

Russia's Energy Politics and Its Relevance for the European Union

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Since Vladimir Putin has been in power in Moscow, oil and gas have been an integral part of Russia's strategy to regain influence on the world stage. Mastering gas supplies to the European Union and thwarting EU diversification efforts have long been key components of this strategy. Other policy elements have gained importance over the years, such as setting foot in the Middle East and North African (MENA) region and catering for new customers such as China. In addition, in the medium term, the surge of the United States as a major liquefied natural gas (LNG) supplier to the EU will create a new challenge for Moscow.

Russia's Multipronged "Energy Politics"

Energy politics have long been a central part of geopolitics and of Russia's influence in the world. The Foreign Ministry stated in 2013 that Russia's goal in the field of energy was to "strengthen its strategic partnership² with major producers of energy resources while actively promoting dialogue with consumers and transit countries."

This general objective translated into actions across all the sub-components of the energy market: covering both oil and gas; investing in production in the MENA region; building transit pipelines; mastering supplies to the EU; increasing supplies to Asia; and weighing on prices. Overall, Russia has continuously made en-

ergy politics an instrument of its foreign policy, against the background of the major share that energy products have in global trade.

In 2018, analysts at the Jamestown Foundation³ argued that Russia's strategy pursues both a global power objective and a domestic economic objective: "an overarching goal is to maintain or expand its energy markets in neighbouring western Europe and China, two of the world's largest oil and gas consumers. By doing so, Russia appears to believe it will stabilize its economy, maximize its budget revenues and continue to re-establish itself as a global power."

The following sections document Russia's international energy policy as a three-pronged affair, consisting in thwarting the EU's diversification strategy, setting foot in the Middle East oil and gas sector and establishing itself as a major supplier of energy to China.

Thwarting the EU's Diversification Strategy in General, and the Southern Gas Corridor in Particular

A major driver of the European Union's diversification strategy was the cut-off of gas supplies via Ukraine in January 2006: in the midst of winter, Moscow had decided to stop using Ukraine as the major gateway for Russian gas exports to the EU. The cut-off was intended to prod Europe into forcing Ukraine to capitulate in the dispute. With this abrupt development, Europe felt Russia was engaging in energy blackmail, compelling it to take steps to reduce its dependence on oil and gas, both in the short term and

¹ I am grateful to Ms. Manon Roehrig for her assistance in research linked to this article. This text was finalized in June 2019.

² MINISTRY OF FOREIGN AFFAIRS OF RUSSIA. "Concept of the foreign policy of the Russian Federation," 18/02/2013. www.mid.ru/en/foreign_policy/official_documents/-/asset_publisher/CptlCk6BZ29/content/id/122186.

³ MAMMADOV, Rauf. "Russia in the Middle East: energy forever?", *Jamestown Foundation*, 08/03/2018. <https://jamestown.org/program/russia-middle-east-energy-forever/>

more importantly over the long haul. It began working on a security strategy, including the so-called “stress tests,” simulating two energy supply disruption scenarios for a period of one or six months (i.e. a complete halt of Russian gas imports to the EU, and a disruption of Russian gas imports through the Ukrainian transit route). As a result, the “European Energy Security Strategy”⁴ was adopted in 2014.

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Yet, despite the existence of a network of pipelines from the Baltic Sea and Belarus, Ukraine remains an important transit country for Russian gas. In addition, keeping some Russian gas transiting through Ukraine is a way to maintain pressure on the Kiev leadership. In an April 2018 assessment, a European Parliament study⁵ stated that “transit states are expected to behave like clients of Moscow, particularly if they are not a member of the EU or NATO. These states are the most vulnerable to energy blackmail [...]. This policy of using energy exports to intimidate or bully is a demonstration of Russian realpolitik and reverberates across the European continent.” The respective operators of Russia and Ukraine – Gazprom and Naftogaz – are still litigating about gas supplies and transit, as illustrated in a message posted by Naftogaz⁶ in POLITICO Europe magazine on 29 April.

A direct illustration of this situation is the contentious debate around the Nord Stream 2 gas pipeline linking

Russia directly with Germany by bypassing Ukraine. Russia has been able to play on internal Western divisions regarding Nord Stream 2, as it is supported by Germany but opposed by the United States⁷ and Poland, for whom the pipeline could “turn Germany into a captive of Russia.” In May, a bill was introduced in the US Senate⁸ with a view to sanctioning individuals and entities involved in Nord Stream 2, while Denmark⁹ asked Gazprom to reroute the pipeline due to environmental concerns.

Similarly, with the completion of a first phase of the Turkish Stream gas pipeline (supplying Turkey via a pipeline running under the Black Sea) and the active planning of second-phase extensions to central and southeastern Europe from the European part of its territory, Turkey is seen as playing a Russian game. This project is a vivid illustration of Moscow’s strategy¹⁰ to strengthen its position in supplying gas to the Balkans while reducing its reliance on the Ukrainian transit corridor. However, uncertainties persist as the Turkish Stream faces the same European reluctance as the aborted South Stream gas pipeline. From the European standpoint, the project is deemed to be in violation of the EU’s third energy package, aimed at increasing competition within gas markets. Despite this warning, Serbia, Bulgaria and Hungary received the project and its 30 billion cubic metres of Russian gas with open arms.

Beyond these ambitious projects, Russia is also penetrating the energy sector in the Western Balkans¹¹ by investing in energy companies (the sole oil and gas company in Serbia, Nafta Industrija Srbije, is owned by Gazprom) and supporting energy projects (new storage capacity in Croatia, exploration and production in Romania, Gazprom-branded filling station in Bulgaria).

⁴ EUROPEAN COMMISSION. “Energy Security Strategy.” <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/energy-security-strategy>.

⁵ KORTEWEG, Rem. “Energy as a tool of foreign policy of authoritarian states, in particular Russia,” European Parliament Study, April 2018. [www.europarl.europa.eu/RegData/etudes/STUD/2018/603868/EXPO_STU\(2018\)603868_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/603868/EXPO_STU(2018)603868_EN.pdf).

⁶ VITRENKO, Yuri. “Naftogaz of Ukraine vs. Gazprom of Russia.” https://euenergysecurity.com/?msg_pos=1&utm_source=POLITICO.EU&utm_campaign=f67bb6c46b-EMAIL_CAMPAIGN_2019_04_29_04_46&utm_medium=email&utm_term=0_10959edeb5-f67bb6c46b-190019153.

⁷ AL BAWABA NEWS. “Pence says Germany’s dependence on Russian energy ‘unacceptable,’” *Eurasia Review*, 06/04/2019. www.eurasiareview.com/06042019-pence-says-germanys-dependence-on-russian-energy-unacceptable/.

⁸ CARSTENSEN, James. “Germany remains committed to Russian pipeline project despite US and EU warnings, countermeasures,” *CNN News*, 05/06/2019. www.cnn.com/news/article/james-carstensen/germany-remains-committed-russian-pipeline-project-despite-us-and-eu.

⁹ SHIRYAEVSKAYA, Anna and KHRENNIKOVA, Dina. “Why the world worries about Russia’s natural gas pipeline,” *Bloomberg*, 13/06/2019. www.bloomberg.com/news/articles/2019-06-13/why-world-worries-about-russia-s-natural-gas-pipeline-quicktake.

¹⁰ PIERINI, Marc. “Russia’s gas strategy gets help from Turkey,” *Carnegie Europe*, 03/12/2018. <https://carnegieeurope.eu/strategieurope/77855>.

¹¹ STRONSKI, Paul and HIMES, Annie. “Russia’s game in the Balkans,” *Carnegie Endowment for International Peace*, 06/02/2019. <https://carnegieendowment.org/2019/02/06/russia-s-game-in-balkans-pub-78235>.

Overall, Russia is pursuing the goal of making the expansion of the Southern Gas Corridor and the realization of proposed Trans-Caspian pipeline projects less commercially viable. In short, Moscow's aim is to counter as much as possible the export of additional volumes of non-Russian natural gas to the European Union.

Setting Foot in MENA's Oil and Gas Sector

As explained in the earlier article for Carnegie Europe already quoted above, Russia's strategy is in no way limited to selling its gas on the European continent. On the complex and oft-changing chessboard of energy politics, Russia has shown a high degree of consistency as regards the Middle East and North Africa region. Instead of solely considering regional actors as competitors (which they indeed are, because some of the major oil and gas producers are located there), Moscow decided to undertake a policy of cooperation through a series of agreements and investment decisions.

In Egypt, Russia bought a 30 percent stake in the so-called Zohr field from the Italian energy group ENI in 2016 with the consent of the Italian government, with which Moscow has long enjoyed a close relationship. In addition, Rosatom operates a large nuclear power plant in El Dabba. Further afield, in just four years, Rosatom¹² became the leading provider of nuclear energy in Africa.

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Similarly, underwater gas discoveries off Lebanon have attracted Russia's interest, as NOVATEK bought

a 20 percent stake in a venture where France's TOTAL and Italy's ENI have a 40 percent share each.

Russia has also made moves to control both the oil and gas sector in Syria, despite the eight-year-old civil war. The actual effect of these recent manoeuvres will very much depend on the final political arrangement, since many of Syria's oil and gas fields are located north and east of the Euphrates River, currently outside the control of regime forces.

In Iraq, Russia is involved in pipeline deals in the Kurdistan region through a number of oil and gas companies, although the actual exports would have to take place through Turkish territory or possibly even through Syria in the distant future.

In 2018, during the Russian Energy Week Conference, further cooperation with Libya was encouraged in the field of oil extraction, which resulted in the re-launching of energy projects from the Gaddafi era (energy joint ventures, exploration and production monitored by Rosneft). In the long run, this strategic presence could convert into leverage over European buyers by controlling part of Libya's oil sector. In the current military conflict between the two competing forces, Moscow's political support for Libya's eastern leader, General Haftar, is anything but surprising, since the latter exerts control over an oil production of one million barrels a day in the country's southeast and could even gain control of the Libyan end of the gas pipeline linking the country's western coast with Italy.

In Algeria, Gazprom is conducting hydrocarbon explorations in the El Assel area, while Russia is also building power plants in Egypt.

There is only an apparent inconsistency in Russia's policy toward a rapprochement with Middle East oil and gas producers and exporters. It is true that Saudi Arabia is the biggest oil producer and Qatar is Russia's largest competitor for gas exports. But seen in a global perspective, energy politics is a core component of Russia's actions: energy being a key component of domestic and foreign policy, Moscow indeed has a crucial interest in developing better relations with a region sitting on half the world's oil and gas reserves and is its major competitor in supplying both Europe and Asia's major markets.

¹² GATEWAY HOUSE. "Russia returns to Africa – Analysis," *Eurasia Review*, 18/06/2019. www.eurasiareview.com/18062019-russia-returns-to-africa-analysis/.

Beyond the Middle East

Further afield, Russia is planning to sell gas to India and China, two potentially lucrative Asian customers. Future sales of Russian gas from Siberia to China via the “Power of Siberia”¹³ pipeline, for which agreements are in place and works are underway, will secure a place for Russia on the fast-developing Chinese market¹⁴ and provide a welcome income diversification. China’s imports of LNG¹⁵ will however develop rapidly too, reflecting a global trend in gas trade.

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In addition, since 2017, Russia and OPEC have entered an agreement since 2018 to help stabilize oil markets and regulate production depending on market demand. During a bilateral meeting in the margins of the G20 Summit in Osaka on 29 June, 2019, Vladimir Putin and Mohamed Bin Salman agreed to extend the production cut for a period of six to nine months starting July. 1 July was precisely the date of the OPEC meeting and 2 July the date of the OPEC+ meeting. Together, Russia and Saudi Arabia are the largest oils producers in the world, and their Osaka agreement largely preempted the OPEC meeting discussions. This development is a typical indicator of Russia’s energy politics and of its willingness to weigh heavily on the world markets to its advantage.

The Global Factors

One of the important factors in world gas trade is the fast development of liquefied natural gas (LNG) trade, a sector in which the Trump Administration has great ambitions. Some experts have argued that LNG exports will translate into the end of gas pipelines. Others have argued that the development of LNG exports will result in an “uberization” of gas markets, meaning that the world gas markets will inevitably become more fluid, more controlled by market considerations rather than energy politics. In such a scenario, Moscow would have a weaker hand.

In practical terms, discussions have taken place between the EU and the US in order to plan for increased imports of US LNG in Europe.¹⁶ The United States is increasing its liquefaction capacity and simultaneously expanding its LNG export terminals. For its part, the EU is expanding its LNG infrastructure¹⁷ in order to diversify its gas imports in cooperation with the US, and is therefore setting up LNG terminals near the largest European markets. Recently, these developments have been sharply criticized by the CEO of Rosneft¹⁸: “A number of commentators like to accuse Russia of using energy as a political tool [...] but indisputably the reality today is that the United States uses energy as a political weapon on a mass scale. Sanctions, or even the threat of their imposition, have a destructive effect on the global energy market ecosystem.”

Another important factor is Russia’s economy, which is massively oil-based: as noted by the World Bank,¹⁹ oil and gas exports represented 59% of total exports by value in 2018. In 2018, the European Parliament²⁰ argued that the lack of innovation in the energy sector had become more salient: Gazprom and Rosneft allocated, respectively, 0.095% and 0.02% of their

¹³ GAZPROM. “Power of Siberia.” www.gazprom.com/projects/power-of-siberia/.

¹⁴ RAZLOMALIN, Ilya; SUSHIN, Ilya and WATERLANDER, Otto. “The road to China: an opportunity for Russian gas to play out,” McKinsey & Company, November 2018. www.mckinsey.com/industries/oil-and-gas/our-insights/the-road-to-china-an-opportunity-for-russian-gas-to-play-out?reload.

¹⁵ REUTERS. “China’s LNG imports could reach 110 bln cubic meters by 2025: CNPC”, 03/04/2019. www.reuters.com/article/us-shanghai-lng-conference-cnpc/chinas-lng-imports-could-reach-110-blncubic-meters-by-2025-cnpc-idUSKCN1RF0UG.

¹⁶ EUROPEAN COMMISSION. “EU-U.S. Joint Statement: Liquefied Natural Gas (LNG) imports from the U.S. continue to rise up by 181%”, 08/03/2019. http://europa.eu/rapid/press-release_IP-19-1531_en.htm.

¹⁷ https://ec.europa.eu/energy/sites/ener/files/eu-us_lng_trade_folder.pdf.

¹⁸ REUTERS. “Russia’s Sechin accuses U.S. of using energy as a political weapon,” *The Moscow Times*, 06/06/2019. www.themoscowtimes.com/2019/06/06/russias-sechin-accuses-us-of-using-energy-as-a-political-weapon-a65913.

¹⁹ WORLD BANK. “Modest growth ahead. 39 Russia Economic Report,” May 2018. <http://pubdocs.worldbank.org/en/162681527086868170/RER-39-Eng.pdf>.

²⁰ RUSSELL, Martin. “Seven economic challenges for Russia. Breaking out of stagnation?”, In-Depth Analysis European Parliamentary Research Service, July 2018 [www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA\(2018\)625138_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA(2018)625138_EN.pdf).

turnover to research and development in 2016. Thus Russia is dependent on Western partners for technology transfers, which is counterproductive as promising projects have had to be abandoned due to EU and US sanctions.

The absolute priority given to the energy sector versus an economic diversification policy can be seen as an additional risk because it results in “a one-dimensional economy which is based on what comes out of the ground rather than what comes out of people’s heads,” as William Burns²¹ recently put it.

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Diversifying Russia’s real economy rather than continuing the current heavy reliance on the energy industry would of course entail other types of challenges for

the Kremlin, since the state institutions controlling the energy sector are far more powerful than the means to control the economy in general. A study published by the Carnegie Moscow Center²² illustrates this fact: “Achieving economic diversification in countries dependent on oil exports is a major challenge. [...] The success or failure of a diversification strategy depends above all on the implementation of appropriate economic policies. But most governments are conservative: even amid falling oil prices, a government with access to natural resources generally manages to preserve the structure of the economy without experiencing any social upheaval.”

More generally, Russia’s energy politics will be challenged in different ways in the medium term: the global shift toward LNG as a means of trading gas worldwide; a requirement to modernize Russian infrastructures in order to maintain energy competitiveness; the sheer necessity to move away from a one-dimensional economy; and the need to turn to renewable energies.

Russia’s “energy politics” will likely remain a crucial component of the country’s presence on the world stage, but it will have to keep evolving in response to a fast-changing environment.

²¹ FALLONS, James. “Bill Burns: ‘Chaos serves Putin’s interest,’” *The Atlantic*, 09/03/2019. www.theatlantic.com/ideas/archive/2019/03/james-fallows-bill-burns-international-relations/584383/?utm_campaign=the-atlantic&utm_term=2019-03-09T11%3A00%3A04&utm_content=edit-promo&utm_source=twitter&utm_medium=social.

²² MOVCHAN, Andrey; ZOTIN, Alexander and GRIGORYEV, Vladimir. “Managing the resource curse: strategies of oil-dependent economies in the modern era,” Carnegie Moscow Center, 30/03/2017.