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The Russo-Ukrainian Gas Conflict and its Effect on EU's Approach to Energy Security

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Summary

The Russo-Ukrainian gas conflict was a prolonged dispute between Russia and Ukraine on issues in the gas relations between the two countries. This conflict has caused several supply disruptions in the supplies to the EU. The supply disruption of 2009 was the most in the history of the EU. The goal of this thesis has been to analyze if this conflict, has caused a change in EU's approach to energy security, from an internal market perspective, to a security of supply perspective.

The focus of the existing literature is, to a great extent, independently on either energy security, the conflict itself or EU's energy policy. This thesis contributes with an analysis of the effect of this particular conflict on EU's approach to energy security, through five causal mechanisms. These five mechanisms are; "The New World of Oil", the Eastern enlargement, the return of Russia on the international scene, Gazprom's goal of global domination and the changes in the European utility industry. To analyze the effects, liberal intergovernmentalism has been applied as the theoretical framework which has guided the analytical process. Rather than to test the theory by this particular case, LI has been applied to derive empirical implications for the use in the analysis. These implications, in combination with the five mechanisms, have guided the analysis. The data has been based on EU documents, documents published by national governments, company reports, organizational reports, news articles and scholarly contributions

Based on the findings, the conclusion is that there was a change in approach towards security of supply by the turn of the new millennium, as a consequence of the changes in the world's oil market. The Russo-Ukrainian gas conflict reinforced this trend. Based on the findings, it seems that the conflict did not happen in a vacuum, as a stand-alone event. Rather it may be seen as symptomatic for the wider changes in the world's energy markets. For some Member States, the conflict was a wake-up call, as EU's economic assumptions were challenged. For others Member States, it reinforced latent geopolitical interests. Despite increased focus on security of supply, the Member States preferences continue to diverge to a considerable degree, because of different views on Russia, and because of different interpretations of energy as a resource. This divergence continues to be a hindrance towards a common energy policy.

1. Introduction

On January 7, 2009, Russian gas exports to 16 Member States of the European Union were completely cut off. A commercial dispute between the Russian gas supplier, Gazprom and the Ukrainian gas company Naftogaz, was the stated reason to the complete cut-off in gas supplies. It took three weeks from the start of the crisis, until the Russian gas deliveries were restarted on the 20th of January (Pirani, Stern and Yafimava 2009, 4). This was not the first time that Russian supplies directed for Europe was cut off, as there were reductions in supplies to Europe both in 2006 and 2008. However, the dispute of 2009 was the most serious dispute between Russia and Ukraine and also the most serious disruption in gas supplies in the history of the EU (Pirani, Stern and Yafimava 2009, 4; SEC 2009, 7).

There have been different interpretations of Russia's motives in the gas conflict, and whether these are political motivated or not. One who argues that Russia has political motives, is Jakub Godzimirski, who argues that Russia is willing to risk income from gas exports, to gain something politically (Bakken 2009; Godzimirski 2009). Along this line of analysis, Russia can use the "gas weapon" as a political tool, and therefore constitutes a larger threat to EU energy security, than if the conflict was caused by purely commercial interests. The vast oil and gas reserves have been important for the growth of the Russian economy, and as Godzimirski argues, these resources have been an important part of Putin's grand strategy to reestablish Russia on the international scene (Godzimirski 2009, 178). Russia is an energy superpower, and it has shown increased willingness to use gas as a political tool to manage its foreign relations (Godzimirski 2009, 178;181).

Other scholars argue that there are more important challenges concerning Russian energy supplies, than the willingness of Russia to use it as a political weapon (Goldthau 2008; Stern 2006b). Following this line of analysis, lack of investments in Russian oil and gas fields and inefficient energy consumption in the Russian economy, are more prevalent challenges, than the possibility of Russia to use its oil and gas resources as a political weapon. Regardless of Russia's motivations, it's resurgence on the international scene has been dependent on the income from the oil and gas sector.

The goal of this thesis will be to analyze if there has been a shift in EU's approach to energy security as a consequence of the prolonged gas conflict between Russia and Ukraine. Due to the severity of the conflict and its effects on EU's gas supplies, it is likely that it has caused some effects on the EU. The conflict will be analyzed through five causal mechanisms. The research has been based on several EU documents, documents published by national governments, company reports, organizational reports, news articles and scholarly contributions.

The thesis will be divided into chapters. Chapter 2 and 3 are will set the framework for the empirical and analytical discussions of chapter 4-8. Chapter 9 will summarize and conclude the findings. In chapter 2, the methodological approach and the theoretical framework of the thesis, will be presented. I will in this section define the two research questions and the different hypotheses. This chapter will link the research questions and the research process to relevant theoretical contributions, where liberal intergovernmentalism will be the theoretical framework that will set the structure of the following chapters. In chapter 3, some background information is provided, both on EU's history on energy policy and some background to the Russo-Ukrainian gas conflict. In chapter 4, the "New World of Oil" is identified as a mechanism, which has to be seen in the context of the Russo-Ukrainian gas conflict. In chapter 5, the Eastern Enlargement is put in the context of EU's overall approach to energy security, as it brought new dimensions into the picture. In chapter 6, the "Return of Russia" is analyzed in the context of the Russo-Ukrainian gas conflict and whether it has caused any changes in EU's approach to energy security. In chapter 7, the role of Gazprom and its actions as a state-owned Russian company is investigated. Chapter 8 will analyze the effects of the conflict on the European utility industry. In chapter 9, I will conclude, by summarizing the causal mechanisms, and whether these, in total, have affected a change in EU's approach to energy security.

2. Methodological Approach and Theoretical Framework

2.1 Research question

Energy security has increasingly become a topic of research, especially in the last decade. Scholarly emphasis has been put on the conflict itself, energy security as a concept and EU's approach to energy security. However, much of the research on these topics has been done independently. The goal of this thesis, is combine these three elements, and to analyze the effect of the Russo-Ukrainian gas conflict on EU's approach to energy security. The conflict is interesting because of its severity and the effects it caused. EU's approach to energy security is interesting, as EU's energy policy can be traced back to the foundations of the EU. The conflict illustrates a period when EU's energy security was challenged, as the complete cut-off in supplies had considerable, immediate, negative effects. The goal is therefore to analyze EU's approach to energy security in the light of the Russo-Ukrainian gas conflict. Based on this, I have formulated the following research question:

Has the gas conflict between Russia and Ukraine initiated a change EU's approach to energy security, from an internal market perspective, to a security of supply perspective?

This research question is interesting for several reasons. First of all, it was a prolonged conflict between two of the most important energy partners of the EU, Russia as supplier and Ukraine as transit country. Also, as Stern points out, Russia has historically been a reliable supplier of gas for the EU and the country has maintained a "reliable track record" (Ringmar 2005, 19). However, the disruptions caused by the conflict may have challenged this view, independent of whether it was economically or politically motivated. Furthermore, energy is considered to be a strategic resource, which means that it is necessary in the achievement of other politico-economic goals, like transportation, economic growth, industrial production and ensuring military security (Fermann 2009, 11). In a wider context, this means that the inability to ensure energy security may affect almost all other sectors in the EU.

Based on the research question, the following hypotheses have been made:

-
- H0: The conflict had no effect on EU's approach to energy security.
- H1: The shift from an internal market perspective to a security of supply perspective was evident prior to the conflict, and the conflict reinforced this trend.
- H2: The conflict initiated a change in EU's approach to energy security, from an internal market perspective, to a security of supply perspective.

To be a shift towards security supply, there has to be a change in interests on how to ensure energy security. An internal market approach will be based on an economic approach, based on liberalization, competition, privatization and the use of the internal market to ensure energy security. A security of supply approach involves greater emphasis on the external dimension of energy security based on political and diplomatic skills, diversification in fuels and suppliers and the use of foreign policy.

To analyze if there has been a change, I have formulated a second research question:

Through which causal mechanisms may the effect of the Russo-Ukrainian gas conflict, on EU's approach to energy security, be explained?

To set the conflict in context, I will analyze the conflict through five causal mechanisms. The goal is to assess each of the mechanisms, and how these may have contributed to affect EU's policy on energy security. In this way, each chapter will involve an independent assessment of each mechanism and if, and how, it has affected EU's approach to energy security. This will make it possible to assess the aggregated effect on EU's approach to energy security.

2.2 Research process

First of all, this study is a case study. To clarify the concept as understood in this setting, I will use the definition proposed by John Gerring: "an intensive study of a single unit for the purpose of understanding a larger class of (similar) units" (Gerring 2004, 342). In this case, the study will be a within-unit study of the EU before, during and after the Russo-Ukrainian gas conflict to reach conclusions about EU's approach to energy security, and whether there has been a shift in this approach. Following Gerring's typologies, it will be a case-study of type III,

which involves a within-unit study with temporal variation (Gerring 2004, 343).¹

Therefore, other relevant sub-units will be brought into the analysis, as the EU consists of several relevant subunits, where the most relevant are the Member States.

Based on the research question, the following causal relationship has been assumed:



This causal relationship assumes that external factors, as a severe conflict may cause changes in EU's approach to energy security. More specifically, in this case, the logic is that the conflict, which may be characterized as an independent variable, has initiated a change in the interests of the EU, thus also a change in EU's energy policy, which is the dependent variable. To be a causal effect among the two variables, as Gerring is cited in Héritier (2008, 61); "the cause in question must generate, create, or produce the supposed effect". One approach to think about this causal effect, that is, the relationship between variable X and its effect on Y, may be found in counterfactual analysis. Identifying the counterfactual involved, can be clarifying, which would be the difference with and without the exposure to an event or action (King and Powell 2008, 10-11; King, Keohane and Verba 1994). In this case the counterfactual involved, would be EU's approach to energy security without the exposure to the Russo-Ukrainian gas conflict. In this way, the difference between (i) the effect without the conflict (ii) the effect of the conflict, is the causal effect.

If one can observe an empirically relationship between a cause and effect, one can further investigate through which processes that the variables are linked, which will be identifying causal mechanisms (Héritier 2008, 69). In this particular case, one can investigate more about the underlying relationship of the effects of the conflict, on EU's approach to energy security:

¹ See appendix 1, figure 1, for table with Gerring's typologies.

“(..) The identification of causal mechanisms happens when one puts together general knowledge of the world with empirical knowledge of how X and Y interrelate. It is in the latter task that case studies enjoy a comparative advantage” (Gerring 2004, 348).

Thus the combination of a theoretical framework and the empirical knowledge on the Russo-Ukrainian gas conflict, may contribute to explain if and how this caused a change in EU’s approach to energy security. The combination of a theoretical framework, which will guide which actors to focus on and the causal mechanisms, can contribute to give conclusions about EU’s approach to energy security. In this way, the study is an interpretive case study, where theory has been used as an analytical tool to guide the analysis of the mechanisms at work (Vennesson 2008, 226). Therefore, in the next section I will outline different theoretical models that could be applied to give guidance to the following analysis.

2.3 Relevant Theoretical Frameworks

As King, Keohane and Verba (1994) and King and Powell (2008) emphasize, theory should be applied to explain and be a guiding analytical tool. The role of theory in research is to give general knowledge of the world and from this general knowledge derive empirical implications, which should guide the researcher’s data collection (King, Keohane and Verba 1994, 1-2; King and Powell 2008). Following this logic one should aim for the most applicable theoretical framework in the use of analysis of the data.

As the goal of this thesis is to empirically analyze if there has been a shift in EU’s approach to energy security, I will in this section outline some relevant theoretical contributions. It is important to stress that the goal is not to test a theory empirically, based on one case, which in any case could be challenging. Rather, the role of theory is to be a tool for analyzing the change of EU’s approach to energy security in the light of the Russo-Ukrainian gas conflict and which mechanisms that can contribute to explain this shift. In this way, one should aim for the most relevant and applicable theory to be used at the questions at hand. The different theories may have varying explanatory power, depending on the events, issues at stake and the level of speed of EU integration (Taylor 1996).

2.3.1 The Copenhagen School

One relevant theoretical framework could be the Copenhagen School and its approach to security studies. Historically, when issues of security arise, these issues have involved the relevance of military power (Buzan, Wæver and de Wilde 1998, 21). However, the traditional view on security has been questioned after the end of the Cold War, led by the Copenhagen School (Buzan 1997; Buzan, Wæver and de Wilde 1998). The Copenhagen School is among the wideners, which argues that there are other sectors are relevant, than only military material capabilities (Buzan 1997, 5). This theoretical framework is centered on identity and ideas and it further involves three subcategories.

Firstly, it involves the aspect of sectors, where there are other sectors that are relevant, apart from the military sector (Buzan 1991; Buzan, Wæver and de Wilde 1998). These are the environmental sector, the economic sector, the societal sector, the political sector and the military sector. The inclusion of other sectors than the military sector is the reason why the Copenhagen School is among the wideners in security studies.

Secondly, the theory is based on the regional security complex theory which was sought to be combined with the widened concept of security (Buzan, Wæver and de Wilde 1998, vii). This regional complex theory focus on regions and that such regions form subsystems in the international system and that geographical borders are characterized by weak interaction (Buzan and Wæver 2003, 41). For example, the EU could be interpreted as a region, where its geographical borders are characterized by weaker integration.

Thirdly, it involves the aspect of securitization, which might be considered the most important concept. Securitization occurs when a securitizing actor claims an issue to be a “threat to a referent objective (nation, state, the liberal international economic order, the rain forests), which claims to have the right to survive” (Buzan and Wæver 2003, 71). This approach is constructivist in nature, in the sense that one does not question if it is an actual threat, but it happens “when and under what conditions who securitises what issue” (Buzan and Wæver 2003, 71). In this way it is in line with the well-known phrase by Alexander Wendt; “anarchy

is what states make of it of (Wendt 1992, 395)". The definition of securitization is based on the usage and how the issue is presented, rather than if it is an actual threat (Buzan, Wæver and de Wilde 1998, 24). For example, it can be presented as it is more important than other issues, or that if it is not tackled, it might be an existential threat to the state (Buzan, Wæver and de Wilde 1998, 24). Thus the issue can be a perceived threat, and not necessarily be an actual threat, which requires that the issue is treated outside the box of normal politics (Buzan, Wæver and de Wilde 1998, 24-25).

The Copenhagen School could be applicable to the analysis of the change in EU's focus towards security of supply. Palonkorpi (2007) uses the regional complex theory and assesses the relevance for energy security, while de Jong, Wouters and Sterkx (2009) also mention the concept of securitization in the analysis of EU energy security. However the Copenhagen School did not launch energy as a separate sector, but rather included it into the economic sector (Palonkorpi 2007, 3). This can be challenging in an environment where the strategic dimension of energy has become more prevalent.

Another reason to why the Copenhagen School may be less relevant as an analytical tool in this thesis, is what McSweeney calls the "abandonment of state primacy" (1996, 83). This is an important and relevant objection to the application of this theoretical framework, because states are dominant with regard to energy policy, which also de Jong, Wouters and Sterkx (2009, 34-36) conclude. This is both the case within the EU, and outside the Union. Outside the EU - over the last decade - there has been an increased state involvement in the energy sector, with new NOCs dominating the energy sector. Also, within the EU, national governments are unwilling to give up complete sovereignty in the energy sector, as identified by the reluctance of Member States to give up security of supply policy and the opposition of many Member States toward the unbundling directive (EurActiv 2007a, 134-136; Howarth 2009). This suggests that a state-driven theoretical approach should be applied.

Furthermore, McSweeney argues that the concepts of interests and legitimacy is better analytical concepts for analyzing security than that of identity and societal

security, which can be more vague concepts (1996, 90-91). Based on the mechanisms identified in this thesis, the concept of interest is more relevant, than that of identity and society. This suggests other theoretical contributions to be more appropriate, that is, one which incorporates interests into the model. Interests vary among states and are dominated by both economic and geopolitical considerations. This does not mean that the Copenhagen School is of little or no relevance. In fact, the concept of securitization is interesting with regard to energy security. However, the mechanism identified points to an interest-driven explanation. It can be challenging to combine an interest-driven theoretical framework with an identity and society driven framework, as the Copenhagen School, especially considering the limited scope of this thesis.

2.3.2 Neofunctionalism

Another relevant theoretical framework could be neofunctionalism, which is an integration theory. This is a theoretical framework which started off with the contributions from Ernst B. Haas (1961; 1958) and has been developed by Lindberg (1963) and Schmitter (1970), among others. Ruggie et al. (2005) has made a review of the theoretical contributions of Ernst B. Haas and argue that it can be difficult to classify the theory, as it intersects both elements of international relations and comparative politics. The reason to this, they argue, is that it emphasizes the relevance of nation states, while it also argues that other, non state actors are relevant; “*a*) the interest associations and social movements that form at the regional level, and *b*) the secretariat of the organization involved” (Ruggie et al. 2005, 278). Schmitter confirms this, and argue that neofunctionalism gives importance to non-state actors and the “secretariat” of the regional organization” (Schmitter 2002, 2-3). Regional integration may be sporadic and conflictual, but in the long run, there will be an increased pressure for the Member States to solve problems at a regional level (Schmitter 2002, 3).

To explain the integration at regional level, neofunctionalism uses the concept of spillover effects, as the process where actors, in the search for reaching common goals, expand into new areas of cooperation (Schmitter 1970, 847). More specifically it can be defined as the:

“(...) inevitable “spillover” and unintended consequences that occur when states agree to some degree of supranational responsibility for accomplishing that task but then discover that success also requires addressing related activities” (Ruggie et al. 2005, 279).

There are three ways of how spillover can occur. There are functional, political and cultural spillovers. The concept of functional spillover occurs when the integration of interconnected economies, requires technical integration in one sector which leads to spillover into other related sectors (Sandholtz and Sweet 2010, 8). Political spillover is the pressure for further integration among the involved states. When one sector has integrated, this would cause political pressure to integrate other related sectors, as the interest groups involved would require this. Cultivated spillover involves the pressure of the European Commission to continue integration (Bache, George and Bulmer 2011, 9-10). Ruggie et al. (2005, 281) argue that there can be integration towards a common energy policy:

“Only a common energy policy and certain aspects of transport infrastructure seem capable of igniting latent functional linkages and generating the unintended consequences on which neofunctionalism thrived”.

In the light of this, one can argue that neofunctionalism could be applied as an analytical guide to the research question in this thesis, as it can cause spillover from the internal market, to a focus on security of supply.

The authors recognize that the spillovers have managed to affect almost all policy areas. However, they also emphasize that there are some parts of EU policy where the functional spillover effect may be more difficult (Ruggie et al. 2005, 281). The authors acknowledge that foreign policy may be one such policy area, where neofunctionalism may experience explanatory problems (Ruggie et al. 2005, 281). Security of supply is closely related to foreign policy, thus the concept of spillover effects might be inadequate to be used at this area. The divergence in interests of Member States, as a consequence of the closeness to foreign policy, may hinder the natural spillover into this part of energy policy.

Secondly, and more importantly, the suggested spillover into a common energy policy has yet to happen. According to neofunctionalism, the cooperation in the internal market should also have caused deepening within the external aspect of

energy policy. However, this is not the case, and security of supply, is still at the heart of the nation-state. The lack of spillover suggests that the Member States are at the controls with regard to energy security. In this way, neofunctionalism may not be the best tool available to explain the current state affairs in the EU regarding energy security. Neofunctionalism may thrive better under conditions where the strategic dimension is less prevalent and where preferences are less politicized. Because of this strategic dimension, the Member States are at the controls on the development of a common energy policy, and particularly with regard to security of supply. Due to the limited scope of this thesis, it is not possible to further discuss these aspects, but the mentioned objections suggest that one should look elsewhere for a relevant theoretical framework.

2.3.3 Liberal Intergovernmentalism

Based on the characteristics of energy policy, one should apply a state-centric, interest-driven approach, because, as Belyi argues, Member States are at the controls with regard to the objective of ensuring security of supply (2009, 203-204). The latest EU regulation on security of supply of gas, also confirms this position, as it states the following: “(...) Member States still enjoy a large margin of discretion as to the choice of measures” (EU 2010). This suggests that the theoretical framework applied, should have Member States, or governments, as the most important actors and how their interests are formed and under what conditions they would integrate at the European level. One theoretical approach which fulfils these criteria is liberal intergovernmentalism, as it puts the Member States and their interests in the forefront of European integration.

LI as a theoretical framework has, to a great extent, been dependent on the contributions of Andrew Moravcsik (1993, 1997, 1998). Even though critics have argued that LI cannot be applied in everyday decision-making, Moravcsik and Schimmelfennig argue that this is not the case (2009, 73-74). Still they emphasize that the theory is best applied on big treaty changes, but I it can still be applied at everyday decisions, because many of the decisions within the EU are taken by consensus or unanimity (Moravcsik and Schimmelfennig 2009, 74). The first assumption it makes, is that actors are rational, which means that states calculate the different alternatives and choose the alternative that maximizes utility

(Moravcsik 1993, 480; 1997, 517; Moravcsik and Schimmelfennig 2009, 68).

Furthermore, LI involves a three-step model, which is summarized by Pollack (2010):

“(1) liberal theory of national preference formation with (2) an intergovernmental model of EU-level bargaining, and (3) a model of institutional choice emphasizing the role of international institutions in providing ‘credible commitments’ for member governments” (Pollack 2010, 20).

National Preferences and Energy Security

The national preference formation is “liberal in inspiration” (Moravcsik 1993, 483). This means that governments will act based on goals defined domestically (Moravcsik 1993, 481). By this, he means that the national preference formation of the state, will be dependent on the aggregate of the groups and interests that dominate the national sphere of intra-state politics (Moravcsik 1993, 483). He summarizes it by: “Groups articulate preferences, governments aggregate them” (Moravcsik 1993, 483). The aggregated preferences can be based on either economic or geopolitical considerations, which will affect the external policies of the Member States (Moravcsik 1998, 23-28). Moravcsik argues that, in EU’s history, economic interests have been dominant for integration, but he also emphasizes that geopolitical interests may play an important role (1998, 474). For example, in some states, the economic interests may dominate the approach to energy security, while in others the geopolitical interests may be more prominent. Following this assumption, it is the interest of the governments with regard to energy security that becomes analytically interesting. One has to aim to identify the interests of the Member States on energy security, and try to analyze if the Russo-Ukrainian gas conflict, through the identified causal mechanisms, has changed these interests. The preferences of the states are not given, and may vary among states, within states and across issues (Moravcsik and Schimmelfennig 2009, 69). The empirical implication of this, with regard to energy, is that the preferences on how to ensure energy security may vary among the Member States and within individual Member States over time. The factors that affects this preference formation, are both national as well as international (Moravcsik 1993, 483).

Divergence in the preferences on energy security, may be a hindrance to integration, and may lead to the lack of integration. Oppositely, convergence in preferences may be a driver for integration. Member States can interpret energy differently, as it can be interpreted either in economic or in geopolitical terms. This thesis will try to identify the interests of the Member States and analyze whether the mechanisms have changed their preferences on energy security and based on this make an overall assessment of the position of the EU on energy security.

Intergovernmental bargaining

Furthermore, states use institutions as tools to reach their goals by intergovernmental negotiation and bargaining (Moravcsik 1993, 480-481; Moravcsik and Schimmelfennig 2009, 68). As Moravcsik argues, states will have an incentive to engage in transnational cooperation, if such cooperation will increase the possibility to control national policy outcomes (Moravcsik 1993, 485). This often arises when such cooperation can reduce negative externalities that arise from the international system (Moravcsik 1993, 485). With regard to energy security, it is logical to assume that the Member States will increase integration at the EU level, if this makes it easier to ensure energy security at the national level. Oppositely, if such cooperation will have a negative effect, or no effect on ensuring energy security, the incentive to cooperate is less present.

The outcome of negotiations depends on the relative bargaining power of the involved actors (Moravcsik and Schimmelfennig 2009, 71). There are different mechanisms that can affect the bargaining position. In the negotiation process, asymmetrical independence, which is defined as the uneven distribution of utility from an agreement, plays an important role, because the actors that have least to gain from an agreement, have a stronger bargaining position. The actors compare the agreements within the institution to other arrangements, like unilateral agreements (Moravcsik and Schimmelfennig 2009, 71). This is particularly relevant with regard to security of gas supply, as the gas market, still is, regional, where long-term, bilateral agreements are dominant. Therefore, the Member States will compare unilateral agreements with suppliers, with the overall

approach of the EU. If an actor has most to gain from the unilateral agreement, it has a strong bargaining position in the negotiations on a common security of supply policy. If Member States are satisfied with their unilateral agreements, the incentive to cooperate at the EU level is less present.

Institutional choice

The third aspect is the inclusion of institutional choice. Institutions can be the tools of member states to cope with unpredicted and unforeseen challenges (Moravcsik and Schimmelfennig 2009: 72). Institutions contribute to reduce the transaction costs of continued negotiations on specific issues and ensure credible commitments of the pre-existing bargain (Moravcsik and Schimmelfennig 2009: 72; Pollack 2010: 20). When bargains have been made and the Member States have struck an agreement, institutions are used to ensure that commitments are held, and to secure the agreements they have made (Moravcsik 1998, 20). With regard to energy security, this can involve the pre-existing emergency measures of the Member States in the case of a supply disruption and to ensure that these are credible.

Empirical Implications

As Schmitter writes: “any comprehensive theory of integration should potentially be a theory of disintegration” (2002, 4). This implies that a theory which explains European integration, also should have capability to explain why there is a lack of such. This is where I consider LI to have a strong advantage, as it explains integration on the basis of the Member States. As energy policy is still at the heart of the nation state, the Member States dictate how much competency that is left to the EU. If it has been a shift towards security of supply, one has to analyze the effect of the Russo-Ukrainian gas conflict on the Member States. If there has been a shift towards security of supply, this does not necessary imply increased integration towards a common security of supply policy within the EU, as the Member States might still be reluctant to transfer competencies to the EU. Based on the theoretical model of LI, there some empirical implications that will guide the analysis:

- ➔ Economic and geopolitical interest will dominate the preference formation on how to ensure energy security.

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- Divergence in preferences on how to ensure energy security may hinder integration towards a common energy policy.
 - Convergence in preferences on how to ensure energy security may increase the possibility of integration.
 - There have to be changes in the preferences of the Member States on how to ensure energy security to have a shift in EU's approach to energy security.
 - Member States which favors unilateral deals with supplier countries, may have a stronger bargaining position and see a common EU energy policy as less attractive compared to unilateral deals.

Without making any further theoretical discussions, it is important to have the above-mentioned empirical implications in mind during the next chapters. These empirical implications combined with the five mechanisms will be the foundation of the analysis of EU's approach to energy security.

2.4 Energy security

I have already mentioned the strategic dimension of energy and how ensuring energy security is necessary to achieve other politico-economic goals. A strategic resource can be cumulative, that is, with the resource, it becomes easier to accumulate other resources (Fermann 2009, 11). It can also be defined as those resources that are particularly important within one historical era, to ensure socio-economic development (Fermann 2009, 11). To achieve energy security is not an end, in its own right, but rather a mean to achieve other important politico-economic goals and to advance national power (Fermann 2009, 22; Kalicki and Goldwyn 2005, 9). A broad and widely accepted definition of energy security will involve sufficient supply of energy at a reasonable price (de Jong, Wouters and Sterkx 2009, 4; Yergin 2006, 70-71; IEA 2012).

However, the above-mentioned definition focuses only on the supply side of energy. Additionally, it is also possible to divide the concept of energy security into security of demand and security of supply (Fermann 2009, 24-25). Security of demand involves the security concerns of oil and gas exporting countries, like

Russia and Norway, that need a constant flow of exports at high enough prices for energy resources (Fermann 2009, 25). In relation to the EU, it is the security of supply perspective of energy security that is the most relevant, because the EU is import dependent. This can also be illustrated by the lack of reserves within the EU. At the end of 2011, the EU has 0.4% of the world's oil reserves and 0.9% of the world's gas reserves and 2% of the world's oil production and 4, 7 % of the world's gas production (BP 2012). Especially oil and gas play an important role in the energy mix of the EU, where oil has a share of 52,3 % and gas has a share of 24,5 % as of 2009 (Eurostat 2011). Due to the lack of physical access to these resources, much of it has to be imported. Of this, the EU imports about 60 % of its gas and 80% of its oil. The dependence on imported oil and gas is also projected to increase to 90% for oil and 80% for gas in 2030 (EurActiv 2011). The dependence on imported energy resources, can have serious negative implications for the EU, as price hikes and disruption in supplies can directly affect the achievement of other politico-economic goals.

The threats towards security of supply can be short-term and long-term (Austvik 2009, 88). Short term risks involve disruptions in supply or the transit of supplies, due to political factors, disasters and extreme weather conditions (Austvik 2009, 88). The long-term risks are related to the challenges of future supplies and if it's enough to cover growing demand, for political or economic reasons (Austvik 2009, 88). Sensitivity and vulnerability are concepts introduced by Keohane and Nye (1989), which can describe the ability to tackle supply risks. Sensitivity involves disruptions in existing supplies; while vulnerability involves mostly demand issues in long term gas supplies (Austvik 2009, 89). There are some differences between oil and gas, due to the structure of the two markets. As Noreng (2006, 38) points out, throughout the turbulences in the oil market, the commodity is always supplied, at a price, which makes the risks in the oil market most related to price. The challenge with ensuring gas security of supply is that the supply still is, to a large extent regional, in contradiction to oil, where there is an integrated world market. Therefore the risks related to gas concern both price and volumes, because a disruption in the gas market, may cause a direct reduction the volumes supplied (Correljé and van der Linde 2006, 38; Noreng 2006). This was strongly illustrated in the Russo-Ukrainian gas conflict.

3. Background

3.1 The Development of EU Energy Policy

The history of EU energy policy can be traced back to the ECSC. France, Germany, Italy and the BeNeLux-countries wanted to control the resources important to the war industries, namely coal and steel to ensure peace in Europe (de Jong 2008, 95; Romanova 2009, 119). However, already in the beginning of the 1960s there were diverging interests among the Member States. Belgium and Germany wanted to diversify away from coal, while France and the Netherlands saw the opportunities in the oil and gas sector (de Jong 2008, 96). Energy was important during the 1970s as a consequence of the oil crisis, but after the crisis of the 1970s, the energy question was absent for some years. The question returned in the latter part of the 1980s, when the Brundtland Commission put the focus on the environmental aspects of energy and in 1988, the Commission launched the report *Towards an Internal Energy market* (de Jong 2008, 97-98). In this paper, the Commission acknowledges that there have been few developments within the field of energy policy the last 20 years and it argues that there should be established an internal market for energy (COM 1988, 3).

3.2 The 1990s as the End of History?

In 1989, after the Cold War, Francis Fukuyama argued that the western ideology of capitalism and democracy had won, that communism had lost and asked if the world had seen the “End of History”. From his point of view, a consequence of the victory of western ideology, would be that there would occur a “Common Marketization” of world politics (Fukuyama 1989, 22). With the working document *Towards an Internal Energy market*, the goal was to establish an internal energy market. An internal market for energy would have several positive effects, like reduced costs, increased competitiveness of the European industries and it could also increase the security of supply (COM 1988, 5-6). When the EU established the Single European Market in 1992, actors hoped this introduction would also cause liberalization and influence of economic principles in the gas markets, thus having the same logic within the gas sector (Andersen and Sitter 2009, 63). The internal market would increase the flexibility of the industry and in

this way increase the resources available in the case of emergency (COM 1988, 6). The focus on security of supply was followed up by the working document *Working Paper of the Commission on Security of Supply, the Internal Energy Market and Energy Policy* published by the Commission (1990). The concept of security of supply is here defined as:

“Security of supply means the ability to ensure that future essential energy needs can be met, both by means of adequate domestic resources worked under economically acceptable conditions or maintained as strategic reserves, and by calling on accessible and stable external sources supplemented, where appropriate, by strategic stocks” (SEC 1990, 6).

The security of supply aspect is also emphasized in the Commission’s green paper of 1995, *For A European Union Energy Policy*. In this paper, ensuring security of supply is mentioned as one of the challenges facing the Union (COM 1995, 22-26). Based on these reports, one can identify the aspect of security of supply in the late 1980s and throughout the 1990s. However, security of supply is mostly interpreted within the internal market framework, in the sense that increased competition, infrastructure and cooperation within the European Union can have positive effects on security of supply.

As Andersen and Sitter put it, the focus on liberalization of European energy markets was a consequence of changed international climate together with more normalized supply situation (Andersen and Sitter 2009, 69). The process started in the beginning of the 1990s, where the focus was on liberalization, transmission, distribution and storage of natural gas (Claes 2009:46). The goal of the 1990s was on economic integration, which involved merging national markets into a single European market for energy. The European Union and its liberal ideology with its focus on the internal market was in many ways the manifestation of Fukuyama’s prediction of the “End of History” (Fukuyama 1989).

Claes (2009) argues that to have an energy policy, one has to consider both internal and external factors. One needs to differentiate between internal aspects, which are targeted by competition policy and the functioning of the internal market and external aspects where security of supply is achieved through political

and diplomatic skills (Claes 2009, 37;43). According to Claes, rather than having an energy policy, the EU had developed a competition policy applied to energy in the 1990s (2009, 42). This is at its best an incomplete approach to energy policy. Based on this short presentation of the history of EU's energy policy, one can summarize EU's energy policy in the late 1990s as:

- Dominated by the focus on the liberalization of the energy sector with the directives on electricity and gas (EC 1996, 1998).²
- The EU did not have a complete energy policy, but rather a competition policy applied to the energy sector.
- Security of supply is to a great extent interpreted within the internal market context.

3.3 The 2000s and the Three Challenges of Energy Policy

Today, EU's policy on energy can be characterized as three-dimensional; (i) the internal market, (ii) security of supply and the (iii) environmental dimension. de Jong suggests that there is a conflictual relationship between these three dimensions (2008, 107)³. The triangle is interesting, because it describes the relationship between the internal market as illustrated by "Lisbon", security of supply as illustrated by "Moscow" and climate illustrated by "Kyoto". This relationship is to some extent conflictive, because Member States are unwilling to completely give up their external energy interests, which mostly relates to security of supply (de Jong 2008, 108).

The historical focus of the EU has been on the "Lisbon" dimension, with its focus on competition and liberalization. However, such an approach comes is inadequate when there are external factors, as illustrated by "Moscow", that dominate EU's energy security. As the supply is located outside the free-market of the union it becomes a foreign policy and an important political topic (Claes 2009, 48). The goal of the following chapters is to analyze if there has been a shift in focus towards "Moscow" and the security of supply aspect.

² The directive on electricity came in 1996 and the directive on gas came in 1998.

³ See appendix 1, figure 2, for de Jong's triangle of the three challenges.

3.4 Russo-Ukrainian relations

As both economies struggled after the fall of the Soviet Union, cheap, subsidized Russian gas was crucial to the Ukrainian economy, while the gas export to Europe, through the Ukrainian transit network, was a necessity for the Russian economy (Pirani, Stern and Yafimava 2009, 5). During the 1990s the relationship was characterized by discussions on the issues of the level of debt, delivery reductions and diversion of gas made by Ukrainian actors (Stern 2006b, 2). In the summer of 2004 it seemed like the involved actors had reached an agreement and a way of dealing with the gas trade the next 5-10 years (Stern 2006b, 2-3). However, with the Orange Revolution and the election of Victor Yushchenko there were dramatic changes in Russo-Ukrainian gas relations, as Yushchenko and his allies followed a more pro-western foreign policy, which had a negative effect on the gas relations with Russia (BBC 2010; Stern 2006b, 3-4). At the end of 2005, before the outbreak of the crisis of January 2006, Putin stated that there was a serious crisis in the relations between the two countries (BBC 2005a). At the same time, the increasing energy prices caused problems as the difference between European prices and the prices for CIS-countries increased (Pirani, Stern and Yafimava 2009, 7).

Ukrainian actors refused to increase the level to European market prices, which caused Gazprom to cut off gas supplies to Ukraine, on January 1, 2006 (Stern 2006b, 7). EU member states, as Poland and Hungary, noticed reductions in supplies on the same day and Gazprom blamed Ukraine stealing gas meant for European customers (BBC 2006b). Four days later, on January 4, an agreement was made between Russia and Ukraine with an average price for 95\$/mcm instead of the suggested 230/mcm (BBC 2006a). Even though an agreement was made after the dispute of 2006, the conflict was not settled, as European gas prices continued to rise.

In March 2008 there were disagreements again on several aspects of the previous arrangements, which caused Gazprom to reduce the supplies for Ukraine (Pirani, Stern and Yafimava 2009, 12). Naftogaz threatened to divert gas meant for the European market, but an agreement was settled without any greater effects on EU Member States (Reuters 2008a, 2008b). The troublesome relationship continued and got worse at the end of 2008. This can be illustrated by the statement made by Putin, who was cited on the following in December 2008; "If our partners do not fulfill

agreements, we will have to reduce supplies. What else can we do?" (RIA-Novosti 2008).

One important aspect was the inability of Naftogaz to repay debt for earlier gas deliveries and Gazprom and Alexei Miller stated that if no agreement was made on the matter, the prices paid by Ukraine would be increased to 400/mcm (Pirani, Stern and Yafimava 2009, 15-16; Wagstyl and Olearchyk 2008). The conflict escalated to its most serious point and from January 1, 2009, Gazprom cut all supplies for Ukraine (Pirani, Stern and Yafimava 2009, 19). While in 2006 the conflict would be over by January 4, it escalated from this point and by January 7, there was a complete cut-off in supplies to some European countries which were 100% dependent on Russian gas (Pirani, Stern and Yafimava 2009, 20-22; EurActiv 2009b). The gas flow was restarted on January 20, ending the most serious supply disruption in the history of the EU.

3.4.1 The Immediate Effects on the EU

Due to its extent, the crisis of 2009 had serious negative implications. The gas reductions affected EU member states differently, and the degree of sensitivity varied across Member States. Bulgaria, Romania and Slovakia were the hardest hit among EU member states (Pirani, Stern and Yafimava 2009, 53; Kovacevic 2009, 2-3)⁴. Slovakia is dependent on gas for electricity generation, and the disruption in supplies strained the network (SEC 2009, 15). Bulgaria and Romania are sensitive to disruptions in the gas supplies from Russia, due to the high import dependence. Because of high sensitivity, the consequences were larger in these countries. The disruption in gas also showed weaknesses in the energy infrastructure, because the system was already working at full capacity (Kovacevic 2009, 18). However, Kovacevic argues that even though the situation was difficult in the region, many of the countries were "lucky" because domestic demand was lower than usual due to holiday season and the financial crisis, while the hydropower production was large due to weather conditions (Kovacevic 2009, 18-19).

⁴ See appendix 1, figure 3 for an overview of the effects of the supply disruption of 2009.

4. The New World of Oil

4.1 The 1990s and the Absence of the Strategic Dimension

Oil has had a dominant role in international politics because of its strategic characteristics. The decision of Winston Churchill, to change the fuel of the Royal Navy from coal to oil, in the naval build-up before World War I, may be seen as a turning point in this regard (Yergin 2006, 69). By changing the fuel for the whole navy, its functioning became dependent on securing imports of oil from the Middle East (Yergin 2006, 69). In this way, securing energy supplies became not only a part of securing sufficient oil supplies, but also a matter of national security. Hundred years later, oil and politics are still closely related and the black gold's strategic dimension makes it an indispensable commodity for any modern society.

Despite the strategic dimension, oil was seen as any other commodity during the 1990s and was interpreted in economic terms. As Yergin emphasizes, after the Cold War, oil was on the agenda due to the environmental dimension, but apart from that, it had become rather unimportant, the strategic dimension had been downplayed and oil was seen as any other commodity (2008, 1006). This optimistic view was challenged by the Gulf War in 1990-91, which caused oil price hike as consequence of fear, anxiety and geopolitical tensions (Yergin 2008, 1012). However, the optimistic view returned after the Gulf War ended, because of an optimistic world environment, which caused the strategic dimension of oil to be removed for much of the 1990s (Yergin 2008, 1025). The salience of oil was low, as prices moved towards 10\$, which caused an absence in the focus on energy security (Yergin 2008, 1026).

The absence of the strategic dimension of oil during the 1990s can explain EUs focus on the internal market and the liberalization paradigm. As the interest of the Member States are influenced by external factors and internal factors, the international environment in general and the world's energy markets in particular did not require a focus on security of supply. As Yergin points out, the low oil price was similar to a large tax cut for the oil importing nations of Europe, and in this way reduced inflation (Yergin 2008, 1025). For 15 years before the terrorist

attacks of 9/11, the oil consuming countries, like the Member States of the EU were able to take out economic rents from cheap access to oil (van der Linde et al. 2004, 45). The price of oil ranged between 15\$-20\$ much of the time from 1985 and onwards, which has been a contributing factor to the absence of security of supply in this period (Franssen 2002, 58). Because of the stability of the oil price combined with a favorable oil market for importing countries, policymakers in the EU did not pay much attention to security of supply (Franssen 2002, 59). The interpretation of this in the EU context, may be that the favorable oil market for the EU's Member States, may have given the Union the possibility to focus on the internal aspects of energy security, like competition policy, liberalization and infrastructure. The external dimension of EU energy policy was less prevalent, as there were abundant supplies at affordable prices, with fewer geopolitical tensions. The absence of the strategic dimension in combination with the general liberalization paradigm of the Union, can contribute to explain why the Member States applied a competition policy to energy, rather than to have a complete energy policy, during the 1990s.

4.2 Tightened Oil Market

The beginning of the new millennium saw the return of the focus on oil, energy security and security of supply. The beginning of the 2000s marked a bull market in commodities in general, which also included oil. In 1999 the price of crude oil was around 12 dollars a barrel while it in 2008 was short of 150 dollars, which was a record high (CRB 2006, 28T; IEA 2011, 40). As of today, the oil price has stabilized around 100 dollars. The changes in the market for oil can be attributed to both economic and geopolitical factors.

Jim Rogers (2005) identifies this trend in his book *Hot Commodities* where he argues that this bull market has been caused by structural changes in supply and demand in the world's commodity markets. One can point to several reasons for the sharp rise in oil price, but the growth of China and other emerging markets combined with economic growth in western economies are the most evident factors (Yergin 2011a, 160-164; CRB 2006, 28T). This is what Daniel Yergin calls the "Demand Shock" (2011a, 159). On the supply side, the oil supply has not

been able to keep the pace with the increase in demand (CRB 2006, T28). In this way, the combination of increased demand - especially driven by China's hunger for oil - combined with lack of supply to keep the pace with demand, caused new dynamics in demand and supply. These elements have contributed to a tightened market, which have caused an upward trend in the oil price.

A dramatic increase in the oil price will directly affect the "affordability" aspect in security of supply. Due to its strategic dimension, the increase in oil price will affect many other aspects of the modern society and it will also have a negative impact on economic growth (Noreng 2009, 222). When the oil price advances from 12 dollars to short of 150 dollars, which is more than a tenfold increase in the price, this will automatically increase the focus on security of supply. In the same way as the cheap oil price of the 1990s was similar to a tax reduction for the Member States, causing oil to be characterized by low salience, the oppositely happened with the increase in oil price. It was experienced as a tax rise, which can explain the demand for reduced taxes on fuels in the Member States (EurActiv 2000).

4.3 Geopolitical Tensions

Yergin, who is one of the most prominent scholars within the field of energy security, has argued that the challenges with regard to energy security and security of supply, will be political, rather than technological (2006, 2011b). Van der Linde et al. also follow this line of analysis and argue that political risk factors will threaten the markets over the next years (van der Linde et al. 2004, 46-48). In addition to the tightened world market, the oil price has been affected by geopolitical events, such as terrorism, the war in Iraq and other political events, which have contributed to the sharp rise in the oil price (Noreng 2009, 69-70; Yergin 2006). A turning point with regard to geopolitical events may be the terrorist attacks in the United States on September 11, 2001. These attacks introduced a more challenging geopolitical climate. Geopolitical tensions continued and caused international crisis on the US-UK lead war in Iraq, where the competition for oil resources may have been an important factor (van der Linde et al. 2004, 49). One can in light of this argue that there has been a new

politicized global environment, where geopolitical interests have claimed a larger role, which has had an effect on the focus of the Member States.

Another relevant aspect in this regard, is that oil and gas production and reserves are to a greater extent located outside the EU. Even though the world is still running into oil, and reserves continue to rise, the challenge is that the production of such oil will be outside the OECD-area and the importance of OPEC is predicted to increase (van der Linde et al. 2004, 53-55). Oil was therefore again a matter characterized by high salience in the start of the 21st century. EU's growing dependence on imported oil makes the Union more vulnerable to external risk factors, of which it has not capabilities to control, which will affect the Union's energy security. The external dimension of EU energy security was made highly visible in the entrance of the new millennium due to rising prices, tightened oil market and geopolitical tensions.

4.4 The New World of Oil and the Effects on the EU Actors

From the empirical findings in this chapter, it becomes clear that there have been structural changes in the world's oil market over the last 15 years, and that these changes contributed to surge in oil price. Thus, given these changes, the next interesting question is how these changes affected the relevant EU actors, and whether these changes can strengthen any of the three hypotheses.

4.4.1 The European Commission

As mentioned in the background, the 1990s was dominated by the idea of the internal market. This also included the European Commission. However, the changes that occurred at the end of the 1990s might have caused a change in focus of the European Commission. This change is evident in the green paper *Towards a European strategy for the security of energy supply*, where the rising oil price and the increased import-dependence, are mentioned as challenges for the EU (COM 2000, 2-3). In this paper, the Commission also emphasizes that the EU has no real energy policy, that there has been no common approach to security of supply, and that this is a hindrance in the bargaining process at the world market (COM 2000, 3;28).

Thus it was a shift towards security of supply, in the sense that the Commission acknowledges the external dimension of EU's energy policy and that there have to be some developments in EU's approach to deal with these challenges. However, the economic assumptions of the Commission continued, and the emphasis is still leaned more towards the importance of liberalization and markets. Thus the concept of security of supply became more important, but the Commission's approach was still based on economic assumptions. One may question if the Commission would have given priority to security of supply, if the oil market of the 1990s would have continued? Probably not, as the dramatic increase in oil price made the external dimension of EU energy policy clearly visible, in a similar way as the 1973 oil crisis.

4.4.2 The Member States

First of all, the effect of the "New World of Oil" is that it has caused trend shift, which involves a shift of power in the market, from the consuming states, like the Member States of the EU to the producing states. Since the new millennium the market climate has favored producing states like Russia. In this way, the producers may extract economic rents from the market, and not the consuming states. In general, this causes security of supply to become a more important topic.

Secondly, the effect of the "New World of Oil" on the Member States, has been that the geopolitical dimension in ensuring energy security has become more prevalent. In a world where geopolitical tensions to a greater extent dominate the energy market, security of supply becomes a more relevant and important tool to ensure energy security. This effect can be seen in for example, the UK government's Energy White Paper of 2002, with the title *Our energy future: creating a low-carbon economy*. In this report, the Government emphasizes the increased importance of political influence to ensure energy security, as the UK will become a net importer of energy (DTI 2002, 9-10). In UK, the increased focus on security of supply, was a consequence of internal (decline in indigenous energy production) and external factors (changes in the oil market), but still based, to a great extent, on market principles. In a world where geopolitical

considerations claim a larger role, the strategic dimension of energy becomes more important. Germany drafted its energy policy in the year 2000 with the “Energy Dialogue 2000”, where energy security was mentioned, together with environmental concerns and economic efficiency as top three objectives (Geden, Clémence and Maurer 2006, 9).

Thirdly, the external dimension of the Member States energy mix has become more prevalent, compared to the 1990s. For example in France, the dramatic increase in oil price from 1999 onwards brought energy back in the box of high salience, which can be illustrated by the blockades by road haulers in the country (EurActiv 2000). Thus one can argue that oil was put back in the box of high salience, as a consequence of the dramatic surge in oil price, as a skyrocketing oil price challenges the affordability aspect in security of supply. This dimension is external, and cannot be ensured through the internal market. The skyrocketing oil and geopolitical tensions have illustrated the limitations of an incomplete energy policy.

4.5 Conclusion: The Return to History?

While the 1990s was characterized by the “End of History” and an era of liberalization and integration, the 2000s was in many ways a “Return to History”, with increased geopolitical tensions. The changes in the oil market challenged both the economic and geopolitical interests of the Member States of the EU, as the “The New World of Oil” favors producers rather than consumers. Would there have been an increased focus on security of supply, if the oil market of the 1990s had continued? Most likely not, as all the actors mention oil market developments as an important reason to focus on security of supply. The overall effect was that both the European Commission and the Member States put security of supply – as a concept – on the agenda. France, with a strong historical focus on energy security, the UK and Germany all put focus on security of supply in the start of the new millennium. According to LI, both internal and external factors will affect the preferences of the Member States. In this case, the changes in the external dimension of EU’s energy security – the dependence on the imported fuels – challenged the interests of the Member States, and required them to increase the focus on security of supply.

5. The Eastern Enlargement and Energy Security

5.1 Eastern Enlargement

On May 1, 2004, 10 new countries joined the European Union, which were the Central European countries; Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, together with Malta and Cyprus. It marked the largest enlargement in the history of the EU, both in terms of number of countries and in terms of population. With the enlargement came also new challenges and relationships, as many of these countries had historically been in the Russian interest sphere. The Eastern enlargement came in a period with increased geopolitical tensions and increased oil and gas prices, which eventually would bring up the “gas question”. To identify the different views, after the enlargement, one can use the typology of Leonard and Popescu (2007, 1-2), as they identify five approaches towards Russia:

- Trojan horses (Cyprus and Greece) who often defend Russian interests
- Strategic partners (France, Germany, Italy and Spain)
- Friendly pragmatists (Austria, Belgium, Bulgaria, Finland, Hungary, Luxembourg, Malta, Portugal, Slovakia and Slovenia)
- Frosty pragmatists (Czech Republic, Denmark, Estonia, Ireland, Latvia, the Netherlands, Romania, Sweden and the United Kingdom)
- New Cold Warriors (Poland and Lithuania)

As Correljé and van der Linde (2006, 532-533) argue, the enlargement caused new security of supply patterns to emerge. Firstly, the eastern enlargement brought new dependencies on Russian gas into the EU. Many of these states are more sensitive to supply disruptions in Russian gas, than many of the old Member States. The higher sensitivity of these countries was strongly illustrated during the gas crisis of January 2009. Secondly, enlargement brought new interests on Russia into the picture. As Finon and Locatelli (2008, 426) argue, the interests of Member States often diverge, and do so to a greater extent after the arrival of the new Member States. At the same time, there is a growing urgency for a common external energy policy with the arrival of these Member States as they are more dependent on Russian gas (Finon and Locatelli 2008, 427). I will in the next

section identify the interests of the UK, France, Poland and Germany to illustrate the differences among the Member States.

5.2 National Policies

5.2.1 The UK

The UK has been in favor of liberalization of energy markets within the EU and was in favor of the directives to liberalize the electricity and gas sectors (Howarth 2009, 134; Andersen and Sitter 2009, 80). In 2002, in a comment on the green paper of the European Commission on security of supply of 2000, the British parliament emphasized that the UK is also a part of the European trend of becoming more dependent on external suppliers (Parliament 2002). The UK has chosen a diversification of fuels rather than suppliers and has a strong bilateral relationship with Norway, which has made it independent in its security of supply policy (Geden, Clémence and Maurer 2006, 21).

In 2006, in a report, the British Parliament mentioned two important energy challenges for the UK, which were: (i) the increasing challenge of climate change (ii) the increased dependence of UK on imports to ensure energy needs (DTI 2006, 10). In this document, the UK government identifies both the “demand shock” as a challenge towards the world’s oil and gas markets together with the increased importance of the strategic dimension of energy (DTI 2006, 10-11). Because of the higher dependence on the external energy sources, the security of supply dimension has increased in importance during the last ten years. The UK government has projected that imports of natural gas can reach 90 % in 2020, and supplies to a greater extent will involve imports not only from Norway, but also Russia, Algeria and Qatar (DTI 2006, 77-78). Despite having increased focus on security of supply, the UK still put most emphasis market-based mechanisms of investments, liberalization and competition, but increasingly also emphasize diplomatic tools like building stronger bilateral political relationship (DTI 2006, 18-19). The UK also sees a greater role of coordination on the EU level with regard to security of supply, but still wants to remain sovereignty on the matter and are unwilling to transfer too much power to EU institutions (Geden, Clémence and Maurer 2006).

5.2.2 Poland

Until 1996, Poland's gas imports came only from one supplier, which was the Soviet Union and after its dissolution, Russia (Heinrich 2007, 18). In 2010, 30 % of the gas consumption in Poland was covered by the PGNiG's own production, while the rest was ensured through imports, of which 90% came from Gazprom (PGNiG 2011, 29;41). With the inclusion of Poland into the EU, came new dimensions into EU energy security. Geopolitical considerations are more dominant in Poland's approach to energy security, compared to other Member States. There is an extreme political sensitivity in Poland regarding Russian gas and because of this, the country wants to diversify away from Russian gas supplies (Stern 2005).

Poland is the biggest new comer and it can to a certain degree be representative for the CEE-countries and the Baltic states. Miller identifies Poland "A Regional Leader on Energy Security" among the CEE countries (Miller 2008, 16). Leonard and Popescu (2007) put Poland together with Lithuania among the New Cold Warriors, which have negative political relations with Russia. Recently, Lithuania has launched the plan for a LNG-terminal to diversify away from Russian gas and Gazprom (Lannin and Adomaitis 2012). The main objective for Poland with regard to its security of supply policy, is the diversification away from Russian gas imports (Geden, Clémence and Maurer 2006, 9). Poland's interests with regard to Russia may diverge from the old Member States, in the sense that the dependency on Russian gas should be reduced, because Poland is opposed to the Russian domination on European energy markets. With regard to a common security of supply, Poland is positive as this can contribute to balance the power of Russia, and the country wants the EU to help it defend Polish interests (Geden, Clémence and Maurer 2006, 25).

5.2.3 Germany

Historically, security of supply in Germany has been left to the private companies, which have tried to limit diversification, to strengthen their role in the market (Geden, Clémence and Maurer 2006, 14). Thus one can argue that, Germany's assumptions on energy have to a great extent been dominated by economic

considerations, at least prior to the Russo-Ukrainian gas conflict (Umbach 2006, 64-65). German companies have a strategic interest in the relationship with Russia, as it is seen as a stable supplier of gas, while for Russia and Gazprom, the relationship can help the company to expand into the European market (Westphal 2008, 102).

The dependence on Russian gas has not been seen as a disadvantage. Rather German companies have seen the interdependence between Germany and Russia as an advantage, as Germany has an unrivalled relationship with Russia among the Western European countries (Geden, Clémence and Maurer 2006, 17). Thus the strong bilateral relationship between Germany and Russia is the most important aspect in Germany's security of supply policy. As Westphal argues, Germany has focused on bilateral relationship, rather than multilateral solutions and bypassed the EU-Russian dialogue, as the country has developed the German-Russian strategic partnership (Westphal 2008, 111-112). This exclusive energy alliance to some extent undermines the common security of supply of the EU. For Germany, a common external energy policy may be unattractive, if it involves challenging the role of Russia, as the country values its strategic relationship with Russia. It is also important to mention that Germany has involved itself in the process of a more coordinated external energy policy, even though it has been reluctant transfer competencies to the EU (Geden, Clémence and Maurer 2006, 25).

5.2.4 France

The energy mix of France is different from the other mentioned Member States, by the fact that it relies on nuclear power in combination with imported fossil fuels. France has used nuclear energy to diversify its energy mix, away from fossil fuels like oil and gas. As Geden, Clémence and Maurer (2006, 4) argues, France is interesting because it has been a driver for an external European energy policy, despite the country's conservative view on security interests. In France, there has been a high degree of state involvement into the energy sector and security of supply is one of four goals in the energy policy (IEA 2010, 15). France was one of the eight Member States that were opposed to the unbundling directive

and have historically been a slow liberalizer and stuck to the minimum requirements (Howarth 2009, 134-135).

France is dependent on natural gas for 15% of total energy production, with 97 % coming from imports on long-term contracts. The gas imports originate from four major suppliers, which are Norway (32%), the Netherlands (18%), Algeria (16%) and Russia (15%) (IEA 2010, 57-58). The energy mix of France has the same tendency as other EU Member States, with its reliance on imported fossil fuels. The focus of France has been the aim for energy independency, and has over the last years been positive to a more coordinated external energy policy for the Union, however this should happen with the Member States at the controls (Geden, Clémence and Maurer 2006, 15).

5.3 The Enlargement and the Effects on EU's Approach to Energy Security

Out of the presentation of the four countries one can make some general remarks about their approach to energy security. All the Member States presented here, see a role of a more coordinated EU approach to security of supply, but at the same time, they are reluctant to transfer considerable competencies to the EU. The differences in the Member States energy mix and the different interests with regard to how to ensure security of supply make this understandable (Westphal 2008, 98). Energy policy is still at the heart of the nation state, because as Westphal puts it, security of supply is a national sensitive policy (2008, 98). Furthermore, the eastern enlargement, here represented by Poland, may have caused two interesting effects: (i) increased divergence in interests on how to ensure energy security which has caused the Union to become more heterogeneous and (ii) brought the question of energy security on the agenda.

The interpretation of energy as a resource differs among the four Member States. In UK and Germany, energy is largely defined by economic interests, as liberalization is important in the UK, while the private companies have had an important role in Germany, based on strong cooperation with Gazprom. Contrary, France and Poland interpret energy more in a strategic context, and the state is more involved. Despite the increased focus of the Member States on matters of

security of supply, there has been lack of transfer of sovereignty from the Member States to the European Commission on external aspects of security of supply. The Eastern enlargement have made the EU more heterogeneous which makes it more challenging to reach common solutions on how to ensure energy security. In this way, just by the inclusion of new Member States, there has been increased divergence in the preferences of the Union.

The lack of integration within this policy area can be well explained by LI, as this really shows that the Member States are the speed-setters with regard to integration on a common energy policy. For example, Germany and Poland have opposite interests with regard to Russian supplies, the former sees Russia as a strategic partner, while the latter sees Russian supplies as a threat to its energy security. In addition, these two countries have a different interpretation of energy as resource, as the geopolitical dimension is more prevalent in Poland's preferences on energy. This divergence is might be a barrier to integration according to the LI framework.

The divergence in interests makes it difficult for Member States to establish credible commitments at the EU level, as they are unwilling to make large compromises due to the strategic dimension. For example, Germany and the UK have strong bilateral arrangements, Germany with Russia, and the UK with Norway. These Member States have a strong bargaining position in EU negotiations, as their bilateral relationship may be more attractive than the common EU approach. Therefore, the different national policies and the disunity makes it difficult to hand the necessary competencies to the EU (Larsson 2006, 183).

5.4 Conclusion: A More Heterogenous EU

The trend among all of the mentioned Member States is that the concept of security of supply has received more attention, as they face the same trend with increase dependence on imported energy. Therefore they see a role of a more coordinated approach. The security of supply question has also become more important after the enlargement, as the new comers are more dependent on

Russian gas supplies. This suggests a drive towards a common security of supply policy. However, there is also the opposite trend of diverging interests on how to secure these supplies, due to national variances in the energy mix, combined with different preferences on the role of Russia in this energy mix. The preferences diverge to a greater extent after the Eastern enlargement, as the enlargement has caused a more heterogeneous EU. The national variances among the Member States cause them to be reluctant to give up their sovereignty in security of supply, and unwilling to transfer competencies to the EU. A more heterogeneous EU can be a hindrance to integration towards a common energy policy.

6. Russia's Return to the International Scene

6.1 The New World of Energy and the Return of Russia

From the end of the Soviet Union until the financial crisis of 1997 to 1998, the Russian GDP decreased with approximately 40 % (Blakkisrud 2009, 2). It all culminated in 1998, when Russia was bankrupt as a consequence of the financial crisis that struck several economies in 1997-1998 (Yergin 2008, 1033). At the same time, as the country was struggling, the old Soviet oil industry had been transformed. By 1998, the Russian oil industry had been transformed from a system based on central planning, to a system with vertically integrated companies, based on the western model (Yergin 2011a, 32). With the election of Putin, came a man that was convinced that the role of Russia's energy resources was necessary in Russia's recovery to become an economic power (Yergin 2011a, 37; Blakkisrud 2009).

The new millennium did not only see a surge in the oil price, but also the resurgence of Russia on the international scene. The boom in oil and gas prices from 1998 and onwards, lead to an average growth rate of 7 % per year from the new millennium to the financial crisis, which hit the world in autumn of 2008 (Blakkisrud 2009, 2). As a consequence of the collapse of the Soviet Union, the production of Russia decreased, but regained its strength towards the end of the 1990s, and grew by 50% in the first half of the 2000s (Yergin 2008, 1030). In ten years after the financial crisis of 1997-1998, due to the enormous income from the energy exports, Russia had managed to save up almost 800 billion dollars in foreign currency savings and investments (Yergin 2008, 1033). This dramatic change explains the importance of the revenues from oil and gas exports and how Russia was in a completely different situation in the 2000s compared to the 1990s.

6.2 An Energy Superpower

Godzimirski argues that oil and gas resources have been seen as strategic resources, which have caused Russia to minimize foreign involvement in the energy sector: "The new Russian legislation on subsoil resources and on strategic sectors of Russian economy seems to strengthen the state's role and control over

the country's most important natural resources (2009, 179)". The strong focus on the energy sector and the relationship between the state and the energy companies has been important for the revival of Russia on the international scene. Russia's foreign energy policy strives to reduce the dependence on third parties or transit countries in the deliveries of energy exports, and geopolitical considerations overshadow everything in the planning of new projects (Larsson 2006, 174). The Russian state is a dominant actor in the energy sector, especially with regard to gas, and there is a symbiotic relationship between the Russian state and the companies (Bilgin 2011, 119). In many ways the changes in the oil markets have made Russia an energy superpower, where the strong state intervention in the energy sector is an important aspect of Russia's return on the international scene (Finon and Locatelli 2008, 425). Helm argues that Russia has followed a strategy to maximize the rents from oil and gas resources, renationalizing the energy sector (2007, 38). From 1998 to 2009, energy commodities as a part of total export, rose from 41,5 % to 75,1% in 2009, which confirms the importance of energy exports for the Russian economy (Godzimirski 2009, 178).

6.3 New Dynamics

Coinciding with the increasing oil and gas prices, and the incomes from the energy sector, came a more challenging relationship between Russia and Ukraine on gas relations (Stern 2006a, 6). The challenge for Russia has been that it is dependent on Ukraine for the gas deliveries for Europe, since 80 % of the gas exported to Europe, is exported through Ukraine (Pirani, Stern and Yafimava 2009, 5). One possible explanation to the conflict, was the Orange revolution in Ukraine, which elected the new president Yushenko, which caused a more challenging relationship between Ukraine and Russia (Yergin 2011a, 337). In many ways the Russo-Ukrainian crisis of January 2006 confirmed the trend in the international energy markets of increased tensions (Geden, Clémence and Maurer 2006, 2). In any case, there was a new dynamic in the Russo-Ukrainian relations, which was a contributing factor to the gas conflict.

The revival of Russia did not only change the dynamics of Russian-Ukrainian relations, but also the dynamics of EU-Russian relations. Russia's role as an energy superpower seems to have given Russia increased confidence, which has caused the country to increasingly define the rules of the game (Leonard and Popescu 2007, 7). As EU Member States fail to coordinate their policies towards Russia, Moscow has not only gained influence over the EU, but also within the EU through its relations with key Member States (Leonard and Popescu 2007, 16). For many Member States, the gas crisis between Russia and Ukraine of January 2006 was a wake-up call, as it illustrated the vulnerabilities in the EU's external energy dimension (Geden, Clémence and Maurer 2006, 9). Today, Russia sets the agenda and has gained power as a consequence of soaring oil and gas prices (Leonard and Popescu 2007, 7). The heavy increase in oil prices also affected gas prices for the supplies to Europe, as the gas prices paid for Russian gas is calculated from a formula based on the price of oil (Pirani, Stern and Yafimava 2009, 7).

As Geden, Clémence and Maurer point out, the increased dependence on Russian imports combined with increased supplies from state-owned companies, have caused the EU Member States to seek common solutions (2006, 2). Despite this trend, it has been difficult for Member States give up sovereignty on the matter and transfer competence to the EU (Geden, Clémence and Maurer 2006, 3-4). The focus on a more coordinated security of supply policy is a consequence of the goal to ensure energy security, which in today's environment cannot be ensured, only through the internal market (Geden, Clémence and Maurer 2006, 9).

6.4 The Return of Russia and the Effects on the EU Actors

As the return of Russia on the international scene may have been a contributing factor to the Russo-Ukrainian gas conflict, it becomes interesting to analyze the effects on the EU actors and their approach to energy security. The return of Russia may be seen as an external mechanism, which has affected the EU Member States. First of all, the return of Russia illustrates the general trend that oil and gas reserves are located outside the OECD-countries and the wider changes in the world's energy markets, which are more favorable to producer

states. The return of Russia confirms the trend of the changing energy markets in the 2000s, as the producer states are able to take out economic rents, as outlined in the “New World of Oil” chapter.

Secondly, the effect of the return of Russia is that it has highlighted the different approaches to the organization of the energy sector. Russia’s approach is based on strong state involvement, while EU’s approach is based on interests of interdependence, liberalization and cooperation (Bilgin 2011, 120). Due to the important role of Russia in the European energy mix, many Member States have to deal with Russia. One of the challenges that the EU faces, and which the Union has realized with the return of Russia, is the difference between the liberalization paradigm of the EU and the state-centric strategy of Russia (Bilgin 2011, 119). As gas contracts still are based on long-term agreements, between individual Member States and Russia, the return of Russia and its strong state involvement, makes it stronger vis-à-vis Member States in these negotiations.

Another important effect, is that, during the gas conflict, many actors were taken by surprise by the willingness of Russia and Gazprom to risk their reputation as stable suppliers to European consumers (Pirani, Stern and Yafimava 2009, 4). Regardless of being an economic or political motivated conflict, the Russo-Ukrainian gas conflict challenged the reputation of Russia as a stable energy partner. For many EU actors, the Russo-Ukrainian gas conflict served as a wake-up call. As Umbach (2010, 2006) points out, the return of Russia and the gas conflict with Ukraine have challenged EU’s assumptions about energy and energy markets. Traditionally, energy has been interpreted more as an economic good than a strategic one, private utility companies have been used to achieve energy security and Russia has been seen as a stable supplier (Umbach 2010, 1230; 2006, 64). It is likely that economic interests were more prevalent during the 1990s, which is logical when one takes into the consideration that the oil and gas markets made it possible for the EU to take out economic rents. Because of the recurring supply disruptions, the strategic dimension and the security of supply aspect have become more relevant. This means that geopolitical interests to a greater extent dominate the considerations of the Member States. For the EU, the concept of security of supply is a more important concept in the 2000s compared to the

1990s, much because of the supply disruptions caused by the Russo-Ukrainian gas conflict. The increased awareness of value coordination may be a direct consequence of the fact that the EU has to deal with a strong supplier, Russia, which has based its energy policy on strong state involvement. Member States have started to recognize the important link between security of supply and energy security, much because of the increased involvement of state into energy markets, which they are facing in the Russian case (Geden, Clémence and Maurer 2006, 10). Despite increased attention on security of supply, both at the EU level and in the Member States, there are diverging interests regarding Russia, and the conflict may have reinforced these diverging interests (Geden, Clémence and Maurer 2006, 18).

6.4.1 European Commission

Three months after the first serious disruption in the Russo-Ukrainian gas conflict, in 2006, the European Commission published the Green Paper, *A European Strategy for Sustainable, Competitive and Secure Energy*. In this paper, the Commission admits that the EU has entered a new energy area (COM 2006, 3). To strengthen energy security, the Commission suggests a common external security of supply policy (COM 2006, 14-17). This paper, which argued to speak with one voice, was welcomed by Member States, as these are to a greater extent facing the same problems, which are high prices for oil and increased dependence on Russian gas (Geden, Clémence and Maurer 2006, 14).

6.4.2 Poland

One of the countries that have a more negative approach towards Russian energy supply, is Poland. Contrary to the Commission, Poland has held a more political approach to the Russo-Ukrainian gas conflict. One explanatory factor is its geopolitical position between Russia and Germany, which makes the country more sensitive to Russian expansionism (Heinrich 2007, 22). Two examples that symbolize this difficult relationship, are Poland's negative attitude towards the Nord Stream gas pipeline and the use of "militaristic rhetoric" during the Russo-Ukrainian gas crisis of 2006 (Heinrich 2007, 85). Poland also blocked the new

initiatives for partnership agreements between the EU and Russia after the crisis of 2006 (Heinrich 2007, 85).

As mentioned in the previous chapter, the strategic dimension is more prevalent in Poland's definition of energy security. Miller argues that over the last years, there has been increased divergence in the interests of the CEE countries with regard to energy security and the dependence on Russian gas (2008, 37). This is what he refers to as the "energy security schism", which involves the different interpretation of energy security among the CEE states (Miller 2008, 37). Thus the Russo-Ukrainian gas conflict may have reinforced the strategic dimension in Poland's definition of energy security. In this way, Poland may have become even more negative towards the Russian gas supplies, as a consequence of the Russo-Ukrainian gas conflict. Because of this, security of supply has become an even more important topic for Poland, as a consequence of the conflict.

6.4.3 Germany

Germany and Russia have had a strong bilateral energy relationship. For Germany, it has been important to develop the bilateral relationship with Russia. As Westphal (2008, 93) argues, this might have bypassed the EU-Russian dialogue. The relationship is based on economic cooperation and trade, and Germany have had a tendency to favour economics over politics (Westphal 2008). The strong bilateral relationship in the gas markets can be exemplified by the Nord Stream project. During Chancellor Schröder's time in office there was a close relationship between Germany and Russia, also in energy relations, much due to his personal relationship with President Putin (Westphal 2008, 105).

For Germany, the Russo-Ukrainian gas conflict was a wake-up call, and the conflict has challenged the view of Russia as a stable energy supplier. Furthermore, the election of Merkel may also have caused a more balanced view on Russia. Immediately after the conflict of 2006, Chancellor Merkel saw the need for Germany to draft a "national energy strategy", with increased focus on security of supply, as a consequence of the supply disruption (Benoit 2006; Stern 2006b, 16). In this way, the concept of security of supply based on foreign policy,

was not emphasized until the Russo-Ukrainian crisis of 2006 (Geden, Clémence and Maurer 2006; Umbach 2006, 64-65).

6.4.4 Other Member States

Many of the new Member States are also the ones that argue for a smaller market share of Russian gas in European markets, like for example Poland, Lithuania, Estonia, Romania and the Czech Republic (Miller 2008, 15). Relations between Poland, Lithuania and Latvia on the one side, and Russia on the other, became more complicated during the Nord Stream project, as the former countries asked the EU for help to rather build a pipeline network through their territories (Heinrich 2007, 45). There has been an increased drive towards a more coordinated external energy policy. UK, France, several Central European states and the Baltic states have argued for a single negotiator with external suppliers of energy, mostly because of Russia (Finon and Locatelli 2008, 423-424). The drive to focus more on security of supply policy has been reinforced by the return of Russia and the gas conflict between Russia and Ukraine. Especially for the Baltic states and the CEE- countries, there has been an increased focus on the geopolitical dimension of energy. Thus also security of supply has become more important, as they see dependence on Russian gas as a threat to their energy security.

6.5 Conclusion: The Wake-Up Call

During the 1990s, Russia was of limited importance. Much because of the challenges it faced during this decade. However, the return of Russia and the Eastern enlargement have caused new dynamics in EU-Russian relations. Russia's backing of Gazprom during the Russo-Ukrainian gas conflict has reinforced the focus on security of supply in the new Member States, notably in Poland and Lithuania. The conflict retriggered geopolitical considerations, which historically, have played a major role in these countries. The importance of geopolitical considerations is the reason to why they want to limit the dependence on Russian gas. For the old Member States, the resurgence of Russia and its position in the gas conflict has served as a "wake-up call". Despite this, the preferences on Russia still vary greatly, which is best illustrated by the divergence in interests of

Germany and Poland. The former has a strategic partnership and values economic cooperation, while the latter has a negative approach based on geopolitical interests. This divergence continues to be a hindrance to integration of a common EU energy policy. Lastly, the European Commission has had an economic interpretation of the conflict, which considerably deviates from Poland's view of the conflict.

7. Gazprom – an Energy Giant in the Making?

7.1 A Solid Track Record

Gazprom was established after the Soviet era. The Russian state is the majority owner, and the company pays taxes equal to 15% of the Russian state budget (Yergin 2011a, 335). The revenues from the company are an important contributor to the Russian state budget. Historically, Russia and Gazprom have had a solid track record of expansion of deliveries, and have been able to increase the deliveries from 20 bcm per year in 1977, to 40 bcm per year in 1990 to 100 bcm per year in 1995, 140 bcm in 2003 and 157 bcm for 2011 (Bilgin 2011, 120; Gazprom 2012a, 74)⁵.

Gas exports to Europe have gone through pipelines. For Russia and Gazprom there are two important aspects in this regard (Stern 2005, 109). Central Asian exports must pass through Russia, which makes Gazprom having control of supplies, and historically the disruptions caused by inability to pay, of customers like Ukraine and Belarus, have been important for why Gazprom has aimed for ownership in the transit networks (Stern 2005, 67). Since the break-up of the Soviet Union, Gazprom has aimed for diversification away from Ukraine, as the country was not longer a part of the Soviet Union and the energy relations among the actors have been challenging (Stern 2005, 97).

7.2 Gazprom's Global Ambitions

“We would like to transform our company from being the world's leading gas company into a world leading energy company”, Alexander Medvedev, the deputy chairman stated in an interview in December 2005 (Moore 2005). Gazprom has, based on its own figures for 2011, 15% of the world's gas production and 18 % of the proven reserves (Gazprom 2012a, 15). In the middle of 2008, the stock market capitalization of Gazprom was \$300 billion, which made it the third largest company in the world, based on this measure (Yergin 2011a, 335). The goal of Gazprom is to become a leading energy company, and

⁵ See appendix 1, figure 4, for map of Gazprom's exports to Europe.

move away from being a Russian gas utility. This goal can be illustrated by the strategic vision in their annual report for 2011:

“OAO Gazprom’s strategic goal is to establish itself as a leader among global energy companies by diversifying sales markets, ensuring reliable supplies, increasing operating efficiency and using scientific and technical potential” (Gazprom 2012a, 12)

In addition, Gazprom has tried to move into the downstream sector in Europe. This can be illustrated by the establishment of “trading houses” throughout Europe, through the 1990s (Stern 2005, 112). The new millennium also meant the introduction of a stronger Gazprom, along the lines of the general trend in the energy markets, with strong, state-owned oil and gas companies. One aspect in this regard, was the change in strategy towards the CIS-countries. In the 2000s the strategy of Gazprom has been to secure long-term contractual relationships with national companies. The reasons to the change in strategy, are the following:

- reduce the role of intermediaries
- collect payment for debt and non-payment
- move away from subsidized prices
- reinforce Russian foreign policies in the countries (Stern 2005, 106)

While the 1990s was characterized by disengagement in the trade with the CIS-countries, the beginnings of the 2000s was one of reengagement. Jonathan Stern (2005) points to several reasons to why Gazprom took back the trade with the CIS-countries in the beginnings of the 2000s. This change in strategy can be attributed to the arrival of the new Putin administration and the change of the Gazprom management in 2001, which introduced goals that were closer to that of the government (Stern 2005, 105). Furthermore, the change in Gazprom’s supply position has made imports of Central Asian gas more important, while the CIS-countries have experienced economic growth (Stern 2005, 105). In this way, the CIS-countries have become more attractive as profitable customers.

7.3 Challenging Transit Relations

One of the challenges for Gazprom and its European customers, has been the problems experienced with transit countries, such as Ukraine (Stern 2005, 141).

Stern argues that the crisis of 2006 marked a shift in strategy from Gazprom, where the company aimed for increase in the profitability of CIS-customers (Stern 2006a, 17). In 2006, as part of their renewed strategy, Gazprom required that the prices which Ukraine paid for gas should be raised to European levels, from \$50-80/mcm to \$160-230/mcm (Stern 2006b, 6). This price increase was backed by the Russian government and president Putin stated that if Ukraine agreed to pay the price, the increase could in the second quarter of 2006 (Stern 2006b, 7; BBC 2005b). The political leaders on both sides were involved to find a solution to the crisis, and Putin was ready to give Ukraine the sufficient loans to finance the transfer to market prices (BBC 2005a).

Because of the troubles with the transit countries, Gazprom has tried to gain ownership in the Ukrainian transit network, but this has failed, which has caused Russia to focus on alternative pipelines projects, that shall avoid Ukraine (Pirani 2009, 109). This can support the argument that Ukraine is perceived as a difficult transit country and that gas reductions have been used to (i) to obtain ownership in the Ukrainian transit network, to control the necessary resources, (ii) to get Ukraine to pay for obtained debt due to unpaid gas bills, to secure income during the financial crisis and (iii) to increase Ukraine's gas prices closer to the European prices, to increase Russia's benefits from the dependency. There has been a change in Gazprom's strategy through the 2000s and the strong state involvement in the company, makes it difficult to completely set aside political motivations. Many European actors were taken by surprise by Gazprom's willingness to use gas reductions as a tool to manage the difficult transit relations with Ukraine. The changes in Gazprom's strategy, its global ambitions, the close relationship with the Russian state and the willingness to put strong measures behind the his strategy, have challenged the assumptions of EU and its Member States. In many ways, the emergence of Gazprom as a dominant gas company illustrates the renewed strength of Russia.

7. 4 Gazprom's Global Ambitions and the Effects on the EU Actors

7.4.1 The European Commission

The Commission continued to have an economic approach to the conflict, and stated that it was a purely commercial dispute between Naftogaz and Gazprom.

This approach is strongly evident in *The January 2009 Gas Supply Disruption to the EU: An Assessment*, where it states the following: “Although the disruption was a commercial matter between Gazprom of Russia and Naftogaz of Ukraine (...)” (SEC 2009, 2). After the conflict of 2009 came a new directive regarding security of supply of gas, however in this directive, a lot of discretion is still handed to the Member States (EU 2010). This shows that it is an increased focus on security of supply, but that the Member States are unwilling transfer competencies to the EU Commission.

7.4.2 *The Member States*

The gas disruptions of 2006 and onwards have made the EU and its Member States open their eyes. First of all, the most important consequence of the Russo-Ukrainian gas conflict has been that the reputation of Gazprom as a stable supplier has been challenged, maybe irreparably. Several EU actors were been taken by surprise by Gazprom’s willingness to use gas reductions as a tool in dealing with a difficult transit partner. As Yergin argues in his article, diversification is the most important tool in ensuring energy security (Yergin 2006). This involves diversification in suppliers, transit countries and fuels. The gas conflict between Russia and Ukraine, was a lesson to learn for the EU, as it illustrated that several of the Member States are sensitive to supply disruptions, due to overly dependency on one supplier, Gazprom and one transit country, Ukraine. Thus the change in strategy of Gazprom towards the CIS-countries with its goal to increase the profits of these markets, combined with the willingness to use strong measures to achieve this, may have been a contributing factor to the increased focus on security of supply in the EU.

The EU and its Member States have, to a great extent, been stuck to an economic definition of energy, and not put as much emphasis on the strategic dimension (Umbach 2010, 1230; 2006, 64). This is particularly true for many of the old Member States. Contrary, Russia, with its strong links to Gazprom, has to a greater extent operated under the interpretation of energy as a strategic resource, where resource nationalism has been important to build up the Russian energy industry (Bilgin 2011, 120; Godzimirski 2009, 178-179). The crisis of 2009

illustrated how the Russian government and Gazprom work together, as the strategic directions came from Putin (Pirani, Stern and Yafimava 2009, 31). In this regard, Gazprom's monopoly plays a key role. Thus there is a mismatch of assumptions and as well interests. To let Russia access WTO, the EU wants Russia to reform its energy markets and make them more liberalized. However, this is unlikely, because, as Aalto and Westphal (2008, 13) argue, breaking up Gazprom's monopoly would remove the possibility for the Russian government to use it as a policy tool. The Union fears an increased mismatch between the liberalization paradigm of the Union and the resource nationalism of Russia (Bilgin 2011, 119). Furthermore, the economic importance of Gazprom, and also its strategic and political importance, make the Russian state unwilling to liberalize the gas sector (Bilgin 2011, 121). There is a natural clash of interests between the EU and Gazprom. The EU is import- dependent and wants to ensure security of supply, while Gazprom, which is export- dependent wants to ensure security of demand. As Stern points out, the change in commercial strategy towards the CIS-countries may cause other customers to become as profitable as the European customers (Stern 2006b, 17). In such a case, the scenario may become that rather than Europe assessing the dependence on Russian gas, Gazprom may find more profitable customers closer to home (Stern 2006b, 17).

Gazprom has been trying to invest in European market, based on its goal to have a stronger presence in the European market, although the company has experienced modest success (Pirani, Stern and Yafimava 2010, 29). This can be called Gazprom's downstream diversification, where Gazprom is moving into EU Member States to take part in the liberalization and privatization of the markets (Finon and Locatelli 2008, 434-435). This have caused opposition in the EU Member States, as Gazprom is increasing its presence and market power in European countries (Finon and Locatelli 2008, 434-436; Pirani, Stern and Yafimava 2010, 29). One direct effect of this, has been the aim for EU actors to limit the dominance of Gazprom in the European market, by the "Gazprom clause", which involves that companies from third party countries, had to operate under the same rules as EU companies (EurActiv 2007b).

Furthermore, Gazprom has been blamed for a divide-and-rule-game, in the sense that it wants to discuss contracts with each, individual Member States and the relevant companies. Gazprom continues to prefer to long-term gas contracts (Finon and Locatelli 2008). As these long-term contracts continue to dominate negotiations, these may make it easier for Gazprom to apply its divide-and-rule game. One example of this divide-and-rule game, may be the Nord Stream pipeline. This pipeline makes Russia and Gazprom less dependent on transit countries like Ukraine and Poland. For Poland, as a transit country for Russian gas, the Nord-Stream pipeline has been seen as a threat to the country's energy security, as it fears that Gazprom can pressure for higher prices and transit fees (Westphal 2008, 109). To illustrate the Polish opposition to this pipeline, it was compared to the Molotov-Ribbentrop pact, agreed upon at the eve of the Second World War (Westphal 2008, 113). This illustrates how Gazprom, as a supplier, has different interests than Poland, as an importer, and how the former tries to diversify away from the latter.

7.5 Conclusion: The Turning Point

The Russo-Ukrainian gas conflict showed Gazprom's new strategy towards the CIS-countries. The most important part of this strategy was the drive to increase the profitability of those markets. In this regard, the conflict served as a turning point. The most important effect of the conflict was that Gazprom showed the willingness to go through with gas reductions and defend their position. The willingness to defend their position so strongly caused several EU actors to question the dominant role of Gazprom in EU's energy mix. Diversification away from Gazprom gas became a theme, and caused a reinforced focus on security of supply in the EU. The conflict and the strong relationship between the Russian state and Gazprom have illustrated a mismatch in interests between the EU countries and Russia and Gazprom. In many ways, the strengthened role of Gazprom, its close links to the Russian state, and its willingness to defend its interests, characterize the general trend in world's energy markets, with the shift in the balance of power towards the producing states and the NOCs. Had the ties between the Russian government and Gazprom been weaker, it is questionable if the conflict would have had the same effect on Russian's reputation as a stable energy supplier.

8. The European Oil and Gas Industry

8.1 The Challenge by the New Seven Sisters

After the Second World War, the Anglo-Saxon oil companies dominated the oil market. The Italian visionary, Enrico Mattei, wanted to establish the Italian oil company ENI among those companies, and in his challenge of the cartel of Anglo-Saxon oil companies, he coined the term, “The Seven Sisters” (ENI 2012; Yergin 2008, 656). These companies dominated the oil market in the post-war period, but the developments of the oil market in the 1990s caused a consolidation in the industry. After this consolidation, at the end of the 1990s, the “The Seven Sisters” - through mergers and acquisitions - had become the “Four Supermajors” of BP, Exxon, Chevron and Royal Dutch Shell. These companies, together with the European utility industry are facing new challenges as a consequence of the changes in the energy markets.

There are two trends that are worth explaining with regard to the European oil and gas industry. Firstly, the external changes in the oil and gas markets, which affect the European oil and gas companies. The theme of *The Price* is the power struggle over oil resources and that the balance of power shifts between consumers and producers, and that now there has been a shift towards the producing states (Yergin 2008, 1032-1033). The start of the 2000s has also seen a shift, not only from the oil consuming states to the producing states, but also from the western supermajors, to the “New Seven Sisters”, which is a term launched by Carola Hoyos (2007)⁶. These companies are the most dominant outside the OECD-area, and the trend is that they are state owned (Yergin 2008, 1032; Hoyos 2007). NOC’s are to a greater extent dominating the world’s oil and gas markets today, compared to earlier. The European oil and gas industry may feel challenged by “The New Seven Sisters”, and in particular by Gazprom which has pushed into the downstream market of Europe (Hoyos 2007). Gazprom has been accused for operating in a divide and rule manner against its European counterparts, and has

⁶ “The New Seven Sisters” are Saudi Aramco, Gazprom, China National Petroleum Corporation (CNPC), National Iranian Oil Company (NIOC), Petroleum of Venezuela, Petrobras and Petronas.

officially stated that it wants to become an international energy company (Gazprom 2012a). The challenge is that the European companies have to operate in a liberalized climate based on cooperation and interdependence, while Gazprom is operating under the paradigm of “resource nationalism”. In this way, one can argue that the European companies are competing under different rules of the game, compared to Gazprom and the NOCs.

8.2 Internal Changes in the Industry

Additionally, there have been internal changes, as a consequence of the liberalization paradigm of the Union. One example of the most liberalized market, is the UK energy sector, which was early liberalized, which have smaller players and is a more competitive market (van der Linde, de Jong and van den Heuvel 2010, 18). This liberalized market may explain why none of the big gas utilities are from the UK. After the second gas directive, the European gas utilities started to face new realities. Stern and Rogers (2011) point to the following realities:

- Introduction of competition meant that national monopolies would lose market share
- Challenging to compete with electricity companies as these were larger
- Transmission and distribution would still be regulated monopolies, but could be less profitable than before (Stern and Rogers 2011, 19).

The consequence of the increased competition was that it lead to mergers and acquisitions, which caused Europe to have large integrated utility companies which own assets all across Europe (Stern and Rogers 2011, 19). In this way, the European gas companies face both internal and external competition. Among these utility companies are E.ON, RWE, GdFSuez, ENI, Enel.

Howarth argues that there has been stalled liberalization in European energy markets, and that the differentiation paradigm continued with the compromise of the three options in the unbundling directive (2009, 135). Opponents to unbundling argued that large national companies were needed to balance the Russian gas giant Gazprom and that a debate on the ownership structure was less relevant (Howarth 2009, 135-136). Faced by the competition of NOCs, there have been disagreements on unbundling, and some have argued that it is necessary to

have large integrated energy companies to ensure security of supply (EurActiv 2009a). Thus, the large European oil and gas companies fear the involvement of Gazprom and the challenge of the “New Seven Sisters”, while they at the same time face the internal drive for increased competition and liberalization.

8.3 In the Event of a Crisis

As Umbach (2010, 1229) argues, historically, at least in the old Member States, energy policies have been left to the industry, dominated by economic considerations. One example can be Germany, where the aspect of security of supply has been left to the utility companies (Umbach 2006, 64). In such a perspective, it is much up to the gas utility companies to ensure that their customers are supplied with sufficient quantities of gas, at affordable prices. This can be called the utility-approach, where the utilities are handed the responsibilities to ensure security of supply.

One can also identify the importance of the industry in the case of supply disruptions. This is outlined in the directive of Security of Gas Supply, which was created so that the Member States within the EU can create common policies towards ensuring security of supply (de Jong, Wouters and Sterkx 2009, 9). In the case of sudden disruption in the supply of gas, the Gas Coordination Group shall coordinate the member states into taking the necessary measures to handle the disruption (EC 2004, L127/95). As a part of this process, the Gas Coordination Group shall (i) involve the industry for possible solutions (ii) look at the possible measures taken by the member states and (iii) the European Commission may take action (EC 2004, 9; de Jong, Wouters and Sterkx 2009, L127/95). Thus, the gas industry becomes the first line of defense.

In the Commission report of the gas crisis of 2009, the conclusion was also that the industry showed willingness to deal with the problem (SEC 2009, 10-11). The two first weeks, the European gas and utility companies had only monitored the development of the conflict, but this changed in the latter part of the conflict (Pirani, Stern and Yafimava 2009, 47). Observers from the EU and experts from E.ON Ruhrgas, ENI, Gaz de France/Suez, WINGAS and Panrusgaz contributed to

monitor the gas flows (Gazprom 2009b). Despite this willingness, lack of information, shortcomings in the internal supply network within the EU and difference in gas standards were some of the additional challenges to the industry (SEC 2009, 10-11).

During the crisis, when the monitoring group realized there was no gas flow to monitor, European gas companies were important for reaching an agreement, by pushing the involved parties to reach an agreement. In a meeting on January 15, CEO of Gazprom, Alexei Miller, Prime Minister Putin and ENI CEO Scaroni, there were suggestions on how to end the crisis, by inviting the European gas majors to contribute with the financial backing to restart the flow of gas to European customers (Gazprom 2009c). In this way, the consortium of European gas companies, which contributed by financial backing to restart the transit network, most likely helped to speed up the process (Pirani, Stern and Yafimava 2009, 47-48). In another meeting, during the crisis, Scaroni and Miller discussed the need to diversify away from Ukraine, and how the South Stream line could be an important measure in this regard (Gazprom 2009a).

8.4 The Effects of The Conflict on the EU Actors

8.4.1 The European Commission

Pirani, Stern and Yafimava argue that the European Commission played a minor role in finding a solution, thus the gas industry and national governments were left to themselves to deal with the crisis (2009, 49). De Jong, Wouters and Sterkx support this view, arguing that the European Commission was underperforming with regard to their given tasks (de Jong, Wouters and Sterkx 2009, 27). One of the effects of the conflict, was that it illustrated the European Commission's inability to provide the necessary support in the most serious case of disruption of gas supplies in the history of EU. According to the Gas Directive, the Commission shall take action together with the Gas Coordination Group and the Member States during a crisis. Its minor role in the conflict can be explained by the fact that the Commission:

- "had little technical capability and needs to rely on the industry for monitoring

capability;

- had little political credibility or political leverage with either Ukraine or Russia;
- was unable or unwilling to provide the financial resources to resolve the crisis”
(Pirani, Stern and Yafimava 2009, 49)

This further illustrates that it is much up to the Member States to ensure energy security, also in the case with a serious supply disruption. Contrary to the Commission, European gas companies were important for reaching an agreement, by pushing the involved parties to reach an agreement.

8.4.2 The Utility Industry

One direct consequence of the challenge by the NOCs is that there are fewer opportunities left for the OECD-based companies. In an environment where resource nationalism is more dominant, it becomes more challenging for the European companies to make investments. This can be illustrated by BP and Shell’s investments in the Sakhalin II and Kovykta fields, which caused more challenging relations with the Russian government (Leonard and Popescu 2007, 42). This illustrates how the state-owned companies are operating under different rules than the European ones, which makes it more challenging for the latter to make the necessary investments. As van der Linde, de Jong and van den Heuvel (2010, 46) argue, the international trend of tightened energy markets have caused European energy companies to focus more security of supply perspective, than competition concerns. In this way there has been a change in strategy of the European companies to ensure sufficient supplies in an environment where there is increased competition for oil and gas resources. The drive for competition and liberalization during the 1990s may have neglected the focus on security of supply. However, the changes in the market, the revival of Russia and conflict between Russia and Ukraine, may have caused a return of the focus on security of supply in the utility companies.

Helm (2007, 38) argues that politics have become more important to ensure energy security. The effect of the Russo-Ukrainian gas conflict may explain this return of politics, as there is a closer coupling between security of supply and politics. This can be illustrated by the symbiotic relationship between Gazprom and Russia during the Russo-Ukrainian gas conflict, where Putin was important in

influencing the strategic actions made by Gazprom. In such an environment it can be difficult for companies alone to ensure security of supply. The Member States and the EU have become more active in ensuring security of supply, and government leaders have involved themselves to negotiate bilateral contracts (van der Linde, de Jong and van den Heuvel 2010, 26). One example in this regard, may be the involvement of Schröder and Putin, as they involved themselves to develop the Nord Stream pipeline project. The resurgence of geopolitics may have reduced the relevance of traditional economic interests and illustrated that energy is not a purely economic good. In many ways the 1990s was the decade where the liberalization paradigm ruled, which made it easier to let private companies freely operate to ensure energy security. However, the return of geopolitics makes it more difficult for the market and European companies alone to ensure energy security. The return of politics into the energy sector can also make it more challenging to continue the liberalization of EU's energy markets, and further integration within the sector, as Member States may want to be in control of the sector.

The gas deliveries from Gazprom to the European customers are negotiated in long-term contracts. In this way the buyers oblige themselves to import a minimum amount, in take-or-pay contracts. Many of the largest European gas utilities have renewed their contracts with Gazprom. GdF Suez has renewed its gas contract until 2030, E.ON until 2035, Wintershall until 2030, ENI until 2035 (Gazprom 2012b). As van der Linde, de Jong and van den Heuvel (2010, 35) point out; "Small players generally have fewer instruments to secure supplies than large players". In the negotiations of such long-term contracts, it is quite logical that size matters. Gazprom's new strategy in the run-up to the Russo-Ukrainian gas conflict, and its willingness to put harsh measures behind this strategy, may have made Member States less willing to break up their national energy champions. This effect was seen in the unbundling directive; several Member States opposed the unbundling directive to break up the utility companies. Therefore, the effect may be that there is a reinforced will for the Member States to keep the national champions to ensure security of supply as a measure to balance the power of Gazprom.

8.5 Conclusion: A New Reality and the Return of Politics

First of all, the Russo-Ukrainian gas conflict has caused the reinforced the return of politics. The increased relevance of geopolitical considerations has downplayed traditional economic interests, which have caused European governments to take a more active role. This can be illustrated by the will to keep the national champions to balance the power of Gazprom, as this is seen as necessary in the negotiations of the long-term contracts. Secondly, the emergence of the “New Seven Sisters” has increased the competition for energy resources which have caused a change in strategy of the European utility companies. This change in strategy involves the change in focus from the aspect of competitiveness to security of supply. In many ways, the Russo-Ukrainian gas conflict has contributed to challenge the assumptions of both Member States and the European utility companies. Energy is not a purely economic good and cannot solely be ensured by private companies.

9. Conclusion

In chapter 4, the focus was put on the “New World of Oil”, and how this launched the focus on security of supply in the EU. The Commission, the governments in the UK, France and Germany all put focus on security of supply as a consequence of the changes in the oil market. This suggests that the trend was already evident before the disruptions of the Russo-Ukrainian gas conflict. Due to the economic and geopolitical changes in the oil market, security of supply was put on the agenda as it was a more relevant concept in the 2000s than in the 1990s. The new oil market challenged the interests of the Member States, as they could no longer extract economic rents from the market, as in the 1990s. Furthermore, the geopolitical tensions made the strategic element of energy more visible. In this way, the external factors made security of supply a more important concept in the “New World of Oil”, which caused EU actors to focus more on this concept.

In chapter 5, the Eastern enlargement was analyzed. Firstly, it further brought security on the supply on the agenda, because many of the new Member States are more dependent on Russian gas. Several of these Member States, like for example Poland and Lithuania want to reduce the market share of Russian gas. One explanation to this, is that these Member States to a greater extent base their interests on geopolitical considerations. Secondly, the inclusion also caused the EU to become more heterogeneous. The preferences of the Member States diverge to a greater extent after the enlargement, as the means on how to ensure energy security differ among the Member States. In Germany, economic interests have dominated the preference formation, and the private companies have been important to ensure security of supply. Germany has developed a strong partnership with Russia regarding gas supplies. In Poland, geopolitical considerations dominate. While the enlargement put security of supply on the agenda, it also caused a more heterogeneous EU.

In chapter 6, the effect of the return of Russia has been analyzed. This return served as a wake-up call for several Member States. Historically, Russia has had the reputation as a reliable stable energy supplier, but this view was challenged by the return of Russia and the gas conflict with Ukraine. By this wake-up call, the return of Russia and the gas conflict with Ukraine, may have challenged the EU’s

and the old Member States' traditional assumptions on energy, that it is an economic good, that private companies by themselves can ensure energy security and that Russia will continue to be a reliable energy partner. In the new Member States - which have a more negative approach to Russia - the conflict reinforced the focus on security of supply. The reason to this, is that the conflict reinforced latent geopolitical considerations. In this way, through the conflict, security of supply became an even more important concept for many of the new Member States. One can argue that the conflict was a manifestation of the fears of these countries on the role of Russia's role in the EU energy mix. However, even though the conflict was a wake-up call, there is still considerable divergence in the interests between some of the CEE-countries and for example Germany on the role of Russian energy supplies. This divergence still constitutes a hindrance for integration.

In chapter 7, the role of Gazprom was analyzed. The dominant role of Gazprom in the conflict caused European actors to question the company's role in the European energy mix. Through the conflict, Gazprom showed a new strategy to increase the profitability of the CIS-markets, and showed willingness to put strong measures behind this strategy. Through this mechanism, it has been illustrated a mismatch in interests between the liberalization paradigm of the EU and state interventionism in Russia, that is "resource nationalism". This mismatch of interests can partly be explained by the fact that EU is import-dependent, which makes security of supply the relevant concept, while Russia and Gazprom is export-dependent, which makes security of demand the relevant concept. The symbiotic relationship between Russia and Gazprom is part of the wider trend where the state is increasingly involved in the energy sector, where NOCs dominate. This has caused the EU to try to limit the role of third-parties, as illustrated by the "Gazprom clause". The close relationship between the Russian government and Gazprom, has contributed to increase the focus on security of supply, as the reputation of both has been challenged. If the relationship between these two actors had been weaker, it is questionable if the conflict would have had the same impact on their reputation.

In chapter 8, the effect on the European utilities was analyzed. These companies are facing external competition, through the “New Seven Sisters”, which has been manifested by Gazprom. This has caused an increased willingness to keep the national champions to balance Gazprom. In addition, the European utilities are facing internal changes because of privatization and liberalization. As a consequence of these two trends, the gas utilities have changed strategy with an increased focus on how to secure supplies, while the aspect of competitiveness has been - relatively to security of supply - downplayed. In disruption of 2009, it was much up to the industry in Europe to contribute to find an agreement, while the Commission played a minor role in finding a solution. Lastly, the changes in the energy markets combined with the conflict have caused a return to politics, where governments have taken a more active role to ensure security of supply, by the negotiations of bilateral contracts.

Based on the findings in this thesis, the conclusion is that there was already a trend evident, with an increased focus on security of supply before the Russo-Ukrainian gas conflict, as a consequence of the changes in the world’s energy markets. Most likely, there would have been an increased focus on security of supply, even without exposure to the Russo-Ukrainian gas conflict. However, from the empirical findings, it becomes clear that the trend of a shift in approach towards security of supply, was reinforced by the Russo-Ukrainian gas conflict, which strengthens H1.

During the 1990s, the focus on security of supply was absent, much because of a favorable oil market, optimism because of the liberalization paradigm and the general absence of geopolitical tensions. The renewed focus on security of supply is evident at the end of the 1990s, which can be explained by the economic and geopolitical changes the oil market. Therefore, the findings suggest that the Russo-Ukrainian gas conflict did not happen in a vacuum. In many ways it was a part of a wider trend with structural changes in the world’s energy markets, with a surge in prices, geopolitical tensions and increased state involvement. Therefore, the conflict may be considered symptomatic for these structural changes in the market, rather than to be considered as a stand-alone conflict.

These external changes combined with internal changes, like the Eastern enlargement, have made security of supply a more important concept. For many of the old Member States, the conflict served as a wake-up call, while it for several of the CEE- countries, was a manifestation of the geopolitical dimensions of energy security, and that Russia's market share in the European energy mix, should be reduced. The economic assumptions on energy, which had dominated EU's approach during the 1990s, were challenged as a consequence of the conflict, and made EU actors open their eyes, even though the European Commission argued the conflict was purely based on commercial interests.

Therefore there has been a change in EU's approach to energy security, with an increased focus on the concept of security of supply. The Member States see a larger role for a more coordinated approach to security of supply. Thus they can agree on the common goal of ensuring energy security. However, the means on how to ensure it diverge to a considerable degree, much because of the diverging interests on Russia. This is best illustrated by the diverging interests of Germany and Poland. Member States are reluctant to transfer competencies to the EU, because of the strategic dimension of energy, which causes energy policy to still be at the heart of the nation-state. Because security of supply is closely related to foreign policy, individual Member States may favor unilateral agreements with supplier countries, than to have a common external European energy policy. As a theory of integration should also be able to explain the lack of integration, the divergence in preferences on these matters, may, according to LI, be a considerable hindrance to the integration towards common energy policy.

In a climate where geopolitical tensions have claimed a larger role, the EU's overall energy security would be better off with a common energy policy, which included a common security of supply policy. The internal market alone is insufficient to ensure energy security, especially in a world where political and diplomatic skills increasingly are tools that are needed to ensure energy security. A common EU security of supply policy would give the Union a stronger bargaining position in the negotiations with supplier countries and could also make the Union better prepared for future supply disruptions.

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Appendix 1: Figures

Figure 1: Gerring's Typologies of Case Studies

Source: Gerring (2004, 343):

		Temporal Variation	
		No	Yes
Spatial Variation	None (1 unit)	[Logically impossible]	(a) Case study I
	Within-unit	(b) Case study II	(c) Case study III
	Across-unit	(d) Cross-sectional	(e) Time-series cross-sectional
	Across- and within-unit	(f) Hierarchical	(g) Hierarchical time-series; Comparative-historical

Figure 2: de Jong's Three Challenges to EU's Energy Policy

Source: de Jong (2008, 107):

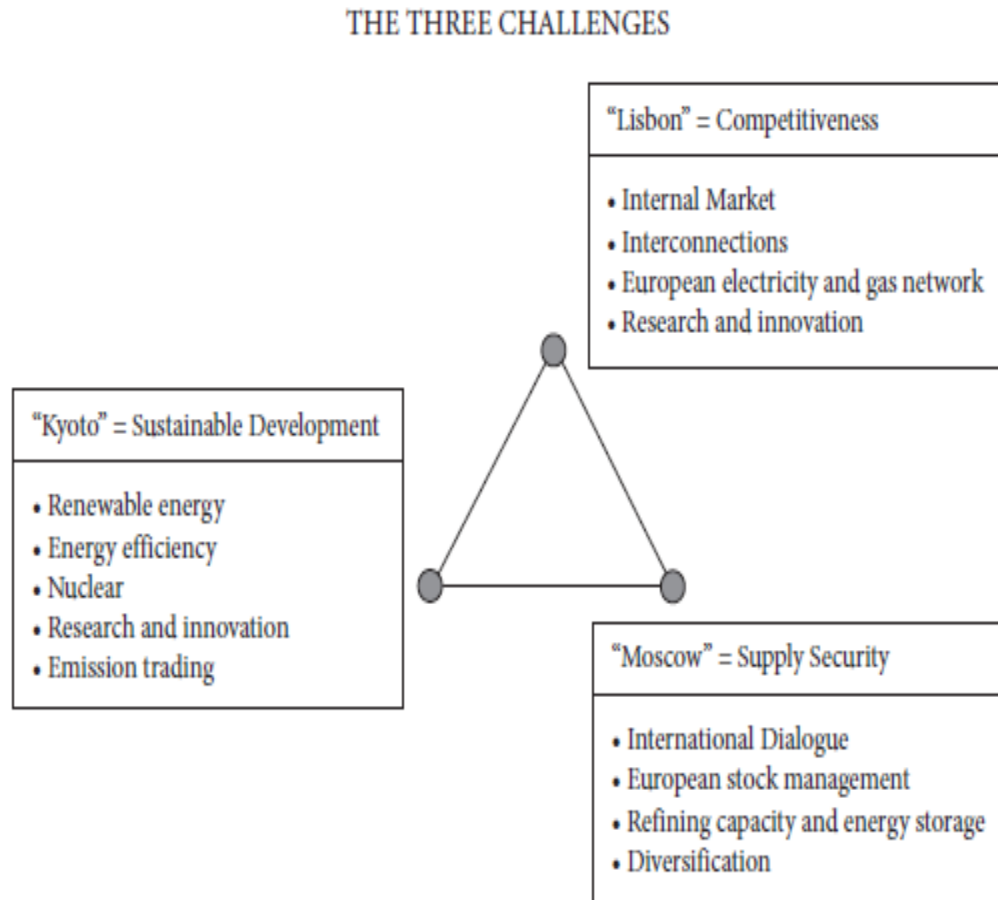


Figure 3: Countries affected by the supply disruption of January 2009.

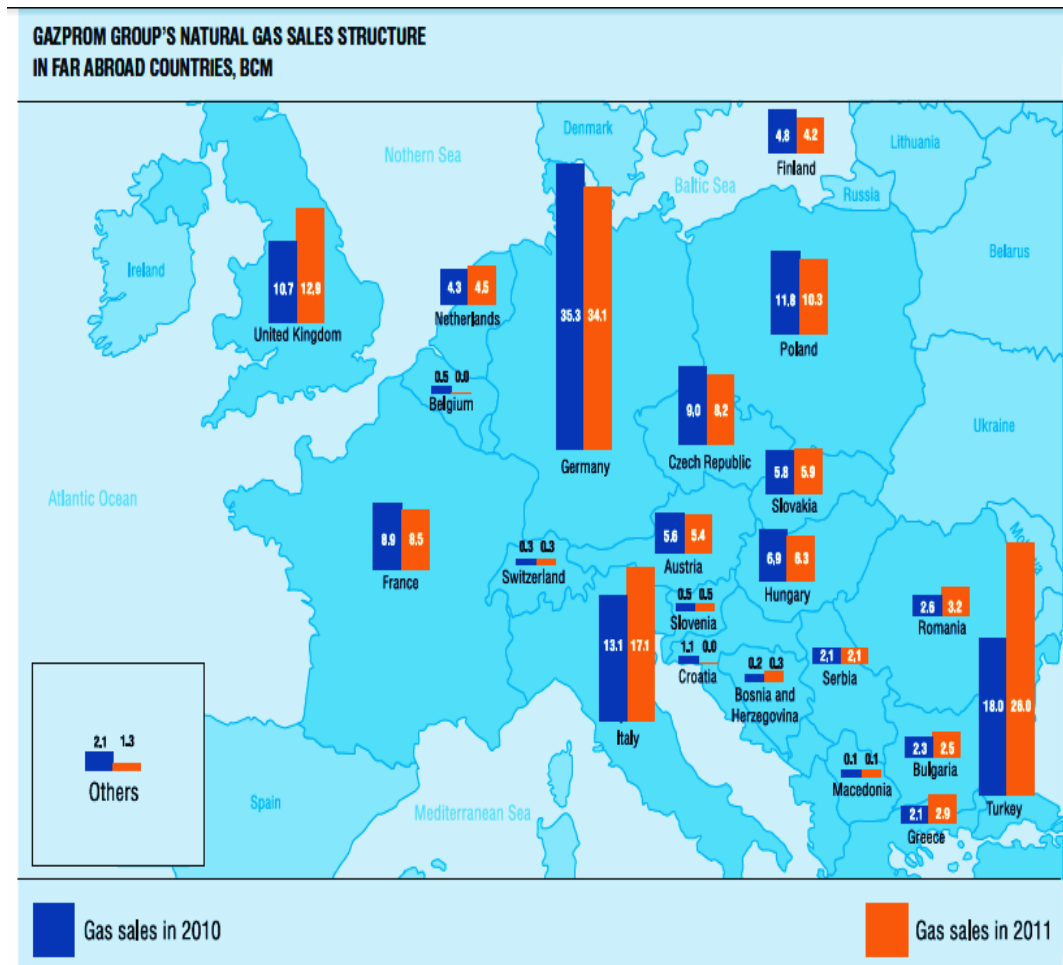
Source: Pirani, Stern and Yafimava (2009, 55-56):

Country	Cut	Diversification	Gas storage	Alternative fuel
Bulgaria	100%	No diversification	Gas storage for 2-3 days, covering 35% of gas demand	Alternative fuel for 20 days
Slovakia	97%	No diversification	Gas storage for several weeks, covering 76% of gas demand	Alternative fuel for one month
Greece	80% BD and TR	Only LNG terminal, fully capable, booked more ships	Only in LNG terminal	One gas power plant switched to oil, sufficient till end of January
Austria	66%	Increased import from Norway and Germany	Gas in storage for several weeks	Yes
Czech Republic	71%	Increased import by 8 mmcm/day from Norway, and via Yamal/Germany	Gas from storage 40 days, 15% increase of domestic production	Not used now, could be coal and oil
Slovenia	50%	Gas from Algeria via Italy, and from Austria but not increased amount	Gas from storage in Austria till Monday then possible decrease of supply by another 20%	Yes
Hungary	45%	Increased gas from Norway by 5%	Gas storage for 45 days	Alternative fuel – crude 90 days, fuel oil 30 days
Poland	33%	Half of the cut covered by Yamal, more gas from Norway	Gas storage for several weeks	Yes
Romania	34%	No diversification	Increased domestic production (60%) and withdrawal from storage	Yes

Germany	60% cut in Southern Germany, 10% total	+20 mmcm receiving from Yamal, more from Norway and Netherlands	Gas storage for several weeks	Not used now
Italy	25%	Increased import from Libya, Norway, and Netherlands	79% full, covers 50% of demand	Not used now
France	15%	Industry covered	80% full	Not used now
Serbia	100%	12% renegotiated with HU	1 mmcm, less than one day, 8% covered by production	3 weeks of fuel oil
Bosnia and Herzegovina	40%	No diversification	No storage	Fuel oil only for 20 days
FYROM	100%	No diversification	No storage	Fuel oil stocks need only for industry
Croatia	40%	Diversification to Italy, but not used, negotiations ongoing	Increased domestic production (43%) and storage withdrawal, 500 mmcm stored	Fuel oil for industry
Moldova (observer)	100%	No diversification	No storage	No alternative

Figure 4: Gazprom Exports in 2010 and 2011, European Market

Source: Gazprom’s yearly report for 2011(Gazprom 2012a, 74):



Appendix 2: List of Abbreviations

Bcm	Billion cubic metres
CEE	Central and Eastern European
CIS	Commonwealth of Independent States
ECSC	European Coal and Steel Community
EU	European Union
GDP	Gross domestic product
IEA	International Energy Agency
LI	Liberal intergovernmentalism
LNG	Liquefied natural gas
Mcm	Thousand cubic metres
NOC	National oil company
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
WTO	World Trade Organization

Appendix 3: Preliminary Thesis Report

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Preliminary Thesis Report
BI Norwegian Business School

Master of Science in Political Economy

EU's Approach to Energy Security in the
Aftermath of the Russo-Ukrainian Gas
Conflict

Exam code and name:

Preliminary Thesis Report – GRA19002

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“The diversification of gas routes and of sources of supply for the Union is essential for improving the security of supply of the Union as a whole and its Member States individually” (EU Regulation 2010: L295/2).

1. 0 Introduction

It has now been three years since the gas conflict between Russia and Ukraine reached its climax. On 7 January, 2009, Russian gas supplies directed for Europe was completely shut off (Pirani et al 2009: 4). The cutoff caused the most serious disruption in gas supplies in the history of the EU (European Commission 2009: 7). Also, three years earlier, in 2006, the gas conflict between Russia and Ukraine caused a major disruption in Russian gas supplies for Europe (Pirani et al 2009: 12). This was the only major disruption in Russian gas supplies for the European market, prior to the disruptions of 2009 (Pirani et al 2009: 12). In the light of the recurring gas conflicts between Ukraine and Russia, the roles of the two as stable energy partners have been questioned. In this preliminary thesis report, I will provide the framework to analyze if there has been a change in EU’s approach to energy security in the aftermath of the gas conflict.

1.1 Research question

When the EU established the Single European Market in 1992, actors hoped this introduction would also cause liberalization and influence of economic principles in the gas markets, thus having the same logic within the gas sector (Andersen and Sitter 2009: 63). Claes argues that, during the 1990s, the focus of the EU was on developing the internal aspects of energy security (2009: 46). The process started in the beginning of the 1990s, which after negotiations, culminated in the gas directive of 1998, where the focus was on liberalization, transmission, distribution and storage of natural gas (Claes 2009:46). In this way, one can argue that the focus of the involved actors was on economic integration, which involved merging national markets into a single European market for gas.

The limitations this approach, from an EU perspective, is that the EU is highly dependent on imports to meet its energy demand. However, this might not be a problem, as long as the supplies are free from any major disruptions. Contrary it

might become problematic when the most important supplier and the most important transit country of gas, are having a conflict which lead to a complete cutoff in the gas supplies.

The goal of the master thesis is to analyze if there has been a change in the EU's approach to energy in the aftermath of the Russo-Ukrainian gas conflict. As of now, much of the focus in the public and among scholars, has been on Russia's motivations for the cutoffs in gas supplies, if Russia constitutes a threat to EU energy security and the immediate effects on the EU member countries. Due to the severity of the crisis of 2009, it would be interesting to see if the conflict has affected EU's approach to energy security, and if it has been a change in EU's concept of energy security in the aftermath of the crisis. Based on this, I have formulated the following research question:

Has the gas conflict between Russia and Ukraine affected EU's approach to energy security, from an economic perspective based on the single market to a security perspective?

One can also use the concept of low and high politics, and ask if the concept has moved from low politics to high politics.

1.2 Hypotheses

Based on this research question, I have made two hypotheses.

Hypothesis 1:

The recurring disruptions following the gas conflict between Russia and Ukraine have the increased importance of the security aspect of energy supply.

If there has been politicization of the concept of energy security it is natural to assume that this will have the following empirical consequences:

- A politicization of the energy concept will most likely lead to increased importance national policies.
- There might be increased fragmentation in national policies, as the politicization of the concept will cause different interpretations.
- Increase in bilateral agreements between member states and potential suppliers.
- States, rather than market actors will be at the forefront in ensuring energy security.

Alternative hypothesis:

The gas conflict between Russia and Ukraine has not affected a change in EU's approach to energy security and the concept is still based on an economic interpretation.

This hypothesis will also have some empirical consequences:

- Continued liberalization of energy markets
- Continued merging of national energy markets into one single market.
- Market actors rather than states will dominate the policies
- More unity, as the energy concept is closer to low politics than to high politics

Thus the focus will be whether the conflict has caused energy security to still be located within a single market type of framework, or if it has moved to be interpreted within "high politics", as a consequence of the recurring gas disruptions.

2.0 Methodological approach

There are several reasons for why this particular conflict is relevant. First of all, Russia is considered to be a energy superpower, and Russia is the most important supplier of gas to Europe, as Russia, in 2008, accounted for 31, 5 % of total gas imports to Europe (Eurostat 2011). Therefore, due to the importance of Russian supplies, it is logical to assume that Russia's actions will also affect EU actors and their approach to energy security. Secondly, the disruption of 2009 was, as mentioned, the most severe in the history of the EU. A disruption at this scale will have huge and immediate negative effects on EU energy security. Thus, due to the severity of the crisis, the role of Russia and Ukraine as energy partners has been questioned, which also may cause a change in EU's approach to energy security. Thirdly, if this conflict represents a new Russian strategy of using gas as a political weapon, the internal market logic may be insufficient to deal with such a problem, as the risks are found outside the union. According to Jonathan Stern, Russia has, before 2009, proven to be a reliable gas supplier (Ringmar 2005:19). However, the gas conflict between Russia and Ukraine has challenged the understanding of Russia as a stable energy supplier, thus this conflict might

illustrate a turning point not only in Russian politics, but also in EU's approach to energy security.

As the goal of this research project is to analyze the EU's approach to energy security in the light of the gas conflict between Russia and Ukraine, I have assumed the following causal relationship:

Gas conflict → politicization of energy security → from single market to differentiated national approaches

The logic behind this causal relationship is that the conflict, due to its severity, might thus have caused a politicization of the concept of energy security, and moved it from "low politics" into "high politics". In this way, other tools become important and there will be an increased divergence in member states' preferences.

In the research work, I will use a qualitative approach, where I will mostly be using textual analysis of news articles, journal articles, books about the topic, EU treaties and directives, statements of relevant actors and national policy directives. It will most likely be an interpretive case study, where theory is to provide analytical tools to explain the mechanisms at work and to help explaining if there has been a change in EU's energy security (Vennesson 2008:226).

3.0 Theoretical Framework: Liberal Intergovernmentalism

As a methodological tool to analyze if there has been a change in the EU's approach to energy security, I will use Liberal Intergovernmentalism. There are several relevant theories that can be applied to analyze these mechanisms, but Liberal Intergovernmentalism, might be the most relevant framework for analyzing the mechanisms in this thesis project.

First of all, Liberal Intergovernmentalism makes two important assumptions about politics. The first one is states are actors and institutions are tools where the states reach their goals by intergovernmental negotiation and bargaining (Moravcsik and Schimmelfennig 2009: 68). The second assumption is that states are rational, which means that states calculate the different alternatives and choose the

alternative that maximizes utility (Moravcsik and Schimmelfennig 2009: 68).

Further it involves a three-step model which involves:

“(1) liberal theory of national preference formation with (2) an intergovernmental model of EU-level bargaining, and (3) a model of institutional choice emphasizing the role of international institutions in providing ‘credible commitments’ for member governments” (Pollack 2010: 20).

When it comes to the national preference formation, these can vary within and between states, both over time and across issues (Moravcsik and Schimmelfennig 2009: 69). Thus the priority of goals may vary within nation states over time, as well as the goals may differ from state to state. Further national preferences are based on “issue-specific” preferences, which means that different interests will dominate depending on the issue at stake (Moravcsik and Schimmelfennig 2009: 70). In economical issues, the preferences will be dependent on the equilibrium within the state, which is decided by the producer interests on the one hand, and taxpayers and the ones that favors regulation, on the other (Moravcsik and Schimmelfennig 2009: 70). In non-economic areas the issues may be dominated by other concerns (Moravcsik and Schimmelfennig 2009: 70).

The theory is also one which includes intergovernmental bargaining. The outcome of bargaining depends on the relative bargaining power of the actors (Moravcsik and Schimmelfennig 2009: 71). Following Liberal Intergovernmentalism, asymmetrical interdependence and information about preferences and agreements play an important role in the bargaining process (Moravcsik and Schimmelfennig 2009: 71). Asymmetrical interdependence is defined as the unevenly distribution of benefits of a special agreement (Moravcsik and Schimmelfennig 2009: 71). Further, this bargaining position is compared to other outside options, like for example unilateral agreements (Moravcsik and Schimmelfennig 2009: 71). From this implies that actors, who have least to gain from cooperation and actors with more information, have a stronger bargaining position (Moravcsik and Schimmelfennig 2009: 71).

The third aspect is the inclusion of institutional choice. Institutions can be the tools of member states to cope with unpredicted and unforeseen challenges (Moravcsik and Schimmelfennig 2009: 72). Institutions contribute to reduce the

transaction costs of continued negotiations on specific issues and ensure credible commitments of the pre-existing bargain (Moravcsik and Schimmelfennig 2009: 72; Pollack 2010: 20).

Even though critics have argued that Liberal Intergovernmentalism cannot be applied in everyday decision-making, Moravcsik and Schimmelfennig argue that this is not the case (Moravcsik and Schimmelfennig 2009: 773-74). Even though they emphasize that the theory is best applied on the big treaty changes, it can still be applied at everyday decisions, because many of the decisions within the EU are taken by consensus or unanimity (Moravcsik and Schimmelfennig 2009: 74).

It is especially the emphasis on states as actors and national preference formation that are most relevant for this thesis. The theory can contribute to explain the logic behind the change where energy moves from being an economic issue to become more politicized. Because of this emphasis, Liberal Intergovernmentalism can contribute to explain the diverging interests among the member states in the energy issue. It can also explain integration and cooperation in the logic of the internal market, but also disintegration, if energy security to a greater extent has been politicized. It is easier to make bargains and make this credible through the institutional mechanisms, when there is convergence in national preferences regarding energy security. Oppositely, there will be more difficult to make such agreements when there is diverging interests and different interpretations of the concept, especially if the concept has entered the sphere of high politics.

Two concepts that can be combined with this framework and be relevant in understanding the divergence in national preferences, are sensitivity and vulnerability. Sensitivity means how fast changes in one country leads to costly effects in another country (Keohane and Nye 1989: 12). Vulnerability is the degree of availability and costliness of other alternatives, which the actor face, after the actor has changed its policy, to adapt to the costs imposed on the actor (Keohane and Nye 1989: 13). Applying these concepts to gas supplies, sensitivity involves disruptions in existing supplies; while vulnerability involves long term gas supplies (Austvik 2009:89). These two concepts may indicate the dependence on Russian gas supplies, which may vary greatly between the member states.

4.0 Relevant literature

4.1 Defining energy security

A broad and widely accepted definition of energy security is sufficient supply of energy at a reasonable price (De Jong et al 2009: 4; Yergin 2006: 70-71; IEA 2011). This definition focuses on the supply side of energy, and it is possible to divide energy security into security of demand and security of supply (Fermann 2009: 24-25). As the focus on of this thesis will be on EU's approach to energy security, it is the security of supply that is most relevant. This can be explained by the fact that EU imports 50% of its energy, and this is forecasted to rise to 65% in 2030, if nothing changes the current trend (Fermann 2009:24). As of 2006, the EU imports about 82% of the oil consumption and 57 % of its gas consumption, and this is likely to rise to 93% of oil consumption and 84% of gas consumption (Fermann 2009:24).

Securing energy supplies is important, because energy – thus also gas – is perceived as a strategic resource (Fermann 2009:11). That is, energy is a precondition for achieving important politico-economic goals. Thus ensuring energy security is necessary to achieve goals within the economy, industry, labor, consumption and also external security (Fermann 2009:11). Already in the build up to the First World War, Winston Churchill, emphasized the importance of ensuring energy supply, to compete with the German navy (Yergin 2006:69).

It is also possible to divide the concept of energy security of supply into short term and long term. Short term risks involve disruptions in supply or the transit of supplies, due to political factors, disasters and extreme weather conditions (Austvik 2009:88). Long term risks to security of supply involve one cannot get access to meet increasing demand, because of economic or political reasons (Austvik 2009: 88).

The additional challenge with ensuring gas security of supply is that the supply is to a large extent regional, in contradiction to oil, where there is an integrated world market (Correljé and van der Linde 2006: 534-535). Thus a disruption may cause a direct reduction in security of supply, rather than work through the price mechanism (Correljé and van der Linde 2006: 534-535).

4.2 Background to the conflict

Through the 2000s, Russia experienced a 7% growth on average per year, until the country was hit by the financial crisis in 2009 (Blakkisrud 2009). This growth was fueled by general boom in commodity prices, also in fossil fuels, like oil and gas. The price of oil went from 12 dollars per barrel in 1998 to almost 150 dollars per barrel in the summer of 2008 (Blakkisrud 2009). The steady increase in oil prices also affected the gas prices for the deliveries for Europe, as the price of gas is made out of a formula that is based on the price of oil (Pirani et al 2009: 7).

As both Russia and Ukraine struggled after the fall of the Soviet Union, cheap, subsidized Russian gas was crucial for the Ukrainian economy, while the gas export to the European market, through the Ukrainian transit network was important for the Russian economy (Pirani et al 2009: 5). Problems started in the 1990s when Ukraine did not pay for the highly subsidized gas, which led to accumulation of debt and Russian pressure for ownership in the transit networks (Pirani et al 2009: 5). With the increase in energy prices, the difference between gas prices for the European market and the subsidized Ukrainian gas, increased through the 2000s (Pirani et al 2009: 7). Gazprom wanted that the prices for the Ukrainian market, and the other CIS-countries should be increased, which culminated in the gas conflict of 2006 (Pirani et al 2009: 7). Even though the reductions of 2006 affected the European market, it was not until 2009 the gas dispute between Russia and Ukraine reached its climax.

4.3 The conflict: economically or politically motivated?

There have been discussions whether the recurring conflicts may be a threat to EU energy security, or not. One suggestion to the recurring disruptions has been that Russia is using gas as a political weapon. One scholar, who holds this view, is Godzimirski, who argues that Russia is willing to sacrifice income from the gas exports for the reaching political goals (Bakken 2009). The agreement between Russia and Ukraine to extend the Russian lending agreement of the Black Sea naval base, Sevastopol, in return for 30% discount on Russian gas for Ukraine, may highlight the political aspect (Pirani et al 2009:12; Pirani et al 2010: 2). Godzimirski also argues that the Russian state will try to use it as a foreign policy tool: "(...) the Russian state will retain control of the sector and will use it as a

strategic tool not only on the domestic scene, but also in reshaping Russia's relations with the outside world" (Godzimirski 2009: 179). If it is used as a political weapon, then this might symbolize a larger threat to EU energy security compared to if the conflict was caused by other motivations.

Jonathan Stern, holds a different view than Godzimirski, and argues that the political aspect of the crisis is exaggerated, the threat towards EU's energy security is exaggerated and that there is a tendency to undermine the economical aspect of the gas conflict between Ukraine and Russia (Ringmar 2005: 19; Stern 2007: 88;90). From this point of view, the conflict was rather a consequence of Ukraine's inability to pay for their gas deliveries. In addition, Russia is dependent on the gas deliveries for Europe. An example of the importance of the economic aspects of the gas deliveries can be illustrated by some numbers. 98% of Russian gas exports are exported to the European market (Fermann 2009:26). In 2007, 53, 4% of Russia's export earnings came from export to the EU (Fermann 2009:26). Russia is dependent on Ukraine for the gas deliveries for Europe, since 80 % of the gas exported to Europe, is exported through Ukraine (Pirani et al 2009:5). The problem has been that there are few real alternatives to the transit network through Ukraine, due to bilateral characterization of the gas markets (Goldthau 2008: 686). Further, Goldthau, argues there are more prominent challenges regarding Russian gas supplies, than the willingness to use gas as a political weapon (2008:686).

4.4 Short term effects of the conflict

Bulgaria, Romania and Slovakia were the hardest hit among EU member states (Pirani et al 2009: 53; Kovacevic 2009: 2-3). Slovakia is dependent on gas for electricity generation, and the disruption in supplies strained the network (European Commission 2009: 15). Bulgaria and Romania are sensitive to disruptions in the gas supplies from Russia, due to the high import dependence. However, Kovacevic argues that even though the situation was difficult in the region, many of the countries were "lucky" because domestic demand was lower than usual due to holiday season, the effects of the financial crisis and other reasons, and the hydropower production was large due to weather conditions (2009: 18-19).

Outside the mentioned countries, the disruption in gas supplies did not cause the same implications, and especially north-west Europe was not much affected of the disruption (Pirani et al 2009: 53-55). This region has a lower degree of sensitivity. The lower degree of sensitivity may be explained by larger diversification both in regard to suppliers and fuels, but also the increased possibility to use strategic energy reserves (Pirani et al 2009:53-55) Industrial demand was lower than usual, much because of the financial crisis, which caused the countries to have larger reserves than usual (Pirani et al 2009:55-56). Thus, luck can also have been explanatory factor for the limited implications in the western part of Europe.

The most serious implication may be that the reputation of Russia and Ukraine as reliable energy partners experienced a serious damage. Thus the future view of Russia as a stable energy supplier may be dependent on Gazprom's willingness to take measures to reduce the dependency on the Ukrainian transit network (Pirani et al 2009: 57). Therefore, the gas conflict of 2009 symbolized the severe negative effects of a disruption at this scale may cause. This happened during the midst of the winter and it affected ordinary European citizens.

4.5 Two alternative scenarios of the way ahead: Markets and Institutions and Regions and Empires

Correlje and Van der Linde argue that actors will respond to the changes in the energy market (2006: 535). Further they make two scenarios for the future energy markets. These two are Markets and Institutions and Regions and Empires. The Markets and Institution scenario assumes that there will be a further integration of the world's energy markets, where international institutions play an important role in facilitating cooperation (Correlje and Van der Linde 2006: 535). International institutions will also to a greater extent manage to deal with conflicts (Correlje and Van der Linde 2006: 535). Under this scenario, there will also be increased liberalization of markets which will facilitate increased flow of goods, capital and people under the influence of market forces with backing of international institutions (Correlje and Van der Linde 2006: 535). For EU, this is the best case scenario, and it will be easier to deal with supply risks and disruption, especially because this will imply a deepening of the integration with Russia (Correlje and Van der Linde 2006: 535-536).

In Regions and Empires scenario, there is a more pessimistic view on the developments of the international system. This involves a division of the world into blocks, where the political and military aspects become more important (Correlje and Van der Linde 2006: 536). Security and conflicts will make economic integration more difficult, and the lack of integrated markets for strategic goods, like energy, will foster bilateral agreements and relationships (Correlje and Van der Linde 2006: 536). Regions and states will compete for energy resources and markets, due to the lack of integration and firms will be based on a national focus (Correlje and Van der Linde 2006: 536).

In both scenarios, the role of Russia is vital, because it is the only empire that can export extensive amount of oil and gas (Correlje and Van der Linde 2006: 536). However there is an important difference in the two scenarios. In the Markets and Institutions scenario, Russia will be more integrated with the EU, while in the Regions and Empires scenario, Russia will to a larger extent have great power ambitions (Correlje and Van der Linde 2006: 536). In the last one, energy can be interpreted as a political weapon, which may increase the risks of disruptions in energy supplies.

What is interesting in the regard of this work by Correlje and Van der Linde, is that three years later, a conflict between Russia and Ukraine regarding gas contracts and transit deals, caused the most severe disruption of gas supplies in the history of the EU. Therefore these two scenarios are highly relevant in discussing if the conflict has contributed to the change in EU policy. An important difference between the two scenarios is whether markets or states are the important device in coordinating energy policies (Van der Linde et al 2004: 85). There is a relationship between the importance of markets and an economical interpretation of energy security and a relationship between the importance of states and a politicized interpretation.

5.0 Data

As mentioned earlier, I will base my thesis on textual analysis. In order to find out if there has been a change in EU's approach to energy security, I have to establish how the concept was prior to the gas conflict. It is natural to start with EU

documents that deal with energy supplies. As security of gas supplies is the focus of this thesis, the Council Directive of 2004 that defines how to ensure the security of gas supplies will be relevant (Council Directive 2004). The Security of Gas Supply Directive was created so that the member states within the EU can create common policies towards ensuring security of supply (De Jong et al 2009: 9). It is possible to compare this directive with the EU regulation on the security of gas supplies of 2010 (EU Regulation 2010). Thus it can be possible to analyze if there has been a change in the approach to security of gas supplies. Also national documents on energy policies can be relevant as source of information.

Books on the topic can also be highly relevant, especially on the development before the crisis. One example is the one edited by Gunnar Fernann, named *Political Economy of Energy in Europe*, which includes several interesting contributions.

The EU has also made an assessment of the gas disruptions of 2009, in which the institution outlines the background of the crisis, how EU managed to respond to the crisis, the lessons learned and the future way to ensure gas security of supply (European Commission 2009). Oxford Institute of Energy Studies has also made several assessments of the gas conflict between Russia and Ukraine, and can thus be a source of valuable information.

Several academic journals may be highly relevant for data gathering. For example *Energy Policy*, *Journal of Common Market Studies* and *Journal of European Public Policy* may be relevant for finding updated articles about the topic. In these it is possible to trace the developments of concepts, trends and theory.

Other valuable sources of data can be found in news articles, which can be relevant for finding statements and opinions of the involved decision-makers. Newspapers like *Financial Times* can be a source of solid and valuable information. *EurActiv* and *Factiva* can also be relevant sources for statements, news and summaries. In this way it can be possible to trace the developments over time and see what important actors have said about the topic.

When it comes to analyzing the data, it is necessary to introduce the EU's concept of energy security prior to the gas conflict. Then it will be necessary to analyze if the concept has changed after the gas conflict. Further the concepts of vulnerability and sensitivity can be useful in analyzing the different interests and preferences among the member states. These two concepts might illustrate the difference in dependence on Russian gas supplies, which may explain divergent interests among the member states. In this regard, one explanation of the shift in the concept of energy security can be that the gas conflict highlighted the differences in vulnerability and sensitivity.

Further on, it is necessary to identify the key actors and the changes in their preferences. Here the two mentioned scenarios of Markets and Institutions and Regions and Empires together with Liberal Intergovernmentalism can be combined. If there has been a change from market actors to states, this might indicate a politicization of the energy security issue, as this indicates that other interests than economic ones, have become important. The relationship between nation states and the industry may be an indicator of the degree of politicization. An example of politicization is nationalization of energy companies. In addition, it is necessary to look at the different EU institutions and their role in the decision-making process regarding energy issues, and how these were involved in the process before and after the crisis.

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