Nenetskiy	Gazprom	Based in

⁷⁵ OAO Gazprom. <http://www.gazprom.ru/> (accessed March 4, 2011).

⁷⁶ CIA. <https://www.cia.gov/library/publications/the-world-factbook/> (accessed March 3, 2011)

⁷⁷ LUKOIL. <http://www.lukoil.ru/> (accessed March 5, 2011).

⁷⁸ Sever-Energo. <http://www.sever-energo.ru/> (accessed March 5, 2011).

(International Telecommunications Education and Research Association)⁷⁹	in 1992, started to deal with natural gas in 1994.	Autonomous District and Irkutskaya District	(51%), Itera (49%)	Netherlands Antilles; headquarters in Moscow; its legitimacy has been questioned in connection to numerous scandals.
Novatek⁸⁰	1994	Yamal-Nenets District in Western Siberia	Leonid Mikhelson (27%), Gennady Timchenko (23%), Gazprom (10%), Gazprombank (9%)	Russia's largest independent natural gas producer after Gazprom.
Rosneft⁸¹	1993	Sakhalin island, Siberia, Timan-Pechora field	Rosneftegaz (75%), RN-Razvitie (9%), Sberbank of Russia (13%)	After purchasing assets of Yukos, the company became Russia's oil and natural gas extraction and refinement leader.
Sakhalin⁸² Energy Investment Company Ltd.	1991	Sakhalin	Gazprom (50%), Shell Sakhalin Holdings B.V. (28%), Mitsui Sakhalin Holdings B.V. 13(%)	Is a consortium dealing mainly with production and exporting oil and LNG.

⁷⁹ *Itera*. <http://www.itera.ru/isp/eng/> (accessed March 5, 2011).

⁸⁰ *NOVATEK*. <http://www.novatek.ru/rus/> (accessed March 5, 2011).

⁸¹ *ROSNEFT*. <http://www.rosneft.ru/> (accessed March 6, 2011).

⁸² *Sakhalinenergy*. <http://www.sakhalinenergy.com/en/> (accessed March 6, 2011).

			Diamond Gas Sakhalin (10%)	
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The table above provides an overview of the most prominent natural gas extraction companies operating mainly on the Russian energy market and making a use of Russia's energy sources. The data show the extent to which the companies are interrelated and what the state's share in them is like. Some of the companies do not deal with the natural gas production as their main business.

The natural gas production in Russia was decreasing until the year of 2000. The fall in the production, which led to a situation later on referred to as a geopolitical disaster, was accompanied with inefficient investments and wasteful extraction. Even after Putin's coming to office there were not many changes as far as the extraction and pipeline infrastructure investments and repairs is concerned. The infrastructure is outdated which has a negative impact on rentability of the production. Moreover, Russia's economy consumption rate is much higher in comparison to other developed economies, the transportation efficiency is underestimated, and the sphere of renewable sources is not fully appreciated.⁸³ Moreover, according to its recent activities, Gazprom does not seem to be changing its policy in terms of foreign investments that would liberate the company from the state governance. On the contrary, as it can be evidenced by some of the recent events, Gazprom buys shares in foreign companies operating on the Russian energy market in order to monopolize its position. As an example, in September 2010 Gazprom decided to double imports of natural gas from Azerbaijan to pursue the strategy of "the more gas Russia imports the less can be imported by the others to Europe". When taken into consideration the time of Gazprom's doubling the imports, this example can be understood as a reaction to the Nabucco pipeline project which is a pain in the neck for Russia.

⁸³ Málek, T. "Pohled Ruské federace na energetickou politiku." *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty, Praha, Professional Publishing., 2009: 225-235.*

7.5 NATURAL GAS AS A COMMODITY CONCLUSION

Even though the data on natural gas reserves, its production, and consumption might slightly differ, it is obvious that Russia comes in the first place in the global ranking in many respects, i.e. reserves, production, consumption, and export of natural gas. On a global scale both the production and consumption are growing, while the latter shows a faster pace. Since 40% of natural gas originate from Russia, the dependence of the EU on Russian gas is apparent and is supposed to become even more significant if any diversification ideas of natural gas supplies to Europe are not considered. As a consequence of growing consumption of natural gas in Europe and the fact that the capacity of the existing Brotherhood and Yamal-Europe pipelines do not satisfy the natural gas demand increase, there have been introduced four main natural gas pipeline construction projects that are to cover the demand. Three of these projects, the Nord Stream pipeline, the South Stream pipeline, and Yamal II pipeline count on Russia's natural gas reserves, while one of them, the Nabucco pipeline project excludes Russia both as a supplier and a shareholder, and replaces the biggest natural gas provider with Azerbaijan, Turkmenistan, and Iraq. The South Stream pipeline as well as the Nord Stream pipeline projects, bypassing Ukraine and Belarus, were initiated and mainly funded by Russia with Gazprom's share ratio of 50% as minimum.

After Vladimir Putin became the President of The Russian Federation, Russia became aware of its possible geopolitical influence on the international politics much more than before. The country managed to break out of the economic depression in the 1990's and has become stronger both economically and politically. However, it is the production and exportation of natural gas and oil incomes that the Russian national budget is mainly dependent on, which makes Russian government to keep a control over the domestic and external extracting companies with Gazprom as a shareholder in numerous businesses and projects, in order to pursue its national interests in the field of energy issues and in order to monopolize the energy market both on the domestic and on the international levels as it is openly declared in the official conceptual documents of the Russian

Federation. The vision of an unbeatable geopolitical power seems to blind Russia in terms of its efforts to earn as much as possible without considering the possible harms such an approach can bring about in respects to Russia's poor technical capability to satisfy the growing demand for natural gas.

8. RUSSIA'S ENERGY POLICY TOWARDS THE TRANSIT COUNTRIES (UKRAINE, BELARUS)

It is not the only aim of this chapter to deal with the Russia's policy towards the transit countries, but also to provide a brief introduction of the Energy Charter Treaty as it is a crucial document in relation to energy issues, and, also as it is a document which includes the Energy Charter Transit Protocol setting up the energy sources transit conditions. Since it is the EU-Russia energy dialogue that this work is devoted to, only Belarus and Ukraine as the crucial transit countries in transportation natural gas to Europe will be discussed here.

8.1 THE ENERGY CHARTER TREATY

The general energy relations between countries are treated in the Energy Charter Treaty whose roots date back to a political initiative introduced in Europe in the early 1990's, at a time when the end of the Cold War led to an unprecedented opportunity to overcome previous economic and political divisions.⁸⁴ There was no other sphere where the prospects for mutually beneficial cooperation would be as much promising as in the energy sector. On the basis of these considerations and politically appropriate circumstances, the Energy Charter was born. It was widely recognized that only a system of rules can provide a more balanced and efficient framework for international cooperation. Therefore the the Charter plays an important role as a part of international efforts to create a legal foundation for energy security that is supposed to be based on principles of open, competitive markets and sustainable development. The Energy Charter Treaty and the Energy Charter Protocol on Energy Efficiency and Related Environmental Aspects were signed in 1994 by countries worldwide and entered into legal force in 1998. The Treaty was developed on the basis of the 1991 Energy Charter.⁸⁵ The difference between these two documents lies in the fact that while the Treaty has got a character of a legally binding multilateral instrument, the Energy Charter was only a document declaring an intention to promote cooperation in energy issues. Thus the major purpose of the the Treaty is to strengthen the rule of law that

⁸⁴ *Energy Charter*. <http://www.encharter.org/> (accessed March 10, 2011).

⁸⁵ *Energy Charter*. <http://www.encharter.org/> (accessed March 10, 2011).

must be respected by all the states bound to participate, which should lead to a reduction of energy-related risks. As far as the transit of energy sources is concerned, the transit provisions in the Treaty oblige the signatory states to follow the principles that were set up by WTO in General Agreement on Tariffs and Trade (GATT). These principles of transit are to facilitate transit of energy sources on a non-discriminatory basis. In 1999, there started negotiations on a protocol that was later named as Energy Charter Transit Protocol. There appeared some issues in the course of the negotiations as it became clear that Russia conditioned signing the protocol by its accession to the WTO. When the EU and Russia reached a consensus on the terms of Russian WTO accession, the negotiations were restarted and a common agreement was reached. As the preamble to the Transit protocol says, among others, the document is to acknowledge the importance of open energy markets, access to energy transport facilities, as well as security of energy supply, and is to promote principles of secure, efficient, uninterrupted transit.⁸⁶

8.2 THE ROLES OF THE ACTORS WITHIN THE NATURAL GAS TRANSPORTATION PROCESS

In fact, there are three participants in the energy production-consumption relation: the producer, the transit country, and the customer. Those countries which export the energy sources traditionally focus on maintaining the security of demand as it brings money and ensures revenues in national budgets. Russia's aim to keep its control over strategic resources and gain primacy over the main pipelines is a good example. As far as the consumers are concerned, Prorok argues that consumers are usually unified in pushing their interests, initiating constructions of alternative transportation routes, investing into alternative energy sources, and protecting and supervising the quality of transportation routes and pipelines constructions.⁸⁷

⁸⁶ *Preamble to Energy Charter*. 2003.

http://www.encharter.org/fileadmin/user_upload/document/CC251.pdf (accessed March 10, 2011).

⁸⁷ Prorok, Vladimír. „Energetická bezpečnost - pojetí a přístupy.“ V *Nadace ČEZ: Energetická bezpečnost, Geopolitické aspekty*, Praha: Professional Publishing, 2009, p. 34-40.

According to Elena Rakova from Belarusian Institute for Strategy Studies who deals with the problems of Belarus and Ukraine as transit countries, transit and supply of natural gas in the transit countries are two different things. The transit of energy resources is governed by international agreements and the transit countries are supposed to act in a competitive way and to oblige themselves to improving and protecting their competitiveness.⁸⁸ In accordance with the Energy Charter, all the positives of the advantage of being a transit country must not be misused. Rakova adds that even though each country has the right to diversify their energy sources in accordance with their political, economic, and geographical conditions, energy diversification as such does not necessarily have to mean leaving Russia out of the list of natural gas suppliers. On the other hand, suppliers have also the right to deal with the idea of diversification bearing in mind its profits from energy sources production, effectiveness of their supplies to Europe, and thus ensuring security both on domestic and international levels. Rakova claims that the transit countries, being aware of Russia's tendency to keep control over the pipeline system and to monopolize the energy sector, are hesitant in letting Russia invest into their natural gas pipeline infrastructure. However, Belarus, for instance does not have enough financial means to carry out the necessary pipeline repairs itself, which brings the country to the only option, which is to cooperate with Russia and rely on its help as the EU's engagement in investments in Belarus is not possible because of political reasons. As Rakova says, in order to ensure secure supplies of natural gas, Russia expects initiative on the consumers' side, too, and expects them to advocate diversification plans as well. For instance, Russia claims that the fact that Yamal-Europe II pipeline was not built as a certain way of diversifying the supplies is the transit countries' fault and an inability to negotiate in an effective way.⁸⁹ In connection to the delivery disputes in the past, some experts begin to speak about a new cold war, the energy one. The transit countries attempt to use the instruments of WTO norms, and the Energy Charter in order to press their own interests. Since Russia itself works as a transit country, there can be observed an intention to block energy sources transit alternatives in order to enforce its own visions of diversification, as it can be seen

⁸⁸ Rakova, Elena. *Uslovija tranzita v Belarusi i na Ukraine.* 2007. <http://charter97.org/rus/news/2007/06/11/rakova> (accessed March 11, 2011).

⁸⁹ Rakova, Elena. *Uslovija tranzita v Belarusi i na Ukraine.* 2007. <http://charter97.org/rus/news/2007/06/11/rakova> (accessed March 11, 2011).

with Azerbaijan that has recently agreed on exporting gas to Russia. In this way Russia managed to lower Azerbaijan's exporting capacities which are considered to be the strategic ones in the Nabucco pipeline. However, Russia justifies its actions in energy issues with economic reasons while the transit countries and the EU member states see them as strongly political-oriented.

By bypassing the current transit countries by the construction of Nord Stream and South Stream, Russia partly makes the transit capacities in Ukraine and Belarus redundant and alternative. This brings us to the question about how this fact can be used by Russia in the future. The transit countries' position will be definitely weakened and their negotiating possibilities considerably reduced. Rakova concludes by saying that the more pipeline systems there are the better the competition among the transit states is, which ensures a better cooperation, higher energy security, and a better transparency.⁹⁰

8.3 THE CONDITIONS OF NATURAL GAS TRANSIT AND POSSIBLE PROBLEMS

Dr. Andrey Konoplaynik, a prominent Russian researcher and an energy economist currently working for Gazprombank as consultant to the Board of Directors, who has dealt with energy issues for a long time, characterizes the former bilateral agreements between Russia and the transit countries and identifies several risks as a heritage from the Communist era. Firstly, what was typical of the earlier contractual structure was the barter deals. Secondly, the prices of the energy sources were always highly subsidized and were based on a certain international „friendship“ and loyalty between the countries of the former Soviet block. That is why, in the times of the USSR, there was virtually no concept of transit as such or no concept as it is referred to nowadays. After the dissolution of the Soviet Union the newly emerged republics had to deal with new phenomena and a consequent necessity to create new concepts. This painful process of transition lay, for instance, in separation and distinguishing between the concepts of

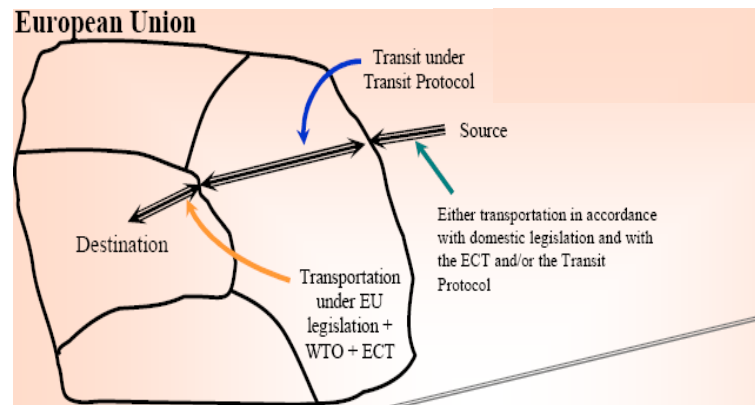
⁹⁰ Rakova, Elena. *Usloviya tranzita v Belarusi i na Ukraine*. 2007. <http://charter97.org/rus/news/2007/06/11/rakova> (accessed March 11, 2011).

*transit and import supplies.*⁹¹ The domestic transportation legislation of a producing country was often in contradiction with the transit countries' legislation. Later on, naturally, the barter deals were replaced with regular a system of regular payments as well as a market-based pricing, not the political-based one any more.

To give an idea of how the transportation of natural gas from the supplier to the customer is treated in terms of legislation, a picture is included that indicates what legislation in particular the transit routes are governed by in the territory of origin, in the transit countries, and within the European Union states.

Picture 5.⁹²

The Transit Conditions Legislation



Russia's stance on transit as such and the country's general relations to the transit countries are discussed in the Energy Strategy Concept until the year of 2030. Among others, the document declares that the Russian Federation takes an active part in negotiations on energy issues on international level in order to ensure a secure balance between importers, exporters, and transit countries. Since Russia is aware of numerous weaknesses related to the transit of its energy sources, it is the country's aim to prevent the security of energy supplies from possible risks. In order to reach these goals, Russia plans to develop an intergrated system of natural gas transportation in Central Asia with

⁹¹ Konplianik, Andrey. *Energy Charter: Russian Gas to Europe: From long-term Contracts, On-Border Trade to....?* 2006. <http://www.konoplyanik.ru/speeches/12-E-Florence-23-24.09..pdf> (accessed March 11, 2011).

⁹² Konplianik, Andrey. *Energy Charter: Russian Gas to Europe: From long-term Contracts, On-Border Trade to....?* 2006. <http://www.konoplyanik.ru/speeches/12-E-Florence-23-24.09..pdf> (accessed March 11, 2011).

the engagement of neighbouring countries to secure sufficient supplies on both domestic and external energy markets.⁹³ For these purposes subterranean natural gas stores as well as extraction facilities are to be built in order to reduce natural gas shortage risks and to satisfy the increasing demand for natural gas both on the domestic market and external markets. What is seen as another problem even by Russia itself is the country's reluctance to modernize the existing infrastructure and liberalize the domestic energy market. That is why other measures must be taken in terms of pricing. The document states that the natural gas prices are highly subsidized and are supposed to be changed, i.e. increased, according to the other energy sources prices, especially in relation to transit countries. The priority is, as the strategy claims, to eliminate Russia's dependence on transit countries in the country's immediate surroundings.⁹⁴ In accordance with this very point the Russian Federation will put a great emphasis on diversification of energy sources transportation to Europe as a strategic business partner. As a result, the Nord Stream pipeline as well as the South Stream pipeline are to be finished.

8.4 THE RUSSIA'S ENERGY POLICY TOWARDS UKRAINE

Although Ukraine disposes of some natural gas reserves of its own, it is still largely dependent on Russia. One half of what Ukraine consumes in terms of natural sources is natural gas. Nearly 70% of this gas comes from Russia. In total, the amount of Russia's natural gas exports, which passes through Ukraine to the EU, makes up to 84%.⁹⁵ The card Ukraine can play with is the fact that the main natural gas pipelines bringing gas to central and western Europe cross the Ukrainian territory. Moreover, Ukraine inherited large gas storage facilities which were once strategically built at the "borders" of the Soviet Union and became later on a part of Ukrainian territory. It was these facilities

⁹³ "Energeticheskaya strategiya na period do 2030 goda." *Ministry of Energy of the Russian Federation*. <http://www.ipng.ru/uf/EnergyStrategy2030.pdf> (accessed December 10, 2010).

⁹⁴ "Energeticheskaya strategiya na period do 2030 goda." *Ministry of Energy of the Russian Federation*. <http://www.ipng.ru/uf/EnergyStrategy2030.pdf> (accessed December 10, 2010).

⁹⁵ *CIA*. <https://www.cia.gov/library/publications/the-world-factbook/> (accessed March 3, 2011).

that helped Ukraine to overcome the gas cut-offs without any severe damages in the past as they can store large amount of gas.⁹⁶

The history of modern Russia-Ukraine energy disputes goes back to the 1990's. Russia supplied Ukraine with energy sources at prices that were extremely low and did not correspond to the market rates. In some respects the 1990's disputes were not different from the later ones because Ukraine has always kept getting into debts and did not pay for its energy consumption, which resulted in energy sources cut-offs. In addition to it, these energy supplies were usually mediated by companies whose actions were far from being transparent, which enabled many opportunities to emerge for those who wanted to parasitize on the system and profit from it. Usually, Ukraine's foreign policy was influenced by the country's attempts to keep a balance between the West and Russia so as not to violate the West's principles and so as not to contradict with Russia's interests in Ukraine as a strategic geographical zone. After the Orange Revolution in 2005 when Yushchenko became the President of Ukraine and, as an openly pro-Western candidate, defeated pro-Russian candidate Yanukovitch, Gazprom changed its policy towards the country by demanding much higher prices on natural gas. Russia constantly accused Ukraine of diverting the natural gas supplies for the EU and other European countries and, finally, decided to interrupt all the natural gas transport through the Ukrainian territory on 6th January 2009, which caused many European countries to face a situation of no natural gas supplies and will be always remembered as the very first total cut-off of natural gas in the history of its transportations to Europe. The problems triggered by the cut-off were not of the same extent with all the countries affected by the dispute or directly involved in it. For instance, thanks to its large natural gas storage facilities Ukraine did not suffer from the cut-off as much as the Balkans and Slovakia.⁹⁷ For a long time Russia and Ukraine could not find a solution to the dispute. One was finally reached on 18th January and the supplies were restored 2 days later, but Ukraine was charged twice more for natural gas supplies in comparison to the price in

⁹⁶ Dailymotion. *Oskar Krejčí o Ukrajině a plynu.* 2009. http://www.dailymotion.com/video/x82am8_oskar-krejyi-o-ukrajiny-a-plynu_news (accessed March 10, 2011).

⁹⁷ Dailymotion. *Oskar Krejčí o Ukrajině a plynu.* 2009. http://www.dailymotion.com/video/x82am8_oskar-krejyi-o-ukrajiny-a-plynu_news (accessed March 10, 2011).

2008. Moreover, Kiev and Moscow agreed on a five-year deal that raises the price of Ukraine's gas to \$95 per 1,000 cubic meters. Much of the gas delivered to Ukraine originates in Turkmenistan, and is thus cheaper, but must be transported through Gazprom-controlled pipelines. Russia has accused Ukraine of siphoning off its Europe-bound gas in the past. In response, Ukrainian officials have sought closer energy ties with oil-rich Azerbaijan and struck a deal with Turkmenistan's new leadership to wean Ukraine off Russian gas supplies.

8.5 THE RUSSIA'S ENERGY POLICY TOWARDS BELARUS

As the very last surviving dictatorship in Europe, Belarus plays a role of an outsider in Europe. That is why the international law does not apply here as much as the domestic political situation. The Belarus-Russia relationship is very complex, though Belarus has been the most loyal ally to Russia in Europe since the collapse of the Soviet Union. It has paid because the Belarus's economy is highly dependent on Russia's low natural gas and oil prices.⁹⁸ However, the natural gas prices for Belarus are now scheduled to rise steadily to reach the world market level.

In 2006, Russia decided to reduce its subsidies to Lukashenko's regime and later the country even pushed Belarus into selling a majority share in Belorussian Beltransgaz and other natural gas distribution companies. As in case of Ukraine, within its new price policy towards the transit countries, Russia wanted Belarus to pay more for the natural gas.⁹⁹ Being under high pressure, Belarus agreed on selling its majority stake in Beltransgaz to Gazprom in 2007.¹⁰⁰ It is obvious that Russia's energy price policy towards Belarus was different from that one towards Ukraine. Belarus paid less than Ukraine for the energies and, also, demanded for higher transition fees.¹⁰¹ Belarus's diversification plans that count on such supplying countries as Venezuela, and Iran,

⁹⁸ Konplianik, Andrey. *Energy Charter: Russian Gas to Europe: From long-term Contracts, On-Border Trade to....?* 2006. <http://www.konoplyanik.ru/speeches/12-E-Florence-23-24.09..pdf> (accessed March 11, 2011).

⁹⁹ Povyshenie cen na rossijskij gaz dlja Belorussii. <http://www.lenta.ru/story/belgaz/>(accessed May 15, 2009).

¹⁰⁰ Gazprom priros polovinoj Beltransgaza. <http://www.moneytimes.ru/articles/2010-02-25/news/9463>.(accessed May 15, 2009).

¹⁰¹ Rakova, Elena. *Uslovija tranzita v Belarusi i na Ukraine.* 2007. <http://charter97.org/rus/news/2007/06/11/rakova> (accessed March 11, 2011).

have eased in connection with economic crisis. That is why, in 2009, Russia promised to provide Belarus with subsidized natural gas and oil to support its economy. As a reaction to growing prices of natural gas Belarus showed resistance and threatened to deny Gazprom access to its pipelines, through which 20 percent of Russia's natural gas to Western Europe flows.

8.6 THE RUSSIA'S ENERGY POLICY TOWARDS THE TRANSIT COUNTRIES CONCLUSION

The conditions of energy relations between countries, including the energy sources transit conditions, are treated in the Energy Charter Treaty. This document obliges the signatory states to respect a number of rules that are to ensure energy security across countries. In this chapter, there were also identified the participants within the energy relations that interact with each other in order to achieve their national goals and ensure security of both supply and sale, which creates a kind of interdependence and mutual pressure that leads to certain behavioral patterns such as the customers' attempt to diversify the supplies and the suppliers' attempt to diversify their markets. As suggested before, as satellite states within the former Soviet Union and, at the same time, as non-EU and non-NATO countries, Ukraine and Belarus play a strategic role within the EU-Russia energy issues in many respects. For the time being, despite of the fact that the role of Belarus and Ukraine as transit countries is being reduced by the construction of Nord Stream pipeline which bypasses the infrastructure bringing natural gas to Europe through Belarus and Ukraine, the only way of securing natural gas sales in Europe is still the transportation via these two territories. The complexity of the relationship between Russia and Belarus and Ukraine as transit countries lies in several points. It is the heritage of ineffective pricing policy towards Belarus and Ukraine in times of the USSR and subsequent painful transition towards market prices. It is also the fact that transit countries show a high sensitiveness to any change of Russia's natural gas pricing policy as well as Russia's intention to keep control over the countries' natural gas infrastructure which is in bad conditions and needs other investments and repairs. As the official documents show, Russia is aware of its dependence on transit countries and attempts to reduce it by diversification of its supplies.

9. CASE STUDY: THE EU-RUSSIA NATURAL GAS DISPUTE OF 2009

The natural gas dispute between Russia and Ukraine was chosen as a case study for it identifies the specifics of the EU-Russia energy dialogue and points out the roles and acts of all the dispute participants. There might be a question raised why this dispute is often referred to as the EU-Russia dispute and not mostly as the Ukraine-Russia dispute. The answer lies in the fact that it was Europe and the EU member states that were largely affected by the cut-off and, in some cases, faced a critical situation of no natural gas (Bulgaria, Slovakia) and, also, in the fact that there exists a general conviction in the EU that Russia uses its energy sources dominance as an instrument of geopolitics in relation to the EU. As suggested, the dispute did not bring only consequences of economic character. On one hand, Ukraine repeatedly failed as a transit country, on the other one, Russia's reputation as a natural gas supplier was shattered. Consequently, the EU-Russia relations became tense again. To provide a comprehensive picture of the 2009 natural gas supply dispute, this section will outline the cause of the crisis, its development, and final solutions reached.

Ukraine's economy is extremely dependent on natural gas. Therefore the country counts as the largest importer of Russian gas which is as high as 70% of its consumption per year. At the same time, up to 80% of exported gas to Europe is transported through the Ukrainian territory while the rest is transported through Belarus (20%). Although Ukraine used its own natural gas reserves from its offshore fields in the past, they did not satisfy the country's consumption and, finally, turned out to be insufficient later in the 1970's.¹⁰² This triggered the country's development into a state strongly dependent on supplies from its "brotherly" Soviet Union and, as it shows up nowadays, a development into a creation of a kind of interdependence, meaning that Russia is dependent on Ukraine in terms of its vitally important imports of natural gas to Europe while Ukraine's economy could not do without the gas from Russian Federation.

This kind of interdependence was even deepened in the 1990's when both the countries went through a painful political and economic transition, which meant that Ukraine needed satisfactory natural gas supplies for its economy to develop, while

¹⁰² Factbook. Ukraine. Available at <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html>. Accessed February 3, 2011.

Russia counted on its natural gas supplies to Europe as a crucial source of financial means for its national budget. However, as the time passed, Russia's relationship towards Ukraine has changed and the country came to lose its patience and became less loyal to Ukraine's natural gas debts that had kept accumulating. The prices at which Russia provided Ukraine with natural gas were so low that they could hardly cover the transportation costs.¹⁰³

Russia's accusations of Ukraine's stealing natural gas and Russia's constant pressure on Ukraine to exchange its natural gas storage facilities for its debts became a commonplace that has outlived until now. As a result, the supplies of natural gas for Ukraine were interrupted many times during the 1990's. However, the evidence shows that there were always some efforts to find a solution to the issue of Ukraine's being a problematic customer. For example, the Russian government together with Gazprom engaged Turkmenistan to sell natural gas to Ukraine in order to ensure secure "reasonable" gas prices for Ukraine and prevent the country from possible diverting of natural gas for Europe.¹⁰⁴ This meant that there appeared several intermediary companies such as EuralTransGas, RosUkrEnergo, etc. in order to mediate the gas supplies to Ukraine. These mediators did not appear to be capable to solve the debts problems of Ukraine and were repeatedly criticised by the Ukrainian opposition because the owners' profits from these businesses were extremely extensive. Since the oil prices started to rise steadily in the year of 2002, the prices of gas did not fall behind because their level is directly connected to oil prices. Thus the difference between the prices charged to the EU and to the CIS countries became more significant which brought Russia to a call for higher prices of its natural gas sources even for countries such as Ukraine, Belarus, etc. It led to a resolution that was to make the European natural gas prices and CIS natural gas prices even by the year of 2011. Nevertheless, such tactics were applied unevenly by Russia. For example, Belarus agreed on selling 50% of its Beltransgas company to Gazprom, which helped the country to negotiate a

¹⁰³ Factbook. Ukraine. Available at <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html>. Accessed February 3, 2011.

¹⁰⁴ Energy Politics. *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*. Available at http://news.bbc.co.uk/1/hi/russian/russia/newsid_7827000/7827089.stm. Accessed February 3, 2011.

prolongation of the natural gas price increase.¹⁰⁵ For Belarus in particular there was no other way as the country does not oscillate on the fringe of the EU principles and to loyalty to Russia as Ukraine does. Since Ukraine keeps showing resistance to sell its part of shares to Gazprom and to provide its natural gas storage facilities to Gazprom, the gas prices charged to Ukraine rose rapidly in comparison to Belarus. Nevertheless, it was announced by Russia in its resolution and thus Ukraine had to respect Russia's policy.

The 2006 natural gas dispute between Ukraine and Russia could be considered as the first serious dispute ever as the natural gas supply was cut-off for three days. Ukraine decided to divert the gas supplies meant for Europe, which helped the country to overcome the gas deficiency even without doing any serious harm to the European customers. Even though the volume of natural gas was reduced, it did not result in any serious consequences as in 2009. The agreement that was reached between Ukraine and Russia after the three-day interruption highlights the former characteristics of Ukraine-Russia relations that were based on outdated supply contracts, ridiculous barter deals, and an ineffective network of gas supply. By changing the state of the contracts, eliminating the barter deals, and setting up new conditions of the origins of the gas supply, the dispute was settled down. This agreement led to the emergence of intermediary companies, as mentioned earlier, that literally parasitized on the Ukrainian gas market. These were RusUkrEnergo and UkrGazEnergo that bought natural gas from Russia and Turkmenistan and sold it to Ukrainian companies. However, when Yulia Tymoshenko was elected the Prime Minister of Ukraine in 2007, she later managed to remove the intermediary companies from the market and demanded direct sales from Gazprom only. Thus, in newly signed agreements between Russia and Ukraine, RosUkrEnergo was replaced with a trader owned jointly by Gazprom and Naftogaz Ukrainy, UkrGazEnergo was replaced with Naftogaz as the only importer of Central Asia gas to Ukraine. Said in other words, from 1st January 2009, Naftogaz Ukrainy would buy gas directly from Gazprom and would be the only importer of gas to Ukraine. The agreement was conditioned by paying the Ukrainian natural gas debts and timely payments for new supplies. In addition, Gazprom demanded an access to Ukrainian customers for Gazprom's affiliates such as Gazprom-

¹⁰⁵ *Gazprom pokupaet Beltransgaz.* Available at <http://www.rosinvest.com/news/290175/>. Accessed February 3, 2011.

Sbyt. The agreement, commonly referred to as *On the Principles of Long-term Cooperation in the Gas Sector* signed in October 2008, also included conditions such as a gradual natural gas import prices increase, including a price growth of transit tariffs, and a joint obligation of Gazprom and Naftogaz to export gas to Europe together, which enabled Ukraine to have a minor influence on the European gas market and stay “in touch“ with Europe.¹⁰⁶ Once the “paper work“ was done, the focus of negotiation moved to the discussion of the extent of Ukrainian gas debt. Naftogaz was highly reluctant to pay its debts for the gas that had been delivered prior to the dispute. The company estimated its debt at \$ 1 billion and announced problems with timely payment of it.¹⁰⁷ In December Gazprom informed Naftogaz that the debt for gas delivered was estimated at about \$ 2.2 billion. Afterwards, Naftogaz paid only a part of it, which was an amount as high as \$ 800 million, and promised to pay the rest within following days. Virtually, it was the events described above, the disagreement on the extent of the debt, and Ukraine’s inability to pay in time that caused the 2009 natural gas dispute to break out. As a solution there was a proposal made by Gazprom that suggested to pay for the transit fees at the 2008 rate which would be deducted from the rest of Ukraine’s debt, but it was cardinally refused by Ukraine. Since Ukraine announced that no other payments would be made before the end of 2008, Gazprom expressed its intention to stop the gas supplies because of extensive debts. Other informational sources, however, give different evidence. The version described above was denied by Ukraine. Ukraine claimed that the debts for September and October supplies were paid and even if the debt for November was still due, Ukraine refused to make any payments for December earlier than in January. By the way, as the time passed, Gazprom kept reminding Ukraine of a possible cut-off in case of no agreement about the natural gas supplies for the year of 2009 and warned the price could grow much more than in the period of 2007 to 2008. Moreover, Vladimir Putin aired another statement that warned Ukraine against its possible usage or diverting the gas meant to be delivered to Europe. As the evidence shows, these warnings were repeated throughout the whole month of December and it also became generally known that the possible gas cut-off would also affect the

¹⁰⁶ Russo-Ukrainian Gas Relations. Available at <http://1ua1.com/ukraine/russo-ukrainian-gas-relations/>. Accessed February 17, 2011.

¹⁰⁷ RosUkrEnergo: *Ukraina eshtcho ne pohasila \$1mlrd dolga za gaz*. Available at <http://top.rbc.ru/economics/24/12/2008/270895.shtml>. Accessed February 5, 2011.

European Union states.¹⁰⁸ The European Union did not intervene, but an attempt to prevent possible supply problems was made by the Energy Charter Secretariat which referred to the dispute in that sense that all the countries involved in the process of natural gas transportation are bound to meet their obligations in the Energy Charter Treaty and ensure an uninterrupted transit.^{109,110} Towards the end of December the dispute seemed to be coming to its end as Ukraine borrowed money from its national banks to be able to cover its debts. In addition to it, in October 2008, the International Monetary Fund provided Ukraine with a loan as high as \$ 16 billion and made an additional statement that Ukraine had the money to pay, even though the loan was meant to be used for other purposes.¹¹¹ On 30th December Ukraine made a payment of \$1.5 billion, but another sum of about \$ 600 million was newly due in a form of penalties.¹¹² Ukraine refused to pay again and proclaimed its readiness to resolve the issue at the International Tribunal. No matter how much this progress meant in the context of the dispute, it was still far away from being averted, especially after Oleg Dubyna, the chief executive of Naftogaz made a statement in which he threatened to confiscate the transit supplies for Europe and indicated that Ukraine would divert the supplies as it had done in 2006.¹¹³

To sum up the developments on the eve of the 2009 crisis, it is necessary to realize that there has always been a huge potential for possible gas supply disputes since the beginning of the 1990's because the relationship between Russia and Ukraine has not been successfully adapted to common business principles on international level, which is a result of Russia's having changed itself into an influential geopolitical actor applying its energy policy and price-making policy in accordance with the former Soviet Union-block countries' loyalty towards Russia. What is also worth noticing is the circumstances in which the crisis originated. The "business" practices between Russia

¹⁰⁸ *Ukraine Warns EU of Gas Problem*. Available at <http://news.bbc.co.uk/2/hi/7809450.stm>. Accessed February 5, 2011.

¹⁰⁹ *EU Tries to Stay Neutral as Russia Reduces Gas Flow to Ukraine*. Available at <http://www.nytimes.com/2009/01/05/world/europe/05iht-ukraine.4.19104039.html>. Accessed February 5, 2009.

¹¹⁰ EnergyCharter website. Secretary General Issues Statement on Russia-Ukraine Gas Dispute', Available at www.encharter.org/index.php?id=21&id_article=165&L=0. Accessed February 5, 2011.

¹¹¹ *IMF aid for Ukraine and Hungary*. Available at <http://news.bbc.co.uk/2/hi/7692017.stm>. Accessed February 5, 2011.

¹¹² *Kiev vyetaet v trubu*. Available at <http://www.rg.ru/2008/11/24/gazprom.html>. Accessed February 5, 2011.

¹¹³ *Ukraina budet konfiskovat' kontrabandnyj gas*. Available at <http://glavnoe.ua/news/n16590>. Accessed February 5, 2011.

and Ukraine, from the European point of view, show features of irresponsible conduct: firstly, it was Gazprom that let the debts accumulate; secondly, the habit of discussing the conditions of further gas supplies at the end of the calendar year, i.e. in winter when the countries are in the need of regular gas supply more than any time within the year, is highly risky and irresponsible.

To understand the conditions of how the pipelines are run and how they work it is advisable to be familiarized with the term *technical gas* as the term will be used throughout the case study and, most importantly, it has also to do with the beginning of the dispute in January 2009 when it was often referred to as one of the reasons of the interruption. Technical gas is generally known as a kind of gas used for keeping the gas pressure stations working, without it the transit is not possible.¹¹⁴ As specified in the Energy Charter Treaty, the technical gas is provided by the transporter. On 1st January the question of technical gas was raised as Ukraine demanded a separate price for this gas. The next day Ukraine obliged itself to transport Russian natural gas to the European customers in accordance with the existing agreements, but since there was no additional transportation agreement with Russia, Ukraine, as officialy stated, could not guarantee synchronized operation of the natural gas transportation system of both Ukraine, the EU, and Russia.¹¹⁵ Within the two following days, by refering to the 2002 intergovernmental memorandum on transit for the period of 2003 – 2013, Ukraine issued another statement saying that the country claimed technical gas at 23 million m³ a day from the volumes meant for Europe.¹¹⁶ This requirement was strictly rejected by Gazprom which considered such a use of technical gas by Ukraine as a theft and warned Ukraine against a possible case at the International Commercial Court in Stockholm.¹¹⁷ Even though the supplies were being reduced gradually from 1st January, the crucial moment was the night from 5th January to 6th January when the supplies dropped most rapidly, i.e. by 260 million m³ to approxiamately 60 million m³.^{118,119} On 6th January

¹¹⁴ CEPA. Types of Pipelines. Available at http://www.cepa.com/pipeline101.aspx?page_guid=25BB423C-CF65-4D9E-992E-D650EAB844D6. Accessed February 8, 2011.

¹¹⁵ Official Letter of Naftogaz Ukrainy to Gazprom. Available at <http://www.echo.msk.ru/blog/echomsk/563350-echo/>. Accessed February 8, 2011.

¹¹⁶ *Ukraina zajavila o namerenii i dalee ispol'zovat'rossijskij tekhnicheskij gaz*. Available at <http://www.kommersant.ru/Doc/1101727>. Accessed February 8, 2011.

¹¹⁷ *Gazprom podal v sud na Naftogaz Ukrainy*. Available at http://news.bbc.co.uk/hi/russian/russia/newsid_7827000/7827089.stm. Accessed February 8, 2011.

¹¹⁸ *Russia Cuts off Gas Deliveries to Ukraine*. Available at http://news.bbc.co.uk/hi/russian/russia/newsid_7827000/7827089.stm. Accessed February 8, 2011.

Aleksander Medvedev, a Deputy Chairman of the Board of Executive Directors of Gazprom, made a statement at a press conference in Berlin and London and said that Ukraine had blocked three of four transit pipelines. As a reaction President Yushchenko countered by saying that Gazprom had reduced the volumes in the transportation system and rejected any accusations of Ukraine's stealing the gas. On 7th January the supplies were fully stopped and the dispute entered its second part. This very day will be always remembered in the history of natural gas transportation from the Russian territory to Europe as the gas supplies were fully stopped for the very first time.¹²⁰ In 2006, the volume of natural gas in pipelines was reduced significantly, but it did not bring about such severe consequences as in the 2009 dispute. Immediately after the gas stream ceased in the pipelines Ukraine and Russia started putting blame on each other and behaved in such a way to spite each other. That is why an impartial supervision from the EU's side needed to be established at the key points of the transportation network to monitor the dispute being resolved.¹²¹ This monitoring mission was initiated by the European Union immediately after the solution to the problem turned out to be difficult to be reached. Finally, when a new agreement seemed to be reached and signed by all the parties involved, the Ukrainian Prime Minister Yulia Tymoshenko decided to append a declarative note that virtually put the blame on Russia which, as a result, refused to sign the agreement.¹²² This act created a tense atmosphere between Ukraine and Russia again and some other time was lost, which led to further deployment of monitoring units that did not seem to have the power to make a difference. Within the period of 12-17 January the events kept repeating were spent by Ukraine and Russia's mutual accusations. On 14th January the General Director Dubyna sent an official letter to Gazprom in which the position of Naftogaz was explained. In this letter Dubyna stated that Gazprom is responsible for providing the technical gas and also the linepack gas for the pipeline system to start working again.¹²³ At this time the situation in south-eastern Europe was getting even more desperate. In the course of the second phase of

¹¹⁹ Energy Politics. *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*. Available at http://news.bbc.co.uk/1/hi/russian/russia/newsid_7827000/7827089.stm. Accessed 8, 2011.

¹²⁰ *EU Calls Crisis Talks as Gas Flow Stops*. Available at <http://www.ft.com/cms/s/0/877a7542-dc94-11dd-a2a9-000077b07658.html#axzz1HE02zMJ9>. Accessed February 10, 2011.

¹²¹ *Monitoring Team Starts Work in Kiev*. Available at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/24&format=HTML&aged=1&language=EN&guiLanguage=en>. Accessed February 10, 2011.

¹²² *Proval peregovorov po postavkam gaza*. Available at http://www.analitik.org.ua/current-comment/ext/42ca9576c691d/pagedoc1095_50/. Accessed February 10, 2011.

¹²³ *Khronologija gazovogo konflikta*. Available at <http://novosti.dn.ua/details/72341/>. Accessed February 10, 2011.

the dispute there appeared another obstacle which was Naftogaz's readiness to reverse the flow in the pipelines and secure supplies of natural gas from the storage facilities situated in the west of the country for the companies in the east. When Gazprom announced on 12th January that it was ready to restart the supplies of gas to Europe through the southern branch of the pipeline system that transports natural gas to Romania and Bulgaria, the transportation of gas to Europe was not possible as the reversed flow blocked all the pipelines, including those which served as the major transportation routes to Europe.¹²⁴ That is why the suggestion to open only one pipeline for the south-eastern Europe was rejected by Ukraine because the country could not reverse the flow of gas back only in one pipeline route as it would not have a chance to provide its eastern parts with gas from its storage facilities. That is why there was a claim made by Ukraine which called for Russia's restarting the flow in all the pipelines simultaneously.¹²⁵ In the meantime, when the negotiations between Ukraine and Russia kept going, the European companies began to generate pressure on Gazprom to find a solution, which resulted in a temporary agreement in a form of providing the necessary linepack gas and the technical gas for the gas supplies to be restored because, as known to the EU at that time, it was these two kinds of gas that were the cause of the supplies being kept stopped.¹²⁶ However, the undertaking was not necessary at all as the conditions of linepack and technical gas providing were a subject of a new contract signed later on 19th January by Ukraine and Russia when, finally, Yulia Tymoshenko and Vladimir Putin signed an agreement to terminate the dispute.¹²⁷ Naftogaz Ukrainy and Gazprom signed an agreement on natural gas supply and its transportation for the period as long as ten years, i. e. from 2009 – 2019. In the contract, which was made public on the internet, there are numerous technical parameters, etc., but the attention will be now drawn to the most important points: firstly, as far as the price is concerned, the price for 2009 was negotiated at 80% of the price of natural gas meant to be delivered to Europe. From 2010 onwards Ukraine will be charged the same price as

¹²⁴ Energy Politics. *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*. Available at http://news.bbc.co.uk/hi/russian/russia/newsid_7827000/7827089.stm. Accessed February 17, 2010.

¹²⁵ *Gaz dolzhen sinkhronno pojavit'sja na vychode v Ukraine*. available at <http://www.angi.ru/news.shtml?oid=2646813>. Accessed February 17, 2011.

¹²⁶ *EU Threatens Legal Action Over Gas Dispute*. Available at <http://www.ft.com/cms/s/0/d5f9962c-e22e-11dd-b1dd-0000779fd2ac.html#axzz1HE02zMJ9>. Accessed February 17, 2011.

¹²⁷ *Russia and Ukraine Reach Gas Deal*. Available at <http://www.independent.co.uk/news/world/europe/russia-and-ukraine-reach-gas-deal-1419076.html>. Accessed February 17, 2011.

European countries. Secondly, in the contract there were set up strict conditions concerning using the technical gas as well as its price. Thirdly, the general price for the natural gas is a subject to negotiations in that case that the price do not correspond to the market conditions any more. Naftogaz obliged itself in the contract to make monthly payments by the 7th day of the month as latest. If Naftogaz fails to make a monthly payment by the date due, then it will be required to pay for the following supply for the following month in advance. Sales will be made directly by Gazprom to Naftogaz Ukrainy on Ukraine's borders. Also, the positions of RosUkrEnergo and Gazprom-Sbyt were changed. RUE stopped to exist and Gazprom-Sbyt claims 25% of the imported gas for marketing it – selling it at higher prices to more reliable customers in Ukraine. For the transit conditions, it was decided the the annual transit volume for the ten-year period will not drop under the level of 110 billion m³ and the transit tariff will rise from \$ 1.7/mcm in 2009 to \$ 2.04/mcm in 2010 and will reflect the European inflation rates.¹²⁸

If the strict payment conditions of the contract are taken into consideration, it can be supposed that Ukraine will have severe problems to respect the payment morale. First of all, Ukraine is politically unstable and its energy issues are strongly politicized. There can still be seen aftermaths of economic crisis in Ukraine. Ukraine is still highly dependent on its export of steel whose international price keeps fluctuating. Also, the price of oil is not always stable and it is the price of oil that determines the price of natural gas. The gas prices are given in dollars, thus the exchange rate of hryvna for dollar will also play a major role.

The 2009 natural gas dispute showed the way Gazprom and the Russian government worked together, as evidenced by consultations between Miller and Putin, for example. Compared to the 2006 gas dispute, the 2009 dispute was handled in a much more professional way. The 2006 dispute did not last long and did not examine the Russia-Ukraine and the EU-Russia energy relations as much as the 2009 crisis, but the latter was much more publicized and was preceded by official warnings against possible supply interruption at meetings initiated by Alexander Medvedev, one of Gazprom's executive directors, who went to some EU's capital to inform openly about potential

¹²⁸ *Gazovoe soglasenie Tymoshenko-Putina. Polnyj tekst.* Available at <http://www.pravda.com.ua/rus/articles/4b1ab16443461/>. Accessed February 17, 2011.

problems.¹²⁹ In addition to it, a website was set up which provided the latest news and informed on the developments in the dispute. As Gazprom stated, the dispute and the inability to reach an agreement was a result of a power struggle in coming Ukrainian presidential election between Yushchenko and Tymoshenko. Thus Naftogaz was not allowed to take a single step in the process of negotiation as it did not have the mandate to do so, which is supported by the evidence given by Gazprom's press secretary Kupryanov who stated that Naftogaz delegation did not have the authorization to sign a new contract. On 3rd January Gazprom decided to take the case to court and initiated proceedings against Naftogaz Ukrainy at the International Commercial Court in Stockholm referring to the 2002 transit contract that was to guarantee an uninterrupted flow of Russian gas to Europe for the period of 2003 – 2013. Later, on 13th January Gazprom made a reference to the dispute by declaring it to be a force majeure, which was highly questionable according to the conditions in the transit contract. This act shows that Russia might have had some interests in prolonging the dispute. Even before the end of the year of 2008 when the new gas price for the year of 2009 was increased from \$ 250/mcm by \$ 200/mcm to \$ 400 – 450/mcm, which was unacceptable for Ukraine and not even negotiable.¹³⁰ Moreover, on 6th January, as a reaction to Ukraine's usage of extra gas for technical purposes (65 mmcm needed for keeping the pipeline working), Gazprom reduced the flow to 65 mmcm (to a half of what is needed), so, at that time, any gas in the pipeline could be considered as stolen if used as technical one.¹³¹ Ukraine's official stance on the dispute was difficult to define in the newspapers as it was affected by internal disagreements between the president Yushchenko and the Prime Minister Tymoshenko. For example, at the end of December Tymoshenko was supposed to travel to Moscow to participate in the negotiations, but was finally prevented by Yushchenko from doing that. Tymoshenko and Yushchenko, as suggested before, were fighting each other in order to strengthen their positions in the upcoming presidential election. As the evidence shows, the Office of the Ukrainian President published official statements that were often in contradiction with those ones made by the Ukrainian government, which proves the existence of two camps one of which was

¹²⁹ *Russia Warns of Gas Crisis if Ukraine Misses Payment*. Available at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ajpBhvPtYXzc>. Accessed April 17, 2010.

¹³⁰ Energy Politics. *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*. Available at http://news.bbc.co.uk/1/hi/russian/russia/newsid_7827000/7827089.stm. Accessed April 17, 2010.

¹³¹ Energy Politics. *The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*. Available at http://news.bbc.co.uk/1/hi/russian/russia/newsid_7827000/7827089.stm. Accessed April 17, 2010

trying to resolve the dispute while the other one was making the issue more complicated. In spite of these confusing acts, on 1st January Tymoshenko and Yushchenko presented the proposals to settle the dispute. When doing so, they referred to the agreements made earlier within the year and proposed their own import and transit prices. Ukraine also called for uninterrupted gas supplies. Most importantly, on the same day, Ukraine created a new dimension of the dispute when it called for Russia to provide the technical gas for transportation of natural gas to Europe. This decision, made by the Kiev Commercial Court and published on 9th January, declared the 2003-2013 transit contract as not valid for the transit fees conditions were not set up in the intergovernmental memorandum.¹³² Thus the transit was practically outlawed, as the minister of energetics of Ukraine Yuri Prodan stated.¹³³ Nevertheless, Ukraine once signed the transit contract under the international law with a possible dispute being solved at the Commercial Court in Stockholm, and, Ukraine is one of the states to have signed the Energy Charter Treaty that makes the country fulfill its obligations in terms of gas transit. Thus the Kiev Commercial Court's decision did not have the power to nullify the international law. Obviously, Ukraine, as well as Russia, played a great role in making the dispute be resolved as soon as possible. Even in the 2009 gas dispute, as well as in 2006, Ukraine warned against possible diverting natural gas meant for Europe, which gives evidence of Ukraine's readiness to obstruct any settlements not only by proposing an unusual practice of the supplier's ensuring the technical gas, but also by the country's decision not to accept any transit gas without having signed an agreement on transit as such and providing the technical gas. By its role in the dispute Ukraine risked a lot. First of all, the reputation of Ukraine as a transit country was shattered so much that it will probably escalate the efforts to build the Nord Stream or South Stream as the Russian initiative or Nabucco pipeline as the European initiative, which will result in rapid decrease in Ukraine's revenues from the transit of natural gas. What were the implications within the EU? The European Union seemed to be prepared for the 2009 dispute better than for that one in 2006. It was partly thanks to the fact that Gazprom acted in a more professional way and kept the EU well informed about the latest developments within the negotiational process. The EU acted as an observer until the the gas supplies were really affected, did not step in, but called for an immediate

¹³² Ukrainetrek. Available at http://ukrainetrek.com/news_Business.shtml. Accessed April 17, 2010.

¹³³ *Verojatosť otstavki pravitel'stva ne protivoretchit zakonu.* Available at http://www.ukr.net/news/verojatnost_segodnjashnej_otstavki_pravitelstva_ne_protivorechit_zakonu-8250427.html. Accessed April 1, 2010.

termination of the problem and strived to bring both sides to a common table to negotiate. On 5th January there was a European mission sent both to Kiev and Moscow and on 6th José M. Barroso called the Russian and Ukrainian Prime Ministers and demanded a restoration of natural gas supply immediately. The following day, on 7th January, it was Angela Merkel that talked to both the Prime Ministers again and reached an agreement on an establishment of monitoring commission that was signed by all the involved parties two days later so the monitors started to be deployed at crucial point of the gas transportation network in Russia and Ukraine.¹³⁴ Since the monitoring mission turned out to be useless because there was nothing to monitor, some of the European gas companies began to act on a purely commercial level and started to act in joint efforts to press on Gazprom. Following from the Nafogaz's official statement on the linepack gas and the technical gas, the companies made a proposal of paying the this amount for the supplies to be started again. This effort became reality after Vladimir Putin talked to Paolo Scaroni from the ENI company.¹³⁵ A creation of a consortium, consisting of ENI, OMV, RWE, Gdf/Suez, E.ON/Ruhrgas, etc., backed by prominent European politicians, followed, which helped to remove the last objection of Ukraine, i.e. paying the linepack and technical gas. On 20th January, the European Commission issued a statement evaluating its role in the process of negotiations and praising itself for a great performance.¹³⁶ However, the role of the European Commission was rather minor as well as the role of Energy Charter Treaty Secretariat. That is why after the crisis both Gazprom and Vladimir Putin challenged the Energy Charter Treaty and proposed a new transit framework.¹³⁷ The crisis brought about far-reaching consequences and had a negative impact on economies and living standards throughout the south-eastern Europe and central Europe. The crisis revealed numerous weaknesses of many countries in terms of their natural gas dependence on Russia. In Bulgaria, there was no possibility of diversification and the country's storage could last only 2 – 3 days at an average natural gas consumption of 35%. Similar examples are represented by countries such as Serbia, Moldova, etc.

¹³⁴ *Russia, Ukraine Sign EU Gas Monitoring Deal; Flows to Resume*. Available at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aq0CnksjIhu4>. Accessed April 17, 2010.

¹³⁵ Prime Minister of the Russian Federation meets with Paolo Scaroni. Available at <http://www.premier.gov.ru/eng/events/news/3006/photolents.html>. Accessed May 15, 2010.

¹³⁶ Europa.eu. Press releases: José Manuel Barroso. Available at <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/12&format=HTML&aged=0&language=EN&guiLanguage=en>. Accessed February 3, 2011.

¹³⁷ *Energetičeskaja khartija: Spravka*. Available at http://www.rian.ru/gas_spravki/20090130/160544072.html. Accessed February 3, 2011.

9.1 THE CASE STUDY CONCLUSION

It is obvious that the 2009 gas dispute between Ukraine and Russia has had far-reaching consequences mainly on two levels: the political one and the economic one. The given evidence proves that the dispute had been presupposed by all the actors long time before it really happened, and both Ukraine and Russia played an important role in its origination and its further escalation. Russia decided to cut off the supply on basis of Ukraines's unpaid debts, which resulted in many European countries facing a situation of no gas supplies and suffering from financial and humanitarian losses later on. On the other hand, Ukraine appeared to be both unable and reluctant to pay its debts and made the dispute even more complicated and longer by using it as a battle of power between President Yuschenko and the Prime Minister Tymoshenko in the upcoming presidential election campaign. The third actor, the European Union had a minor share in the solution-search to the problem and proved itself as a weak unit being unable to act effectively and jointly. In the context of the thesis, the case study has also shown other facts. Firstly, Gazprom's reputation was damaged as well as that one of Ukraine as a transit country. When the dispute started, out of sudden, many international contracts ensuring the gas supplies to Europe appeared to have failed as well as the international agreements such as Energy Charter Treaty. The Energy Charter Treaty, in particular, turned out to be totally inefficient and thus will have to be reconsidered by the political elites across countries. On both Russian and Ukrainian sides there can be seen a considerable political engagement by means of the state-owned companies Naftogaz Ukrainy and Gazprom. Ukraine, as a transit country, will probably bear the worst consequences. Its failure to transit natural gas to Europe without any interruptions and to fulfill the Energy Charter Treaty obligations and the requirements in terms of timely payments for imported gas is perceived by the EU as a great threat in the future. On the other hand, Russia, ensuring its revenues from sales in Europe, makes efforts to bypass the transit countries to avoid other interruptions. The European Union, the third actor in the dispute, has learnt a lesson in that sense that it is moving its attention to south-eastern and central Europe in terms of its diversification of natural gas supplies, and storage facilities construction that are to ensure energy security in

times of a possible crisis. Secondly, the Russia-Ukraine dispute revealed the EU's disunity and numerous weaknesses when dealing with energy issues. First of all, the traditional soft power means in forms of charters, international agreements, and monitoring missions deployment were not effective and the EU faced a situation of hopelessness. The engagement of Jose Barroso, Angela Merkel, Silvio Berlusconi and the European gas companies' initiative to pay for the linepack and technical gas completely overshadowed the Czech presidency and might have made it even ridiculous.

10. CONCLUSION

It was the aim of this work to outline the Russia's energy policy towards the European Union and apply the relevant concepts and theories to practice by an analysis of the 2009 natural gas supply dispute as a case study. The attention was drawn mainly to the formation of Russia's energy policy, as a part of its foreign policy, in the context of the country's development into an important geopolitical actor after Vladimir Putin became the President of the Russian Federation. A wide range of questions of the most diverse character as well as aspects of the complex EU-Russia energy dialogue had to be addressed in order to answer the research question. That is why this work has introduced several concepts and understandings of energy security, has dealt with the theory of neo-realism and geopolitics, and has put these into the context of other facts such as Russia's natural gas reserves, politicization of its internal energy market, its policy towards the transit countries such as Ukraine and Belarus in particular, etc. To support the arguments given in the work, both primary and secondary sources were used. The primary sources were used mainly in the case study and are represented mostly by newspaper articles and interviews collected immediately after the 2009 dispute, and by official documents such as concepts of Russia's Energy Strategy and its Energy Security. The secondary sources consisted of works by prominent researchers, studies, papers, and websites dealing with the topic of energy issues, and providing factual information on natural sources reserves, their consumption and production.

In the 1990's, in the process of its search for identity after the Soviet Union fell apart, Russia found itself standing at several crossroads. This uncertainty about the future development of the country, its ideological orientation, and reconsiderations of the country's political and economic targets becomes manifested especially in the concepts of Russia's foreign policy throughout the 1990's. After Vladimir Putin became the President of the Russian Federation in 2000, Russia started to strengthen its position in the arena of international politics to pursue a concept of what he calls "sovereign democracy". By being a member of numerous international organizations, Russia, hand in hand with the theory of neo-realism – supposing a creation and active participation in creation of a particular structure within the international relations – strives to play a strong geopolitical role mainly in respects to its energy sources. Thanks to Putin's centralization of power and politicization of the state economy, Russia, being aware of the fact that the world's attention has been turned to the East after the economic crisis,

has established itself as a powerful cultural and political alternative to the EU. Gradually, as the concept of Russia's foreign policy changed, the concept of security policy changed as well, which resulted in a new formation of energy security, a part of security policy, defined in the Concept of Energy Security of the Russian Federation. Nevertheless, the diversity of energy security understandings across countries all around the world enables the concept to be interpreted differently. Thus the topic of energy security is highly multi-paradigmatic as it also includes social, environmental, and other aspects. Currently, among others, Russia sees its energy security in pursuing four main goals. Firstly, it is diversification of transportation networks and the network of its customers. Secondly, Russia wants to maintain the relation of interdependence vis-à-vis Europe. Thirdly, to be able to supply natural gas to Europe and cover the growing consumption, Russia plans to invest into the aging extraction facilities and pipeline systems. Finally, to monopolize its natural gas supplier position, the country will focus on strengthening its position in relation to its neighbouring countries that count as smaller natural gas suppliers and might be a potential threat of competition to the Russian natural gas monopoly. This fact provides a supportive argumentation to what Prorok claims in its classification which identifies the roles of the energy dialogue participants when he says that consumers are usually unified in pushing their interests, initiate constructions of alternative transportation routes, invest into alternative energy sources and protect and supervise the quality of transportation routes. However, as our research shows, Prorok's argument that the consumers are usually unified does not apply to the European Union. On the other hand, the producers act in that sense that they maintain and strengthen their monopoly, block the alternative transportation routes, and undermine the consumers' unity by individual treatment.

The Russian Federation can achieve its goal of becoming a geopolitical power by building on several facts. The most important ones are the largest natural gas reserves in the world, and the disunity of its biggest natural gas consumer, the EU. To the first point, as the data on natural gas reserves, its production, and consumption show, Russia disposes of the biggest natural gas reserves in the world and ranks among its biggest producers, consumers, and exporters of it. As both the production and consumption of natural gas are growing, while the latter shows a faster pace, the EU's dependence on Russian natural gas supposed to become even more significant. The Nord stream pipeline and the South stream pipeline does not necessarily mean a victory for Russia's

natural gas supply monopoly to Europe because if no effective steps are taken to construct new extraction facilities in Russia, the country could face a situation of not being able to cover the demand for natural gas in Europe. To the latter point, it is obvious that the EU's energy policy towards Russia is not unified, which plays into Russia's hands. Since the EU hardly finds a common denominator in energy issues, the EU member states energy relations are governed by individual bilateral agreements between the specific member state and Russia. Despite the fact that the common European energy policy does not still exist, certain steps have been taken by the EU in the form of a regulation concerning security of natural gas supply to Europe and its diversification to prevent such crises as that one of 2009.

The current relation between the EU and Russia in the energy issues is referred to as relation of interdependence, meaning that the powers are dependent on each other: the EU cannot do well without the supplies of natural sources from Russia, while Russia cannot do without the incomes from Europe. Under such conditions of mutual interconnection it is obvious that the concept of what it is that the importer and exporter understand as energy security does differ in a substantial way – and it is not the only difference. Another difference lies in how the powers actually act when forwarding their policies. As declared in Russia's Energy Strategy till the year of 2030, the export of natural sources is an important strategic instrument. As a consequence, Russia's energy policy is being made in a completely different legislative environment than in the EU, which leads to specific regulations on the internal energy market. On the other hand, the European Union is engaged in handling its dependence on imports from Russia and tries to find a way out of this “trap“ by introducing plans for diversification or for making use of its own sources such as nuclear energy or renewable sources. However, the production of energy with usage of alternative sources or alternative technologies might be still very costly, which contradicts affordability – one of the basic parts of the concept of energy security.

Russia openly states that its position of an important geopolitical actor is supposed to be restored by means of its natural sources wealth. Although the country managed to break out of the economic depression in the 1990's and has become stronger both economically and politically, it is still its production and exportation of natural gas and oil incomes that the Russian national budget is mainly dependent on. Being aware of

this very fact, Russia keeps a control over the domestic and some external extracting companies and does so by the means of state-owned company Gazprom as a shareholder in numerous companies and businesses in order to monopolize the energy market both on the domestic and on the international levels and in order to ensure necessary revenues from its natural gas sales. As far as the transit of natural gas to Europe is concerned, Ukraine and Belarus play a strategic role. For the time being, the only way of securing natural gas supplies in Europe is still the transportation via these two territories. However, Russia's dependence on these transit countries is being reduced and is planned to be reduced even more by constructing new transportation networks such as Nord stream, etc. As suggested in the main part of the work, the problems of the relationship between Russia and Belarus and Ukraine as transit countries lie in several points. It is the heritage of ineffective pricing policy towards Belarus and Ukraine in times of the USSR and subsequent painful transition towards market prices. It is also the fact that transit countries show a high sensitiveness to any change of Russia's natural gas pricing policy as well as Russia's intention to keep control over the countries' natural gas infrastructure which is in bad conditions and needs other investments and repairs.

Some of the regularities of the EU-Russia energy dialogue can be seen in the findings following from the case study. As the results show, the 2009 gas dispute between Ukraine and Russia has had far-reaching consequences for all the actors involved. Firstly, Gazprom's reputation was damaged as well as that of Ukraine as a transit country. When the dispute started, out of sudden, many international contracts supposed to ensure the gas supplies to Europe failed as well as the international agreements such as the Energy Charter Treaty. On both Russian and Ukrainian sides there can be seen a considerable political engagement by means of the state-owned companies Naftogaz Ukrainy and Gazprom. Ukraine, as a transit country, will probably bear the worst consequences. Its failure to transit natural gas to Europe without any interruptions and to fulfill the Energy Charter Treaty obligations and the requirements in terms of timely payments for imported gas is perceived by the EU as a great threat in the future. Similarly, Russia, having had bad experience with Ukraine as a shipper, strives to ensure its revenues from sales in Europe and thus makes efforts to bypass the transit countries to avoid other possible interruptions. The European Union, the third actor in the dispute, has been exposed by the crisis to its weaknesses and imperfections

in terms of its unity and a subsequent disability to use any effective instruments to find a solution to the dispute. The traditional soft power means in forms of charters, international agreements, and monitoring missions deployment turned out not to be effective enough. The crisis lasted 13 days and was the first interruption of the natural gas transportation to Europe in its history. Despite the length of the dispute and its getting complicated in its course, it cannot be denied that sufficient efforts were put into finding a solution by all the actors even though their roles, their engagement as well as their share in the search of a solution differed.

To relate the outcomes of the research to the hypothesis of this work *„Thanks to its natural gas reserves Russia established itself as an influential geopolitical actor having its own understanding and perception of energy security, which becomes manifested in the concept of its energy policy towards the European Union and the transit countries. Thus, the energy sector in Russia is highly politicized. However, the country, being aware of the existence of economic interdependence between itself and the European Union, is a reliable supplier whose timely and satisfactory natural gas supplies may be affected by transit countries.“*, and to sum up the results of the individual sub-questions it can be said that the hypothesis was verified.

The topic of energy policy both from the Russia's perspective and the EU's perspective is very interesting and deserves further attention as well as deeper examination.

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