

The Geopolitics of the Russian Federation's Energy Policy

Yusif Huseynov, Ph.D.

The Geneva School of Diplomacy and International
Geneva, Switzerland
huseynoff@live.com

Abstract

Russian Federation has become heavily dependent on its energy exports over the last two decades. These exports, which account for 70% of its total export revenues, have made Russia one of the most significant players relying on the global energy trade. Nevertheless, the Western sanctions against Moscow over the Crimean conflict have further contributed to the negative effect on the economy of the country. The economy of the country shrank by up to 4 percent and it is expected that this situation will continue to remain the same so long as low oil prices and sanctions are a reality. Since 2014, Western economic sanctions have directly targeted many Russian companies and, together with low oil prices and poor management of the economy, have become the main factors contributing to the decline of the Russian economy.

Keywords: Russian Federation, European Energy Security, geopolitics, diplomacy.

Introduction

The Russian Federation currently has several key natural gas pipelines that provide EU countries with gas supplies that are seen as essential for economic prosperity. When looking at the list of natural gas pipelines, the Gazela, Megal, Nord Stream, Brotherhood, and Yamal-Europe gas pipelines play the most strategic network role (Papava and Tokmazishvili, 2010: URL). These pipelines carry the large

bulk of Russian natural gas towards the European gas market. For the most part, these existing natural gas pipelines pass through Ukraine and Belarus, with the exception of the Nord Stream (Luciani, 2016: 19). All of these pipelines are operational and Moscow is, therefore, utilizing the full capacity of this infrastructure as a means to sell as much gas as it possibly can. There are also a number of proposed natural gas pipelines that are currently being put into active phases by the Russian Federation in an attempt to implement further interests of the country in relation to European energy security policy. There are a few proposed gas pipelines to the EU energy market that Russia is considering and, despite ongoing pressure from the European Commission and the Eastern European Union countries, Russia is planning to implement said pipelines in a timely manner.

One of the examples of this proposal is the German favored Nord Stream 2 natural gas pipeline (Talus, 2017: 33). As with the previous Nord Stream gas pipeline, the second proposed Nord Stream would also run through the Baltic Sea, bypassing Poland and reaching Germany. The proposed pipeline would carry 55 bcm per year and therefore provide a greater capacity than its previous Nord stream pipeline (Banciu, 2016: 83-91). The Nord Stream 2 would not only give Moscow the chance to increase its natural gas exports to the European Union, but it would also provide Germany with an opportunity to boost its status as the center of distribution to the Western European countries. However, most of the Eastern EU countries stand firmly against this proposed gas pipeline. Countries that opposed the Nord Stream pipeline from its initial proposal have also put forward claims that Moscow should not be permitted to expand the Nord Stream into the Nord Stream 2 and consequently double the capacity of the current gas pipeline infrastructure. Countries like Poland, Ukraine, Belarus, the Czech Republic, and other Eastern EU countries have voiced their concerns regarding the political aspects of the Nord Stream 2 gas pipeline project (Banciu, 2016: 83-91). These countries also happen to be the traditional transit countries that almost all of the existing gas pipelines currently travel through. These former eastern bloc countries fear that the Nord Stream 2 would render the European Union even more dependent on Russian gas supplies. However, Russia has already started work on the Nord Stream 2 project. In accordance with the project plan, parallel twin gas pipelines are currently being constructed along the Baltic Sea route. The Russian construction company, OMK, has already started to deliver steel pipelines for the Nord Stream 2 since the middle of 2016. Western European energy companies such as

Shell, OMV, Uniper, etc. have each taken part in the building of the Nord Stream two pipeline project. Many EU countries have voiced their criticism in regards to these energy companies and have stated their desires to maintain their solidarity with the European Union's energy strategy (Fatima, 2016: 47-72).

Energy Union of the European Union

The Energy Union of The European Union, which was created in 2014, created 5 main objectives that established the fundamental pillars of the Energy security policy. These pillars are 1) supply security, 2) a fully integrated internal energy market, 3) improved energy efficiency, 4) emission reduction, and 5) research and innovation. Out of these 5 pillars, the Nord Stream 2 pipeline has to meet above-mentioned criteria's. Maros Sefcovic, who is currently the vice-president of the European Commission on Energy Union, has also demonstrated the same position. Sefcovic mentioned that the Nord Stream 2 gas pipeline would significantly decrease the chances of the diversification of routes and sources towards the EU gas market (Interfax, 2016, URL). As it is seen from most of the statements from the EU officials, the proposed Nord Stream 2 gas pipeline will face enormous challenges in the process of its eventual implementation. However, the European Commission hasn't yet announced that the proposed natural gas pipeline has been suspended as it did in the case of the South Stream Gas pipeline project.

The Fate of South Stream Gas Pipeline

The Russian gas company, Gazprom, originally created the South Stream natural gas pipeline. It would have bypassed Ukrainian territory and was planned to carry 63 bcm per year by 2017, passing under the Black sea and then through Bulgaria, Serbia, Hungary, and Slovenia (Kim& Blank, 2012: 18-30). In 2014, when the pipeline was in its implementation period, the European Commission suspended the project and issued the following statement.

"New infrastructure investments promoted by dominant suppliers must adhere to all internal market and competition rules. This is why we said that the South Stream project should be suspended until full compliance with EU legislation is ensured and re-evaluated in light of the EU's energy security priorities" (Gunther, 2014: URL).

In accordance with such a decision from the EU Commission, Bulgaria has also suspended the implementation of the 930km natural gas pipeline project (Vihma & Turksen, 2015: 34). Brussels put a lot of

pressure on the countries that the proposed pipeline would have passed through. Even though Bulgaria, Serbia, Hungary, and Slovenia are highly dependent on Russian supplies, due to the fact that there have already been multiple gas transit disruptions between Russia and Ukraine, there are likely to be additional challenges for these countries in the future. Therefore, the implementation of the South Stream gas pipeline project in these countries would offer a significantly more secure and reliable pathway for Russian natural gas supplies. However, in a show of support to Ukraine from the European Union, especially after the annexation of Crimea, the EU Commission requested that these countries cease their cooperation with Moscow in regards to the implementation of the Southern Stream project until such time that Brussels officially confirms the project as approved. In response to the delay in approval of the South Stream project and subsequent suspension of the project, Moscow has responded by explaining that the South Stream gas pipeline project has been officially scrapped from its list of future planned projects (Vihma&Turksen, 2015: 34). However, Russia has criticized Bulgaria for its inability to act as a sovereign country, expressing that the government could have handled the situation in a much more proper manner. Russian president, Vladimir Putin, clearly portrays Russian sentiment in the following statement:

“If Bulgaria is unable to behave like a sovereign country, then they should at least ask the European Commission for compensation for the lost profits because only the direct income to the state budget from transit taxes would be of no less than €400 million per year. But at the end, it’s Bulgaria’s choice” (Zunino, 2015: URL).

President Putin’s quick decision to completely remove the project from Russia’s energy agenda took many observers by surprise. However, Moscow’s new alternative proposed project to the South Stream took everyone by an even greater surprise when it was revealed to in fact be the Turkish Stream natural gas pipeline.

Turkish Stream Natural Gas Pipeline

Construction of the Turkish Stream natural gas pipeline became the main agenda of Moscow after the failure of the implementation of the Southern Stream. This decision of Moscow has favored Ankara because Turkey’s main goal is to become the transit route for the European Union energy supplies. The lifting of sanctions on the Islamic Republic of Iran, the potential development of huge gas reserves in Iraq, new discoveries in the Levant basin, and the

construction of the TANAP gas pipeline project in collaboration with Azerbaijan are all providing viable prospects to interested players. These events have provided even greater number opportunities to Turkey's ambitions to implement its strategy in order to become a multi-regional energy hub. Therefore, Moscow's Turkish Stream proposal, which was formulated at the end of 2014, has facilitated a situation in which Turkey has become significantly more privileged in terms of becoming a vital country and trading partner for the European Union (Karagol and Kizilkaya, 2015: 57-65). However, as mentioned in previous chapters, due to the ongoing conflict in Syria after the Arab Spring, as well as the shooting down of a Russian jet by a Turkish F-16, relations between the two countries have been impacted in a very negative way. After the jet crisis, Moscow immediately suspended talks on the Turkish Stream gas pipeline project and the same steps were taken from the Turkish side, both parties essentially abandoned the project overnight. However, after the initial cool down of events the Turkish President, Recep Tayyip Erdogan, expressed his "deep condolences" to the bereaved family members of pilots who had lost their lives in the tragic jet crisis. This statement subsequently stimulated the partial restoration of previous relations between the two countries to levels similar to what they had been before Turkey shot down the jet, which had violated its airspace, resulting in the breakdown of the bilateral relations. In accordance with the normalization period, Russia and Turkey have signed an intergovernmental agreement regarding the construction of the Turkish Stream gas pipeline project. This agreement was signed in Turkey during the 23rd World Energy Congress in 2016 and after the agreement, Russian President Putin stated the following:

"You have now witnessed the signing of the intergovernmental agreement on the construction of the Turkish Stream. As part of this project and the broadening of our cooperation, we agreed on a mechanism by which to provide a discount on gas [for Turkey]" (Russia Today, 2016: URL).

This gas pipeline project has been designed to consist of two maritime pipelines and each pipeline could potentially deliver almost 16bcm per year to Turkish soil. This reconciliation between Moscow and Ankara as well as the rebuilding of a strategic alliance between the two countries clearly indicates that there are a number of additional energy projects that would serve the interest of both parties (Fatima, 2016: 47-72). Furthermore, it is crucial to mention that in accordance with the agreement made with Russia during the 23rd World Energy Congress,

Turkey will be provided with gas supplies at a discounted price. Since it is evident that the Turkish economy is highly dependent on energy resources, Moscow's discounted gas price only serves the interest of Turkey, which would only promote more economic development in the country. All this economic and geopolitical cooperation between the Turkish and Russian governments would only hurt the interests of the Western countries, particularly during this period of heightened tensions between Russia and the Western community. As Sebnem Merve says, "the Turkish Stream agreement is added to the list of developments that do not please the U.S. and as we know Washington is not a city that is just going to sit and watch" (Merve, 2016; URL). In the end, even after the strained period between Turkey and Russia, the two countries have clearly demonstrated that they will not only normalize their relations but furthermore, that Russia intends to diversify its gas transit route via Turkish soil and bypass Ukraine completely.

Conclusion

This position not only provides an enormous opportunity to Russia to diversify its routes in reaching the EU gas market but it also provides Turkey with even more opportunity to become an energy hub for the European gas market. Both of these aspects do indeed render the EU countries vulnerable to Russia's 'energy weapon', and therefore the European Union should be extremely careful when considering the best direction to take in the building of its energy security policy. This is because Turkey is already becoming a prominent part of the Southern Gas Corridor through the construction of the TANAP natural gas pipeline, which will create a stable and secure access point to the Caspian Sea energy reserves. With Turkey implementing all of these new energy projects and the building of a strategic alliance with Russia, European energy security policy is being negatively affected. Moscow is taking serious measures to show EU countries that without Russia, the European Union cannot succeed in securing a reliable source of energy supplies. According to many analysts, if EU countries fail to build a common energy policy, Moscow will develop its current status in the EU energy market and significantly expand its political influence. On the other hand, if EU countries are successful in the diversification of their energy supplies and the implementation of the Energy Union priorities, then Moscow's energy policy will likely be weakened.

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