
The Energy Interdependence Model between Russia and Europe: An Evaluation of Expectations for Change

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Abstract

This paper attempts to identify what kind of changes have occurred in the interdependence model and energy dialogue regime between Russia and Europe. The energy dialogue regime was constructed during the Cold War years to manage the gas exchange between Moscow and the West. The economic rationale of this regime was to ensure absolute gain, while the political rationale was to keep Russia as a constrained giant within the economic logic of interdependence and prevent any assertive action on Russia's part. After the demise of the Soviets, changes in the overall and issue based power capabilities, in the economy and technology led to an expectation of regime change. Though the interdependence model retained its strength, the dependence on Russian gas was politicised in European circles and the Europeans began to implement new energy security measures as well as diversification strategies. This paper, by reconsidering turning points in the Post-Cold War interdependence like the 2006, 2009, and 2014 crises, tries to predict how interdependence will evolve in the short and long term.

Key Words

Interdependence model, Russia, Europe, natural gas, energy dialogue regime.

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Introduction:

Europe-Russian Energy Interdependence

The 2014 Ukrainian crisis and the Russian annexation of Crimea led to tension in the Brussels-Moscow relationship. Sanctions have been imposed on Russia, and Moscow in return announced her withdrawal from a number of cooperation areas. Hence this tension is now acknowledged as another test for Russian-European interdependence.

The interdependence model and energy dialogue regime between energy producers, energy consumers and energy transit countries¹ has a long history in Europe and up until now has successfully passed a number of tests, like the threat of a USA embargo during the 1980s, the end of the Cold War, the dissolution of the Eastern bloc, and repeated crises between the Russian Federation and the transit countries during the 1990s. All these crises have affected energy security and the energy security regime to a certain degree and have caused

increased questions about whether new conditions, like changes in the overall power and/or energy power capabilities of actors would pave the way for change in the regime. One of the impacts of the current Russian- European crisis is the reanimation of this question. Although it is a very pertinent and central question, no-one has yet dared to leave the interdependence model and energy cooperation regime.

Though the interdependence model retained its strength, the dependence on Russian gas was politicised in European circles and the Europeans began to implement new energy security measures as well as diversification strategies.

This is not surprising from the theoretical perspective and theoretically there is an expectation of change under the regime if the parties decide to keep interdependence alive. In an evaluation of potential changes under the current cooperation regime, one should look at the degree of politicisation and securitization of (inter)dependency in the energy relationship between Europe and Russia. Politicisation and securitization of energy is closely related to the degree of sensitivity and vulnerability of interdependence.

Sensitivity interdependence is defined by Keohane and Nye as “the degree of responsiveness within a policy framework, which focuses on how quickly the changes in one country bring costly changes in another and how great these costly effects are”. Vulnerability interdependence is, however, related to the affordability of, or availability of alternatives under the cost imposed by the changes in one country.² In terms of energy security, which is connected to sets of concerns or risks like sudden and reoccurring changes in prices, and volume of demand and supply of energy as a result of intended or unintended disruptions, catastrophic failure of major supply sources and facilities,³ sensitivity interdependence indicates the relative volume of imported energy from a single source in the context of the overall energy demand of the importing country. Vulnerability interdependence on the other hand is measured by the existence of alternatives to imported energy and the cost of alteration in order to keep one’s economy functioning. Politicisation of energy security therefore indicates that the actors are aware of the possibility of losing wealth in the short term as a result of changes in the interdependent relationship, whereas securitisation of energy means that actors are aware of the possibility of ceasing to be an economically functioning unit if changes occur.

Politicisation and securitization of energy is closely related to the degree of sensitivity and vulnerability of interdependence.

The differences in the degrees of sensitivity and vulnerability interdependence of the various European states and transit countries to Russian gas complicate the implementation of an energy dialogue and cooperation. After the 2006 and 2009 gas crises, the Visegrad and Baltic countries requested the EU listen to their concerns about increasing Russian assertiveness in using the energy card to take economic and political concessions from former Soviet Union members.⁴ However these concerns did not trigger a securitization of energy mainly because Germany, France and the UK have been less sensitive and vulnerable than others. It was generally assumed that there are limits to the economic and political blackmail that Russia would use as an energy giant and that there would be no serious linkage between energy and military issues. Hence the decision makers in the EU, and the EU's locomotive countries, like France, Germany and the UK, saw the diversification issue as part of the politicisation of energy security rather than the securitisation of it.⁵

Therefore the dominant atmosphere in the EU and the leading EU countries, even after the 2006-2009 crisis, was in

harmony with the political objective of the famous *Ostpolitik*, which was a stepping stone in the formation of interdependence between the East and the West: engaging Russia in the western/European system. Accordingly, cooperation with Russia had priority and a "Russia First" approach seemed to have been adopted by Western European governments, at least in terms of energy security, until the 2014 crisis and the annexation of Crimea.

The 2014 crisis was a more serious wake-up call for European actors to re-evaluate and re-assess what kind of changes had occurred in the interdependence model over the last 25 years. This crisis has not increased the degree of sensitivity and vulnerability of interdependence of Northern and Western European EU countries to any serious degree.⁶ In any case, ending interdependence is not an easy or likely move at least because of the continuous dependence of several South-Eastern European and Baltic EU states on Russian natural gas and Russia's economic dependence on energy revenues. However, European leaders more frequently announce their intention to realise EU's ambitious targets (reducing gas emissions to 40% below 1990 levels, increasing the share of renewables in the consumption of energy by 27%, increasing energy efficiency by 30%)⁷ to accomplish energy transition in the Union by a more coherent union strategy, which has gained priority among the EU members. It is expected that these targets, when they are

achieved, will also affect Moscow-Brussels relations by decreasing the dependence of European member states on natural gas in the middle and long term.⁸ All in all, nowadays the essentiality of having a common European energy strategy, what is also called “Energy Union” strategy is more often voiced and heard in the European circles.⁹

Cooperation with Russia had priority and a “Russia First” approach seemed to have been adopted by Western European governments, at least in terms of energy security, until the 2014 crisis and the annexation of Crimea.

Yet it is not clear how this shift in rhetoric and strategies from engaging Russia to the realization of a common integrated energy market of Europe that prioritizes (Eastern) Europe First will affect the future of Russian-EU relations and the interdependence model as the energy security regime in Europe. In this context, our main objective in this paper is to try and evaluate the meaning of the changes in the interdependence observed at each of the different turning points by using the historical background of interdependence between Russia and the EC/EU. We believe that this evaluation will be a useful guideline for

future analysis of the limits of change and continuity in EU-Russia relations based on mutual interdependence and the energy dialogue regime, which is institutionalized in terms of long-term contracts between exporting and importing countries. In this analysis it is also assumed that three historical phases; the Cold War, the Post-Cold War era until the 2014 Ukrainian crisis, and the period since 2014, have brought their own dynamics to shape transformations and changes within the existing energy dialogue regime. As a result this evaluation will address these underlying turning points in two separate sections.

The first section provides a summary of red gas interdependence by considering not only the historical tale of how it became possible to trust an enemy during the Cold War, but also what the theoretical explanations tell us about the viability and stability of such an exchange regime based on interdependence. In the following section we will elaborate why and how the interdependence model survived after the demise of the Soviets. At that time, almost all the observable facts on the geopolitical map of Europe changed. As Högselius points out, red gas was not red anymore, territories disappeared, borders dissolved, and most importantly the parties to the former gas contracts vanished.¹⁰ Only the natural gas reserves and storage facilities and pipelines connecting East and West, North and South remained. This

period is considered to be significant for two reasons: i) critical changes in the power structure and energy market strengthened Moscow's position as an energy power in the interdependence between Russia and the transit countries, and this impacted on the sensitivity interdependence of the EU states, and ii) Europeans started to think about the future of European gas dependency not because of Moscow's assertive policies against EU states directly, but because of Moscow's assertive policies against the transit countries (Ukraine and Belarus) and the former members of the Soviet Union, including the Baltic and Visegrad states until 2004. In this section the importance of both the 2006-2009 and the 2014 Russian-Ukrainian crises will be underlined as major turning points in the Post-Cold War interdependence. Based on these evaluations this paper will try to predict the future of interdependence and energy dialogue between Moscow and Brussels by highlighting expectations, limits and capabilities of the actors for the expected regime change.

Practice Meet Theory: How One Trusted in the Enemy Who Sent Red Gas through Red Pipes

Engineers, bureaucrats, technocrats, and businesspeople on both sides of

the Iron Curtain were searching for opportunities, and lobbying the decision makers to buy and sell communist gas as a return of capitalist high tech and currency even before Keohane and Nye described the dominant situation in the world politics as interdependence. Before that point, the decision to receive very strategic material- natural gas from the Eastern bloc- and sell very sensitive technology- pipe and grid technology- to the Soviets, as was happening in Cold War Europe, found its theoretical explanation as a choice to trust in each other and cooperate in an energy deal, which became the basis for both energy demand and supply security since the end of the 1960s among enemies of Cold War Europe.

What Theory Tells Us: The Interdependence Model in Explaining Energy Security

Theoretical explanations coming from the liberal tradition enlighten us as to how cooperation among enemies can be possible in relation to sensitive issues like energy security, which has both economic and strategic dimensions. These schools of thought underscored that multiple channels of communication, a fluid character of technology, and the importance of economic interactions on a transnational basis for making the actors economically viable, create a situation that Keohane and Nye called

complex interdependence.¹¹ Both scholars were very careful to emphasize that there is no necessary connection between interdependence and peaceful relations, because interdependence indicates exchange of mutual and mostly asymmetrical costs. However, under the conditions of interdependence, actors who are aware of the actual and potential cost of their actions choose other strategies to acquire their intended outcome rather than using bare force. Therefore mutual interdependence brings some constraint on actors' behaviour and limits their autonomy.¹² For Keohane and Nye, sensitivity interdependence and vulnerability interdependence are the main determinants of actor decisions related to the cost of mutual dependence. Being aware of sensitivity interdependence or rapid rising sensitivity leads to politicization of issues and a search for new alternatives, while the actual decision of the actor on the future of interdependence (whether or not it is necessary to take counter-action for relieving oneself from the cost imposed by the interdependence) is taken by considering vulnerabilities. Counter-action may be in the form of use of force, though its efficiency is limited in non-military issues, attempt for regime change or change under the existing regime.¹³

According to theorists, what determines an actors' decision to trust the other party is a cost calculation

and the level of affordability of the cost. Under realist conditions the cost of misperception, cheating and non-commitment is extremely high and unbearable as survival is at stake, whereas under the conditions of interdependence actors may bear the cost of cooperation and interdependence for a number of reasons. The expectation of absolute gain is the most obvious reason. Also, actors may care about mutual gain because they are acting under the economic and political rational of interdependence according to which their wellbeing is tied to the wellbeing of the other party.¹⁴ That is why Eskova added the desire of the actor for norm expansion through interdependence¹⁵ to the list of possible motivations that would encourage the formation and continuation of interdependent relations. Regimes are the major instruments of interdependence and they consist of formal rules, regulations and norms, which govern this costly exchange. Through regimes, both trust and each actors' expectations related to the other party's behaviour is formally or informally institutionalized.

Under the conditions of interdependence, actors who are aware of the actual and potential cost of their actions choose other strategies to acquire their intended outcome rather than using bare force.

Energy security regimes govern energy exchange by constraining individual actions that may result in a costly pay off and by incorporating insurance mechanisms.¹⁶ These regimes are taken into consideration more under the interdependence model than the realist model. Contrary to a realist energy security understanding, in which an increase in the energy security of one actor is perceived as a threat to another actor's security, energy security under the interdependence model is based on confidence in absolute and/or mutual gain and the economic logic of decision making. That is why under energy security regimes in the interdependence model, alliances or cooperation between parties are assumed to be possible, stable and more reliable.

Energy security regimes between consumers and producers of energy, as in EU-Russia relations, are dialogue regimes. In these regimes natural interdependence between two sides (one wants to sell and the other wants to buy) are obvious, but the parties' interests are not in natural harmony, especially related to price and pricing of energy. Therefore any unilateral act of one party has the potential to create problems for the other party. By establishing a dialogue, regime parties prove that "these problems cannot be easily solved by each party acting its own or through the autonomous operation of market forces."¹⁷ Dialogue regimes, however,

may lead to ambiguity related to the future of mutual trust because they are more open to the impact of changes in distribution of both over-all and issue-based power.¹⁸

It is assumed that having an energy dialogue regime, despite the potential for ambiguity about the future of relations, is much more important in natural gas security interdependence because of embedded inflexibility in the natural gas market. This inflexibility is a result of two distinct features of the market. Firstly, the degree of interdependence between actors of natural gas deals is higher as a result of the long term nature of gas supply contracts, and the high cost of investment in infrastructure and alternatives. Secondly, there is a regional character to natural gas interdependence especially where onshore pipelines are the main instrument of transportation of energy. Within such a geopolitically and geo-economically constrained relationship, instability in transit countries directly impacts on the security interdependence between consumers and producers. Therefore, the energy dialogue between two parties becomes more complicated and regionalized by the inclusion of transit countries into the calculation. To cut a long story short, in natural gas dialogue regimes the main rationale behind an actor's decision has generally been economic legitimization—an increase in national wellbeing—however now political legitimization is

also important, and this legitimization is based on the possibility of constructing a region in which consumers, producers and transit states' relationships are regulated by the similar perspective of energy security.

That the nexus between economic and political rationality is behind the decision to form energy interdependence is very obvious in the Cold War and Post-Cold War East-West, Russia-Europe natural gas deal.

Cold War Construction of an Energy Security Dialogue Regime

The Soviets were not only in ideological and political competition with the West, but also in economic competition. Khrushchev's economic planning was based on the problem of how Moscow would catch up with the USA's economic prosperity. Natural resources, including coal, oil and gas, emerged as critical capabilities for a Soviet economic leap forward strategy if an ideal and reliable trade partner could be found. Foreign markets were also required because the Russian gas industry and Siberian gas fields needed financial and technological investment. During the time of the "equipment gap", therefore, prominent Soviet technocrats like Kortunov perceived that Western Europe, with its hot currency and know-how in the steel and pipe industry, could be a potential market for a Russian natural gas economy.

However, reaching Europe required critical instruments, and long distance pipelines became the 20th century railways. Apart from economic legitimization, Soviet bureaucrats started to see pipeline nets as means of integration between Moscow and newly annexed territories (Ukraine, Poland, East Prussia, the three Baltic Republics and Moldavia).¹⁹

Transnationalism functioned very well. Italian, Austrian and German pipe manufacturers found the business profitable. However, persuading West European leaders to buy Soviet gas needed further motivation: Western European leaders' decision to turn national economies based on natural gas because it was cheap, clean and available. Europe was looking to receive "gas from the sands and from the steppes".²⁰ Austria and Germany, because of their geographical proximity to Czechoslovakia, which had already signed the first contract with the Soviets for Russian gas, took up this opportunity. They were followed by Italy and France, and then the UK, Sweden, and Spain negotiated with the Soviets to have access to *communist gas*. Also, the Middle East crisis, which affected energy markets in 1967 and 1973, led the Europeans to consider the issue of diversification. Within a short period of time, natural gas emerged as a viable alternative to oil, and Russia came to be considered as a reliable and less costly alternative to other suppliers such as Algeria, Iran and the Middle Eastern states.

The Middle East crisis, which affected energy markets in 1967 and 1973, led the Europeans to consider the issue of diversification.

Two factors became essential in fortifying the trust in the Soviets. The first factor was related to the Soviet charm offensive after the 1967 Arab-Israel War, designed to make Moscow the provider of adequate, sustainable gas at the market price, and perceived, in other words, as a trustworthy provider of West European energy security.²¹ The basis of this interdependence and reliability on Russia as a source country lay in the long term bilateral contracts, which were seen as the coping instruments to mutual vulnerabilities derived from the transnational character of critical infrastructure. The contracts contained extensive clauses on technical aspects of gas deals such as quality and expected volume of gas, as well as how gas prices would be determined. The importers usually had an active role in assuring a harmonious entry of foreign gas onto the fuel markets. The price was arranged at a level that was competitive with other fuels- especially oil- but not too low. Exporters' commitments to send the expected volume of gas without any distortion were linked to penalties that the exporting state would be liable to pay in the case of non-delivery or failure to deliver the agreed gas quality. Some

clauses for emergencies and others related to third party jurisdictions in case of conflict were also included.²² Therefore, on recognition of mutual cost (sensitivity interdependence), an energy dialogue security regime was institutionalized via long term contracts, and a critical infrastructure was constructed according to these contracts. During the Cold War years, the Soviet elite did its best to realize these Russian gas commitments. Despite these efforts, disruptions occurred, mainly because of technical problems, and when they occurred, the Kremlin chose to send the agreed volume of gas to western consumers even if doing so risked leaving Russian and Ukrainian people cold.

The second factor was related to the issue of how western Europeans; especially the new political elite in western Germany, saw interdependence with the Soviets. Willy Brandt's motto for his newly released *Ostpolitik*, "Wandel durch Annäherung" (change by rapprochement) recognized that engaging with the Soviets through economic deals could prolong the détente in Europe, bringing the Soviets closer to concessions on East Germany and West Berlin and possibly increasing Germany's political influence in European politics. Therefore, followers of *Ostpolitik* had hopes for norm expansion via interdependence, tying the Soviets economically with the European system, and in return, Bonn received concessions

from the Kremlin that the Soviets would add West Berlin to the gas deal and agree to send gas to the enclave.²³ After the Germans received red gas, the Helsinki Act was signed and cooperative security as a term was created to define the new dialogue regime between East and West.

The dissidents and Americans who saw great risks in a West European-Russian interdependence, warned that Russia had succeeded in creating a near monopoly on the East European gas transfer, and because of the supply excess in red pipes, Moscow might have the capacity to act as the price-leader in Europe. This in turn had the potential to create problems for European consumers if Russia succeeded in diversifying its market by selling gas to other consumers like Japan, China and India. Western Europeans, however, decided to trust the enemy. The interdependence model explains why such faith existed in the centres of Western Europe. Firstly, Western Europeans, as became obvious in the Soviet-German contract, perceived that their bargaining power increased in the gas interdependence relationship because the linkage between economic and political issues was possible for Europeans whereas the nature of economic relations and network of contractual relations of the gas deals restrained Moscow not only from cheating but also from the use of force. Secondly, although both parties bore the possible cost of sensitivity interdependence, the Europeans did

not feel themselves to be vulnerable since there were other alternatives like domestic deposits, Algerian LNG, Dutch gas, the possibility of access to Moroccan and Nigerian LNG via Spain, Iranian gas and so on. Thirdly, engaging East Europe and Russia in European policies via economic deals seemed to be very appropriate to the European mind-set, according to which, having a working regional system and/or system-building elites may strengthen regional peace and stability.

Post-Cold War Interdependence: How One Trusted in Energy Power Who Uses Energy Weapons in the Near Abroad

Cold War interdependence functioned without any serious problems or intended disruptions. Post-Cold War world politics, however, brought a number of questions about the future of the energy interdependence regime between western European states and Russia. The forces leading the regime change cited by Keohane and Nye²⁴ emerged as the on-going drives for regime change one after the other: changes in economy and technology, changes in overall power structure, changes in the distribution of power in specific issue areas (in this case, energy), and changes in the institutionalization of interdependence.

Changes in Economic- Technological Structure and Environment

Changes in the economic and technological conditions of energy geopolitics have the potential to bring new costs into the interdependence relationship and may change the perception of actors related to their relative sensitivities and vulnerabilities. Three important changes affected Post-Cold War European-Russian energy interdependence:

i) Changes occurred in the perceived balance between technology, the economic feasibility of gas, and environmental sensibilities. Natural gas was perceived as an economic, human and environmentally friendly energy during the Cold War years and this perception was the basis of European and Soviet love for *blue gold* (*siniy zaloto*-the Russian name for natural gas) and pipes. However new developments in the technological sphere, like developments in reverse flow technology as well as new ecologic awareness, enabled consumer countries in Europe to take the necessary measures to strengthen energy efficiency. New developments and change in awareness also led consumers to search for bio-mass resources and bio-fuel. As a result, Post-Cold War Europeans are increasingly able to consume and demand less fossil fuel

than before, including their demand for gas.²⁵ Without a doubt, planning reductions in the natural gas demand via increases in energy efficiency and consumption in renewable energy (a 27% increase in energy efficiency as well as a 30% rise of the share of renewables in consumed energy in accordance with a reduction of carbon emissions to 40% below 1990 levels) is not only related to the independent variable of changing technology and ecological awareness.²⁶ In addition, changes in the power capabilities of consumers and producers of natural gas and the rise of Russia as an energy power that is able and willing to use energy as a political tool, led European actors to think about implementing a reduction in their consumption of natural gas.

Natural gas was perceived as an economic, human and environmentally friendly energy during the Cold War years and this perception was the basis of European and Soviet love for blue gold (*siniy zaloto*-the Russian name for natural gas) and pipes.

ii) The demand for natural gas has shifted from the West towards the Asian markets. Therefore, European consumers, but most importantly transit countries

and South-Eastern and Central-Eastern European and Baltic states whose dependence on Russian natural gas is higher than that of western Europe, have to compete with new consumers in the market. This competition and turmoil in the Middle East, which created stress on the fossil fuel based energy markets, increased Russia's upper hand in gas pricing at the beginning of the 2000s.

iii) The energy related economic structuring in the various European countries and the Russian Federation changed with the end of the Cold War. The centrally planned economy of the USSR had disintegrated and a new player in the gas sector emerged after the poorly implemented reforms of the Washington Consensus: the Joint Stock Company or Gazprom. The company acquired a monopoly in the transmission and export of gas and became a party in the important gas contracts with European states. Though the Washington Consensus emphasised the importance of liberalization and competition, Gazprom has been structured as a vertically integrated company and the state holds a majority stake. Gazprom's acquisition and investment strategies have been shaped to deal with the on-going market liberalization in Europe and the European desire to create a single energy market. Hence Gazprom's efforts to acquire assets in distribution companies or gas consuming industries, such as electricity, as well as infrastructure facilities in

the European market and in transit countries can be interpreted as tactics in a foreclosure strategy. Nevertheless this diversification of market logic between European states and Russia complicated the implementation and nature of gas contracts.²⁷

The centrally planned economy of the USSR had disintegrated and a new player in the gas sector emerged after the poorly implemented reforms of the Washington Consensus: the Joint Stock Company or Gazprom.

Economic and technological changes evidently created the motivation for new arrangements under the existing European Russian energy regime, but both parties have decided to remain in the interdependence arrangement for two main reasons. The first reason is the European confidence in the functioning of interdependence as the major instrument to export the EU's *acquis communautaires* in the energy and gas sector with trade partners including Russia. That is why these changes led the search for a re-institutionalization of the interdependence regime via the Energy Charter Treaty (ECT) and EU-Russia Energy dialogue.²⁸ Although the EU perceived the existence of limits to

changes in the pre-existing institutional framework of interdependence, such as long-term contracts and prevailing national control over energy foreign policy, Brussels continued to see cooperation and interdependence with Russia as the first stage of norm expansion towards Moscow during the 1990s and at the beginning of the 2000s. Indeed for Europeans, exporting norms to the supply country, and the creation of a common space between consumers, producers and transit states under the regulation of similar principles has been the accepted way to access the Russian hydrocarbon resources or strengthen energy supply security.²⁹ The second reason is related to the preferences of certain West European states and energy companies (like ENI, RWE, E.ON, and Gdf-Suez) to reach an independent deal with Gazprom, which has pursued the main strategy of offering access to Russian hydrocarbon resources in return for receiving assets in the consumers' and transit countries' energy facilities, energy related industries and infrastructure.³⁰ These swap deals actually have contradictory objectives to those of the ECT and Brussels' vision, but western European states continued to see their national economies as not-so-vulnerable to Gazprom/Russian assertiveness mainly because of the economic power of the West European states vis-a-vis Russia. Tom Casier very clearly identified that Western European and the Union's energy foreign policy

during the 1990s and early 2000s was based on the perception of the weakness of Russia.³¹ Therefore, until 2006, the economic-political rationale of interdependence between Russia and West Europe was seen as solid despite all changes in the economic-technologic sphere of gas/energy geopolitics.

Changes in Overall and Issue Specific Distribution of Power and Differences in the Institutionalization of Interdependence

In 2003 the EU Security Strategy called energy dependence a challenge. In 2004, as a result of the EU's enlargement eastward, the average dependence of a member state on Russia for its gas import had risen from 25% to 47%, while the new member states, Estonia, Latvia and Lithuania, were fully dependent and Bulgaria and Slovakia were highly dependent.³² That is why the 2006 Green Paper emphasised the diversification issue as instrumental to strengthen energy supply security. Though Western European centres were still deaf to the complaints of the South Eastern, Visegrad and Baltic States, after 2004 the Europeans started to perceive the change in the specific distribution of power to the advantage of gas exporting states as a difficulty in providing energy security in Europe. At that time the Russian

position as a major energy power was not defined as a threat because of the above mentioned Western Europe-Gazprom relations, but even western centres tried to evaluate what the limits of Russian energy power would be or whether or not interdependence would function as a restricting factor over Moscow's assertive policy as it had been during the Cold War. Based on these evaluations the first EU common energy policy was born just after the 2006 Ukraine-Russian crisis³³ and Russian policies in the area of energy interdependence were defined as a challenge to South East Europe's energy security.³⁴

The energy weapon was seen by the Kremlin as a compensation for the change in the distribution of power in the overall structure of international politics at Russia's expense.

During both the Cold War and Post-Cold War years, Moscow, as producer and exporter had a certain amount of leverage over the downstream states. Even in the 1980s the Kremlin perceived the critical importance of having access to gas transfer systems and facilities in transit countries. To this aim, they adopted attractive pricing strategies, created strategic debt in the budgets of these states and increased level of

supply to beat all other alternatives. These leverage strategies were not used to acquire political concessions in the Cold War relations, however the legacy of the Cold War interdependence (red pipelines in the Baltics, Eastern and South Eastern Europe, and storage facilities in the transit countries most importantly in the Ukraine) together with Russia's ability to determine gas prices to levels which transit states could not afford, turned Russia into an energy power in the post-Cold War era. The Kremlin used the energy weapon by increasing the price of gas, charging different prices to different customers, threatening disruptions in the flow of oil, and bypassing transit countries by initiating alternative pipelines for gas transfer from Russia to European customers. The energy weapon was seen by the Kremlin as a compensation for the change in the distribution of power in the overall structure of international politics at Russia's expense. The Kremlin tried to use linkage strategy between the energy issue and the military/political issue not to lose control over the former Soviet states. Therefore the Baltics, Caucasus and transit states, especially the Ukraine, were both targets and victims of gas disruptions, and suffered gas crises and covert interventions one after another.

West Europeans were also affected by these crises as they were during the 1992-1993 Ukraine-Russia, and Ukraine-

Belorussia-Russia crises. However, in the 1990s the Europeans saw this turmoil through the lenses of interdependence and economics. The basic cause of the crises (the non-payment issue) was underscored. It is true that Russia attempted to gain concessions on political-military issues, like the return of the Black Sea Fleet, nuclear warheads, or the suspension of citizenship regulations. However, the Kremlin was not successful in achieving its intended outcome even though Russian/Gazprom's policies caused huge economic, political and humanitarian costs in these states.³⁵ Therefore, until the 2006 and 2009 crises, in which the Kremlin succeeded in making the effective linkage between the economic issues of payment and pricing and the political issues, such as the turning tides of the Orange Revolution in 2006 and the extended leasing of the Sevastopol harbour in Crimea for the Russian Black Sea Fleet till 2042, the question of managing interdependence, but not dependence on the Russian gas, was strategically important for the Europeans.

Through intensified gas trade, new institutional mechanisms like ECT and Dialogue were initiated, along with long-term contracts, which remained as the only institution of the regime between the transit countries and Russia.

Managing interdependence was required because Europeans were also aware that the transit countries, through their key position along the transit routes and their storage facilities, could have the capacity to turn a Russian-transit country crisis into a Russian-European crisis. This period of time was also known as the time of the motto: 'Russia first'.³⁶ Europeans therefore remained focussed on Russian attempts to build dependency between the producer and transit countries instead of maintaining interdependency, but they preferred to prioritise keeping Russia on the right track. That is why Schröder's policy of *Wandel durch Handel* (change by trade) was interpreted as new *Ostpolitik*. It is true that the Germans were among the first Europeans to believe that joint ventures and mutual investments might change the attitudes of Russia/Gazprom and lead to a strengthened economic-political rationale of interdependence. Through intensified gas trade, new institutional mechanisms like ECT and Dialogue were initiated, along with long-term contracts, which remained as the only institution of the regime between the transit countries and Russia. It is also true that the strengthening of the Russian-European gas exchange became added leverage in the hands of Moscow, which now initiated alternative pipelines that bypassed transit countries.³⁷ Gazprom and Russia saw these alternative pipelines from a

geostrategic perspective as leverage in their linkage strategy, but also Russia needed to increase the volume of gas exchange because of increasing Russian sensitivity and her potential vulnerability to change in energy revenues, in other words, energy demand security. Moscow could calculate the negative impact of her own policies in the near abroad, like the 2006-2009 crisis and the 2008 intervention in Georgia. Being aware of the European diversification strategy, Russia, by offering new alternative transit routes for Russian gas in order to secure the level of gas demand coming from the European market, has tried to counter Europe's diversification strategy. Nobody can ignore that since the 2009 crisis there has been an emphasis on diversification and on reduction in natural gas consumption, as fortified by European documents,³⁸ and this emphasis has been accepted as the politicisation of energy supply security and dependence on Russian natural gas.

The 2014 Crisis: Not Regime Change but Re-Emphasizing Means of Diversification Routes and Indigenous Resources

Russian aggression in the Ukraine and Crimea in 2014 was taken as the latest Russian attempt to link the issues of non-payment and pricing of energy with military/political issues. It is now being taken more seriously, however,

because the 2014 crisis changed the well-known contours of European security before creating a dent in European energy security. Both NATO and the EU seem keen to take more serious notice of the security concerns of Eastern European and the Baltic states, and consequently numerous precautionary measures have already been implemented. These new concerns have led to the rise of the old question of whether or not there still exists strong political and/or economic rationale for the validity of the interdependence model. The newly developing (*Eastern Europe First*) policy and the cold rhetoric that is flowing between the EU and Russia fortifies suspicions about the future of the energy regime, because of the weakening of the political rationale. However the economic rationale still exists and that is why interdependence, with a very strong and politicalized emphasis on diversification, remains valid.³⁹

The European record on searching out an alternative regime is slightly complicated by economic and technological factors as well as the differences among Europeans in their level of sensitivity and vulnerability interdependence. However, the European record for diversification has followed a more certain path since the 2006 Green Paper. After the 2014 crisis, Europeans felt it was time to speed up their plans for the diversification of

energy sources. They also encouraged the efforts to maintain transparency regarding Europe's energy sources. However, Brussels' current need to import at least 30 % of its gas supplies from Russia, half of which go through Ukraine, is expected to continue for at least a few more years. Hence, it is not yet clear whether the 28 members of the Union will be able to demonstrate the political will to act in unity in applying the basic rudiments of the EU's common integrated energy market. This also holds true for the endorsement of the Third Energy Package.⁴⁰ Therefore, due to the continuous energy dependency of the EU on gas imports from abroad, there might still be some countries in the future that would prefer to be in breach of the EU laws and sanctions. Just recently, the EU and the US have averted such a threat by putting pressure on Bulgaria to retreat from the South Stream project.⁴¹

Since the cancellation of the South Stream project, EU members are now giving the impression of unity in their endorsement of the Union's energy policies, but it is not easy to be sure about the future. When one compares the current security of the EU members' energy supply with that during the previous 2006-2009 Ukrainian crises, most of the 28 countries- with the exception of the Southeastern European and some Baltic states- stand in a relatively better position. This current situation

is the result of the limited numbers of newly built gas interconnectors between some of the Central and Eastern European countries and EU energy islands. Moreover, with the realization of reverse-flow capacities, these energy islands are expected in times of crisis to improve the chances of additional supplies of gas from other European countries. On the other hand, it is true that the EU has not yet completed the process of interconnecting all of the "energy islands" in Europe.⁴²

With the realization of reverse-flow capacities, these energy islands are expected in times of crisis to improve the chances of additional supplies of gas from other European countries.

Most countries in the North and West of Europe in today's EU are in a better position than they were during the 2009 crisis, thanks to various implemented diversification measures of bringing up a common integrated EU market. Certainly, LNG gas terminals will help the Union import LNG gas in case of another crisis with Russia. However, most countries in the EU that are solely dependent on Russian gas still lack LNG gas terminals and are obliged to wait for this diversification in mechanism of delivery opportunities. The good news

in this regard is that more new LNG gas terminals are in the process of being made; for instance, in both Poland and Lithuania new terminals are expected to be operational in 2015, and in Croatia a new terminal is expected to be finalized towards 2020. Unfortunately, due to the high cost of LNG, the EU used only 22% of its regasification capacity in 2013. If the demand from the emergent countries does not change any time soon and the price remains at the current level, the EU will have to continue competing with the Asian LNG import prices, which are currently higher than in Europe.⁴³ Hence, under the prevailing conditions, the EU seems to be dependent on sourcing its 30% gas requirement from Russia until it achieves indigenous strategies for producing alternative conventional and un-conventional resources. Under the present conditions, the Southern Gas Corridor (SGC) project still stands as the most promising option among all the alternative means of diversification options available to the EU. Yet, the EU will need to wait until 2019 to have access to Caspian based gas supplies-via the TANAP/TAP pipelines. That is why; as many energy experts and economists argue, the EU will have to wait at least four or five years from now before it will make the decision whether to remain dependent on Russian gas imports or gradually walk away from this longstanding interdependency relationship.⁴⁴

Can Russia Dare to End Mutual Interdependency Energy Relations with the EU?

Russian President Putin, even before signing the recent agreement with Ukraine and the EU that aims to resolve the payment of Kiev's gas debts, did not hesitate in threatening the Europeans: gas supplies to the Ukraine would be cut if Russia received no repayment from Ukraine. As a result, various EU members have started working on the options for overcoming a gas cut scenario. Thanks to Russia's own limits of affordability, and the cost of such policy, there have been no such gas cuts to Europe yet. Russian sensitivity interdependence continues to limit Moscow's moves. Because of the lack of essential infrastructure in Asia, Moscow has not been able to replace the European market with new Asian agreements. Even the latest US\$ 400 billion gas deal with China only covers the income from Moscow's gas exports to Germany. Hence, Moscow is not yet in a position to trade off the European gas energy market of about 160 bcm with the Asian/Eastern market.⁴⁵ Additionally, Moscow will need to think twice before making another gas cut to Europe if it wants to maintain the *credible supplier* image in the eyes of actual and potential customers, since large amounts of Moscow's current state budget are still from hydrocarbon revenues. Moreover, as the current oil price has now dropped to US\$ 60 per

barrel,⁴⁶ and while Russia is under economic sanctions, Moscow is feeling economic hardship more than before. Putin's Russia badly needs European and US investment and know-how to continue its indigenous explorations for both conventional and non-conventional hydrocarbon resources. Therefore, remaining competitive in the global hydrocarbon market, which is essential to keep Russian sensitivity interdependence below a certain level, is dependent on the continuation of interdependence. All in all, both theory and actual politics tell us that the Russian economy is a restraining factor among others that hinders Moscow from taking further coercive measures against the EU, such as another gas cut.

Under the current situation, therefore, Russia continues to be highly dependent on European gas markets and this does not give it the freedom to walk out.⁴⁷ Until the EU can overcome its gas dependency on Russia by initiating alternative diversification means, it is certain that the present mutual interdependency and energy dialogue regime between the EU and Russia is likely to continue. The question

will be whether diversification will bring stronger motivation for regime change. The situation is naturally related to the further question of whether the EU has the political will to live up to its already declared June 2014 Energy Security Strategy targets and welcome a self-sufficient energy solution.

In Lieu of a Conclusion: A Prediction for the Future

Brussels has not succeeded in realizing the idea of an Energy Union, which is supposed to establish not only a coherent strategy related to the energy mix but also to embrace the principle of energy supply security for South-Eastern Europe, the Baltic states and the transit countries' critical infrastructure.

The 2006, 2009 and 2014 crises were wake-up calls for the Europeans. Most of the western and northern states of the EU planned after the 2009 crisis to take the energy security measures which today lessen their sensitivity interdependence on Russian gas imports. The overall sensitivity of the EU in regard to Russian gas, therefore, stems from the current situation of the Southern and Eastern European and Baltic States. For today, these member states have not yet managed to become part of the projected common integrated European energy market, and their dependence on natural gas and gas importing from Russia continues. There are considerable efforts to reduce those states' dependence on Russian gas and

this issue is highly politicized by using the rhetoric of ‘Europe first’. However so far, Brussels has not succeeded in realizing the idea of an Energy Union, which is supposed to establish not only a coherent strategy related to the energy mix but also to embrace the principle of energy supply security for South-Eastern Europe, the Baltic states and the transit countries’ critical infrastructure. Apart from short-term remedies, the EU Commission once again in its 2014 Energy Security document, the medium to long-term to-do list for EU states in order to overcome their Russian hydro- carbon dependence.

Since the EU has not yet completed its projected to-do list of the 2014 EU’s Energy Security document, Brussels will continue to be sensitive to any likely gas cut-off made by exporting countries, including Russia.

The BP Energy Outlook for 2035⁴⁸ made it clear that Brussels, despite all of its efforts to gain self-sufficiency in the field of energy will be importing nearly 50% of its energy from abroad. If one considers the volume of gas deliveries, 160 bcm, combined for the whole European market, one can more easily grasp the economic rationale of ongoing interdependence in the energy sector

between Brussels and Moscow. Observers doubt there will be any change before 2020-2025. Theoretically and practically speaking, since the EU has not yet completed its projected to-do list of the 2014 EU’s Energy Security document, Brussels will continue to be sensitive to any likely gas cut-off made by exporting countries, including Russia. Moscow, however, has also been aware of its own sensitivities that stem from the economic structuring of her gas market. This sensitivity is tending to increase while the revenue from oil exports is declining. As in the Cold War years, Moscow needs to access western gas and oil techniques and hot currency to invest in the re-structuring of its fossil fuel sector. Therefore, Russia is continuing to be highly sensitive, as her energy demand security is at stake as a result of the decrease in European demand and the infrastructure problems in the Asian market. Energy nationalism has continued to be one of the barriers to joint ventures and the Russian position seems to be only dependent on putting herself forth as a reliable gas supplier.

Russian assertive energy diplomacy and its strategies towards her near neighbours, including the use of energy as a weapon, harms Russian charm. Therefore, any Russian charm offensive has to be based on the guarantee of the flow of gas to Europe. Hence, the economic rationale of this interdependence is solid. Because the parties have little option and few alternatives in the short run; one can

expect to see mutually constrained relations between Russia and Europe. Accordingly, linkages between use of force either in the form of military threat or imposing sanction on energy trade, will be limited in this relationship. However, the political rationale of interdependence and the nature of the energy dialogue regime may change in the long run. The negative perception of Russia after the Georgian and Ukrainian interventions has been cited regularly, but under an interdependence model, change has come as a result of changes in the distribution of power in the energy field. There are signs that economic and technological changes may pave the

way for a strengthening of the position of European powers, if they manage to reduce their sensitivity interdependence by implementing coherent Union policies and viable alternatives. The most important obstacle before Europe will be managing the different positions of the 28 members, who have different experiences and have learned different lessons from the history of the Cold and post-Cold War interdependence. Time will show us how this story of interdependence will evolve, however it is dependent on the EU's political decisiveness in realising her to-do list, as projected by the EU Commissions' 2014 Energy Security Document.

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