Zeyno Baran

EU Energy Security: Time to End Russian Leverage

Much has been made of President Vladimir Putin's recent aggressive posturing against Europe and the United States. In the past few months, the Russian leader imposed a "moratorium" on the Conventional Armed Forces in Europe (CFE) Treaty, compared U.S. government policies to those of the Third Reich, and threatened to aim nuclear-tipped missiles at European targets again. These developments are certainly troubling, but the days when NATO troops looked warily across the Folda Gap in Germany for signs of invading Soviet tanks are long gone. Russian power and influence is no longer measured in ballistic missile accuracy or bomber production but in miles of pipeline constructed and barrels of oil per day exported, and for Europe, this energy invasion has already begun.

Questions regarding the security and sustainability of energy supply have mostly been left to individual EU member states and to the invisible hand of the market. Many European leaders preferred not to discuss the geopolitics of energy, instead delegating this portfolio to their economic ministries. Moreover, there is little unity among member states' energy policies. Russia, the European Union's primary oil and gas provider, has deliberately taken advantage of this lack of cohesion to gain favorable energy deals and heighten European dependence on Russian supplies. Moscow is pursuing a divide and conquer strategy of amassing bilateral deals with member states. This disunity has also allowed Moscow to preemptively block European attempts to construct transport routes for Caspian and Central Asian oil and gas that do not involve Russia.

Given Russia's high-level political involvement in energy issues, the EU needs a corresponding degree of intensity. Specifically, Europe must realize the

Zeyno Baran is a senior fellow and director of the Center for Eurasian Policy at the Hudson Institute in Washington, D.C. She can be reached at zeyno@hudson.org.

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very real foreign and security policy ramifications that the supply of energy has. Enhancing cooperation on energy security within the EU is essential to withstand Russian pressure.

Europe's Troubling Dependence

The lack of reliable and sustainable European access to energy represents a clear threat to the continent's security. Under the leadership of Putin, the Kremlin has pursued a strategy whereby Europe's substantial dependence on Russian energy is leveraged to obtain economic and political gains. If this situation continues, the EU will find itself in further danger, as its dependence leaves it beholden to Russian interests. There simply is no readily available alternative to the supplies the EU receives from Russia, particularly natural gas. Unlike oil, gas is extremely difficult and costly to ship via tankers; pipelines are the preferred method of transportation. Thus, if a supplier refuses to provide gas or charges an unreasonable price, the consumer cannot quickly or easily turn to another source. The consumer state would have no choice but to accept the supplier's conditions or go without natural gas, an option that is all but unacceptable for most.

The unjust manipulation or interruption of energy supplies is as much a security threat as military action is, especially since the EU relies on Russia for more than 30 percent of its oil imports and 50 percent of its natural gas imports.[1] This dependence is not distributed evenly. As one heads eastward, Russia's share of the energy supply grows ever larger. No fewer than seven eastern European countries receive at least 90 percent of their crude oil imports from Russia, and six EU nations are entirely dependent on Russia for their natural gas imports.

The Ukrainian gas crisis in January 2006 catapulted energy security to the forefront of the EU agenda. On the very day it took over the presidency of the Group of Eight (G-8)—a presidency that had announced energy security as its key theme—Russia halted natural gas deliveries to Ukraine. Because the gas pipelines crossing Ukraine carry supplies destined for EU markets, this shutdown resulted in significant supply disruptions for several member states, raising awareness that dependence on Russia has increased Europe's geopolitical vulnerability.

Several EU states have experienced the misfortune of Russian supply cuts directly. Disputes between Russia and the Baltic states have led to the halt of pipeline deliveries of oil multiple times. In January 2003, Russia ceased supplying oil via pipeline to Latvia's Ventspils Nafta export facility. This embargo, which followed Riga's unwillingness to sell the facility to a Russian energy company, continues to this day. In July 2006, Moscow shut down a pipeline supplying Lithuania's Mazeikiu Nafta refinery, which is the largest company in Lithuania and one of the biggest oil refineries in central and eastern Europe. As with Ventspils Nafta, this shutdown came after a Russian company failed to obtain the energy infrastructure it coveted.

Moscow has further sought to increase Europe's dependence on Russian energy supplies by acquiring significant stakes in the energy distribution companies and infrastructure of EU member states, typically through its proxy, Gazprom. This massive energy company—the world's largest—has control over the Russian gas pipeline network and consequently handles all Russian and Central Asian exports, either directly or through wholly owned subsidiaries. Such a preponderance of power would be troubling enough if the company were transparent, privately owned, and played by the rules of the free market, but Gazprom is none of those things. It is majority state owned and has deep ties to the Russian government. Many of the company's executive management and board members also occupy or previously occupied key positions within the Kremlin.

Enhancing EU energy security cooperation is essential to withstand Russian pressure.

For many years, Gazprom has owned significant portions of energy companies throughout the former Soviet Union. It is the largest or second-largest shareholder in the gas utilities of Estonia, Latvia, and Lithuania. Recently, Gazprom has been expanding its influence even further into the domestic gas distribution networks of western Europe. In the past two years, Gazprom has signed deals with Eni (Italy), Gasunie (the Netherlands), BASF (Germany), E.ON Ruhrgas (Germany), and Gaz de France. Desperate for access to energy and the profits it brings, European companies are played against each other by the Kremlin in order to secure more advantageous conditions for Russia. If one company does not want to agree to Moscow's terms, a competitor will gladly accept them, leaving the first company with nothing.

In addition to the economic disadvantages of such dependence, the broader foreign policy goals of EU states also suffer. Specifically, EU members limit their criticisms of Moscow, lest they be given a raw deal at the negotiating table. Russia's increasingly tainted record on transparency, responsible governance, and human rights is thus allowed to stand unchallenged and unquestioned. Dependency also erodes EU support for key allies in Europe and Asia. Azerbaijan, Georgia, Kazakhstan, Turkmenistan, and Ukraine—all crucial energy producers or transit countries—have each been subject to intimidation by Moscow. Instead of standing up to this harassment, Europe's dependence compels its leaders to look the other way.

Most disturbing of all is that this dependence even leads the EU to turn a blind eye when Moscow utilizes these tactics against fellow EU members. The July 2006 shutdown of the Lithuanian pipeline, for example, drew little protest outside of Poland and the Baltic states. Russia claimed that this cutoff was the result of technical difficulties yet refused all offers from third parties to examine the damaged pipe or assist repairs in any way. Although this incident is suspicious enough on its own, it becomes a clear case of political manipulation given Russia's status as a repeat offender.

The lack of reliable and sustainable access to energy is a clear threat to European security.

Many times over the past decade, Moscow has utilized near-identical tactics in countries it considers to be its near abroad. It has repeatedly cut off energy supplies during a political dispute, smugly blamed technical difficulties for the problem, and eventually shifted supplies to another destination unless the victim acceded to the Kremlin's demands. Despite this history and repeated pleas from President Valdas Adamkus, the response from most western European countries was rather muted during the Lithuanian shutdown. The countries of the West have never experienced these strong-arm tactics firsthand and fail to view it as anything more than an economic dispute. Moreover, they were too concerned that standing up for Lithuania would ruin their chances to get preferential access to Russian oil and gas resources. By design, the Russian strategy is driving a wedge between eastern and western Europe, exacerbating the challenges the EU faces in devising a common energy policy, as was seen during the dispute between Poland and Germany ahead of the June EU summit. This diplomatic row was ostensibly over Russia's failure to remove its embargo on Polish meat products but more broadly involved the perceived reluctance of Berlin to stand up to Moscow on a whole host of issues, not the least of which was energy.

The EU's inability to take Russia to task for its illiberal market actions threatens European energy security in another way. It decreases efficiency in an already inefficient Russian energy industry, raising costs for consumers. Russia's increasingly state-owned energy industry is largely unregulated. Without competitive market forces, companies such as Gazprom have no reason to behave like commercially minded entities. The absence of market stimuli is having detrimental effects on Russian productivity. Between 1998 and 2005, output in Russia's then-mostly privately owned oil sector rose by 50 percent.[2] During that same period, production in the gas sector (Gazprom) barely grew at all. Since 2004, when the Kremlin began its consolidation over the oil sector in earnest, Russian oil production has leveled off as well.[3]

Due to the extremely close relationship between the energy industry and the Kremlin, Russia's oil and gas companies can pursue strategies that make little economic sense but that serve the long-term interests of the Russian state, namely, ensuring European dependence on Russian energy supplies. For example, Russia's undersea Nord Stream pipeline will cost at least three times more than a proposed overland route through Lithuania and Poland would have. Given the environmental sensitivity of the Baltic Sea, some industry insiders are predicting costs as high as $10 billion or even $15 billion.[4]

By divorcing western Europe's gas supply from eastern Europe's, however, the undersea route grants Moscow the ability to manipulate the European energy market more effectively. Needless to say, the unnecessarily high cost of the pipeline's construction will be passed on to European consumers. Many industry experts have expressed concern that corruption and inefficiency, coupled with Moscow's refusal to allow significant foreign investment in the energy sector, will soon lead the Russian oil and gas industry to burn out.[5]

Instead of developing new oil and gas fields or investing in its energy infrastructure, Russia has utilized windfall profits to pursue the aggressive policy of expansion and acquisition described above. Unless Moscow is able to secure additional gas supplies from fields in Central Asia, it may struggle to meet its commitments to Europe, which is why maintaining full control over Central Asia's export routes is so critical for the Kremlin.

Engaging the Caspian

Enshrined as the second of the three pillars of the EU, the Common Foreign and Security Policy (CFSP) states that the EU should seek to promote democracy, rule of law, and respect for human rights within its borders and abroad. Yet, dependence on Russian energy supplies undermines Europe's efforts to foster the ideals of good governance, market transparency, and democracy both in Russia and in Russia's neighbors. Although the establishment of these principles in energy suppliers is a worthy goal in its own right, doing so will also create a more stable environment for energy sector development, thereby improving European security. Diversifying oil and gas supplies by constructing pipelines directly from the Caucasus and Central Asia to Europe would not only decrease Russia's influence on EU countries but would also loosen Moscow's grip on Europe's neighbors.

If the EU wishes to foster true reform within former Soviet states, it must offer them a non-Russian perspective, which can best be done through cooperation on joint energy projects. In the Caspian region, this strategy has been pursued with success by the United States. In the late 1990s, the United States pushed hard for the construction of several oil and gas pipelines that would carry Caspian energy westward without transiting Russia. It did so to break Russia's monopoly on the region's energy transportation system, thereby giving the Caspian countries greater economic and political independence from Moscow. Naturally, this proposal prompted strong objections and high-pressure tactics by the Russian government.

Determined support from the United States and from NATO ally Turkey was eventually successful in countering this Russian pressure. Two pipelines for oil and natural gas were eventually completed from the Azerbaijani capital of Baku across Georgia to Turkey. The Baku-Tbilisi-Ceyhan (BTC) oil pipeline stretches from Baku all the way to the Turkish Mediterranean port of Ceyhan. The South Caucasus Pipeline (SCP) follows the same route as BTC but terminates in the central Turkish city of Erzurum.

The United States devoted a great deal of time and energy to make these routes a reality. The time has now come for the EU to take the lead in bringing neighboring states closer to the West through a concerted engagement effort. The BTC and SCP pipelines are positive precedents. The construction of these pipelines has substantially decreased Moscow's leverage over Azerbaijan and Georgia, allowing them to resist political and economic pressure from Russia. When Gazprom demanded a higher price for the gas it provided to Azerbaijan, Baku decided not to import any Russian gas. Later, when Transneft (Russia's state-owned oil pipeline monopoly) refused to offer a market price for Azerbaijani oil, Baku decided not to export oil via Russian pipelines. Azerbaijan did not have these options prior to the construction of the two East-West pipelines.

The construction of these projects has also led to significant reforms in both countries. The international consortium behind these pipelines did not agree to the construction of either project until contracts assured the needed legal protection. Ongoing involvement with Western companies and gentle prodding from Western governments have prompted further political and market reform. Azerbaijan's most recent parliamentary elections in November 2005, while far from perfect, were the country's freest and fairest since independence. Georgia has been free to continue down the reform path it started during the Rose Revolution in 2003 and is expected to join NATO by the end of the decade. Years of positive interaction with the West have allowed Azerbaijan and Georgia to reorient themselves toward a future in European and Euro-Atlantic institutions.

Yet, this westward orientation is not guaranteed. In Azerbaijan, as in many states on the cusp of reform, there are a number of hard-liners within the government who are fiercely resisting these changes and would rather reach energy deals with Russia in order to obtain Moscow's support to maintain the status quo. Moreover, Kazakhstan, Turkmenistan, and Uzbekistan are still almost completely dependent on Russian-controlled export pipelines, leaving them vulnerable not only to political manipulation but also to economic extortion. Until late 2006, Russia purchased natural gas from the Central Asian republics at a rate of about $45 to $65 per thousand cubic meters (tcm). It then sold that gas (and/or Russian-produced gas) to western European countries for around $230 per tcm. Even the tremendous distances that must be traveled cannot account for the increase. Per kilometer, this markup is far higher than that which occurs between Canadian supply hubs and distant American consumers. To be fair, part of this disparity arises because of the horrific inefficiency of Gazprom. The rest is simply a rent that Moscow is able to extract because of its near-monopoly power. This becomes blatantly obvious when one considers that Russia currently sells gas to Georgia for $230 per tcm, despite paying only $100 per tcm for gas purchased from nearby Turkmenistan. It is Tbilisi's commitment to the West, not the market, that is determining the price of gas in Georgia.

By design, the Russian strategy is driving a wedge between eastern and western Europe.

Despite the danger of inaction, many in the EU are hesitant to engage in energy deals with countries such as Kazakhstan or Turkmenistan because of their rather poor record on human rights or rule of law. Although the EU's intention is good, the strategy is not. Without incorporating the energy sector into its engagement strategy, the EU simply lacks the proper leverage to encourage these states to change. The EU is often perceived as admonishing its neighbors, calling for too much political and social reform too fast, and offering too little in return. If political reform were undertaken without the necessary improvements in economic, political, and physical infrastructure, governments would lose control of their states; and the dangers of terrorism, extremism, and drug trafficking in Central Asia and the Caucasus would increase.

Moreover, although the EU is reluctant to make deals without first seeing substantial political and economic reforms in Central Asia, countries such as Russia and China are all too willing to make their own offer without waiting for reforms. Given the long time frame typically associated with oil and gas projects, Russia would be able to lock the states of the region into its orbit with a single commercial victory, leaving the West with severely limited options with which to press for reform. Moscow is certainly sparing no effort to lock up Central Asian resources and prevent the construction of alternative pipelines. Not only is its current arrangement extremely advantageous economically, Russia may soon need the supplies from this region to prevent a domestic gas shortfall.

Securing Eurasian Gas Transport

Moscow's entire energy strategy is predicated on continuing and expanding its dominant market position in Europe and Eurasia. This position can only be maintained if Russia holds a near monopoly on pipelines into Europe and out of Central Asia. The Kremlin recognizes this fact and has vigorously fought all attempts to construct non–Russian-controlled pipes from the Caspian region and Central Asia to Europe. In the late 1990s, when plans were being made to construct a natural gas pipeline from Turkmenistan across the Caspian Sea through Turkey and eventually into Europe, Moscow moved fast to construct its own Blue Stream gas pipeline under the Black Sea into Turkey, completing the project in 2002. This maneuver effectively killed the U.S.- and EU-backed alternative, as the political and commercial momentum was lost and Turkey's market at the time was nowhere near big enough to justify construction of both pipelines.

Now, the EU and the United States are again supporting two gas pipelines directly to Europe, one from Turkey to Greece and Italy, called TGI, and the second from Turkey across Bulgaria, Romania, and Hungary and into Austria, known as Nabucco. Access to Azerbaijani gas supplies is particularly important. If the upstream investment in the Shah Deniz field can be accelerated, significant quantities of gas could flow from Azerbaijan to Europe in a very short time. The expectation is for Azerbaijan to start sending small volumes of gas to Greece by the end of this year, and in nine years, Azerbaijan could export one-third of the amount that Russia currently sends to Europe. Undoubtedly, this will require significant lowering of market access risks for investors. One way of achieving this is the further diversification of export possibilities to the European markets, such as through the TGI and Nabucco gas pipelines. Knowing this, Moscow is once again trying to preempt these two pipelines to preserve its market dominance. While the EU is trying to coordinate its policies, Putin is sealing deals.

Moscow reached an agreement with Greece and Bulgaria in March 2007 to send Russian oil via a new pipeline, Burgas-Alexandroupolis, that is being constructed in their territories. Putin also tried to secure direct access for Gazprom to TGI and Nabucco but was confronted by Western opposition to Gazprom's involvement in either project. Putin quickly changed tactics. On June 23, 2007, leaders from Russia and Italy announced their intention to construct a massive gas pipeline to be known as South Stream between their two countries.

The announcement of South Stream is the latest and potentially most devastating of Moscow's efforts to block the construction of Nabucco. Putin has taken this anti-Nabucco campaign very seriously, personally visiting his counterparts in countries along the proposed route. Gazprom has already proposed the construction of a pipeline branching off of Blue Stream or maybe South Stream and terminating in Hungary. Gazprom's lobbying tactics with Hungary are decisive, robust, and unified—everything that the EU's tactics are not. The planned Nabucco pipeline would terminate in Austria, leaving Hungary as a mere transit country. By siding with Russia, however, Hungary, not Austria, would be a new energy hub of central Europe. Incidentally, Hungary receives 77 percent of its gas imports and 97 percent of its oil imports from Russia. Because Hungary's support is critical for Nabucco, a lack of cohesion in the EU could potentially sink another much-needed pipeline.

Moscow seeks to deal with states bilaterally and play them against each other.

TGI and Nabucco will only make commercial sense if Central Asian gas is available in a reasonable time frame. That is why Putin negotiated a series of energy agreements with Kazakhstan, Turkmenistan, and Uzbekistan in May 2007. Together, the three Central Asian states signaled their willingness to enhance cooperation with Russia in the energy sphere, agreeing to the construction of a new Russia-bound gas export pipeline along the eastern shore of the Caspian Sea while upgrading and expanding existing pipelines. They also consented to further Russian development of Central Asian fields and new long-term supply contracts.

Although official documents finalizing these arrangements will not be signed until September 2007, these agreements represent a serious blow to Western interests. The EU and the United States have long desired the construction of a Trans-Caspian Gas Pipeline (TCGP) to carry Central Asian gas directly to Europe, but it would be difficult to justify the construction of such a pipeline if the bulk of that gas is already committed to flow through Russian lines.

The May and June agreements should be a wakeup call to the EU that its plans to create a southern corridor for Caspian and Central Asian energy supplies are in serious danger. Although the EU appointed a special representative for Central Asia in 2005, the mandate for that position did not include energy until March 2007 when Germany, which held the EU presidency in the first half of 2007, started leading the charge to enhance EU ties with the region. Portugal, the current EU presidency holder, should intensify these efforts. Such an engagement would first and foremost mean a clear and unified European determination to make the southern gas corridor work.

How to Beat Russia at Its Own Game

The successful construction of pipelines such as Nabucco requires a much more cohesive approach from the EU. Europe's disunity and hesitancy are its biggest weaknesses. Russia, on the other hand, is able to offer decisiveness and concrete promises. Indeed, Prime Minister Ferenc Gyurcsány of Hungary implicitly stated that this was a main advantage Russia holds over the EU. When Gyurcsány announced his support for the Blue Stream extension at the expense of Nabucco, he stated that the EU-backed project was nothing but a "dream" and that "Blue Stream is backed by a very strong will and a very strong organizational power."[6] Clearly, the EU cannot ever hope to be as "strongly organized" as the semidemocratic Russia, nor should it. A more formal framework, however, should be established to streamline EU policies on energy. Specifically, energy security should be explicitly included in the CFSP.

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Several European leaders, most prominently EU energy commissioner Andris Piebalgs, have supported such a position. Unfortunately, formalizing a common European energy policy is quite difficult. Member states are far more reluctant to cede sovereignty to Brussels on energy policy than they are on trade tariffs or visa regulations. Moreover, each state has different priorities. At the very least, however, they must realize that working together on issues of energy security, especially when dealing with Russia, will be mutually beneficial in the long term.

This commitment would represent much-needed political support for the states of the Caspian Sea region. After all, before leaders such as Turkmenistan's Gurbanguly Berdymukhammedov will commit to a project like the TCGP, involvement in which would draw the ire of Russia, they must have a firm and steady political commitment from the entire EU.

Similarly, energy companies such as Eni, Royal Dutch Shell, or BP need to see meaningful engagement between Central Asia and the EU before they will pour billions of dollars into the construction of trans-Caspian routes. If the EU or the G-8 will not compete with Russia over access to Central Asian gas, why should CEOs go out on a limb? Time is a very important factor here. More delay will only give Gazprom the opportunity to preempt the EU's trans-Caspian pipeline plans. The significance of such commitment is tremendous: the BTC and SCP pipelines would never have been built without the strong support of the United States.

It is absolutely vital that the EU diversify its energy sources, not just its energy supply routes. The construction of Nord Stream, the Blue Stream extension into Hungary, or the South Stream does little to enhance the energy security of the EU because the gas is still controlled by the same source. Yet, if additional non–Russian-controlled pipelines from Central Asia and the Caucasus are built, Russia will lose its monopoly power there. If regional exporters and European consumers have greater choice, Moscow will be forced to offer fairer terms.

As long as Russia maintains its dominance over the pipelines linking Caspian and Central Asian energy producers to Europe, it will not reform. The ties between the Kremlin and energy companies have enriched those in power, enabling them to chip away at democracy, rule of law, and human rights in Russia. Billions of dollars in energy revenue have allowed the state to buy up previously independent media outlets through Gazprom's media division. Reform of the energy sector thus is crucial to any broader reforms in Russia. Even before the pipelines are constructed, the EU should work to channel Russia toward more transparent and market-based behavior. Europe possesses the necessary legislation to prosecute businesses such as Gazprom or Transneft, the state-owned Russian oil pipeline company, for their monopoly power. The prohibited actions in Article 82 of the European Community Treaty read like Gazprom's business strategy in Europe. Among other things, Article 82 prohibits "abuse … of a dominant position within the common market," "imposing … unfair trading conditions," and "making the conclusion of contracts subject to acceptance … of supplementary obligations which … have no connection with the subject of such contracts."[7]

The EU has already used this antitrust provision to prosecute Microsoft and block a proposed merger between General Electric and Honeywell. It should use this power against Gazprom and Transneft, especially considering that they are the monopoly oil and gas providers in some EU countries.

Antitrust lawsuits against monopolies such as Gazprom, particularly when coupled with establishing competitive pipeline routes, will go a long way toward breaking Russia's hold. Yet, there are several other things the EU should do to push Moscow toward more cooperative, mutually beneficial behavior. As Brussels has essentially abandoned its attempt to persuade Moscow to ratify the Energy Charter Treaty and join the Transit Protocol to open up its pipelines for third-party access, which is seen as a huge weakness on the part of the West, efforts should now focus on establishing direct, diversified transport routes to access Caspian gas. Second, the EU should demand an independent investigation of any pipeline cutoffs, such as the one to Lithuania. This would back up the EU's oft-stated declaration that it is against the deliberate manipulation of energy supplies for political purposes.

It is also simply hypocritical of the EU not to demand more transparency of companies such as Gazprom and its subsidiary, RosUkrEnergo, which is the intermediary for the sale of natural gas between Gazprom and Ukraine. There are a number of allegations over corruption and criminal links, both resulting in huge financial losses for Ukraine. Given that 80 percent of Europe's natural gas supply from Russia flows through Ukraine and RosUkrEnergo, billions of dollars are potentially being mismanaged or laundered. Furthermore, by receiving gas supplies from RosUkrEnergo, the EU is effectively a participant in a multibillion-dollar money-laundering scheme. Leniency on issues of transparency and legitimacy regarding Russian companies demonstrates the limitations of the CFSP, which not only emboldens the Kremlin in its use of energy as a political weapon but also gives the wrong signal to other third-party producer countries.

It is critically important for third parties such as Russia to have stable legal conditions for energy investment and trade. Moscow's mistreatment of Shell should make this concern clear. In September 2006, following a long campaign against the company for alleged environmental violations, the Russian government revoked Shell's operating license at its massive Sakhalin-2 natural gas project. These environmental concerns were soon dropped after Shell and its Japanese partners in the consortium agreed to sell a controlling share of the project to Gazprom.

Getting away with such behavior is emboldening Moscow to continue pressuring Western companies into accepting simply dreadful deals. After the Shell–Sakhalin-2 experience, the Russian state ended year-long discussions with TNK-BP, when in late June BP was forced to sell its majority share in the world's largest natural gas field in Kovykta for a price substantially below its real value.

The criticism of Kovykta and Sakhalin-2 does not rest on some assumption that Western energy companies are naturally entitled to the energy resources under Russian soil. Shell, BP, and others freely negotiated their contracts with the Russian government, agreed to certain terms, and invested billions of dollars into these projects. Now, years later, Moscow is essentially choosing to discard these agreements. The West should no longer accept such behavior. Instead, the United States and the EU should demand that Russia respect the rule of law, particularly on projects of such staggering scale.

Wanted: A European Energy Strategy

As of mid-2007, the EU is internally divided on a range of topics, and hence there is still no European strategy to deal with a strong and determined Russia that uses control of energy supplies, transportation, and distribution to reestablish itself as a major world power. The United States is distracted by many other pressing issues. Although effective work is being done at lower levels, impact will remain limited without cabinet-level engagement. For both the EU and the United States, Russia's UN Security Council position is critically important on issues such as North Korea and Iran. Hence, the West is trapped into a policy of nonaction, and Putin has been getting away with much more than any other G-8 member would be allowed.

The time has come to establish a European-level external energy strategy. Every member state pursuing its own energy policy only decreases overall EU security, limits the EU's foreign policy options, and in the end damages the EU's energy security. Although specific supplier choices can be made at the state level, these decisions must complement the broader strategy goals set by the EU. The danger is not necessarily that Russia will use gas cutoffs as a political weapon, but rather that Gazprom keeps investing in acquisition of Europe's strategic energy assets, thereby locking Europe into a deeper, long-term dependence while concentrating more and more power in fewer Kremlin hands.

Meaningful EU-U.S. cooperation on energy security may finally be possible.

Given the primacy of oil and natural gas in the European economy, it is not possible or even necessary to completely exclude Russian supplies. To reduce the detrimental effects of its current dependence, the EU needs only to reduce its reliance on this supplier. In this context, the EU should ensure that the bulk of Caspian gas reaches its markets not through Russia, but through alternative corridors such as Turkey and the Black Sea. For that, the EU should use the guiding principles of the CFSP to change existing dynamics. There are many legal ways in which this can be done, such as antimonopoly statutes and the Energy Charter Treaty and its Transit Protocol. These can be implemented if the political will exists among member states. Ultimately, the issue relies on decisions made in EU capitals. Moscow can only extract favorable conditions when it deals with states bilaterally and plays them against each other.

The Caspian Sea region is soon going to be producing large volumes of oil and gas. The EU needs to move now to secure the timely production and reliable, environmentally sustainable transport of these resources to its markets. Support for Nabucco and TGI would significantly accelerate Western investments in the Caspian region, thereby attracting the bulk of the gas reserves to European markets. The European market is large enough to attract Central Asian gas and to prevent the gradual reorientation of the region to Russia if sufficient transportation infrastructure is developed. Given the eagerness of the region's key oil- and gas-producing countries for deeper engagement with Western and EU institutions, there is a unique opportunity not only to diversify European external supply sources but to do so in a way that will further the goals and principles of the EU.

The EU should also pursue partnerships with other energy consumers. Oil, natural gas, and coal are all finite resources. They are also the primary cause of global warming, potentially one of the most severe international threats of the twenty-first century. The EU is making the decision to pursue alternative and renewable energy sources. Yet, it cannot be successful in this effort by acting alone. It needs the cooperation of consumers such as the United States, Japan, India, and China.

Meaningful EU-U.S. cooperation on energy security and diversification may finally be possible, given the trends on both sides of the Atlantic. The United States is more willing to discuss climate change and new technologies while the EU is more willing to consider energy security within the framework of the CFSP. Both partners should take advantage of this opportunity to establish the close cooperation that is especially necessary to devise effective strategies to counter Russian monopoly control over major energy supply, transport, and distribution networks across Europe and Eurasia.

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