

WebMemo



Published by The Heritage Foundation

No. 2195
January 8, 2009

Europe Should Reduce Dependence on Russian Energy and Develop Competitive Energy Markets

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Just as Europe is in the midst of a particularly cold winter, Russia's quasi-governmental gas giant Gazprom has turned off the gas taps to Ukraine, a major transit corridor for Russian gas into Europe. Gas shortages are being reported in several countries, including Romania, Bulgaria, Greece, and the Czech Republic.¹

Energy expert Dieter Helm could have had this scenario in mind when he described Europe's energy policy as "a substantive failure."² The absence of competition from European energy markets has resulted in a massive dependence on Russian energy, particularly gas. Europe gets more than 40 percent of its gas and almost a third of its oil from Russia.³ Gazprom has become synonymous with energy intimidation and has specifically targeted former Soviet states such as Ukraine as it seeks to carve out a Russian-dominated sphere of influence in its near abroad.

Although Russia has, until now, tended to be a reliable energy supplier to Western Europe, Europe cannot afford to stand idly by and hope that Moscow will play fair in the future. This is all the more pressing considering first, that Europe's energy dependence on Moscow is growing, and second, that Moscow has a head-start on Europe in negotiating pipeline deals that will tighten its grip on East-West transit routes.

Europe cannot allow itself to be boxed into a corner when dealing with Moscow on important foreign policy questions (such as NATO enlargement) because it is scared of Russia turning off the energy

taps. Europe must now diversify its supply routes and seek reliable alternate sources of energy such as nuclear power. It must also coordinate a policy toward Russia that confronts, rather than accommodates, an increasingly aggressive Moscow.⁴

The Need for Diversification of Supply. The European Commission estimates that Europe's total imports of natural gas will increase from 61 percent to 84 percent by 2030.⁵ At present, this increase looks like it will have to be sourced from Moscow. In the face of growing dependence on gas imports, a strategic diversification of supply makes sense. Moscow recently offered to buy all Azeri gas in what can only be seen as an effort to monopolize the market.⁶ Presently, oil and gas are available from Europe's neighbors other than Russia, despite Moscow's best attempts to corner the market. Azerbaijan has not yet accepted Moscow's offer, and Europe, in coordination with the United States, must take this opportunity to counter Russia's monopolistic ambitions by engaging the energy producers of the Caspian basin.

However, even with the availability of alternate suppliers, the question of how this gas gets to Europe remains a vexed question. Gazprom cur-

This paper, in its entirety, can be found at:
www.heritage.org/Research/RussiaandEurasia/wm2195.cfm

Produced by The Margaret Thatcher Center for Freedom

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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rently controls almost all of the gas pipelines supplying Europe from its East, with 80 percent transported via Ukraine.⁷ There is little doubt that Russia fears Europe's development of alternate East-West routes that bypass Russia, such as the Nabucco pipeline.⁸ Yet this is exactly what Europe must do if it is to realize any semblance of energy security. Russia has sought to use pipelines as a strategic element in its petro-political arsenal; if it controls the transit routes, it can turn the tap off at a political whim, as it has done with Ukraine in January 2006 and once again this week.

Moscow has responded to the proposed EU-backed Nabucco pipeline with the Russia-controlled South Stream project. The Nabucco pipeline would pump Caspian gas to Europe through Georgia, Turkey, Bulgaria, Romania, Hungary, and Austria, bypassing not only Russia but also Iran. It gives Europe an opportunity to undertake a pipeline project genuinely independent of Russian interference and offers Europe an alternative to wholesale dependence on Russian gas imports. To secure Nabucco, Azerbaijan and Turkmenistan need to make a commitment to Europe as well. However, South Stream will route Russian gas to the same terminal in Austria and another in Italy, intentionally undermining Nabucco's viability.

Nabucco is a truly European project that has the long-term possibility of importing Middle Eastern and Iraqi gas.⁹ However, Europe's commitment has wavered. In April 2008, Greece signed onto the rival

South Stream project, which is all the more ironic considering Greece is one of the countries affected by Russia's latest maneuvers in its dispute with Ukraine.¹⁰ This will be a critical year for Nabucco's advancement or abandonment, and Europe should not underestimate the negative ramifications of discarding this key infrastructure project.

Russian Aggression. Russia sent Europe a very powerful message in August when it illegitimately and immorally invaded Georgia. It sent Europe the message that in seeking alternate energy-supply routes, Russia can challenge stability and security in its backyard and challenge Western confidence in non-Russian energy projects. Russian bombs fell perilously close to the Baku-Tbilisi-Ceyhan (BTC) pipeline, which pumps oil to Europe through Baku (Azerbaijan), Tbilisi (Georgia) and Ceyhan (Turkey). Russia vehemently opposed the BTC pipeline before it became operational in May 2006, much as it opposes Nabucco. Moscow seeks dominance through a monopoly and by bypassing countries it deems less friendly to Russian interests.

As Europe weighs up the pros and cons of Nabucco over South Stream, it must not be tempted to accommodate Russian aggression by favoring South Stream for fear of Russian interference in the Nabucco project. EU Commissioner for Energy Andris Piebalgs stated that the Russian-Georgian war gives more impetus, not less, to realizing Nabucco.¹¹ However, Europe has plunged headlong into restoring business as usual with Russia,

1. "South East Europe shivers as Russia cuts off the gas," Euractiv, January 6, 2009, at http://www.euractiv.com/en/energy/south-east-europe-shivers-russia-cuts-gas/article-178303?_print (January 8, 2009).
2. "Better than nothing? Europe's energy market," *The Economist*, June 14, 2008.
3. Ian Traynor, "EU unveils plans to weaken Russian grip on gas supply," *The Guardian*, November 14, 2008.
4. See Ariel Cohen, "Europe's Strategic Dependence on Russian Energy," Heritage Foundation *Background* No. 2083, November 5, 2007, at <http://www.heritage.org/Research/Europe/bg2083.cfm> (January 7, 2008).
5. Ian Traynor, "EU unveils plans to weaken Russian grip on gas supply," *The Guardian*, November 14, 2008.
6. David Gow, "Brussels told to pursue Azerbaijan pipe dream," *The Guardian*, September 5, 2008.
7. "South East Europe shivers as Russia cuts off the gas," Euractiv.
8. Gow, "Brussels told to pursue Azerbaijan pipe dream."
9. *Ibid.*
10. "Pipeline politics? Russia and the EU's battle for energy," Euractiv, December 2, 2008 at <http://www.euractiv.com/en/energy/pipeline-politics-russia-eu-battle-energy/article-177579> (January 6, 2009).
11. Gow, "Brussels told to pursue Azerbaijan pipe dream," *The Guardian*, September 5, 2008.

led by France and Germany, who use the EU as a cosmetic cover to jealously protect valuable bilateral deals with Moscow. As British journalist Simon Tisdall states: “Without so much as a blush, Europe is putting its political, commercial and energy interests before its responsibilities to collective security.”¹² If Europe is serious about seeking alternate energy suppliers, it is sending the wrong signals to Moscow.

American leadership will be vital to reversing Europe’s collective weakness. The BTC pipeline and the Baku-Tbilisi-Erzurum gas pipeline (which pumps gas from Azerbaijan to Turkey) were both constructed with “unequivocal U.S. support.”¹³ The incoming Obama Administration should continue to lead in this policy area, specifically by cooperating with Europe and the South Caucasus to diversify Europe’s energy portfolio and by supporting U.S. allies such as Georgia and Ukraine as they develop their fragile democracies.

Focus on Energy Security. The EU’s obsession with making ever-bolder promises on cutting carbon emissions has resulted in a European energy policy that is far too focused on unrealistic targets to address climate change at the expense of seriously addressing energy security. The EU has made reckless assumptions about the reliability of unproven renewable energy sources, such as wind power, without careful enough attention to the benefits of proven technologies such as nuclear energy. For instance, the British Wind Energy Association was recently forced to admit that the carbon-cutting benefits of wind power have been grossly overstated.¹⁴

The pursuit of a low-carbon economy will continue to be a European conundrum so long as the EU simultaneously repudiates nuclear energy, which *The Economist* describes as “the biggest source of low-carbon energy in the EU.”¹⁵ The EU proposal to cut carbon emissions by 20 percent by 2020, compared with 1990 levels, is unlikely to be achieved without a greater energy mix that at least includes nuclear power.

Europe should also diversify its sources of natural gas. First, it can pipe more gas from North Africa. Second, it can expand its network of the liquefied natural gas (LNG) terminals to import energy from major suppliers such as Qatar and Nigeria. It can also expand and upgrade the coal-fired power stations. Natural gas, although clean, cannot be the only strategy for Europe to pursue its 2020 policy.

Apart from the fact that diversifying suppliers and routes will take time, it would be incredibly unwise to put all European eggs in one energy basket. The International Energy Agency, reporting on EU energy policy, recommended the continued use of nuclear power to realize European energy goals, and a more diversified energy portfolio will certainly be needed if Europe is to even come close to having sustainable and clean energy supplies in the long term.¹⁶

It should not be assumed that increasing EU power in the field of energy is a silver-bullet solution either. The as-yet un-ratified Lisbon Treaty would create an energy solidarity clause, although there are currently no plans as to who will supply what in the event of an actual crisis.¹⁷ There are also plans to create a “high official for foreign policy on energy

12. Simon Tisdall, “EU and Russia: Business as usual,” *The Guardian*, November 11, 2008, at <http://www.guardianweekly.co.uk/?page=editorial&id=809&catID=17> (December 22, 2008).

13. “Pipeline politics?,” Euractive.

14. Patrick Sawyer, “Promoters overstated the environmental benefit of wind farms,” *The Daily Telegraph*, December 21, 2008, at <http://www.telegraph.co.uk/earth/energy/windpower/3867232/Promoters-overstated-the-environmental-benefit-of-wind-farms.html> (December 22, 2008).

15. “Roll up, roll up, get your energy here,” *The Economist*, January 19, 2008.

16. Gow, “Brussels told to pursue Azerbaijan pipe dream.”

17. José Manuel Durão Barroso, President of the European Commission, “The European Union after the Lisbon Treaty,” Brussels, December 4, 2007, at <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/793&format=HTML&aged=0&language=EN&guiLanguage=en> (January 6, 2008).

security” who will work under a future EU foreign minister.¹⁸ Neither of these initiatives takes the European energy debate forward in a particularly useful way. Although greater European cooperation and solidarity is desperately needed to confront Russia, this must be conducted on an intergovernmental rather than supranational basis. The indecent haste with which the EU resumed business with Russia following its illegal annexation of South Ossetia and Abkhazia (contrary to an EU-negotiated ceasefire) demonstrates the folly of allowing the EU to dictate members’ policies toward Russia.

All the Eggs in One Basket. Western Europe seems comforted by the fact that Russia currently needs it as a customer as much as Europe needs Moscow’s merchandise. This confidence is misplaced, however, as demonstrated by Gazprom’s lat-

est actions with regards to Ukraine. Codependency has not fostered a healthy relationship between Russia and Europe so far, and there’s little reason to expect that it will in the future. Europe’s over-reliance on Russian energy is a fundamental strategic weakness. In the event that Europe continues to increase its dependence on Moscow, it will once again find itself literally left out in the cold.

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18. “Questions raised over EU diplomatic service,” Euractiv, May 13, 2008 at <http://www.euractiv.com/en/future-eu/questions-raised-eu-diplomatic-service/article-172309> (January 6, 2008).