

EU-Russia energy relations – stuck together?

The EU's reliance on Russian energy is a long-standing concern that predates current tensions. While dependence shows no signs of diminishing, the EU has taken coordinated action to prepare for potential disruption to supplies, and the proposed Energy Union envisages even closer cooperation. However, issues such as energy sanctions and Russian nuclear fuel remain divisive.

Fossil fuels – a relationship of mutual dependency

The EU imports over half of its energy ([53%](#) in 2013) and is heavily dependent on Russia as its leading supplier of fossil fuels – [31%](#) of gas, [26%](#) of coal and [32%](#) of crude oil imports. The extent of dependency varies considerably – close to 100% for countries which are geographically or historically close to Russia (Finland; Baltic States; Bulgaria), but much less for others such as Spain and the United Kingdom.

Energy dependency is mutual – fossil fuels ([mainly](#) sold to EU countries) account for around 70% of Russia's exports and half of its federal government's budget.

Gas is a particular concern due to the lack of alternatives

Given the current [cheapness](#), abundance and transportability of coal and oil, Russian supplies of these fuels would be relatively easy for EU countries to replace. In contrast, gas is usually delivered through pipelines requiring heavy investment and years of development, making it difficult to switch suppliers at short notice. Recurrent disputes between Russia and Ukraine and the resulting supply disruptions (2006; 2009, 2014) raise questions about the reliability of Russian gas supplies.

Another reason for wanting to reduce dependency on Russian gas is pricing – [comparisons](#) show that countries with more diversified supplies have greater bargaining power and are therefore able to negotiate better prices. For example, Germany pays Gazprom only €24/MWh, much less than Lithuania (€38) or Bulgaria (€43). These differences are the subject of ongoing Commission [investigations](#) into alleged abuse by Gazprom of its position as the EU's main gas supplier.

Finding alternatives to Russian gas is not easy. Algeria is vulnerable to security threats, the new [TANAP](#) pipeline from Azerbaijan is not expected to be ready until 2020 and even then will have only limited capacity, and Norway (the EU's second largest supplier) cannot produce enough to completely replace Russian gas. Liquefied natural gas (LNG) opens up the possibility of imports from a wider range of countries, such as Qatar, without pipeline connections to Europe, but is more expensive than pipeline deliveries and requires new infrastructure (import terminals). Meanwhile, there is only [limited capacity](#) for increased domestic gas production, including of shale gas, which in addition presents environmental concerns.

However, the EU is now better prepared for a Russian gas cut

EU imports of Russian fossil fuel are increasing – both in absolute terms and as a percentage of total energy imports (for gas, from 25% in 2010 to [31%](#) in 2013). However, since the Nordstream pipeline became operational in 2012, only [half](#) of Russian gas exports to Europe (16% of total European consumption) transits through Ukraine, lessening the potential impact of a Russian-Ukrainian gas dispute.

The EU has taken action since the 2009 gas crisis. Using the new [legal basis](#) for EU action to ensure energy security 'in a spirit of solidarity' introduced by the Lisbon Treaty, the European Commission's [Energy 2020 strategy](#) (2010) called for interconnectors between national distribution networks, enabling Member States to share gas with one another in the event of a supply shortfall. Progress since then has been uneven – some connecting pipelines have been built (e.g. Poland-Czech Republic), while in other cases there has been [resistance](#) from national suppliers to the potential foreign competition that such interconnectors can bring, or a [lack of political will](#) and financing. Overall though, national grids in the EU are now more interconnected,

many pipelines are able to transport gas in two directions (reverse flow), and storage facilities have also been upgraded – for example, [Latvia](#) can now store enough gas to cover two years' consumption.

European Commission '[stress tests](#)' carried out in October 2014 suggest that, in the event of disruption to Russian supplies, a combination of alternative sources (LNG, gas in storage facilities, Norway) and closer cooperation would mitigate the impact. Bulgaria would be severely affected (up to a 40% shortfall), if supplies were cut for several months during the winter, and Finland even more so in the event of a complete stoppage, not just on routes through Ukraine. That would however be completely unprecedented; to date, the longest interruption was 13 days in 2009, and that was only for pipelines crossing Ukraine.

The EU continues to promote energy security. In 2014 the European Commission adopted a [European Energy Security Strategy](#) (2014) followed by [A Framework Strategy for a Resilient Energy Union](#) (February 2015). In the latter document, the main proposed innovations relating to Russian energy supplies are a mechanism for 'collective purchasing of gas ... where Member States are dependent on a single supplier' (however, only 'during a crisis') and a requirement for EU countries to have energy deals (e.g. with Gazprom) approved by the Commission. Following [opposition](#) to the latter proposal from several countries due to fears of antagonising Moscow, the recent European Council [conclusions](#) (19 March 2015) are vague and merely mention 'ensuring compatibility ... with EU energy security provisions'. It remains to be seen whether this will translate into specific arrangements for Commission involvement in the conclusion of such deals.

Russia is reducing its own reliance on European markets

Russia is also attempting to diversify, with the signing of a 30-year contract with China to deliver up to 30 billion cubic metres of gas per year through a new [pipeline](#); as this is less than one fifth of total deliveries to Europe, considerable dependence on EU markets will remain for Russia.

Divisive issues

Sanctions targeting the Russian oil sector

Western sanctions adopted in September 2014 ban financing and exports of innovative technology to Russian oil companies (the gas sector however is not directly targeted). As a result, several joint ventures (e.g. Rosneft/ExxonMobil) between Russian oil producers and international partners have been [suspended](#). This has not affected Russian oil supplies to the EU but, in the long-term, will [limit](#) Russia's capacity to tap into non-conventional resources (e.g. deep-water and shale oil) as current reserves run out. These and other sanctions are now the subject of growing criticism from Member States such as [Spain](#), Hungary and Cyprus.

Abandonment of the South Stream pipeline project

Routed under the Black Sea, Gazprom's planned South Stream pipeline would have bypassed Ukraine, resulting in more secure supplies to countries such as Bulgaria, Italy Hungary and Austria, which [supported](#) the project. On the other hand, Ukraine would have lost not only transit fees (around [US\\$3.2 billion](#) in 2011), but also any leverage in the event of a Russian gas embargo on the country. However, not this but the incompatibility of Gazprom's dual role, as supplier and network operator, with [EU energy market legislation](#) was the main reason [cited](#) by the Commission for opposing the project. Russia subsequently abandoned the project and is now [negotiating](#) an alternative route via Turkey, while Slovakia has proposed the [Eastring](#) pipeline as an alternative supply route for south-east Europe.

Nuclear energy

While EU-Russia energy relations are essentially about fossil fuels, Russia is also a major nuclear energy player, supplying [18%](#) of the EU's mined uranium. Finland, the Czech Republic, Slovakia, Hungary and Bulgaria have Russian-built nuclear power stations, and the latter three countries are [entirely dependent](#) on Russian fuel supplies. A recent [agreement](#) for a Russian company not only to expand one of Hungary's nuclear power stations but also supply it with fuel would perpetuate this situation, and has therefore been blocked by the Euratom Supply Agency (which under Article 52 of the [Euratom Treaty](#) has exclusive competence to approve nuclear fuel supply contracts) in line with its [mandate](#) to ensure diversified supplies.

European Parliament resolutions on Russia reflect constant concern over energy security. The resolution of [18 September 2014](#) on the situation in Ukraine and the state of play of EU-Russia relations 'underlines the need to radically enhance the EU's energy security, independence and resilience to external pressure'. The resolutions of [6 February 2014](#) and [14 December 2011](#) on forthcoming EU-Russia summits are almost identically worded on this point, both stressing 'the EU's need to diversify transportation channels and energy providers' while criticising Russia for 'using energy supplies 'as a political tool'.