



UDC 620.9:32(470+571)*20*
Manuscript received: 20.11.2013.
Accepted for publishing: 12.01.2014.
Review article

Serbian Political Thought
No. 1/2014,
Year VI, Vol. 9
pp. 91-103

Nevenka Jeftić Šarčević¹
Institute of International Politics and Economics, Belgrade,
Serbia

Edita Stojić Karanović²
International Scientific Forum "Danube – River of Cooperation", Belgrade,
Serbia

The Energy Policy of Russia in the 21st Century

Abstract

The desire to restore the role of a world power, as the Soviet Union once had, the Russian Federation under the new conditions could and will fulfil using its energy wealth. Two factors favouring that: first of all Russia's richness in natural gas and other energy sources, and second, the growing needs in the world, and especially in Europe, for oil, and even more for natural gas. For achieving its goal of Russia has developed a number of projects which primarily covers a wider Eurasian and Mediterranean area, as well as other global directions. In this paper, a detailed analysis of these factors and projects is provided.

In the implementation of its energy policy Russia is guided primarily by their economic interests that serve the specific aim to become a world power in international relations. This is indicated by a differentiated pricing of natural gas solely from Russia's economic interests.

The paper in this regard points to unwarranted expectations, often present in our community about the existence of emotional factors upon which Russia gave benefits to Serbia or any other Orthodox, Slavic, etc. country.

The general conclusion of the paper is that the partnership from both sides, not just the Russian, must be based on economic calculations, whereby, this countries where energy from Russia, particularly natural gas required, must reconcile with the fact that they serve to achievement of the political-strategic

1 Senior Research Fellow
jeftic@diplomacy.bg.ac.rs

2 President
office@danube-cooperation.com

goals of Russia, but it cannot be avoided. However, they could call for fairer prices, even though the notion of fairness in economics is debatable. But there is no other way out, especially in a situation where even the rich countries are not investing enough in the discovery and development of alternative and renewable energy. It is left for the time when oil and gas reserves in the world will be exhausted to a greater extent.

Keywords: Russia, Europe, European Union, Middle East, Mediterranean, energy policy, energy, natural gas, oil, international relations.

Introduction

Countries owning natural resources have always used this comparative advantage as an instrument in their international relations with other countries. That said, traditionally the strongest assets in the international political arena are geographic location, population, military and economic power. However, in recent times, due to increasing demand for energy sources, the energy sector emerged as one of the most important political leverage in international relations. This is especially pronounced in the relation of Russia with the European Union, as well as the rest of the European continent. Russia as a significant fossil fuel producer places energy resources at the centre of its foreign policy. This pertains especially to natural gas which Russia supplies to many European countries. Russia receives lots of criticism because of alleged protectionism and violation of the principle of free trade, especially from the USA and some other countries. Thus, energy policy as an instrument of Russian foreign policy is the subject of many political and expert analysis examining and investigating energy relations (deposits on one side and needs on the other), political relations and methods of using energy sources as instruments of political influence as well as defence from energy-political dependency.

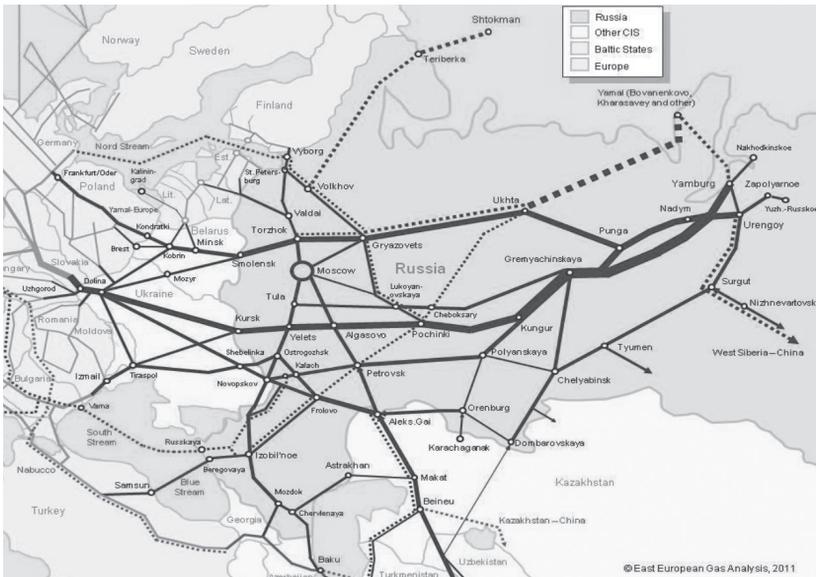
In the past energy sources were used as a political tool especially during the Arab-Israeli conflicts in the 1970s. At that time, the Arab countries as fuel (petroleum and liquefied gas) producers and exporters tried to force the USA and its European allies to abandon their support for Israel. To that end the Arab countries drastically raised the price of petroleum. This attempt failed in its main intention, but caused significant changes in the energy sector of Europe and the USA. The importers started searches and scientific investigation of new energy sources. Especially in the automotive industry there was a re-orientation of production towards cost-effectiveness and saving, and abandoning the production of motor vehicles with large consumption. (Even Formula

One, with great resistance, introduced a limit of 300 litres of gasoline per car per race.) All these measures proved to be useful and became a general standard.

Russia used its energy potential as a foreign policy instrument in the past and uses it today. In the time of the Soviet Union, despite the bloc division and the sharp bloc rhetoric, the Russian energy sources and the European needs represented a positive connecting tie between the two parties.

Today, in the economic domain, the European Union sees Russia a resource base, which brings Russia more into a position of partnership than that of a political rival. Due to this, at the beginning of the 21st century, the antagonisms between Russia and Europe have been reduced to a low level.

The large deposits of energy sources, especially natural gas, in Russia, that Europe needs, makes their relation 'mutually attractive', which amortizes the political connotations of classic dependency relations in the negative sense.



Map 1: (Eke, 2009)

However, the criticism Russia receives for using energy sources as a means of influence and increase of political power in its surroundings and in Europe are not without base. The influence of political objec-

tives on the economy in Russia is in essence the extension of the theory and praxis of the real-socialism epoch and is the current inheritance of almost all countries of the former Eastern bloc.

The mutual intertwining of energy resources and needs on the relation Russia – Europe relies not only on the mentioned elements of physical connection and other mentioned factors, but also on the fact that Russia is the third global producer by the quantity of fuel produced, right after the USA and China, and also the third global consumer after USA and China. In total, Russia produces yearly 54071 quadrillion BTU (British thermal unit - contains 1.055 J) of energy, mostly petroleum and natural gas. China produces 79108, USA 73423. This fact presents Russia as a long-term trustworthy energy supplier to Europe. For its own needs, Russia consumes 30426 quadrillion BTU energy, mostly from solid fuels (coal and wood). This means that about 25000 quadrillion BTU remains available for export and supplies to the high-demand European space (World Almanac 2012: 114).

These relations confirm that Europe is the main and strategic economic partner of Russia in the energy industry. Arguments that Russia could direct natural gas in other directions, specifically China, have no economic base. China as the world's largest producer of energy sources has no significant need for import of natural gas. China imports large quantities of petroleum and 'a certain share of natural gas' (Petrović, 2010). 'Certain share' means that China mostly needs for natural gas from its own production. Things are different between Russian and China when it comes to petroleum. Russia signed in 2011 a contract with China according to which China will finance Russian petroleum companies with USD 25 billion, while Russia will supply China during the next 20 years with large quantities of crude oil through new pipelines (Antevski et al. 2012: 72). For finishing the East Siberia – Pacific pipeline almost USD 15 billion further investment is necessary. (Goodrich and Lanthemann 2013)

Russia has no other consumers of natural gas in its surroundings apart from Europe. Chinese needs for natural gas are insignificant, thus there is no economic justification for building natural gas pipelines in that direction. At the same time, there are neither technical conditions nor practical habits of use, and thus no need for the export of natural gas to South Asia. In contrast to petroleum, natural gas is a specific fuel. Serbia, compared to its neighbours Bulgaria, Romania, Hungary and Croatia, has not yet built technical conditions for a larger consumption of natural gas.

Regarding the dependency and interdependency of the European Union and Europe on one hand and Russia on the other, for Russia it is one entity. In the European space the dependency on Russian gas starts in Central Europe, that is, from Germany to the east and south-east. The countries of Western Europe are not dependant on Russian gas because they cover their needs for this fuel through pipelines from African sources of natural gas and import of fluid gas from the Middle East. On the other hand, Germany began building appropriate storage facilities only in 2010, cautioned by the experience of deadlocks in delivery of natural gas through Ukraine and Poland.

Russia, that is *Gazprom*, is the majority owner of all for gas pipelines directed to Europe. The controversy with Ukraine over the gas transport, ownership of the pipeline and storage of natural gas continues further without a final solution. The main question is contested ownership over natural gas storage facilities and pipelines built during the Soviet Union, which are almost entirely on Ukrainian territory. There are also historical and ownership controversy between Russia and Poland. Confronted with this problem, Russia started to build domestically located storage facilities, because currently due to lack of storage, 95% of natural gas has to be directly conducted into the gas pipeline network.

PLANNED SOUTH STREAM AND NABUCCO GAS PIPELINES



Map 2: (East European Gas, 2011)

The main stakeholders of the *Nord Stream* are Russia as majority owner and Germany with the Netherlands. The main stakeholders of the *South Stream* are Russia as majority owner and Italy. The owner of

the *South Stream* branch across Bulgaria and Serbia is also Russia, that is, *Gazprom*.

In Central Asia, *Gazprom* has, through agreements of Russia with in 2007, broadened its business capacity. As VoR (Voice of Russia, 2008) said, under the *Caspian shore agreement - project Gazprom* took the obligation to modernise and expand the capacity of gas pipelines on the eastern Kazakh and Turkmen shore of the Caspian Sea. The project agreement signed about in 2007 by Russia, Turkmenistan and Kazakhstan envisions the creation of a new route for transporting the Central Asian natural gas into Russia and further to European countries. 'The blue fuel for the *Caspian Shore* pipeline will be provided by the largest Turkmen source South Yeloten, with reserves are estimated at 4 to 14 billion cubic metres of gas' (Voice of Russia, 2008).

With this Russia will be able to double the transport of the Central Asian gas pipeline up to 90 billion cubic metres. Also, Kazakhstan will supply the first Russian petroleum pipeline to the EU area. This is the pipeline to *Burgas* (Bulgaria) and *Alexandroupoli* (Greece), 280 kilometres long (Petrović 2010).

It is estimated that by 2030 the consumption of natural gas will reach 22% to 29% of the overall world energy consumption. Also, it is estimated that natural gas will become the second most important fuel in Europe, after petroleum, while the third will be coal. Nuclear and renewable energy sources significantly lag behind (Poillard, 2013).

The supply of Europe with natural gas from Russia will depend in the future mostly on the Nord Stream and South Stream with extensions from the countries of western and southern Europe. Due to the Russian-Ukrainian crisis in 2006 and 2009, as well as the recent one in 2014, and the dispute with Poland, both Russia and the European Union wish to rely on these two new pipelines (Goodrich and Lanthemann 2013).

Vis-a-vis large energy resources of Russia are the long-term intensive needs of the EU and the entire Europe. Therefore Russia directed all its' surplus energy resources towards Europe. This is especially true with regard to natural gas which is much needed in Europe. China, as stated above, is not competing for the gas needed by Europe, and will not do so in the foreseeable future.

The strategic energy relations of Russia and Europe are not based solely on fuels. Tightly linked with fuels are the technological components produced by developed European countries, which are

used by Russia, i.e. *Gazprom* for the construction and renovation of gas pipelines and petroleum facilities. For these purposes *Gazprom* uses so called 'western technologies'. *Gazprom* renovated the refineries in Bosanski Brod and Modriča (Bosnia and Herzegovina) as well as the refinery in Pančevo (Serbia) etc. Also, for the construction of gas pipelines seamless pipes are used, from EU countries, especially Germany. Also, Russia uses western technologies for its own needs on land and sea for accessing and exploiting the sources in polar areas. This form of energy technology connection of Russia and Europe harkens back to the Soviet era when the USSR started the construction of pipelines to Europe, that is, former West Germany. The first natural gas pipeline was built with seamless pipes from the German company *Mannesmann* in exchange for natural gas.

The inter-connection of energy sources, energy needs and technologies between Russia and Europe feature not only mutual attraction and partnership but also synergy of positive effects.

Europe consumes, according to certain data, 17% of world energy and produces only half of that. According to the estimates of the *International Energy Agency* (IEA), in 2030 the European Union will import 90% of the petroleum needed, 70% of natural gas needed and 100% of coal needed. At the middle of the first decade of the 21st century dependency of the European Union from natural gas imported from Russia was 26%, and from petroleum imported from the Middle East 45% (Poillard 2013).

Energy components of the Russian foreign policy towards Europe

Russia, i.e. *Gazprom* is the single largest supplier of natural gas to Europe with 121 billion cubic metres supplied. However, larger quantity comes from other sources, a total of 155.5 billion cubic metres, from: Norway 86, Algeria 43.2, Qatar 15.9, Nigeria 14.4, Libya 10 billion cubic metres of gas (Poillard 2013). Because of this it is an important political goal of Russia to suppress other suppliers, especially those that are geographically further away and separated from Europe, through gas pipelines of large capacity and their extensions towards the west of the continent. Also, an important political instrument of the Russian energy foreign policy is the conclusion of individual contracts with European countries regarding the natural gas supply. In the present conditions,

whether just seemingly or for real, Russia controls the energy policy towards Europe. Criticism that Russia is trying to dilute and weaken the political homogeneity of the European Union through concluding individual contracts with European countries and diversifying the price of natural gas is confirmed exactly by this component of the relations between Russia and the EU, because the prices of Russian gas show a difference of up to USD 200 from country to country.

Although *Gazprom* never publicly discloses prices at which the natural gas is supplied to individual European countries, according to the estimates of the portal *izvestia.ru*, based on information from sources close to the company, the average price for European countries in the first half of 2012 was USD 413.1 for 1000 cubic metres. However, for five countries the price of natural gas is over 500 dollars: *Gazprom* exported at the highest price to Macedonia, USD 564.3 for 1000 cubic metres, than to Poland USD 525.5, to Bosnia and Herzegovina USD 515.2, to Czech Republic USD 503.1 and to Bulgaria USD 501 for 1000 cubic metres (Energy Observer 2013).

The other group consists of developed and semi-developed countries, with Serbia as an exception (based on personal income levels Serbia is among the poorest European countries). In the second group are: Slovenia USD 485,6, Greece USD 476,7, Serbia USD 457,3, Switzerland USD 442,2, Italy USD 440, Romania USD 431,8, Slovakia USD 429. In the third group are: Austria USD 397.4, France USD 393.7, Finland USD 384.8, Germany USD 379.3, Netherlands USD 371.4, Great Britain USD 313.4 for 1000 cubic metres of natural gas. Evidently the price of Russian gas in Europe progresses downwards from East to West. The criteria upon which the prices were settled are not disclosed and are probably known only to the contract negotiators and signers. The only certain thing is that, in addition to the economic criteria – to achieve the largest possible profit for *Gazprom* – an important role was given also to the political criteria, that is the political dimension similar to the one applied by Russia in the countries in its immediate surroundings. This dimension includes especially political proximity to Russia, that is to say political suitability or non-suitability. This can partly explain the above stated higher prices of Russian gas in Eastern European countries – the former members of the Eastern bloc. On the other hand, there is a logical economic explanation, indicated also by the explanation of experts close to *Gazprom*, on the example of the lowest price for Great Britain. Namely, Great Britain is the most competitive market in

Europe and *Gazprom's* share on this market is only 10%, thus there is great interest to increase the market share with attractive lower prices (Energy Observer 2013).

In this context the situation of Serbia is interesting, who is in the second group after Slovenia and Greece with relatively high gas price. An analysis of Serbia's energy situation including South Stream gas pipeline project, which is designed to bring Russian gas to central Europe via the Balkans shows that instead completely rely on Russian gas it would be worth to develop own resources of renewable energy sources (Stojić-Karanović 2013: 224-226). In Serbia sympathy and affiliation to Russia is quite widespread among the population as well as among some politician, whether for emotional, ideological or tactical reasons. Probably Russia has adequate relation to Serbia producing the continuous expectation that Russia will provide concrete benefits based on mutual affiliation. The population's sympathies and affiliation are based especially on the shared orthodox religion and Slav heritage. However, the agreed upon prices of natural gas show that the factors of affiliation, shared religion and heritage do not create preferential treatment, i.e. benefits, because the above mentioned data shows that exactly the orthodox and the Slavic countries pay highest gas prices: Macedonia, Bulgaria, Poland etc. On the contrary the data shows that it is the highly developed countries who receive preferential treatment, like Great Britain, Netherlands and Germany (with the lowest gas prices), as well as Finland, France and Austria (with prices below USD 400 for 1000 cubic metres of gas). These comparisons are important also to reveal some misapprehensions that are widespread in Serbia, that is, to show that religious orientations and the Slavic heritage are not among the criteria of energy policy as component of Russian foreign policy. The agreed upon prices of natural gas, together with the infrastructural monopoly, manifest the main components of Russian foreign policy regarding the energy industry. Natural gas is sold at highest prices to countries that are most dependant on Russian sources. These are Eastern European countries, whose dependency is complete or near complete. The prices are adjusted to the level of dependency.

That is, according to Vladimir Putin, 'Russian power in Eastern Europe depends on its role as Europe's energy arbiter' (Ghaleb 2011: 87).

Priority of the Russian energy foreign policy towards Europe is to keep the ability to use natural gas as 'political weapon' in relations with the countries of the region. The dispute with Ukraine in 2009 about the

ownership over the gas infrastructure (pipeline and storage) endangered this ability and initiated the construction of the Nord Stream and South Stream. The British foreign policy expert Mark Leonard emphasises that 'Russia's power is growing because of its proven ability and willingness to use its natural resources, particularly its monopoly on natural gas, to weaken the EU' (Ghaleb 2011: 105).

It is exactly the Russian monopoly over infrastructure and gas supply that secures for Russia the bilateral agreements and differentiating European countries according to its own interests as not privileged, less privileged and privileged. Because of complete or great dependency on Russian gas, including the setting of prices, East European countries are on the viewpoint and demand protection from the EU in consolidation and integration of energy strategy towards Russia, that is to say the European Union should pressure for and obtain a uniform price of Russian gas for all members. However, these voices did not find support.

Instead of a Conclusion: Weighing Political and Economic *Pros* and *Contras*

For the construction of the Nord Stream and South Stream Russia secured strategic partners among the leading countries of the European Union. The most significant and key strategic partner is also the biggest economic power of the EU - Germany. The energy partnership between Germany and Russia harkens back to the days of the Cold War, that is, the Soviet era, surviving all crises, solidifying and developing to a high degree. With this Russia gains the opportunity to coerce the consuming countries (Ghaleb 2011: 66). However, the question is: is it only Russian coercion? The construction of the Nord Stream manifests the synergy of the two largest European nations. Despite opposition from the USA and some other Western and East-European countries (especially transit countries: Poland, Belarus and Ukraine), Germany and Russia signed the agreement and constructed the gas pipeline through the Baltic Sea directly from the Russian to the German shore. The agreement even contained a secret clause according to which Germany, for the construction of this pipeline, gives Russia a loan of EUR 1 billion. In a study of the Strategic Studies Institute of the U.S. Army this agreement was marked with the following words: 'Nord Stream is the child of the most notorious diplomatic alliance in Europe's modern history' (Ghaleb 2011: 119).

Therefore, the gas pipeline was constructed despite of opposition, just as Russia imposed, also in face of opposition, on the European Union and Europe different natural gas prices to each individual country. Intensive demands on part of the Eastern European countries, which are the least developed and at the same time exposed to the highest natural gas prices for the EU to establish a unified energy and political strategy towards Russia on the issue of natural gas are recklessly ignored. Germany was the first to reject those demands with support from several other European countries, especially France and Italy. Russia increased fuel export and strengthened the ability to 'coerce' with the construction of the Ust-Luga petroleum terminal in the Baltic Sea, which facilitates the circumvention of the Belarus system of fuel pipelines and the shipping of crude petroleum and petroleum products directly to the consumer countries (Goodrich and Lanthemann 2013).

The vulnerabilities of the transport of Russian natural gas to Europe will be eliminated with the construction of the South Stream. The primary strategic partners for the placement the increase of export of Russian natural gas, Germany and in extension the Netherlands create the possibility for Russia to enter West European countries, which were not until now consumers of Russian gas. The secondary strategic partner, Italy and the South Stream are bearers of Russian strategy for penetrating and extending energy power of Russia to the area of African pipelines. The goal of Russia here is also to increase energy dominance and political influence all over Europe, through competitive prices of natural gas and extension of pipeline networks to the Atlantic.

The dominant factor of Russian energy policy is natural gas, which will make Russia an 'energy super power' of the 21st century, but only in natural gas, not in petroleum, therefore international experts agree that Russia's energy future is in natural gas: "As the next decade unfolds, continued crises in the Middle East and growing concern about pollution and global climate change will inevitably focus attention on Russia's vast reserves of cheaper, cleaner natural gas." (Hill 2002)

Since the export of natural gas is used for political objectives, fuels and maintaining the monopoly on gas pipeline in East and Central Europe are of utmost importance for the Russian leadership. At the same time Russia's energy dominance and, with it, political influence in Europe are supported by the growing energy needs of Europe. According to current statistics in 2030 Europe will import over 60% of natural gas from Russia. The dependency of Europe from Russian

natural gas from pipelines will increase due to the foreseen decrease of natural gas production in Europe while the consumption is expected to increase (Goodrich and Lanthemann 2013).

The inevitable conclusion in short is that in gas trade there is a significant economic dependency on both sides, Russia and Europe as well. Having that in mind in weighing the political and economic dependency, the recently signed agreement between Russia and Serbia concerning the construction of the South Stream pipeline shows today unavoidable, and also useful not only for the contracting parties, but also for Europe. The realization of widely usage of renewable energy resources, that could ensure independence from oil and gas – remain in dreams of ecologists.

Bibliography

- Antevski, M. *et al.* (2012) "Regional energy projects in the Eurasian area". *Industrija*, 40 (1): 61-81.
- East European Gas Analysis (2011) [online]. Available at: <http://www.eegas.com/fsu.htm> [Accessed 20 March 2013].
- Eke, S. (2009) "Russia signs gas pipeline deals", *BBC News* [online]. Available at: <http://news.bbc.co.uk/2/hi/8051921.stm> [Accessed 29 May 2013].
- Energy Observer (2013) „Bugarska na petom mestu po skupoći ruskog prirodnog gasa za Evropu“, *Energy Observer* [online]. Available at: <http://www.energyobserver.com/vesti.php?lang=1&ID=39684> [Accessed 15 May, 2013].
- Ghaleb, A. (2011) "Natural Gas as Instrument of Russian State Power", *Letort Papers* [online]. Available at <http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB1088.pdf> [Accessed 13 November 2013].
- Goodrich, L. and Lanthemann M. (2013) "The Past, Present and Future of Russian Energy Strategy", *Stratfor* [online]. Available at: <http://www.stratfor.com/weekly/past-present-and-future-russian-energy-strategy> [Accessed 30 November 2013].
- Hill, F. (2002) "Russia: The 21st Century's Energy Superpower?", *Stratfor* [online]. Available at: <http://www.brookings.edu/research/articles/2002/03/spring-russia-hill> [Accessed 13 June 2013].
- Jeftić-Šarčević, N. i Stojić-Karanović E. (2013) "Energenti – jedan od stubova geopolitičke moći Rusije". *Međunarodni problemi*, LXV(4): 444-461.
- Paffrath, M. D. (2007) "Die innerrussische Dimension Gazproms – Auswirkungen auf Europa". *Osteuropa-Wirtschaft*, 52(2): 141-155.
- Petrović, D. (2010) „Geopolitički aspekt energetske perspektive sveta u sledeće dve decenije“, *Balkan Magazin* [online]. Available at: <http://www.balkanmagazin.net/nauka/cid144-19640/geopoliticki-aspekt-energetske-perspektive-sveta-u-sledece-dve-decenije> [Accessed 12 June 2013].

- Poillard, C. A. (2013) "Rethinking Russia: Russia and Europe's Mutual Energy Dependence", *Journal of International Affairs* [online]. Available at: <http://jia.sipa.columbia.edu/russia-and-europes-mutual-energy-dependence> [Accessed 11 April 2013].
- Stojić Karanović, E. (2013) "Regional Cooperation for the Energy Security of Serbia". In: Nikolić, M., Todić, D. (eds.) *Strateški pravci razvoja i utvrđivanja položaja Srbije u savremenim međunarodnim odnosima*. Beograd: Institut za međunarodnu politiku i privredu. pp. 420-432.
- Radio Glas Rusije (2013) „Rusija i Turkmenija pristupile su izgradnji Pri-kaspijskog gasovoda”, *Voice of Russia in Serbian*, [online]. Available at: <http://serbian.ruvr.ru/2008/12/26/1052344.html> [Accessed 12 April 2013].
- World Almanac (2012) *World Almanac*, [online]. Available at: <http://www.worldalmanac.com/world-almanac.aspx> [Accessed 12 April 2013].