Understanding the Energy Interdependence Between the EU and Russia: Case of the Baltic Sea Region

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Abstract

This study is conducted with the purpose to unfold hidden sides of the EU – Russian energy cooperation and to shed a light on possible reasons for existing problems that have rarely been voiced before. This study provides an alternative view on the role of the Baltic Sea region in the overall EU – Russian energy dialogue and its current situation. In this research the historical observation of the energy interdependence regime development is examined and the crucial turning points in the energy interdependence like the EU enlargement 2004, the gas cut offs 2006 and 2009, and crises 2014 are reconsidered. The energy security policies of the EU and Russia are analyzed by adopting the realist approach and applied to the case of the Baltic Sea region. Furthermore, based on the regional complex security theory and interdependence theory, the way how interstate gas relations in the Baltic Sea region affect the EU – Russian interdependence is discussed.

Key Words: European Union, Russia, Baltic Sea region, natural gas, energy, realism, liberalism, regional security complexes, interdependence, conflict, security

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List of Abbreviations

UGSS - Unified Gas Supply System
EU – European Union
EUSBSR – European Union Strategy for the Baltic Sea Region
BASREC - Baltic Sea Region Energy Cooperation
CBSS – Council of the Baltic Sea States
TSO - Transmission System Operator
EEA - European Economic Area
LNG - Liquefied natural gas
BEMIP - Baltic Energy Market Interconnection Plan
TEN-E - Trans – European Networks Energy
ECT - Energy Charter Treaty
IEA - International Energy Agency
TPES - Total Primary Energy Supply
GDP - Gross domestic product
EC - European Community
NATO - North Atlantic Treaty Organization
TACIS - Technical Assistance to the Commonwealth of Independent States
PCA - partnership and cooperation agreement
TAP - Trans Adriatic Pipeline
TANAP - Trans-Anatolian Natural Gas Pipeline
CIS - Commonwealth of Independent States
Introduction

Natural gas is the most dynamically growing fossil fuel in the international energy market. The reasons behind this growth are e.g. that it has been competitively priced and that it is highly convenient to use both in industry and domestic, as well as in power generation. Furthermore, it is the most environmental friendly fossil fuel. It is not surprising that most energy forecasts, among them the IEA World Energy Outlook 2015, suggest a continuing, substantial growth in demand for gas globally as well as in the European Union (EU).\(^1\) Despite efforts to increase the share of renewables in the overall energy mix, fossil fuels will remain the most important sources of energy supply in the foreseeable future.

In order to deal with growing demand, to ensure energy security and providing sustainable environment the cooperation between energy producer and consumer countries is seen as an important factor. The gas interdependence model between the European Union and Russia is an example of such cooperation with a long lasting history, with its ups and downs. The current state of cooperation is a twofold interplay of realization of mutual benefits on the one hand and contradictory visions on how to deal with energy related issues on the other.

Taking into account the tendency, energy issues have come to capture attention of policy makers and researchers and it seems that the discourse of rising problems in energy relations has taken upper hand in this discussion.

Problem Statement

Gas cooperation between the European Union and Russia has existed since 1960, has successfully passed a number of tests and now is an important aspect of the overall EU – Russian relations. Russia is the largest importer of natural gas to the EU, where revenues from export to the EU constitute a large share of Russian GDP.\(^2\) Nevertheless, current


\(^2\) World Bank (2014) "World Development Indicators: Contribution of natural resources to gross domestic product".
policies towards the energy relations of both the EU and Russia do not seem to follow cooperative path and the realization of previously established initiatives became modest.

The Baltic Sea Region is an important and strategic point for both the EU and Russia. For the EU courtiers of the region have been of a great importance for its security of energy supply as stated in the Energy Market Report made by the Council of Ministers in 1999. For Russia the Baltic Sea region have always been important because it accumulates not only consumers of Russian gas but also distributors that take an important transit location in the natural gas export system.

There are a great number of studies on interdependence between Russia and the EU in terms of energy and particularly gas trade as well as analysis of misunderstandings and conflicts generated with this regard. Nevertheless, the way such interdependence can affect and be affected by the situation in the region have been poorly explored. Neither was it observed how the EU enlargement of 2004 and the energy integration of the Baltic States and Poland influenced the overall state of relations between the EU and Russia. None of the studies observed the regional situation as a potential cause and, therefore, solution for the EU – Russian energy relations “crises”.

Therefore, the gas relations between the European Union (EU) states and Russia in the Baltic Sea region are interesting to study in relation to if and how it contributes to conflict or cooperation in the energy dialogue regime between the larger EU and Russia.

**Purpose and Objectives of the Study**

This study is a descriptive and analytical research which is aimed at a deeper understanding of the EU – Russian gas relations development and specifically at the explanation of why and how the relations develop as they are influenced by the situation in the region.
when the conflictual issues occurred through the case of the Baltic Sea region. Therefore, the main question is defined as follows:

What are the main conflictual issues of EU – Russia energy interdependence (with specific focus on natural gas) and how are they connected to the gas relations in the Baltic Sea Region?

The research questions are as follows:

- How did the interdependence between Russia and the EU in relation to natural gas emerge and evolve?
- What are the positions of Russia and the EU towards the gas trade in the Baltic Sea Region?
- Which implications create interstate energy relations in the Baltic Sea Region to EU – Russian gas interdependence?
- How to improve future cooperation in the Baltic Sea Region in order to positively affect the EU – Russian energy relations?

The Importance of the Study

The field of energy has been an important aspect of the overall EU – Russian relations, in more than any other EU and Russia have mutual interests. Currently 70 % of Russian natural gas exports to the EU, which constitute 30 % of the EU’s natural gas imports and 40% of natural gas consumption. Fossil fuels represent almost 80% of the Total Primary Energy Supply (TPES) of the EU. Russian natural gas export to the EU constitutes nearly 25% of Russian GDP and almost 50% of it funds the Russian government budget.

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8 World Bank (2014) "World Development Indicators: Contribution of natural resources to gross domestic product".
On the surface the energy interdependence between the EU and Russia promises to be a good fit for both parties. Yet, contrary to the expectations, the progress in cooperation appears to be modest if not stagnating. Moreover, the process of reducing mistrust and conflict through the gas trade turned the other way round and started to bring damage for the both sides. The possibility to unravel weak points, to overcome disagreements and to foster energy cooperation is becoming crucial.

In the overall EU – Russian energy cooperation a great role is played by interstates’ energy cooperation, in particular, and their overall relations in the Baltic Sea region. Gas has been an issue of high priority for many states in the region and it is a central element of Russia’s engagement in it. Most of the countries in the region are members of the European Union. Therefore, the way Russia and the EU choose to manage their energy cooperation are to a large extent conditioned by the state of relations on the level of the Baltic Sea region.

The study is conducted with the purpose to unfold hidden sides of the EU – Russian energy cooperation and to shed a light on possible reasons of existing problems that have rarely been voiced before. This study provides an alternative view on the role of the Baltic Sea region in the overall EU – Russian energy dialogue and its current situation. Current findings and conclusions can become an impulse for further debates and revision of the popularized view on the energy interdependence between EU and Russia. Further, by overcoming deployed problems, bringing the two sides back to more harmonized relations.

Methodological Framework

Considering the topic of the research and its intertwined design, it is logical to approach the research problematic by a careful usage of a collection of approaches and methods. To answer the research question of the thesis it will be appropriate to conduct a qualitative research using an array of methods that such an approach offers.

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By using the qualitative research method, the study is structured in three parts in order to make it easier to follow: theoretical, empirical and analytical. Each of the parts is conveyed through the usage of particular qualitative techniques and methods.

The concrete techniques to gather and analyze the collected data are historical evaluation of past occurrences, which traces events over the historical evaluation and reflects changes in the set of circumstances; the research of case through the complex approach; the analysis of statistical data, legal and governmental documents, as well as content analysis of academic and mass media sources.

**Theoretical Part Through the Secondary Research**

The theoretical part of the study is aimed at providing a useful theoretical framework and constructed on the theories of interdependence, energy security and regional security complex theory. The ideas of social phenomena are theorized through the deductive approach, meaning that the study starts with an abstract logical relationship among theoretical evidences and then test the observations against empirical evidence. The several theoretical paradigms of international relations are combined in the research in order to increase the explanatory value. Thus, the realist and liberalist views on security and interdependence are analyzed for explaining the emergence and development of interdependence issues and concerns within the EU – Russian gas trade relations.

Research on theoretical framework is mostly an analysis of secondary research findings and intended to summarize the analytical framework in order to be further applied to the study results of historical and case investigations. It contains the selection and discussion of theoretical material that explains concepts such as security, interdependence, conflict and cooperation in the context of energy relations matters. The findings are evaluated and a detailed comparison of theories in terms of their explanatory applicability to the current international order in the region is made. The theoretical framework analysis shows how

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useful certain concepts and theories for understanding particular patterns of states’ and international actors’ behavior. Further, based on the theoretical analysis, possible paths that countries in the Baltic Sea region might follow in order to achieve coherent dialogue.

The Empirical Part Through Historical Research

The empirical part of the study is aimed at providing an empirical research of the EU – Russian energy partnership developments throughout the history, which provides necessary background for examination and understanding of the respective energy policies of the EU and Russia. This part is conducted in the format of historical research, which tends to analyze aspects of EU – Russian energy cooperation by focusing on the controversies and success stories in the relations through the period of more than half a century. It begins from the point when the gas supply issue started to obtain a status of prominent factor in the relations between actors involved into the cooperation schemes, goes through the ups and downs of the cooperation with the focus on main “tipping points”, which caused misunderstandings. Also, it discusses the impact of such cooperation to the Baltic Sea region throughout the time up to current dates.

Through the historical research the nuances of events, meanings and ideas of the past are systematically recaptured and analyzed to provide a comprehensive understanding of the present. Historical research is the study of relationships among issues that have influenced the past, continue to influence present, and will certainly affect the future. It studies the connections among issues that influenced the past, continue to influence the present, and will have an impact on the future. The research tends to understand events both in literal and latent meanings and carefully consider the data about the past without imposing modern thoughts or understanding. Historical tracing is used to uncover the unknown or forgotten, to seek implications and relationships from the past and their connections with

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13 Ibid.
the present. It involves far more than the mere retelling of facts from the past, it is linking together tired old pieces of information found in different resources.

The historical research in this particular study is based mainly on the secondary sources and it is reasoned with the limitation of time and resources. These elements give a secondhand description made by others on given events and provide an access to details of a primary sources. Using secondary sources will help to avoid the data research that has already been collected and to repeat a work that has already been done. Secondary resources on the issue of energy supply between Russia and the European Union are research articles, news observations, and historical books. Nevertheless, to support the validity of the statements, some of the primary resources will be checked against other sources to see if they are coherent. As a primary resources in a historical research part a technical documentation on a soviet and recent pipeline structures are used.

Analytical Part Through a Case Study

The analytical part of the study has the purpose to provide an analytical explanation to the empirical findings with the help of the applied theoretical framework. Therefore, the EU – Russia gas trade issues are analyzed from the perspective of the energy and economic security and the logics of interdependence theory.

The issue of the interdependency in energy supply relations is rather complex. It includes multiple actors and opinions at a time as well as interacting sequences of events. For this reason it is appropriate to conduct a case study. The case presented in this part of the research focuses on analyzing processes that are happening within the Baltic Sea region in the context of the EU – Russia energy relations.

The case study method helps to closely examine the research problem within a specific context. The phenomenon gets more thoroughly explored when data is observed on the micro level. By micro level is meant a specific geographical area or a number of subjects of

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14 Ibid. p. 210
interests. In the context of the current study the Baltic Sea region there appears to be a perfect case for examining the reasons for energy interdependence crises between the EU and Russia. The case study is a method to explore and investigate contemporary phenomena through detailed contextual analysis of a limited number of events or conditions, and their relationships.\textsuperscript{16}

The case study method plays a supportive role, a background against refining a theoretical explanation in order to better understand some contextual questions and problems. The case is investigated in depth in the context of the EU – Russian energy interdependence crises, all the aspects and activities are detailed, but the case per se remains to be instrumental.\textsuperscript{17} The using of a case study can not only help to explore or describe the phenomenon in the contextual environment, but can also explain the complexities of a situation, the way the issues are used in relation to the environment.\textsuperscript{18}

The case study is not a data-gathering technique in its nature but a methodological approach that presuppose a number of data-gathering measures.\textsuperscript{19} In this research the case study incorporates data technologies such as content analysis of scientific, political and media news articles. In the resources the question of regional energy relations in the political and economic contexts is highlighted. The secondary research analysis of political documents, white papers, official statistical data is used to understand the measures adopted by the parties involved in the gas supply cooperation schemes of the Baltic Sea region, their concerns and attitudes. Most of the documents used in this study are available to the public online and through the university library membership.

By observing the research problem through the lenses of qualitative interpretive methods, processes and relationships in relation to gas supply issue can be discussed. Having an

\textsuperscript{16} Ibid. pp.23-25
\textsuperscript{17} Bha cherjee, A., (2012) “Social Science Research: Principles, Methods, and Practices”, USF Tampa Bay Open Access Textbooks Collection, p. 103
\textsuperscript{19} Ibid. p. 225
interpretive research perspective to the study make it possible to take an explorative view of the case and new insights on the phenomenon can be discovered.

Positivistic methods of quantitative analysis are not used because quantitative analysis assumes an objective world through the language of variables.\textsuperscript{20} It seeks to predict and explain general causal laws among the variety of researched objects. Quantitative measures often exclude members' meanings and interpretations from data and in this study the members interpretation is of interest. Positivistic methods require statistical samples which often do not represent specific abstract ideas and which do not allow understanding of individual cases. This way of measuring the reality would be difficult to apply to reach the main purpose of the research.

**Limitations of the Study**

Despite great achievements in increasing the share of renewables and other means of producing energy in the overall energy mix, fossil fuels remain to be the most important sources of energy supply. Electricity, coal, renewable energy resources and nuclear power are not included in the research. Even though those means of energy are important and play a huge role in the relations within the Baltic Sea Region, the scope becomes too broad and the topics need to be studied separately.

Currently Russia is the biggest supplier of gas to the European Union and holds a great share of its imports to the Baltic Sea region.\textsuperscript{21} In the Baltic Sea Region, both Russia’s and EU’s actions on the energy affair perceives to be a factor that to a great extent affects the decisions and actions of the other states of the region. Therefore, the study focuses mostly on the projects and actions that are affected by the EU-Russia’s energy relations. Such projects as Nabucco, Trans Adriatic Pipeline (TAP) gas pipeline or the Trans-Anatolian gas pipeline (TANAP) are out of the scope. However, they do exist and are important when it comes to the EU level energy security challenges. Only related reactions and policies of other states in the Baltic Sea Region are observed and the effect of such policies is analyzed.

\textsuperscript{20} Della Porta D, Keating M, Approaches and Methodologies in Social Sciences: a pluralist perspective, Cambridge University press, 2008 , p. 29

The study includes views, perceptions and needs of various countries surrounding the Baltic Sea Region. The resources reviewed are mostly in English and Russian languages, which mean that, probably, some of the recent facts that are not translated or not mentioned in the English or Russian language literature can be missing.

There exist a number of gas suppliers to the EU and the Baltic Sea region particularly, the biggest and most influential are Russia and Norway. Nevertheless, the case of Norway is not considered in the study because being a part of EEA its national energy policies are more associated with the EU energy norms and strategies. It would be more reasonable to observe its influence on the region in the context of another more detailed and focused research that deals with this topic particularly.

**Structure of the Thesis**

The thesis starts with an abstract followed by introduction, three parts and ends with appendixes. Introduction signposts the context of the study, states the problem as well as gives a description of the aim, objectives of the research and its relevance. Followed by the description of research and collection methods, limitations of the scope of study as well as the literature review.

The structure of the second part of the study reflects the aim and objectives. It starts with outlining a theoretical framework constructed on the theories necessary for explaining the research question. It deals with the historical discussion on the challenges and success stories in the relations on the gas trade issue between the European Union and Russia. The following part focuses solely on explaining the interdependence crises in the EU - Russia gas relationships through the lenses of suggested theories. The last part gives an investigation on the energy relations crises between actors in the Baltic Sea region by evaluating the previous findings and tries to figure out the possible solutions for improving the cooperation.
There is a sizable literature discussing the issue of European dependence on Russian natural gas in both political and economic aspects. The central point of the studies is largely overlooks security of supply issues and unreliable supplies to the European gas market. According to this interpretation the Europe’s dependence on natural gas from Russia is becoming a growing problem. Gas crises in the discourse of these annalists are interpreted as a part of Russia’s ambition to regain political and economic influence through the “energy weapon”.

Another related branch of literature challenges the all-too-often cited ‘gas weapon’ view by giving alternative rationale underlying Russian energy policies for exploiting its gas resources and sales to Europe through a much less dramatic interpretation. They emphasize that Russian gas exports take the form of merely business relations and technical cooperation and that frequent disputes with former Soviet states are centered on economic rather than politically issues, simply grounded to the problem of nonpayment.

From the historical point of view many authors analyze the gas trade between the EU and Russia starting from the period of the collapse of the Soviet Union. These studies also underline the tendency of the Russian government to use its energy leverage as a source of power to reward its supporters and punish its friends. A fewer studies are aimed to understand the way today’s interdependence emerged. The book gives an in-depth historical inquire on how the actors on the other sides of the Iron Curtain managed to promote the establishment of natural gas relations at odds with the world’s formal political, military and ideological divisions.

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22 See Quast and Locatelli, (1997); Oostvoorn, (1999); Finon and Locatelli (2002); Tarr and Thomson, (2004);
24 Goldthau and Andreas (2008)
25 Newnham (2011); Larsson, (2006)
26 Per Högselius (2013); Hubel, H. (2004); Shaffer, B.(2009)
In relation to the regional aspects of the Baltic rim, the analysts focus extensively on the Baltic states or the, so called, Eastern Europe and above all on the historical mistrust and fear combined with “Russia’s political use of energy and pipelines”. As a consequence, there is a consensus currently guiding western policy analysts, media and politicians that esteems gas primarily as a political weapon of a Russia elite. There is another range of researches focusing on the cooperative and conflict relations in the Baltic Sea region presented in a more overall relationship context. They examine region on the reason of tensions and are looking for a ways to reach an overall coherence between the states. A more critical but cooperative way of seeing the energy component in the region and Russia’s role in it also exist but such discourse is less frequent.

Against the popular critics, most analysts agree that in case the growing demand of European costumers to be met, Russia’s natural gas will continue to dominate the European market in the foreseeable future.

Regarding the theoretical aspect of energy relations, it is remarkable that energy related issues have received limited direct attention of International Relation theorists. It should seem that understanding the paradigms and rules of conflicts, competition and modes of collaboration between states in the context of energy are evidently important in the realm of international politics. Nevertheless, as it is pointed out by Brenda Shaffer, the principal journal in international relations and security studies, International Security, has only published eight articles devoted to energy in its 30 year history.

Indeed, many research institutions like The Center for Energy Studies at Rice University’s Baker Institute, Harvard’s Geopolitics of Energy Project of the Kennedy School, The CSIS Energy and National Security Program and journals like Foreign Affairs, Foreign Policy, International Affairs, Washington Quarterly do often produce energy-related research papers and articles, but these studies are primarily policy- rather than theoretically-oriented.

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27 Smith, (2007); Webb, (2006); Businessweek, (2006); Norman, (2005); Clark, (2006);  
30 for exceptions, see Lieber (1992); Paarlberg (1978); Dannreuther, (2010)
Nevertheless, there is always a possibility to observe energy related issue from the point of classical International Relation theories. Therefore energy interstate relations can be observed through the lenses of realist school of thoughts and such prominent authors as Kenneth Waltz, Carr and Morgenthau. These approaches are applicable even when it comes to the energy security relations even in the post-modern world.

The core assumption of the defensive realisms theoretical principle is a security dilemma, which has been first observed by Herz and were developed further to explain the cooperation that exists under the security dilemma by Jervis. Security dilemma explains the actions of the state intended to heighten their security. Andrej Krickovic observes the security dilemma that appeared between the European Union and Russian on the ground of energy interdependence. His study implicitly outlines realist assumptions incorporated into the liberal notion of interdependence and presents a theoretical paradox of energy interdependence security dilemma.

The regional aspect has been explained by constructivist Burry Buzan, a student of the Copenhagen School, who adopted the realist approach to his security studies. This School proposes the concept of Regional Security Complex. Further Mikko Palonkorpi evaluates theoretical aspects of energy security basing his study on the theoretical concept of Regional Security Complex Theory.

The concept of interdependence was developed by Keohane and Nye in the late 1970s and encouraged further discussions on cooperative relationship of mutual interdependence

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32 John H. Herz, (1951)
between actors claiming that security in the post-modern society is based on transparency, mutual openness, interdependence, and mutual vulnerability.\footnote{See Stein, (1982); Axelrod, (1985); Cooper (2000, 2003); Lipson, (2001); Moravcsik, (2009);}

More concrete observation and analysis of the mentioned above authors are presented in the following part of the study. The paradigms of mentioned in the literature review International Relation theorists are applied to the notion of energy relations.
Theoretical Framework – Security and Interdependence in International Relations Theory

One way to explain the nature of patterns and to identify structural regularities in the international politics is to turn to the International Relation theories. International Relations theories help to understand how interactions between states are conducted and the world in this realm looks like. The overall variety of contemporary theories is quite complex and includes a range of diverse explanatory, normative and methodological theoretical approaches. The two traditionally opposing foundations of theoretical paradigms are realism and liberalism. These most prevalent positivist schools of thoughts are normally considered as basic and contrasting, but in order to provide more syncretic and holistic picture of the trends and systems, these are here complemented with ideas of constructivism.

Energy relations are driven by the complexity of factors starting from the energy security policies to the notion of dependency and interdependency of the actors. A theoretical pluralism of main International Relations theories approaches are applied and liberalist’s definition and assumptions on interdependence, realism’s understanding of security and the Copenhagen School’s neorealist perspectives on the energy security complexes are used.

This section seeks to identify how the principles of the key International Relation schools of thoughts provide understanding of conflicts and cooperation in the Baltic Sea Region affected by energy relations between the EU and Russia.

By adopting liberalist approach, the politics of international energy gives a greater weight to the study of regimes and institutions, the transformative potential of transparency measures and norms. It tends to emphasize the value of cooperative behavior and the possibility to overcome inter-state conflicts through economic and political interdependence.39 Realism, on the contrast, prioritizes the study of security, geostrategic tensions and geopolitical distribution of power in the international anarchic environment. It focuses on rational state-

centric choices, the value of resources and the inter-state conflicts that emerge from these.\textsuperscript{40} The Copenhagen School adopts the realist perspective towards security and considers anarchy and state-centrism as the main features of the international structure, although call to pay attention on the regional unit of analysis. In the energy studies the region is theoretically interesting because it accepts an expression of energy security needs that is generated below the international level but above the state level.\textsuperscript{41}

The concepts of security and interdependence are interconnected and the analysis of both is successful only when discussed together in the context of this thesis. Since the World War II and the end of Cold War the globalization process has changed the structures of international politics in general and diversified the concept of security in particular. Security is no longer defined in the military and geopolitical context only; because of globalization, states have obtained other security concerns apart from geopolitical ones. The same is true for the interdependence studies which with the development of international institutions, norms, regimes and liberalization of the trade has switched its military focus on more complex systems.\textsuperscript{42}

\textbf{Theoretical Overview: Liberalism and the Theory of Interdependence}

The concepts of energy security and interdependence are interconnected and the analysis of energy relations between the EU and Russia is successful only when discussing both.\textsuperscript{43} The concepts of dependency and interdependency have been widely discussed within basic International Relation schools since the 1960s and 70s.\textsuperscript{44} Neo-realists emphasized political dependency where states are seeking gains relative to other states, when liberalism sees

\textsuperscript{40} Ibid.


\textsuperscript{43} Sullivan, Michael P. “Theories of International Relations: Transition vs. Persistence”. New York and Hampshire: Palgrave Macmillan, 2002

\textsuperscript{44} Palonkorpi, Mikko, “Energy Security and the Regional Security Complex Theory”, Aleksanteri Institute, 2008
dependency in a market terms where states seeking gains without interest to the gains of others.\textsuperscript{45}

Nevertheless, within the mainstream international relations theorists interdependency has been associated with liberal tradition as a conscious critique of the realist approach to international politics. A key argument of liberal approach is that relations built within a “democratic peace” most notably are cooperative and states do not fight wars against one another. Liberals argue that democratic regime matters in how actors conduct international politics and that global prosperity can be achieved if markets are “left open” and trade is liberalized.\textsuperscript{46}

These notions conform to fairly classical liberal views and are being embedded into practices and perversions of the energy politics, economics and international relations. First of all, it is a promotion of liberal regional and international energy regimes and institutions such as the International Energy Agency (IEA) and the Energy Charter Treaty. A common liberal assumption is that the development and expanded membership of liberal international energy regimes facilitates international interdependence and cooperation.\textsuperscript{47}

Such approach suggests that the key solution to an energy security policy is through maximized liberalization of energy markets. Liberals underline that most of the conflictual practices and institutions drive itself from imperfect markets. The main idea of economic liberalization is that if international energy were liberalized and principles of comparative advantage were properly instituted then energy resources would be provided not only at the most economically efficient way but also without compulsion of geopolitical competition and political conflicts.\textsuperscript{48}

\textsuperscript{45} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010 , p.6

\textsuperscript{46} Burchill, Scott et.al., (2013), Theories of International Relations, Houndmills: Palgrave. 5th Ed.

\textsuperscript{47} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010 , p.10

\textsuperscript{48} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” POLINARES working paper n. 8 September 2010 , pp. 5-10
The European Union has been the main liberal paradigm which proved that regimes and institutions, based on liberal principles of transparency and legally binding norms through economic and political interdependence could lead formerly antagonistic actors to adopt cooperative behavior and promote positive-sum results.\textsuperscript{49} A liberal approach towards energy policy has been adopted and explicitly incorporated into the European Unions Ostpolitik as well as to current Energy strategies. Liberal theories suggest that gas trade played a significant role in creating interdependence between the Soviet Union and its west European neighbors in the Baltic Sea Region during the Cold War. The promotion of energy trade has been a favored tool of a European Union in expanding it’s economic engagement towards the Eastern Bloc believing that it could help diffusing Cold War tensions.\textsuperscript{50}

The idea of interdependence and its pacifying effect have been theorized by many prominent scholars. Kant and Smith have discussed the effect of economic interdependence on states intentions to initiate a conflict. Fear to loose economic gains produced by trade relationship deter states from offensive policies. With the development of economic ties, national and security interests come to be defined more in line with economic wealth rather than military power.\textsuperscript{51}

In their book neo-liberalists Keohane and Nye conceptualize the interdependence and define it as an existence of mutual dependence among international actors in various areas of their interaction. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.\textsuperscript{52}

However, mutual dependence can bring not only mutual benefits but can limit the concept of interdependence to certain costs. Keohane and Nye assert the existence of such

\textsuperscript{49} Burchill, Scott et.al., (2013), Theories of International Relations, Houndmills: Palgrave. 5th Ed., pp.58-70

\textsuperscript{50} Krickovic, A., “When Interdependence Produces Conflict: EU–Russia Energy Relations as a Security Dilemma”, Contemporary Security Policy Volume 36, Issue 1, 2015, p. 4


conditions as sensitivity and vulnerability. By sensitivity authors assume “involved degrees of responsiveness within a policy framework”. Meaning, how quickly do changes on the one side bring costly changes in another, and how high is the cost of the effects. In the state of interdependence to be mutually beneficial several factors should influence the interactions. The extent to which factors can influence one of the parties is measured by its sensitivity. Vulnerability can be described as “the relative availability and costliness of the alternatives that various actors face”. Levels of sensitivity and vulnerability are not necessarily proportional and depend on the type interdependence.

The seminal study distinguishes between symmetrical and asymmetrical interdependence. Under the symmetrical interdependence two parties are equally dependent on each other and therefore will loose equally by breaking the relationship. Asymmetrical interdependence means that one state is significantly more dependent in the relationship and therefore is damaged more by a break. In an asymmetrical interdependence a less dependent partner gain a political leverage over the more dependent one. Under symmetrical interdependence sides have the opportunity to reap benefits from it without the fear of being subject to the manipulation found in asymmetrical relations.

Much of the literature on the EU – Russia energy relations follows the notion of interdependence between these two actors. One part claims that the interdependence is asymmetrical and is bended towards Russia for the reason that European countries’, especially of those in the Baltic Sea Region and Eastern Europe, dependence on Russian gas deliveries is considerably high. Another part of observers does not agree with such a statement and consider that both sides will suffer equally from losses if unable to develop the interdependence in a positive way. Therefore, the EU-Russia energy relationship seems to meet the definition of symmetrical interdependence. There is another group of scholars

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53 Ibid pp.12-18
54 Ibid pp. 13 - 19
55 Ibid pp. 10 - 11
who argue that EU – Russia interdependent relationship tends to bend in favor of the EU side, since the trade with the EU represents a large proportion of Russia’s GDP.\footnote{Krickovic, A., “When Interdependence Produces Conflict: EU–Russia Energy Relations as a Security Dilemma”, Contemporary Security Policy Volume 36, Issue 1, 2015, pp. 3-26}

The uncertainty and the wide range of opinions are resulted from a nature of EU – Russian interdependence. According to Keohane and Nye, the interdependence is difficult to measure in situations when it is asymmetrical, nor it is complex. That is, when states are mutually dependent across a range of economic, politic, social and security issues.\footnote{Keohane, Robert and Nye, Joseph, (1998). Power and Interdependence in the Information Age. Foreign Affairs, 77(5), p. 81} Complex interdependence relationship is dispersed along many different dimensions and minimizes the risk of situation when one party may be willing to use the appearing asymmetrical dependency as a tool of political leverage because it itself may be dependent on that state in a different issue.\footnote{Ibid. pp. 81 - 83}

**Theoretical Overview: From Realism to the Theory of Regional Security Complexes**

To understand conflict and security it is important to relate it also to realism. In general, realism explains state behavior driven by selfish leaders’ appetites for power, by geopolitical aims or by the pre-emptive unfriendly actions mandated by an anarchic international system.\footnote{Williams, P.D, “Security studies : an introduction”, London ; New York : Routledge, 2008 pp. 15-17} In light of realpolitik approach presented by K. Waltz, states are acting accordingly to their structural power and national interests within international structures. Waltzian system proposes that states struggle for survival within a system without any global authority.\footnote{Waltz, Kenneth. (1979). Theory of International Politics, New York: McGraw-Hill.} The logical consequence of the realist studies is that the character of relations among states is characterized by anarchy, distrust and the ever-present prospect of war that tends to appear in repetitive patterns.\footnote{Williams, P.D, “Security studies : an introduction”, London ; New York : Routledge, 2008 pp. 17-18}
Authors writing on the politics of international energy, implicitly inheriting the realist approach towards energy relations with taking the anarchy as the main feature, underline that energy resources are the ingredient for interstate rivalry and competition.\textsuperscript{63} States will fight around the resources and the conflict over the energy is increasingly likely if not inescapable.\textsuperscript{64} States really do fight around the resources. As an example of such a conflict occurred in the region is the Ukrainian crises, Lithuanian disputes with Russia or the Middle East.\textsuperscript{65}

The literature on the politics of international energy relations by adopting the realist theoretical approach underlining the key realist assumptions. First, states perceive the energy as a key and one of the most critical elements of national security and interest. States will compete for access over the resources and control over it. Those countries that hold the natural resources are becoming more insecure and more easily fall under the “resource curse” or “resource wars”. Conflict over the energy resources is increasingly likely, if not inevitable.\textsuperscript{66}

This pessimistic but powerful framework if not agreed but should be taken into consideration when discuss concerns over gas relations between actors and crises policies of the transit states. Each and every state adopts its own energy security strategy to defend perceived vulnerable energy supply sources and transportation routes and that is incorporated into states’ national security strategies.

Nevertheless, such realist-driven framework has been criticized for being focused strictly on military dimensions of power, for over-emphasizing the role of the state and the overall determinism. Some of these criticism can be explained that main realist assumptions were made during the Cold War period and earlier. Realists, whose work was contended after the

\textsuperscript{63} See Klare (2004, 2008); Blank (1995); Karasac (2002); Jafar (2004)

\textsuperscript{64} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010 , p. 3


\textsuperscript{66} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010 , p. 4
Cold War period still emphasize the preeminence of states in the international system but argue that the power of states is assessed across several dimensions – military, production, finance and ideas.\textsuperscript{67}

In the context of energy relations the economic dimensions, namely production and finance, play the central role in actors’ behavior on the international arena. Because of the anarchic order, states are looking for energy self-sufficiency, which indirectly involves relations of security and military capabilities. According to neoclassical realists the scope and ambition of a state policy towards external actors is driven by its place in the international system and specifically by its relative material power capabilities.\textsuperscript{68} Neoclassical realists also note that not only material factors matter but also socio-psychological ones. They give primacy to national character, historic memories, morale and other imperative factors that may play its role in implementation of security policy and responses towards external actors.\textsuperscript{69} Sometimes, the dimension of ideas bends the direction towards the constructivist and liberal approaches and gives a food for discussions within a line of politicization and securitization of energy relations.

In terms of identifying transmission mechanisms for patterns of conflict and cooperation and in providing more dynamic explanation of its transformation over time, the traditional theories, overviewed above, remains to be ahistorical and focused on “current affairs”.\textsuperscript{70} The Copenhagen School scholars Buzan and Waever in their book “Regions and Powers” describe a multi-level approach to international politics and distinguishes international, regional, national and internal levels. Their research does not ignore the insights generated by the dominant realist approach to security.\textsuperscript{71}

\textsuperscript{67} Ibid. p. 4
\textsuperscript{70} Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010 , p. 15
The authors identify as a key level for security studies and for energy security studies particularly a regional level. It is defined by a geographically linked group of states whose primary security concerns link together sufficiently closely that their national security cannot realistically be considered apart from one another.\textsuperscript{72} The described sub-system is defined as regional security complexes and is developed through history, while “retaining” their geopolitical and historical roots.\textsuperscript{73} Europe and Baltic Sea Region are falling under the sub-system level and consequentially adapt main features regarding security and relations within the system.

The central idea is that the degree of security interdependence is more intense between actors inside the regional complex. The regional energy security interactions between two or more states include the relationship of dependency and interdependency, which in turn creates either cooperation or perception of it as a threat – securitization.\textsuperscript{74} Securitization here is a political process, which, in the regional context, is dependent upon geographical variables.\textsuperscript{75} The theory asserts that the regional security complexes are primarily preoccupied with the link between territoriality and security because threats travel more easily over short distances.\textsuperscript{76}

Buzan notice that equally important to define security complex are the historical amity and enmity patterns.\textsuperscript{77} These factors influence in which degree energy dependency is perceived and can explain why certain energy dependencies are securitized and politicized when others are not. Depending on which type of dependency is dominating the sub-system, positive or negative, the regional energy security complexes likely follow the already existing patterns. Positive interdependence can develop along the energy market rules where main

\begin{itemize}
\item \textsuperscript{72} Ibid. p. 45
\item \textsuperscript{73} Buzan, B. (1991), People, States and Fear: an agenda for international security studies in the post-cold war era, Harvester Wheatsheaf, Second Edition, p. 190
\item \textsuperscript{74} Ibid. p. 172
\item \textsuperscript{76} Ibid. p. 12
\item \textsuperscript{77} Buzan, B. (1991), People, States and Fear: an agenda for international security studies in the post-cold war era, Harvester Wheatsheaf, Second Edition, p. 189-190
\end{itemize}
threats are secure supply and sufficient price rates. When securitized, the regional energy complex can be seen as a group of security dilemmas located in certain geographical area.\textsuperscript{78}

\textbf{When Crises Comes - Traditional Security Dilemma in the Relations of Interdependence}

The effect of globalization has moved states as well as International relations theories from focusing on military issues and has given more complexity to the relations between international actors, but the explanatory capabilities of the basic theories can still be applied to the situation that occurs. Taking here the overall energy supply relations between Russia and the EU, it is possible to see the repetitive patterns of occurring security dilemma.

The interdependence theory argues that increased economic interdependence reduces conflict between states.\textsuperscript{79} Most of the studies in measuring the “pacify effect” of the economic interdependence pay less attention on the cooperative-vs-conflictual relationship. However, relationship between interdependence and conflict in the contemporary world may bring another effect that the original liberal theorists did not expect.

Scholars working in the realist traditions argue that interdependence is a potential source of conflict between interdependent states.\textsuperscript{80} The economic interests are always connected with military and security concerns of the states and like any other factor that increases contact and interaction between states, in fact stimulate conflict and defensive mechanisms.\textsuperscript{81}

According to Copland, the explanation why interdependence produces peace in one situations and conflict in another lies in states’ calculations about the future of trade.\textsuperscript{82} Over

\begin{itemize}
\item \textsuperscript{78} Ibid. 189-194
\item \textsuperscript{79} See Solomon, 1980; Domke, 1988; Doyle, 1997, 2005; O’Neal and Russett, 2001; Maoz, 2009.
\item \textsuperscript{80} See Hirschman, 1945; Stein, 2006; Blainey, 1973; Buzan, 1984; Levy, 1989.
\end{itemize}
the time, the balance in a symmetrical interdependence may be disrupted and states might be afraid to find themselves in a state of asymmetrical interdependence and to fall under the political leverage of a less dependent state. States that are threatened with such a possibility are more likely to pursue unfavorable policies to lessen such a dependency. Then, reducing the dependency without increasing the dependence of the other side is less likely, which by a consequence threatens the security of another partner-state. A situation of a classical security dilemma appears, when no state can gain in security without threatening the security of others.\(^{83}\)

The security dilemma is one of the most important theoretical ideas in international relations. The concept was developed by Hertz, Butterfield and Jervis.\(^ {84}\) Security dilemma is a term traditionally used to describe uncertainty and misperceptions of international actors that would lead to the pre-conflict situations. Jervis explains that such a situation appears when an increase of one’s state security can decrease security of others.\(^ {85}\)

The general motive of the classical security dilemma is fear, which relates to the Hobbesian culture. Fear, distrust and misperceptions push actors to reinforce their national interests against others and thus may destabilize international systems. The emergence of a security dilemma may cause a range of consequences, starting from lack of interaction between actors in the security environment and emergence of mutual distrust, to the system of dispute regulation, that does not work or works inappropriately. A security dilemma often leads to negative choices, raising tensions between sides.\(^ {86}\)

The case of EU – Russia energy supply relationship seems to be falling under this theoretical proposition, where the steps taken by each side in order to decrease the dependency or to increase the dependency of another has misbalanced the relationship and caused security


concerns. In liberal security environment states are supposed to cooperate in order to escape the classical security dilemma.

In case the interdependence between the EU and Russia was characterized as both symmetrical and complex, as Keohane and Nye’s theory suggest, the trap of security dilemma can be escaped.\textsuperscript{87} Unfortunately, the relationship is not a complex one and the symmetrical interdependence is confided to only one area of energy trade. Even though the EU is to a great extend economically dependent on the imports of Russian gas, the overall figures of a trade relationship underline an increased dependency of Russia on the EU as importer, technology exporter and investor.\textsuperscript{88}

In fact the liberal school as well the realist school meet difficulties in suggesting the ways out from security dilemma on the basis of solely EU – Russian cooperative interactions towards gas issue.

To sum up, this chapter formed a theoretical framework that will contribute to analyzing the nature of patterns in the energy studies and identify structural regularities. By looking into a number of International Relation theories the way of interaction between states on energy matter can be framed. Energy relations matters will be discussed through the lenses of liberalism and realism, complemented with observation of related ideas of constructivism.

Next, the empirical parts of the study, starting with a historical overview are presented.

\textsuperscript{88} See explantation in Part 3 of this thesis, p. 51
Historical Overview of the Gas Supply Relations between EU and Russia

The importance of Russian gas in current European and Russian interdependence and the development of relations in the Baltic Sea region need to have a historical underpin. The historical observation in the research helps to answer “how” and “why” questions regarding Europe’s current dependence on Russian natural gas. The objective is to reveal the line of events that led to the maintenance of energy interdependency and its political and economical consequences. It leads to an understanding of the fears standing by the vulnerabilities of actors and the opportunities that the gas trade seems to offer.

Soviet Union pipelines – Gas for Everyone

From the years 1960 the Soviet Union government started to give special attention to the role of natural gas in the economic development strategy of the country. Increasing gas production was aimed to ensure the objectives of fast growing industrialization and transportation of the country as well as gasification of heating systems in the regions and cities. In the Baltic region gas played a very important role for both the Soviet Union countries as well as for the Western block. After the world energy crises of 1972 when the prices on the natural resources extracted from the Middle East jumped gradually, the Soviet Union gas started to get a broader demand in the world’s energy market.  

Since that times the European Union Member States in the Baltic Sea Region and Russia are connected through the unified gas supply system (UGSS) with the original in-place gas producing, transmission and storage network of the former Soviet Union (Figure 1). There are four pipelines connecting Finland, Estonia and Latvia directly to the UGSS. Germany,

89 Карпов В. П. Нефть И Газ В Промышленной Политике Ссср (России) // Вестник НВГУ . 2010. №4. pp.75-88 ;
Lithuania are connected to the transmission network through the Yamal – Europe gas pipeline that goes through Poland and Belarus. There are five more gas pipelines connecting Poland and Germany to the UGSS that are passing through Ukraine. Sweden and Denmark are receiving gas indirectly through the European pipelines that are connected to the Yamal – Europe. The most recent pipeline that is delivering Russian gas directly to the European customers and to the region is Nord Stream pipeline. It is an offshore natural gas pipeline that connects Russia and Germany.

Figure 1. Unified Gas Supply System of Russia

Source: East European Gas Analysis

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91 East European Gas Analysis (2013), Unified System of Gas Transportation in Russia and Capabilities of Export Pipelines (Original in Russian: Единая система газоснабжения России и мощности экспортных газопроводов): http://www.eegas.com/fsu_r.htm
During the Cold War times the pipelines were state owned and the Soviet “red” gas was perceived as a reliable and able to cover not only domestic demand in the region but also the greater Europe importers needs.\(^{92}\) There is no evidence that gas supplies have ever been disrupted for the political reasons by the Soviet Union, though it was often not able to deliver promised volumes to the agreed timeframes because of the technical difficulties.\(^{93}\) In the decades 1965 - 1975 the Soviet Union became a much more secure supplier to the Union than many other suppliers from the East and Europe.\(^{94}\) Even Norway’s gas deliveries during this period were interrupted several times by labor disagreements.\(^{95}\)

It is remarkable that such close relations between western and eastern parts of the region were established in the midst of Iron Curtain era. There was no other field but gas trade where relations were developing and generating interdependencies on both sides during that time. From the perspective of natural gas relations, the fundamental logic of the Cold War obtained paradoxical meaning. Transnational gas trade infrastructure became a self-developing process that proved its robustness throughout the Cold Era opposition and the time of Berlin Wall downfall.\(^{96}\)

The political elite of Western Europe saw interdependence with the Soviet Union as a part of newly released Ostpolitik, “change by rapprochment”.\(^{97}\) The strategy recognized that engaging with the Soviets through the economic ties could bring the two sides closer to concessions on East Germany and West Berlin and possibly increasing Germany’s political influence in Europe. The proponents of Ostpolitik saw energy interdependence as a norm expansion and connection of the Soviet Union economically to the European gas system.


\(^{93}\) Ibid. p.131

\(^{94}\) Ibid. p.6


\(^{97}\) Ibid. pp. 105-109
After the Western leaders received red gas, the Helsinki Act was signed and cooperative security was created to define new dialogue regime between East and West.  

The crucial negotiations over the gas trade agreements from the Soviet Union to Europe took place between the period of 1966 to 1970. Even though the political circumstances for the gas trade development were unpleasant, the cooperative work in the sphere took place exactly during that time and gave a boost to the long-term relations. One of the most prominent agreements for the history of Soviet Union/Russia – European relations took place on the base of the gas trade. In 1970, a twenty year contract was signed between the Western Germany and the Soviet Union. The agreement was called “the deal of the century” because it foresaw the construction of the longest pipeline in the world and cooperation for the many decades ahead.

The agreement was signed within a greater arrangement known as “gas for pipes”, by which West German manufactures and Deutsche Bank would supply the necessary gas related equipment and hard currency in exchange for future “red gas” deliveries. Within the realization of the agreement Siberian Natural Gas Pipeline, also called as Brotherhood Pipeline and two more pipelines delivering gas to Europe was constructed as a physical bridges between the relatively isolated economies.

By 1976 the Baltic Sea region as well as several West European countries were connected with the “red gas” pipelines before linking with grids of other EC and NATO member countries. The import of gas from the Soviet Union was increasing and by the 1982 the

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share of import of gas to the Western Germany reached 14%, in Finland it became equal to 100%.  

The joint Soviet – European gas trade became a subject of major and repeated controversy voiced mostly by the United States. The American objections against the “gas-tubes” project were based on the security grounds. Some of the criticism went further and were convincing that European dependence on Soviet gas supplies would weaken the political resistance of Europe and cause European states being submitted to political pressure under the threat of gas cut offs.

Otto Wolff von Amerongen, a founder of a German steelmaking industry Otto Wolff AG, explains in his article to the journal Osteuropa, 1974 that the US was concerned about the interdependency between Germany and the Soviet Union and was interested in the embargo against the Soviet Union. In fact, gas relations over the boarders and over the Iron Curtains made a ground for a EU – Soviet partnership which benefited mutually both.

Gradually increasing political pressure from the United States and economic dependency on the Western Europe made it painful for the Soviet Union system. The more Soviet Union was becoming dependent on the technology and goods coming from Germany, France and Finland the worse the embargo imposed by the US felt for its economy and market. Moreover, by being involved into the international market relations the Soviet Union leaders started to be afflicted with a sense of inferiority of not being integrated into that system.

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104 Ibid. pp. 59-82
Nevertheless, trade continued with ups and downs but in general “red gas” exports became extremely profitable and successful business for all of the parties. The gas trade and mutual work over the infrastructure construction was gradually deepening and consequentially generating expansive mutual dependencies. The experts on both sides stated that regardless the worsening political situation on the international arena the economic relationships between the Soviet Union and Europe were broadening surprisingly fast.\(^\text{107}\)

The Baltic Sea Region was involved into the development and was of a strategic interest for the western states and the Soviet Union. From the beginning of 70s Eastern Europe became an important market for German and French technology companies. Around 22\% of western machinery industries were realizing in the region.\(^\text{108}\) A key partner and importer of the Soviet Union gas besides Germany and France was Finland. Its role was important not only because of its close geographical position to the Soviet Union but also of its neutral political status. Finland played its role as a mediator between two blocks and was delivering technology and materials, which could not be delivered directly.\(^\text{109}\)

**The Post-Soviet EU-Russia “Romantic” Period**

The collapse of the Soviet Union did not stop the gas trade, on the contrary, the 1990s is defined as a “romantic” period for the east and west relations marked with the cooperative discourse and active engagement of the both sides towards the multilateral and bilateral agreements.\(^\text{110}\) The leaders and business sector were looking forward to possibilities opened by the fall of the Iron curtain. During the 90s Russian economy, including the energy sector, suffered from the economic depression. The economic problems, financial instability and increasing dependency on oil and gas exports made Russia to look for closer cooperation with the European Union. European Union, considering the growing demands on the carbon


\(^{109}\) Ibid. p.119

\(^{110}\) Belyi, Andrei (2003) The enlargement impact on the EU-Russia relations in energy field, Université Libre de Bruxelles p.13
natural resources, was looking forward to secure its supplies by focusing on the Eastern Europe and Russia and bringing it closer to the integrated market economy.\textsuperscript{111}

Just after the Soviet Union collapse and the Cold War ended European leaders launched an Energy Charter process as a political initiative to integrate the energy sectors of the former Soviet Union and Eastern Europe into the broader European and global markets.\textsuperscript{112} In 1991 the European Energy Charter was signed by 51 signatories as a multilateral effort to build a legal foundation for energy security and to promote energy cooperation.\textsuperscript{113} The established legally binding agreement became a base for the Energy Charter Treaty signed in 1994.\textsuperscript{114} The foundation was based on complementarity of Western markets, technology and capital and Eastern natural resources. Observers argue that being primarily an initiative of the European Community it focused to ensure the security of supply western part of Europe.\textsuperscript{115}

For the post-soviet space the transition to the free market economies lead to a number of difficulties, including the deterioration of the investment climate, the decrease of natural resources production and to the increase of the energy and political intensity among them. The more skeptical attitude towards the West in Russia started to take minds of politicians and businessmen. The Russian Parliament did not ratify the ECT because it did not seem to be favorable for the economic climate. The attempts from the Western partners to push


\textsuperscript{115}Belyi, Andrei (2003) The enlargement impact on the EU-Russia relations in energy field, Université Libre de Bruxelles p.12
ratification of the Treaty perceived by the Russian Government as an attempt to impose an instrument of the EU domination.\textsuperscript{116}

Nevertheless, multilateral projects which included countries of both Eastern and Western parts of Europe and Russia were agreed and implemented. In 1992 the Yamal – Europe pipeline corridor project brought Poland and Belarus to even more close gas trade relations. The construction of the transit pipeline was arranged in close cooperation between Russian, German and Polish partners. The pipeline made Poland to become one of the most important transit connection points in the Central Europe.\textsuperscript{117}

In 1994 the European Union signed a number of partnership and cooperation agreements (PCAs) with Russia and countries of the Eastern Europe. The PCA aimed to provide a ground for cooperation in different spheres and to encourage for the sustainable trade relations.\textsuperscript{118} The Partnership and Cooperation Agreement came into force in 1997 and remains the main legal basis for EU – Russia relations including the Energy cooperation.\textsuperscript{119} Under the Partnership and Cooperation Agreement the EU and Russia recognize the mutual interdependency and common interest in the energy relations. The PCA covers the energy sector mutual initiatives and includes the TACIS program, existing since the 1991, and the EU – Russia Energy Dialogues launched in 2000.\textsuperscript{120}

The common work towards the energy trade had a visible results presented in the Joint Report on EU – Russia Energy Dialogue 2000 – 2010.\textsuperscript{121} The trade cooperation was rapidly

\begin{itemize}
\item \textsuperscript{117} Högselius, Per (2013), “Red Gas: Russia and the Origins of European Energy Dependence”, New York: Pal- grave Macmillan, p. 179
\item \textsuperscript{118} Euratom: Council and Commission Decision of 30 October 1997 on the conclusion of the Partnership and Cooperation Agreement between the European Communities and their Member States, of the one part, and the Russian Federation, of the other part 97/800/EC, ECSC,
\item \textsuperscript{119} Ibid., p.1
\item \textsuperscript{120} Ibid.
\end{itemize}
increasing during the period up to the year 2006 and the relations between simple exporter and importer reestablished into the dialogue with mutual exchange of assets and joint realization of projects. The gradual institutionalization of the cooperation took place and realized in different formats.\textsuperscript{122} The importance of the European energy markets for Russia was emphasized in the “Energy strategy of Russia for the period up to 2020” which was adopted in August 2003 by the Russian government. The document forecasting that the markets of the Western and Central Europe countries will remain for Russia the largest in forthcoming 20-25 years. It calls for the continuation of the dialogue both with the European Union and with other countries of Europe.\textsuperscript{123}

For the Baltic Sea Region the cooperation under the Partnership and Cooperation Agreement was attempted by Sweden and Finland through the set up of a Northern Dimension framework. Supported by all the countries in the Baltic Sea rim the initiative aimed to promote cross-border cooperation through the horizontal approach covering important spheres, including the energy. Even though, the attention within the energy cooperation was mostly focused on the environmental issues, it appealed to remove hard security Cold War concerns and tensions.\textsuperscript{124} The strategy promised to be an important tool toward building a dialogue between EU, former Soviet states, Norway, Iceland and Russia including the issues of a gas trade. However, the Northern Dimension has not been considered as a priority for the EU and therefore has not received sufficient political support from the EU Council side.

Regardless the state of trust and distrust between the EU and Russia based on political and military contexts, the cooperation relating the gas sector reached the aim to rise questions of common interest, including the introduction of cooperation on energy saving, developing of production and transport infrastructures, European investment possibilities. The main

\textsuperscript{122} Ibid. p.15
input for the energy cooperation policy have become establishing of the long-term relations between the EU and Russia. The EU expressed its willingness to achieve positive relations with Russia as it was stated in a common strategy towards Russia in June 1999. Russia from its side adopted a more proactive attitude towards reforms in energy sector and gas trade.

The EU Enlargement and Increasing Concerns Over Dependency on Russian Gas

After the collapse of the Soviet Union the structure of the pipelines remained to be the same together with the relations of dependency, but the geopolitical picture of the region started to change. The major change happened with the enlargement of the EU to the 27 Member States in 2004, including particularly the three Baltic States and Poland. In the same way as the EU policies affect its Member States and switch the policy in the Region to the supranational level, the position of the Member States influence the EU’s actions. The traditional linkage to Russia derives security perceptions of the newly emerged EU Member States, conditioned by the elements of post-Cold War and perception of threat. Since the EU taking into account the security relations of the Member state towards Russia, the overall attitude compromises EU’s Common Foreign and Security policies accordingly.

After the enlargement the situation in the Baltic Sea Region started to be dominated and discussed in the terms of the EU – Russia relationships. The discussions on the high level of dependency on a Russian supplier became one of the main topics of the European Union observers and it happened to be perceived as a problem. The main argument was the increasing EU’s import dependency on Russian natural gas. For historical reasons, the new EU Member States are almost fully dependent on Russian gas supplies and are particularly

125 The European Council (1999), Common Strategy Of The European Union Of 4 June 1999 On Russia, 1999/414/CFSP
126 Belyi, Andrei (2003) The enlargement impact on the EU-Russia relations in energy field, Université Libre de Bruxelles p.14
128 Ibid.
worried to be politically exposed by such dependency. In 2007\textsuperscript{129} as well as in 2014\textsuperscript{130} the share of Russian natural gas in the domestic gas consumption in Estonia, Latvia and Lithuania has been 100% and in Poland 48% and 60% respectively.

The leaders of the newly emerged EU’s eastern block have been most active calling attention on the need to lessen the EU’s dependency on Russian gas.\textsuperscript{131} The western leaders and public that have already been worried by the former discourse of 70s between Western Europe and opponents of economic linkages with Russia from the US’s Reagan administration,\textsuperscript{132} have subsequently became concerned of the dependency issues and ‘energy weapon’ implications as a threat to the European security. \textsuperscript{133}

It is a fact that the overall European natural gas import dependency increased from 49% in 2000 to 57% in 2005 and further to 66% in 2012 [\textsuperscript{38} p.72].\textsuperscript{134} Nevertheless, it is interesting that, even though, Russia has maintained its position as the main supplier of natural gas, the amount of gas imports particularly from Russia declined from 49% to 41% of a total extra EU imports between 2000 and 2005 and in 2012 the amount of Russian imports of gas to total

\textsuperscript{133} Among policy analysts Umbach (2010) and Webb (2006)
\textsuperscript{134} European commission (2012), EU energy in figures – statistical pocketbook 2012, Luxembourg: publications office of the European Union, p. 72
EU was equal to 39%. The change in the EU’s perception of its own energy security cannot be explained by the rise of energy dependency on Russia in real figures but rather by an increase in number of EU members who are dependent on Russian gas imports.

Worried by the Russian presence on the European gas market European Union started to implement diversification and energy security policy in order to limit the reliance on the Russian gas supplies. First steps directed on the liberalization of energy markets were taken in 1998 and 2003 indicated by adopting of the EU gas directives. The 2003 Gas Security Directive has been intended to improve security of supply in the natural gas sector. The first EU Energy Security Action Plan was reviled in 2008. These and latest laws and action plans are aimed to regulate the liberalization of energy market in the EU and to reduce dependencies on Russian hydrocarbon exports. Measures to liberalize the energy market had a huge economic contra effect on Russian state-owned Gazprom.

Apart from the market liberalization the EU was pushing the idea of common market and the inclusion of the new Member States to it. Even before the enlargement the EU observed the possibility to include the Baltic Sea Region developing states to the EU gas market in order to cover the increasing demand of the Union. The proposal to “develop the integrated gas market demands and diversified supply in order to ensure the security of supply and to avoid

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monopolistic price structure” is stated in the Energy Market Report made by the Council of Ministers in 1999. It suggested that the “security of supply may be further increased by developing and integrating gas storage facilities of Latvia, Poland and Denmark into the common EU gas grid”.¹⁴²

Current EU policies towards the Region are implemented through the EU Strategy for the Baltic Sea Region and Baltic Energy Market Interconnection Plan. After the negotiations and discussions started in 2008, the Memorandum of Understanding for the Plan was signed by eight EU member countries surrounding the Baltic Sea in June 2009, excluding Russia and Norway.¹⁴³ Needless to say that a great role in both the plan and the strategy is given to Russia as a gas supplier. According to the Strategy both Russia and EU are ready to work together towards sustainable relations in the energy field as well as towards energy security in the region. Another thing is that Russia and the EU see such a sustainability and security from different angles. Moreover, both the plan and the strategy give a role to Russia as a party, that operates externally and that is not included in the system.¹⁴⁴

Despite some different interests, the cooperation within the EU – Russian energy Dialogue was on the path to development as a number of keynote speakers mentioned at the 10th conference in Brussels in November 2010. A good number of meetings and projects were accomplished and achieved. Among them are Harmonization of Energy Policies Of Russia and the EU, Energy Bridges, Institutional Support to Kyoto Protocol, Baltic Environment and Energy, Addressing the impact of the financial crises on EU – Russia energy cooperation and many more.¹⁴⁵ Dialogue aimed “to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues of mutual concern

¹⁴² Ibid.
¹⁴³ Memorandum of Understanding on Baltic Energy Market Interconnection Plan 'BEMIP' signed June 17, 2009, Brussels
in the energy sector can be addressed while, at the same time, ensuring that the policies of opening and integrating energy markets are pursued”\textsuperscript{146} After the enlargement and active diversification actions and EU policies the aim of the partnership started to confuse the parties. On the one hand it seemed as efforts to get closer and increase interactions but on the other to lessen the dependencies.

All in all, the integration and actions took by the EU to diversify the energy suppliers reinforced the outputs of the European relations with Russia. Because of the special geopolitical relations between the new EU Member States and Russia the enlargement has led to the constantly growing politicization of energy trade relations between the new EU countries and Russia. The intended diversification constituted distrust and consequently the politicization of energy supply. This process appears when a threat is exaggerated or misinterpreted.\textsuperscript{147} Now, the issue of security of supply became a matter of the securitization and politicization processes. Some authors state that politicization and securitization of energy relations is closely related to the degree of sensitivity of dependency,\textsuperscript{148} when others argue that there is no linear link between energy security and energy dependence.\textsuperscript{149}

**Crises of Gas Supplies**

Another drastic change in the gas supply relations happened in the aftermath of the Russia – Ukrainian non-payment gas disputes of the years 2006 and 2009.\textsuperscript{150} The latter has left European consumers without a gas for a period of time. Even though countries in the Baltic Sea Region were not so much affected by the crises (Figure 2) the discourse around Russia being a reliable supplier and a threat to the energy security to the countries in the region overwhelmed the media, academic and political worlds. The disputes alerted the EU


\textsuperscript{147}Zvonareva, M. (2015) Dr Andrey Belyi On The Eu-Russia Troubled Relationship, Natural Gas Europe Analytical Journal

\textsuperscript{148}See

\textsuperscript{149}See Belyi,

\textsuperscript{150}Smith Stegen, Karen (2011) Deconstructing the “energy weapon”: Russia’s threat to Europe as case study, Energy Policy 39, pp. 3-5
publicity to the potential vulnerabilities that have been engendered by the energy dependency on Russia. Whether the background of Russian government decision to cut off the gas supply to Ukrainian customers was primarily political or primarily commercial it has been largely used by the observers to support arguments in Russia’s intentions to use gas as a tool to expand its influence and dictate preferential economic and political terms to former Warsaw Pact and Soviet states.\textsuperscript{151}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure2.png}
\caption{EU countries affected by gas cut-off 2009}
\label{fig:eu_countries}
\end{figure}

\textsuperscript{151} for a random sample of voices see among others, Norman, (2005); Labuszewska (2003); Businessweek (2006); Lukas, (2008); Smith, (2011).
Taking into the consideration the development of the EU – Russian relations within the Energy Dialogue, it is visible that the meetings and other related events, together with work of an expert groups dropped rapidly after the 2009. The same is true for the gas import to the EU from Russia. The statistics and diagrams show a constant decline in the import in 2007 and then after 2009 (Figure 3). The reason for the import drop during these years is explained by the cut off caused by the Russia – Ukrainian non-payment gas disputes. The reasons behind the decline in cooperation between Russia and the EU are more politically grounded.

![Figure 3: Import of Russian Gas to the EU](image)

*Source: The oxford institute for energy studies*

The implementation of the Energy Dialogue got more complicated after the 2006 and 2009 gas crises, when Baltic countries called the EU react to their concerns about increasing Russian assertiveness in using energy for blackmailing former Soviet Union members. The gas disputes with Ukraine grounded on the debts of the Ukrainian side and economic unprofitability for Gazprom to hold price rates lower than the normal. Stern argues that the Gazproms policy of increasing prices to the “near abroad” had a two-side purpose to stabilize the financial structure of export prices and to encourage countries’ energy

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competitiveness with European markets.\textsuperscript{153} By applying this strategy Moscow was looking to shift the relations with the CIS to a more commercial ground.

The cut offs happened for the reason that Gazprom and Ukraine failed to come to an agreement on prices of supply and transit. The political and economic routes of the gas crises lead to the Viktor Yuschenko’s statement after he became a president in 2004 through the Orange Revolution in Ukraine. New administration stated that Ukraine would apply European tariff prices to the Russian gas. The suggestion was accepted by Gazprom and Russian government with condition that if the transit rates are leveled to international standards then Ukraine should also buy natural gas from Russia according to European market price levels.\textsuperscript{154} Deriving from a detailed analysis of a Russia – Ukrainian gas disputes 2006 and 2009 made by Kamal Ismayilov and with a purpose to avoid the details of the conflict as well as the party to blame” there are several points to be highlighted. While there is a strong argument that this move was taken in response to political conflict between Russia and Ukraine, the actions of Gazprom were within its legal rights,\textsuperscript{155} the shortage was not originated from the Russian side, at least directly, nor this was a purposeful political move of Russia to show its influence over its European consumers, the Russian position and actions during the disputes show how Russia assesses its reputation as a major European supplier and can not tolerate any damage of its image as a reliable supplier. Decision made in January 2009 by the Russian government to stop gas deliveries to Europe was an unnecessary, risky and irrational action on this stage of dispute.\textsuperscript{156}

After the crises of 2006 the overall atmosphere in the EU was still in line with political objective of the Ostpolitik approach towards Russia. Concerns did not trigger a securitization


\textsuperscript{156} Ismayilov, K. (2013) The EU-Russia Relations in the Context of Natural Gas Trade: Power and Interdependence, Linköping University Faculty of Arts and Sciences pp.71-76
of energy because the majority of EU countries did not have reasons to assume that Russia would use energy for blackmailing against the EU members.\textsuperscript{157} The 2009 crises became a more serious reason for the wake up call for the European leaders to re-evaluate the interdependence. The EU’s energy policy was very seriously criticized in terms of sensitivity of the EU states to sudden cut-offs and the general dependence on a single supplier. Since the gas shortage of 2009 the emphasis on the diversification and on reduction of gas consumption has been increased.\textsuperscript{158}

The latest initiative taken by the EU aimed to the market liberalization and diversification policies was the adoption of the Third Energy Package in 2009. It states that gas producers are not allowed to operate gas transit systems. To diversify gas routs, pipelines that bypass Russia and its gas market were proposed to be built. Such actions were not only economically unbefiicial but also were accepted by the Russian side as double standards and discrimination, as well as increased suspicions about Europeans side true intentions.\textsuperscript{159}

The consequences of clashes of interests around the adopted legislative package felt on the Lithuania – Gazprom disputes. The gas prices to Lithuania have been the highest of all consumers in the Baltic Sea Region and in the EU. The reason for that is explained by guidance of the Third Energy Package. The EU’s Third Energy Package forbade gas producers to hold the ownership of the pipelines. Under this law the EU Member States had a right to implement policies to lessen operational control over the transit systems for gas producing companies.\textsuperscript{160} The package suggests three options on how to manage the ownership over the pipelines. First foresees that gas producers keep the ownership over the pipelines but they should transfer the management to an independent company. Second option allows to

\textsuperscript{160} European Commission (2015) Energy, Market Legislation Overview
hold ownership but should allow the pipelines to be used by other companies. Under the third option gas producers have to sell all of their pipeline stakes.\textsuperscript{161}

Lithuanian government chose to implement the third option and separated gas sales and gas transmissions which was previously operated by the national gas utility company Lietuvos Dujos, where Gazprom had a 37 per cent share.\textsuperscript{162} With a purpose to cover the losses resulted in a break-up, Gazprom raised the prices for Lithuanian customers. The prices to Lithuania were one of the highest than those to other Baltic Sea states. The Lithuanian government with the European Commission launched an antitrust complaint against Gazprom in 2012.\textsuperscript{163}

Another issue that made the leaders of the Baltic Sea Region and the eastern EU to accuse Russia in being a “trouble maker” caused by Russia’s steps took in response to the Ukrainian crises. The aim was to keep disputes with transit states from turning into greater supply disruptions. In cooperation with Germany, Finland and France a project of an alternative supply route through the Baltic Sea was launched. The Nord Stream pipeline supposed to be the direct gas pipeline to ensure the reliable gas supplies to Europe. The pipeline was not supported by the Baltic Region countries because of the fear that Russia might use its political weapon against the dependent states. Polish Defence Minister Radek Sikorsky called North Stream the ‘new Stalin-Ribbentrop Pact’, accusing Germany and Russia of again looking to ‘carve up’ Poland and the rest of central Europe between them.\textsuperscript{164}

Being aware of the European diversification strategy, Russia has also started to search the ways to lessen the dependency on European markets by turning to the Asian markets. The price policy of Russia also fell under the logic of securitization of its economic interests but gave the observers even more reasons to blame Russia for growing conflict in energy sphere.


\textsuperscript{162} Ibid. p.12

\textsuperscript{163} Ibid.

The anxieties around the gas supply relations started to grow as a snowball and rise further doubts about mutual intentions and willingness to cooperate.

**Russia – Ukrainian Crisis 2014 and European Sanctions**

The latest Russia – Ukrainian crisis and the annexation of Crimea has left a heavy mark on the EU – Russian relation in all the spheres. The economic sanctions and political sanctions imposed by the EU on Russia put its economy in a difficult situation. The security concerns on the both sides escalated and consequentially numerous precautionary measures have already been implemented. Moreover, these new concerns have put into question the political and economical rationale for the interdependence model.165

Before the current crises, there were signs that decreased interdependence started to be accepted on the both sides and larger trends were having positive effects on EU – Russia energy relations, even alleviating security concerns. The EU had abandoned Nabucco project and had adopted a much more tolerant stance towards Russian South Stream. From its side, Russia had begun to show more flexibility on gas pricing, offering substantial discounts and renegotiation of long-term contracts, a willingness to offer third-party access to its pipeline systems.166 Unfortunately, relations have jumped back due to the conflict in Ukraine.

The outbreak of the Ukrainian crises brought to the cancellation of the South Stream project, a gas transit route proposed to deliver gas to the EU through the Black Sea. The pipeline created controversy, as it happened with its predecessor the Nord Stream, among the European publicity. It was proposed in 2007 and went through agreements and disagreements on launching the project. In fact, the international situation and the imposition of European and US sanctions on Russia for the Crimean annexation limited

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Gazprom’s financial ability to build the expensive pipeline project. At the same time the EU and the US have averted the project by putting pressure on Bulgaria to retreat from the South Stream projects.

After the 2014 crises the EU speed up the plans for the diversification process of energy sources and bringing up a common integrated EU market. The main accent was made on building LNG terminals and importing it to the EU in case of another crisis with Russian supplies. Nevertheless, due to the high cost of LNG, the EU used only 22% of its regasification capacity in 2013. The most promising option among the alternative means of diversification still stands the Southern Gas Corridor. Following the recent crisis and Russia’s annexation of Crimea, the European Council of March 2014 called on the Commission to draw up a comprehensive plan for the reduction of EU energy dependence by June 2014.

In order to lessen its reliance on European gas market Russia signed a 400 billion dollar gas supply agreement with China in 2014. The move has been amplified since the European sectorial sanctions were introduced against Russia. The deal account for almost 17% of China’s gas consumption by 2020 and will last at least over 30 years. The gas deal with China in fact covers only the amount of income from Russia’s gas exports to Germany but was intended also to show that Russia will not be isolated because of the sanctions and the diversification processes taking place in Europe.

169 Ibid. p.52
However, EU’s current need to import at least 30% of its gas supplies from Russia is expected to continue for at least a few more years.\textsuperscript{172} It means that under the present conditions, the EU will have to wait at least four or five years before it will make a decision whether to remain dependent on Russia or gradually walk away from the interdependency relationship. At the same time, Europe still remains the main importer of the Russian gas and the sanctions were not imposed only on this sector of relations. EU-Russia Energy Cooperation Roadmap until 2050, signed in 2013 foresees improving of cooperation within the issue.\textsuperscript{173} The economic rationale still exists and that is why interdependence, with a very strong and politicalized emphasis on diversification, remains valid.

In the empirical observation were discussed historical events of the EU – Russian energy interdependence development for a period more than half a century staring from 1960s and finishing with current events of 2014. The reasons led to the development of energy interdependency as well as crucial points defined its current state of affairs were studied. The examination of empirical part leads the study to its analytical part where the key findings on EU – Russian interdependence concerns are observed through the approaches suggested by theoretical framework.


\textsuperscript{173} European Commission and Russian government (2013), ‘Roadmap EU-Russia Energy Cooperation until 2050’, Communication of the EU-Russia Energy Dialogue, Brussels
Explaining EU-Russian Interdependence

The enlarged EU energy market requires a stable network and a large availability of resources, while Russia to a big extent depends on its gas import to Europe and on the access to its technology and investment. A constantly changing political situation in the EU – Russia relations creates a long-term risks for the energy export and supply. Therefore it is important to understand how both sides perceive gas trade interdependence in the context of its security.

Energy plays an important role in forming the security strategy not only for the states but for bigger entities as regions and unions. The way actors conduct its international policy is based on their security strategy. In order to understand what moves parties to act in one or another way and how these actions affect the Baltic Sea region it is necessary to understand which aims they try to reach and what are their concerns with this regard. In this part the strategies of the EU and Russia towards their energy relations are discussed. After analyzing in detail energy policies of both sides it will be visible which concerns do exist in the relations.

In the theoretical part the definitions of economic and energy security and its importance to the national and international security were discussed. According to realists, the acceptable level of welfare and state power is defined by security concerns related to access to the resources, finance and markets. Realist theory also argues that increasing economic interdependence increases the probability of conflict. This part adopts a realist approach as developed in the previous chapter. First it defines the two parties security models towards the energy interdependence, namely that of the EU and of Russia. Second, will explain how the inability to come to the agreement is emerging from the confrontation of these models.

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174 Burchill, Scott et.al., (2013), Theories of International Relations, Houndmills: Palgrave. 5th Ed.

175 Dannreuther, Roland, “International Relations Theories: Energy, Minerals and Conflict” Polinares working paper n. 8 September 2010, pp.4-5
Explaining Energy Security of the European Union

The policy of the EU towards the energy security is to a large degree focused first, on liberalization of network and industries, second, creating a single integrated energy market among all the 28 national markets and third sustainable energy exploitation. The Commission since the 1990s articulates the promotion of liberalization of European Energy. The first (1990), second (2000) and third Energy Packages (2007) are the main document of the liberalization legal framework. Objectives that are now set out for the Energy Strategy 2050 was first set in its overall Energy Policy adopted in 2007, which are sustainability, security of supply and competitiveness. These goals were addressed without setting explicit priorities. At the time of negotiating the document, climate change energy-policy agenda was topped for most of the EU-15.

Energy Security was the important issue just for Central and Eastern European Member States. In its internal dimension energy security was addressed and received more importance only after adopting the 2nd Strategic Energy Review, which contained a EU Energy Security and Solidarity Action Plan. Since then the energy security had been discussed as a matter of external energy policy and the energy source placed at the core of EU external energy policy was natural gas.

The direction of EU’s current energy policies is influenced by the dependency issue and supply security, which EU observers tend to interconnect. The main risks named for achieving the goals of a competitive internal market and maintaining risk-free relations with suppliers are the volatility of oil prices, increased state involvement in the gas sector of the producing countries, and political regime in main supplier and transit countries. Among the measures proposed by the EU on external energy security diversification is the most

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178 Ibid. p.15-16
discussed one. EU proposes to enhance its energy security by diversifying energy sources, routes and suppliers. \[179\]

The EU external energy policy with regard to its interdependence with Russia associates with fundamental concerns and unresolved issues. A great number of European leaders worry that the share of Russian gas in the EU is already too large or that Russia want to create a monopoly on the European market for its political purposes. Another part concern themselves with a fact that in a near future Russia will be unable to meet its export obligations due to lack of investments. \[180\]

The concept of security of energy supply was observed by many authors but still seems to be rather blurred. The EU’s policies affected by the US practices, where the focus of energy security has traditionally been towards the reduction of vulnerability to political extortion and has lead Commission 2006, 2008, 2014 to call for reducing energy independence and rising shares of renewable energy. \[181\] The European Parliament supports the Commissions actions towards the liberalization and calls for further integrated market, developed infrastructure, protected costumers, including those more vulnerable. \[182\]

The internal regulations got more attention after the disruptions following the Russian-Ukrainian crisis and adopting the Energy Package in 2009. Internal energy security policy tended to regulate gas and electricity markets within the EU. From the EU perspective the disruption of gas supplies highlighted its vulnerability and lack of a primary EU mechanism to


\[180\] See Kramer (2009), Larsson (2006), Goldthau (2008)


deal with an energy security. The crises highlighted the lack of sustainable national and regional strategies and cooperation between Member States.\textsuperscript{183}

The overarching conclusion that should have come out the EU’s response to the crises analysis is lack of unity towards the EU energy security strategy.\textsuperscript{184} While previous attempts to unite EU members under the overall energy policy were unsuccessful, the gas crises gave an impetus to put into practice already existed principles under previous EU energy policies. An Internal energy security policies aimed to make the EU able to reduce the interference of non-European players.\textsuperscript{185}

One of the major focuses of the strategy is to develop alternative energy technologies that would allow to be less dependent on natural gas supplies from Russia, such as liquefied natural gas (LNG) and shale gas extraction. The LNG and shale revolution is having a significant impact on the European Union energy markets making it possible to decrease the demand for Russian gas and to negotiate tremendously Gazprom existing contracts.

The EU Energy Strategy 2014 with relation to gas issues many time underline Russian role presence on the market.\textsuperscript{186} Within the EU main energy strategy EU encourage the Member States to enter bilateral agreements with Russia only if those agreement go along with overall EU goals. This approach aims to balance Russian dependence on EU imports with security of the EU energy supplies.\textsuperscript{187}

Within the renewed EU energy strategy there were several projects attempted that would allow to diversify the sources of a gas supply and to develop alternative to Russia-controlled

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\textsuperscript{184} Communities, C. O. (2009). The Jaunuary 2009 Gas Supply Disruption to the EU. Brussels: European Commission

\textsuperscript{185} European Parliament, ITRE (2013) Report on making the internal energy market work (2013/2005(INI))


\textsuperscript{187} Ibid.
pipeline routes. Among those are Nabucco project and Trans Adriatic Pipeline which would bring natural gas from the Asian markets directly to central European markets that are more dependent on Russia while bypassing it. However, Nabucco project had troubles moving the initial planning stages and TAP do not have such a capacity to lessen the dependence on Russia.\(^{188}\)

On the international level, the EU energy relations with Russia are regulated by the bilateral treaty Partnership and Cooperation Agreement (PCA) and the EU-Russian Energy Dialogue. The PCA as such is not a legally binding treaty and it is unclear what kind of positive effects it could deliver in the field of energy. Efforts to re-negotiate the PCA have been undertaken since 2006 but it appeared to be difficult on the EU side. Initially, the EU was not able to start negotiations because of vetoes from Poland and Lithuania. When negotiations had begun, the EU suspended them as a reaction to Russian military actions in Georgia.\(^{189}\) The current version had only little effect on the ground so far.\(^{190}\)

To provide a basis for a more pragmatic approach, both sides set up a regular Energy Dialogue in 2000.\(^{191}\) This approach had a potential to deliver some positive results, but due to growing liberalization and misunderstandings after the gas cut-offs, the outcomes remained marginal. EU relations with Russia continue to be defined by bilateral deals between single Member States and Russia rather than a common approach on the European side.

The current EU policy towards Russia is somehow connected more with negotiations about the Energy Charter ratification and gas prices. The EU wants Russia to accept the European


\(^{190}\) European Commission (June 2008) Europa: Press Room: Press Releases: EU-Russia Summit on 26-27 June in Khanty Mansiisk to launch negotiations of the new framework agreement, IP/08/1008

Energy Charter. By signing Russia agrees to open its energy market for a competition of the EU and other foreign companies and to allowed foreign ownership in its energy sectors. The “freedom of transit” principle guarantees access to the transit infrastructure to all producers, that would mean opening the pipelines and giving access for the EU energy companies and to gas resources of such countries as Turkmenistan and Kazakhstan. Russia refuses to ratify the charter because it will mean giving up control over the pipelines to foreign companies.192

The EU argues that its external energy security approach lies on the liberal assumptions of legacy and institutionalization. In fact, policies it proposes to its external partners seem to follow the neo-liberal approach of economic zero-sum gains. The importance of EU markets to non-European partners suggests that the EU is in a position to exert pressure and to insist on a cooperation framework which rationally suits EU interests.

The European energy strategy towards the interdependence with the Russia is based on the liberalization of energy cooperation and securing its energy imports, at the same time integrating the common energy market at the EU - 28. The diversification of importers, sources and transit routs, the break up of vertically integrated national energy companies, unbundling the downstream assets, the attempts to engage external partners into its legislative framework is an attempt of balancing of both internal and external measures in order to lessen the dependency on one single supplier and to ensure a stable, abundant supply of energy for European citizens and the economy.

**Explaining Economical Security Policies of Russia in Terms of Energy**

Russia earns the position of the largest natural gas exporter, in 2014 it exported around 30% of its natural gas production.193 Russian deliveries of gas are very much important for its security and economic situation. The revenue generated from the export accounts 40-50 %

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193 Минэкономразвития России (2014) Мониторинг «О текущей ситуации в экономике Российской Федерации по итогам января 2014 года»
of Russia’s total budget revenue.\textsuperscript{194} It is explained that Russian economy very much dependent on its natural resources and its export. The Russian government adopted an Energy Strategy until 2020 to guarantee that the largest deposits in the natural gas are developed by the states companies to assure that profits from the gas exports are staying in the country and are used for the modernization of the national wealth.\textsuperscript{195} It becomes evident that Russian Energy Strategy is presented as a part of the whole national security strategy.

By pursuing its national interest within international structure, Russia’s main aim is to have a stable customer relations with the EU and to ensure a stable export to the countries as well as to ensure the security of demand and sustainable price rates for its economy. According to that Russia is building its pricing policies and its energy policies. As a supplier it wants to hold the market and it is in its interest to remain the biggest supplier of gas to the regional market.\textsuperscript{196}

The issue of energy security gets one of the highest priorities in negotiations with consumers of its energy resources. For Russia it has been more profitable to process the relations with the EU on the base of bilateral interactions with individual EU members. It is important for keeping the trade profitable to maintain its presence on the European market at a level not less than 25-30%.\textsuperscript{197} Therefore, the Gazprom policy regarding the pricing is established on the tradition of a long-term contracts system. Such system guarantee the cooperation and provides certainty over the gas prices, as well as assure that funds will be available for investment in production and transit infrastructure development. In the Gazprom’s view, it is only long term contracts that assure the payback of investments.\textsuperscript{198}

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\textsuperscript{194} Ibid  \\
\textsuperscript{196} Tatiana Romanova,’Russian energy in the EU market: Bolstered institutions and their effects’, Energy Policy, Vol. 75 (November, 2014), pp. 44–53  \\
\textsuperscript{197} Final Press Conference involving the Gazprom Board of Directors Chairman and the Gazprom Management Committee Chairman June 29, 2012  \\
\textsuperscript{198} Ibid
\end{flushright}
To develop and implement capital-intensive projects Russia need an access to western capital. In its negotiations with the EU, Gazprom underlines the discrimination towards Russian company when getting access to the European capital. It claims that loans offered to Gazprom are 2-3 times more expensive as those offered to big western corporations. Gazprom argues that reciprocity in investments would mean not equally opportunities, as it is stated by the European Commission, but equality in the volumes of investments. Moreover, the integration of pre-investment phase is necessary for the strategy to get distribution markets in the EU. The investment risk should be shared among producers, gas transmission companies and gas consumers. The idea is promoted through the long-term take-or-pay agreements on gas supply, transmission and transit.

The Russian government works to maintain control over energy supply pipelines that transport gas to the European customers. The existing pipelines were all built during the Soviet period and for that reason ignores current interstate boarders which is of an advantage to Russia to have a control over them. Gazprom and Russia oppose the idea proposed by the ECT facilitating energy transit and allowing private companies to control the transit system. Gazprom fears that such framework can be used against its domination over the pipelines within the former Soviet Union states and therefore opposes possibility granting licenses for non-state pipelines. Russia is taking steps to secure its dominance in the European market by building new pipelines and to avoid transit countries such as Ukraine and Belarus.

Among the aims of the Energy Strategy Russia is the increasing of energy efficiency and minimizing of environmental impact of energy production, transportation and consumption.

200 Ibid.
201 Belyi and Klaus (2007) “Transit Dispute Resolution Mechanisms in the ECT and Russia Missed opportunities for Gazprom or false hopes in Europe?”, Journal for Energy and Natural resource Law
These issues are outlined as the second priority out of four in the Russian Energy Strategy. The cooperation towards the balance of energy thinking and sustainable development can prove that Russia is a responsible member of international community and belongs to the group of long-term positive thinking countries. Nevertheless, there are a lot of steps, efforts and investments needed in this sphere of Russian energy policy, which seem to be unrealistic in the short-run.

Russia questions the duality of EU policies towards the cooperation. It claims that on the one hand, the EU gas policies, particularly the Gas Directive notably worsens Russian gas sales conditions in the EU market. The ongoing liberalization of the EU energy markets and growing securitization of its energy policy generated certain fears in Moscow.

For that reason, Russia started pertaining another strategic objective, that is to enter new markets of Asia and North America. It foresaw to develop joint energy projects with Central Asian countries and to expand its cooperation with foreign countries in the development of renewable energy. There exist several potential energy partners for Russia such as China, Japan and India that are interested in Russian energy and that could secure Russia’s demand. In case Russia had chosen to diversify its market towards mentioned customers it would disrupt the EU-Russia relations due to inability to cover the demand of all.

Russia’s energy strategic implications are focused on the development of a gas market in Europe as well as diversify its export to Asian market and Russian president Vladimir Putin mentioned several times during the EU-Russian meetings a possibility of turning to the Asian market. Nevertheless, Russian government have been always choosing the EU as a main

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204 Медведев, А. Экспорт газа. Диверсификация экспортных маршрутов и поставляемых продуктов [Export of Natural Gas. Diversification of Export Routes and Supplied Products]. Moscow: Gazprom

205 Ibid.

partner and was not taking any steps towards the diversification up until the damage from US-European sanctions and the crises in the relationships became too obvious.

To include non-European and Asian markets in long term has a potential to break Russia’s dependency on European markets and shift the symmetry of interdependency to Russian side if European countries continue to be dependent on Russian supplies. At the same time, knowing that the broader Europe is worried about actions Russia might take towards them, but never did, Russia is still continuing to use formal and less formal methods towards neighboring post Soviet Union countries to ensure the energy profits. The approach could be described as a carrot and sticks. The whole policymaking takes its route from the market and economic reasons but a carrot and stick approach creates discussions among the European partners in a politicized manner.

Russia’s effort to enhance its political status in the international society by means of realpolitik and use of energy resources is, probably, the most controversial and most discussed. The explanation here is not Russian domination but it’s self-perception in the world. The desire to stabilize its political status should be observed as a wish of equality in cooperation regimes. Russian government has been manifesting this wish through the EU – Russian energy dialogue and G8 Summits by insisting on legal convergence and the need of common legislation rather than just copying the EU’s norms and rules without taking into account interests of both producers and consumers.  

To sum up, the explanation of Russian strategy towards the interdependence with the EU is based on the arrangements aimed to maximize the profit and to preserve its reputation as a reliable supplier. The construction of transit routes, increase in export, monopolization of the energy sector, movement of Russian state companies to the distribution, pricing policy and bilateral way of engagement is a combination of economic reasoning to the guaranty of equality of interdependence and political desire to capitalize the energy instruments in the effort to stabilize its status in the world.

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Explaining Energy Interdependence Relationship Crises

The trade relations between Russia and the EU are largely defined by trade in energy resources, mostly natural gas. Russia and the EU heavily depend on each other in the context of gas relations. Russia provides to the EU over 30% of its natural gas imports. Over 70 per cent of Russian natural gas exports goes to the EU. The revenue from the fossil fuels exports constitute the 25% of the Russian GDP and forms almost half of the Russian government budget. Moreover, discussing the cooperation between the greater EU and Russia as an overall trend, it is very lopsided in favor of the EU. Russian economy depends on the trade with the EU, more than 50% of Russian foreign trade, both imports and exports, are with the EU (Figure 4, 5). The great amount of Russian FDI, around 75%, is coming from the EU countries, when Russian FDI in Europe is negligible. For some EU countries the dependency is 100%, but overall Russia only provides less than 7% of the EU’s energy needs.

Figure 4: Share of EU-28 as the destination of exports of goods - note: Russia 2013 (% share of all exports)
Source: Eurostat: The EU in the world — 2015 edition

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208 World Bank (2014) "World Development Indicators: Contribution of natural resources to gross domestic product".

209 Permanent Mission of the Russian Federation to the European Union, EU-Russia Trade 2014

210 European Commission (2015) Trade with Russia, Trade picture and statistics

211 Cameron, Fraser (2009) “The Politics of EU-Russia Energy Relations”, The EU-Russia Centre Review EU-Russia Energy Relations, Issue 9, EU-Russia Centre, p.20
Examining demand and supply dependencies, provides an answer to the question of whose national security would be more at risk if energy imports from Russia to Europe were interrupted. Common knowledge is that the EU and the Baltic Sea Region is at serious risk because of its dependence on Russian energy imports. In reality, Russia is more at risk if this relationship were to be interrupted. The economic loses to Russia would be more actual because they would be felt immediately in loss revenues. When the impact on the EU would be more gradual because of the accumulated gas storage capacity of the EU and upgraded gas transportation infrastructure.  

Since the EU accepted supply diversification as one of the main energy security aims it started maintaining a stable energy supply and diversifies its energy resources and exporters. It also questioned if Russia is a reliable partner to the EU. The European Union countries are pushing the liberalization of energy markets. It gives them opportunity to build more trust and cooperation within its liberalized market as well as to weaken the Russian grip over the gas supplies, assuring that Russia will not use energy dependence to impose its political will.

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The strategies Russia has adopted to defend its interests as an energy supplier are at odds with those of the European Union. The sides developed very different positions regarding the role that state and markets should play in the energy sector. Russia’s side sees liberalization as largely serving Europe’s interests and ignoring Russia’s for stable prices and markets. Russian observers are also suspicious that European side will use liberalization to gain control over Russia’s energy assets for European companies.\textsuperscript{213} If projecting of its legal norms is of a benefit to the EU part since it stream-lines the relations with the third parties and makes business easier for the European companies. Then Russian side argues that such policies do not take into account the specifics of the trade partners and makes them vulnerable to become the follower of the EU’s leadership.\textsuperscript{214}

While European side is pushing for liberalization, Russia believes that the state plays a crucial role to ensure that the profit from the natural resources sector is used to develop the national economy. The Russian observers believe that the whole range of actions made by the EU to decrease Russia’s role in energy supply are largely political rather than economically rational. Moreover, it is rather impossible to establish a common energy market without Russian participation.\textsuperscript{215}

International energy relations have always included both economic and political grounds since it is a concern of prices and incomes as well as the security of the states. Gas trade relations have already suffered several times from the politicization several times provoked by the EU enlargement and by gas shortcuts. Both EU and Russia support de-politicization of the relations in the energy sphere but again they see it in different ways. Russia finds de-politicization of the regime in orientation on the pragmatic profit optimization and Brussels in spreading of its market regulations\textsuperscript{216}. Both of the opinions seem to be reasonable in the


\textsuperscript{214} Ibid.

\textsuperscript{215} Ibid.

light of each side’s paradigms and views. Nevertheless, Russia’s rejection to integrate EU’s
market norms into its system is interpreted by the EU as a reason for political discussions.
Russia too, due to its views on external relations, perceives the EU approach as an
intervention in the national domestic affairs.

Both sides adopt policies that are aimed to secure their energy security interests and
position on energy market. Europe starts to liberalize and integrate its energy market in
order to lose the dependency on gas supplies as well as to reduce probabilities of energy
blackmailing. At the same time, Russia is concerned with loosing its position as the main
supplier to the European energy markets and with unequal status when designing
cooperative energy regimes.

The EU develops projects to avoid Russian control over the transit systems and seeks
alternative, sometimes even economically unprofitable sources in order to bypass Russian
involvement. Russia fears that these projects may affect the energy prices and they will go
down, which in turn hinder the opportunity to use energy revenues to continue modernizing
Russian economy. Russia proposes pipelines able to keep disputes with transit countries
from spilling into supply disruptions. By this making European side to fear that new pipelines
will make it easier for Russia to use energy weapon against transit states. In fact, any
improvements on the one side make to come at the expense and worries of the other.217
What once promised to be a good fit for cooperation has raised to the characteristics of a
classic security dilemma and given new security and relative concerns. Both sides seem to be
unable to use the situation of interdependence to develop more effective and complex
cooperation.

Both sides failed to appreciate the other sides political approach by being concerned only
about self-gains. The fall-out of Russian realpolitik approach and ignoring of possible
reactions on the Western side spilled-over into the current psychological environment of the
European society. Surely, Russian policy strategies first and foremost have to serve Russian
interests and to please the European audience is not on Russia’s agenda. But substantial

Dilemma”, Contemporary Security Policy Volume 36, Issue 1, 2015, p.19
economic development and natural resources market expansion can not be gained through money and power politics alone. Furthermore, it might be more beneficial to use already developed norms, which have already been tested rather to creating something new. Russian government and Gazprom forgot that a player submitting to rules will always be more trustworthy than a pure power politics player.

In turn, Europe should recognize that security of supply to customers is as important as security of demand is to producers and transporters of gas. It should move away from promoting only a pro-consumer mechanism. Moreover, it should certainly diminish the wrong political perception of the partners if it is planning to develop mutual beneficial relations with Russia.

The part analyzed energy strategies Russia and the European Union use in order to achieve their goals by adopting the realist approach to the analysis. By examining a range of policies the sides used in their actions towards each other unrevealed their motives and concerns. It is important for the future understanding of needed measures in order to stabilize the international energy relations and consequences deriving from it. For better understanding of the reasons for actors’ behavior, it is necessary to make a more zoomed view on the issue through a case study of the Baltic Sea region.
EU – Russia Interdependence: the Case of the Baltic Sea Region

Natural gas, unlike oil which is a global commodity, is a regional commodity where regional buyers and sellers exerting more influence and experiencing greater degree of security interdependence.\textsuperscript{218} The security-complex approach to the case of the Baltic Sea region can be analyzed through the regional security complex proposed by Barry Buzan and Waever.\textsuperscript{219} The states of the Baltic Sea region constitute a join complex relying on complex interdependence as their primary security concerns are closely linked together.

The energy cooperation in the Baltic Sea region is regulated by the notion that most of the countries in the region, except Russia and Norway, are members of the European Union. Norway is a member of the EEA community and thus associates with the European Union and its regulations. Therefore, the energy situation in the Baltic Sea region is shaped by the conditions of the EU – Russian relations. It sets the overall environment as well as legal conditions and guidelines for the cooperation. Nevertheless, the bilateral frameworks on the national level make an impact to the energy related discussions in the whole region.

Even though, the approaches the EU and Russia use towards the energy issues in the region of interest differs, both Russia and the EU follow the pragmatic approach. The first philosophy sees security as a commodity of certain factors, such as property, money, and military power. Therefore, the actions towards the external actors are thought to be the routes to ability accumulate these commodities and to follow more pragmatic strategies. The second philosophy sees security as being based on emancipation, concern with justice


and the provision of human rights. From this perspective, security is understood as a relationship between different actors rather than commodity.\textsuperscript{220}

**European Union Policies Towards the Baltic Sea Region**

When the overall Energy Strategy and its Action Plan were adopted in March 2007 by 27 heads of EU Member States at the European Council’s summit the issue of Energy Security was the highest priority for Eastern and Central European Member States. After the Russian-Ukrainian crises provided an added momentum to the process of intensifying both the external and internal energy security policies, the Baltic Sea Region’s “vulnerable” states got more attention from the Commission.\textsuperscript{221}

The EU has been argued to act as a power resorting to “softer” measures for persuasion and influence rather than coercion. It weighs its might on the base of economic incentives and on the basis of rules, norms and ideas.\textsuperscript{222} It intends to play a role in meeting financial motivators, to facilitate agreements and energy projects between the EU Member States in the Baltic Sea Region and the rest of the EU, to provide a forum for discussions on crucial energy issues.

The EU’s support of the energy security in the Region involves comprising measures aimed on energy efficiency, diversity of energy sources, transparency considering supply and demand, strategic storage, solidarity instruments, infrastructure projects and the completion of the internal energy market. These policies were pursued mainly in the context of the third Energy Package and Energy Security and Solidarity Action Plan.\textsuperscript{223}

Through the Solidarity Action Plan, Member States are bind to implement all the measures necessary to prevent the risk of supply disruption at a national level and also be prepared to

\textsuperscript{222} European Commission (2015) EU Strategy for the Baltic Sea Region Official Documents
contribute to any solidarity measures. When facing sudden disruption in its energy supply Member States are able to rely on the support of other Member States and the EU as a whole according to Solidarity Action Plan and Seucrity Directive 2010. The internal energy security approach and solidarity obligations had an intention to make less vulnerable states to take its responsibility about the energy security challenges the more “insecure” states are facing.

The development of energy infrastructure projects of European interest was carried through the Trans – European Networks Energy (TEN-E) program. For the Trans – European Networks Energy strategy the chief aims are the effective transporting for electricity and gas in the internal energy market, ensuring security and diversification of supply, diminish the isolation of the less favored, island or remote regions in the EU. Within the priority corridors under the TEN-E program is the integration of the Baltic gas market and connecting it to Central and South East Europe.

The EU’s approach towards creation of regional energy interdependence and its connection to the European energy market is done through the Baltic Energy Market Interconnection Plan. It aims at the effective interconnection of the Baltic region with the rest of the EU and the establishment of a secure and diverse energy supply for the region. Through the Plan the Commission intended to create gas and electricity networks in the Region. BEMIP includes a number of concrete infrastructure projects that contribute to the formation of Baltic natural gas market and to integration into the European natural gas market. Gas Interconnection Poland – Lithuania and the Baltic Connector, connecting Estonia and Finland. The BEMIP also comprises projects to develop inter-Baltic natural gas networks.

224 Ibid.
228 Ibid.
The EU intended to improve the infrastructure of the Baltic Sea Region energy market by implementation of LNG facilities. The two projects were implemented in the Region – the Klaipeda LNG terminal in Lithuania and the Incukalns underground gas storage in Latvia. The LNG terminal was put into operation in December 2014. The onshore LNG terminal in Poland and the development of the connecting pipeline was completed in 2015. In Sweden, a LNG terminal was built in Gothenburg and contributes to security of supply and flexibility for the Swedish market. Regional Baltic LNG terminal will be built in Finland and smaller gas distribution terminal is planned to be built in Estonia. Both projects have started to be implemented in 2015 and should be completed in 2019.229

The EU observers see the integration of the Baltic States to the Scandinavian electricity market as an opportunity for “vulnerable” states to break out from their seemingly eternal energy island status within the EU. They argue that the same is planned to happen within the natural gas sector, where the Baltic States and Finland are to connect and integrate within a wider EU natural gas market.230

The development of the EU Baltic Sea strategy was one of the key priorities of the Swedish EU Council presidency in 2009 and the energy questions are the part of the regional agenda in the Baltic Sea are addressed. EUSBSR is a platform that involves experts from field ministries, ministries of foreign affairs and other stakeholders in order to address the key objectives. Energy and particularly gas topic are thoroughly described in the Action Plan under the Priority Area Energy.231 It sets out the long term measures, among which better work for internal gas market, accelerating the constructions of key interconnectors, moderating energy demand, diversifying external supplies.232 It includes not only energy but also a broader scope to cover regional cooperation fields. The strategy is supported by other

232 Ibid. p.80-89
regional formats and activities of comprehensive forums like BASREC, CBSS and Northern Dimension. Under the roof of these organizations energy operators and national TSOs are able to define shared priorities and bring value to the regional security of the Region.  

These implementations go along with the third Energy Package and the overall energy market liberalization trend aimed to facilitate the development of common energy market, to lessen the dependency of the vulnerable states on the external importer and to ensure the energy security of the EU Member States in the Region. The EU has started to tackle the energy dynamics in the Baltic Sea Region only recently and has encounter many obstacles in developing and integrating common energy policy because of the differences between Member States in terms of availability of natural resources and the plurality of political and economic preferences.

The EU has a significant impact on energy cooperation in the region from the internal point of view. It can come up with financial means in order to facilitate implementations of energy projects. Moreover, it gives an opportunity for the Member States in the region to speak with “one voice” when it comes to vulnerable states and prevent unilateralism. The liberalization processes can effectively contribute to developing collective approaches and dealing with unforeseen situations. It is worth mentioning that internal aspects of energy policies are no less important than external. Nevertheless, the actions of the Member States and the EU in the region towards energy cooperation create complexity in the relations with non-EU (EEA) states.

Russian Energy Policy Implications for the Baltic Sea Region

The way the relations of supply is structured in the Baltic Sea Region is preconditioned by the links built in the second half of the 20th century. In that way the gas supply relations with Russia can be divided into several groups. One way is to distinguish countries by the level of dependency, which forms the first group of states including Finland and the Baltic countries. They cover nearly 100% of its gas consumption by imports from Russia. Poland and Germany

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233 EUSBSR, EU Strategy for the Baltic Sea Region Official website, About EUSBSR

import the greater part of hydrocarbon from Russia but have other suppliers as well. Another group of states are Denmark, Sweden and Norway, which do not import any natural resources from Russia. 235

Nevertheless, to analyze the relations in the context of the overall energy dependency figures do not give the correct picture of the overall relations and therefore should be balanced against energy mix of an individual state. 236 For example, the overall energy dependency of Estonia to imports of gas from Russia is 100% indicates a strong dependency pattern. When measuring the share natural gas constitutes in Estonia’s primary energy consumption, the figure is only around 10%. 237 Moreover, presented example is only the energy consumer side of energy security calculation and it needs to be balanced against dependency level by the producer countries in the energy sub-system.

Romanova proposes the differentiation of the gas supply relations between countries basing it on the climate of bilateral relations. The first group of Russian-German and Russian-Finnish relations is described as more pragmatic and economically oriented cooperation. This group is characterized by willingness to further enhance their energy cooperation. The dialogue between Russia and Poland and Baltic states is based on much more politicized relations and comprise the second group. 238 Denmark, Sweden and Norway adopt more neutral position towards the energy relations with Russia but still have certain concerns about Russian geopolitical intentions, which are more connected with military security and historic worries.

Even though the Baltic Sea Region is of a great interest to Russia, the regional cooperation is not the issue of primary strategic thinking for it. The aspects that drive the interest of Russia

235 Ibid. p.150
in the region are mainly transit routes, supply commitments, energy efficiency projects and interest to the distribution market. Russian strategy towards the Baltic Sea Region is of a pragmatic nature and carries a realpolitik approach.

Russia is interested in preserving and developing its status of the main gas supplier in the region. The level of imports of Russian gas to the overall domestic consumption varies from country to country. Considering the size of domestic demands and the volume of imports, Germany and Poland are much more attractive customers for Russia as a supplier. However, while Germany is open for the cooperation and future development of the relations, Poland is fighting to diversify from Russia.

Germany has been by far the most important partner in the region for Russia. Apart from that Germany is the largest importer of the Russian gas in the region, it is the only country within both the EU and the Baltic Sea members where the cooperation between states went beyond the gas supply relations. Russia is the 10th importer of German goods and its domestic industry heavily dependent on German machinery imports. Germany was one of the countries that showed relatively little interest in diversification from Russian supplies and has supported energy projects such as Nord Stream pipeline, that could increase European dependence on Russia.

Baltic Sea region has been playing a prominent role in the Russian transit routes infrastructure. It is a point of immediate contact with the market of the European Union, which has been the major destination for Russian gas export. The role of the region in transit system increased since the development of the Nord Stream pipeline. The capacity of the pipeline is 55 billion cubic meters is able to satisfy about 40 per cent of the demand for

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239 Ibid. p.123
240 Ibid. p.153
imported gas.\textsuperscript{243} The Nord Stream project participants consider the possibility to double the capacity by laying two additional strings by 2019.\textsuperscript{244}

The Nord Stream caused a large amount of debates and concerns of different kinds, starting from political and economical to the environmental and military issues, across the EU Member States. The biggest opponents of the Nord Stream project were Poland and Baltic countries worried for political and national economic outcomes of the project and Sweden because of environmental and military purposes.\textsuperscript{245} Nord Stream pipeline explicitly bypass these states and following the logic of cooperative security dilemma cause greater hostility.

The politicization of gas supply relations between Russia, Poland and Baltic countries is grounded in the lack of trust and misunderstandings caused by both sides. The lack of trust among the Baltic States and Poland towards cooperation with Russia can be explained by the attitude Moscow shown during the post-Soviet period. Moscow showed little respect for the countries of a former Soviet Union space and enhanced superiority feeling when it came to dealing with them.\textsuperscript{246}

In turn, Poland together with Baltic countries has a problem coming out the terms associated with their historic past. Their close geographical position to Russia and common Soviet History has created a stereotype and certain attitude to Russia and its government. Moreover, a NATO membership also influences the discourse of the political elites in these


countries. As it is stated in Report on Energy Geopolitics, the diversification of European energy sources and supply routes is a longstanding priority of US energy diplomacy.

In fact, the environment for bilateral energy relations with this group of countries is shaped by both energy dependence and perceptions, distorted by the past. Taken together it did not stimulate constructive negotiations and mutually beneficial cooperation and therefore Nord Stream and other Russian leading projects got no support and a political meaning.

The issue of energy efficiency, energy saving and fight against climate change seem to be the only sphere of energy relations where cooperation among all the countries of the Baltic Sea Region could be achieved. These issues are not politicized and the scale of regional importance may facilitate the energy interdependency. According to the European Commission, there is a high potential for an increase in Russian energy efficiency and energy saving can be used to develop more environmental friendly means of energy production. Even though strategic energy thinking does not prioritize such projects, Russia is interested in becoming a natural partner in climate change prevention.

The actions Russia implements towards the Baltic Sea Region do not seem to focus on cooperative regional schemes rather than on the arrangements of bilateral engagement with particular countries and through the EU – Russian level energy dialogue. One explanation lies in the characteristic of Russian strategic thinking that is not engaging but focusing on economic reasoning. Another explanation is historical enmity, high level of securitization and politicization on the part of Poland and Baltic states. That is further reinforced by the lack of

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transparency and predictability of the Russian actions. The lack of common objective pre-established norms and regulations also contributes to misunderstandings and mistrust.\textsuperscript{250}

To change the situation, actions from all the sides are needed. To change the course of actions and to shift the paradigm of energy cooperation in the Baltic Sea Region is impossible without changing the attitude and beliefs on the Russian part. However, it is of the same importance that Baltic States and Poland reconsider the legacy of the past and the current patterns of cooperation. The fundamental change in the perceptions is the only way out the current energy relations logjam in the region.

Energy relations have a potential to push the cooperation in the Baltic Sea Region and to bring the overall EU-Russian dialogue to a new level, consequentially to improve the energy efficiency, energy saving and mutual economic benefits.

\textbf{Searching for Routes of the EU – Russian Energy Interdependence Crises}

Although the EU – Russian energy relations are highly interdependent, as for the Baltic Sea Region energy affairs remain to be rather split and dismembered. Close energy ties and even sub-regional integration goes along with isolated energy agreements and diverse priorities. The energy security concerns in the region are interlinked with many factors, like varying political preferences, especially in the field of foreign and security policy, and specific economic context, particularly, the structure of the energy sector.\textsuperscript{251} Putting together the plurality of energy-related interests and the relation to Russia and to the EU a specific regional economic and political settings become visible.

The actions of the EU since the enlistment of Poland and Baltic countries to the European Union normally associates with new chances for regional integration and with possibilities to harmonize big number parts of the regional relationships, including energy sphere, as well as to deepen interconnectedness of the region with the greater Europe.\textsuperscript{252} When the question


\textsuperscript{251} Ibid. p.584

\textsuperscript{252} European Commission (2015) EU Strategy for the Baltic Sea Region Official Documents
of embedding Russia in the regional cooperation structures even though it is critically important for overcoming the dividing lines and improving the energy relations, is therefore meets certain challenges.

The pattern of enmity between Russia and the Baltic States and Poland is the most vulnerable issue for the energy cooperation in the Region. Helmut Hubel points out that ‘despite all positive achievements of EU-Russian energy dialogue during the 1990s, Russia’s participation in Baltic Sea cooperation continues to be a major problem for developing balanced and stable interactions among partners’. Security attitude originating in the Cold War towards gas from Russia, on the one hand, and special political and energy relations between Germany and Russia, on the other, put additional pressure on already strained energy relations in the region.253

Such an attitude can be explained by the Moscow’s actions towards the post-Soviet Union states in the Baltic Sea Region before they have been accepted to the EU. According to R.J. Larsson since 1991, the energy lever has been used for putting political or economic pressure on Estonia, Latvia, Lithuania and other CIS states that subsequently affected most of Europe. The economic in the majority of the cases and Russian demands for payments of debts are legitimate. However, there are also political underpinnings in more than half of the incidents, and in a few cases explicit political demands are evident. He counts in total over fifty incidents, like cut-offs, take-overs, coercive price policy, blackmail or threats, forty of which are cut-offs. Incidents equally appear to be on the Yeltsin and Putin eras, with an incline by half during Putin.254

The idea of Russia being a threat captured not only mind but also pinpointed actions of the Baltic countries and Poland towards the securitizing its energy. The Polish Government under the leadership of conservative Kaczynski in 2005-2007 actively consolidated and strengthened the domestic energy companies, constrained, even if in a somewhat protectionist manner, foreign expansion into Polish energy sector, supported purchase of


energy industry assets abroad and actively embarked on the course of energy supply diversification. After the 2007 elections the new government softened its actions, but Poland still remained on a leading position in the region in securitizing the energy issues and attempting to minimize its dependence on Russia.\textsuperscript{255}

Poland’s security-oriented approach to energy policy has been, though with some variations, shared in Lithuania and Estonia. This also contributed to the zigzags of Latvia’s decision making regarding the priority projects in the country’s energy sector.\textsuperscript{256} These countries were most vocal against the Nord Stream gas pipeline project, accusing both Russia and Germany for extending the Russian influence on the gas market and threatening the political security.\textsuperscript{257} They together with some other states of the Eastern Europe were the strongest supporters of the EU’s policies towards diversification from Russian influence.

The EU enlargement to the Eastern states of the Baltic Sea Region brought to the EU – Russian energy relation the notion of threat and spilled into the security dilemma in the aftermath of the Ukrainian gas cut-offs. The gas crisis with Ukraine in 2009 became a reason for alternations of the perceptions and increased politicization of the EU – Russian interdependence. It also brought mistrust and conflict routed in the historical enmity and political concerns of the Baltic Sea region. The zooming into the regional environment where all the actors, Russia and the EU states have their own interests can help understand where the reasons for existing energy security dilemma. Moreover, the solution lies where the problem is coming from.

Nevertheless, the risks, which Baltic states and Poland perceived as a threat could not become an overall EU energy security issue without reasonable proof of such a threat existence. Moreover, for a longer period after the enlargement new EU members were


\textsuperscript{256} Ibid.

\textsuperscript{257} Larsson, Robert L. (March 2007), "Nord Stream, Sweden and Baltic Sea Security", Swedish Defence Research Agency. ISSN 1650-1942.
disregarded when the efficiency of supply to Western Europe was discussed.\textsuperscript{258} The European Union energy policies had been dominated by unilateral and economic rationale rather than political and security related concerns for a long period of EU – Russian interdependence. The crises of 2006 and 2009 made the EU audience to accept the vocalized concerns of the Eastern Member States. The cut-offs contributed to changes of the perceptions and policies regarding the energy issues with Russia on levels of the whole European Union, made it more politically and security oriented.

Because the EU and Russia failed to implement into the cooperation interests of all the parties and to take necessary steps in order to diminish negative perceptions in the region, the existing security worries emerged into the energy security issues on the EU level and became the major problem preventing further communication. Further, since the EU – Russian interdependence is not one of the complex one, the politicization of the energy sector brought the security dilemma that got a potential to erode the overall EU – Russian relations.

**Prospects for the Baltic Sea Region**

EU-Russian gas relations are an issue of rising importance for Baltic Sea regional cooperation. It is at the heart of EU – Russia relations and it is central element of Russia’s engagement in the region. Given different interests of the countries and actors in the region, the recent dynamics of energy policy and energy security, the emergence of a European energy policy seem to be a source of complicated development of the energy dimension in EU-Russia relations.\textsuperscript{259}

So far, energy cooperation in the Baltic Sea Region has been rather a story of division and plurality of interests than a concreted regional effort. There is no regional architecture, the absence of a shared perception of energy cooperation drivers and increasing skepticism towards the actors’ intentions.


Certain issues underpin the complexity of ensuring a mutually beneficial long-term regional cooperation. First, up to now it has been difficult to harmonize all the interests in the region. There exist energy producers, energy consumers, transit countries. Their interests vary from aspiring to enhance energy self-sufficiency to managing its energy export and import beneficially and, most of the time these interests are contradictive. The energy structure of regional cooperation is the composition of institutions and business entities as well as states, which make it uneasy to make them compatible and complementary.

The biggest constraint for the energy cooperation in the region is the fact that energy is a highly important for states’ wellbeing that its market considerations are deeply combined with geopolitical and geo-economic interests and therefore influenced substantially by the overall interstate relations among the countries. The impact of the already existing historical character of amity and enmity between states is considerable. These patterns are likely to affect the outcome of the energy relations and perceptions of actors when debating energy issues.\textsuperscript{260}

Energy issues aggravate the security concerns in the region on the one side. The heated debates and enormous attention that states paid to the Nord Stream pipeline as well as reactions to the Russia – Ukrainian crises are good examples for that. On the other side, it helped to build elements of a common approach and muster solidarity between the EU Member States that was absent before. This may be positive for overall EU cooperation but negative for the cooperation with Russia both on the EU and regional levels.

The distance between energy importers’ and exporters’ interests are notwithstanding. The actions Russia and the EU implement towards the Baltic Sea Region do not seem to focus on cooperative regional schemes but focusing on economic reasoning. The current energy relations are portrayed as a contest between Russia’s desire to secure its economic position as a supplier to the EU and a struggle of the EU over bringing the energy market to liberalization and reducing energy prices. Even though, liberalization process plays significant role in energy cooperation in the region between EU Member States, it is imprudent to build regional energy cooperation without taking into account Russian interests.

\textsuperscript{260} Ibid. p.306
The interdependence, which is characterized as both symmetrical and complex can help to escape the trap of security dilemma in the EU – Russian energy relations.\textsuperscript{261} Actors should improve mutual dependence across a range of economic, political and security issues in order to minimize risk that asymmetry may develop. If it develops in one issue area, the overall relationship maintains its mutual dependence, because ties will be extended to other important and political issues. For further improving energy relationship and freeing it from the risk of asymmetry it is worth thinking of developing cooperation beyond the energy sector, creating business-to-business and people-to-people contacts between the states. The importance of the Baltic Sea region for both the EU and Russia as well as the fact that threat concerns are taking its routes from there, makes the region an ideal lodgment for working towards creating complex interdependence.

Getting the interests of all sides together is especially important and could be achieved with the help of regional organizations. There exist a number of regional organizations in the Baltic Sea region and these organizations are well prepared to build networks and develop contacts.\textsuperscript{262} Although their ability to manage energy issues has been questioned in recent years, regional organizations are still needed because they have instruments in terms of building more complex interdependence in the region and consequentially between the EU and Russia.\textsuperscript{263}

The Northern Dimension and the Council of the Baltic Sea States are examples of partnership, which have their role to play. It brings together EU Member States and Russia to the cooperation on an equal footing on various issues in the Baltic Sea Region. The EU should not emerge as the only actor capable of conducting the regional cooperation on various issues including energy. Russian involvement with regard to energy issues has been difficult


\textsuperscript{262} The Council of the Baltic Sea States (CBSS), the Northern Dimension, the Baltic Sea Region Energy Cooperation (BASREC)

and is likely to remain so, but there are other issues through which the states can develop better cohesion in the region and improve the complexity of EU – Russian interdependence.

Both Russia and the EU Member States have shown a consistent interest in the Baltic Sea cooperation not only in the issues of energy. The interests vary from the economic ties and foreign investments, liberalization of the visa regime, cooperation against organized crime and the environmental dimension. Russia has been shown an open and engaged attitude towards regional cooperation forums like the CBSS in spite of the current crises and misunderstandings. A number of the CBSS and Northern Dimension programs can hinder the mobilization of negative stereotypes and build positive links between the actors unaffected by the political contingencies.\textsuperscript{264}

Building relationships of complex interdependence takes time, effort and the investment of considerable political capital. Any quick fix solutions that promise to decrease interdependence may cause the conflict. Policy-makers should be fully aware of all the difficulties when making interdependence work for real and recognize the hidden hazards that are essential to situations where interdependence is not complex.

In this part the main findings on energy interdependence between the EU and Russia is applied to the case of the Baltic Sea region with a purpose to answer the main research question and to find the possible solutions to the existing problem. The interstate relations between the EU Member States and Russia on the regional level were observed and suggestions for further paths of EU – Russian energy relations is given.

\textsuperscript{264} Oldberg, Ingmar (2012), “Soft Security in the Baltic Sea Region Russian interests in the Council of Baltic Sea States”, Occasional UI papers no.12, Swedish Institute of International Affairs
Conclusions

The purpose of the study was to analyze the possible reasons for occurring conflictual issues in EU – Russia gas interdependence and the way they are connected to the interstate energy relations in the Baltic Sea Region. The motivation behind the chosen research problem was to unfold hidden sides of the EU – Russian energy cooperation and to shed a light on the possible reasons for existing problems that have not been voiced often. By looking at the topic from another angle this study provided an alternative view on the role of the Baltic Sea region in the overall EU – Russian energy dialogue and its current situation.

By developing on the theoretical explanation of the energy interdependence, energy security and regional security complexes, the patterns of the EU – Russian energy interdependence can be discussed. The theoretical part identified how the principles of the key International Relation schools of thoughts provide understanding of conflicts and cooperation between the actors in the context of energy interactions.

An examination of the historical development of EU – Russian energy interdependence through the period of more than half of a century showed how the interdependence between Russia and EU evolved and revealed the tipping points that led to misunderstandings and concrete security concerns. During the decades Russia and the EU were tightening their interdependence in the energy sector more and more. Even the collapse of the Soviet Union did not change the situation, on the contrary, by being ready to accept liberal views and market rules Russia strengthened its position as a reliable supplier to the EU.

The crucial turning points that defined the current state of affairs are the following:

- The EU enlargement to 27 Member States in 2004: the enlargement and active diversification, which started along made the relations complicated. On the one hand it seemed to make efforts to get closer and increase interactions but on the other to lessen the dependencies.
- Russia – Ukrainian gas crises of 2006 and 2009: the incident questioned Russian reliability as a supplier and its intentions to use the gas weapon in order to
manipulate its external policy. Namely 44 days of supply interruptions have crossed out in the minds of the EU public the previous 40 years of secure and reliable gas supplies to Europe.

- Conflict between Russia and Ukraine 2014: The economic and political sanctions imposed by the EU on Russia for the Crimean crisis left a heavy mark on the EU – Russian relations in all spheres.

The analysis of energy strategies of Russia and the European Union was made in order to understand the measures needed for the stabilization of the international energy relations and the consequences deriving from it. Both sides adopt policies that are aimed to secure their energy security interests and position on the energy market.

The differences between the EU and Russia in relation to energy security were studied. The key feature of the EU strategies towards improving its energy security were:

- Liberalization of energy markets;
- Integration of common European energy market;
- Diversification of energy suppliers;
- Diversification of energy resources;
- Diversification of energy routes;
- Energy pricing that benefits consumers;

The content of Russian strategy towards the interdependence with the EU is based on the following arrangements:

- Construction of new direct transit routes;
- Monopolization of the energy sector;
- Maintenance of state control over the energy sector;
- Engagement with customers through long-term bilateral contracts;
- Diversification of energy market;
- Energy pricing that benefits producers.
By observing energy policies it became visible that the strategies the EU has adopted to secure its energy supply are at odds with those of Russia. The sides developed very different positions regarding the role that state and markets should play in the energy sector. The policies proposed by the sides seem to follow the zero–sum gains approach and rationally suit only self-interests. In fact, the state of existing interdependence achieves characteristics of a classic security dilemma, when any improvements on the one side come at the expense and worries of the other.

The reasons for conflictual issues over the gas interdependence between the EU and Russia were studied more thoroughly through the case of the Baltic Sea region.

Throughout the study, there were several main energy related problems in the region established that are becoming obstacles and diminished the probability of ensuring a mutually beneficial long-term energy cooperation between the EU and Russia. The most curtail of them are:

- The mix of players and interests in the region, which vary among energy producers, energy consumers, transit countries, institutions and business entities;
- Gas market considerations are deeply combined with geopolitical and geo-economic interests;
- The politicization of gas relations distorted by the past;

Taken together it does not stimulate constructive negotiations and mutually beneficial cooperation. Moreover, the EU enlargement to the Eastern states of the Baltic Sea Region brought to the EU – Russian energy relation the notion of threat and spilled into the security dilemma in the aftermath of the Ukrainian gas cut-offs.

Because the EU and Russia, while constructing its gas dialogue, failed to implement into the cooperation the interests of all the parties and to take necessary steps in order to diminish negative perceptions in the region, the security worries which existed there emerged into the energy security issues at the EU level and became the major problem preventing further communication.
In order to change the situation, actions from both sides are needed. Grounded on implications of theoretical framework, suggestions for the future include:

1. **Promotion of the complex interdependency: relations of interdependency should go out beyond the energy relations and be established in the spheres of economy, policy and security. The issues of interests vary from the economic ties and foreign investments, liberalization of the visa regime, cooperation against organized crime, the environmental dimension.**

2. **Engagement of interests of all the countries in the region: it is important that the interests and specific conditions of all the players are included in the dialogue, that both security of supply and security of demand are taken into account on the EU-Russian level.**

3. **Fundamental change in the perceptions: shifting of the gas cooperation paradigm in the Baltic Sea Region is impossible without changing the attitude and beliefs on the Russian part. However, it is of the same importance that Baltic States and Poland reconsider the legacy of the past and the current patterns of cooperation.**

4. **Involvement of regional organizations: there exist a number of regional organizations in the Baltic Sea region that have necessary instruments for building complex interdependence.**

Energy relations have a potential to push the cooperation in the Baltic Sea Region and to bring the overall EU-Russian dialogue to a new level, consequentially to improve the energy efficiency, energy saving and mutual economic benefits.

Current findings and conclusions can become an impulse for further debates and revision of the popularized view on the energy interdependence between EU and Russia. Further, by overcoming deployed problems, bringing the two sides back to the more harmonized relations.
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