



From European to Eurasian energy security: Russia needs and energy *Perestroika*

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ABSTRACT

Political attention in Europe and the US to the problem of energy security has significantly diminished, and there is more to this shift than just the impact of financial crisis in the EU and the effect of the 'shale gas revolution'. In the middle of the past decade, some fundamental decisions were made in the European Commission regarding the liberalization and diversification of the energy supplies, but the economic underpinning of these decisions has vastly changed. The whole set of energy directives is now pointing in the wrong direction, but rethinking of past mistakes is lagging, so the energy policy is left in its bureaucratic 'box'. Russia is set to remain locked in the European gas market but is very slow in adapting to the changes in it. Both Russia and the EU remain in denial that the time for their energy-geopolitical games is over as the nexus of energy flows is fast shifting to Asia-Pacific.

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1. Introduction

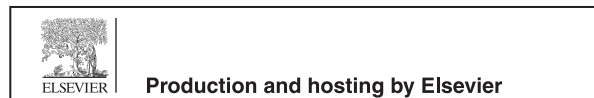
The issue of securing reliable energy supplies for the fast-expanding global demand has until recently appeared a definite political priority and a rewarding target for academic research for years to come. William Blake's beautiful line – 'Energy is eternal delight' – inspired many a clever word-producer and as many a paper-pushing bureaucrat. The choice of arguments in support of focusing attention on this seemingly inexhaustible problem was appealingly

wide: From scarcity of oil to evil intentions of key suppliers. Yet the intensity of discussions on the whole range of related matters that are supposed to have direct and sustained impact upon national security of every established and emerging global power has distinctly slackened since the start of this decade. The topic has gone out of vogue in the research projects advanced by the most political weather sensitive think-tanks, from CER and IISS in London and CSIS and Brookings in Washington to the one in which this author has been fund-raising for the past 20 years.

Such attention swings are a norm in the ever-changing field of political fashion, but there may be more to the de-prioritization of energy than just exhaustion of the main lines of analysis. From a purely pragmatic point of view, one would expect the thinking efforts to follow the oscillations in the notoriously unpredictable global energy market, but the current dissipation of interest happens while the oil prices stay on the elevated plateau of about \$US 100 per barrel – and it has not been reignited by the spectacular and

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totally unexpected turbulence in the Arab world since the start of 2011. The new economic reality that takes shape as the severe crisis of 2007–2009 comes back with vengeance centered on the EU financial mechanism determines the middle in political guidelines-drawing. The money flows is now the main source of anxiety, but a re-examination of the hype and fuss over the generally unexciting matters of prospecting for, and transporting of hydrocarbons might yield some useful lessons.

The great concentration of political efforts on regulating the energy business, which has produced few positive results, could be taken for a case demonstrating the workings of the 'securitization' theory formulated by Ole Wæver's 'Copenhagen school' back in the mid-1990s.¹ His idea about the political mechanics of elevating an issue from its normal context and making it into a national security concern, to which common economic or any other sense doesn't apply, is indeed elegant and has more explanatory value than most politicians are prepared to admit. There is, however, far more to the making and un-making of energy security than a 'speech act', and the interplay between national, trans-national, and international actors involved in the deceptively simple demand-supply balancing act is too complex to fit into any theoretical framework.

This article will not attempt to conceptualize the energy policy-making but will aim at examining the evolution of its elevation to the national security plane supporting each distinct phase with a mini-case study.

2. The early 2000s: interplay of diverging oil interests

It was hard to imagine in the late 1990s, when oil prices 'recovered' to about \$US 20 per barrel and demand in Asia and in Russia was still depressed by the contraction caused by the now overshadowed financial crisis, that energy could become a major security concern.² Yet ten years later, the discourse of 'energy security' was so firmly entrenched that experts treated oil- and gas-related issues as naturally belonging to the domain of national security and constituting a major source of conflict in the international system.³ Another five years later, the dogmas of 'energy security' are not challenged as departing from the real content of international relations but rather relegated to the 'no-action-required' category.

Taking a step back from the current lull in the debates and their recent blossoming, it is possible to establish that the crucial event in propelling the 'energy security' theme to the top of the list of political mega-problems was the terrorist attack universally known by the numerals '9/11'. There is no need to elaborate on the transformative impact of that act of unconventional war on the US foreign policy making but the impact on the energy business is far less obvious. The shocking attack added a new twist to the old

US longing for 'energy independence' focusing it on the security risks coming from the massive transfer of wealth to the Arab monarchies and dictatorships.⁴ The urge to break this trend was a factor in the disastrous decision to invade Iraq, which caused serious distortions in the energy markets driving fast climb of the oil prices. This unintended consequence carried the debates a step further sharpening interest in and demands for alternative and renewable sources of fuel. The 'green agenda' had uniquely high profile in the 2004 US presidential elections, and the defeat shifted its momentum toward Europe, as symbolized by the awarding of the 2007 Nobel Peace Prize to Al Gore.⁵

Another actor that discovered the value of 'securitizing' the energy business in the first half of 2000s was Russia where President Vladimir Putin was reshaping Yeltsin's political heritage into a tightly centralized system of bureaucratic control. Initially, he entertained ideas about an 'energy dialog' with the US, but the steady increase of export revenues allowed him to set the more ambitious goal of building an 'energy super-power'.⁶ The turning point was the brutal Kremlin attack on the top Russian oil company *Yukos* resulting in its expropriation and imprisonment of its owner Mikhail Khodorkovsky.⁷ Continuing inflow of Western money convinced Putin in the great benefit of control over the energy sector and in Russia's irreducible advantage as the major supplier of hydrocarbons, so he made the 'energy security' topic one of the key issues of his much-valued chairmanship in the G8 in 2006.⁸

Characteristically, the OPEC – the usual suspect in making oil into a 'weapon' – did not play any noticeable role in defining the hypothetical supply shortages as security concern focusing instead on the usual technicalities of quota distribution but adjusting its perceptions of 'fair' oil price from the modest \$US 20–25 per barrel to the more interesting figure of \$US 50. China was also carefully securing long-term sources of supply, first of all in Africa, for its growing oil demand without making any fuss about it.⁹ It was the cumulative even if totally uncoordinated effort of interventionists (as well as neo-cons in and around the first Bush administration), environmentalists (gravitating more to the Democratic party) and 'peak-oil'

⁴ The power of this old idea is perceptible from a visit to the 'American Energy Independence' website (<http://www.americanenergyindependence.com/home.aspx>); for a devastating criticism see Bruce (2008).

⁵ A useful overview of the energy-related debates at that time can be found in Kalicki and Goldwyn (2005).

⁶ The high point of 'energy dialogue' was the US-Russia Commercial Energy Summit in Houston, as presented in the *Baker Institute Study 21* (February 2003, accessible at http://www.rice.edu/energy/publications/PolicyReports/study_21.pdf). I examined the rise of the 'energy super-power' idea in Baev (2008).

⁷ This poorly legitimized persecution continues to bedevil Russian politics; current developments can be followed at the Khodorkovsky's website (<http://www.khodorkovsky.ru/>). The impact on the Russian energy policy is examined in Sixsmith (2010).

⁸ The *Global Energy Security Action Plan* approved at the G8 Strelina summit was appropriately full of wishful thinking on harmonizing the 'security of supply' with 'security of demand' and forgotten in the matter of a few months; see Lesage, Van Der Graff, Westphal (2009).

⁹ International Energy Agency in its *World Energy Outlook, 2007* made a good assessment of China's steady growth impact on the oil market, getting most other impact factors seriously wrong.

¹ The fundamental work on this theory is Buzan, Wæver, and De Wilde (1998). Personally, I like best his chapter 'Imperial Metaphors: Emerging European Analogies to Pre-Nation-State Imperial Systems' in Tunander, Baev, and Einagel (1997, pp. 59–93).

² One perceptive analysis from that time is Morse (1999).

³ One academically accomplished protagonist of resource conflict is Michael Klare (2008).

alarmists in the US that managed to put a great spin on the 'energy security' issue in the early 2000s. The real winner, however, was Putin's clan of *siloviki*, who successfully converted their new access to political power into control over major oil and gas assets that were allegedly too important for national security to be left in private hands.

2.1. Case 1: the Caspian mediocre game

The first phase of the intense geopolitical intrigue centered on the hydrocarbon resources of the Caspian Sea that acquired the catchy name 'New Great Game' developed in the second half of the 1990s on the gloomy background of the first Chechen war. It was the breathtakingly risky decision taken in late 1994 by a consortium of international 'majors' led by the BP to develop three offshore oil-fields in Azerbaijan that became the opening move in this game, which was theorized and popularized by no one else but Zbigniew Brzezinski.¹⁰ In hindsight, that decision appears going strictly against the prescriptions of common economic sense shaped at that time by the low and falling oil prices, but it has certainly paid a healthy dividend.¹¹

What is more relevant for this analysis, is the second phase of the 'game' in the first half of the 2000s, when anxieties about rising oil prices blended with worries about wars in Afghanistan and Iraq and produced a Caspian 'energy security' frenzy.¹² Western debates on containing Russia's presumed stratagem for abusing control over oil transit routes were centered on the Baku-Tbilisi-Ceyhan (BTC) pipeline built by the same consortium of 'majors' led by BP. That problem-loaded construction was seen as a crucial game-changer in the Caucasus, and its completion in 2005 was trumpeted as a major Western geopolitical achievement that would secure democratic transformation of the region exemplified by the revolution in Georgia in late 2003.¹³ It was a matter of little import for the believers in oil geopolitics that Russia wasn't that upset by the BTC and didn't try to sabotage it merely pointing out that far greater volumes of oil from Kazakhstan were evacuated via Novorossiysk, while the Atasu-Alashankou pipeline began to deliver Caspian oil to China.¹⁴

It was the Russian-Georgian war in the first week of August 2008 that revealed the shallowness of 'securitization' of Caspian hydrocarbons. Against the logic of the 'game', Moscow took great care not to inflict any damage to the BTC and the parallel Baku-Tbilisi-Erzurum gas pipeline, implicitly emphasizing that energy business should not be enmeshed in local wars. It became apparent that Azerbaijan

enriched by the oil revenues did not become a pro-Western state but turned into a petro-monarchy where opposition was effectively suppressed until – as the 'Arab spring' has shown – a revolution would expel the corrupt despot. In fact, the only real security impact of the inflow of oil money is the increasing risk of a new war over Nagorno Karabakh as Azerbaijan is trying to buy a combat-capable army (Barry, 2011). This would be a hard blow to the expectations of BP, Statoil and other partners (including KazMunaiGaz and Lukoil) that pipelines and terminals could work as normal business enterprises without any added geopolitical load.

3. The late 2000s: Russian gas as a key European security issue

It does not take a conspiratorial mind to assume that the sharp escalation of European debates on energy security matters in the second half of past decade was more than just an over-reaction to the Russian-Ukrainian gas quarrels, but a conscious choice driven by a combined effort of several major interest groups. In hindsight, it is possible to deduce that neither of those interests was successfully advanced, albeit hardly due to insufficient mobilization of political effort. The content of energy interests of key players turned out to be diverging and even incompatible, and none of them had been able to achieve a clean victory before the economic crisis, which has devalued the relative gains and aggravated the losses.

Two major shifts in the character of 'securitization' of energy matters happened in the middle of the past decade: the rise of natural gas instead of habitual oil as the most politically prominent type of energy, and the key role of the European Union rather than the US in shaping the debates. The event that precipitated both shifts was the one-day interruption of the flow of Russian gas through the Ukrainian pipelines in the first day of 2006, which in retrospect can be defined as a 'skirmish' rather than 'war'.¹⁵ No damage was done to European consumers, but politicians and public were alarmed by the proven possibility of deliberate shutdown of crucial energy supply. A resourceful lobby consisting of East-Central European politicians with their pronounced Russian phobias and US neo- and arch-conservatives pursuing the agenda of restoring American leadership sprung to life and out-cried the sober experts, particularly in Germany.¹⁶

The European Commission was quick to see in the noisy debates on energy risks an opportunity to shape a common energy policy, which it had never been able to formulate before, and issued already in mid-2006 the Green Paper, which prescribed greater orientation of member-states policies toward common goals.¹⁷ The two key guidelines hidden among a great many 'positive' words were 'diversification' and 'liberalization', and each contained an unspelled but clearly implied task going beyond the limits

¹⁰ His book *The Grand Chess-Board* (Brzezinski, 1997) made a profound *Realpolitik* impact on the political thinking in and about the Caspian region.

¹¹ On the rationale of that gamble, see Olsen (2004).

¹² One example of deliberate over-dramatizing of this theme is Kellerman (2003).

¹³ The best example of this triumphalism is Fredrick Starr and Cornell (2005).

¹⁴ On the performance of the Tengiz-Novorossiysk pipeline, see Dellecker (2008). On the current plans to double its capacity, see Leonard (2011). On the China connection, see Sukhanov (2005).

¹⁵ A sober view in the multitude of variously biased reports is Guillet (2007).

¹⁶ This burst of activity is evaluated in Casier (2011).

¹⁷ The document entitled 'A European Strategy for Sustainable, Competitive and Secure Energy' is available at (http://ec.europa.eu/energy/strategies/2006/2006_03_green_paper_energy_en.htm).

of common economic good. Diversification, for that matter, did not mean that Spain or Italy should import less gas from North Africa but set the general aim for the EU to reduce dependency upon Russian gas due to political unreliability of this supplier.¹⁸ Liberalization involved only limited action against the interests of European energy 'champions' and a determined effort aimed at reducing *Gazprom's* access to and expansion in the EU energy market.¹⁹ With the adoption of these guidelines, the EU–Russia energy dialogue arrived into a blind-alley.²⁰

Russia certainly made a major contribution to this renewed and refocused 'securitization' of energy despite its frequent protestations against mixing oil and gas business with politics. In fact, this business became of such great personal importance to (then and soon again) President Vladimir Putin that it was impossible to say whether gas export was a key instrument for advancing foreign policy interests, or diplomacy was a means to achieving gas-centered ambitions.²¹ Every step made by *Gazprom* in building partnership with ENI, or E.ON, or *Gaz de France* enjoyed the privilege of presidential support, and so by definition was a matter of Russia's national security. The main attention, however, was focused on minimizing the leverage of transit countries, including by building the controversial *Nord Stream* gas pipeline across the Baltic Sea.²² It was exactly in this political terrain that the next major energy crisis happened – the Russian–Ukrainian 'gas war' of January 2009 – and it propelled the 'securitization' of European energy agenda to an all-times-high.²³

There is hardly any need in revisiting that failure of gas diplomacy but it is important to establish that in parallel with the escalation of tensions in energy trade, another track of 'securitization' reached full capacity at that time – and it had nothing to do with Russia. Environmental interest groups were a serious political force, particularly in Germany, for many years but in the mid-2000s, they ganged together in the campaign against 'global warming' – and were able to make a big difference in shaping the EU energy policy. The key to that success was not the persuasive power of inherently inconclusive (and much abused) scientific data but the understanding in the European Commission that regulating carbon emissions could be a useful instrument of power. Already in March 2007, a new 'Energy Policy for Europe' was legislated by the European Parliament, then detailed in the Action Plan and elaborated in the 'Strategic Energy Review' (2008) and in a range of specific directives.²⁴

The central proposition in this vigorous campaign was to reduce the consumption of all primary sources of energy by 20% by the year 2020, which by every rational account constituted a remarkable stretch of wishful 'green' thinking. Even the International Energy Agency (IEA), which advocates a profound revision of the current pattern of energy consumption, dismisses it and assumes that the demand for natural gas in the EU will go up from 508 bcm in 2009 to 593 bcm in 2020.²⁵ Indeed, the vision of ever-reducing emissions ignores the fact that previous gains in energy efficiency were achieved thanks to deindustrialization of major European economies, and that trend could not continue indefinitely.²⁶ The needs of the new member states, such as Poland or Romania, in getting up to the EU average level of GDP (and energy consumption) per capita were also conveniently forgotten. The directives aimed at massive increase of investment in alternative and renewable energy sources, which even in the most optimistic designs would remain far more costly and less economically efficient than hydrocarbons. The train of hyper-expensive 'white elephants' was set in motion right on the verge of the crisis that would shatter European finances.

This bold departure from common economic sense begs for an explanation because it goes against the normal political process, where elected leaders are reasonably reluctant to ask the electorate for sacrifices – and to step on the major corporate interests – for the sake of results that may or may not materialize 20–30 years from now. In contrast, Russia's behavior in the conflict with Ukraine, while definitely self-defeating, is consistent with what could be expected from a 'petro-state' that has developed a highly inflated perception of itself because of the seemingly unlimited rise of oil revenues.²⁷ This author possesses little insight on the decision-making in the 'Berlaymont corridors', but he finds it difficult to believe that Eurocrats have collectively converted into the 'Save-the-planet' faith. It doesn't take a 'skeptical environmentalist' to figure out that the money channeled into bio-fuels and wind farms would have paid far greater dividend if invested in conversion of power generators from coal to gas.²⁸ The costly victory of bureaucratic strategizing that hijacked the populist cause of arresting the unstoppable and unpredictable climate change was facilitated by the political predisposition to treating energy business as security challenge.

3.1. Case 2: pipeline race in the southern corridor

A particularly telling example of futility of the 'energy security' hyper-activity in the second half of the 2000s can be found in the interplay of political ambitions focused on

¹⁸ One example of the fast-expanded literature on this subject is Larsson (2006).

¹⁹ A sharply critical evaluation of *Gazprom's* performance is Åslund (2010).

²⁰ Noteworthy collection of analyses on this problem is Barysch (2008).

²¹ Good reading on this fusion of interests is Dellecker and Gomart (2011); see also Milov (2008).

²² A typical alarmist perspective from conservative US think-tank is Cohen (2006).

²³ One quick and precise assessment is Blakey and Gustafson (2009); my analysis is in Baev (2010a).

²⁴ These documents are available at the European Commission Energy website (http://ec.europa.eu/energy/index_en.htm); the Wikipedia site on EU energy-climate package is also very useful (http://en.wikipedia.org/wiki/European_Union_climate_and_energy_package).

²⁵ These figures refer to the 'New Policies Scenario', which is more energy-efficient than the 'Current Policies Scenario'; see *World Energy Outlook*, 2011, p. 159.

²⁶ It is ironic indeed that EU Commissioner for Energy Günther Oettinger now argues that high taxes on energy were pushing Germany towards deindustrialization; see Stratmann (2011).

²⁷ Sound analysis of this behavioral pattern is in Goldman (2008).

²⁸ The well-researched work that irks the climate-warriors no end is Lomborg (2007).

the opening of the so-called ‘fourth corridor’ that was supposed to bring gas from the wider Caspian area to consumers in South-Eastern Europe.²⁹ The idea of increasing the inflow of ‘new gas’ went clearly against the ideology of reducing the consumption of hydrocarbons but was nevertheless embraced by the European Commission as the materialization of the diversification guideline. The key asset in this corridor was supposed to be the *Nabucco* pipeline, which was described by Andris Piebalgs, former EU Commissioner for Energy, as ‘an embodiment of the existence of a common European energy policy.’³⁰ The project enjoys the most favored status in the EU Commission, but the consortium of six energy companies has been unable to get it off the ground.³¹

A noisy trans-Atlantic lobby sought to reproduce the success story of the BTC pipeline but all the encouragement could not convince the partners (of which only the German RWE had money to put into the project) in the profitability of their enterprise.³² The key problem was not the high cost of construction but the scarcity of supply sources since the Shah Deniz off-shore field in Azerbaijan developed by Statoil and BP would not fill a half of the planned pipe. Hopes were pinned primarily on Turkmenistan, and the EU leaders went to great length courting President Gurbanguly Berdimukhammedov, while Moscow engaged in furious counter-intrigues. The competition was entirely unrealistic because that the project that was implemented swiftly and elegantly was the gas pipeline from the Amu-Darya gas-fields to China. Many experts were inclined to see that breakthrough as a setback for Russia’s strategy of dominating the Central Asia but in fact, Moscow abandoned its ambition for purchasing all gas from Turkmenistan and was only aiming at preventing its export to Europe (Aliyev, 2009).³³

Gazprom expressed enthusiasm about the idea of opening a new route to the European market and insisted that the best way to go about was to construct the *South Stream* pipeline across the Black Sea avoiding transit through both Ukraine and Turkey. The *Nabucco* lobby excoriated this project as a means to increase the EU dependence upon Russian gas, while in fact hardly any new volumes were contracted by *Gazprom*, which sought primarily to blackmail Ukraine. The competition appeared fierce but the economic crisis compelled some cost-efficiency checks of the energy fantasies, so in 2011, the *Nabucco* consortium announced another postponement of the investment decision, which attracted little attention in Brussels and caused no jubilation in Moscow, since the

much-advertised *South Stream* was also delayed.³⁴ The architects of the new ‘corridor’ have to reckon with the reality of non-existence of reliable sources of gas in the Caspian area (at least as long as Iran remains off-limits), and their designs for ‘geopolitical’ pipelines are re-categorized as far-fetched extravaganzas.

4. Into the new decade: what energy security?

The saturation of the European energy market in the wake of the economic crisis has taken the EU policy-planners as much by surprise as the emergence of a gas glut has caught the Kremlin market analysts flat-footed. The issue is not that the risks to energy supply have temporarily diminished but that the whole conceptual framework for making energy policy has become unusable. The turning point on which the ‘energy security’ topic has gone out of vogue was the shocking fiasco of the UN Climate Summit in Copenhagen in December 2009, which in retrospect looks over-determined (Müller, 2010). The EU leaders tried to stick to the collective platform that was far more radical than what China and the US were ready to subscribe to. When the commitment to reach a legally binding agreement collapsed, the European leaders and bureaucrats discovered that their pledges and plans for a ‘low-carbon future’ had a feeble economic foundation. Indeed, as ‘rescue packages’ for Greece are grudgingly collected, politicians of all persuasions have to internalize the fact that their energy pet-projects are to be downsized in the dawning era of budget austerity.

The ambitious goals for non-carbon future are still maintained, but funding for wind farms and solar panels is curtailed, so the proposition for constructing a ‘gas bridge’ to the ideal energy balance formed by alternative and renewable sources is gaining prominence in the official EU discourse. Estimating the size of this ‘bridge’ as stretching beyond the short horizon of political thought, the IEA raised the question: ‘Are we entering the golden age of gas?’³⁵ An affirmative answer has become more probable due to the massive fall-out from the Fukushima disaster in Japan in March 2011, which determined a severe reduction of prospects for nuclear industry in Europe, and particularly in Germany (*Fukushima fears*, 2011). Russia is very keen to capitalize on this answer counting on new long-term contracts rather than on the appearance of a real market for gas with spot prices fluctuating independently of oil prices.³⁶

President Medvedev assumed that he made Chancellor Merkel an offer she couldn’t refuse at the annual consultations in Hannover in July 2011, and was quite taken aback when she flatly turned down the proposition for adding another trunk to the Nord Stream and asserted that an increase in import of gas was out of the question.³⁷ Merkel’s insistence on the strategy centered on renewables is

²⁹ For an early draft of this plan, see *Energy Corridors* (2007).

³⁰ Debates on a common European foreign policy on energy in the European Parliament, in which this description was mentioned, can be accessed at (<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+CRE+20070925+ITEM-015+DOC+XML+V0//EN>).

³¹ For more elaborate analysis of this case, see Baev and Øverland (2010).

³² One example of the expert advocacy for the *Nabucco* project is Cornell and Nilsson (2008); a more sober perspective in Barysch (2010).

³³ In-depth analysis of the Caspian energy prospects can be found in chapters 16–18 of the *World Energy Outlook, 2010*.

³⁴ On the far from successful presentation of the *South Stream* project in Brussels, see Belikov (2011a); on the preferences of oil ‘majors’ working in Azerbaijan, see Hulbert (2011).

³⁵ A special IEA report under the same title was produced in mid-2011, see (http://www.worldenergyoutlook.org/golden_age_gas.asp).

³⁶ On the Russian expectations, see Hoedt (2011).

³⁷ That affront is clearly spelled in the summary of talks at the official website of the Chancellery (http://www.bundeskanzlerin.de/Content/EN/Artikel/_2011/07/2011-07-19-dt-rus-regierungskonsultationen_en.html).

questionable, but *Gazprom* has to adapt to the disadvantages of the buyers' market where extra volumes could be sold only if flexibility in pricing is shown. Germany is in the lead in putting pressure on *Gazprom*, but in this hard bargaining the big issue of energy security is all but irrelevant.³⁸ Much the same way, Poland is playing up the proposition for developing shale gas (knowing full well that it is problematic even in the mid-term) in order to get a better deal with Russia on import and transit, which is threatened by the *Nord Stream* (Smolar, 2011).

There is always a possibility that another spasm in the Russian–Ukrainian gas conflict, which is by no means resolved by the election of President Victor Yanukovich in January 2010, could bring back the demands to treat energy supply as a national security matter. With the opening of the *Nord Stream*, constructing of several inter-connector pipelines and building of gas reserves, the real economic impact of an interruption would be minimal, so the political excitement is certain to be short-lived. In real terms, it is the fiscal solvency that is set to remain the major challenge to the EU very existence, and the energy bills constitute a significant part of this challenge, particularly since the most affected economies (Greece, Italy, Spain) happen to be severely energy-deficient and have no alternative to increasing dependence on import of natural gas. They must lead in eliminating the subsidies to the cost-inefficient 'renewables', but their best hope is in a healthy fall of oil prices, which is certain to push Russia into a financial and political meltdown.

4.1. Case 3: the false start of a race to the Arctic resources

It was the Russian flag-planting expedition to the North Pole in summer 2007 that triggered a surge in political strategizing for the Arctic region, and the increasing accessibility of the presumed hydrocarbon riches has been a major driver of policy-making.³⁹ From the very start, this 're-discovery' of the Arctic had a pronounced geopolitical content created primarily by Russia's more assertive political course set by Putin's famous 'Munich speech' in February 2007. This pseudo-revisionist behavior, which culminated in the August 2008 war with Georgia, generated the perception that the competition for the resources hidden under the waters and melting ice of the Arctic Ocean would acquire confrontational character.⁴⁰ That perception has since mostly evaporated as the littoral states have demonstrated their commitment to play by the rules, but the programs for building capabilities for operations in the Northern 'theatre' are still being implemented in the armed forces of Canada, Russia and the US.

It is analytically interesting that the great anxiety about the forthcoming Arctic 'resource conflicts' blossomed with no connection to the estimates of extraction costs on the already evaluated oil- and gas-fields. This is particularly

typical for Russia, which has started the development of two gas mega-projects on the Yamal peninsular and in the Barents Sea (Shtokman) and one medium-size oil project in the Kara Sea (Prirazlomnoe). All three are experiencing delays and/or have run into cost escalation problems, and the increased political attention to the High North has not helped at all in advancing the development. The Shtokman project is supposed to be a pilot enterprise as a joint off-shore venture, in which *Gazprom* has a controlling stake, but *Total* and *Statoil* insist in postponing the investment decision (currently into 2012) until it is possible to establish the profitability of production within reasonable doubt.⁴¹ Quite possibly, the desire to create a strong momentum for the Shtokman project was one of the incentives for Moscow to settle for a compromise solution for the maritime border dispute with Norway announced sensationally during President Medvedev's visit to Oslo in April 2010.⁴² The momentum, nevertheless, has not materialized.

This new treaty constitutes proof positive for the proposition that the stake-holders recognize the imperative of joint work on the Arctic problems; it also shows that the appetites of international 'majors' for the as yet undiscovered reserves of oil and gas in this region are in fact very limited. It remains to be seen whether Canada, Denmark and Russia would find a way to harmonize their interests in expanding their exclusive economic zones and submit conflict-free claims – or perhaps a joint one – to the UN Commission on the Limits of the Continental Shelf.⁴³ Whether the five littoral states find a consensus on dividing the Arctic seabed or not, it is already clear that securitization of the energy agenda, which remains limited to a few long-prepared projects, has been entirely nonsensical.

5. Conclusion

This analysis might appear to be too heavily tilted in the European direction, while the big story in energy demand, and in particularly in natural gas consumption, is happening in Asia-Pacific with China playing the lead character in this story. The reason for this Euro-centrism is essential to the central argument of this investigation: It is in Europe that some crucial decisions that have heavy impact on the global gas market were made in the second half of the past decade. The economic fundamentals underpinning these decisions have since shifted radically, so the whole set of energy directives is now pointing in a totally wrong direction.

⁴¹ Putin has ordered *Gazprom* to make the investment decision by the end of 2011 but made no promises on tax breaks; see Belikov (2011b).

⁴² The 50-50 deal was far from popular among Russian patriotically-minded politicians but criticism was not allowed in the mainstream media; see Kalashnikov (2011).

⁴³ As of mid-2011, 56 claims were submitted to this Commission, and 14 recommendations were issued, including the one from June 2002 to re-submit the Russian claim with more solid evidence; all documentation can be accessed at its website (http://www.un.org/Depts/los/clcs_new/commission_submissions.htm).

³⁸ On the price squeeze, see Kulikov (2011). On the commitment to the highly problematic 'green agenda', see Westerwelle (2011).

³⁹ My earlier examination of this case is in Baev (2010b).

⁴⁰ The most cited anticipation of 'an armed mad dash for its resources' is Borgerson (2008).

Correction of these mistakes is lagging because the urgent revision of the EU goals and resources is limited to the financial sector, while the energy policy is left in its own bureaucratic 'box'. The content of this policy-making is certain to be changed in due – and not very distant – time because secure access to affordable energy supplies could play an important role in easing the financial spasm and setting the most damaged EU economies on the recovery track. The absolute priority in the reshaped energy policy would have to be placed on cutting down the expenses, so despite the aggressive lobbying from 'green' interest groups subsidies for 'renewables' would have to be curtailed. That will bring natural gas to the center of the EU energy planning, and the key task will necessarily be the utilization of the advantages of the gas 'glut' situation, which is set to last for months and maybe years to come, for pushing the prices down.

Russia is – as of late 2011 – less directly affected by the severe crisis of European finances, but the rethinking of its energy policy goals is no less necessary – and is also lagging. Oil is set to remain the main money-maker for the federal budget, and with the opening of the East Siberia – Pacific Ocean (VSTO) pipeline, Russia has successfully diversified its oil export. In the gas sector, however, this proposition has made little progress, with the obvious exception of the Sakhalin projects, and the prospects are not very promising. *Gazprom* cannot – and is hardly going to – find Asia-Pacific customers prepared to accept long-term contracts tied to oil prices, so its negotiations with China are fruitless. Russia is set to remain locked in the European gas market, but it is very slow in adjusting to the irreversible changes in this market.

The discrepancy between the shifts in the global energy markets and the political perceptions of the consequences related to particular dependencies on supply from Russia and demand in Europe determines the instability of gas relations between these two major counter-parts. The notion of 'energy security' will, therefore, remain relevant, but interpretation of risks in gas trade as national security threats, so common in the 2000s, is unhelpful in accepting the prospect that Russia will remain the main gas supplier to the EU and would probably increase its share on this market. Putin's *Gazprom* is indeed a maverick, not least due to its irreducible inefficiency (though the SOCAR in Azerbaijan and *KazMunaiGaz* in Kazakhstan are hardly any better), and its probable quarrels with customers might resonate far beyond the point of impact.

One negative consequence of these quarrels is that the natural gas is acquiring a reputation of inherently troublesome energy source, which affects the market and hampers the replacement of coal – the single most important change in the world energy balance from the point of view of local environmental degradation and global warming. Another consequence is the procrastination in development of many 'green fields' in Russia (such as Kovykta north of the Lake Baikal) due to the lack of investment and deterioration of investment climate caused by a very special kind of securitized 'resource nationalism' typical for the Putin regime. Yet another consequence is reinforcement of the EU persistence in

proceeding to a 'non-carbon future', despite the increasingly obvious shallowness of its pretensions for leadership in minimizing emission. Both Russia and the EU remain essentially in denial that the time for energy-geopolitical games around the small north-western corner of Eurasia is coming to an end; the nexus of energy flows is fast shifting to Asia-Pacific, and while Russia can connect with this trend, the EU will have to work hard to prove its relevance.

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