

The Role of Power in EU–Russia Energy Relations: The Interplay between Markets and Geopolitics

MARCO SIDDI

Abstract

Energy trade is an essential factor in EU–Russia relations. This essay argues that Russia and the European Union have deployed two types of power in their post-Cold War energy relationship. Russia has predominantly exerted geopolitical power through the sale of its vast energy resources and selected strategies to channel them to partners. With a large market but lacking fossil fuels, the EU attempted to achieve its aims mostly through regulatory power. However, both the Russian and the EU external energy policy strategies have recently become more nuanced. This evolution in their approaches has resulted in Russia’s gradual acceptance of the regulatory and market principles promoted by the EU.

POWER IS A HIGHLY CONTESTED NOTION AMONG INTERNATIONAL relations scholars. Traditionally, realists have associated power with military force, whereas liberals put greater emphasis on the economic determinants of power. Accordingly, realists tend to describe the European Union (EU) as a weak international actor due to its lack of a military arm. Conversely, liberals have argued that the EU relies on the considerable economic power deriving from its large internal market, which enables the Union to pursue its foreign policy objectives successfully *vis-à-vis* militarily stronger powers, including Russia (Forsberg 2013). Furthermore, constructivists and liberals have defined power as the capability to attract or persuade other international actors and have introduced the concepts of cultural and soft power (Nye 2004).

The three main strands of international relations theory—realism, liberalism and constructivism—defined the concept of power in numerous other ways. For instance, the EU has been described in terms of civilian power (Duchêne 1972), normative power (Manners 2002), trade power (Meunier & Nicolaidis 2006) and market power (Damro 2012) based on scholarly assessments of the sources of the Union’s international influence. This debate has extended to the relationship between the EU and Russia (Forsberg 2013), arguably providing prime empirical material to assess the interaction between different types of power. The energy dimension of this relationship is particularly significant from an economic and strategic perspective but remains under-theorised. Most notably, there is a dearth of nuanced analysis on the role of power in EU–Russia energy relations. As Irina Kustova has argued (2015, pp. 291–92), ‘energy

power’ tends to be simplistically equated with resource ownership, and thus needs better analytical and methodological grounding.

Most scholarly works have portrayed the EU as a liberal actor in external energy policy (Goldthau & Sitter 2014), whereas Russia is seen predominantly as a geopolitical or *Realpolitik*-driven player. Goldthau and Sitter have argued that the EU constitutes ‘a formidable regulatory state’, owing to its large rule-based single market and competition policy, the latter being ‘a powerful tool [that] reaches well beyond the borders of the EU’ (Goldthau & Sitter 2015, p. 942). Hence, the EU wields regulatory power, which is defined as the ability to formulate, monitor and enforce a set of market rules in a jurisdiction. Regulatory power has two essential prerequisites: a sizeable internal market and potent regulatory institutions (Bach & Newman 2007, pp. 827–31). The EU meets these criteria, as it has both the world’s biggest integrated energy market and an institution, the European Commission, with clear and strong enforcement capacity in, *inter alia*, the energy sector. Regulatory power also entails the potential of institutions based in one jurisdiction to influence the decisions and arrangements in another (Newman & Posner 2010, pp. 595–96). Enforcement capacity is essential in this respect, as foreign authorities will adapt to regulations when they perceive that resisting costs are greater than those associated with adjustment. Enforcement tools backing up regulatory power may include penalties such as fines or exclusion from a market. Thanks to its regulatory institution and its enforcement powers, the EU arguably increased its ability to shape international market rules in line with its preferences (Bach & Newman 2007, pp. 831–32).

By contrast, much scholarly literature associates Russia’s energy policy with state control and geopolitical ambitions. For instance, Hadfield (2008, p. 232) argues that ‘Russian political ambition is built on its expansive geological fortunes, its robust political authority over its national energy companies and the pivotal role assigned to energy in assuring national security and foreign policy leverage’. Following this reasoning, the Russian state views energy as a strategic commodity and is closely involved in the management and transportation of national resources, as well as in all energy deals. State control of the country’s vast resources makes Russia an ‘energy superpower’ with decisive influence on global energy markets and, consequently, on international politics (Romanova 2016, pp. 859–60). Paraphrasing this understanding, Russia deploys geopolitical power in and through its energy policy. In energy policy, geopolitical power is defined as the capability of the state to acquire control of national energy resources and transportation infrastructure and to use or adjust them in the pursuit of foreign and security policy goals. Hence, the deployment of geopolitical power involves the subordination of economic motivations to political goals.

However, new studies have criticised excessively reductionist assessments of the nature of EU and Russian energy power. Tatiana Romanova (2016) has showed that, although the geopolitical paradigm remains dominant in Russian energy policy, Moscow has also adopted legal and market instruments in its recent interactions with the EU. Judge *et al.* (2016) have argued against entirely subsuming EU–Russia energy relations under great power politics, as doing this ignores their economic complexity and the involvement of a plethora of non-governmental stakeholders, whose interests might differ from those of governments. According to Tom Casier (2011, 2016), Russia’s

‘energy weapon’ and geopolitical intentions are more of a social construction than an objective, empirical factor. On the other hand, mainstream views of the EU as a liberal actor have led scholars to neglect the power aspects of the EU’s energy policy (Kustova 2017, p. 100).

This essay contributes to the emerging academic debate through an assessment of the different types of power deployed by the EU and Russia in their energy relationship. It argues that the EU has mostly adhered to the liberal market and regulatory paradigm, whereas Russia has predominantly taken a geopolitical approach, particularly in the context of pipeline politics. However, the picture has recently become more nuanced, as each side has started to combine its traditional power approach to energy with different strategies, and sometimes simultaneously deployed different types of power. Particularly after the Ukraine crisis, the EU has deviated from the liberal market model and taken a geopolitical approach to external energy policy by intensifying its efforts to diversify imports away from Russia. Some of the new EU-sponsored energy projects, such as the Southern Gas Corridor, appear to be driven by geopolitical considerations (Siddi 2017c). As will be argued in the essay, this approach has had modest results, and the EU has proven more effective as a regulatory rather than geopolitical power. On the other hand, and most significantly, the Russian energy company Gazprom, which has the monopoly of Russian pipeline exports to Europe, has partly accepted the EU’s regulatory approach by seeking a rule-based settlement in the outstanding antitrust dispute with the European Commission (Stern & Yafimava 2017). While differences persist between European and Russian conceptualisations of energy power and security, the gradual move by Gazprom towards the EU’s regulatory and market principles substantiates the vision of an increasingly united and wider European energy space.

The historical and economic significance of the EU–Russia energy relationship

Energy trade is an essential economic driver of EU–Russia relations. Russia is the main supplier of oil, gas and coal to the EU, as well as one of its main providers of uranium. Gas and oil trade has been a key feature of relations between (Soviet) Russia and several European countries for nearly five decades. In the 1960s, the Soviet Union started to export large quantities of gas and oil *via* pipeline, first to Comecon states in Eastern Europe and then to West European countries, including members of NATO and of the European Community. Against the background of détente in East–West relations in the late 1960s and early 1970s, Italy, Austria, West Germany, Finland and France became key customers of Soviet fossil fuel exports (Högselius 2013; Siddi 2017a)

The oil crisis of 1973–1974 increased the strategic relevance of Soviet oil and gas in Europe. In 1983, the Soviet Union inaugurated the Transcontinental Export Pipeline (or Urengoy–Uzhgorod pipeline), shipping Siberian gas to West European markets. The East–West gas trade continued to grow after the dissolution of the Soviet Union. Russia inherited the role of Europe’s main gas provider, as most existing extraction facilities and reserves were located on its territory. In 2015, Russia supplied 37% of the gas, 29.1% of the crude oil and 29.1% of the solid fuels imported by the EU.¹ These figures

¹‘EU Energy in Figures’, *Statistical Pocketbook* (Luxembourg, Publications Office of the European Union, 2017, pp. 24–6).

acquire particular significance in the context of the EU's overall dependency on foreign energy sources. In 2016, the Union imported over half of the energy it consumed, including 72% of its gas and 85% of its oil consumption. Given the declining domestic production of fossil fuels and the phasing out of nuclear power in some member states, notably Germany, oil and gas import dependency is expected to grow in the coming decades.² Increasing external dependency will concern the gas sector in particular, where domestic production is progressively decreasing and demand is forecast to remain stable or increase slightly in the long term (Dickel *et al.* 2014, p. 71; IEA 2014, p. 139).

If Russia is an important energy supplier for the EU, the EU is a vital market for Russian energy sales. According to available statistics, crude oil, petroleum products and natural gas sales account for approximately two thirds of Russia's total export revenues, and the EU is the destination of most of these exports.³ Crude oil and petroleum products constitute over half of Russia's export revenues, while the share of gas is around 15%. Despite its lesser economic role in the broader EU–Russia energy relationship, the gas trade has been the main source of controversy and the most politicised topic. This is due to the fact that EU member states in Central and Eastern Europe (CEE)—most notably Latvia, Estonia, Bulgaria and Slovakia—have relied heavily on Russian gas because they lack the infrastructure to import gas from other producers. Most EU member states in CEE have few or no alternatives to Russian gas in the sectors where it is used, primarily household heating.⁴ Their vulnerability to disruptions in the flow of Russian gas is compounded by their mistrust of Russia as a geopolitical actor, which is grounded in a long history of Tsarist and Soviet domination (Grigas 2013; Siddi 2017b).

The bulk of Russian gas exports to the EU is directed to Western European countries (Germany, Italy, France and the United Kingdom), which have a diversified portfolio of suppliers, are better interconnected with global gas markets and—due to long-standing cooperation—place more trust in energy trade with Russia than CEE countries. Hence, from the perspective of the larger EU importers of Russian gas, gas trade with Russia does not pose serious energy security or political problems (Yafimava 2015, pp. 3–4). Nonetheless, fears about possible disruptions in energy trade with Russia have increased since the start of the conflict in Ukraine, most notably with respect to natural gas (Dickel *et al.* 2014, p. 2). Approximately half of the EU's gas imports from Russia flow through Ukrainian territory (Siddi 2017a, p. 107). Moreover, the EU and Russia have been locked in several disputes concerning the infrastructure through which Russian gas will be channelled to Europe in the near future, the commercial practices of Russia's state company Gazprom, and European legislation liberalising the EU energy market (Siddi 2018a).

²'BP Energy Outlook', 2018, available at: <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/energy-outlook/bp-energy-outlook-2018-region-insight-eu.pdf>, accessed 10 October 2018.

³'Oil and Natural Gas Sales Accounted for 68% of Russia's Total Export Revenues in 2013', *U.S. Energy Information Administration*, 23 July 2014, available at: <http://www.eia.gov/todayinenergy/detail.cfm?id=17231>, accessed 24 March 2017.

⁴Finland is also 100% dependent on Russia for its gas supplies, but it has back-up supplies in the sectors where gas is used and would therefore have alternatives if Russian gas supplies were disrupted.

Current tensions in EU–Russia gas trade largely stem from different conceptualisations of energy security and conflicting economic and foreign policy goals. Moscow and Brussels have been vying for influence in their shared neighbourhood, establishing a competition that has had repercussions for energy trade. In the pursuit of its political goals in the post-Soviet space, Russia has often used its vast energy resources to exert geopolitical power, notably by adjusting energy prices based on political relations with the importing state (Proedrou 2016, pp. 25–7). Having a large market but lacking fossil fuels, the EU has attempted to achieve its commercial and political aims mostly through regulatory power. Arguably, the main issues in EU–Russia gas trade in the 2010s have been related to the exercise of these two types of power. On the one hand, the Russian state’s use of geopolitical power in the shared neighbourhood has led to tensions over the route of new pipelines and the role of Russian gas exports in national markets. These tensions have occurred despite the fact that Russian energy companies have simultaneously followed a commercial logic in their dealings with EU customers and attempted to present themselves as reliable suppliers; that is to say, geopolitical thinking has not been the only logic driving Russian external energy policy, particularly *vis-à-vis* the EU. On the other hand, the EU’s use of regulatory power has resulted in disagreements over the rules that govern gas trade. These disagreements seemed particularly serious in the early 2010s, but—as we shall see—they have been partly smoothed out in recent years, especially with regard to Russia’s commercial operations in the EU’s energy market.

Energy security and power: diverging concepts and practice

As Yergin noted, a widely accepted definition of energy security in the Western world is ‘the availability of sufficient supplies at affordable prices’ (Yergin 2006, pp. 70–1). This definition is linked to the fact that most Western countries do not have sufficient indigenous energy resources to sustain their economies and societies and therefore have to import energy from abroad, hence their focus on the security of supply. Security of supply is best achieved through a diversified suppliers’ portfolio that minimises the importer’s exposure to potential supply shocks. As noted earlier, the EU is one of the largest energy importing blocs in the international arena. Its demand for external energy supplies is so large that its market is among the most coveted by energy producers. Following the shale gas revolution in the United States and Washington’s shift towards energy independence (Sartori 2014), only the rapidly expanding markets of East Asia—notably China and India—appear potentially more lucrative than the EU for energy exporters (Oxenstierna & Tynkkynen 2014, pp. 4–5).

From the perspective of energy-exporting countries, energy security is primarily about the security of demand for their exports, which in most cases—including Russia’s—constitute a large part of the state budget. For countries such as Russia, security of demand can be achieved primarily through long-term sale contracts, with prices that guarantee revenues over an extended period and cover the costs of building and maintaining the necessary infrastructure. Strategies to strengthen the security of demand include minimising price volatility, countering the competition of other suppliers, and reducing both transit dependency and excessive reliance on a restricted

number of buyers (Kaveshnikov 2010, p. 587). In this context, the state tends to see energy resources, production and transport infrastructure as strategic assets that should be brought under its control or close supervision, given their importance for national welfare overall (Kuzemko 2014, pp. 63–4).

In the last decade, different understandings of energy security in the EU and Russia have had a negative effect on their gas partnership. Until the mid-2000s, it appeared that these differences could be reconciled: energy prices kept increasing and EU companies were keen to sign long-term contracts with Gazprom, which were perceived as guaranteeing the security of supply in the long run at relatively acceptable prices (Belyi 2015, p. 112). Moreover, the EU expected Russia to accept market liberal economic rules in energy trade, notably those enshrined in the Energy Charter Treaty (ECT), and apply them to its own energy market (Kuzemko 2014, pp. 63–5). However, in 2009 Russia announced that it would not become a contracting party to the treaty (Mironova 2014). From Moscow's perspective, the ECT—particularly its requirements to give third parties access to Russian pipelines—impinged on Russia's national interests and neglected the interests of energy-producing countries (Belyi 2012). In the EU, however, Russia's rejection of the ECT was seen as part of the emerging powers' increasing contestation of West-sponsored liberal market principles (Kuzemko 2014, pp. 58–9). Furthermore, in the late 2000s the global economic crisis and the shale revolution in the United States drove energy prices downwards. Cheap gas became available on spot markets in Europe, leading European importers to seek a renegotiation of long-term contracts with Gazprom. While these contracts remained in force, prices and take-or-pay clauses were renegotiated on terms more favourable to importers, implying a loss of revenues for Gazprom and uncertainty over the future extension of the contracts (Belyi 2015, pp. 116–18).

In addition to divergences over regulatory frameworks and commercial interests, the development of clashing foreign policy agendas negatively affected EU–Russia gas trade. Russia's goal of maintaining its influence in the post-Soviet space clashes with the EU's Neighbourhood and Eastern Partnership policies, which aimed at extending the Union's norms and economic presence in the same region (Boedeltje & Van Houtum 2011). The clash escalated into a full-blown crisis in late 2013, when the EU and Russia competed openly over Ukraine's future economic alignment (Youngs 2017, pp. 54–5). As Ukraine was highly dependent on Russian gas supplies and a key transit country for the EU–Russia gas trade, energy became part of the contention.

Russia has attempted to achieve its goals in Ukraine through geopolitical power, including a mixture of energy discounts to Kyiv in exchange for political rapprochement and the threat of redirecting energy flows to Europe towards other routes, which would cause a considerable loss of income from transit revenues for Ukraine (Loskot-Strachota & Zachmann 2014, pp. 4–6). As argued, geopolitical power involves the mobilisation of a country's natural resources and related infrastructure for the achievement of foreign policy goals. Energy geopolitics concerns the access, supply and transit of energy resources (Kropatcheva 2011, p. 555). Thanks to its large, state-controlled natural endowments, Russia tends to act as a geopolitical actor in its post-Soviet neighbourhood. The Russian leadership claims to have essential foreign policy interests in this region (Trenin 2009), and the control of energy supplies and routes is key to their achievement.

The EU can also act geopolitically (Bosse 2011; Kuzemko 2014, pp. 64–6) and has been doing so increasingly since the start of the Ukraine crisis, including in the energy field. For instance, the EU compensated for the reduction of Russian gas supplies to Ukraine in 2014–2015 through reverse flows, that is, by rerouting its gas supplies towards Ukraine. Moreover, the EU has supported geopolitically motivated pipeline projects that would allow it to bypass Russia and import gas from other producers in the Caspian region, such as the Nabucco pipeline (Sierra 2010) and the Southern Gas Corridor (Siddi 2017c). Both these pipeline projects and reverse flows to Ukraine are examples of how the EU has adjusted its energy policy in accordance to the broader foreign policy and geopolitical goal of countering Russian influence and power.

In the energy domain, however, EU institutions have primarily deployed regulatory power, that is, the use of tailored legislation to manage relationships with large external energy providers.⁵ As these relationships are largely played out in the EU's internal market, where Brussels determines the rules of the game, the Union maintains considerable leverage *vis-à-vis* external providers. An example of the EU's regulatory power is the so-called 'Gazprom clause' in the EU's Third Energy Package, which limits the ownership of energy distribution assets within the EU by non-EU actors (Goldthau & Sitter 2014, p. 1464). At the same time, it is important to note that regulatory power can also be used to advance geopolitical goals. For instance, some scholars suggest that the 'Gazprom clause' has a strong geopolitical connotation because its primary aim is to constrain Russia's influence in the EU energy market; certainly, it is perceived as being geopolitically driven from the Russian standpoint (Kaveshnikov 2010, p. 599; Talus 2013).

In external energy policy, EU regulatory power is reflected in the adoption of the Union's legal *acquis* by neighbouring countries. The EU's Energy Community was set up in 2006 specifically to facilitate the extension of EU energy rules to other non-EU members.⁶ Similarly, the 2016 EU–Ukraine Deep and Comprehensive Free Trade Area is paradigmatic of EU regulatory power *vis-à-vis* Ukraine, as it aims at adapting relevant Ukrainian legislation to that of the EU and reiterates the objectives of the Energy Community Treaty.⁷ Through its adoption of norms liberalising its internal market, notably the Third Energy package,⁸ the EU uses its regulatory power to shape its gas trade with Russia in order to obtain better overall terms. As argued below, Russia attempted to deploy regulatory power on its own terms. However, Gazprom has also taken steps to adjust to the regulatory framework advocated by the EU for commercial operations in the Union's market.

⁵EU attempts to exert geopolitical power through the construction of pipelines, such as the Nabucco project, have largely failed, thereby exposing the EU's weakness as a geopolitical actor. Although the Commission has reasserted plans to develop a southern energy corridor, linking it to producers in the Caucasus and Central Asia while bypassing Russia, current projects have limited ambitions and seem unlikely to significantly reduce the Union's gas dependence on Moscow.

⁶The Energy Community includes the EU, Albania, Bosnia & Hercegovina, the former Yugoslav Republic of Macedonia, Kosovo, Moldova, Montenegro and Serbia, and Ukraine.

⁷*The Energy Community Treaty*, 2006, available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:l27074&from=EN>, accessed 24 March 2017; *EU–Ukraine Deep and Comprehensive Free Trade Area*, 2013, p. 7, available at: http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_150981.pdf, accessed 24 March 2017.

⁸'Market Legislation', European Commission, available at: <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>, accessed 10 October 2018.

TABLE 1
EUROPEAN UNION: MAIN GAS IMPORT PARTNERS (% , 2006–2016)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Russia	39.3	38.7	37.4	33.0	31.9	34.4	34.9	41.1	37.4	37.6	39.9
Norway	25.9	28.1	28.5	29.7	27.9	27.6	31.8	30.4	32.1	32.0	24.8
Algeria	16.3	15.3	14.7	14.1	13.9	13.1	13.3	12.6	12.0	10.8	12.4
Qatar	1.8	2.2	2.3	5.9	9.7	11.6	8.3	6.5	6.8	7.7	5.6

Source: ‘File: Main Origin of Primary Energy Imports, EU-28, 2006–2016’, Eurostat, data available at: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Main_origin_of_primary_energy_imports_EU-28_2006-2016_\(%25_of_extra_EU-28_imports\).png](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Main_origin_of_primary_energy_imports_EU-28_2006-2016_(%25_of_extra_EU-28_imports).png), accessed 10 October 2018.

Russia’s energy geopolitics and the role of Ukraine

Russia’s use of geopolitical power in the field of energy increased during the 2000s. It primarily concerned Russia’s use of its energy exports in the political relationship with Ukraine, as well as the strategic and economic effects of new Russian export pipelines to the EU on post-Soviet states. Russian gas is an important component of the energy mix of both the EU and Ukraine. Between 2006 and 2015, the share of Russian gas in total EU gas imports oscillated between 32% and 41% (see Table 1). Ukraine’s dependence on Russian gas was even greater until 2013, when the totality of Kyiv’s gas imports originated from Russia (Hecking & Schulte 2016). Since then, it has diminished considerably due to a drastic reduction in overall gas consumption—a consequence of the economic downturn—and the beginning of reverse flows of gas from the EU (Hecking & Schulte 2016).

Russian gas is transported to the EU and Ukraine *via* pipelines. There are three main routes: the Ukrainian pipeline network, built during the Cold War; the Yamal–Europe pipeline *via* Belarus and Poland, built in the 1990s; and the Nord Stream pipeline, inaugurated in 2011 and providing a direct link between Russia and Germany *via* the Baltic Sea.⁹ Until the mid-2010s, Ukraine was therefore both a significant importer and a key transit country for Russian gas, and has retained the latter role to date.

Until the mid-2000s, Russian gas flowed to the EU without major disruptions. This scenario changed in 2004, following the Orange Revolution in Ukraine, which resulted in Kyiv’s adoption of a pro-NATO and pro-EU foreign policy. While Ukraine had previously benefitted from discounts on Russian gas, a Soviet-era legacy, Gazprom started to demand higher prices, which remained nevertheless lower than those it charged in Western European markets (Yafimava 2015, p. 7). In 2006 and 2009, price disagreements between Moscow and Kyiv resulted in disruptions of gas flow towards Europe, seriously affecting the economy and society of several Eastern and Southern European countries (Pirani *et al.* 2009). In other words, Russia deployed its geopolitical power by interrupting energy supplies to Ukraine when Kyiv adopted a foreign policy stance unfavourable to Russia and refused to accept upward adjustments of the price of Russian gas. Ukraine responded by exerting geopolitical power on its own terms, using its leverage as a transit country to disrupt Russian gas exports to the EU. By diverting transiting Russian gas bound for the EU and using it for domestic consumption, Ukraine

⁹In addition, Finland and the Baltic states have their own direct pipeline connections to Russia.

TABLE 2
TRANSIT ROUTES AND VOLUMES OF RUSSIAN GAS EXPORTS TO THE EU, 2011–2014

Transit route	EU entry points	Capacity (bcm/year)	Actual total flow (bcm/year)			
			2011	2012	2013	2014
Nord Stream	Germany	55	0.5	10.6	22.1	32.8
Yamal–Europe	Poland	32.9	22.8	25.0	30.6	29.8
Ukraine	Slovakia, Hungary, Poland, Romania	147.9	101.1	81.2	83.7	59.4

Source: ‘Quarterly Report on European Gas Markets 7/4 2014’, European Commission, available at: <https://ec.europa.eu/energy/en/data-analysis/market-analysis>, accessed 10 October 2018.

Note: The Table does not show Russian gas exports to the Baltic states and Finland. Volumes of gas via Ukraine include those exported to Turkey and other non-EU countries in the Balkans.

showed that it was willing to exert geopolitical power to achieve foreign policy goals. In particular, Kyiv used its strategic position and transit infrastructure to disrupt the EU–Russia gas trade, involve the EU in the crisis and thus put pressure on Gazprom to lower its prices (Pirani *et al.* 2009).

Russia continued to deploy geopolitical power in its energy relationship with Ukraine in the following years. In 2010 it granted a discount on the price of gas to Kyiv that was linked to the extension of the lease of the Sevastopol naval base to the Russian fleet (Pirani 2014, pp. 2–3). However, the discount was revoked in 2014, when the Euromaidan protests brought to power a government that was hostile to Russian interests. In 2014 and 2015, the political confrontation between Moscow and Kyiv had repercussions for Russian–Ukrainian energy relations. Following disputes over the price of gas and the payment of arrears, Gazprom suspended gas deliveries to Ukraine in the summers of 2014 and 2015 (Loskot-Strachota & Zachmann 2014). However, contrary to what happened during the gas crises of 2006 and 2009, the flow of Russian gas to the EU through Ukraine was not significantly affected. The EU mediated a deal and provided financial guarantees for the resumption of Russian gas deliveries to Ukraine both in autumn 2014 and autumn 2015 (Stulberg 2015).

Russia agreed to the deal also in order to preserve its lucrative energy trade with the EU. In 2014, despite the clash between Brussels and Moscow over events in Ukraine, Russia provided approximately 37% of the EU’s gas imports; nearly 53% of Russian gas exports went to the EU (Siddi 2017a, p. 110; see Table 1). These figures highlight the two actors’ energy interdependence, which has persisted despite the tense political relationship. In other words, in the energy relationship with the EU, Russian actors have largely followed the logic of trade, and economic interests have not been subordinated to the increasingly tense geopolitical confrontation (Siddi 2017d).

Nonetheless, the fraught Russian–Ukrainian political and energy relationship, which continues to be dominated by geopolitical thinking, has inevitable repercussions on the EU–Russia linkages due to Ukraine’s ongoing role as key transit country. In another articulation of its geopolitical power aimed primarily at Ukraine, Russia has increasingly reoriented its gas exports to the EU towards the Nord Stream route and the Belarusian transit corridor, away from Ukraine (see Table 2). Gazprom owns majority stakes of both the Nord Stream and the Yamal pipelines, whereas the Ukrainian state company

Naftogaz controls the Ukrainian transit pipelines and can thus increase the fees it charges to Gazprom for using them (Hecking & Schulte 2016). As Table 2 shows, the reorientation of Russian gas exports started before the Ukraine crisis. Between 2012 and 2014, the volumes of gas shipped through Nord Stream grew considerably, while volumes transiting Ukraine decreased.

By reorienting its gas exports, Russia is pursuing both economic and foreign policy goals. On the one hand, it is diminishing Ukraine's political leverage as a transit country for gas supplies to the EU. If Russia reduces its reliance on Ukrainian transit pipelines for its gas exports, Kyiv will no longer be able to play the 'energy card' in its political confrontation with Russia by increasing transit fees or interrupting Gazprom's lucrative sales to the EU. On the other hand, this reorientation increased the reliability of Gazprom's gas supply to the EU, which had repeatedly become hostage to Russian–Ukrainian political or economic disputes (Pirani *et al.* 2009).

The current gas transit agreement between Gazprom and Naftogaz expires in 2019 (Pirani & Yafimava 2016). After that, Gazprom's stated intention is to reduce reliance on Ukraine's gas transit system and use different routes.¹⁰ Arguably, commercial considerations also influence Gazprom's stance. The age and high maintenance costs of the Ukrainian pipelines, which were built in Soviet times, reduce the economic and security rationale for continued reliance on them. However, phasing out the Ukrainian gas transit system will only be possible if new routes become available. In 2017, Gazprom sold over 192 bcm (billion cubic metres) of gas to Europe and Turkey, and the current capacity of pipelines bypassing Ukraine is only 104 bcm/year, as of 2017.¹¹ Moreover, several Southern and Eastern European countries—Austria, Bulgaria, Croatia, Hungary, Romania, Slovakia and Slovenia—are entirely dependent on the Ukrainian corridor for their imports of Russian gas. Hence, to be reconciled with Gazprom's commercial interests, Russia's energy geopolitics requires the construction of new pipelines bypassing Ukraine.

Pipeline projects as manifestation of geopolitical power

As of early 2018, Gazprom is working on two alternative projects to Ukrainian gas transit: the Nord Stream-2 and the Turkish Stream pipelines (Siddi 2018a). Both projects highlight how Russian external energy policy combines the pursuit of commercial objectives with foreign policy goals. Given the state ownership of the main Russian energy companies and Russia's assertive foreign policy, the Turkish Stream and Nord Stream-2 projects illustrate particularly well the interaction of politics and economics that is typical of geopolitical power.

Both Turkish Stream and Nord Stream-2 are intended to supply Gazprom's European customers while bypassing Ukraine. For Gazprom, the two pipelines have the benefit of

¹⁰'Gazprom Will Continue to Transit Gas *via* Ukraine—Miller', *Interfax*, 4 April 2018, available at: <http://interfaxenergy.com/gasdaily/article/30275/gazprom-will-continue-to-transit-gas-via-ukraine-miller>, accessed 10 October 2018.

¹¹Gazprom's statistics for gas delivered to Europe in 2017 are available at: <http://www.gazpromexport.ru/en/statistics/>, accessed 26 April 2018. Existing pipelines to Europe and Turkey that bypass Ukraine include Nord Stream (55 bcm/year), Yamal–Europe (33 bcm/year) and Blue Stream (16 bcm/year).

strengthening the security of its exports while consolidating its position in the lucrative European market. For the Russian state, they provide a guarantee that income from gas sales will not be disrupted in the event of new disputes with Ukraine. At the same time, both Nord Stream-2 and Turkish Stream will reduce the strategic significance of Ukraine as a transit corridor as well as the transit fees payable to Kyiv (around US\$3 billion in 2014). In a paradigmatic display of geopolitical power, Gazprom and the Russian state have mobilised economic and political resources to ensure that Nord Stream-2 and Turkish Stream are built (Weinland & Foy 2017).¹²

The Turkish Stream project was announced by the Russian president, Vladimir Putin, in December 2014 during a state visit to Turkey.¹³ The pipeline replaced a pre-existing project, South Stream, which the EU Commission had found in violation of EU legislation.¹⁴ Like South Stream, Turkish Stream is meant to bypass Ukraine to carry gas to South Eastern Europe and Italy (Tsakiris 2015). The pipeline will also strengthen Turkey's strategic position by making it a transit country for EU–Russia gas trade. The project envisages a set of pipelines running from the Russian Black Sea coast to Turkey and the Greek–Turkish border *via* the Black Sea. From the Greek–Turkish border, European member states are expected to build and manage additional infrastructure (Tagliapietra 2018). As Turkish Stream will not run on EU territory, EU legislation will not apply to it, which allows Gazprom to circumvent the legal challenges that hampered South Stream, notably the application of the EU's Third Energy Package with respect to unbundling the ownership of energy production from that of energy distribution.¹⁵ Turkish Stream can thus be seen as a predominantly geopolitical response to the EU's exertion of regulatory power *vis-à-vis* South Stream. The pipeline will also allow Russia to end its dependence on Ukrainian transit for gas exports to Turkey.¹⁶

At the same time, the project can be seen as following a commercial logic: Turkey is the second-largest importer of Russian gas and, considering the expected growth of Turkish gas demand, Gazprom has an interest in strengthening its regional export infrastructure. If built in its entirety, Turkish Stream will have a total capacity of 31.5 bcm/year and deliver gas to both Turkey and the EU. However, the full implementation of the project is particularly dependent on the continuation of good relations between Russia and Turkey (Demiryol 2015). Between November 2015 and the summer of 2016, work on Turkish Stream was halted due to tensions between Moscow and Ankara over the Syrian crisis, after Turkish fighter jets shot down a Russian bomber close to the Turkish–Syrian border. The incident reflects a key weakness of geopolitical power in energy policy. As a geopolitical approach is highly dependent on power relations and

¹²See also 'Turkey, Russia Strike Strategic Turkish Stream Gas Pipeline Deal', *Hurriyet Daily News*, 10 October 2016, available at: <http://www.hurriyetaidailynews.com/turkey-russia-strike-strategic-turkish-stream-gas-pipeline-deal.aspx?pageID=238&nID=104822&NewsCatID=348>, accessed 22 March 2017.

¹³'Russia Says South Stream Project is Over', *Euractiv*, 2 December 2014, available at: <https://www.euractiv.com/section/global-europe/news/russia-says-south-stream-project-is-over/>, accessed 10 October 2018.

¹⁴'South Stream Bilateral Deals Breach EU Law, Commission Says', *Euractiv*, 4 December 2013, available at: <http://www.euractiv.com/section/competition/news/south-stream-bilateral-deals-breach-eu-law-commission-says/>, accessed 22 March 2017.

¹⁵See also the next section.

¹⁶Russian gas is currently supplied to European Turkey *via* Ukraine and the Trans Balkan Pipeline.

state-led policy rather than on markets and norms, it is particularly vulnerable to changing political configurations. In the latter half of 2016, after the failed coup in Turkey and amidst Ankara's growing alienation from its Western allies, Russian–Turkish cooperation resumed and prospects for Turkish Stream swiftly improved (Vicari 2017).

Simultaneously, Russia has pursued the Nord Stream-2 project, which will increase the capacity of the Nord Stream route from 55 to 110 bcm/year. Like Turkish Stream, Nord Stream-2 reflects a combination of political and commercial objectives: bypass Ukraine, counter the competition of other gas exporters, secure Russian gas supplies to the EU and particularly to Germany, the main importer of Russian gas. Nord Stream-2 also enjoys the support of several European companies and governments, particularly Germany, while it faces opposition from other EU member states, notably Poland and the Baltic states (Fischer 2016). The pipeline will allow Gazprom to intensify its commercial partnership with European companies¹⁷ and enable the Russian state to revitalise its long-standing cooperative relationship with Germany (Siddi 2016b).

The Nord Stream-2 project offers prime empirical material to assess the interplay between Russia's geopolitical power and the EU's regulatory power. On the one hand, Russia's geopolitical strategy, German support of the project, which would turn Germany into a European hub for Russian gas, and the interest of European private companies increase the chances of its implementation. On the other hand, European institutions could use their regulatory power to thwart the pipeline if legal issues are identified. For instance, through the application of the Third Energy Package, the European Commission has limited Gazprom's use of the OPAL pipeline, a land-based extension of Nord Stream that transports gas from the Baltic coast to Central Europe (Yafimava 2017). This has prevented the use of Nord Stream at full capacity. It remains unclear whether similar or other legal hurdles will affect the Nord Stream-2 project. At the time of writing, the normative power of the Commission is constrained by different economic and legal views, both among EU member states and within the EU's institutions (Siddi 2018a).

Moreover, given the divisiveness of the project within the EU, the Commission risks being accused of making political use of its regulatory power—that is, abusing legislation for political purposes—which would discredit its impartiality as watchdog of the internal energy market (Grigorjeva & Siddi 2016, p. 3). Separating regulation from politics is particularly difficult because the Commission pursues a political agenda in parallel to its role as regulator of the energy market. Most notably, the Commission supports the integration of Ukraine in the EU's energy market and the preservation of its revenues from gas transit fees which help the country's ailing economy and strengthen its negotiating position *vis-à-vis* Russia. If implemented, Gazprom's pipeline projects may deprive Kyiv of both transit revenues and strategic leverage. For these reasons, the Commission has been sceptical of Russian plans for new pipelines bypassing Ukraine.

Furthermore, some analysts (Konarzewska 2015) see Gazprom's new pipelines as competitors of EU-supported import diversification projects. This is particularly the case

¹⁷European companies that have an interest in building the pipeline include BASF, E.ON, ENGIE, Shell and ÖMV. In early September 2015, they signed a shareholders' agreement with Gazprom for Nord Stream-2. However, their role in the project remains unclear due to legal challenges brought forward by Poland, which forced them to withdraw from the joint venture in late 2016 (Gotev 2018).

of Turkish Stream, which seems to target the same customers as the EU-sponsored Southern Gas Corridor (SGC). The SGC highlights how the EU has attempted to exert its own geopolitical power by seeking alternative energy suppliers and providing political backing to energy projects (Sierra 2010; Kuzemko 2014, p. 65; Siddi 2017c). The Union has tried to gain access to Central Asian gas resources and build a transportation route that bypasses Russia. Moreover, in the late 2000s the EU supported the creation of a Caspian Development Corporation, a single buyer of Caspian gas, and (CEE EU) member states have even advocated a joint gas-purchasing mechanism for Russian gas within the EU's Energy Union (Kustova 2017, p. 99). These proposals and projects represent a tentative shift away from the regulatory and market approach towards a more strategic and geopolitical agenda. The results of this strategy have been modest thus far. The EU has signed a deal securing 10 bcm/year of gas from Azerbaijan starting from 2020 (Siddi 2017c, p. 9). However, the volatility of the region crossed by the SGC and the opposition of other regional powers, notably Russia and Iran, have reduced the effectiveness of the Union's policy in this regard (Siddi 2017c, pp. 63–5).

The EU's regulatory power: the Third Energy Package and the antitrust investigation

While the EU's attempts to exert geopolitical power have had modest results, its use of regulatory power has considerably influenced its energy relationship with Russia. Because of the EU's dependence on external energy suppliers, the European Commission has attempted to interconnect and liberalise the internal gas market by challenging the monopolistic practices of actors such as Gazprom. The rationale of this policy is that, if regulations and interconnections open up national gas markets, external suppliers will have to compete for a share in the lucrative EU market, which will lead them to reduce prices. For this reason, in 2009 the EU adopted a set of directives and regulations, cumulatively referred to as Third Energy Package, which aims at the liberalisation and integration of national gas markets.¹⁸ The requirement of unbundling the ownership of gas production from that of gas distribution was arguably the most contentious issue in EU–Russia gas trade, particularly with regard to Gazprom's *modus operandi*.

The business strategy of Gazprom includes both the extraction of gas and its shipment to markets *via* pipelines in which the company holds a majority stake. As this strategy conflicts with the legislation of the Third Energy Package, Gazprom has sought exemptions from the relevant EU rules. However, EU regulatory power ultimately proved an insurmountable obstacle for the Gazprom-led South Stream project. Between 2008 and 2010, Russia signed intergovernmental agreements with the countries that were meant to host South Stream infrastructure: Bulgaria, Serbia, Hungary, Greece, Croatia, Austria and Slovenia. In December 2013 the European Commission decreed that the agreements had to be renegotiated because they were in breach of EU law, in particular, the provisions preventing energy producers from simultaneously owning energy transmission networks. The Russian–Bulgarian agreement also violated EU rules

¹⁸'Market Legislation', European Commission, available at: <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>, accessed 10 October 2018.

concerning state aid and competition.¹⁹ As the Ukraine crisis escalated, the EU reassessed the political significance of its dependence on Russian gas and became reluctant to support another Gazprom-owned pipeline. The Commission's regulatory power ultimately led to Putin's decision to cancel the South Stream project in December 2014.

The European Commission's antitrust investigation against Gazprom provides another recent example of the EU's successful use of regulatory power. The European Commission is tasked with monitoring the correct application of EU competition rules and has a wide range of inspection and enforcement powers, such as investigating businesses, holding hearings and granting exemptions. The investigation against Gazprom was formally launched in September 2012, when the Russian company was suspected of breaching the Treaty on the Functioning of the EU, specifically Article 101 concerning the restriction or distortion of competition and Article 102 on the abuse of dominant market position.

In April 2015, the European Commission sent its Statement of Objections to Gazprom. The Russian company was suspected of three anti-competitive practices (Sharples 2015). First, it was accused of hindering cross-border gas sales within the EU by imposing destination clauses in its contracts with some energy companies. Destination clauses require the purchased gas to be used in a specific territory, thereby preventing the re-export of imported gas. While such clauses had been removed from Gazprom's contracts with Western energy companies over the previous decade, they still featured in agreements with CEE EU member states. The Commission suspected that destination clauses were the basis of a 'divide and rule' policy through which Gazprom, as the dominant gas provider in the region, was able to charge different prices in CEE EU member states.

The second anti-competitive practice concerned unfair pricing. Thanks to the fragmentation of the EU's gas market, Gazprom charged higher prices for some countries—in particular Poland, Bulgaria and the Baltic states—and lower ones for other EU member states with similar or lower supply costs. In addition to this, Gazprom's price formulae linking gas price to that of oil products (a practice called 'oil indexation') seemed to have favoured the Russian company much more than its customers. In the late 2000s, as the price of oil remained higher than spot prices of gas in the European market, Western European companies were able to negotiate discounts with Gazprom. Doing this proved more difficult for CEE EU member states, which lacked the infrastructure to import cheaper gas from other sources. Thirdly, the Commission suspected that Gazprom made the supply of gas to Bulgaria and Poland conditional on obtaining concessions regarding pipeline projects. This involved the participation of Bulgarian state companies in the South Stream project and Gazprom's control over investment decisions regarding the Yamal–Europe pipeline.

Initially, Russia paid limited attention to the Commission's regulatory strategy and attempted to achieve its goals, particularly the construction of South Stream, through negotiations with EU member states. However, as the Commission went ahead with the

¹⁹'South Stream Bilateral Deals Breach EU Law, Commission Says', *Euractiv*, 4 December 2013, available at: <http://www.euractiv.com/section/competition/news/south-stream-bilateral-deals-breach-eu-law-commission-says/>, accessed 22 March 2017.

antitrust investigation and threatened to impose a large fine on Gazprom (up to 10% of its yearly turnover), the Russian company resolved that its interests were best served through negotiations with the EU. In late September 2015, Gazprom proposed formal talks with the Commission to settle the case. In March 2017, the two sides agreed on a draft compromise in which Gazprom offered remedies to the main concerns outlined by the Commission: restrictions on cross-border sales, unfair pricing and making gas supplies contingent upon countries' investing in infrastructure (Toplensky & Foy 2017).²⁰ Moreover, Gazprom pledged not to seek any compensation from Bulgaria for the cancellation of the South Stream project (Gotev 2017). Based on Gazprom's commitments, in May 2018 the Commission decided to end the antitrust dispute without imposing a fine on the Russian company (Siddi 2018a, pp. 4–5). Most significantly, these developments signalled that the Russian government and Gazprom acknowledged the Commission's regulatory power and accepted the need to follow the EU's prescriptions for commercial operations in the EU's energy market. This constitutes a considerable shift in their stance *vis-à-vis* the European Commission, as well as a remarkable success for the Union's regulatory approach.

During Gazprom's dispute with the European Commission, Russia did not resort to geopolitical means, such as disrupting its gas supplies to the EU to obtain concessions. On the contrary, it attempted to challenge the EU in the regulatory field. In April 2014 Russia filed a dispute with the World Trade Organization (WTO), arguing that the EU's Third Energy Package discriminated against Russian natural gas pipeline transport services and service suppliers. In particular, Russia objected to the requirement to grant access to natural gas and electricity networks to different operators, which forced Gazprom to cede infrastructure and market shares. The WTO published its ruling on Russia's complaint in August 2018. While it stated that the main principles of the Third Energy Package are lawful, it also argued that some aspects of EU energy policy (most notably the Trans-European Networks for Energy Strategy) discriminated against Russian gas and were thus inconsistent with WTO law.²¹ The parties can still appeal the ruling. Nevertheless, what matters for this analysis is that Russia has resolved to address a key energy dispute with the EU through normative and regulatory means, rather than through geopolitical power.

Other recent developments indicate that Gazprom is adapting its business strategy to the EU's regulatory and liberal market model. In September 2015, it began public auctions for spot gas supplies in Europe. Some analysts (Farchy 2015) saw this as an important concession to the European Commission, which has persistently advocated the creation of a freely traded spot gas market as a way of reducing reliance on long-term contracts linked to the oil price—a key component of Gazprom's traditional *modus operandi*. Even with regards to its new pipeline projects, Nord Stream-2 and Turkish

²⁰See also 'Antitrust: Commission Invites Comments on Gazprom Commitments Concerning Central and Eastern European Gas Markets', *European Commission, Press Release Database*, 13 March 2017, available at: http://europa.eu/rapid/press-release_IP-17-555_en.htm, accessed 23 March 2017. If Gazprom does not uphold its commitments, the Commission could still impose a large fine of up to 10% of Gazprom's annual turnover.

²¹See 'Dispute DS476: European Union and its Member States—Certain Measures Relating to the Energy Sector', World Trade Organization, available at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds476_e.htm, accessed 10 October 2018. See also Siddi (2018a, p. 5).

Stream, Gazprom has adopted a strategy that aims to make them compatible with the rules and functioning of the EU's internal market. In particular, the Russian company has accepted that it cannot control the adjoining pipelines on EU territory, which would lead to the infringement of the Third Energy Package. In the case of Turkish Stream, Gazprom went as far as arguing that it could use the future spare capacity of the Trans Adriatic Pipeline (TAP)—an EU-supported project that is part of the Southern Gas Corridor—to carry its gas from the Greek–Turkish border to European markets.²² In so doing, Gazprom would use the provisions of the Third Energy Package to its own advantage by claiming transportation capacity that could otherwise be assigned to commercial competitors. Moreover, in late 2017, the beginning of liquefied natural gas (LNG) exports from the Yamal peninsula by a consortium headed by the privately owned Russian company Novatek in the Russian Arctic marked another shift in Russian external energy policy (Siddi 2018b). This LNG can be sold in European spot markets and constitutes the first challenge to Gazprom's monopoly of Russian gas exports to the EU.²³

Conclusion: towards a wider European energy space?

This essay has argued that the EU–Russia energy relationship has been challenged by both divergent understandings of energy security and the exercise of different forms of power, which each side saw as undermining its own interests. Russia's understanding of energy security has been shaped by its position as an energy producer that is financially dependent on the export of fossil fuels. Hence, securing buyers and demand has been a top priority of the state-owned Russian company Gazprom. However, Gazprom's commercial agenda has been affected by the foreign policy goals of the Russian state. As a result of the frequent political tensions between Russia and Ukraine, which escalated into a military crisis in 2014, Moscow considers excessive reliance on the Ukrainian transit pipelines undesirable and has planned pipelines that bypass Ukraine, including the Nord Stream, South Stream and Turkish Stream projects. In the pursuit of these projects, Russia has deployed geopolitical power; most notably, it has adapted its energy export strategy to the foreign policy aim of reducing Ukraine's influence. Projects such as Nord Stream-2 and Turkish Stream also take commercial interests into account, most notably those of consolidating Gazprom's position in its main Western export markets and fending off potential competition. Moreover, Gazprom has adjusted its business strategy and made some concessions to the EU to make the projects compatible with the Union's regulations and market principles.

On the other side, the EU has approached external energy policy from a predominantly liberal market perspective, which relies on the attractiveness of the large

²²'Gazprom Could Use Next 10 bcm of TAP Capacity to Supply Gas to EU—EC Official', *Interfax*, 31 January 2018, <http://www.interfax.com/newsinf.asp?id=806862>, accessed 27 April 2018. The adjoining pipeline to Nord Stream-2 on German territory, Eugal, will be operated by a consortium with a majority of European companies, see 'Gascade Names Three Partners for Eugal Pipeline Project', *Reuters*, 18 October 2017, <https://af.reuters.com/article/energyOilNews/idAFL8N1MT2M1>, accessed 27 April 2018.

²³'Russia's Novatek Launches Yamal LNG Project, 1st Cargo Loading Set for Friday', *Platts*, 5 December 2017, available at: <https://www.platts.com/latest-news/natural-gas/moscow/russias-novatek-launches-yamal-lng-project-1st-21730812>, accessed 27 April 2018.

European market for energy exporters and on the adoption of legislation to stimulate competition among them. This approach aims to address the EU's external energy dependence and concerns about security of supply. As argued, the liberal market perspective has not been undisputed in the EU. Deteriorating political relations with Russia fuelled the securitisation of the EU's external energy policy and led the Union to take a geopolitical stance, for instance, in the context of import diversification projects in the Caspian region. The EU's adoption of geopolitical strategies alongside its traditional regulatory approach, as well as Gazprom's growing practice of operating according to EU rules (and using them to its own advantage, as in the case of TAP), shows that different forms of power can co-exist in the policies of the same actor. More attention should be therefore paid to the different types of power deployed by each actor when assessing EU and Russian behaviour in the energy field.

Having said this, so far the EU has relied mostly on regulatory power in its energy relationship with Russia. The Commission's strategy has involved the regulation of Gazprom's activities in the EU market, encouraging it to abandon monopolistic practices. It also attempted to channel EU–Russian energy relations towards the commercial rather than the geopolitical playing field. This strategy is conducive to the depoliticisation of the EU–Russian energy relationship, which has been commercially beneficial for both sides. The EU's regulatory power has proved remarkably successful, and undoubtedly more effective than EU attempts to adopt a geopolitical strategy to achieve energy security. Despite outstanding disagreements and the cancellation of the South Stream project in 2014, Russia committed to adapting its practices in the European market to EU legislation and market principles, as witnessed by the settlement of its antitrust dispute with the European Commission in 2017–2018. Some of its recent commercial operations, such as auctions and spot sales, also point in this direction (Farchy 2015).

Therefore, regulatory power and market forces are currently the most influential drivers of EU–Russia energy relations. Through its regulatory power, the Commission has already been able to limit Gazprom's monopolistic practices and influence the planning of its new infrastructural projects. Despite tensions related to these developments and the Ukraine crisis, the EU–Russia energy relationship has not experienced major disruptions. According to most estimates,²⁴ the EU and Russia will remain highly interdependent in the gas sector in the foreseeable future. This is because of Gazprom's reliance on the European market, the technical and economic difficulty of replacing Russian gas imports for the EU (which are highly competitive) and the existence of long-term contracts lasting until the 2030s, with very high penalties for the side that wishes to terminate them earlier.

While tensions between the EU and Russia persist in other fields, Gazprom's convergence towards EU regulatory and market principles for commercial operations in the European energy market substantiates the vision of a united, wider European energy space. With the extension of EU energy legislation to Ukraine, and thus its progressive integration in the EU energy market, it is likely that the role of Kyiv in EU–Russia energy trade will become less contentious. Following the planned break-up and privatisation of the Ukrainian energy sector (Kononczuk 2015; Wrobel 2017), transit

²⁴See for instance Dickel *et al.* (2014).

disputes between states could be replaced by private commercial interaction, with the involvement of EU companies. Accordingly, conceptions of Ukraine as a ‘battleground’ of EU–Russia energy relations would lose relevance and make way for the idea of a shared neighbourhood where pragmatic cooperation can occur.

MARCO SIDDI, Senior Research Fellow, Finnish Institute of International Affairs, Kruunuvuorenkatu 4, 00160 Helsinki, Finland. *Email:* marco.siddi@fia.fi

References

- Bach, D. & Newman, A. L. (2007) ‘The European Regulatory State and Global Public Policy: Micro-institutions, Macro-influence’, *Journal of European Public Policy*, 14, 6.
- Belyi, A. (2012) *Russia’s Position on the Energy Charter*, Chatham House Meeting Summary, 27 April (London, Chatham House).
- Belyi, A. (2015) *Transnational Gas Markets and Euro-Russian Energy Relations* (Basingstoke, Palgrave Macmillan).
- Boedeltje, F. & Van Houtum, F. (2011) ‘Brussels is Speaking: The Adverse Speech Geo-Politics of the European Union Towards its Neighbours’, *Geopolitics*, 16, 1.
- Bosse, G. (2011) ‘The EU’s Geopolitical Vision of a European Energy Space: When “Gulliver” meets “White Elephants” and Verdi’s Babylonian King’, *Geopolitics*, 16, 3.
- Casier, T. (2011) ‘The Rise of Energy to the Top of the EU–Russia Agenda: From Interdependence to Dependence?’, *Geopolitics*, 16, 3.
- Casier, T. (2016) ‘Great Game or Great Confusion: The Geopolitical Understanding of EU–Russia Energy Relations’, *Geopolitics*, 21, 4.
- Damro, C. (2012) ‘Market Power Europe’, *Journal of European Public Policy*, 19, 5.
- Demiryol, T. (2015) ‘Interdependence, Balancing and Conflict in Russian–Turkish Relations’, in Klieman, A. (ed.) *Great Powers and Geopolitics* (Heidelberg, Springer).
- Dickel, R., Hassanzadeh, E., Henderson, J., Honoré, A., El-Katiri, L., Pirani, S., Rogers, H., Stern, J. & Yafimava, K. (2014) *Reducing European Dependence on Russian Gas: Distinguishing Natural Gas Security from Geopolitics*, OIES Paper 92 (Oxford, Oxford Institute for Energy Studies).
- Duchêne, F. (1972) ‘Europe’s Role in World Peace’, in Mayne, R. (ed.) *Europe Tomorrow, Sixteen Europeans Look Ahead* (London, Collins Publishers).
- Farchy, J. (2015) ‘Gazprom Bows to Brussels by Holding First European Gas Auction’, *Financial Times*, 7 September, available at: <https://www.ft.com/content/ad9a8a5e-5556-11e5-8642-453585f2fcfd>, accessed 27 April 2018.
- Fischer, S. (2016) *Nord Stream 2: Trust in Europe* (Zurich, Center for Security Studies)
- Forsberg, T. (2013) ‘The Power of the European Union: What Explains the EU’s (lack of) Influence on Russia?’, *Politique Européenne*, 39, 1.
- Goldthau, A. & Sitter, N. (2014) ‘A Liberal Actor in a Realist World? The Commission and the External Dimension of the Single Market for Energy’, *Journal of European Public Policy*, 21, 10.
- Goldthau, A. & Sitter, N. (2015) ‘Soft Power with a Hard Edge: EU Policy Tools and Energy Security’, *Review of International Political Economy*, 22, 5.
- Gotev, G. (2017) ‘EU–Gazprom Deal Clears Bulgaria of South Stream Cancellation Claims’, *Euractiv*, 13 March, available at: <http://www.euractiv.com/section/energy/news/eu-gazprom-deal-clears-bulgaria-of-south-stream-cancellation-claims>, accessed 23 March 2017.
- Gotev, G. (2018) ‘Poland Rolls out Big Legal Gun against Nord Stream 2’, *Euractiv*, 9 May, available at: <https://www.euractiv.com/section/energy/news/poland-rolls-out-big-legal-gun-against-nord-stream-2/>, accessed 10 October 2018.
- Grigas, A. (2013) *The Politics of Energy and Memory between the Baltic States and Russia* (Farnham, Ashgate).
- Grigorjeva, J. & Siddi, M. (2016) *Nord Stream 2: Opportunities and Dilemmas of a New Gas Supply Route for the EU* (Berlin, Jacques Delors Institute).
- Hadfield, A. (2008) ‘EU–Russia Energy Relations: Aggregation and Aggravation’, *Journal of Contemporary European Studies*, 16, 2.
- Hecking, H. & Schulte, S. (2016) ‘Nord Stream 2: Gazprom’s Answer to a Strategic Disadvantage?’, *EWI Energy Research and Scenarios*, 2 December, available at: <http://www.ewi.research-scenarios.de/de/nord-stream-2-gazproms-answer-to-a-strategic-disadvantage/>, accessed 26 April 2018.

- Högselius, P. (2013) *Red Gas: Russia and the Origins of European Energy Dependence* (New York, NY, Palgrave).
- IEA (2014) *World Energy Outlook 2014* (Paris, OECD/International Energy Agency).
- Judge, A., Maltby, T. & Sharples, J. (2016) 'Challenging Reductionism in Analyses of EU–Russia Energy Relations', *Geopolitics*, 21, 4.
- Kaveshnikov, N. (2010) 'The Issue of Energy Security in Relations between Russia and the European Union', *European Security*, 19, 4.
- Konarzewska, N. (2015) 'Will Turkish Stream Compete with the Southern Gas Corridor?', *The Central Asia-Caucasus Analyst*, 13 May.
- Kononczuk, W. (2015) 'Why Ukraine has to Reform its Gas Sector', *Energy Post*, 10 September, available at: <http://energypost.eu/ukraine-reform-gas-sector/>, accessed 25 March 2017.
- Kropatcheva, E. (2011) 'Playing Both Ends Against the Middle: Russia's Geopolitical Energy Games with the EU and Ukraine', *Geopolitics*, 16, 3.
- Kustova, I. (2015) 'EU–Russia Energy Relations, EU Energy Integration, and Energy Security: The State of the Art and a Roadmap for Future Research', *Journal of Contemporary European Research*, 11, 3.
- Kustova, I. (2017) 'Towards a Comprehensive Research Agenda on EU Energy Integration: Policy Making, Energy Security, and EU Energy Actorness', *Journal of European Integration*, 39, 1.
- Kuzemko, C. (2014) 'Ideas, Power and Change: Explaining EU–Russia Energy Relations', *Journal of European Public Policy*, 21, 1.
- Loskot-Strachota, A. & Zachmann, G. (2014) *Rebalancing the EU–Russia–Ukraine Gas Relationship, Bruegel Policy Contribution* (Brussels, Bruegel).
- Manners, I. (2002) 'Normative Power Europe: A Contradiction in Terms?', *Journal of Common Market Studies*, 40, 2.
- Marriott, J. & Minio-Paluello, M. (2013) *The Oil Road: Journeys from the Caspian Sea to the City of London* (London, Verso).
- Meunier, S. & Nicolaidis, K. (2006) 'The European Union as a Conflicted Trade Power', *Journal of European Public Policy*, 13, 6.
- Mironova, I. (2014) *Russia and the Energy Charter Treaty*, 7 August (Brussels, Energy Charter Secretariat), available at: <https://energycharter.org/what-we-do/knowledge-centre/occasional-papers/russia-and-the-energy-charter-treaty/>, accessed 10 October 2018.
- Newman, A. L. & Posner, E. (2010) 'International Interdependence and Regulatory Power: Authority, Mobility, and Markets', *European Journal of International Relations*, 17, 4.
- Nye, J. (2004) *Soft Power: The Means to Success in World Politics* (New York, NY, Public Affairs).
- Oxenstierna, S. & Tynkynen, V. (eds) (2014) *Russian Energy and Security up to 2030* (Abingdon, Routledge).
- Pirani, S. (2014) *Ukraine's Imports of Russian Gas: How a Deal Might be Reached*, Oxford Energy Comment (Oxford, Oxford Institute for Energy Studies).
- Pirani, S., Stern, J. & Yafimava, K. (2009) *The Russo–Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment*, OIES Paper 27 (Oxford, Oxford Institute for Energy Studies).
- Pirani, S. & Yafimava, K. (2016) *Russian Gas Transit Across Ukraine Post-2019: Pipeline Scenarios, Gas Flow Consequences, and Regulatory Constraints*, OIES Paper 105 (Oxford, Oxford Institute for Energy Studies).
- Proedrou, F. (2016) 'Why Russian Gas Diplomacy Fails: The Geopolitics–Energy Nexus in Ukraine and Turkey', *Asia Europe Journal*, 15, 1.
- Romanova, T. (2016) 'Is Russian Energy Policy Towards the EU Only about Geopolitics? The Case of the Third Liberalisation Package', *Geopolitics*, 21, 4.
- Sartori, N. (2014) 'Geopolitical Implications of the US Unconventional Energy Revolution', *The International Spectator*, 49, 2.
- Sharples, J. (2015) *Gazprom Monitor*, 47, European Geopolitical Forum, April.
- Siddi, M. (2016a) 'The EU's Energy Union: A Sustainable Path to Energy Security?', *The International Spectator*, 51, 1.
- Siddi, M. (2016b) 'German Foreign Policy Towards Russia in the Aftermath of the Ukraine Crisis: A New Ostpolitik?', *Europe-Asia Studies*, 68, 4.
- Siddi, M. (2017a) 'The EU's Gas Relationship with Russia: Solving Current Disputes and Strengthening Energy Security', *Asia Europe Journal*, 15, 1.
- Siddi, M. (2017b) 'Identities and Vulnerabilities: The Ukraine Crisis and the Securitisation of EU–Russia Gas Trade', in Szulecki, K. (ed.) *Energy Security in Europe: Divergent Perceptions and Policy Challenges* (Basingstoke, Palgrave Macmillan).
- Siddi, M. (2017c) 'The EU's Botched Geopolitical Approach to External Energy Policy: The Case of the Southern Gas Corridor', *Geopolitics*, available online first at: <https://www.tandfonline.com/doi/full/10.1080/14650045.2017.1416606>, accessed 11 October 2018.

- Siddi, M. (2017d) 'EU–Russia Energy Relations: From a Liberal to a Realist Paradigm?', *Russian Politics*, 2.
- Siddi, M. (2018a) *Russia's Evolving Gas Relationship with the European Union: Trade Surges despite Political Crises*, FIIA Briefing Paper 246 (Helsinki, Finnish Institute of International Affairs).
- Siddi, M. (2018b) 'The Arctic Route for Russian LNG Opens', *WE World Energy* 83, March, available at: https://www.aboutenergy.com/en_IT/topics/arctic-route-for-russian-lng-opens.shtml, accessed 10 October 2018.
- Sierra, O. P. (2010) 'A Corridor Through Thorns: EU Energy Security and the Southern Energy Corridor', *European Security*, 19, 4.
- Stern, J. & Yafimava, K. (2017) *The EU Competition Investigation of Gazprom's Sales in Central and Eastern Europe: A Detailed Analysis of the Commitments and the Way Forward*, OIES Paper 121 (Oxford, Oxford Institute for Energy Studies).
- Stulberg, A. (2015) 'Out of Gas?: Russia, Ukraine, Europe, and the Changing Geopolitics of Natural Gas', *Problems of Post-Communism*, 62, 2.
- Tagliapietra, S. (2018) *Beyond Nord Stream 2: A Look at Russia's Turk Stream Project*, 4 July (Brussels, Bruegel), available at: <http://bruegel.org/2018/07/beyond-nord-stream-2-a-look-at-russias-turk-stream-project/>, accessed 10 October 2018.
- Tagliapietra, S. & Zachmann, G. (2015) *The Russian Pipeline Waltz*, 18 June (Brussels, Bruegel), available at: <http://bruegel.org/2015/06/the-russian-pipeline-waltz/>, accessed 24 March 2017.
- Talus, K. (2013) *EU Energy Law and Policy: A Critical Account* (Oxford, Oxford University Press).
- Toplensky, R. & Foy, H. (2017) 'Gazprom Reaches Draft Antitrust Deal with EU', *Financial Times*, 13 March, available at: <https://www.ft.com/content/575f8d2e-07f2-11e7-ac5a-903b21361b43>, accessed 23 March 2017.
- Trenin, D. (2009) 'Russia's Spheres of Interest, not Influence', *The Washington Quarterly*, 32, 4.
- Tsakiris, T. (2015) 'The Energy Parameters of the Russian–Ukrainian–EU Impasse: Dependencies, Sanctions and the Rise of "Turkish Stream"', *Southeast European and Black Sea Studies*, 15, 2.
- Vicari, M. S. (2017) 'TurkStream and its Second Line: Challenge for Some, Opportunity for Others', *Vocal Europe*, 17 January, available at: <http://www.vocaleurope.eu/the-turkstream-and-its-second-line-challenge-for-some-opportunity-for-others/>, accessed 22 March 2017.
- Weinland, D. & Foy, H. (2017) 'Gazprom Close to Revealing Financing for \$11bn Pipeline', *Financial Times*, 2 March, available at: <https://www.ft.com/content/4214c756-ff44-11e6-96f8-3700c5664d30>, accessed 24 March 2017.
- Wrobel, A. (2017) 'Naftogaz: A Good Start has Slowed, but Optimism Remains High', *Emerging Europe*, 25 March, available at: <http://emerging-europe.com/sectors/gas/naftogaz-a-good-start-has-slowed-but-optimism-remains-high/>, accessed 25 March 2017.
- Yafimava, K. (2015) *European Energy Security and the Role of Russian Gas: Assessing the Feasibility and the Rationale of Reducing Dependence*, IAI Working Paper 15 (Rome, Istituto Affari Internazionali).
- Yafimava, K. (2017) *The OPAL Exemption Decision: Past, Present and Future*, OIES Paper 117 (Oxford, Oxford Institute for Energy Studies).
- Yergin, D. (2006) 'Ensuring Energy Security', *Foreign Policy*, 2, 85.
- Youngs, R. (2017) *Europe's Eastern Crisis: The Geopolitics of Asymmetry* (Cambridge, Cambridge University Press).

Copyright of Europe-Asia Studies is the property of Routledge and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.