EXTERNAL ACTORS AND NATIONAL PREFERENCE FORMATION: EUROPEAN ENERGY SECURITY POLICY & RELATIONS WITH RUSSIA

by

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A Dissertation Submitted to the Graduate Faculty of George Mason University in Partial Fulfillment of The Requirements for the Degree of Doctor of Philosophy Public Policy

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External Actors and National Preference Formation: European Energy Security Policy & Relations with Russia

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DEDICATION

This is dedicated to my father, Herman Cordray, who passed away on March 8, 2011 and did not get to see me finish this dissertation. I know he would be proud of the work I have done and the scholar I’ve become.
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I would like to thank my family, friends, colleagues and the others who have supported me through six and a half years on this roller coaster of hope, loss, grief, and finally success. I could not have done this without you all, and I am truly sorry I cannot mention everyone here by name. I hope you know who you are.

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LIST OF ABBREVIATIONS AND SYMBOLS

Alternative for Germany ................................................................................................................. AfG
Application Programming Index................................................................................................... API
Billion Cubic Meters......................................................................................................................... bcm
British Petroleum ........................................................................................................................... BP
Bulgarian Energy Holding ............................................................................................................. BEH
Bulgarian Socialist Party................................................................................................................. BSP
Central and Eastern Europe......................................................................................................... CEE
Christian Democratic Union ......................................................................................................... CDU
Citizens for the European Development of Bulgaria............................................................... GERB
Civic Platform................................................................................................................................. PO
Collective Security Treaty Organization ..................................................................................... CSTO
Coordinated Market Economy...................................................................................................... CME
Council for Mutual Economic Assistance................................................................................... CMEA
Council of Permanent Representatives....................................................................................... COREPER
Dependent Market Economy........................................................................................................ DME
Directorate General....................................................................................................................... DG
Dollar .................................................................................................................................................. $
Economic and Monetary Union..................................................................................................... EMU
Electricité de France...................................................................................................................... EDF
Energy Information Administration.............................................................................................. EIA
Euro.................................................................................................................................................. €
European Council on Foreign Relations ..................................................................................... ECFR
European Union............................................................................................................................. EU
Fatherland Front............................................................................................................................... FF
Federal Republic of Germany......................................................................................................... FRG
German Association of Energy and Water Industries ................................................................. BDEW
German Democratic Republic...................................................................................................... GDR
Group of Eight................................................................................................................................. G8
Group of Twenty ............................................................................................................................. G20
Gaz de France................................................................................................................................ GDF
Gross Domestic Product.................................................................................................................. GDP
International Monetary Fund........................................................................................................ IMF
Independent System Operator ...................................................................................................... ITO
Independent Transmission Operator............................................................................................ ITO
Law and Justice Party...................................................................................................................... PiS
ABSTRACT

EXTERNAL ACTORS AND NATIONAL PREFERENCE FORMATION: EUROPEAN ENERGY SECURITY POLICY & RELATIONS WITH RUSSIA

Callie Le Renard, Ph.D.

George Mason University, 2013

Dissertation Director: Dr. Desmond Dinan

This dissertation examines how Russia has impacted the development of a common European energy security policy through case studies of six member states which represent a variety of perspectives on integration and relations with Russia. These case studies focus on how national preferences on energy security policy are formed and the role, if any, Russia has played. The cases, which include Germany, Poland, UK, Bulgaria, Lithuania and France, rely on open source data and interviews with member states’ Permanent Representations and subject matter experts from a variety of institutions both in Brussels and in the member states. The cases were selected based on factors such as size, wealth, energy dependence, historic relations with Russia, and membership in the former Eastern Bloc.
CHAPTER ONE: FRAMING THE PROBLEM

Energy security has been an issue of vital importance to nation states since World War I and the advent of modern mechanized warfare. When the British Royal Navy transitioned from coal to oil powered ships in 1912, it became dependent on Iranian oil rather than domestically produced coal, interjecting an element of international politics into British imperial policy.¹ World War I began just two years later and through the course of the war the major combatants also shifted from coal to oil, making oil an important international strategic resource. This trend continued through World War II, as securing stable oil supplies was one of Nazi Germany's primary goals.²

To this day energy, primarily in the form of fossil fuels, keeps military forces running and powers economic growth. Indeed, despite concerns about climate change, energy consumption is expected to grow over time. Figure 1.1 below indicates that world energy consumption will increase through 2035, though at a slower rate among the developed OECD countries than among developing countries.

²Ibid.
Without energy, modern society would come to a standstill. Most countries do not possess large domestic energy supplies and so must obtain them from other nations. For this reason, the relationship between supplier and consumer forms an important part of the foundation of our modern international security architecture. Saudi Arabia’s importance in international affairs, for instance, stems from its position as the only major oil producing country with significant spare capacity. In other words, if a war or natural disaster were to knock out a major oil supplier such as Russia, Saudi Arabia (as the world’s largest oil producer) has the ability to fill the

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gap between supply and demand.\textsuperscript{4} Resource scarcity plays another role in international affairs, as it has fueled a variety of intrastate and interstate conflicts, for instance, between the Sunni and Shia in Iraq, or between Japan and China over oil and natural gas reserves in the South China Sea. It is also a driving force behind both Russian and Chinese foreign policy.

In \textit{Energy Politics}, Brenda Schaffer makes the argument that “energy and politics are intrinsically interlinked” because “a country’s ability to access energy supplies and the way in which it uses energy crucially determine the state of its economy, its national security and the quality and sustainability of its environment.”\textsuperscript{5} Because energy and national security are interlinked domestically, energy concerns are a vital part of international politics as well. This can be seen in the investment choices of large national oil and gas companies (such as China National Petroleum Company/CNPC), the development of oil and gas pipeline routes, the negotiation of contracts between supplier and consumer states, and in the tendency of larger states (like the US) to support projects that ensure its allies’ energy security, such as the development of Southern Corridor pipeline routes (i.e. Nabucco, BTC pipeline, etc.) to Europe.

Energy and politics are interlinked within the European Union as well, and not just for the reasons stated above. In the EU, 28 member states must work together with Europe’s legislative bodies, the European Commission (which has the


\textsuperscript{5} Schaffer. \textit{Energy Politics}, 1.
sole power to initiate new laws), the European Parliament and the European Council in order to move forward in developing the Union’s common energy policy. Because this process is complex and so many interests are at stake, agreement on energy policy has been difficult in the EU. This will be further address in the following chapter.

**Oil or Gas: What's the Difference?**

Despite international concern about the effects of climate change and the drive to increase the use of renewable energy sources, the world’s economies and militaries depend on fossil fuels, primarily oil, coal and natural gas. Natural gas (hereafter referred to simply as gas) has been growing in use since the 1970s as it provides a significantly cleaner burning fuel source than either coal or oil. In OECD countries gas has surpassed coal as the second most important energy source. If this trend continues, gas will overtake oil as the most important energy source worldwide within a few decades.\(^6\) According to the Energy Information Administration’s International Energy Outlook 2011, “natural gas is the world's fastest-growing fossil fuel, with consumption increasing at an average rate of 1.6 percent per year from 2008 to 2035.”\(^7\) To illustrate this, Figure 1.2 below shows projected increases in gas consumption among OECD and non OECD countries through 2035.

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Though often found together and extracted by the same energy companies, oil and gas perform very differently on international markets. The primary reason for this is that oil is a fungible commodity that can easily be transported by ship and sold as needed on spot markets. By contrast, gas is not fungible. The transportation of natural gas takes place primarily via pipeline, and this form of transport comes with a number of constraints. First, pipeline construction is subject to geographical limitations. Geographically, pipelines are more easily and cheaply constructed over flat land. Natural barriers like mountains and large bodies of water make

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*International Energy Outlook 2011*
construction more difficult and expensive. This can be seen with the construction of the Nord Stream pipeline under the Baltic Sea.

In addition, pipeline construction is often subject to political limitations. These can come in different forms, for instance obtaining permission to construct pipelines through areas that might have sensitive environmental conditions or endangered species. Also, depending on the location and political status of the supplier, terrorism or attacks on pipeline infrastructure can be of concern. This is particularly the case in politically unstable countries like Iraq and Nigeria. Another potential political limitation is the use of transit states. Often, a supplier must export gas to countries that adjoin it or run the risk of transiting said gas through neighboring states. These neighbors may or may not be on good political terms with either the supplier state or the consumer state. Transit states can pose a number of problems which range from permitting, siphoning gas supplies, renegotiation of transit fees, etc. If transit states are not democratic, regime change often comes with the invalidation of prior contacts and agreements. These limitations make pipeline construction a difficult and time consuming task.

Because pipeline construction is very costly, it tends to pay off only in the long run (15 – 20 years). For this reason, gas generally requires long term supply delivery contracts. These make prices less vulnerable to external shocks than are oil prices, which tend to fluctuate with global supply and demand. Long term contracts

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also ensure the supplier a stable market for gas exports, providing export market security for the supplier.

Over the last decade, liquefied natural gas (LNG) has become a more popular alternative to gas imported via pipeline. LNG can be traded either according to spot prices or through traditional supply delivery contracts. It is, however, a more expensive option which also requires the construction of additional infrastructure in the form of regasification plants. These plants convert the LNG back into a gaseous form that can then be transmitted domestically via pipeline. LNG is currently used primarily by Asian nations like Japan, Taiwan and South Korea,¹⁰ which are geographically isolated and have few pipeline alternatives. Western Europe is now home to a number of regasification plants, while Central and Eastern Europe is beginning to catch up. See Figures 1.3 and 1.4 below. Despite the growing use of LNG, most gas is still delivered from neighboring countries via pipeline.

Figure 1.3: LNG Terminals in Western Europe

Figure 1.4: LNG Terminals in Central and Eastern Europe

The fact that gas generally requires long term contracts means that it is inextricably tied to national and international politics. Suppliers and consumers develop long term relationships to ensure a steady gas supply and a stable gas market. Despite this, politically motivated interruptions sometimes occur. Though many decry the use of the ‘energy weapon’ in international politics, it has been used by both suppliers and transit states to cause supply disruptions. Natural gas is particularly vulnerable to these disruptions due to transport limitations. The 2006 and 2009 Russia/Ukraine gas crises are just two examples illustrating the infungibility of natural gas supplies. Because there are very few LNG regasification terminals operating in Eastern Europe, the 2006 and 2009 crises affected some of the European Union’s member states more than others. Bulgaria, for example, was unable to obtain sufficient gas supplies and this decreased economic output and many Bulgarians had trouble heating their homes during cold winters. Bulgaria and other Eastern European member states were also affected more dramatically due to their communist era infrastructural legacy. In other words, the pipelines only flow in one direction: westward from Russia.

Though there is much debate about the motivation of Russia and Ukraine during these crises, it is likely that both states’ actions were driven by a number of

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12 Ibid.
competing concerns. According to Shaffer, “Moscow's policies in the crisis with Belarus and Ukraine were motivated by a combination of... goals. They included gaining control of neighboring states' transport and distribution systems for economic gain and political leverage over former Soviet states, altering their transit practices, and commercial considerations.” Shaffer also notes that this is an exception to the rule, and that generally international energy infrastructure projects like pipelines contribute to good relations between partner countries. This is certainly the case between Azerbaijan and Georgia which are linked by the BTC Pipeline (oil) and the South Caucasus Pipeline (gas).

**Defining Energy Security**

Before moving on to discuss the details of European energy security policy, it is important to determine what we mean by energy security, which is not the same as energy independence. Energy security generally is defined as “the uninterrupted physical availability [of energy supplies] at a price which is affordable, while respecting environmental concerns.” Energy security can be achieved through different policy measures, including the diversification of energy sources and suppliers, the development of strategic energy reserves, constructing redundant

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infrastructure, promoting flexible fuel use,\textsuperscript{17} and in the case of Europe, constructing interconnections between member states that have reverse flow capabilities.

Energy security also has long and short term perspectives: “long-term energy security is mainly linked to timely investments to supply energy in line with economic developments and environmental needs. On the other hand, short-term energy security is the ability of the energy system to react promptly to sudden changes in supply and demand.”\textsuperscript{18} This means that energy security policy includes measures to ensure the uninterrupted supply of affordable energy across differing time horizons. Obviously this can include a very broad set of energy policy instruments, some of which have been mentioned above.

Ensuring energy security is a daunting task for many states. In addition to bureaucratic obstacles, there are other practical concerns in implementing some of the policy measures noted above. First, the diversification of sources and suppliers can be a complex and costly issue. In gas security this often means the construction of additional infrastructure, whether that is a new pipeline or an LNG regasification plant. Furthermore, most gas suppliers hesitate to supply markets that already have sufficient gas supplies because there is no guarantee of stable demand and also because they may be able to negotiate higher prices in other under-supplied markets. Nuclear energy is an environmentally friendly energy source compared to the use of fossil fuels, but it is very controversial worldwide, and has become even

\textsuperscript{17} Schaffer, \textit{Energy Politics}, 91.

more so in the aftermath of the 2011 Fukushima disaster. Germany, for instance, has decided to phase out its nuclear power plants by 2022 and replace this energy with renewable sources. This decision was motivated in part by post-Fukushima nuclear safety concerns.19

Second, energy security has three components (as mentioned above in the definition of energy security) and there are trade-offs between these three. A good example concerns the use of coal in electricity production. Coal is cheap and abundant in many countries, yet is produced more carbon emissions than either oil or gas when burned to generate power. This makes coal a good option for energy security in that it is affordable and available. It does not, however, respect environmental concerns.20 Constructing new gas pipelines is also subject to tradeoffs. Gas in more environmentally friendly, but the required infrastructure is expensive and only pays off in the long run.

Third, there are other international concerns in ensuring energy security as well. There are a number of energy transportation chokepoints, such as the Strait of Hormuz, which must be secured and which for many years has been secured by the US Navy. Oil is not the only energy commodity to be transported through the Strait of Hormuz. LNG production would also be affected significantly by the closure of the Strait because Qatar is the world’s largest LNG exporter, providing one-third of

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20 Ibid, 92.
world exports. Other international concerns include both interstate conflict over the possession and distribution of domestic resources and profits and intrastate conflict over issues like border delimitation (for instance between Iran and Qatar or China and Japan). The latter issue is particularly salient when there is an oil or gas field shared by two countries and one has been more successful than the other at exploiting it.

Though oil is still a very important fuel source for EU member states, this dissertation will focus on natural gas because it has been a very controversial topic in EU-Russia relations and because its infungibility makes gas more vulnerable to supply disruptions than oil. Supply disruptions come with political consequences (both domestic, Union-wide and international) and these consequences are important to explaining the halting pace of energy security policy integration in Europe.

**Natural Gas and Europe**

Europe is home to few easily recoverable fossil fuels, and most European countries must import their oil and gas from abroad. At this time, Denmark is the only European Union member state that is energy independent. Norway (not an EU member) is the largest oil exporter in Europe, the second largest natural gas

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exporter in the world, and a very important supplier for EU member states. Russia is, arguably, Europe's most important energy supplier. Unlike Norway, Russia's record of providing stable supplies leaves something to be desired. The Russia/Ukraine gas crises of 2006 and 2009 demonstrate this. Incidents like these leave some member states out in the cold, wondering how to ensure the security of their energy supplies.

Natural gas (as opposed to town gas which was manufactured from coal) first entered the European market after the discovery of the Groningen gas field in the Netherlands in 1959. According to Wybrew-Bond, “When its size began to be realized, Europe was faced for the first time with the possibility of trading natural gas on an international scale.” After the discovery of the Groningen field, further discoveries were made in the North Sea by the UK and Norway. During the 1960s, the USSR also began exploring the possibility of transmitting large quantities of gas to Europe. As the first major field to be developed for international export, the “Groningen gas exports were priced at a thermal equivalent to oil, as this was seen to be its main existing competitor.” This early action established a precedent for long term delivery contracts that we still see in action today (see above).

As natural gas exports began to grow, so did the European gas grid. At the time of the first oil crisis, Groningen gas had captured 75% of the market in Western

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26 Ibid.
Europe. As oil prices spiked, gas prices stayed low due to the time lag associated with long term supply delivery contracts. This made the use of gas even more attractive to Western European consumers.\textsuperscript{28} Increased demand encouraged new suppliers like the USSR, Norway and Algeria to enter the market in the late 1970s. As supplies expanded, so did Europe’s pipeline infrastructure. The 1980s saw great change both politically and within the gas market itself. Nuclear power became less popular after accidents at Three Mile Island and Chernobyl, and the break-up of the Soviet Union brought new challenges for gas supply delivery in the form of new gas producers (Kazakhstan, Turkmenistan, etc.) and transit states (Ukraine).\textsuperscript{29} Gas companies like Ruhrgas, Gasunie and Gaz de France (GDF) became important market players.

Political change was also happening in Western Europe, as the European Community “set itself the daunting task of completing its formal structure by 1992... based on the “Four Freedoms” – the free movement of goods, services, people and money between all member states.”\textsuperscript{30} The eventual completion of the internal market also led to a greater role for the European Commission which oversaw the internal market and implemented Union-wide legislation covering multiple policy areas including energy. Commission attempts to develop a common energy policy for Europe will be discussed in the following chapter.

\textsuperscript{28} Ibid.
\textsuperscript{29} Wybrew-Bond, “Setting the Scene,” 10.
\textsuperscript{30} Wybrew-Bond, “Setting the Scene,” 11.
European energy security policy has both internal and external dimensions. Internally, EU member states are responsible for maintaining their strategic reserves, making decisions about their national energy mixes, and in some cases (where energy firms are state owned) providing for transmission and distribution. Externally, member states negotiate with supplier countries like Russia, Norway, Algeria, Saudi Arabia, and others, hoping to ensure friendly relations. In addition, member states negotiate with each other and the European Commission (henceforth referred to as the Commission) about EU-wide regulatory policy and legislation. All of these factors make European energy security policy a fascinating topic, which contains multiple strands to be teased out in order to develop a more complete understanding of where things stand today. This too will be explored further in the following chapter.

**Contributions and Organization**

The process of European integration is usually studied solely from within, i.e. from the perspective of the actions and preferences of member states and the various European institutions. This is illustrated by the predominance of grand theories of integration, such as neofunctionalism and liberal intergovernmentalism, in the European Studies literature. By contrast, this dissertation seeks to study whether and how an external actor can affect European integration in an individual
policy sector. Though scholars such as Frank Schimmelfenig have studied the impact of integration on external actors, very few have studied the impact of external actors on integration itself. Some scholars have studied this phenomenon, but their work is obscure.

Prior attempts to study the role of external actors have looked at their impact on integration writ large; by contrast, this dissertation seeks to study the impact of external actors in one specific policy sphere; namely energy security. Though much commentary exists on European energy security policy and the EU-Russia energy relationship, there has been little rigorous academic research on how the EU-Russia energy relationship has affected integration in the energy security policy sector. In fact, there have been very “few scholars dealing with energy policy in a general framework of integration and EU policy-making.” This study aims to make a contribution to this developing literature, as well as explore the mechanisms of integration in European energy security policy.

Much of the literature on EU-Russia energy relations focuses on whether or not Europe’s dependence on Russia for natural gas supplies is a good or bad thing. Others offer policy prescriptions for the EU on how to solve the ‘problem’ of EU-

Russia energy relations. So far no one has actually asked if and/or how Russia, as an external actor, has affected integration. The goal of this research is to take integration studies away from the ‘grand bargains’ of theoretical dispute and apply mid-level theories of national preference formation to Europe’s energy security policy sector.

Having framed the problem of energy security in Europe, this dissertation will proceed in Chapter Two with a review of the current status of European energy security policy and EU-Russia energy relations. To continue setting the stage, Chapter Three will discuss the relevant academic literature, and Chapter Four will present the hypotheses and research questions that structure this study. Chapter Four will also discuss the methods used to implement this study, which will include both a quantitative study of Council of Ministers voting data and qualitative case study methods. Chapter Five will discuss the quantitative study and its findings, and Chapters Six through Eleven will present the data collected for each of the six cases included in this study. Chapter Twelve will present the findings from the case studies and Chapter Thirteen will present my conclusions, policy recommendations and opportunities for further research.
CHAPTER TWO:  
EUROPEAN ENERGY SECURITY POLICY & EU-RUSSIA RELATIONS

To provide some context for the analysis to follow, this chapter will discuss the current state of European energy security policy as well as recent political developments within the EU and in EU/Russia relations that either have or may in the future affect the development of European energy security policy.

The Current State of EU Energy Policy

Europe as a whole depends heavily on foreign imports of oil and gas to meet its energy needs – the EU alone imports approximately 54% of its energy needs. While dependence on imports varies significantly among member states, only Denmark is currently energy independent. Indeed, energy dependence is projected to grow over time (as shown by the trend line in Figure 2.1 below). This means that relationships with regard to energy policy between member states and between member states and energy suppliers are becoming more important politically.

Through most of EU history, energy security policy has been the competence of member states due to its association with foreign policy, vital national security interests and the lack of provisions in the early EU treaties concerning energy policy. Furthermore, although the Treaty on European Union (TEU) specified that “the activities of the Union shall include... measures in the spheres of energy, civil

\[\text{Data for this graph obtained from Eurostat, European Commission,}\]

\[\text{http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdcc310&plugin=1.}\] \text{Please note that Croatia has not been included in these figures because it became a member state in July 2013, and was not part of the EU during the period in question.}
protection and tourism,” there was no separate chapter to cover energy, and decisions regarding “measures significantly affecting a Member State’s choice between different energy sources and the general structure of its energy supply” must be taken unanimously by the Council, acting on a proposal from the Commission, and after consultation with the Parliament and Economic and Social Committee. Indeed, the TEU says very little about energy policy, and until the Lisbon Treaty (which includes a revised TEU) came into force, energy policy was primarily pursued in an ad hoc manner through related policy areas such as environment/climate change and the internal market. The Lisbon Treaty will be discussed in more detail below.

The European Commission has made a number of attempts to regulate the energy policy sector. As these cannot all be detailed here, what follows is a selection of important legislation, policy proposals and other measures to give a flavor of the history of energy security policy integration.

**Legislation**

Much legislation in the area of energy policy has taken place within the rubric of the internal market, in spite of the fact that energy was omitted from the internal market program until 1988. During the last two decades, a number of Directives were enacted to establish and complete the internal market in energy,

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37 Treaty on European Union: Article 130s.

such as 96/92/EC and 98/30/EC which established common rules for the internal market in electricity and gas, respectively. These directives were unpopular with gas companies (such as GDF, Ruhrgas and Gasunie) because of the required expensive up-front infrastructure investments, the long term take-or-pay contracts, and the lack of surety regarding whether customers would actually purchase all the imported gas. According to Wybrew-Bond, “The common attitude amongst the key continental gas companies towards market liberalization did not result from a similarity in the structure of the national industries but rather from a common purpose in protecting their rent chain.”

The above mentioned Directives can be considered the first energy liberalization package, which was later replaced by Directives 2003/53/EC and 2003/55/EC, or the second energy liberalization package. These Directives, in turn, were replaced by 2009/72/EC and 2009/73/EC, in what is known formally as the Third Energy Package. The third energy package is more extensive than the two which came before it, and it includes proposals to unbundle vertically integrated energy firms, ensure third party access to transmission networks, provide for interconnections between member state transmission systems, and improve regulation in the energy sector, among others. In addition, the Third Energy Package includes a clause stipulating that countries outside the EU cannot

39 Ibid.
41 Pointvogl, Perceptions, Realities, Concession, 5709.
purchase strategic distribution networks without prior approval. This has been referred to colloquially as the ‘Gazprom Clause.’ The Third Energy Package was adopted in June 2009 and came into force shortly thereafter in September 2009. Member states had 18 months (until March 3, 2011) to transpose these provisions into national law. In its February 2011 meeting on energy issues, the European Council called for the completion of the internal energy market by 2014.

The Third Energy Package was a very controversial for a number of reasons. First, unbundling gas and electric utilities has been very unpopular in member states with state owned national champions (vertically integrated companies which control energy from production to distribution). National champions have an advantage in domestic markets; because of their size, they are able to “treat competitors unfairly and shut out potential entrants,” according to OECD General Secretary Angel Gurria. Unbundling requires these utilities to separate these aspects of energy provision so that, at bare minimum, production and distribution functions are controlled by different entities called independent transmission system operators (even if they are subsidiaries of the same parent company). Full ownership unbundling, by contrast, refers to the breakup of vertically integrated national champions into separate production and distribution corporations.

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Ownership unbundling, which was called for in early drafts of the Third Energy Package, was very unpopular and eight member states, including France, Germany and Bulgaria, put forth a proposal arguing “that fair competition can be achieved without full ownership unbundling or third-party (ISO) oversight by ensuring a number of safeguards concerning the independence, management and investment decisions of TSOs.”\textsuperscript{45} This provision was watered down, however, and the final legislation gave member states three options for unbundling: full ownership unbundling, independent system operator (ISO), or independent transmission system operator (ITO).\textsuperscript{46} Ownership unbundling and the ITO model were both explained above. The middle option, the ISO model, allows the company to continue to own physical assets though these assets must be managed by an independent company (not a subsidiary of the parent company).

In addition to the unpopularity of unbundling, the Gazprom Clause has been a sticking point in EU/Russia energy relations. Russia has been negotiating with the EU steadily since before the Third Energy Package legislation was approved, but talks have not yielded concrete results which would exempt Gazprom from Third Package rules. At the June 2012 EU/Russia Summit, Russian President Putin requested yet again that the EU relax both the unbundling rules as well as the


Gazprom Clause.\textsuperscript{47} Germany has also suggested that flexibility be applied to Gazprom.\textsuperscript{48}

The internal market in energy can be viewed from a number of different perspectives: first as part of the larger internal market established to ensure the four freedoms (or the free movement of goods, services, capital, and people), and second as a measure to provide energy security via market mechanisms. A fully integrated internal market can ensure a secure energy supply in case of shortages by adjusting prices according to demand. In times of shortage, prices increase due to a decrease in supply, and demand also decreases due to an increase in prices. While the internal market can adjust itself according to supply and demand, market forces cannot entirely make up for massive supply disruptions, such as those resulting from the January 2009 Russia-Ukraine gas crisis. Other measures must also be taken to ensure adequate supply.

The 2009 Third Energy Package was followed in 2010 by Regulation No 994/2010. This gas supply security regulation is one of the first post-Lisbon attempts to regulate energy security outside the rubric of the internal market, and it includes a variety of measures to promote gas supply security. These measures include a requirement that member states be able to deliver gas in case of a supply disruption for 30 days of average demand under normal winter conditions. The

\begin{footnotesize}
\begin{enumerate}
\item Melissa Akin and Vladimir Soldatkin, “EU, Russia Say Third Package Conflict Can be Resolved,” Reuters, December 1, 2011, \url{http://www.reuters.com/article/2011/12/01/russia-eu-idUSL5E7N12NY20111201}.
\end{enumerate}
\end{footnotesize}
regulation also calls for bi-directional interconnectors among member states to ensure that gas supplies can be transmitted across borders in case of a supply disruption.\textsuperscript{49} This measure will ensure that no member state is isolated from the rest because it has a national gas distribution system that is not connected to that of other member states. This regulation entered into force on December 2, 2010.

**A Common Energy Policy**

In 2006, shortly after the first major Russia-Ukraine gas crisis, the Commission issued a Green Paper—a document issued by the Commission to stimulate discussion on a particular topic at the European level—entitled “A European Strategy for Sustainable, Competitive and Secure Energy.” This Green Paper called on member states to implement a European energy policy based on three pillars or objectives: sustainability, competitiveness and security of supply.\textsuperscript{50} In spite of Commission efforts, member states continue to approach energy security primarily as a matter of national interest. One major reason for this, as mentioned above, is that energy security is tied to national security, which remains a


competence of the member states. Following the Green Paper, in 2007 the Commission issued a Communication (COM(2007) 1 final) entitled “An Energy Policy for Europe” which introduced a number of European energy policy measures. According to the Commission, “The point of departure for a European energy policy is threefold: combating climate change, limiting the EU’s external vulnerability to imported hydrocarbons, and promoting growth and jobs, thereby providing secure and affordable energy to consumers.” The Communication included policy proposals in the following areas:

- Internal market
- Security of supply
- Reductions in greenhouse gas emissions
- Developing new technologies
- Considering the future of nuclear energy
- Common external energy policy

Some of these proposals have been enacted into law, such as the Third Energy Package mentioned above, while others, like the external dimension of EU energy policy, have met more resistance from member states. In recent months, member states (via the European Council) have expressed a willingness to move forward with some aspects of further integration. For instance, the European Council has called for the completion of the internal market in energy by 2014\textsuperscript{54} and the creation of a more robust external dimension in energy policy.\textsuperscript{55}

In 2010, the Commission issued another Communication, entitled “Energy 2020: A Strategy for Competitive, Sustainable and Secure Energy,” which subsumed many of the goals of the 2006 Green Paper and 2007 Communication into the Europe 2020 strategy. The 2020 strategy is based on five major priorities which include:

- Limiting energy use in Europe;
- Building a pan-European integrated energy market;
- Empowering consumers and achieving the highest level of safety and security;
- Extending Europe’s leadership in the development of energy technology and innovation;

\textsuperscript{54} European Council, 4, February 2011, Conclusions, EUCO/2/1/11 REV1, \url{http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/119175.pdf}. \textsuperscript{2}

\textsuperscript{55} Council Conclusions, 4.
• Strengthening the external dimension of the EU energy market\textsuperscript{56}

The Communication also notes that “The inclusion of energy policy in the EU Treaty [Lisbon or TFEU] calls for a new outlook,”\textsuperscript{57} which is important in that energy policy as such was not mentioned in the Treaties before. An examination of the impacts of the Lisbon Treaty on energy policy in Europe can be found below.

In December 2011, the Commission released a communication entitled “Energy Roadmap 2050.” Designed to provide direction for European energy policy after 2020, the Roadmap explores ways in which the EU can achieve its 2050 energy goals, which include reducing greenhouse gas emissions by 80 – 95\% of 1990 levels by 2050. The targets set under the Europe 2020 strategy (above) will only achieve half of the required 2050 reduction, and the Roadmap is designed to help Europe reach its targets.\textsuperscript{58} Potential measures include improving energy efficiency, transitioning to renewable energy sources, carbon capture and storage technology, and nuclear energy.\textsuperscript{59} It is up to member states to implement specific measures, however, so these policies measures will not be applied across the board to meet

\begin{flushright}
\textsuperscript{56} Europa, “A Strategy for Competitive, Sustainable and Secure Energy,”\hspace{1em}
\end{flushright}
individual member state targets. For instance, some member states are committed to phasing out nuclear power.

The Energy Roadmap has not yet been approved by the Council of Ministers. Currently, many eastern member states struggle to expand their energy infrastructure (LNG terminals, pipelines) to accommodate more sources of, in particular, natural gas. Poland is one of these countries, and the only one to exercise its veto power in an attempt to block the Roadmap. The required cuts would have been both difficult and costly for Poland to implement given its reliance on fossil fuels; therefore Poland has vetoed it not once, but twice. The first veto, in March 2012, was actually Poland’s second effort to block the Roadmap. Poland’s environment minister has argued that making climate commitments in the middle of a recession was “gambling” Europe’s future. Moving forward, the Roadmap might face further opposition for a number of reasons. First, the consensus among member states that climate policy should determine energy policy is collapsing. Poland was the first member state to stop towing the EU line on this. Second, the formulation of targets through 2050 requires the EU to make decisions regarding the bloc’s energy mix. This area has been specifically left to the discretion of member states in the Lisbon Treaty. Finally, if the Roadmap were to proceed in the

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60 Interview by Author with Lithuanian Official, May 2012.
long term, member states are likely to face a severe curtailment of national sovereignty over energy policy matters.\textsuperscript{63}

In response, to the lack of consensus on the Energy Roadmap, the Commission adopted another Green Paper on March 27, 2013, entitled A 2030 Framework for Climate and Energy Policies which “launched a public consultation on what the 2030 framework should contain.”\textsuperscript{64} The 2030 framework will take effect in 2020 and cover the following decade, and will take into account the goals set forth in the Energy Roadmap. The Commission plans to introduce legislation on the 2030 framework before the end of 2013.\textsuperscript{65}

**Other Measures**

In addition to the Directives and other policy measures mentioned above, some intergovernmental coordination of regulatory approaches has also taken place. The Council of European Energy Regulators (CEER) “is a not-for-profit association in which Europe's independent national regulators of electricity and gas voluntarily cooperate to protect consumer' interests and to facilitate the creation of a single, competitive, efficient and sustainable internal market for gas and electricity in Europe.”\textsuperscript{66} In 2003, the Commission established the European


\textsuperscript{65} Ibid.

\textsuperscript{66} Home Page, European Energy Regulators, \url{http://www.energy-regulators.eu/portal/page/portal/EER_HOME}. 
Regulator’s Group for Electricity and Gas (ERGEG),\textsuperscript{67} which is an advisory body, made up of energy regulators in all 27 member states, whose purpose is to assist the Commission in creating an internal energy market.\textsuperscript{68} The ERGEG was replaced by the Agency for the Cooperation of Energy Regulators (ACER) upon implementation of the Lisbon Treaty.\textsuperscript{69}

In August 2011, the Commission established the Gas Coordination Group, which is comprised of representatives of the member states, ACER, the European Network of Transmission System Operators for Gas (ENTSOG), the Energy Community Secretariat and representatives of industry and consumer groups. The group is chaired by the Commission. According to the Commission decision,

\textit{“The Gas Coordination Group should act as adviser to the Commission to facilitate the coordination of security of supply measures in the event of a Union or regional emergency. It is also the main body to be consulted by the Commission in the context of the establishment of the Preventive Action Plans and the Emergency Plans. The Gas Coordination Group should monitor the adequacy and appropriateness of measures to be taken under the Regulation (EU) No 994/2010 and exchange all


\textsuperscript{68} European Energy Regulators, CEER, \url{http://www.energy-regulators.eu/portal/page/portal/EER_HOME}

\textsuperscript{69} “About the European Energy Regulators,” CEER, \url{http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_ABOUT}
information relevant for security of gas supply at national, regional and Union levels."70

The group meets quarterly, and discusses topics such as the gas supply outlook, emergency preparedness and security of supply measures. The group also hears from supply partners, for example at the May 2012 meeting of the Gas Coordination Group, the US Delegation and other US representatives gave a presentation on unconventional gas developments and the future prospects for American LNG exports.71

Political and Strategic Developments in EU Supply Security

In addition to the legislative and policy efforts mentioned above designed to regulate European energy security policy, there are a number of other important political and strategic developments in and around Europe which will have a lasting impact on energy security policy. The two major recent developments are the proposed development of a Southern gas corridor, which was originally designed to diversify suppliers by bringing Caspian gas to Europe bypassing Russia and its

troubled transit states. The second is the potential for the development of domestic unconventional gas resources in Europe.

**The Southern Corridor**

The Southern Corridor, or Southern Gas Corridor, currently consists of a number of proposed pipeline projects that would bring gas directly from the Caspian Basin, Central Asia and Middle East to Europe. This diversification of pipeline routes is designed to increase European gas security by bypassing Russia and its troubled transit states. The first proposed Southern Corridor project was called Nabucco. Named after a Verdi opera about freedom from oppression, Nabucco was the first proposed project designed to bypass Russia. Figure 2.2 below shows Nabucco’s route. Since the Nabucco project was first conceived in 2002, a number of other (smaller) pipeline projects have been proposed that would also help Europe diversify both pipeline routes and gas suppliers. There are currently two design options for Nabucco. The first, base design provides for a 56 inch diameter pipe that will carry up to 31 billion cubic meters (bcm) of gas annually. The second, Nabucco West, is a more economical option and provides for a 48 inch pipe that will carry 10 – 23 bcm of gas annually. Both options are scalable based on gas supply and demand.72

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Members of the Shah Deniz consortium, which will provide gas for the Southern Corridor, have selected the Nabucco West project design over the original design as it can be developed on the same schedule as the Shah Deniz stage 2 project. Nabucco is not, however, the only pipeline option for the Shah Deniz consortium.

The consortium is currently exploring another option, the Trans Adriatic Pipeline, called TAP. TAP is similar in size to Nabucco West, and is designed to be scalable from 10 – 20 bcm annually based, again, on supply and demand. Figure 2.3 below shows the proposed pipeline route for TAP.

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73 Ibid.
A decision on which of the two projects would be selected as the first major Southern Corridor pipeline project was made in June 2013, and the TAP project was selected over Nabucco West. Like Nabucco, the TAP pipeline will bring Caspian gas to Europe bypassing Russia, and further diversifying Europe’s gas supplies.

In addition to the two proposed pipeline projects above, Russia has proposed its own Southern Corridor project, called South Stream. See Figure 2.4 below for South Stream’s route. Unlike Nabucco and TAP, South Stream is a diversification of supply routes without the accompanying diversification in suppliers.

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is controversial because of its timing and its reliance on Gazprom. Although South Stream claims that it is not a competitor,\textsuperscript{77} it was proposed shortly after Nabucco.

\textit{Figure 2.4: South Stream Pipeline Route}\textsuperscript{78}

\textbf{Unconventional Gas}

In addition to those areas above which have either been or soon will be regulated by the Union, another energy security policy issue has come to the fore which could have a substantial future impact on European energy security. This issue is unconventional gas, most often referred to as shale gas as it is the most common and controversial form of this resource. Though only in the earliest stages of exploration and production in Europe, shale gas extraction via hydraulic fracturing is a very contentious topic.

\textsuperscript{77}“5 Questions About South Stream,” South Stream, \url{http://south-stream.info/index.php?id=30&L=1}.
\textsuperscript{78}“South Stream,” \url{http://south-stream.info/fileadmin/pixs/sotrudnichestvo/3d_map/south_stream_europe_big_eng_final.jpg}.
For many Europeans, the fear of earthquakes, groundwater contamination and environmental pollution outweigh the potential benefits that a domestic source of natural gas can provide. The International Energy Agency (IEA) weighed in on shale gas extraction in May 2012 and brought yet another issue of concern that many Europeans will find troubling. According to IEA chief economist Fatih Birol, “renewable energy may be the victim of cheap gas prices if governments do not stick to their renewable support schemes.”

In addition, while the European Commission’s 2011 Report on Unconventional Gas in Europe expressed the view that existing regulation is sufficient given the current stage of development of the shale gas industry, some MEPs are beginning to weigh in on the matter, making the case for additional regulation. With all this bad press in Europe, it’s not surprising that two countries, France and Bulgaria, have banned fracking, one of the procedures used to extract shale gas, outright.

Despite the controversy some countries, including Poland, Germany and Sweden, are moving ahead full steam with exploration activities. Poland, for instance, has long been reliant on domestic sources of coal to generate electricity. For Poland, shale gas resources represent a way to move away from coal toward cleaner burning natural gas without increasing its reliance on Russia as a gas

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supplier. Poland, though once a supporter of EU regulation of the shale gas industry, is now adamantly opposed to any regulation. Indeed, Poland has threatened to veto any proposed legislation restricting shale gas exploration and production.\textsuperscript{83} Though it will be several years before shale gas is produced in the European Union, the potential impacts on energy security are broad. For Eastern member states like Poland, shale gas means breaking away from Russia as its primary gas supplier. For other member states, shale gas could mean cheaper prices due to resource abundance, economic growth and increasing employment.

\textbf{Energy Security Policy & the Lisbon Treaty}

Today, energy policy in the EU is an area of shared competence. Under the Lisbon Treaty (also known as the Treaty on the Functioning of the European Union or TFEU), this is defined as an area in which both the EU and member states have responsibility. “When the EU and its member states share a competence, the member state loses its 'competence' (power to take decisions) when the EU decides to regulate. So EU legislation does not only replace the content of a national law, it also removes the national right to legislate in the covered area.”\textsuperscript{84} The “covered area,” however, is restricted to the area directly covered by legislation; not to the policy area as a whole.


\textsuperscript{84} “Shared Competence,” EUABC Internet Dictionary of EU Terms, \url{http://en.euabc.com/word/832}.
There has been much speculation about the possible impact of the Lisbon Treaty on energy security policy, based on changes in EU primary law. For instance, Lisbon is the first treaty to include a chapter on energy. This chapter lays out the four primary goals of EU energy policy, which include ensuring the functioning of the energy market, ensuring security of supply in the Union, promoting energy efficiency, energy saving, and renewable energies, and promoting the interconnection of energy networks.⁸⁵ What the Lisbon Treaty does not do, however, is provide a legal obligation requiring member states to observe solidarity principles. In fact, though the Union has the competence to “adopt preventive measures to avoid security threats,” it does not limit member states from conducting “their bilateral (energy) relations with other countries as they see fit.”⁸⁶ Furthermore, Article 194 (2) and (3) stipulate that “measures in the field of energy taxation and member states’ rights in deciding on the conditions for exploiting their energy resources, choices amongst different energy sources and the general structure for their energy supply are subject to unanimity.”⁸⁷ In areas as controversial as these (due to their direct impact on national sovereignty), it is unlikely that the required unanimity would be achieved for measures that did not have a major bearing on national and international security (the September 11th attacks in the U.S. come to mind as a potentially unifying event.)

⁸⁶ Braun, EU Energy Policy, 2.
⁸⁷ Ibid.
Lisbon does, however, include some provisions that will be important for the analysis that follows, and these provisions come under the rubric of external action. The Lisbon Treaty has created the position of High Representative of the Union for Foreign Affairs and Security Policy. This position, currently filled by Baroness Catherine Ashton, has a role in external energy relations. For instance, Baroness Ashton took the lead in representing the Union at the November 2010 EU-US Energy Council Summit.\(^{88}\) In this case, Energy Commissioner Guenther Oettinger was relegated to a secondary role. It is important to note, however, that “on projects of ‘European interest,’ such as the Southern Corridor and the Mediterranean Solar Plan, the commissioner for energy takes the lead while the high representative for the Union in foreign affairs and security policy plays second fiddle.”\(^{89}\) While High Representative Ashton can bring weight to energy negotiations with non-EU members, Commissioner Oettinger and his staff have a technical and policy expertise (gained through experience and training) that the High Representative lacks. Determining who will play the primary role in future energy negotiations with Russia will be difficult, and the Union might well experience a period of ‘growing pains’ as these ambiguous institutional issues are settled.

**EU-Russia Energy Relations**

\(^{88}\) Braun, *EU Energy Policy*, 5

\(^{89}\) Ibid.
The EU has a long term relationship with Russia as an energy supplier. Some member states have been importing gas from Russia since they were members of the communist bloc. Others, like Italy and West Germany, began importing gas from the Soviet Union in 1969. These relationships are important and reflect not only energy policy but also foreign policy relationships between member states and Russia. For instance, those member states who were not part of the former communist bloc and who have been long term Russian energy importers generally have very good relations with Russia. Germany and Italy, for instance, consider Russia to be a strategic partner. By contrast, those member states that were part of the communist bloc often have more difficult relations with Russia in both the energy and foreign policy spheres.

The EU/Russia energy relationship takes place at different levels, bilaterally between the EU and Russia as well as bilaterally between individual member states and Russia. The EU and Russia have a difficult bilateral relationship, which still lacks a strong framework within which to operate and to resolve disputes. Though both the EU and Russia are signatories to the 1994 Energy Charter Treaty, Russia has never ratified it and therefore does not subscribe to its provisions. Indeed, in 2006 Russian President Putin “rejected EU demands that Russia ratify an energy

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charter liberalizing parts of its energy sector and dismissed accusations that Russia was using its vast energy sources as a foreign policy tool.”

At present, bilateral EU/Russia energy relations take place within the EU/Russia Energy Dialogue. Established in 2000, the Dialogue’s objective is to “provide reliability, security and predictability of energy relations on the free market in the long term and to increase confidence and transparency on both sides.” The Dialogue has been successful in developing an early warning mechanism which is designed “to guarantee an early evaluation of potential risks and problems related to energy supply. The mechanism aims also to ensure a rapid reaction in case of an emergency situation or a threat of such a situation.” This early warning mechanism was developed after the 2009 Russia/Ukraine gas crisis. In addition, other joint projects and studies have been completed under the auspices of the Dialogue. These include projects to increase the use of renewable energy sources and improve energy efficiency in Russia. Other than the early warning mechanism, no joint projects have been completed to improve gas supply security.

Despite the Dialogue’s successes, the relationship between the EU and Russia is further complicated by what many believe to be Russia’s politically motivated use of energy supplies as leverage over its neighbors. In January of 2006 and again in

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January of 2009, Russia and Ukraine disagreed so vehemently on the renegotiation of gas prices that Russia cut off gas supplies to that country. Unfortunately, Ukraine is a chokepoint for gas supplies flowing from Russia to EU member states. Before the Nord Stream pipeline came fully online at the end of 2012, approximately 80% of Russian gas supplies destined for the EU flowed through Ukraine. Many eastern member states were impacted by this significant supply shock, as gas is widely used to power electrical plants and heat homes. Russia has invested in alternative supply routes, such as the Nord Stream pipeline, to ensure that it can reliably supply Western European consumers but the Central and Eastern European states most vulnerable to supply shocks are not served by these new supply routes.

In an effort to protect these member states, in September 2012 the Commission launched a formal antitrust investigation targeting Gazprom. The Commission seeks to determine whether Gazprom violated E.U. antitrust laws in three ways – by restricting European buyers’ right to sell gas to one another, by preventing member states from diversifying their gas supplies, and by unfairly raising costs by linking gas prices to oil prices.\(^{95}\) This investigation focuses specifically on deals between Gazprom and energy companies in Central and Eastern Europe and the Baltic States.\(^{96}\) As a result of the investigation, the EU announced on October 2, 2013 that it was preparing to charge “Gazprom with

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abusing its dominant position in Central and Eastern Europe.” This could lead to a fine of €15 billion.97

There are a number of factors which complicate the various bilateral relationships that were described above. Many Eastern member states have far less trust for Russia as a neighbor and energy supplier than have Western member states. This is so for a number of reasons. Some, such as Poland, have a legacy of general distrust based on a difficult history with Russia. Others, such as the Baltic States, claim to have been the victims of politically and economically motivated attacks by Russia, including cyber attacks as well as the use of energy supplies for political and economic leverage. Indeed, Poland and Lithuania have been referred to as “new cold warriors”98 by scholars at the European Council on Foreign Relations due to their overtly hostile relations with Russia. By contrast other member states, such as France, Germany and Italy, consider Russia to be a “strategic partner.”99 Each of these member states has been involved in significant infrastructure investments with Russia’s Gazprom, such as the Nord Stream and South Stream gas pipeline projects.100

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An additional complicating factor is the infrastructural legacy of the communist era. Though the EU strongly supports the interconnection of gas pipelines throughout the Union, many pipelines in the Eastern member states flow only in one direction - from Russia to the West. This limits the ability of Eastern European member states to find alternative suppliers should they wish to do so. While some are not without options (LNG, for instance) this can lead to greater infrastructural expenses at a time when many member states are struggling with debt, austerity measures and a crisis in the Eurozone.
CHAPTER THREE:  
A REVIEW OF THE LITERATURE

There are three primary strands of literature which provide insight for this dissertation. The first is a subset of the European integration literature which seeks to explain the development of national preferences within MS. This is the primary strand of literature which has informed the research design for this dissertation. The second strand is also couched within the European integration literature and it seeks to explain interstate bargaining. Finally, the international relations literature helps to explain Russia's foreign policy goals and the tactics that have been used to achieve them.

National Preference Formation in Member States

The literature on national preference formation in the EU is both rich and diverse, and there is little agreement among scholars about how best to theorize national preferences. In his seminal 1998 book, Andrew Moravcsik provides a new theory of European integration. Liberal intergovernmentalism (LI), as Moravcsik calls it, argues that “European integration was a series of rational adaptations by national leaders to constraints and opportunities stemming from the evolution of an
interdependent world economy, the relative power of states in the international system and the potential for international institutions to bolster the credibility of interstate commitments.”\(^\text{101}\) In making his argument, Moravcsik presents a three part theoretical framework whereby “the collective decisions of national governments can be analyzed by assuming that each first formulates national preferences, then engages in interstate bargaining and finally decides whether to delegate or pool sovereignty in international institutions.”\(^\text{102}\)

Although one of the critiques of LI is that it can only be used to explain ‘grand bargains’ (or EU treaty negotiations), two of Moravcsik’s ‘sub-theories’ are very useful when looking at how energy policy has developed at the EU level. These ‘sub-theories’ concern national preference formation and bargaining positions. This rest of this section will review the current literature on national preference formation among member states beginning with Moravcsik’s work on the topic.

Moravcsik argues that national preferences are largely determined by domestic economic factors and trade, as expressed through the interests of producer/manufacturer groups. This does not mean that geopolitical factors have no salience, but rather that economic concerns are the primary driver of national preferences. Preferences, which Moravcsik argues are separate from strategies, tactics and policies, are “causally independent of the strategies of other actors and, therefore, prior to specific international political interactions, including external


\(^{102}\) Moravcsik, *Choice for Europe*, 473.
threats, incentives, manipulation of information or other tactics.”

National preferences are impacted by domestic societal pressures, and are defined by Moravcsik “as an ordered and weighted set of values placed on future substantive outcomes, often termed ‘states of the world.’” There are many critiques of Moravcsik’s conception of national preferences, and several of them will be addressed below.

According to Kurze, LI does “do well in explaining national opposition against the Commission’s attempts of applying Community legislation, particular competition law, in the energy sector by highlighting the (economic) interests of key national actors.” However, she argues that LI fails to explain the recent move toward further integration in energy security policy, given that there exist relatively stable national interest groups in the energy sector.

As an alternative to LI, Kurze posits that insights from constructivism are more useful in explaining national preference formation in energy security policy. She notes that, “tracing the emergence and change of social constructions of a given phenomenon as well as their political consequences (e.g. impacts on policy-making processes and outcomes, European identity, etc.) are at the center of constructivist approaches to European integration.” In particular, Kurze relies on the concept of

104 Moravcsik, Choice for Europe, 24.
106 Ibid.
securitization developed by the Copenhagen School to make her argument, which in turn relies on the idea of security as “a practice, a specific way to frame an issue.”

When an issue is securitized, it includes both the labeling of the issue as well as a call to action. Climate change, for instance, is one issue that has been undergoing a process of securitization over the last several years.

Kurze argues that the gas and oil crises between Russia and Ukraine and Russia and Belarus respectively cast Russia as a threat to European energy security rather than as a trading partner. This “Russian threat called Gazprom” view is located in a geopolitical context of nations competing for scarce resources. This makes politically motivated supply disruptions seem even more insidious. Kurze argues that the securitization of energy policy has led to “greater consensus on the measures to be taken at the European level.” This growing consensus on deeper integration is what LI is unable to explain, as it appears that geopolitical concerns carry a greater weight than Moravcsik’s theory would claim.

In addition to geopolitical concerns, a growing group of scholars has argued that economic interest groups cannot have the influence ascribed to them by LI due to their inability “to act in a utility-maximizing way in a context of political uncertainty.” Similarly, Leblond argues that integration often fails because

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110 Ibid.
economic interest groups don’t support legislation due to the uncertainty “that surrounds EU integration proposals in terms of their costs and benefits.”\textsuperscript{112} This dissertation will investigate whether or not economic interest groups are able to influence preference formation in energy security policy.

To date, very few studies of preference formation in energy security policy have been completed and the national preference literature offers many alternative explanations of preference formation than that proposed by Kurze (above). EU integration scholars argue that there are a wide variety of variables which impact national preference formation other than domestic economic factors, and trade (Moravcsik) and geopolitics (Kurze). These variables include national historical experience, MS size and ideology,\textsuperscript{113} and varieties of capitalism.\textsuperscript{114}

Historical experiences come into play in preference formation in a variety of different ways. Indeed, Aspinwall notes that one perspective on integration “argues that preferences are derived from unique historical experiences, which create distinct approaches to European integration.”\textsuperscript{115} Germany, for instance, is still under the shadow of World War II and is a strong supporter of integration as a way

\textsuperscript{113} Tim Haughton and Darina Malova, “Emerging Patterns of EU Membership: Drawing Lessons from Slovakia’s Two Years as a Member State,” \textit{Politics} 27 (2007): 69 – 75.  
\textsuperscript{114} Pinar Ipek and Paul A. Williams, “Firms’ Strategic Preferences, National Institutions and the European Union’s Internal Energy Market: A Challenge to European Integration,” European Integration Online Papers, volume 14, paper 15, \url{http://eiop.or.at/eiop/index.php/eiop/article/view/2010_015a}.  
to ensure peace in Europe.\textsuperscript{116} The Central and Eastern European member states’ unique historical experience with socialism led to their desire to accede to the EU in the hope that membership would help consolidate democracy and modernize state institutions.\textsuperscript{117} Though there are many shared experiences among these member states, as discussed below, there are also many differences. For instance, historical relations with Russia vary considerably among the new member states.

According to Haughton and Malova, smaller member states tend to have stronger preferences for common institutions based on their need to defend against the interests of larger states.\textsuperscript{118} Though it’s been a less popular subject since the end of the Cold War, scholars like Aspinwall still argue that ideology also plays a role in preference formation. According to Aspinwall, “the location of parties and governments in Left–Right space serves as a good independent explanation of preferences on integration.”\textsuperscript{119} Indeed, the author found that those parties in the center had stronger preferences for integration than those on the far left or far right. Similarly, Haughton and Malova argue that, “parties in Slovakia, as elsewhere in the EU, see European integration through an ideological prism, and respond to it on that basis.”\textsuperscript{120} European integration can be seen as a benefit or a threat to national

\begin{flushleft}
\begin{itemize}
\item \textsuperscript{118} Haughton and Malova, “Emerging Patterns of EU Membership,” 71.
\item \textsuperscript{119} Aspinwall, “Preferring Europe,” 82.
\item \textsuperscript{120} Haughton and Malova, “Emerging Patterns of EU Membership,” 72.
\end{itemize}
\end{flushleft}
institutions, depending on the policy area. For instance, Slovakia viewed the EU’s tax harmonization policy as a threat to its neoliberal flat tax, which was an ideological preference for not only the Slovak government, but also the business community. Member states having different economic ideologies were more accepting of the tax harmonization policy.

Standing in tension with this view of economic ideology is the argument that the structure of the national economy, for instance a liberal market economy (LME) vs. a coordinated market economy (CME), impacts national preference formation. According to Ipek and Williams, who look at preferences regarding the formation of the internal energy market, “local modes of capitalism that determine domestic market structures and international economic settings of firms also shape preference formation regardless of the level of transaction costs and external threat facing any given EU member state.”121 The distinction between varieties of capitalism originally made by Hall and Soskice122 forms the basis of their argument. According to Hall and Soskice, the primary difference between the LME and CME can be found in how firms conduct business. In a LME, “firms coordinate their activities primarily via hierarchies and competitive market arrangements. By contrast in a CME, “firms depend more heavily on non-market relationships to coordinate their endeavors with other actors.”123 In terms of energy policy, the difference between a LME and CME can be symbolized by the different types of corporate relationships

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121 Ipek and Williams, “Firms’ Strategic Preferences,” 7.
123 Hall and Soskice, Varieties of Capitalism, 8.
forged between member states and Russia. For instance, energy companies in an LME rely more heavily on contractual relationships while those embedded in a CME rely more heavily on strategic partnerships. Though these two views of how economics impacts national preferences are in tension, it is likely that both impact member state preferences on energy security policy in some way.

Though the distinction between LMEs and CMEs is an important one, it is flawed in that it fails to take into account the differences between the developed Western European economies and those in Central and Eastern Europe (as well as emerging market economies throughout the world). Hall and Soskice’s original distinction between these two types of capitalism was designed to analyze the economies of Western Europe, the US and Japan. However, as the literature has developed, scholars have made the argument that post-Communist states should be classified somewhat differently or that a spectrum of classifications should be created to accommodate states that have emerged from different circumstances than the developed Western economies.¹²⁴ One attempt to incorporate the East-Central European states into the varieties of capitalism paradigm calls for the expansion of Hall and Soskice’s framework to include ‘dependent market

emergencies’ or DMEs.\textsuperscript{125} (A similar attempt to enlarge the framework assigns a new category ‘hierarchical market economies’ to Latin American countries).\textsuperscript{126}

Emerging market economies, like those in Central and Eastern Europe, are home to both lower labor costs than those in Western Europe and an educated population with a “substantial knowledge of a medium level of technology.” These conditions give the emerging market economies in Central and Eastern Europe a comparative advantage in “the assembly and production of relatively complex and durable consumer goods.”\textsuperscript{127} Transnational corporations moved into the region after the collapse of communism to take advantage of these conditions. As institutions are designed to accommodate this arrangement, DMEs became dependent on capitalization through foreign direct investment (FDI) and on the investment decisions made by transnational corporations.\textsuperscript{128} According to Nolke and Vligenthart, the central coordination mechanism within firms in a DME is “the hierarchy within transnational corporations.”\textsuperscript{129} How this plays out in the energy industries of these countries depends on whether the primary energy firms are state owned, privately owned or transnational, and this is because “construction of the DME model covers only the dominant industries within the region and cannot represent East Central European economies as a whole.”\textsuperscript{130} In the case of DMEs, the

\textsuperscript{125} Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 672-3.
\textsuperscript{127} Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 672.
\textsuperscript{128} Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 676.
\textsuperscript{129} Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 677.
\textsuperscript{130} Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 679.
types of energy firms at play and their individual coordination mechanisms will be a factor in preference formation more than the variety of capitalism.

Another important variable that impacts national preferences is the legacy of socialism. According to Copsey and Haughton, this legacy of 40 years of socialism has contributed to “the weakness of civil society groupings, the fluidity of political parties that are mostly elite created and closely associated with their founders and leaders, the lack of highly developed mechanisms of accountability and, very importantly, the absence of institutionalized official forums for government and key interest groups to interact in an open and transparent manner.”131 This legacy has led to differences in the way that new member states governments interact with the business community and other constituencies, which is an under-researched area in Central and Eastern Europe. In addition, during the transition process there was very little debate within new member states regarding EU issues before acceding to the Union. Until accession, new member states were preoccupied with whether or not to join the EU rather than policy issues.132

In addition to these variables, scholars have argued that there are instances in which member states might not act according to their national preferences. One instance of this, according to Verhoeff and Niemann, is when a member state assumes the Presidency of the European Council, as this institution tends to constrain member state behavior through both formal institutions and informal

132 Ibid.
The authors take an institutional approach and argue that LI, prior to Germany’s assuming the rotating Presidency, explains the country’s preferences with regard to energy relations with Russia. However, once in the Presidency Germany faced a number of formal and informal institutional constraints which prevented it from making choices “shaped by the preferences and constraints stemming from the most important economic constituents.”

**Interstate Bargaining**

Moravcsik argues that the relative bargaining power of states depends on asymmetric policy interdependence. Asymmetric policy interdependence refers to the idea that “the power of each government is inversely proportional to the relative value that it places on an agreement compared to the outcome of its best alternative policy – its ‘preference intensity.’” This refers to the fact that governments which will receive greater benefits from a negotiated agreement are more willing to make concessions at the margin in order to obtain the desired outcome. For instance, in hypothetical negotiations regarding a common external energy policy, member states such as Poland or the Baltics would be more willing to make concessions to the larger member states that have less to gain, such as Germany or France.

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because the Central and Eastern European member states would benefit more from a single European voice in energy security matters.

In addition to asymmetric policy dependence, there are other factors which can impact interstate bargaining in the EU. Tallberg argues that there are three sources of bargaining power in the EU, state sources, institutional sources and personal sources.\footnote{Jonas Tallberg, “Bargaining Power in the European Council,” Paper presented at the 10th EUSA Conference, Montreal, May 17 – 19, 2007. \url{http://aei.pitt.edu/8045/1/tallberg-j-12c.pdf}, 4.} State power is determined by size (which translates to number of votes under the qualified majority voting system), economic strength, military power, etc. Institutional sources are determined by the veto power and the rotating Presidency, while personal sources of power derive from the personal qualities of the negotiators themselves, the heads of state and government.

Tallberg’s discussion of the use of the rotating Presidency as a source of power in EU bargaining stands in tension with Verhoeff and Niemann’s position above, which argues that the rotating Presidency is subject to formal and informal institutional constraints which lead the member state in the Presidency to often act as a mediator rather than as a more powerful member state with its own national interests. This dissertation proposes to address whether or not the Presidency is a factor in voting behavior.

International bargaining is one area in which the LI understanding of EU decision making has come into question. The reason for this is LI’s exclusive emphasis on the grand bargains of the European Treaties. LI inherently
understands bargaining as intergovernmental, and this is generally the case for treaty negotiations because the stakes are higher. In policy negotiations, we see that context is important, and that problem-solving occurs alongside traditional bargaining. According to Elgstrom and Jonsson, there are five contextual factors which help determine whether bargaining or problem-solving occurs. These include the decision making rule (unanimity vs. QMV), level of politicization, stage in the decision making process, type of policy and network characteristics.\(^{137}\) This context must be taken into consideration when looking at EU decision making on energy security policy, which is certainly a highly politicized policy area.

**Russian Foreign Policy**

Russian foreign policy is another branch of literature that is central to the study of energy security preferences in the EU. Many Central and Eastern European member states fear that Russia is trying to reassert its influence over them using energy supplies as leverage.\(^{138}\) The following discussion of the literature on Russia’s foreign policy sheds some light on Russia goals in the neighborhood and the tactics it’s employed to achieve them.

One area in which there is some agreement among Russia scholars is on foreign policy goals. Broadly speaking, these include reestablishing Russia as a


“Great Power,” reintegrating the post-Soviet space (minus the Baltic States, which are now EU members), integrating Russia into the world economy, and (particularly under Putin) fighting terrorism. This section will discuss the first three, which have relevance for European energy security. To date, Russia has had mixed results from its efforts to achieve these goals.

Arguably, Russia’s foreign policy priority is to reestablish itself as a ‘great power’ if not a superpower.139 After the Soviet Union collapsed, Russia lost its superpower status and became a ‘normal’ country. Many elites, however, were not satisfied with this transition and have since sought to return Russia to great power-don. According to Ghia Nodia, “great-power nationalism is about participation in determining the world order, about having a voice in setting international norms. It is about the recognition not merely of sovereignty, but of greatness. Failure to attain such recognition leads to deep feelings of resentment.”140

Another of Russia’s top foreign policy goals is to reintegrate, or reassert its influence over, the post-Soviet space, what Russians often refer to as the Near

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Abroad. This was first evidenced by a Presidential Decree signed by Yeltsin in September 1995, which “proclaimed the re-integration of the post-Soviet space around Russia as the major foreign policy priority.” According to Larrabee, Russia is now “a revisionist power; it seeks to reestablish its influence in the post-Soviet space and wants to change the post-Cold War security order in Europe. Russia feels that order was imposed upon it by the West at a time when Russia was weak. This security order does not, in the Russian view, sufficiently take into consideration Russia’s recently changed status.”

Many refer to the post-Soviet space as Russia’s sphere of influence or, according to Dmitri Trenin, Russia’s sphere of interests. The difference between the two terms is that interests are not exclusive to Russia, so that other countries can conceivably have interests in the region as well. Despite this conceptual distinction, however, the Putin and Medvedev administrations have generally perceived U.S. interests in the region as mostly hostile. Regardless of the terminology, Russia has undertaken a number of steps designed to bring the former Soviet states (with the exception of the Baltic States, which are EU members) closer

142 Kazantsev, 1073.
143 Larrabee, “Rethinking Russia,” 34.
to Russia. Now President, then Prime Minister Putin’s recent call for the creation of a Eurasian Union is just one example.\(^\text{145}\) Others follow.

The first step in this direction was the creation of the Commonwealth of Independent States (CIS) in 1991. At one time, the CIS encompassed all the post-Soviet Republics (again with the exception of the Baltic States), however Georgia left the organization soon after the August 2008 War with Russia.\(^\text{146}\) The CIS is a loose association of states designed to coordinate common concerns like trade, customs, security, etc. According to Mankoff, “After a decade of neglect and selective engagement, Putin’s Russia sought to play a much more active role in the Near Abroad, in part as a way of forcing the West to take is claims to Great Power status seriously.”\(^\text{147}\) Some view the reintegration of the post-soviet space as a step toward great power status. According to Nygren, “Vladimir Putin sought to rebuild Moscow’s lost empire, first and foremost by controlling energy resources, to be followed in the future more generally by economic dominance and integration of the former Soviet space, and in the longer term, perhaps, also by much closer political integration.”\(^\text{148}\)

In addition to the CIS, Russia has initiated a number of other organizations that aim to further integrate portions of the post-Soviet space. One of these is the


\(^{148}\) Nygren, 3.
Collective Security Treaty Organization (CSTO), which was inaugurated in 2002. This organization consists of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan, and it provides for cooperation on issues such as international terrorism, narcotics, arms and other illegal trafficking, illegal migration and external military threats. The CSTO also includes a Eurasian Rapid Response Force of approximately 4,000, which conducts military exercises regularly. The CSTO, though active in Central Asia, is not as effective as it could be; for instance, Russia has failed to ratify four of the eight agreements that have come into force within the organization. The Eurasian Economic Community, which includes Russia, Belarus, Kazakhstan and Kyrgyzstan, is another attempt at integrating the post-Soviet space. However, it has been generally unsuccessful in attempts to create a customs union.

Another example of a Russian sponsored organization that has sought to integrate portions of the post-Soviet space (particularly Central Asia) is the Shanghai Cooperation Organization (SCO), which includes Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan. This organization has two primary sponsors (Russia and China) and therefore seeks closer integration within Central Asia but not around Russia alone. The SCO covers areas of cooperation such as international terrorism and narcotics trafficking, but also has a focus on economic

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149 Mankoff, Russian Foreign Policy, 270.
150 Kazantsev, 1077
151 Ibid.
152 Kazantsev, 1076.
153 Kazantsev, 1079.
cooperation and trade. Energy cooperation is one of the organization’s major priorities.\textsuperscript{154} The SCO serves another purpose in the realm of Russian foreign policy, and this is to balance the United States.\textsuperscript{155} Russia and China together have significantly more leverage than Russia alone.

Another of Russia’s major foreign policy goals is integration into the world economy and financial institutions.\textsuperscript{156} Until December 2011, Russia was the only member of the G20 (let alone the G8) that was not also a member of the World Trade Organization.\textsuperscript{157} This had been the case for both internal and external reasons. According to Mankoff, WTO membership is still controversial inside Russia, and “the establishment of a ‘state corporatist’ model of industrial relations (with the state itself designing which representatives of business it will engage) have thrown up impediments to Russia’s economic integration.”\textsuperscript{158} Furthermore, the issue of WTO membership had become a point of contention between President Medvedev, who wanted Russia to join, and Prime Minister Putin, who was less interested in membership and in implementing the economic reform it requires.\textsuperscript{159} Other impediments for Russia’s membership included the WTO’s own sluggish bureaucracy and extensive legislative requirements as well as the veto threats of disgruntled Eastern European and former Soviet states like Georgia. In December 2011, however, the WTO Trade Minister’s finally accepted Russia’s bid to join,

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{154} Ibid.
\item\textsuperscript{155} Mankoff, Russian Foreign Policy, 216.
\item\textsuperscript{156} See Lo, 2003 and Mankoff, Russian Foreign Policy, 2009.
\item\textsuperscript{157} Anders Aslund, “Why Doesn’t Russia Join the WTO?” \textit{The Washington Quarterly} 32 (2010): 49.
\item\textsuperscript{158} Mankoff, Russian Foreign Policy, 81.
\item\textsuperscript{159} Aslund, Why Doesn’t Russia Join the WTO, 62.
\end{enumerate}
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providing Putin with an important international victory, and marking the achievement of an important foreign policy goal.\textsuperscript{160}

To achieve its goals, Russia has employed a number of tactics which include balancing, bilateralism, multilateralism, ‘divide and conquer’ and the use of its energy resources as leverage over its neighbors, particularly in the post-Soviet space. Three of these tactics: bilateralism, ‘divide and conquer’ and the use of energy resources as leverage will be discussed below as they are particularly relevant to European energy security policy.

Russia generally has a strong preference for bilateral agreements,\textsuperscript{161} and has chosen to negotiate with EU member states on a bilateral basis, rather than with the EU as a whole on issues such as pipeline projects. This has sown some dissent between member states, as some have felt not only left out, but also slighted, by this process. An example of this is the construction of the Nord Stream pipeline project. Though bilateral negotiations are likely to continue, the European Council has agreed that member states should inform the Commission, beginning in January 2012, of all their new and existing bilateral energy agreements with outside countries.\textsuperscript{162} This information will be made available to other member states. This


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measure is designed to introduce transparency in bilateral energy relations between Russia and member states.

Russia has also engaged in a number of foreign policy actions that can be lumped together as ‘divide and conquer’ tactics, to increase its economic influence and achieve other foreign policy priorities. An example can be viewed in the context of Russian energy policy. According to the European Council on Foreign Relations, “Russia has strengthened its political relationships by recruiting big business to act as a lobbyist for the Russian cause inside key EU countries. Its state-controlled companies have built partnerships with companies such as E.ON and BASF in Germany, ENI in Italy, GDF and - to a lesser extent - Total in France, and Gasunie in the Netherlands.”163 The recruitment of business interests in member states is just one tactic that Russia has employed to gain an advantage in its dealings with member states.

The EU has been much divided in its dealings with Russia in the energy sector, and while some states (like Germany, France and Italy) view Russia as a reliable partner others (like Poland or the Baltic States) view Russia as a threat. This attitude is certainly related to these states’ experiences as members of the communist bloc, yet Russia’s actions (such as gas wars and threats to aim missiles at Poland) have again exacerbated the problem rather than contributed to its solution. The EU’s lack of coordination on energy matters is a facilitating factor, and

163 Leonard and Popescu, 14.
according to Mankoff, “Without a single market, Russia will remain able to pursue a divide-and-rule strategy inside Europe.”\textsuperscript{164}

Finally, Russia has also made use of its energy resources and transit capabilities not only to divide Europe, but also to exercise leverage against certain post-Soviet states. According to Nygren, Russia has had a legitimate market-based reason for actions like price increases, “nonetheless, there are ample grounds for suspecting that state-controlled energy companies are being used as proxy agents of foreign policy to punish or reward CIS neighbors.”\textsuperscript{165} Russia has made some mistakes, however, in the exercise of its energy leverage, such as the interruption of gas supplies to Ukraine in January 2006 and then again in 2009. This had ramifications for European consumers further down the pipeline and the uproar among European consumers and analysts was great.

In spite of the uproar, however, most Western European countries continue to be on good terms with Russia. Many of them were able to obtain gas from other suppliers in 2006 and again when supplies were interrupted in January 2009. This is not the case in Eastern Europe, however, where many countries are still connected to the old Soviet gas distribution network and receive their supplies primarily from Russia. Generally, Russia has used this leverage (what some scholars and analysts refer to as an energy weapon) to force countries to pay their overdue gas bills, but this leverage has also been used to negotiate an increase in prices. In

\textsuperscript{164} Mankoff, Eurasian Energy Security, 27.
\textsuperscript{165} Nygren, 3.
addition some argue that “Russia has used threats of gas and oil embargos as a form of political blackmail, as it did when it cut off petroleum supplies to Lithuania and Estonia in 2007.”

Though many European member states have a good or even fair relationship with Russia, that country's foreign policy goals and tactics as described in the literature cited above are cause for concern for other member states. Whether these concerns are directly attributable to post-Soviet Russia's actions in the energy and foreign policy spheres is one of the research questions that will be addressed in this dissertation.

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This chapter begins by detailing the main hypotheses and research questions which guide this dissertation. As mentioned above, the primary purpose of this project is to explore how Russian external energy policy has impacted energy security policy development in the EU by exploring how member states form national preferences toward energy policy issues. The hypotheses and research questions below have been sorted into sections for the quantitative and qualitative portions of this dissertation.

The following sections describe the data and methods that are used in this analysis. As originally designed, this dissertation intended to incorporate a mixed methods approach, which would compare the results of a statistical analysis with qualitative case study analysis in the hope that the results would be consistent. As you will see in the following chapter, however, the data itself prevented the completion of the statistical analysis portion of this dissertation. Although the hypotheses and research questions for the quantitative portion of this dissertation will be still be presented below, my findings reflect the inability to perform the analysis. This dissertation’s conclusions will now rely entirely on the comparative case study analysis in the following chapters.
Quantitative Analysis: Hypotheses & Research Questions

With the negotiation of the failed European Constitution and later the Lisbon Treaty, the EU had the opportunity to develop its energy policy in unprecedented ways. This, however, did not occur. Although there is now an energy chapter in the Lisbon Treaty which allows the Commission to propose legislation in the energy policy sector, very little has been done to ensure that the EU has a coherent energy policy that is supported by all member states.

Instead, integration in the energy policy, and more narrowly energy security policy sectors, has proceeded primarily on an ad hoc basis. Though recent efforts on behalf of the Commission, interested member states and the European Council indicate a move toward further integration in energy security policy, this move is by no means assured. One possible reason for this is the success of Russia’s external energy policy tactics (such as ‘divide and rule’ described above) in exacerbating existing divisions between member states. This leads to the following hypothesis which guides the quantitative portion of this study.

**Hypothesis 1:** A member state which has tense relations with Russia will be more supportive of integrative energy policy measures.
Member states that receive preferential commercial and geopolitical treatment from Russia tend to view this nation as a strategic partner. Member states that have been the targets of punitive measures tend to view Russia as a potential adversary. Other member states fall somewhere in the middle of this spectrum based on their geopolitical and commercial relations with Russia, as well as on their status as a former communist bloc state. Please see the following Chapter for greater detail on this spectrum.

Russia’s external energy policy has exacerbated existing political divisions among member states by giving preferential treatment to some member states, and trying to punish others through punitive measures like gas price increases and gas or oil cut offs. One striking example of this is the division sown between Germany and Poland by the Nord Stream Pipeline. Called the “Molotov-Ribbentrop Pipeline” in the Polish press, this project has served to further divide Poland, an Eastern member state, from Western member states like Germany and France. Alexiev argues that if this pipeline had been simply a way to enhance the security of gas supplies to Western Europe, it could have been built through the Baltic States and Poland much more cheaply. Rather, “such a pipeline would not have allowed Russia to turn off the gas to its Eastern neighbors while continuing to sell it to Germany and Western Europe, and thus would have denied the Kremlin the ability to blackmail the former, as it already has on several occasions in recent years.” This is one

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example of the way in which Russia’s external energy policy has impacted the development of EU energy security policy by shaping the national energy security policy preferences of member states. In this dissertation I argue that these national preferences then influence negotiations on furthering integration in both the Council of Ministers and the European Council. The following research question can be answered through the quantitative analysis of voting data from the Council of Ministers.

Research Question 1: has Russia’s external energy policy had a negative impact on the development of a common energy security policy in the EU?

Member states’ votes on energy policy issues in the Council of Ministers will serve as my dependent variable, where support for integration will be indicated by a vote in favor of policy measures calling for further integration in the energy sector. My primary policy or independent variable will be a scale representing member states’ positions on the spectrum of relations with Russia as described briefly above. Please see the following Chapter for a deeper explanation of this scale.

Research Question 1a: are there other variables, such as being a member of the former Eastern Bloc, energy dependence, etc. that also impact national preferences toward a common energy security policy in the EU?
The impacts of other policy variables will also be tested in an attempt to isolate the impact of member states’ relations with Russia and to determine the other factors at play in European energy security policy negotiations. Additional independent variables selected for this analysis were derived from the literature and include the following:

1. Energy dependence (%)
2. Membership in the former Eastern Bloc
3. Political party (ruling party) economic ideology
4. Variety of capitalism
5. Energy production
6. Was the member state in the Council Presidency at the time of the vote?
7. Does the member state import Russian energy?

For a full description of the variables included, including how they are coded, please see Chapter 5.

**Qualitative Case Study Analysis: Hypotheses & Research Questions**

The following hypotheses, which have been derived from the literature, will structure my inquiry for the case study portion of this proposed research project, which makes up Chapters 7 - 12.
Hypothesis 2: there is a connection between member states involvement in large infrastructure projects with Russia and resistance to further integration in the energy security policy sector.

Many states that have been involved with large infrastructure projects have been notoriously opposed to measures that would increase integration in the energy security sector. Germany, for instance, was Russia’s original partner in the Nord Stream Pipeline project. I argue that the secure supply of gas that Nord Stream provides by bypassing other European nations (both EU member states and non-member states) makes solidarity in times of a supply shock a less important issue because the security of supply need has been filled. Once security of supply has been established, there is no further need to obtain it through EU level policy.

Hypothesis 3: there is a connection between the presence of powerful vertically integrated national champions in member states and resistance to further integration in the energy security policy sector.

Technically, there is no agreed upon definition for the term ‘national champions’ in the European Union.\(^{168}\) According to the Directorate General for

Competition, “the term is generally used to refer to companies which are subject to a particular treatment from governments because of some national dimension of their operations.” Vertically integrated national champions in member states like France and Germany have been opposed to legislation such as the Third Energy Liberalization Package. These firms generally desire to maintain their near monopolies on the transmission and distribution functions of energy provision. Accordingly, they tend to favor the status quo and do not support closer integration which threatens their existing structure.

For instance, France and Germany (countries with large vertically integrated utilities) were resistant to energy legislation designed to improve energy security and complete the internal market, as indicated by support for an ultimately successful proposal to water down the unbundling provision of the Third Energy Package. France and Germany were two of eight member states which backed this proposal.170

Hypothesis 4: there is a connection between negative historical narratives about Russia and a desire for further integration in energy security policy.

169 Ibid.
Member states which have historically fraught relations with Russia will tend to prioritize geopolitical concerns over economic concerns based on an historical narrative and a national identity that stresses conflict with Russia and the negative role Russia has played in that member state's history.

Hypothesis 5: **national preferences toward energy security policy integration** are impacted both by the economic ideology of the party in power as well as the variety of capitalism present in the national economy (liberal market economy vs. coordinated market economy).\(^{171}\)

In addition to the impact of economic ideology on member states preferences, varieties of capitalism, a structural factor, impacts the preferences of firms and shapes how firms interact both with each other and with the national government. According to Ipek and Williams, the variety of capitalism present in the national economy impacts the functioning and preferences of firms,\(^{172}\) which then impacts the preferences of member state governments according to Moravcsik's argument regarding national preference formation in the literature review above.

The following research questions have been derived from the hypotheses above, and they are answered through an in depth content analysis of the existing literature supplemented by semi-structured interviews of subject matter experts.

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\(^{171}\) Hall and Soskice, *Varieties of Capitalism.*

\(^{172}\) Ipek and Williams, "Firms' Strategic Preferences."
Research Question 2: Do we find a relationship between a member state’s involvement in major infrastructure or other energy sector investment projects with Russia and resistance to further integration in the energy security policy sector?

Research Question 3: Is there a relationship between the presence of powerful national champions in member states and their resistance to further integration in energy security policy? Conversely, are powerful national champions not present in MS that support further integration?

Research Question 4: Do negative historical narratives concerning Russia lead member states to desire further integration in the energy security policy sector?

Research Question 5: Do states that are resistant to further integration differ in their national economic ideology (liberal vs. conservative vs. labor) from those who support further integration?

Research Question 5a: Do states that are resistant to further integration differ in their local variety of capitalism from those who support further integration?

Data, Methods & Case Selection
As originally conceptualized, this dissertation was intended to utilize mixed methods in an attempt to ensure that the research questions stated above are answered as comprehensively as possible. The first part of this analysis will be quantitative, and will consist of an analysis of voting data from the Council of Ministers as a proxy for national preferences. The second part will consist of six mini case studies which represent a cross section of member state positions. Due to the actual results of the quantitative analysis, no comparison can be made between the quantitative and qualitative portions of this dissertation. This will be detailed further in the following chapter.

**Quantitative Analysis of Voting Data**

The challenge in studying this particular subject area is that very little relevant data is currently available for analysis. For instance, though the EU’s policy direction is set by the European Council, there is no public record of votes by the member states, nor are there minutes of European Council meetings available for review. According to Tallberg, “part of the explanation is the difficulties of conducting research on a political body that convenes behind closed doors, whose proceedings are undocumented, and whose participants are unusually hard to gain access to.”\(^{173}\) Once called “Presidency Conclusions,” now simply “Conclusions” they contain only the official results of European Council meetings (or “Summits”) without explaining how those results were arrived at.

By contrast, voting data is available for the Council of Ministers. According to Rybar, the voting of national delegations in the Council of Ministers is a manifestation of the direct expression of national preferences.\footnote{Marek Rybar, "Domestic Politics and National Preferences in the European Union," \textit{in From Listening To Action? New Member States in the European Union}, Darina Malova, et al., Bratislava: Devin Printing House, 2010, 35.} One advantage of the data available is that it includes all of the member states that joined the Union during the 2004 and 2007 enlargement rounds. These member states are particularly relevant for this analysis because they tend to have more conflicted relations with Russia in comparison with the older member states.

This data also has two disadvantages. First, data is only available on legislation decided from 2006 through the present. This is problematic because decisions made on aspects of energy security policy, such as the first two energy liberalization packages, will not be included in this data. Furthermore, even if data were available before 2004 it would not capture the new member states due to their accession falling in 2004 or 2007.

Another disadvantage of using this data is that the Council of Ministers strives for consensus and tends to enact legislation on the basis of unanimity, even when qualified majority voting is permitted. According to Hoyland and Hansen, “the vast majority of decisions in the Council of Ministers are adopted unanimously. Dissents occur in a minority of the cases.”\footnote{Bjorn Hoyland and Vibeke Woien Hansen, “Voting in the Consensual Council of Ministers,” University of Oslo, ESOP – Centre for the Study of Equality, Social Organization, and Performance Working Papers, published August 29, 2011, \url{http://www.jhube.it/ecpr-porto/virtualpaperroom/023.pdf}, 2.} This leads to two potential problems.
First, if all decisions on energy policy proposals have been taken unanimously between 2007 and 2011, then no statistical analysis is possible due to a lack of variation in the dependent variable (votes). Second, any information about the original preferences and bargaining positions of member states will not be reflected in the data, and can only be obtained through qualitative analysis, using media sources and interviews with subject matter experts and member state Permanent Representatives or their staffs.

The data currently available from the Council of Ministers consist of the following, as shown in Figure 4.1 below.
The data made available by the Council provide information on the vote itself as well as on the configuration of the council, the voting rule (qualified majority or not) and on the subject decided. Member states can either vote yes, no or abstain.

The data above, which was used to generate the dependent variable, has more than two nominal categories (Yes, No, Abstain), which determines the

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statistical technique required for data analysis: multinomial logistic regression. This technique accounts for the three category dependent variable by calculating relative risk ratios which are interpreted as the odds of being in a given category versus the odds of being in the base category, given a unit change in the independent variable.

The Council voting data has been augmented by independent variables intended to control for important differences between member states which might impact their national preferences and the resulting voting behavior. For instance, a dummy variable will be included to indicate whether or not the member state in question was formerly part of the Eastern Bloc. Similarly, another dummy variable has been created to indicate whether the member state in question was in the Council Presidency at the time of the vote. A more detailed explanation of the proposed regression model and the policy and control variables used to augment the Council data is provided in the following Chapter.

**Case Studies**

In addition to the quantitative analysis outlined above six mini-case studies will be conducted to look more closely at how relations with Russia impact national preference formation among member states. The case study method has been selected for this proposed research because, according to Yin, it is “preferred in examining contemporary events ... When the relevant behaviors cannot be
manipulated” by the researcher.\(^{177}\) As national preferences toward energy security policy in the EU are currently under development (and not able to be influenced in any way by the researcher), the case study method will account for changes in ongoing events. It will also allow for the use of data from interviews with relevant subject matter experts. According to Yin, “the case study’s unique strength is its ability to deal with a full variety of evidence – documents, artifacts, interviews and observations – beyond what might be available in a conventional historical study.”\(^{178}\)

According to Stake, “The design of all research requires conceptual organization, ideas to express needed understanding, conceptual bridges from what is already known, cognitive structures to guide data gathering and outlines for presenting interpretations to others.”\(^{179}\) This is applicable to case studies as well as other forms of qualitative research. Research design, however, can be a complex process and the tools and guidelines are not as specific as those found in quantitative research methods. Yin notes that, unlike with other research methods, there is no comprehensive catalogue of case study research designs. Rather, case studies are designed on a case by case basis, though replication is both possible and even desirable for generalization purposes in some instances.

According to Yin, the case study research design consists of five components. These include: “a study's questions; its propositions, if any; its unit(s) of analysis;

\(^{178}\) Ibid.
The advantage of this five step research design process is that it will “effectively force you to begin constructing a preliminary theory related to your topic of study.” According to Yin, this is where case study research differs from other qualitative methods such as ethnography and grounded theory. Following Yin’s five step process and ensuring that Stake’s requirements are met gives case study research the rigor that is usually associated with ‘hard science’ or statistical analysis.

The six mini-case studies included in this dissertation will be comparative in nature and will employ the congruence procedure. According to King, Keohane and Verba, (quoting George and McKeown), “Controlled comparison of a small n should follow a procedure of systematic data collection. Such structured-focused comparison requires collecting data on the same variables across units.” The case studies in this dissertation will be structured around the five qualitative research questions enumerated above, from which I have derived the variables under study in each case. The variables on which I have collected data are as follows: energy infrastructure projects, national champions, historical narratives, economic ideology and variety of capitalism.

According to Yin’s five components of case study design, the study’s research questions and propositions or hypotheses (components one and two) have been

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listed above. The unit of analysis (component 3) will be the member state. These mini-case studies represent two subsets of countries: the old member states and member states that were formerly members of the Eastern Bloc. Please see the following section for a detailed explanation of case selection. Two research methods will be used to collect data to complete these case studies: an in-depth literature analysis, and semi-structured interviews with subject matter experts.

To complete the six mini case studies included in this research project I have gathered data to answer the research questions addressed in the section above. To achieve this, the case studies began with an extensive review of the literature on each country’s national preferences on energy security policy. This provides a contextual framework for analysis. This literature analysis has drawn from:

- Think tanks, research institutes, other non-governmental organizations, etc.
- Government sources; statements and speeches by government officials
- European Union sources
- Books, journal articles, and other scholarly sources
- Reports from both pan-European and national press agencies

The case studies also include semi-structured interviews with relevant subject matter experts as well as members of the staff of the Permanent Representations of the member states in Brussels. Interviews have a number of advantages as a method of data collection, which include flexibility, a high response
rate, the interviewer’s ability to clear up ambiguities for the interviewee, the ability
to ask for clarification from the interviewee, and the ability to make connections
between different parts of the conversation and check with the interviewee for
validity. Interviews also have disadvantages in that they’re time consuming,
costly, potentially unreliable due to a lack of standardization and bias on behalf of
the interviewer, and they lack anonymity. To improve reliability and ensure that
the relevant topics were covered, I used the same set of base questions for
interviewees at the Permanent Representations. I used a different set of base
questions for subject matter experts at think tanks and other institutions. To
restrain my own bias regarding the collection of data that supports my hypotheses, I
tried to keep in mind how responses were different than what I would have
expected and how policy preferences are more nuanced than media reports and
official documents portray them. A list of the interview questions I used as a basis
for my interviews can be found in Appendix A. As such, please note that these
questions are thus reflective of only part of the conversation I had with each
interviewee. To address the anonymity issue the interviewees were given the
option of confidentiality, meaning that neither their name nor title would be used in
the final report.

Two categories of interviewees were selected. First, in order to determine
what is going on in the European Council as well as the positions of member states, I

social-research/n59.xml?rskey=UnFheO&row=9.
184 Ibid.
conducted semi-structured interviews of subject matter experts and members of the Committee of Permanent Representatives (Coreper) or members of their staff assigned to energy policy issues. Coreper consists of member states’ Permanent Representatives in Brussels and is divided into Coreper I and Coreper II. Coreper 1 consists of Deputy Permanent Representatives, and Coreper II consists of the Permanent Representatives themselves. These representatives are given instructions by the member states and engage in negotiations in preparation for Council Meetings. Specifically, Coreper is responsible for preparing Council meetings at a ministerial level (i.e. the Council of Ministers). Further, according to Lewis, “Coreper is a de facto decision-making body at the institutional and cognitive interface between and national and Community levels.”

Although the Permanent Representatives and their staffs cannot provide a complete picture of national preference formation in the member states, “their importance and relevance rests precisely in the fact that they offer perceptions and reflections of representatives negotiating on behalf of their states.” Furthermore, the “permanent representations are located on the front line of coordination and articulation of the member states’ stances and EU policy making.”

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Second, subject matter experts in DG Energy, think tanks and other institutions were interviewed to provide both policy expertise as well as some context for member states preferences. I used several methods to generate a pool of potential subject matter expert interviewees. First, I contacted scholars whose research I had read in think tank reports and other media outlets. I also contacted some organizations directly, such as the European Union’s Directorate General – Energy and the Centre for Polish-Russian Dialogue and Understanding. Finally, some of the scholars I interviewed recommended colleagues and other professionals to me and provided me with contact information.

All potential interviewees were contacted via email due to distance, cost and substantial time zone differences. Two rounds of interviews took place in Brussels in May and September 2012, and one round in Warsaw in September 2012. Interviews were primarily face to face, though some did take place via conference call.

**Case Selection**

The unit of analysis for these case studies will be the member states. Germany, France, the UK, Poland, Bulgaria and Lithuania were chosen to provide balance between new member states and old member states, large and small member states, and to provide a range of different types of relations with Russia. For instance, Germany has a strong strategic partnership with Russia while the UK is more ambivalent and is willing to criticize and sanction Russia on issues such as its
shortcomings in the areas of rule of law and human rights. France is in the middle. Among the new member states, Poland has notably strained relations with Russia while Bulgaria, among the former Eastern Bloc countries, probably has the warmest relations with Russia. Lithuania, while not as contentious as Poland, still has strained relations with Russia. It should be recalled that there is a general difference in tone in relations between old member states and Russia and new member states and Russia. Put simply, new member states tend to have more difficult relations with Russia as a legacy of the communist era. Old member states do not share this historical experience and the accompanying suspicion of Russia’s intentions.

In addition to the criteria mentioned above, these cases cover a number of other important differences between member states such as wealth and energy dependence which could also potentially impact energy security policy preferences. For instance, Germany is one of the wealthiest member states and Bulgaria is one of the poorest. In 2012 Germany, France and the UK were the EU’s three largest economies by gross domestic product\(^\text{188}\) (GDP) and indeed, most of the Western member states tend to be much wealthier than the eastern member states because their market economies have been functioning far longer. Poland is the largest economy among the post-communist member states. Lithuania and Bulgaria are much smaller, though Lithuania is the largest economy among the Baltic States.\(^\text{189}\)

\(^{189}\) Ibid.
The ‘East – West’ axis isn’t the only determinant of wealth, of course, and the financial crisis in the Eurozone has certainly impacted western member states like Spain and Portugal quite dramatically.

Similarly, some member states are more or less energy dependent. The UK and Poland have domestic sources of oil/gas and coal, respectively, while Lithuania and Germany have very little. Bulgaria has some natural gas resources, but they are not sufficient to cover consumption, though the country has ramped up production in recent years and is currently exploring for additional resources in the Black Sea.\footnote{“Bulgaria Boosts Domestic Gas Production; Elevates Regional Role,” Natural Gas Europe, December 19, 2012, \url{http://www.naturalgaseurope.com/bulgaria-lift-gas-production-and-elevates-regional-role}.} France, by contrast, is heavily reliant on nuclear power for electricity production which it also exports to neighboring states.

This selection of cases provides a relatively representative cross section of member states, though it is not perfectly representative due to the significant differences between the 28 countries comprising the Union. Despite this, no attempt will be made to generalize across all member states as the purpose of these case studies is to explore how the differences between member states impact their national preferences toward energy policy.

**Case Study Structure**

Each case study chapter is structured in the exact same way, and this structure is based on first developing a baseline picture of each member state’s
relationship with Russia and general preferences regarding European integration and second examining a set of variables that, based on the literature, might impact energy security policy preferences. The variables are based on the research questions found above under the heading *Qualitative Case Study Analysis: Hypotheses & Research Questions*. The variables examined for each case include:

- Cooperation with Russia on major infrastructure projects
- National champions in the domestic energy industry
- Historical narratives, and the impact of history more broadly
- Economic ideology of the ruling party (or party in power)
- Economic structure

Specifically, each case study chapter begins by establishing the historical context of energy relations between the member state and Russia and includes a brief discussion on pre and post-Cold War relations between the member state and Russia and the current state of energy relations between the member state and Russia. To provide further context, the next section examines the member state's general national energy policy, which includes a discussion of energy dependence and general national policy preferences on energy mix, fossil fuels, renewable energy sources, etc. This is then followed by an assessment of whether each member state is generally more or less in favor of European integration generally
and whether this general preference translates into support for further integration on energy policy matters.

The following sections of each case study chapter correspond to the variables listed above, and these are followed by an analysis of which variables appear to have the greatest impact on the member state’s energy security policy integration preferences. The final section of each chapter draws some general conclusions about energy policy preferences in each member state.
CHAPTER FIVE:
QUANTITATIVE FINDINGS

As discussed in the previous chapter, the quantitative portion of this dissertation consisted of the analysis of voting data from the Council of Ministers. The data was obtained through the use of an application programming interface (API) designed by Buhl Rasmussen; a Copenhagen based IT firm that specializes in political data from the retrieval process through to analysis and visualization. The API “is a machine-readable interface to the most important official EU-databases: EUR-Lex, PreLex, Council documents and the European Parliament. It can be used by scientists, developers, lobbyist, NGO's and other specialists. The API extracts, organize and connects data from various official sources.”191 This service is provided for free, though the firm distributes individual ‘keys’ to users to track who is using the service and the types of projects they’re working on. The key provides user access to the API.

The API allowed me to download voting data for the specified date range (2007 – 2011). As mentioned in Chapter Four, the data made available by the Council of Ministers includes information on the vote itself such as date and title of legislation as well as on the configuration of the council, the voting rule (qualified

majority or not) and on the subject decided. Member states can either vote yes, no or abstain. The data was supplied in a text file format, which then required sorting and coding into an excel file which could then be eventually be converted to a STATA formatted dataset for analysis.

In sorting the data, I pulled out the voting records of member states on pieces of legislation that would, if approved, impact European energy security either directly, as in the case of the security of gas supply directive or indirectly through activities such as strengthening the internal energy market and funding projects such as gas pipeline interconnectors between member states. These pieces of legislation are designed to act in the short to medium term to improve Europe’s energy security. Climate change legislation was excluded for two reasons: first, the effects of climate change legislation are even more indirect than those measures designed to fund energy security enhancing projects. Second, the impacts of reduced CO2 emissions, for example, will only be felt in the very long term, and as such do not impact Europe’s current energy security dilemma.

Once sorted, it was determined that there were nine relevant pieces of energy policy legislation on which member states voted during the time period under study. Nine pieces of legislation voted on by 27 member states supplied a total of 243 observations, which is more than sufficient for the use of multivariate analytical techniques. These legislative proposals are listed below by title:

2. Proposal for a Regulation of the European Parliament and of the Council establishing a programme to aid economic recovery by granting Community financial assistance to projects in the field of energy


Many of these pieces of legislation were described in detail in Chapter Two (particularly those that were part of the Third Energy Liberalization Package), so I will not review them again here.

Model

In preparation for the quantitative analysis, the following preliminary regression model was constructed based on the literature review in Chapter Three.

\[
Voting\ Behavior\ (y) = Relations\ w/\ Russia\ (x_1) + \%\ energy\ dependence\ (x_2) + eastern\ bloc\ (x_3) + political\ party\ (x_4) + variety\ of\ capitalism\ (x_5) + energy\ producer\ (x_6) + presidency\ (x_7) + energy\ from\ Russia\ (x_8) + e
\]

The dependent variable, voting behavior, is reflected in the data published by the Council of Ministers, which consists of decisions made on energy policy legislation. Energy policy writ large (rather than energy security policy) will be
used here because most energy policy decisions have implications for member states’ energy security. For instance, the decision to accept legislation on the Third Energy Package has implications for security of supply as well as member state relations with Russia. This variable has been coded from -1 to 1, reflecting a negative vote, abstention, or positive vote.

The first independent variable is relations with Russia, which reflects on a scale of 1 – 5 the quality of an individual member state’s relations with Russia. This is the primary policy variable, as the goal of this analysis is to determine whether or not relations with Russia impact voting behavior (which is used as a proxy for national preferences). This scale has been based on the 2007 European Council on Foreign Relations publication “A Power Audit of EU Russia Relations,” which would have been updated using open source data to accommodate either improvements or setbacks in relations between individual member states and Russia.

The second independent variable is % energy dependence. Ipek and Williams argue that this variable impacts member state preferences in different ways depending on domestic conditions such as variety of capitalism and whether energy imports come from Russia or other sources. The possibility of interactions between this variable and others such as variety of capitalism, have been considered.

192 Leonard and Popescu, “A Power Audit of EU Russia Relations.”
193 Ipek and Williams, “Firms Strategic Preferences.”
The third independent variable indicates whether or not a member state was formerly a member of the Eastern Bloc. As mentioned above in the literature review, new member states tend to have more contentious relations with Russia and I hypothesize that these member states would support further integration in the hope that the EU’s single voice would provide them with some protection from punitive policy actions taken by Russia (Nord Stream, oil cut off to Czech Republic). This will be a dummy variable with 0 representing non-Eastern Bloc states and 1 representing Eastern Bloc states.

The fourth independent variable is political party, which indicates the location of the party in power at the time of the vote on a spectrum that denotes its economic ideology.

The fifth independent variable is variety of capitalism. This variable distinguishes, according to the definitions set forth by Hall and Soskice,\textsuperscript{194} whether the member state economy is a liberal market economy or a coordinated market economy.

The sixth independent variable indicates whether a member state is an energy producer. Some member states have substantial energy resources and are either energy independent or have a very low rate of dependence on foreign energy sources.

The seventh independent variable indicates whether or not the member state was in the Council Presidency at the time of the vote. As mentioned above in the

\textsuperscript{194} Hall and Soskice, \textit{Varieties of Capitalism}, 8.
literature review, Verhoeff and Niemann argues that a member state in the Council Presidency might not act according to national preferences due to both the formal and information constraints that come with this position of power and responsibility. This will be a binary variable with 0 representing a non-Presidency country and 1 representing the Council Presidency.

The eighth and final control variable will indicate whether or not the MS actually purchases energy supplies from Russia. Though many MS are dependent on foreign energy sources, some receive energy supplies from other sources such as Norway, the Middle East or North Africa. This will be a binary variable with 0 representing MS that don’t receive energy supplies from Russia and 1 representing MS that do.

Had the above analysis been possible, relevant diagnostic tests and techniques would have been applied to all variables in this model to ensure that any violations of regression assumptions, such as nonlinearity in the distributions of individual variables, heteroskedasticity and multicollinearity, etc. were remedied prior to analysis.

Findings

After sorting through and coding the data, I determined that there was no variation in the dependent variable, which is comprised of the member states’ votes on energy policy legislation. Simply stated, all the votes taken on energy policy

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legislation in the Council of Ministers between 2007 and 2011 were unanimous. This renders the preliminary model designed for this analysis useless. This was mentioned in Chapter Four as a potential problem with this data due to the ‘norm of consensus’ present in the Council of Ministers. The two research questions which were associated with this analysis could not be answered through the use of available voting data. The research questions are as follows:

**Research Question 1:** has Russia’s external energy policy had a negative impact on the development of a common energy security policy in the EU?

**Research Question 1a:** are there other variables, such as being a member of the former Eastern Bloc, energy dependence, etc. that also impact national preferences toward a common energy security policy in the EU?

Although inconvenient, this issue was anticipated and is indeed a finding in itself. The unanimity expressed through member states voting behavior is indicative of both the power of the ‘norm of consensus’ and the amount of negotiations that go on behind the scenes before a final vote is taken on legislative proposals. Although it’s been argued that the voting of national delegations in the Council of Ministers is a manifestation of the direct expression of national
preferences, this finding calls into question whether or not this is truly the case when those preferences relate to energy policy.

Energy policy is a controversial topic in Europe, and as such, it is unlikely that the Commission proposals placed before the Council of Ministers are unanimously supported on their first reading. Rather, it is more likely that the voting in the Council of Ministers is reflective of behind the scenes negotiations, concessions and compromise on behalf of at least some of the member states. To understand the voting patterns in the Council of Ministers in the area of energy policy, then, would require a turn away from the national preference literature and toward the literature on bargaining. This, however, is not the goal or purpose of this dissertation although it will make an interesting topic for future research.

The goal of this dissertation is to examine whether or not Russia’s external energy policy has impacted Europe’s halting move toward implementing a common energy security policy, and this will require a different approach than the one I originally envisioned. Rather than comparing the outcomes of the statistical analysis with the results of the case studies, this dissertation will now rely solely on the analysis of the six case studies that follow to address this question.

Despite their irrelevance in regard to the voting outcomes on energy policy legislation, national preferences are still relevant to the analysis which follows in the remainder of this dissertation. Even though, in the case of energy policy, national preferences are perhaps not reflected by member states votes in the Council of

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Ministers, they do inform the bargaining positions that member states take on energy policy issues behind the scenes. The bargaining process allows for the legislative revisions and amendments that eventually make the Commission's proposals acceptable to member states. These preferences differ widely among the member states studied in this dissertation, as will be shown in the following six chapters.
CHAPTER SIX:
GERMANY

Historical Context

Like many other countries in Europe, Germany shares a complex history with Russia. Peter the Great was the first to bring Germans to Russia to assist with economic development in the 17th Century, and Catherine the Great (who was German) “was more convinced than Peter of the need to import Germans to modernize Russia; she created a large German immigrant colony on the Volga which developed Russia’s agriculture.”\(^{197}\) Catherine the Great was not the only politically influential German in Russian history. The ruling Romanov family intermarried with Germany nobility, and the last Tsarina of Russia, Alexandra Fyodorovna was also German. Furthermore, “about one-third of high government officials were of German origin at a time when Germans formed about 1 percent of Russia’s population.”\(^{198}\) The ideas that inspired the Russian revolution were written by Karl Marx and Friedrich Engels, both German.

Germany and Russia have fought many wars, sometimes as allies and other times as adversaries, but always as equals in terms of their great power status. This


\(^{198}\) Ibid.
relationship, though certainly not always smooth, contrasts deeply with the relationship between Russia and Poland or Lithuania, in which Russia was always the stronger power. According to Wallander, “The relationship between Germany and Russia has played a central role in European security for hundreds of years, and both nations remain deeply cognizant of their history of mutual destruction.”

Even when in cooperation, the result of Germany and Russia acting together was often a threat to neighboring countries and regional stability.

Indeed, “Bismarck was always of the opinion that political conflicts between Germany and Russia should be avoided, that there should be no real antagonism existing between the countries.” Furthermore, he claimed that Germany and Russia “were united by their common monarchical interests and the fact that both countries dominated vast areas populated by Poles.” Despite Bismarck’s success in preserving the German-Russian relationship for several decades, the treaty which secured this friendship (the "Rückversicherungsvertrag" or “Reinsurance” treaty) was not renewed after Bismarck’s tenure as Chancellor. The outcome of World War I and the Russian Revolution completely negated Bismarck’s two primary reasons for maintaining the relationship between Germany and Russia.

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200 Ernst Fraenkel, “German-Russian Relations Since 1918: From Brest-Litovsk to Moscow,” *The Review of Politics* 2 (1940), 34.
201 Ibid.
Russia was no longer a monarchy and Poland had become an independent state once again.\textsuperscript{202}

Germany and the Soviet Union signed a nonaggression pact immediately preceding World War II. Known colloquially as The Molotov-Ribbentrop Pact, this agreement divided Poland, the Baltic States and Finland between the two countries. Germany, however, broke the treaty in June 1941 by invading the Soviet Union and the two powers became adversaries for the remainder of the war. After Germany’s defeat by the allies, the Soviet Union was one of four occupying powers in Germany. According to Wallander, “After World War II, a united Germany belonging solely to one side of the east-west divide was unacceptable to both the United States and the Soviet Union because of the implications for the balance of power in Europe.”\textsuperscript{203} As a result, Germany was divided into two states, with the eastern portion, the communist German Democratic Republic (GDR), becoming a member of the Warsaw Pact.

In the 20\textsuperscript{th} Century Russia’s perception of Germany as a rival and a threat was heightened after being attacked by Germany in two World Wars, and the Soviet Union’s desire to achieve “control of east-central Europe was viewed not only as a means of increasing Soviet power, but also of protecting the USSR from another attack by Germany.”\textsuperscript{204} Throughout the Cold War, Russia had to develop policies calibrated for two Germanies.

\textsuperscript{202} Fraenkel, “German Russian Relations Since 1918,” 35.
\textsuperscript{203} Wallander, Mortal Friends, Best Enemies, 2.
\textsuperscript{204} Stent, Germany and Russia Reborn, 5
The Federal Republic (FRG) was the most important state in Western Europe and the United States’ key NATO ally. The FRG also sought to maintain a close relationship with the GDR. At the same time, “Moscow sought to reverse the post-1945 freeze on trade ties and restore the profitable pre-World War II links involving the exchange of German manufactures and technology for Russian raw materials.”

Despite the USSR’s desire for normalized economic ties, relations between the FRG and the Soviet Union were primarily confrontational until the Détente Era began in the 1970s, which was characterized by dialogue and increasing economic cooperation. By the 1980s, “the post-war period of West German-Soviet antagonism was over, and West Germany and the USSR began to return to more historical patterns of cooperation.”

The Soviet Union’s early policy toward the German Democratic Republic (GDR) was, according to Stent, ambivalent. The USSR recognized that the GDR was an artificially creation that relied on Moscow for its continued existence, and the USSR used this to manipulate the FRG by offering an incentive of closer ties between the two German states. After Stalin’s death in 1953, Soviet policy toward the GDR became more consistent. In 1960 emigration reached a high of approximately 2,000 East Germans per day. Had this continued, it would have been catastrophic for the GDR’s economy and the communist regime. As a result, in 1961, Kruschev built the Berlin Wall to prevent East Germans from escaping to the West.

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205 Stent, Germany and Russia Reborn, 9.  
206 Stent, Germany and Russia Reborn, 11.  
207 Stent, Germany and Russia Reborn, 38.  
208 Stent, Germany and Russia Reborn, 13.
Yet the GDR continued to lack both political legitimacy and stability. By 1970 the GDR had become more stable, and served as a “loyal and reliable buffer state” for the USSR.\textsuperscript{209} This continued through the Détente Era despite increasing ties between the GDR and FRG.

Between 1989 and 1990, the Soviet Union lost control of Eastern Europe, and “went from being the leader of the Warsaw Pact, whose linchpin was the German Democratic Republic, to accepting not only the end of communism in Eastern Europe but also the disappearance of the GDR and a united Germany’s full membership in NATO.”\textsuperscript{210} German unification came swiftly, with the USSR playing a role in the negotiations with Western powers. According to Gotz, “The Russian population considered the division of Germany to be unnatural and therefore, for the Russians, reunification drew a conciliatory line under what both Germans and Russians considered an incomprehensible mistaken development in relations between the two countries.”\textsuperscript{211}

**Germany’s Post Cold War Relations with Russia**

In the post-Cold War era, Germany’s relations with Russia can be characterized primarily as a strategic partnership, though this has started to change

\textsuperscript{209} Stent, *Germany and Russia Reborn*, 14.
\textsuperscript{210} Stent, *Germany and Russia Reborn*, 74.
somewhat in the last few years since Angela Merkel assumed the Chancellorship. As Chancellor, Merkel has been less likely to overlook Russia’s increasing authoritarianism and human rights violations. Indeed, “Ms. Merkel, who was raised in former East Germany as the daughter of a Lutheran pastor, has been more outspoken about democratic development in Russia than her predecessors.” However, it would be a mistake to assume that these changes mean that Germany and Russia don’t “attach great significance to their close political and economic ties.”

Today, relations between Germany and Russia are sometimes strained. Although the 2013 “Russia Year in Germany” should have been an opportunity to improve relations, Merkel and Putin’s meeting at the Hannover Messe (the world’s largest industry trade fair) saw talks on improving relations overshadowed by German concerns about human rights and democratic backsliding in Russia. In a speech to German industrialists, Merkel referred to recent raids on German NGOs in Moscow and past discussions about the role of civil society in Russia when she said,

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“We must deepen this discussion, further develop our mutual understanding, and also give nongovernmental organizations and the many associations, which we in Germany view as motors of innovation, a good chance.”

Despite these political tensions, cooperation continues in the energy and industrial policy areas. The year 2013 is Russia’s second term as partner country at the Hannover Messe in the last decade, and the country had over 100 exhibitors there including Gazprom. Russia’s focus at the trade fair is on “energy, machine construction, new materials and industrial automatization.” In addition, trade between the two countries continues to grow. Germany’s trade surplus rose to its second highest level in 60 years in 2012, and exports increased by 3.4% despite the continuing crisis in the Eurozone. Though demand for German goods from Eurozone countries was down, demand from countries like the US, China, Russia and Japan more than compensated for the decline. German exports to Russia increased by 14.8% in 2012.

Energy Relations with Russia

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Germany was one of the first Western European states to begin importing gas from the Soviet Union in 1969, and it has one of the longest and closest energy relationships with Russia to be found among EU member states. In Germany, Russia is viewed as a reliable energy supplier with an important role to play in security of supply.219 One year after the first Russia-Ukraine gas crisis in 2006 and in the midst of the January 2007 Russia-Belarus oil dispute, former German Foreign Minister Steinmeier, when asked about Russia’s reliability as a supplier, said, “For decades, there was no cause for complaint. But the Russian behavior in the Minsk oil dispute raises questions. That’s why the chancellor is right to call on Moscow to consult energy-importing countries such as us first. But it would be uncalled for to fear for our energy supplies now.”220 Germany has not feared for its energy supplies from Russia.

When the Nord Stream pipeline was launched in 2011, Chancellor Merkel said that it would help provide a “‘safe, sustainable partnership with Russia in the future’ and made a major contribution towards a reliable energy supply for Europe. Russia would be a major supplier for decades, she added. ‘The purchasing countries and Russia are profiting in equal measure.’”221 In addition, now that natural gas supplies are piped from Russia directly to Germany, there is no reason to fear

further natural gas disputes between Russia and its transit countries. Should such a dispute occur, Nord Stream will continue to operate and provide gas for Germany and other countries.

The energy relationship between Germany and Russia is not just government-to-government; it also involves coordination and market penetration at the firm level. Gazprom Germania, a wholly owned subsidiary of Gazprom, is based in Berlin and sells Russian and Central Asian gas in Germany and throughout Eastern and Western Europe. The Gazprom Germania group consists of almost 40 companies operating in Europe and Central Asia, which engage in gas production, trading and storage.\textsuperscript{222} Gazprom Germania also holds a 10.52\% share of Verbundnetz Gas (VNG), which is active in natural gas exploration and production, trading, transport and storage.\textsuperscript{223} VNG operates both inside Germany and throughout Europe. Wintershall also holds a 15.79\% share in VNG.\textsuperscript{224}

Wingas, one of Germany’s largest gas suppliers (approximately 20\% market share), is a joint venture between Wintershall and Gazprom. Wingas supplies gas to public utilities, regional gas suppliers, industrial consumers and power plants. It is also active outside Germany in Belgium, Denmark, France, UK, Austria, Netherlands and the Czech Republic. Nearly 45\% of Wingas’ sales are generated in these

\textsuperscript{222} "Building the Future," Gazprom Germania, \url{http://www.gazprom-germania.de/en/company.html}.

\textsuperscript{223} "VNG Group," Verbundnetz Gas, \url{http://www.vng.de/VNG-Internet/en/1_Unternehmen/index.html}.

\textsuperscript{224} "Shareholders," Verbundnetz Gas, \url{http://www.vng.de/VNG-Internet/en/1_Unternehmen/aktionaere/index.html}.
countries. Most of Wingas’ supplies come from Russia via the Yamal-Europe pipeline. Russian supplies are supplemented with gas from the North Sea.225

**Germany's Energy Policy**

Germany is the largest energy consumer in the EU and the seventh largest in the world.226 That said, Germany is almost entirely dependent on imports for its supplies of natural gas and oil. Indeed, 88% of Germany's gas needs and 98% of its oil needs are met through imports.227 Oil is Germany's primary energy source, comprising 38% of energy consumption in 2011, and Germany also has the largest oil refining capacity in the EU.228 Most of Germany's oil is used in the transportation sector.

Though coal is an abundant indigenous natural resource, its use has been declining in recent years due to efforts to cut greenhouse gases by promoting cleaner energy sources. In 2011, Germany was the world’s eighth largest coal producer. The use of coal has picked up after the March 2011 Fukushima reactor accident when Germany decided to close eight of its nuclear reactors.229 Germany

228 “Germany Country Analysis,” EIA.
229 “Germany Country Analysis,” EIA.
was still the sixth largest producer of nuclear energy in 2011, though all nuclear plants in Germany will be phased out by 2022.

Germany produces very little natural gas domestically, and imports almost all of its supply via pipeline from Russia, Norway and the Netherlands. At this time, Germany has no LNG terminals.\textsuperscript{230}

Approximately 20\% of Germany's energy consumption needs are met by renewable energy sources such as wind, solar and biofuels.\textsuperscript{231}

\textbf{Figure 6.1: Germany’s Energy Mix}\textsuperscript{232}

In 2010, the German government released the Energy Concept, which set ambitious targets for energy and climate change policy to 2050. The goal of this Concept is to “ensure an energy supply that is both environmentally sound and at

\begin{itemize}
\item \textsuperscript{230} Ibid.
\item \textsuperscript{231} Ibid.
\end{itemize}
the same time economically viable and secure in the long run, in the interests of industry and consumers alike.”233 The new Energy Concept has three prongs:

1. to cut greenhouse gas emissions by 80% compared to 1990 levels;
2. to increase the use of renewable energy sources to 60% of consumption;
3. to decrease primary energy consumption by 50%.234

Germany refers to the restructuring that will accompany this Energy Concept as the “energiewende.” This term can be translated in different ways and is often translated as “energy turnaround.” Others have argued that a more accurate translation is ‘energy revolution,’ as this describes very well what Germany is planning over the next several decades.235 This energy revolution involves both the actions listed above, and the phasing out of nuclear power in Germany by 2022. After the 2011 Fukushima disaster, Germany sped up its nuclear phase out plan, deciding to close eight plants. In 2010, Chancellor Merkel’s “center-right coalition forced through an unpopular plan to extend the life of nuclear power plants, with the last to close in 2036. That action inflamed public opinion but the Fukushima

disaster politicized it."²³⁶ After a lost election in the state of Baden-Württemberg, which was traditionally supportive of Merkel’s party, she reversed course. Though this decision was popular with constituents, there has been some criticism and already some of Germany’s lost electricity generating capacity (from closed nuclear plants) has been replace by coal which does not contribute to the goal of cutting emissions by 80% by 2050.²³⁷

Germany plans to cut greenhouse gas emissions by increasing the use of renewable energy sources and decreasing consumption, and therefore the second and third prongs of the Energy Concept above support the first. Germany will face some challenges as it restructures its energy system. For instance, new high efficiency gas and coal fired power stations must be constructed to make up for the instability of electricity generated by renewable sources. Instability occurs when the sun isn’t shining and the wind isn’t blowing, Germany still needs to keep its lights on and factories operating. Traditional fossil fuel fired power stations will provide a reliable power supply both in relation to renewables and during Germany’s transition away from nuclear energy, thus providing security of supply in the electricity sector.²³⁸ To date, Germany has not constructed any new fossil fuel fired power plants, but it has imported some electricity from neighboring countries.

to make up for the instability of renewables. Some energy companies have been reluctant to invest in new plants due to the expense and uncertainty surrounding future needs.239

Germany will also need to update and expand its electrical grid to connect solar energy installations and wind farms so that electricity generated by these sources can be transmitted to consumers.240 Wind energy, for instance, is primarily produced in the North, while the primary demand centers are located in the East and South. In addition, renewable energy will be produced by a number of small providers rather than by a giant power station. This will require many more grid connections than are currently in existence.241

Some of the ways in which Germany hopes to increase renewable energy use include expanding on and offshore wind farms and increasing the biofuel use (both solid biogass and biogas). To help facilitate the increasing use of renewable sources, in 2010, Germany passed the Renewable Energy Sources Act (revised in August 2012), which uses feed in tariffs that require utilities to buy electricity from renewable sources at fixed rates. These rates change over time to accommodate decreasing costs of renewable energy sources like solar and wind power.242

Currently, feed in tariffs are paid for the following energy sources:

239 Author interview with German Officials, September 20, 2012.
241 Ibid.
• hydropower
• landfill gas, sewage treatment plant gas and mine gas
• biomass
• geothermal energy
• wind power
• solar radiation e.g. solar photovoltaic and solar thermal”

Another law, the German Energy Industry Act, also requires that all grid operators provide access to the grid for all interested energy providers. This decreases barriers to entry for renewable energy producers.

To improve energy efficiency, Germany aims at achieving greater efficiency both in the public sector and in private households. Greater energy efficiency is being accomplished through a variety of policy instruments such as: making energy efficiency an important factor in awarding public contracts, launching an Energy Efficiency Initiative to educate consumers about their options in the face of increasing prices, initiating transparent energy efficiency labeling, encouraging businesses to realize their energy efficiency potential, and creating an energy efficiency fund to help implement a number of the measures above.

244 Ibid.
Attitude Toward Further Integration

After World War II, France lived with the fear that its large, heavily industrialized (though defeated) neighbor would once again grow strong and threaten destabilize the region. France was also concerned with more immediate concerns such as its own economic recovery and recuperating from the national humiliation it experienced at the hands of Germany in two world wars. France, as one the occupiers of post-war Germany, insisted that “Germany would be demilitarized, decentralized and deindustrialized.”247 It was only the “lifting of Allied restrictions on German steel production and the prospect of renewed Franco-German tension” that provided the impetus for reconciliation which came in the form of the Schuman Plan to create the European Coal and Steel Community (ECSC).248 When the plan was presented to German Chancellor Adenauer in 1950, he “responded enthusiastically.” Indeed, “Adenauer realized that shared sovereignty pointed the way to Germany's international rehabilitation. Only by integrating closely with neighboring countries could Germany hope to remove the remaining controls on its domestic and foreign policies.”249 The birth of the ECSC, which would eventually evolve into the European Union, was Germany's way back from war. It is also one of the reasons that Germany has traditionally been a strong supporter, and in truth an engine, of European integration.

247 Desmond Dinan, Ever Closer Union, An Introduction to European Integration, (Bounder: Lynne Reiner, 2005), 20.
Although Germany has long been regarded as a ‘pro-integration’ member state, it is only willing to cede so much sovereignty to the EU. This has become particularly apparent as a result of the euro crisis. April 2013 witnessed the founding of the Alternative for Germany (AfG) party, which has “an agenda that includes dissolving the euro currency zone and returning powers from Brussels to EU member-states.” This is Germany’s first ‘euroskeptic’ political party designed to “challenge Germany’s pro-European political consensus,” and its membership has grown quickly fed by defections from Germany’s traditional parties like the Christian Democrats (Merkel’s party) and the Social Democrats. Though not viewed as a threat to these larger parties, the AfG has challenged the Christian Democrat’s junior coalition partner, the Free Democratic Party. Despite its quick growth, the AfG received only 4.7 percent of the vote in Germany’s September 2013 parliamentary elections, just short of the 5 percent threshold to enter parliament.

In spite of the ongoing euro crisis and the rise of the AfG, a recent cross country survey conducted by YouGov Cambridge in the UK indicates that 62% of German respondents continue to be in favor of either the same amount of or further integration, while 24% of respondents preferred a looser relationship with the

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EU. This is in keeping with Germany’s traditional pro-European stance, and reflects what some refer to as Germany’s European identity.

In the energy security policy area, Germany supports integration in some areas more than others. For instance, Germany views regulation of the internal energy market as a precondition for its own energy system transformation, the Energiewende. By contrast, Germany is less enthusiastic about the external dimension. Though Germany does generally support the external dimension, the German government is concerned about retaining the ability to make its own decisions particularly on its energy mix and in relations with third countries. Germany sees the value of speaking with one voice on certain issues, but does not believe that this is necessary with all supplier countries or in all aspects of energy policy.

Major Infrastructure Projects: Cooperating with Russia

Germany has cooperated with Russia on several major energy projects in the post-Cold War era. The biggest and arguably most important of these is Nord Stream. The Nord Stream pipeline runs from Vyborg, Russia under the Baltic Sea to Lubmin, Germany. See Figure X below. With a capacity of 55 bcm of gas per year, the 1,224 km twin pipeline system is the most direct natural gas connection

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254 Author interview with German Officials, September 20, 2012.
255 Author interview with German Officials, September 20, 2012.
between Russia and Western Europe.\textsuperscript{256} The first stream came online in November 2011 and the second in October 2012, and the project has the capacity to supply gas to supply 26 million households, which is equivalent to 10\% of Europe’s gas needs.\textsuperscript{257} Nord Stream AG, the firm that operates the pipelines, is owned by Gazprom (51\% stake), two Germany firms: BASF/Wintershall (15.5\%), E.ON Ruhrgas (15.5\%), a Dutch firm: Gasunie (9\%), and a French firm (9\%). These five companies provided 30\% of the funding for Nord Stream, and the rest was obtained through commercial loans.\textsuperscript{258}

\textbf{Figure 6.2: Nord Stream Pipeline Route}\textsuperscript{259}

\begin{itemize}
  \item \textsuperscript{256} “Operation of the Nord Stream Pipeline System,” Nord Stream, \url{http://www.nord-stream.com/pipeline/operations/}.
  \item \textsuperscript{257} “Controversial Project Launched: Merkel and Medvedev Open Baltic Gas Pipeline,” Spiegel Online, November 8, 2011, \url{http://www.spiegel.de/international/europe/controversial-project-launched-merkel-and-medvedev-open-baltic-gas-pipeline-a-796611.html}.
  \item \textsuperscript{258} “Background Information” Nord Stream, February 2013, \url{http://www.nord-stream.com/pipeline/}.
\end{itemize}
There was some controversy in Germany surrounding the approval of Nord Stream in 2005. Gerhard Schroeder, former German Chancellor, worked very hard to push the Nord Stream deal, which included a €1 billion loan guarantee, through the German government before leaving office. He was ultimately successful. Immediately after leaving office, Shroeder was named Chairman of the Nord Stream Shareholder’s Committee. Indeed, current Chancellor Angela Merkel “openly criticized Schroeder for mixing roles when he started working for the pipeline consortium after approving the project as Chancellor.” Regardless, Merkel continued to support the project.

Yamal-Europe, which is discussed further in the chapter on Poland, was not primarily a project between Germany and Russia. Rather, the Mallnow compressor station near Frankfurt an der Oder (on the German-Polish border) is the termination point for this pipeline which begins in Russia and flows through Belarus and Poland on its way to Germany, where it is connected to the gas distribution

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system. The German section of Yamal Europe is owned by WINGAS, a joint venture between Gazprom and Wintershall.²⁶²

South Stream is another pipeline project currently in the planning phase. Though the pipeline will flow from Russia, under the Black Sea, through Southern Europe to Austria (see Figure X below), Germany’s Wintershall is a partner in the offshore section of the project. Indeed, Wintershall holds a 15% stake in South Stream Transport AG. Partners include Gazprom (50%), Italy’s ENI (20%), and France’s EDF (15%).²⁶³

Figure 6.3: South Stream Route²⁶⁴

Energy National Champions

As noted in Chapter 4, there is no universally accepted definition of national champions in the European Union. If one includes state ownership in the definition, then Germany has no national champions because Germany’s major energy companies are all privately owned. However, many of Germany’s large energy firms behave like national champions. Germany is home to a number of large vertically integrated energy companies such as RWE and E.ON. Germany is also home to a number of other large energy companies that are not completely vertically integrated such as Wintershall, which is a wholly owned subsidiary of BASF (the world’s largest chemical company). Wintershall engages in exploration and production as well as natural gas trading, but does not engage in transport or delivery.

The RWE Group, one of Europe’s top five electricity and gas companies, is vertically integrated and covers all stages of the natural gas value chain.265 Though engaged in production, RWE also purchases gas from Gazprom according to long term take-or-pay contracts. RWE is in negotiations with Gazprom to revise these contracts and expects a settlement to be reached in the middle of 2013.266 Indeed RWE’s CFO Bernhard Guenther was quoted in German newspaper Boersen-Zeitung “saying he expected a solution to RWE’s dispute with Gazprom during the period. He

said that there could be compensation covering around three years of supplies, amounting to "a substantial sum.""267

E.ON is an investor owned power and gas company that, like RWE, is vertically integrated and covers all states of the natural gas value chain. E.ON is very diversified, and is involved in “renewable, conventional and decentralized power generation, natural gas, energy trading, retail and distribution.”268 E.ON is engaged in exploration and production at home in Germany, but also internationally in Russia, the UK, Norway, and Algeria, and jointly manages businesses in Brazil and Turkey.269 Like RWE, E.ON was in negotiations with Gazprom regarding their long term take-or-pay contracts. E.ON and Gazprom reached a settlement in 2012 which included “retroactive adaptation of pricing conditions for price review period since Q4 2010.”270

VNG is a smaller, though still vertically integrated, gas company that is also active throughout the entire natural gas value chain. VNG companies and participating interests are active throughout Europe, and are engaged in exploration and production in Norway and Denmark.271 “In 2008 Gazprom and Verbundnetz Gas signed the Sci-Tech Cooperation Agreement that provided for growing partnership between the parties on gas transportation, distribution and utilization,

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corrosion protection of pipelines, energy efficiency as well as cooperation deepening between the companies within transition economy.” This agreement was renewed in January 2013.272

Though not state owned, Germany’s major gas companies still have a powerful voice within Germany through industry groups like the German Association of Energy and Water Industries (BDEW) which represents 1,800 natural gas, electricity, heat, water and wastewater companies.273 Membership includes companies like the RWE Group, E.ON (and these two companies subsidiaries), Wingas, VNG, Gazprom Germania and others.274 The power of Germany’s big energy companies has waned somewhat due to the Energiewende and the phasing out of nuclear power. Indeed, some experts have predicted that decreasing profits will make these companies vulnerable to takeover.275 BDEW was once “a reliable mouthpiece for its most deep-pocketed members, the energy companies E.ON and RWE, which both operate nuclear power plants. But after the shock of Fukushima, BDEW Chairwoman Hildegard Muller, a former high-level official at the Federal Chancellery, managed to convince a large number of the smaller municipal utilities to support a nuclear phase-out.”276

276 Ralf Best, Frank Dohmen, and Michael Sauga, “Fuming Over the Phase Out: Energy Shift Deeply Divides German Companies,” Spiegel Online, June 30, 2011,
Historical Narratives

In contrast to some of the other cases in this study, Germany’s 20th Century historical narratives are primarily inward looking. Rather than conceiving of their identity as related to the ‘other,’ Germany’s national identity is concerned with looking inward at the past and ensuring that past tragedies are never repeated. However, “since we moved into the twenty-first century, historians of Germany have been drawn into broader debates about transnationalism and globalization. They have also been faced with the destabilization of metanarratives that once framed their most contentious debates.”277 Some Germans is now beginning to think about history in a way that doesn’t center on National Socialism and the Holocaust.278 However, this transition is far from complete.

National Socialism has held a central place in Germany’s historical metanarrative since the end of the Second World War. Indeed, it has been so dominant that there are few other narratives to speak of. This said it is still important to ask how Germans view Russians and whether or not this has any impact Germany’s preferences for further integration in energy security policy.

A poll conducted by the German social research and statistical analysis institute Forsa determined that 80% of German respondents have a positive image of Russians. In fact, “eighty eight percent consider them to be hospitable and 78% say Russians are courageous.”279 On economic issues, 90% of German respondents consider relations between the two countries to be of great importance.280 Another survey was conducted by E.ON, the largest German investor in Russia. This survey found that German and Russian respondents had a high level of interest in each other’s people and country. Furthermore, “many mentioned that the combination of the German appetite for functionality combined with the Russian gift for improvisation led to successes.”281 German respondents did not like engaging with the Russian bureaucracy.

Economic Ideology

The current ruling party in Germany is the Christian Democratic Union (CDU) now headed by Angela Merkel. The CDU is Germany’s main conservative party, and has supplies five of the eight German Chancellors since 1949.282 Through its history, the CDU has been a promoter of the “social market economy, which rejects socialism

280 Ibid.
281 Ibid.
and laissez-faire economics and sees the government’s role as providing the framework for fair competition, low unemployment and social welfare. The party continues to adhere to those principles, which have become the bedrock of Germany’s economic system.”283

From the time Angela Merkel became Chancellor through the September 2013 parliamentary elections, the CDU formed a coalition government with the liberal Free Democratic Party. This pro-business party is small and it did not make the 5% threshold in the September 2013 parliamentary election.284 Merkel’s CDU performed well in the parliamentary election, garnering 41.5% of the vote, however this is not sufficient to form a government. Talks on forming a ‘grand coalition’ continue with the Social Democratic Union (SDU), with some analysts are predicting that if this happens, “Germany’s political system will shift left.”285

In contrast to the CDU/FDP coalition, the SDU/Green coalition ruled Germany from 1998 – 2005, when Merkel took over as Chancellor. Both parties have published election programs “that pledge tax increases amid a perceived widening of an income gap between Germany’s less-well-off and wealthier citizens.

283 Ibid.
The focus on redistributing wealth was blasted by industry and the ruling coalition."

**Economic Structure**

Germany is a classic example of a coordinated market economy (CME) according to Hall and Soskice, the developers of the Varieties of Capitalism (VoC) typology. Indeed, in a CME, “firms depend more heavily on non-market relationships to coordinate their endeavors with other actors,” whereas in a LME, “firms coordinate their activities primarily via hierarchies and competitive market arrangements.”

After World War II Germany’s economy was in ruins, however “the firms and policymakers of West Germany could draw on an institutional inheritance from late industrialization that included strong industry unions, well-developed employer associations, collaborative institutions for skill formation, and a Bismarckian welfare regime.” This pre-war legacy combined with the process of rebuilding the economy after the war led to the creation of the institutions of a CME. For instance regulation, such as legislation that gave workers a voice on the boards of

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many firms and work councils, encouraged firms to collaborate in areas like wage negotiations. In addition, the fact that West Germany had to find employment for millions of refugees from the East led to collaboration between employer associations and trade unions on training programs.\textsuperscript{289} These institutions have largely weathered the economic shocks of the 1970s and are still in place today.

In the German energy industry, the institutions of the CME can be seen through firms’ reliance on strategic partnerships rather than competitive market arrangements. The construction and operation of Nord Stream and the creation of Wingas (owned by Wintershall and Gazprom) are two examples of the impact that a strategic international partnership can have on the energy industry. In another example of a strategic international partnership, E.ON is the only non-Russian firm to have a seat on Gazprom’s executive board.\textsuperscript{290}

Two of Germany’s largest gas companies (RWE and E.ON) opposed the unbundling aspect of the third energy package.\textsuperscript{291} Indeed, Germany was one of eight member states that submitted a proposal for a ‘third way,’ which provided an alternative to the Commission’s proposals.\textsuperscript{292} A compromise position was eventually accepted. German firms’ opposition to unbundling stemmed from the high transaction costs they face due to Germany’s general lack of domestic natural

\textsuperscript{289} Hall, “The Evolution of Varieties of Capitalism in Europe,” 47.
\textsuperscript{290} Pinar Ipek and Paul A. Williams, “Firms’ Strategic Preferences, National Institutions and the European Union’s Internal Energy Market: A Challenge to European Integration,” European Integration Online Papers, volume 14, paper 15,
\textsuperscript{291} Ipek and Williams, “Firms’ Strategic Preferences, National Institutions and the European Union’s Internal Energy Market: A Challenge to European Integration.”
\textsuperscript{292} “Eight States Oppose Unbundling, Table “Third Way,'” Euractiv, February 1, 2008,
gas resources. Because there is very little gas production in Germany, gas firms purchase gas from outside suppliers and their transaction costs are higher than they would be if they had domestic resources to exploit. E.ON and Wingas were able to control transaction costs “by employing their strategic partnerships, which in turn lowered external threat by securing access to Russian gas supplies and by increasing market concentration in downstream gas distribution networks.”

Similarly RWE, who has no strategic partnership with Gazprom, joined the Nabucco consortium “to decrease the uncertainty and ex ante transaction costs associated with imported energy supplies.”

Analysis

Despite the fact that Germany historically supports European integration, this support hasn’t carried over fully into the energy policy area. Within the third energy package, unbundling and the ‘Gazprom Clause’ were particularly unpopular in Germany. Germany is also hesitant when it comes to the external dimension

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293 Ipek and Williams, “Firms’ Strategic Preferences, National Institutions and the European Union’s Internal Energy Market: A Challenge to European Integration,” 17.

294 Ibid.

295 Ipek and Williams, “Firms’ Strategic Preferences, National Institutions and the European Union’s Internal Energy Market: A Challenge to European Integration.”

and ‘speaking with one voice.’ As in all of the case studies included in this dissertation, some of the variables examined here have more impact on Germany’s national preferences than others.

Clearly, history is one of the primary factors impacting German national preferences. Germany and Russia have a long history of antagonism but also of cooperation and economic relations, and both nations view these to be important. This history undergirds many of the variables explored in this case study.

For instance, major infrastructure projects (like Nord Stream) have been built based on long term strategic partnerships between German and Russian firms. These strategic partnerships continue to this day, and have undoubtedly played a role in Germany’s energy security policy preferences such as its opposition to the ‘Gazprom Clause’ in the Third Energy Package.

Similarly, Germany’s powerful vertically integrated energy firms and the influential industry associations to which they belong have also played a role in Germany’s energy security policy preferences. Germany’s large energy firms were opposed to the Commission’s original proposals for unbundling. Germany was one of eight countries to propose an alternative plan. Moving forward, however, Germany’s big energy firms are losing some of their power and influence due to the Energiewende and the phasing out of nuclear power plants in favor of renewable energy sources.

297 Author interview with German Officials, September 20, 2012.
Germans and Russians generally view each other positively and value their economic ties highly. These economic ties have a centuries-long history, which not even communism could completely obliterate. Indeed, the economic relationship between these two countries has not been heavily impacted by the economic ideology of the ruling party/coalition. Though CDU/FDP coalition is more oriented toward the free market, a change in government is unlikely to lead to a change in the direction of Germany’s energy policy or its energy security preferences.

Variety of capitalism has been an important variable in shaping Germany’s preferences regarding integration in energy security policy. Strategic international partnerships in the energy industry, which result from Germany’s CME, have certainly impacted support for European energy security policy integration. Some of these strategic partnerships have been enabled by the historical economic ties between Germany and Russia, yet this is not the only source of international partnerships for German firms. RWE’s decision to join Nabucco is evidence of this.

**Conclusion**

In Germany, the strongest factor influencing national preferences toward further energy security policy integration in the EU is history which helps account for the strong economic ties that undergird German/Russian relations. Though Germany and Russia have at times been allies and at other times adversaries, both have been Great Powers and neither has fully conquered and annexed the other.
Although there is a legacy of mixed relations, particularly as a result of World War II and the Communist era, Germany has overcome this and a fear of Russia, which is found in some Eastern European countries, does not deeply impact relations.

Despite tension at the political level due to Russia’s democratic backsliding and human rights violations, economic ties remain strong. This is particularly true of the energy industry where strategic partnerships between some of Germany's largest firms and Gazprom abound. These strategic partnerships have led to a variety of successful infrastructure projects like Yamal-Europe, Nord Stream, and South Stream, currently under construction, and one commercial venture: Wingas. Through strategic partnerships of this nature and Germany's commitment to renewable energy sources, Germany has been able to achieve a secure supply of energy without the help of the EU. Indeed, the success of Germany's domestic energy security policy is one likely contributing factor to its lukewarm support for further integration on energy security matters at the EU level.

History is not the only factor that undergirds the strategic partnerships that have been a strong contributor to Germany’s energy security. Germany’s economic structure has played a supporting role as well. Because Germany is a CME, it is more likely to engage in international strategic partnerships than to rely on the market for security of supply. This is, in part, why Germany hosts no LNG terminals and chooses instead to rely on piped gas from Russia and other neighboring states. This is also why RWE, who has no strategic partnership with Gazprom, decided to join the Nabucco pipeline project.
Another important factor influencing Germany's preferences for further integration is the presence and powerful voice of its large, vertically integrated energy firms such as RWE and E.ON which have wielded substantial influence through industry associations. Nevertheless, the Energiewende is evidence that their power and influence is waning. If the Energiewende is successful, then Germany is unlikely to throw any additional support toward further integration in energy security matters at the EU level, because it will not need the EU to secure its energy supplies.
CHAPTER SEVEN: POLAND

Historical Context

Poland and Russia have a long, complex and troubled past. Indeed, Russia has a lengthy history of intervention in Poland that eventually led to repeated partitions of Poland (then the Polish-Lithuanian Commonwealth) until the Polish state functionally ceased to exist. The first partition occurred in 1772 and was perpetrated by Prussia, Russia and Austria. At that time Poland was weakened by civil war and Russian intervention. As a result, Poland lost approximately half of its population and one third of its territory.\(^{298}\)

Over a 20 year period, the Polish state began to grow stronger and it adopted a new liberal constitution in 1791. The new constitution was polarizing and the conservative Confederation of Targowica asked Russia to intervene to restore the old constitution. Russia obliged and Prussia also sent troops into Poland. This led to the second partition in 1793. This partition was also approved by the Polish Sejm, but under threat of Russian violence. This led to a national uprising, which was suppressed by Russia and Prussia. Just two years after the second partition, the

third partition divided the remaining Polish territory between Russia, Prussia and Austria. At this time, the Polish state ceased to exist. Though the partition arrangements were altered over time, the Polish Republic was not restored until 1918.\textsuperscript{299}

Poland was later partitioned again by Germany and Russia in 1939 as part of the so called Molotov-Ribbentrop Pact. The agreement led immediately to the September 1, 1939 German invasion of Western Poland and the beginning of World War II. It also resulted in “a nightmarish occupation that would last more than five years. In Poland, the Nazis had more time than in any other occupied country to implement their policies against people they classified as ‘racially inferior.’”\textsuperscript{300} Indeed, nearly 6 million Poles, approximately 18% of the population, were killed through the duration of the war.\textsuperscript{301}

Shortly after the Nazi invasion and while the Polish army was fighting the Wehrmacht, Soviet troops invaded Poland from the East. After suffering huge military and civilian casualties, Polish forces surrendered in early October.\textsuperscript{302} The Soviet occupation of eastern Poland was hardly less brutal than the Nazi occupation. Indeed, “of the estimated two million Polish civilians deported to Arctic Russia, Siberia and Kazakhstan in the terrible railway convoys of 1939 – 40, at least one half

\textsuperscript{299} Ibid.
\textsuperscript{301} Norman Davies, Heart of Europe A Short History of Poland (Oxford: Clarendon Press, 1984), 64.
were dead within a year of their arrest.” In June 1941, Nazi Germany launched Operation Barbarossa, attacking the Soviet Union from bases in Poland. This attack drove Soviet forces from Poland in only two weeks and permanently severed the Molotov-Ribbentrop Pact. This allowed Nazi Germany to proceed with the “Germanization” of Poland and the elimination of those deemed unsuitable for incorporation into the Reich. This policy continued through the end of the war, and resulted in the mass murder of Jews, gypsies, prisoners of war and the disabled.

The Soviet victory at Stalingrad marked a major turning point in the War, when it seemed only a matter of time before Nazi Germany was defeated and driven from Poland. Yet “in Poland the prospect of liberation by the Soviet Army aroused mixed feelings... No Pole could view the collapse of the Nazis with anything but joy. Very few awaited the Soviet Liberation without deep anxiety.” Because the Soviet victories in Eastern Europe outpaced Allied victories on the Western Front, Poland’s allies (the United States and Great Britain) did not have the means to insist on the full restoration of Poland’s pre-war territorial boundaries. At the first meeting in Tehran in November 1943, the ‘Big Three’ decided that post war Europe would be divided into Allied spheres of influence. Eastern Europe, including Poland, was reserved for the Soviet Union.

The Soviet Union’s first (failed) attempt to incorporate Poland into the USSR came in 1920, and sparked a war between the two nations. Border disputes

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303 Davies, *Heart of Europe*, 67.
304 Davies, *Heart of Europe*, 70.
305 Davies, *Heart of Europe*, 73 – 74.
306 Davies, *Heart of Europe*, 75.
between the new Bolshevik regime, Polish reluctance to embrace communism and
the Soviet desire to spread communism to Europe led the communist leadership to
attempt a ‘revolution from without,’ or a revolution by the force of the Red Army.\textsuperscript{307}
Lenin and the Bolshevik regime were ultimately unsuccessful, but “Poland was of
course to experience a ‘revolution from without’ barely a generation later.”\textsuperscript{308}
Poland’s post-war incorporation into the Eastern Bloc was made possible by “Soviet
military, diplomatic and tactical support.”\textsuperscript{309}

The Polish public’s perception of Russia and the communist regime was
heavily influenced by the aborted 1920 ‘revolution from without’ and Poland’s
experience under Soviet occupation during World War II. The Polish Communists,
however, had Soviet assistance in organizing and establishing “their presence before
other political parties had a chance to reorganize themselves.” They also had
assistance during the War (1942-3), as “the core of the future leadership was
trained at Comintern schools in Marxist-Leninist theory and in techniques for
agitation and infiltration.”\textsuperscript{310} This extensive preparation left the Polish Communists
at the end of the war as the most organized and visible political faction.

The eventual victory of the Polish Communists came thanks to Soviet
diplomacy in allied disputes over Poland through the course of the war. The Soviets

\textsuperscript{307} Warren Lerner, “Attempting a Revolution from Without,” in \textit{The Anatomy of Communist Takeovers},
\textsuperscript{308} Lerner, “Attempting a Revolution from Without,” 105.
\textsuperscript{309} Susanne S. Lotarski, “The Communist Takeover in Poland,” in \textit{The Anatomy of Communist
Takeovers}, eds. Thomas T. Hammond and Robert Farrell (New Haven and London: Yale University
Press, 1975), 341.
\textsuperscript{310} Ibid.
accepted a British plan to push Poland’s boundaries westward into the eastern regions of Germany. The Poles, realizing that this was an opportunity to gain economically valuable territory, counted on Soviet support to defend Poland from any German attempt to retake its territory.\footnote{Lotarski, “The Communist Takeover in Poland,” 343-344.} By the time of the Yalta conference in February 1945, nearly all of Poland was occupied by Soviet troops and a Provisional Government had been installed which was friendly to the Soviet Union. The Western powers did not accept this ‘puppet’ government. The agreement reached between the ‘Big Three’ said that “the Provisional Government which is now functioning in Poland should... be reorganized on a broader democratic basis with the inclusion of democratic leaders from Poland itself and from Poles abroad.”\footnote{U.S. Department of State, \textit{Foreign Relations of the United States; Diplomatic Papers: The Conferences at Malta and Yalta}, Washington DC, 1955 quoted in Susanne S. Lotarski, “The Communist Takeover in Poland,” 344.} Even after the addition of non-Communist leaders, the Polish government was still dominated by Communists. Nevertheless, the US and Great Britain recognized the new Polish government in July 1945 in order to maintain good relations with the Soviet Union.\footnote{Lotarski, “Communist Takeover in Poland,” 345.} Poland would remain under communist control until 1989.

In the summer of 1980, communist control of Poland began to unravel. A summer of peaceful strikes by workers throughout Poland led to negotiations with the communist government. Talks held between the Polish government and representatives of the groups that would become Solidarity led to the Gdansk Accords, which among other things allowed for the creation of independent trade
unions. Solidarity, led by Lech Walesa, a shipyard worker in Gdansk, was the first and most influential of these.\textsuperscript{314} The 1980s were not easy for Solidarity, which was plagued by government crackdowns on activists by General Jaruzelski who assumed the position of First Secretary of the Polish Communist Party in 1981. There were some high moments as well, however, including a 1983 visit by Pope John Paul II and the awarding of the Nobel Peace prize to Lech Walesa.\textsuperscript{315}

When Mikhail Gorbachev became First Secretary of the Communist Party of the Soviet Union in 1985, Solidarity’s fortunes began to improve. By 1988 Gorbachev initiated reform of the Soviet economy, and he encouraged similar reforms in Poland and elsewhere in Central and Eastern Europe. Gorbachev hoped that these reforms would lead to “liberalized communism while preserving the Warsaw Pact and a divided Germany.”\textsuperscript{316} The reforms had the opposite effect, and would eventually lead to the dissolution of the Soviet Union in 1991.

In Poland, General Jaruzelski found himself forced to compromise with reformers, and in April 1989, the government formally recognized Solidarity. Just two months later, in June 1989, Solidarity defeated the communists in a free election. Lech Walesa became Poland’s first post Communist President in 1990.\textsuperscript{317}

\textsuperscript{316} Ibid.
\textsuperscript{317} Ibid.
Poland’s Post Cold War Relations with Russia

According to Kaminska, “Poland’s position between Russia and Germany had been for years a source of worry to Poland, as the experiences from before the wars and in the immediate aftermath of World War II showed that those powers were bilaterally making decisions about the future of Poland.”\(^{318}\) Because of Poland’s history, territorial defense has been a paramount issue, and Poland has been uneasy since the end of the Cold War, due to the potential for Russia to engage yet again in expansionist policies.

Despite Poland’s unease, political contacts continued between Poland and Russia after the Soviet Union collapsed. Warsaw and Moscow were eventually able to come to an agreement about the withdrawal of Soviet/Russian troops from Poland, and Polish and Russian Presidents Walesa and Yeltsin also signed a number of other agreements in 1992 including an agreement to replace the 1965 Polish-Soviet Friendship Treaty.\(^{319}\) Also during the 1990s, Poland and Russia negotiated an agreement to construct the Yamal-Europe gas pipeline, which will be discussed below.

After Putin was elected President in Russia in 2000, he and former Polish President Aleksander Kwasniewski met ten times between 2000 and 2005. Other high level political meetings took place between the Prime Ministers, Foreign


Ministers and Members of Parliament. Indeed, committees were established to discuss Polish-Russian cooperation and regular forums were held by the Russia-Poland Public Dialogue.\footnote{320}{“History of Russian-Polish Relations,” European Dialogue, \url{http://www.eurodialogue.org/History-of-Russian-Polish-Relations}.}

Relations with Russia took a turn for the worse in late 2005 when the right-wing Law and Justice Party (known in Poland by the acronym PiS), headed by Jaroslaw Kaczynski, achieved victory in the Parliamentary elections. Shortly thereafter Kaczynski’s twin brother, Lech, defeated Donald Tusk (the current Polish Prime Minister) in a run for the Presidency. The Kaczynski twins fanned the fire of Poland’s unease with their deep suspicion of Russia’s intentions. For example many PiS leaders, “favor maintaining a large standing army based on conscription in order to defend against a resurgent Russia.” By contrast, reformers see the Polish army’s future as being able to contribute to NATO’s new missions.\footnote{321}{F. Stephen Larrabee, “Danger and Opportunity in Eastern Europe,” \textit{Foreign Affairs} 85 (2006): 122.}

Also during the twins’ tenure, Poland agreed to host US missile defenses on its territory, thereby further angering Russia.\footnote{322}{Andrzej Rozenek, “Russia-Poland: Neighbors Should Not Quarrel,” European Dialogue, \url{http://eurodialogue.org/Russia-Poland-Neighbors-should-not-quarrel}.}

Relations deteriorated during the twins’ tenure due to other events as well. For instance in November 2005, Russia banned Polish imports of meat and other agricultural products ostensibly due to health reasons.\footnote{323}{Mathias Roth, “Bilateral Disputes Between EU Member States and Russia,” CEPS Working Documents, Center for European Policy Studies, 2009, \url{http://www.ceps.eu/book/bilateral-disputes-between-eu-member-states-and-russia}, 8-9.} Furthermore, also in 2005 Russia and Germany agreed to build the Nord Stream gas pipeline, which bypasses...
Poland and Baltic states. Polish Foreign Minister Radislaw Sikorski compared Nord Stream to the Molotov-Ribbentrop Pact in 2006, expressing Poland’s concern about decisions made behind its back.\textsuperscript{324} Poland had hoped to cooperate with Russia to build a second line for Yamal-Europe.

In 2007, the European Council on Foreign Relations (ECFR) described Poland as a “new cold warrior,” or as a state that has “an overtly hostile relationship with Moscow” and that is “willing to use the veto to block EU negotiations with Russia.”\textsuperscript{325} As mentioned in Chapter Two, Poland has certainly not hesitated either to threaten or employ the veto to protect national interests, particularly in the energy policy sector. Though Poland hasn’t yet used its veto to block EU-Russia negotiations, this is still certainly a future option. Six years after the ECFR analysis mentioned above, Polish-Russian relations have begun to change for the better, though they still have their ups and downs.

Donald Tusk, of the ruling Civic Platform (known in Poland by the acronym PO), assumed the Premiership in 2007 and is the first Prime Minister in post-Communist Poland to have been reelected for a second term. Under Tusk’s leadership, relations with both Russia and Germany have improved. Indeed,

\begin{footnotesize}
\footnotesize{\textsuperscript{324} Mark Beunderman, “Poland Compares German-Russian Pipeline to Nazi Soviet Pact,” EU Observer, May 2, 2006, \url{http://euobserver.com/foreign/21486}.}

\footnotesize{\textsuperscript{325} Mark Leonard and Nicu Popescu, “A Power Audit of EU Russia Relations,” European Council on Foreign Relations, Policy Paper, November 2007, \url{http://ecfr.3cdn.net/1ef82b3f011e075853_0fm6bphgw.pdf}.}
\end{footnotesize}

In April 2010 a plane crash in Smolensk, Russia took the lives of the Polish President Lech Kaczynski and 95 others who were on their way to commemorate the 70\textsuperscript{th} anniversary of the Katyn Massacre, in which thousands of Polish officers were murdered and buried in a mass grave in the Katyn Forest outside Smolensk.\footnote{Nicholas Kulish, Ellen Barry, and Michal Piotrowski, “Polish President Dies in Jet Crash in Russia,” \textit{New York Times}, April 10, 2010, \url{http://www.nytimes.com/2010/04/11/world/europe/11poland.html?pagewanted=all}.} This led to a brief thaw in relations between Poland and Russia as there was an outpouring of grief and support for Poland. Relations soon worsened due to the differences in both countries’ interpretations of the causes of the crash\footnote{Sobczyk, “Poland Admits Difficulties in Relationship with Russia,” \textit{Wall Street Journal}.} and by Jaroslaw Kacynski and other PiS members’ allegations that this crash was not an accident.\footnote{Liam Nolan, “The Continuing Nightmare of Poland’s 2010 Smolensk Plane Crash,” \textit{The Atlantic}, November 1, 2012, \url{http://www.theatlantic.com/international/archive/2012/11/the-continuing-nightmare-of-polands-2010-smolensk-plane-crash/264418/}.}

Almost a year after the crash, in March 2011, Polish Foreign Minister Radislaw Sikorski claimed in a speech to the Sejm that Poland must reject “the logic that states that anything that is bad for Russia must be good for Poland.” This positive step by Sikorski was followed by a contentious debate between Polish political elites about Polish Russian relations which exposed deep and lasting
divisions among Poland’s political elites. As reflected by differences in the opinions of Poland’s political elites, events in 2011 were uneven. Positive events such as the establishment of a Center for Dialogue and Understanding were followed by negative events, such as the Polish rejection of a Russian report on the causes of the April 2010 Smolensk tragedy. Although there is division among elites, public opinion polling data suggest that Polish opinions on Russia are improving. “Russia in 2011 was still seen as a much more “unfriendly” than “friendly” neighbor (55 versus 19 percent), but in comparison to a previous poll from 2005 this opinion in fact improved (it was 68 versus 9 percent).”

Despite some improvements in 2011, the differences in the Polish and Russian interpretations of the events surrounding the Smolensk crash continue to sour relations. On February 27, 2012 Polish Prime Minister Donald Tusk said “Polish-Russian relations are going through ups and downs... I wouldn’t say they are bad today, but for sure they're not as good as before the Smolensk crash. ... What sometimes is a heated dispute over the interpretation of events in Smolensk has, of course, had an impact on Polish-Russian relations.” Another factor exacerbating the relationship is what the Polish government considers to be high gas prices, often higher than those paid by Western European countries. Violent clashes between Polish and Russian soccer fans before the June Euro 2012 match in Warsaw were

331 Stadtmuller, 96.
333 Ibid.
further evidence of a souring of relations.\textsuperscript{334} 2012 public opinion data on Polish-Russian relations have yet to be released.

It is difficult to predict what the future will hold for the often rocky relationship between Poland and Russia. Poland has taken a more pragmatic line on relations with Russia over the last several years, attempting to separate historical enmity from policy. As long as the PO remains in power, this pragmatic approach is likely to continue. However, the PiS is Poland’s largest opposition party, and Tusk’s coalition holds only a four seat lead in the Sejm. If PiS returns to power after the next Parliamentary election, relations with Russia are likely to take a turn for the worse.\textsuperscript{335}

**Energy Relations with Russia**

Energy is a particularly sore subject for Poland-Russia relations. From the “Molotov-Ribbentrop Pipeline” to South Stream, Poland tends to see Russia’s external energy policy as an attempt to keep both Western Europe and former communist countries in thrall to Gazprom. This has not always been the case. In the 1990s energy was not a major political issue although relations between Poland and


\textsuperscript{335} Interview with Ernest Wyciszkwics, Deputy Director, Center for Polish-Russian Dialogue and Understanding, September 13, 2012.
Russia were strained for other reasons.\textsuperscript{336} Indeed, Poland and Russia cooperated to build the Polish section of the Yamal-Europe gas pipeline.

Energy did not begin to become a major irritant between Poland and Russia until after Poland joined the EU. As mentioned above, relations deteriorated drastically after 2005 when the Kaczynski twins and PiS came to power in Poland. Under Kazimierz Marcinkiewicz’s (the first Prime Minister under PiS) management, Poland proposed a plan for the establishment of a European Energy Security Strategy, or “energy NATO,” which called for solidarity among European states in the event of an oil or gas cut off. This plan was written by the Prime Minister’s office rather than in the Foreign Ministry and it did not take into account efforts on behalf of the European Commission to create a common energy policy for Europe, indicating distrust of European institutions.\textsuperscript{337} Though the plan was rejected in Western European capitals, it ruffled feathers “in Moscow, where NATO was remembered as a hostile military grouping which had by threat of force challenged Soviet aspirations to hegemony in Europe.”\textsuperscript{338}

In addition to the PiS’s suspicion of Russia’s intentions, other incidents have led Poland to believe that Russia is attempting to exert leverage over its energy security. Though Nord Stream comes immediately to mind, there are other examples that have also contributed to Poland’s suspicion of Russia’s intentions. In

\textsuperscript{336} Interview with Ernest Wyciszkiewics, Deputy Director, Center for Polish-Russian Dialogue and Understanding, September 13, 2012.
\textsuperscript{338} Ibid.
December 2006, PKN Orlen, one of Central Europe’s largest crude oil refiners, purchased the Mazeikiu oil refinery in Lithuania. In July 2006, Transneft (Russia’s oil pipeline monopoly) shut down deliveries from the Druzhba pipeline which supplied the refinery, ostensibly due to an oil leak. “There was speculation in the EU that Russia was using the blockage to prevent the Lithuanians from selling the Mazeikiu complex to the Polish oil group PKN Orlen, rather than to one of the Russian firms that had also bid for it.”

Later in October 2006 a fire shut down part of the refinery. Some in Poland harbor the suspicion that this was an act of sabotage intended to send a message to the Polish bidders and encourage them to back down.

According to Polish sources, Russia was the driving force behind Polish energy policy until 2010. Even during debate over the Third Energy Package, the primary concern for the Polish government was the impact this legislation would have on relations with Russia. After Tusk and the PO came to power, however, events began to drive Polish energy policy in a different and more pragmatic direction. The EU Climate and Energy Package, which set the 20-20-20 targets, was one of these events. After accepting the targets in 2007, Poland began to be concerned about the huge sums of money required to meet these targets as well as

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341 Interview with Pawel Szalamacha, Member of Parliament, PiS, September 14, 2012.
342 Interview with Ernest Wyciszkiewics, Deputy Director, Center for Polish-Russian Dialogue and Understanding, September 13, 2012.
the impact of these targets on its industry. Spurred by an analysis of the costs associated with the package, the Polish government was forced to take a closer look at this legislation as well as at EU energy policy more generally. This was closely followed by the 2009 gas crisis, after which the EU quickly created an early warning mechanism to prepare for any further incidents. Finally, the gas supply security regulation showed many in the Polish government that it was safe to rely on Brussels to help improve gas supply security through the bureaucracy and through negotiations with suppliers. This led to a change in the focus of Poland’s energy policy and energy relations with Russia.\textsuperscript{343}

As Poland’s energy policy has become more pragmatic and EU-focused, energy relations with Russia have become less tense. Issues like market liberalization and developing interconnections with other member states have become more important to policy makers than Russia. Now, Russia and Gazprom are only one issue, albeit an important one, in the Polish energy policy debate.\textsuperscript{344}

\section*{Poland’s Energy Policy}

Though Poland is almost entirely dependent on Russia for its supply of natural gas, gas plays a smaller role in Poland’s energy mix than other fuels. Indeed, coal is Poland’s most abundant natural resource and primary fuel source and Poland

\textsuperscript{343} Ibid.
\textsuperscript{344} Ibid.
ranks ninth in world coal production, and eighth in world coal consumption.\textsuperscript{345} Poland is the EU’s biggest producer and exporter of coal, which dominates Poland’s energy mix, as indicated in the figure below.

\textit{Figure 7.1: Poland’s Energy Mix}\textsuperscript{346}

Poland primarily uses coal for electricity generation as Figure 7.2 indicates below, while Poland’s second most common fuel source, oil, is used primarily in transportation and industrial applications.

\textsuperscript{345} Ibid.
The graph above indicates that Poland’s use of coal began to taper off slightly in 2006, and the share of electricity generated by natural gas, biofuels and geothermal/wind power has increased to fill the gap. This is highly likely due to pressure by the European Union to meet 2020 greenhouse gas reduction and renewable energy targets.

Poland’s domestic conventional gas reserves amount to an estimated 93 billion cubic meters (bcm) which is only 0.05% of world total reserves. In 2010 Poland produced 6,084 million cubic meters (mcm) of gas domestically. Poland’s

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Figure 7.2: Electricity Generation by Fuel Source in Poland

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domestic production is not sufficient to meet demand, and in 2010 Poland imported 10,895 mcm of gas.\textsuperscript{348} 90\% of Poland's gas imports come from Russia and about 10\% from Germany,\textsuperscript{349} making Poland almost completely dependent on Russian gas imports to meet domestic demand. Though Poland has few conventional gas resources, its unconventional resources (shale gas primarily, but also tight gas and coal bed methane) are estimated to be some of the largest in Europe. The Polish Geological Institute estimates that reserves may be as high as 1.9 trillion cubic meters, though 346 – 768 billion cubic meters is a more likely estimate. Even numbers at the low end of this scale would meet domestic demand for decades.\textsuperscript{350}

42\% of Poland's gas use is for residential, commercial, public, and agricultural use – to heat homes and businesses and for cooking and other daily functions. 25\% is used in industrial applications, 13\% is used for non-energy applications, 12\% is used for electricity generation and 5\% is used by the energy sector. 2\% is used in transportation, and about 1\% is lost in distribution.\textsuperscript{351}

In addition to gas, Poland also imports 95\% of its crude oil supplies. Russia supplies over 94\% of these imports, once again making Poland dependent on Russia for energy imports.\textsuperscript{352} Domestically produced biomass, which accounts for

\textsuperscript{348} "Poland Country Profile," Energy Delta Institute, Energy Business School, \url{http://www.energydelta.org/mainmenu/energy-knowledge/country-gas-profiles/country-gas-profile-poland#reference-dbsource_3}.
\textsuperscript{349} Ibid.
\textsuperscript{351} Ibid.
\textsuperscript{352} "Poland: Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels," OECD, \url{http://www.oecd.org/site/tadffs/48786641.pdf}. 
approximately 6% of total energy use, is Poland’s only significant source of renewable energy.\textsuperscript{353}

Poland’s energy mix has advantages and disadvantages. Though Poland is dependent on Russian oil and gas, its heavy use of coal as the primary fuel for generating electricity makes Poland far less energy dependent than its neighbors. In 2010 (the most recent year for which Eurostat offers data), Poland was 31.51% energy dependent. Energy dependence here is defined as, “the extent to which an economy relies upon imports in order to meet its energy needs.” By contrast, neighboring countries Lithuania and Germany are 81.92% dependent and 59.78% dependent respectively.\textsuperscript{354} Despite Poland’s relatively low energy dependence, its heavy reliance on coal means that it is more difficult for Poland to control carbon emissions and meet EU targets such as the 2020 goals. These goals include a 20% reduction in greenhouse gas emissions, a 20% increase in the use of renewable energy sources, and a 20% increase in energy efficiency. For this reason, Poland is looking to diversify away from coal and into other sources of electricity generation such as natural gas and nuclear power.

In November 2009, the EU Council of Ministers approved Poland’s Energy Policy to 2030. The Ministry of Economy, which was responsible for developing the policy, lists a number of challenges for the Polish energy sector. These include: “high demand for energy, inadequate fuel and energy generation and transmission

\textsuperscript{353} Ibid.
infrastructure, significant dependence on external supplies of natural gas and almost full dependence on external supplies of crude oil, as well as commitments in the field of environmental protection.”\(^{355}\) The primary goals of Polish energy policy were developed based on these changes, and are as follows:

- To improve energy efficiency;
- To enhance security of fuel and energy supplies;
- To diversify the electricity generation structure by introducing nuclear energy;
- To develop the use of renewable sources, including biofuels;
- To develop competitive fuel and energy markets;
- To reduce the environmental impact of the power industry.”\(^{356}\)

Poland is using a variety of policy measures to achieve these goals. These include the exploration for (and eventual extraction of) domestic unconventional gas sources, diversification of gas suppliers, construction of an LNG regasification plant, construction of a nuclear power plant, developing Poland’s biofuels industry, and by constructing pipeline and grid interconnections with other member states which will allow Poland to receive imports from its neighbors.\(^{357}\) Poland also plans


\(^{356}\) Ibid.

\(^{357}\) Interview with researcher at the Polish Institute for International Affairs (PISM), Warsaw, September 14, 2012.
to create competitive energy markets and a regulatory environment which is both favorable to the above measures and in line with EU regulations.

Underlying many of these policy measures is the desire to ensure energy security through the diversification of sources (of both crude oil and gas). Though not mentioned by name, Russia is Poland’s biggest supplier of both of these fuel sources, and diversification directly implies the search for non-Russian fuel sources. In reference to Poland’s shale gas exploration efforts, Prime Minister Donald Tusk said, “after years of dependence on our large neighbor, today we can say that my generation will see the day when we will be independent in the area of natural gas and we will be setting terms.”

Despite the fact that relations with Russia have improved during the Tusk government’s tenure, energy independence from Russia is still a high priority in Poland’s energy policy. While this is not (and cannot be) reflected in the list of goals mentioned above, it is a driving force behind these goals and the policy measures to achieve them have decreasing dependence on Russia in mind as well.

Of the policy measures mentioned briefly above, several are currently being implemented. Thus far “111 exploration concessions have been awarded to about 30 companies, both state-owned and international, on a territory of more than

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358 This is mentioned in the Ministry of Economy, “Energy Policy of Poland Until 2030,” on pages 10, 11, and 14.
360 Interview with Pawel Szalamacha, September 14, 2012.
35,000 square miles - nearly a third of the country.”

Though gas has yet to be produced in commercial quantities, but both the government and energy companies are optimistic for the future, particularly if Poland can create a services market and the infrastructural and regulatory environment conducive to the industry.

Poland strongly supports the construction of an EU sponsored pipeline through the Southern Gas Corridor, which would bring Caspian gas to Europe. To gain access to this gas, Poland has engaged a contractor to conduct a feasibility study for a gas interconnector from Poland to Slovakia. To diversify gas suppliers further, Poland is constructing an LNG regasification terminal at Świnoujście on the Baltic Sea. This terminal has been partly funded by grants amounting to $174 million from the European Union. The terminal is scheduled to be completed in 2014.

A final decision has not yet been made on the construction of a nuclear power plant, though an Australian firm has been contracted to provide pre-construction services in the direction of site selection. Though Poland’s largest utility, PGE collaborated with three other Polish energy companies to develop plans

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362 Ibid.
for a three gigawatt nuclear plant, these same companies have been collaborating with PGNiG, Poland’s gas monopoly, on shale gas development. Experts are concerned that Poland’s energy firms will be spread too thin to work on developing both sectors simultaneously. The government has indicated that a final decision on nuclear power will be made in later 2014 or 2015. International nuclear energy companies have also expressed interest in building the facility.366

**Attitude Toward Further Integration**

Public opinion in Poland has always supported EU membership, and this support only increased after accession. Indeed, a September 2007 survey found that the number of respondents who felt that Poland’s membership of the EU was a good thing had increased from 51% in May 2004 to 74% in April 2007 while the number who felt it was a bad thing had fallen from 15% to only 4%.367 Since the financial crisis began in 2008, which was swiftly followed by the sovereign debt crisis in the Eurozone, public opinion and trust in the EU has begun to trend downward. This is not unique to Poland, however, and is found throughout the EU. Despite this trend, the proportion of positive opinion (of the EU) exceeds the European average of 31%

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The spring 2012 wave of the Commission’s Eurobarometer survey asks respondents to rate how fast they would like to see European integration proceed on a scale of 1 (standing still) to 7 (as fast as possible). Poland’s desired speed was 5.5 out of seven, and was one of the highest of the EU27. The EU average is 4.9.\textsuperscript{369}

It is not just public opinion that drives Poland toward further integration. “As a member state that benefits financially from various EU policies and is largely dependent on other member states in terms of its economy, it stands for a closer Union.”\textsuperscript{370} Furthermore, a closer Union also supports Poland’s foreign policy goals, which include strengthening ties with the Eastern neighborhood and becoming a regional power and leading EU member. This is evidenced by Poland’s 2011 Council Presidency goals, which include European integration as a source of growth, a secure Europe, and Europe benefitting from openness.\textsuperscript{371} In addition to integration, energy policy was a high priority within the second goal of a secure Europe; according to the Presidency Programme, “EU’s position vis-à-vis the main producers, consumers and energy transit countries can be far stronger if decisive measures are taken to enable the EU to operate effectively in the international


\textsuperscript{369} “Standard Eurobarometer 77,” 69 – 70.

\textsuperscript{370} Rafał Bajczuk, “Poland – A Rising Engine of European Integration, Polish Foreign Policy and the EU Membership,” Stiftung Wissenschaft und Politik, German Institute for International and Security Affairs, Working paper FG 1, October 4, 2011 \url{http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/Poland_a_rising_engine_of_European_integr ation_KS.pdf}.

energy environment.” Poland’s priorities for its third goal, a Europe benefitting from openness, stressed good neighborly relations with Eastern Europe and the Southern Neighborhood, which was in the throes of the Arab Spring during the Polish Presidency.

Poland has been one of the staunchest supporters of further integration among European member states and Poland’s goals and interests within the EU have varied little between governments, including throughout the tenure of the PiS. The three governments that have led Poland through the duration of its EU membership had very different perceptions Poland’s place in the world and of the international community. They also chose to act via different types of policy instruments and styles of rhetoric. Although the PiS government was considered ‘soft Eurosceptic’ they saw the future of Poland within Europe, and negotiated hard for legislation and treaty provisions that were in Poland’s national interests. The current ruling coalition, led by Prime Minister Daniel Tusk and the PO, is undoubtedly pro-European and helped to improve relations with other member states as well as Russia as mentioned above.

**Major Infrastructure Projects: Cooperating with Russia**

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372 “Programme of the Polish Presidency,” 8.
373 “Poland – A Rising Engine of European Integration,” 6.
Poland has engaged in one major post-Soviet gas infrastructure project with Russia, the Yamal-Europe gas pipeline. Yamal-Europe transits four countries: Russia, Belarus, Poland and Germany. See Figure 7.3 below. The intergovernmental agreement between Russia, Belarus and Poland was signed in 1993, and the pipeline was completed in 1999. At over 2,000 km in length, the pipeline reached its full capacity of 32.9 bcm annually in 2006 when the last compressor station was completed. Until the first line of the Nord Stream pipeline came online in November 2011, Yamal-Europe was the only pipeline delivering gas to Western Europe that did not transit Ukraine, making it strategically important for both Europe and Russia.

Figure 7.3: Yamal-Europe Natural Gas Pipeline

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The Polish section of the pipeline is 638 km in length and is owned by EurRoPol Gaz, a joint venture between Gazprom and PGNiG, Poland’s gas monopoly.378

As originally designed, Yamal-Europe could expanded from one line to two, thereby doubling the pipeline’s capacity. Both Poland and Belarus have pushed for the construction of a second Yamal line, however to date there are no concrete plans to expand because Poland and Russia were unable to agree on the route of the second pipeline. Poland wanted the pipe to run through Southeast Poland (Poland’s industrial sector) and on to neighboring Central European countries. Negotiations eventually fizzled out and Yamal-Europe 2 was shelved in favor of the Nord Stream pipeline which cut out transit countries by taking the under-sea route from Russia directly to Germany.379 Polish sources claim that Poland agreed to suspend negotiations to obtain a decrease in the amount of natural gas purchases from Russia via their long term take or pay contract, thereby achieving a significant savings.380

In addition to Yamal-Europe, Poland also hosts a portion of the Druzhba or “Friendship” oil pipeline. This pipeline is the main artery for Russian oil exports to Europe. It was built in 1962 and is the world’s longest oil pipeline.381 Though this infrastructure project is a vital component of Europe’s energy security, its

380 Interview with Ernest Wyciszkwiewics, Deputy Director, Center for Polish-Russian Dialogue and Understanding, September 13, 2012.
communist era construction makes Druzhba less relevant for this analysis as it does not impact post-Communist Poland’s energy relations with Russia in the same way a new, EU era infrastructure project would. The purpose of looking at collaborative infrastructure projects between Russia and Poland is to determine if the construction of these projects has helped to foster good (or bad) energy relations between states. Though relations between Poland and Russia have been pragmatic at best and adversarial at worst, the construction of Druzhba, because it took place 50 years ago, has no bearing on this relationship in the present.

Yamal-Europe has been the only major energy infrastructure project that Poland and Russia have collaborated on in the post-Communist era, and this was an early project which was completed before relations soured during the PiS tenure in government. Though the PiS is now the opposition party, Poland and Russia have not yet agreed to any further collaboration on large scale infrastructure projects. This might change in the future, however as Gazprom is actually considering moving forward with Yamal Europe 2.\textsuperscript{382} Poland has agreed to begin talks with Gazprom, and national champion PGNiG hopes to negotiate an additional reduction in gas prices through the process.\textsuperscript{383}

\textsuperscript{382} “Yamal – Europe-2,” Gazprom, \url{http://www.gazprom.com/about/production/projects/pipelines/yamal-evropa-2/}.
\textsuperscript{383} Tim Gosling, “Poland Eyes Opportunity to Press Russia on Gas Prices,” Business News Europe, October 8, 2013, \url{http://www.bne.eu/story5411/Poland_eyes_opportunity_to_press_Russia_on_gas_prices}. 

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Energy National Champions

Poland has a number of state controlled energy firms, including PGNiG, Poland’s gas monopoly. Indeed, the state holds 72% of PGNiG.\textsuperscript{384} In addition, the state holds 62% of PGE, Poland’s top utility and 56% of JSW, a coal mining firm among other assets.\textsuperscript{385} Although PGNiG is state owned, Poland relies most heavily on coal to meet its energy needs. Though gas supply security has been an important policy issue, only 12.7% of Poland’s energy mix has been captured by natural gas. Coal, by contrast, holds a significantly higher market share, and the coal industry is much more powerful in Poland than the natural gas industry.\textsuperscript{386}

Despite calls for privatization, the Polish government still retains a controlling stake in many of the country’s top firms. Though the first Tusk government initiated a privatization push in 2008, “The government still exercises control either through a majority stake, or through a change to the statutes which gives it what amounts to a “golden share.” Expect no hostile takeovers or merger speculation here: that will not happen to PZU, the country’s biggest insurer, to PKO BP, its biggest bank, or to energy companies PGE, PGNiG, Enea or Tauron.”\textsuperscript{387} For the foreseeable future, the Polish government will retain a controlling stake in all of the major energy companies. Though this appears to be an ideological contradiction

\begin{footnotes}
\item[385] Ibid.
\item[386] Interview with Pawel Szalamacha, Member of Parliament, PiS, September 14, 2012.
\end{footnotes}
with the ‘liberal-conservative’ PO, it is wholly consistent with the 2009 Energy Policy, which calls for continued state ownership of key companies in the coal, oil and gas sectors.\footnote{Polish Ministry of Economy, “Energy Policy of Poland Until 2030.”}

Despite the presence of national champions, Poland is still a very pro-integration country and is one of the loudest member state voices in calling for closer integration on energy security policy measures.

**Historical Narratives**

Though Polish-Russian history was but briefly described at the outset of this chapter, it is clear from even that brief account that Poland’s historical narrative as regards Russia is overwhelmingly negative. Early Polish narratives constructed “an image of Russians as inferior, uneducated and uncultured steppe nomads, separated from Europe and Catholic Poland by faith and customs; cruel, bloodthirsty and violent barbarians threatening European civilization.”\footnote{Ekaterina Levintova, “Good Neighbors? Dominant Narratives About the ‘Other’ in Contemporary Polish and Russian Newspapers,” *Europe Asia Studies* 62 (2010), 1342.} Traditionally, Poland has viewed itself as “a country threatened by powerful neighbors like Germany and Russia and exposed to the disloyalty of allied great powers. This narrative sees the moral superiority of Poland over its former oppressors.”\footnote{Andrzej Marcin Suszycki, “Polish Nationalism in Transformation,” ISPI Commentary, Instituto Per Gli Studi Politica Internazionale, October 3, 2011, \url{http://www.ispionline.it/it/documents/Commentary_Suszyck_03.10.2011.pdf}, 1.} Poland’s accession to the EU in 2004 necessitated a change in this narrative. Germany is now viewed
through a more “rational and interest-driven” lens, and is considered a partner rather than an oppressor.\textsuperscript{391}

A similar change is underway regarding Russia, though the change has been slow and hampered by the PiS and the Polish media. While in power the PiS supported the Polish historical view of Russia as an oppressor and continued this discourse even after the PO won the 2007 parliamentary elections and Donald Tusk was elected Prime Minister. In 2008, for instance, former President Lech Kaczynski strongly denounced Russia’s August invasion of Georgia and showed considerable solidarity with that nation in the face of their perceived mutual oppressor. In addition, the Polish media has also helped to perpetuate this narrative, focusing particularly on “Poland’s energy dependence on Russia, the unreliability of Russian energy supplies and Russian plans to provide alternative energy transportation routes to exclude Poland from the European energy grid.”\textsuperscript{392}

After 2010 and the end of cohabitation, the government led by Tusk and Komorowski “attempted to reduce the influence of history on the contemporary relations between the two countries and to adopt a more interest-based policy towards Russia (even if the supply of energy resources from Russia remains a constant area of Polish concern).”\textsuperscript{393} Poland’s national narratives concerning Russia will continue to evolve as relations change and Poland’s position within the EU helps to make it feel more secure. Though on an upward trajectory, this evolution in

\textsuperscript{391} Ibid.
\textsuperscript{392} Levintova, “Good Neighbors?” 1351.
\textsuperscript{393} Suszycki, “Polish Nationalism in Transformation,” 2.
Poland’s historical narrative could devolve once again based on events internal and external to Poland. If Russia were to take some action that was universally considered a threat to Polish interests, rhetoric and eventually the narrative would revert to ‘Russia as oppressor.’

Similarly, the official government narrative might change were the PiS to return to government. Jaroslaw Kaczynski, party leader and former Prime Minister, still condemns Russia for past oppression and has even argued that Russia had some hand in the death of his brother Lech, in the 2010 plane crash outside Smolensk.394 He has also accused the Tusk government of initiating a cover up.395 Were the PiS to come back, relations with Russia are expected to deteriorate, as PiS leaders attempt to return to the narrative of ‘Russia as oppressor.’

**Economic Ideology**

Poland’s two most recent ruling parties, the PO and PiS, are splinter parties that emerged from the Solidarity movement. Both parties can be considered center-right, though the PiS can be categorized as further right and more conservative than the PO due to its strong nationalistic tendencies. It has also been referred to as

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“national-social conservative.” These two parties have over time drawn votes away from the smaller center-right parties and have benefitted from the disorganization of the post-communist center, becoming the two largest center-right parties. Though the PO again received the largest share of the votes in the 2011 election, they have not yet been able to concentrate the center-right and thus they remain in competition with the PiS.

As in most countries, economic ideology changes with the party in power. Poland’s current ruling coalition is considered ‘liberal conservative.’ ‘Liberal conservative’ parties combine liberal views on the economy with more conservative views on social issues which means that parties like the Civic Platform tend to favor a free market but oppose things like abortion and gay rights. When the PO first emerged on the political scene in 2001, however, it was more socially liberal, espousing secular European values. These were not favorable with voters, and the PO subsequently recalibrated its position on social issues to be more sensitive to voters.

Though originally a liberal conservative party, the PO has emerged in the last few years as a “centralist catch-all,” and as “a party less focused on ideology than

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Furthermore, Donald Tusk, leader of the PO has been referred to as “a post-ideological liberal who has absorbed strong traits of conservatism to become electable.” This pragmatism is evident in the 2008 privatization push mentioned above as well as in Poland’s Energy Policy to 2030 document. An ideologically liberal government would push for full privatization, which has not yet been done. Furthermore, it would not suggest that retaining control of Poland’s top energy firms was in the national interest. Though the PO might espouse liberal principles, it has not enacted wholly liberal economic policy measures while in government.

**Economic Structure**

Poland, like many other post-communist countries in Central and Eastern Europe, has been classified as a dependent market economy (DME), by scholars in the ‘varieties of capitalism’ tradition. Yet the argument has also been made that Poland should be classified as a Liberal Market Economy (LME). Which is it?

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If Poland can be classed as a DME, then the central coordinating mechanism for firms (which is the hierarchy within transnational corporations) is industry dependent. The natural gas industry in Poland is largely state owned, and dominated by PGNiG, a vertically integrated energy company. This leaves very little room for transnational energy firms in the gas industry. State owned, vertically integrated gas firms do not coordinate their activities in the same way that transnational firms do. In this case, the DME designation (even if applicable to other industries) cannot be properly applied to the gas industry. This is consistent with Nolke and Vligenthart’s characterization of the DME model in that “construction of the DME model covers only the dominant industries within the region and cannot represent East Central European economies as a whole.”

It also follows that the DME model does not represent every industry.

If Poland can be classified as an LME, then firms will coordinate their activities based on competitive market arrangements. Competitive market arrangements, however, don’t account for the overwhelming control that PGNiG has over Poland’s gas industry. Therefore in Poland, it could be argued that the gas industry could best be described as a coordinated market. Though not a fully coordinated market economy, Poland’s gas industry operates more like industries do in CME’s where firms coordinate their activities based on non-market relationships. Though Poland, like other EU member states, is expected to transition to a liberalized energy market, prices are currently set by a state regulatory agency.

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405 Nolke and Vligenthart, "Enlarging the Varieties of Capitalism," 679.
Analysis

Though a number of factors influence Poland’s energy security policy preferences, history is the most important. If this was not the case, then the PiS would not have been so successful in inflaming anti-Russian sentiment during its time in power. This said, attitudes are slowly changing.

Of the variables discussed above, some are more important than others. For instance, although Poland and Russia did cooperate to build Yamal-Europe, this successful cooperation didn’t lead to additional gas projects or the establishment of a strategic energy partnership between the two countries. Indeed, not a decade after the completion of Yamal-Europe, relations between the two countries were at their lowest point. Though relations have improved, the Polish government still seeks to diversify their natural gas supplies by importing LNG and exploiting domestic shale gas resources. Poland also continues to be one of the strongest supporters of further integration in the energy security policy sector.

Similarly, the presence of a gas national champion, PGNiG, in Poland has also not led to any resistance to further integration in energy security. This is probably because of natural gas’s very small market share in Poland. This gives PGNiG power in the gas market, but not a lot of power nationally. The indigenous coal industry is much more powerful than the gas industry, and is better able to lobby the
government to ensure that coal remains Poland’s top fuel source.\textsuperscript{406} As long as natural gas meets just a small part of Poland’s energy needs, PGNiG’s influence will continue to be small.

In addition to history politics are also important, as is the ideological position of the party in power. Under the PiS, Poland was more concerned about past wrongs and more fearful of Russia’s intentions. Now, under the leadership of the PO the debate has changed. Poles still don’t love Russia but under the current government, policies have become more rational and more achievable. Indeed, rather than go it alone through futile proposals like an ‘Energy NATO,’ the government has sought to reduce Poland’s energy vulnerabilities through the EU, which wields significantly more power than Poland does alone. Furthermore, the national debate has also become more rational and policy focused than it was under the PiS. For instance, climate change has now become a topic of discussion. Under the previous government it was more or less ignored in favor of the greater threat (Russia). In the case of economic ideology, the PO’s turn toward pragmatism has led to more positive rhetoric on integration generally. In the energy security policy area, both the PO and the PiS favor further integration, but the parties hope for different outcomes from further energy policy integration. The PO hopes that further integration will reduce Poland’s vulnerability to supply shocks coming from Russia. By contrast, the PiS takes a more conservative and adversarial tone as evidenced by policy proposals like the ‘Energy Nato.’

\textsuperscript{406} Interview with Pawel Szalamacha, Member of Parliament, PiS, September 14, 2012.
In Poland, the variety of capitalism variable doesn’t really play a role in preferences toward energy security policy integration. If Poland were more easily categorized as a CME or LME, or if the DME model was more developed, then perhaps this variable would provide more insight. However, because Poland’s economy (and energy industry) doesn’t really conform to the established typology, this variable is not thought to influence national preferences.

**Conclusion**

In Poland, the strongest factor influencing national preferences toward further EU energy security policy integration is history and the historical narratives at play in Polish-Russian relations. Politics, specifically the ideology of the ruling party in government, also plays a role and determines the character of Poland’s preferences for further integration. Polish history and historical narratives place the country between its historical oppressors, Russia and Germany. This view has led successive governments to favor EU integration as a means to counter these threats. Though the Polish view of Germany has changed from oppressor to partner, this is not yet true for Russia. Many still view Russia as a threat and thus the EU as a guarantor of Poland’s sovereignty, both within and outside the energy sector. This view of ‘Russia as oppressor’ leads many to inherently question Russia’s actions in the energy sector, seeing actions like the 2006 and 2009 gas crises and the construction of the Nord Stream pipeline as attempts to cut off or isolate Poland.
from the rest of Europe and bring it back into Russia’s sphere of influence. This view is held particularly by members and supporters of the PiS, and perpetuated by the media. When this historical narrative has been combined with a nationalist ideology, relations with Russia have suffered.

Although the PiS could be considered a ‘soft Eurosceptic’ party, it still sought closer integration in energy security policy throughout its tenure in government. The PO, which is more pro-integration, has also sought closer integration, though its motives are not tied as directly to a fear of Russia. Ideology has also determined the character of Poland’s preference for further energy security integration. Under the PiS, proposals at the EU level had a more inflammatory and ‘us versus them’ character. This made Poland an outsider, and many of its proposals were not taken seriously. Under the PO, Poland has been more pragmatic, focusing on ways to ensure security that are achievable without making Russia an outsider. Indeed, proposals such as gas interconnectors will help to ensure security of supply regardless of the source of supply shocks. Under the PO’s leadership, Poland has also positioned itself as a key regional energy player in the EU.407

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CHAPTER EIGHT:  
THE UNITED KINGDOM

Historical Context

The UK and Russia have both occupied positions as European great powers, and as such have been both allies and adversaries in great power politics and in the various wars fought on the Continent. Like Germany and France the UK has never been subjugated by Russia and so the relationship between the two countries, though not always easy, is not fraught with the suspicion that continues to plague many of the Central and Eastern European member states.

In the 18th Century, Britain thought of Russia as a natural ally, and this position persisted largely until after the Napoleonic Wars. Although this was a popular position, some in Britain questioned Russia’s intentions in Asia at the end of the 18th Century when Russia was in the process of expanding at the expense of the Ottoman Empire. At that time British Prime Minister William Pitt expressed concern that “Russia might become too powerful and might upset the existing balance of power.” Shortly thereafter, both Britain and Russia were engaged in fighting against Napoleonic France, and it was not until Napoleon’s failed invasion of

409 Ibid.
Russia in 1812 that the UK and Russia began to succeed in controlling France’s expansion throughout Europe. During the Napoleonic Wars, Britain’s suspicion of Russia’s intentions in Asia was put on hold. Indeed, “it was not until 1815, in the aftermath of the Napoleonic wars, that British fears of Russia began to revive. At that time Russia appeared to be the strongest land power in the world.”

After the Napoleonic Wars, the major powers of Europe “assembled in Vienna to restore the European state system.” Balancing the interests of Great Britain, France, Austria, Russia, and Prussia was not easy, but the agreement crafted in Vienna led to thirty years of peace. The peace didn’t last however, because of the weakness of Ottoman Turkey. Referred to by Tsar Nicholas of Russia as ‘the sick man of Europe,’ Ottoman Turkey was “a country in decline whose demise would have repercussions throughout Europe.” Russia decided to exploit Turkey’s weakness by carving up the European part of the Ottoman Empire, but received no support from her allies and instead instigated the Crimean War.

The Crimean War, referred to by some as “The War Against Russia,” began when Russia took control of the Danubian Principalities in Southeastern Europe in 1853. In response, Turkey declared war and attacked the Russians. After the Russians defeated Turkey the UK and France demanded Russia exit the Danubian Principalities by March 1854. The UK was not comfortable with Russia’s position in

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413 Royle, Crimea, ix.
Southeastern Europe, and particularly didn’t want Russia to control the Dardanelles, and thus trade lines with Turkey.\textsuperscript{414} When Russia refused, war ensued. The allies defeated Russia and the 1856 Treaty of Paris ensured both the return of the Danubian Principalities and that Russia would not maintain a fleet in the Black Sea.\textsuperscript{415} Despite its defeat, Russia did not stop threatening British strategic interests.

The “Great Game,” which took place between 1856 and 1907, pitted the UK and Russia against each other as rivals for influence in Central Asia.\textsuperscript{416} Triggered by a Russian threat to British India, the ‘jewel in the crown’ of the British Empire, the Great Game was sometimes a cold war and sometimes a hot one.\textsuperscript{417} Russia conquered much of Central Asia unimpeded by Britain, but the British “reacted violently... to any hint of Russian meddling in the areas on the frontier of India.”\textsuperscript{418} Indeed, to prevent Russian agents from infiltrating Afghanistan Britain fought two Afghan wars (1838-42 and 1878-80). The UK also fought Persia (1856-57) when that country was encouraged to move against Afghanistan by Russia. Britain and Russia nearly went to war themselves when “Russian border patrols reached the Afghan frontier in the Penjdeh crisis of 1885.”\textsuperscript{419} The Great Game ended without full scale war between the UK and Russia.

\textsuperscript{418} Fromkin, “The Great Game in Asia,” 940.
\textsuperscript{419} Ibid.
Improbable as it seems, in both WWI and WWII, Britain and Russia were allies in the fight against Germany. Before the outbreak of WWI the UK, France and Russia were allied in the Triple Entente, which was opposed to the Triple Alliance (Germany, Italy, Austria-Hungary) and aimed at controlling Germany’s power in Europe. All three allies fought against Germany and its allies during World War I. By early 1917 the Eastern Front was disintegrating, and morale and desertion became big problems. Indeed, Russian commanders confessed that “they could no longer rely on their troops.” Revolutionary agitation had begun, and in March the Czar was persuaded to abdicate after police joined in solidarity with rioters in St. Petersburg. Later, in November 1917, Vladimir I. Lenin instigated a coup d’état, and after taking control of the government, asked Germany for an armistice. By the time the Allies defeated Germany, Russia had left the war and Lenin had begun consolidating his control over Russia and building the Soviet Union.

In WWII, the UK, the United States and France allied with Russia to defeat Nazi Germany, but only after Germany broke the German-Soviet Nonagression Pact (also known as the Molotov-Ribbentrop Pact) and invaded Russia in June 1941. Though the alliance was a successful one, ultimately defeating Germany, it was also uneasy. Churchill was vocal in his opposition to bolshevism in Russia and distrusted Stalin, in contrast to the special relationship he maintained with American President

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Franklin D. Roosevelt.\textsuperscript{422} While Churchill and Roosevelt met each other many times, the British Prime Minister met only twice with Stalin outside the ‘Big Three’ meetings in Tehran and Yalta, and the “Stalin-Churchill relationship never threatened to become anything more than opportunism, in either reality or myth.”\textsuperscript{423}

Shortly after the conclusion of World War II, Winston Churchill was invited to give the commencement address at Westminster College in Fulton, Missouri. In one of his most important speeches as the world’s best known statesman, he warned the West about Russia’s intentions and the threat posed by the Soviet Union.

\textit{“From Stettin in the Baltic to Trieste in the Adriatic, an iron curtain has descended across the Continent. Behind that line lie all the capitals of the ancient states of Central and Eastern Europe. Warsaw, Berlin, Prague, Vienna, Budapest, Belgrade, Bucharest and Sofia, all these famous cities and the populations around them lie in what I must call the Soviet sphere, and all are subject in one form or another, not only to Soviet influence but to a very high and, in many cases, increasing measure of control from Moscow.”}\textsuperscript{424}

The UK remained opposed to the Soviet Union throughout the Cold War, and was closely allied to the United States. Indeed, British Prime Minister Margaret Thatcher

\textsuperscript{423} Kimball, 	extit{Forged in War}, 12 – 13.

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and the American President Ronald Reagan were known for their special relationship and implacable opposition to communism. Thatcher's 1950 manifesto for election to Parliament bore the same sentiments that she would later hold at Prime Minister. "Every conservative desires peace," but "the threat to peace comes from Communism, which has powerful forces ready to attack anywhere. Communism waits for weakness, it leaves strength alone. Britain must therefore be strong, strong in her arms, strong in her faith, strong in her own way of life." Despite her anti-communist views, Thatcher supported "engaging with the reform efforts of Mikhail Gorbachev." Upon first meeting Gorbachev, she found him to be a man she "could do business with." Not long after Thatcher's tenure in office (and partly because of her policies), the Soviet Union collapsed and British-Russian relations took a turn for the better.

The United Kingdom's Post Cold War Relations with Russia

After the collapse of the Soviet Union, the UK and Russia were on very good terms. This continued through the September 11th terrorist attacks, after which

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426 Dyson, “Cognitive Style and Foreign Policy,” 43.
427 Dyson, “Cognitive Style and Foreign Policy,” 44.
the UK “actively promoted Moscow’s alignment with the ‘war against terrorism’ and the creation of the NATO–Russia Council.”

During this time trade and investment (particularly by British firms) was on the increase and the London Stock Exchange became more and more important for Russian companies. Indeed, the UK is one of the largest foreign investors in Russia, “accounting for $18.9 billion (£11.8 billion) of Russia’s $266 billion inward investment since 1991.”

Nevertheless, a number of incidents have contributed to souring relations between the UK and Russia. The UK has been referred to as a ‘frosty pragmatist’ by Leonard and Popescu, who claim that, “While these countries tend to be pragmatic and oriented towards business interests, they do consistently raise concerns about democracy and human rights, and are willing to challenge Russia when it violates their commercial interests as well as diplomatic norms.”

Many of these disputes concern asylum and extradition requests. Between 2001 and 2007, “the UK refused repeated extradition requests by Russia for 13 individuals and granted political asylum to high-profile figures such as Akhmed Zakayev and Boris Berezovsky.” One major incident that led to the deterioration of relations was the murder of Alexander Litvenenko, a Russian dissident and

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431 Roth, “Bilateral Disputes Between EU Member States and Russia,” 18.

432 Galbreath, “United Kingdom,” in EU-Russia Watch 2012, 139.


434 Roth, “Bilateral Disputes Between EU Member States and Russia,” 18.
former KGB/FSB officer, in 2006. Litvenenko, who was on the MI6 payroll and had
served as a source for British journalists, was investigating the assassination of
Russian journalist Anna Politkovskaya.\textsuperscript{435} After leaving the FSB, Litvenenko wrote a
book “Blowing up Russia: Terror from Within, in which he claimed FSB agents had
been responsible for the bombing of apartment blocks in Moscow and two other
cities in 1999.”\textsuperscript{436} Litvenenko obtained asylum in the UK in 2000.

After having tea with two Russian contacts (and former KGB officers),
Litvenenko became ill and was hospitalized due to poisoning by the radioactive
isotope Polonium-210. He died three days later. One of the contacts with whom
Litvenenko had tea, Andrey Lugovoy, is the primary suspect in his murder. “Having
traced the polonium trails left by the three men, British officers undertook
investigations in Moscow in December 2006. In May 2007, the Crown Prosecution
Service announced that sufficient evidence had been gathered to charge Lugovoy
with murder and lodged an extradition request.”\textsuperscript{437} Russia refused the request and
offered to try Lugovoy in Moscow. Furthermore, “instead of being extradited,
Lugovoy was placed second on the Liberal Democratic Party list for the 2007
elections.” His election to the Duma provided him with parliamentary immunity.\textsuperscript{438}

In July 2013, the UK government decided against opening a public inquiry into

\textsuperscript{435} “Who Was Alexander Litvenenko?” BBC News UK, July 12, 2013, http://www.bbc.co.uk/news/uk-
19647226.
\textsuperscript{436} “Who Was Alexander Litvenenko?” BBC News UK, July 12, 2013, http://www.bbc.co.uk/news/uk-
19647226.
\textsuperscript{437} Roth, “Bilateral Disputes Between EU Member States and Russia,” 18-19.
\textsuperscript{438} Roth, “Bilateral Disputes Between EU Member States and Russia,” 19.
Litvenenko’s death. His widow called this “a "political" decision that showed more concern for British-Russian relations than getting to the truth.”

In July 2007, relations between the UK and Russia degraded even further when Britain expelled four Russian diplomats. “The Russian government retaliated in Moscow while also beginning a harassment campaign against UK embassy staff and the British Council.” The August 2008 Russia-Georgia war also contributed to deteriorating relations as the UK criticized Russia for its disproportionate use of force. David Miliband, who was Foreign Secretary at the time, “said that the sight of Russian tanks was a ‘rude awakening,’ accused Moscow of unilaterally trying to redraw the map and re-affirmed UK support for the NATO membership of Ukraine and Georgia.” David Cameron, opposition leader at that time, took the same position, calling Russia a “bully” and the “principal villain of the crisis.”

Relations remained cool until 2010 when the UK elected a new government composed of Conservatives and Liberal Democrats. Prime Minister David Cameron has attempted to rebuild bridges with Moscow, but his government has continued to face a variety of issues which make relations continually difficult. One of these issues is the “continued fallout over BP, the international energy firm, and

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its relationship with state-owned energy firms in Russia."443 This will be discussed in further detail in the following section on UK – Russia energy relations.

Relations have improved somewhat and cooperation continues in the economic and military spheres. Indeed, military cooperation has included a range of activities such as a decommissioning program which prepares Russian military officers for civilian life, and the rescue of a small Russian submarine that became entangled off the Kamchatka Peninsula.444 In addition, over 1,000 UK companies are active in Russia across a broad range of economic sectors such as construction, communications, real estate, and energy. Cooperation in the economic sphere continues to grow despite the economic downturn and the political tensions discussed above.445

Energy Relations with Russia

Energy relations between the UK and Russia have a relatively different tone than energy relations between many other European member states and Russia. This is because the UK is not dependent on energy supplies from Russia as are many other member states, especially those in Central and Eastern Europe. UK-Russia energy relations fall largely into the trade category. The UK imports small amounts

443 Galbreath, "United Kingdom," in EU-Russia Watch 2012, 139.
445 Ibid.
of oil and coal from Russia, but is not dependent on Russian imports as are Poland, Lithuania and Germany.

British Petroleum began operating in the Russian energy sector in the 1990s, and in 1997 purchased a 10% share in Sidanco, which was then Russia’s fourth largest oil company. In 2002, BP increased its share to 25% plus one share. “In 2003, BP merged its interests in Russia with TNK to create TNK-BP” which went on to become Russia’s third largest oil and gas company.446 The company was a 50-50 joint venture which absorbed Sidanco’s assets, and BP invested billions in the venture.

TNK-BP owned a majority share in Kovytka, one of the largest gas fields in Siberia, however it was unable to develop the field for years partly because “Gazprom, which has a monopoly on gas exports, refused to develop any export pipelines.”447 In 2010 Russia’s environmental watchdog argued that TNK-BP’s license should be taken away because it failed to develop Kovytka.448 TNK-BP ended up selling its share to Gazprom for $776 million, which is far less than it $2 billion

estimated value. Most of the estimated 2 trillion cubic feet contained in Kovytka is destined for Chinese markets.449

Despite its general success (profits grew by 40% from 2003 – 2012)450 relations between the two shareholders of TNK-BP were never smooth. Indeed, “top BP employees have fled Russia, BP’s Russian offices have been raided twice, and TNK has blocked BP from doing business with the Russian energy company Rosneft.”451 The January 2011 deal with Rosneft to drill in the Russian Arctic, “came under fire by a group of majority stakeholders in TNK-BP which argued that it had an exclusive arrangement with BP to negotiate any opportunities through the joint venture and thus not singly as BP.”452 The majority stakeholder, consisting of Alfa-Access-Renova, was able to block the deal in court.

About a year and half later, in June 2012, BP decided to sell its stake in TNK-BP, and in October signed an agreement to sell its stake to Rosneft. In November, BP purchased a 5.66% share of Rosneft from the Russian state. In exchange for selling its stake in TNK-BP, BP received $12.5 billion in cash and now owns a 19.75% share of Rosneft. Rosneft is now the world’s largest publicly traded oil company (by volume).453 According to BP Chairman Carl-Henric Svanberg, “This is the beginning

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452 Galbreath, “United Kingdom,” in EU-Russia Watch 2012, 139.
The United Kingdom’s Energy Policy

Unlike many of its neighbors, the UK possesses significant domestic oil and gas reserves. Production of oil and gas peaked in the late 1990s, and after years of exporting both fuels, the UK became a net importer of gas and oil in 2004 and 2005 respectively. Despite reliance on imports, the UK remains the EU’s largest producer of oil and second largest producer of gas. According to the EIA, “energy use per unit of gross domestic product (GDP) in the UK is one of the lowest among western economies. The UK has seen total energy consumption decline by more than 15 percent between 2004 and 2011.” The decline has come from economic contraction due to the global recession, greater energy efficiency, and a decreasing contribution of energy-intensive industry to the economy.


Natural gas and oil both play a substantial role in energy consumption in the UK, but coal is the primary fuel used to generate electricity. Though coal plants had been increasingly replaced by natural gas fired plants until 2012, this trend has begun to reverse due to the increasing price of natural gas relative to coal. In 2012, coal fired electricity generation increased by approximately 32%, to its highest level since 2006. In 2011, the UK imported 64% of its coal needs, and 38% of these imports came from Russia. The UK also imports coal from Colombia (25%), the US (19%) and other countries.\(^{458}\)

Natural gas is used to supply approximately 28% of electricity generation, and though the UK is Europe’s second largest gas producer it does not produce

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enough gas to meet domestic needs. UK natural gas reserves are currently estimated at 8.7 trillion cubic feet. The UK does not import gas from Russia. Rather, imports come primarily from Norway (55%), the Netherlands (15%), and Belgium (3%). The remaining gas is imported as LNG, primarily from Qatar.\textsuperscript{459} Natural gas is also used in the residential, industrial and commercial sectors.

Oil-fired plants provide only 1% of electricity generation in the UK, though oil makes up 38% of total energy consumption. The UK possesses the largest oil reserves in the European Union, at an estimated 3.1 billion barrels of proven reserves. Most are located offshore, on the UK Continental Shelf. In 2012, the UK produced approximately 1 million barrels per day, and consumed approximately 1.5 million bbl/d. Although the UK imports some oil from Russia, oil imports primarily come from Norway (67%), and are supplemented by imports from Russia (8%), Nigeria (7%), and Algeria (5%). Approximately 13% of imports come from other sources.\textsuperscript{460}

Nuclear energy accounts for approximately 20% of electricity generation.\textsuperscript{461} Unlike Germany, which is phasing out nuclear power, the UK “Government believes that nuclear energy has an important role to play in delivering our long term

objective of a secure, low carbon, affordable, energy future.” The UK considers nuclear power to be a viable energy source for the long term, up to and past 2050. The UK’s envisions a nuclear energy sector that prioritizes: safety and security, the environmentally responsible disposal of nuclear waste, decommissioning redundant facilities, contributing to economic prosperity while ensuring the nonproliferation of nuclear weapons.

Renewable energy sources account for approximately 9% of electricity generation and 12% of total energy consumption. In the UK, renewables primarily consist of onshore and offshore wind energy, hydropower, solar energy, biofuels and tidal power. Currently, the UK aims to increase the use of renewable energy sources to 15% of total energy consumption by 2020.

One of the UK’s major energy policy goals is to ensure “safe, secure and future-proof supplies of energy that are available to all,” and Britain is looking to achieve this through international relations and support for the energy industry. This also includes renewable energy sources and nuclear energy. The UK is legally bound, under the terms of the 2008 Climate Change Act, to reduce “greenhouse gas

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463 Ibid.
emissions by at least 80% (from the 1990 baseline) by 2050.” Britain aims to achieve this goal at home by moving to an energy efficient low carbon economy. To ensure that Britain is able to meet this target, policies have been put in place in the following areas:

- **National policy and strategy (which includes options such as carbon budgets, the emissions trading scheme (ETS), etc.)**
- **Reducing the demand for energy and helping people and businesses use energy more efficiently**
- ** Investing in low carbon technology such as carbon capture and storage and reforming the electricity market by replacing aging plants with lower carbon options**
- **Publicly reporting carbon emissions from businesses and the public sector**
- **Working internationally through the EU and other organizations to negotiate comprehensive global climate change agreement and mitigate climate change impacts**

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The 2050 target is one of the driving forces of Britain’s national policy debate and it shapes the overall political narrative on energy issues.\textsuperscript{470} When it comes to the UK’s energy security policy, the goals of Britain’s overarching energy policy are taken into account in efforts to secure adequate supplies. According to the UK’s Department of Energy and Climate Change, “Our energy security strategy is based on competitive energy markets combined with effective regulation to deliver diversity of supply and robust infrastructure for consumers. Six policy areas ... contribute towards these aims.”\textsuperscript{471} These six policy areas include: resilience measures, energy efficiency, reliable networks, maximizing UK energy production, working internationally, and decarbonization. Some of these correspond to the policy areas listed above that are designed to facilitate Britain’s move toward an energy efficient low carbon economy. At the EU level, the UK hopes to achieve its energy policy and security goals through the completion of the internal market, retaining the nuclear energy option, investing in gas (moving away from coal), and the increased use of renewable energy sources.\textsuperscript{472}

\textbf{Attitude Toward Further Integration}

\textsuperscript{470} Author interview with UK Official, Brussels, May 14, 2012.
\textsuperscript{472} Author interview with UK Official, Brussels, May 14, 2012.
Unlike most of the other countries examined in this dissertation, the UK tends to be notably skeptical of its membership in the EU. Indeed, this skepticism isn’t just present within the government but also within the citizenry, 57% of whom support a national referendum on EU membership. By contrast, only 26% of people believe that there should not be a referendum. According to Chatham House’s Thomas Raines, “If the referendum were announced tomorrow, a Yes campaign would start almost 20 points behind in the polls. Currently, almost half the country would vote to leave the EU.” Raines also notes that euroskepticism in the UK doesn’t hold to traditional party lines and is more prevalent in Wales and the Midlands. London and regions in the north and south are more supportive of EU membership. Additionally, age is another factor which contributes to the public’s euroskepticism, with older people supporting the UK’s exit from Europe and younger people supporting continued membership.

As further evidence of Britain’s euroskepticism, the country hosts a euroskeptical party, the UK Independence Party (UKIP), whose primary goal is to get Britain out of the EU. UKIP does not currently have any seats in Parliament, though they have had some success at the local level.

There are a few explanations for British euroskepticism. One explanation is that British national identity was formed, at least in part, in opposition to

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474 Ibid.
continental Europe and that this still runs deep in the British psyche. The Continent in some ways is still considered to be ‘the other’ by the UK. In addition, Britain’s EU membership is associated with the end of Empire. McCormack, quoting Laffan notes that “EU membership spelt the end of Empire and the diminution of a world role that contributed so much to how the UK explained itself.”

This tends to leave the UK as “an awkward, even unwilling member of the EU.”

Another explanation is that the UK lacks “ideological attachment to the post-war European integration project of other member states,” France and Germany in particular. This has made Britain’s relationship with the EU more transactional in nature. Without the ideological commitment to integration, the costs and benefits of membership have become more important. In recent years, particularly during the economic crisis, the costs of membership have seemed higher than the benefits for many in the UK.

As a result of its euroskepticism, the UK is less integrated into Europe than are many other member states. Britain has opted out of a number of EU treaty provisions; the most significant of these is the membership in the euro, which is the third stage of economic and monetary union (EMU). The UK obtained an opt-out clause when the Maastricht Treaty was concluded in 1992. The UK has also opted out of the Schengen Area, choosing instead to operate its own border controls.

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478 Raines, “A Breakdown of British Euroscepticism.”
479 Raines, “A Breakdown of British Euroscepticism.”
Despite prevailing euroskepticism, the UK has strongly supported further integration in energy security policy, particularly in liberalizing the EU energy market.\textsuperscript{480} The UK energy market is already liberalized, and it has served as one of the driving forces of liberalization at the EU level.\textsuperscript{481} The UK has been less enthusiastic about the external dimension of EU energy policy, however, and advocates for a case-by-case rather than a one-size-fits-all approach. This stems from the belief that although the internal market has an external dimension it should fit within EU treaty provisions and not extend beyond them.\textsuperscript{482} Along these lines, Britain supports a coherent approach to the external dimension, particularly in relations with supplier countries, but one that does not overreach.\textsuperscript{483}

**Major Infrastructure Projects: Cooperating with Russia**

There are no oil or gas pipeline projects which run from Russia to the UK. Indeed, the “UK has a single international crude oil pipeline, the 220-mile, 34-inch Norpipe operated by ConocoPhillips. With a capacity of 900,000 bbl/d, Norpipe connects Norwegian oil fields in the Ekofisk system to the oil terminal and refinery at Teesside.”\textsuperscript{484} Britain also imports gas via pipeline from Norway, the Netherlands

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\textsuperscript{481} Author interview with UK Official, Brussels, May 14, 2012.

\textsuperscript{482} Author interview with UK Official, Brussels, May 14, 2012.

\textsuperscript{483} Author interview with UK Official, Brussels, May 14, 2012.

and Belgium. The UK and Russia cooperate in the Russian energy sector, particularly in exploration and production, as discussed in the above section on UK-Russia energy relations, but there are no infrastructural connections between the two countries, and energy cooperation in Russia can be described as rocky at best.

**Energy National Champions**

The UK has no national champions in the energy sector, which is both fully privatized and fully unbundled. Formerly state-owned British Gas (a vertically integrated national champion) was privatized in December 1986, and has become BG Group. BG group now operates in two sectors – exploration and production and LNG – and though headquartered in London, primarily operates outside the British Isles. Centrica, a spin-off of the distribution assets of formerly state-owned British Gas, is the largest gas distributor in the UK. The “gas distribution sector underwent a major change in 2005, when National Grid Gas sold four of the eight gas distribution networks to Scotia Gas Networks, Wales and West Utilities, and Northern Gas Networks. Prior to this sale, National Grid controlled the domestic gas distribution system.” British Petroleum (BP) was also once state owned. Like British Gas, it was privatized during the 1980s during Prime Minister Margaret Thatcher’s tenure.

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485 “BG Group Profile,” [http://www.bg-group.com/AboutBG/Profile/Pages/BGProfile.aspx](http://www.bg-group.com/AboutBG/Profile/Pages/BGProfile.aspx).
**Historical Narratives**

The UK and Russia have a history of both cooperative and adversarial relations. As noted above, the two countries were allies in the Napoleonic Wars, WWI and WWII. There is also a long history of rivalry which includes the Crimean War, the 19th Century “Great Game” in which the UK and Russia competed for supremacy in Central Asia, and the Cold War.

According to Monaghan, the historical sense of rivalry between the UK and Russia has overshadowed the history of cooperation and led to these countries viewing each other as the ‘other.’\(^{488}\) This view persists even though neither country is a high priority in the other’s foreign policy strategy.\(^{489}\) He notes that “each appears to be a major target for the mass media of the other, which tends to emphasise and often exaggerate the conspiratorial element of the other, usually framed in spies, hostile intelligence operations, “cloak and dagger” intrigue and murder, and competition for international influence.”\(^{490}\)

Although these historical narratives are not as overwhelmingly negative and fearful as some of those existing among Eastern European states, they are also not supportive of close cooperative relations or a strategic partnership.

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\(^{488}\) Monaghan, “UK-Russia Relations: A Bad Case of Mutual Misunderstanding,” 2.  
\(^{490}\) This is from one of the Monaghan papers. Look it up.
Economic Ideology

Since the Second World War, British politics has been primarily dominated by the Labor and Conservative parties, which lean left and right respectively. The Liberal Democrats are the UK’s third largest party, and a number of others are represented in Parliament, though not in large numbers. Of the 650 current MPs, 304 (46.7%) are Conservatives, 257 (42.5%) are Labour, and 55 (9%) are Liberal Democrats. The remaining 2% of MPs represent much smaller parties such as the Scottish National Party, Democratic Unionist, Sinn Fein, Greens and Plaid Cymru, which is the national party of Wales.491

The Labour Party is the UK’s largest center-left party, and it supports public entitlement programs and public services, more regulation of private industry, achieving full employment, rebuilding national infrastructure and improving living standards through a national minimum wage.492 The Labour Party is currently in opposition.

On energy policy, the Labour Party supports Britain’s transition from a high carbon to a low carbon economy, and wants to “achieve around 40 per cent low-carbon electricity by 2020 and create 400,000 new green jobs by 2015.”493 Labour sees this as a vital part of Britain’s economic recovery, and also hopes to decrease energy prices for British consumers, promote energy efficiency, and implement a

'zero waste' policy “banning recyclable and biodegradable materials from landfill.”\textsuperscript{494} Labour supports the continued use of nuclear power as a source of clean energy, as well as the continued use of cleaner fossil fuels and the introduction of carbon capture and storage technology.

The Conservative Party (also referred to as the Tories) is the furthest to the right of the major parties in the UK. The Conservatives have traditionally supported free market economic policies like privatization and liberalization, most notably under the Premiership of Margaret Thatcher. The Tories believe that “business is the driver of economic growth and innovation.”\textsuperscript{495} As head of the current ruling coalition in the UK, the Tories have focused on creating a competitive corporate tax regime and decreasing the amount of bureaucratic red tape businesses face. The Conservatives are also focused on job creation and reducing the UK's budget deficit to make Britain more economically competitive.\textsuperscript{496}

In the energy policy, the Conservatives are working to implement “ambitious policies to encourage green growth, reduce our reliance on fossil fuels, improve energy efficiency and demand global action on climate change.”\textsuperscript{497} The Tories have allowed exploration for shale gas to resume in the UK, and they support the construction of nuclear power plants, the increasing use of renewable energy

\textsuperscript{494} Ibid.
\textsuperscript{495} “Business,” Conservatives, 
\url{http://www.conservatives.com/Policy/Where_we_stand/Business.aspx}.
\textsuperscript{496} “Economy,” Conservatives, 
\url{http://www.conservatives.com/Policy/Where_we_stand/Economy.aspx}.
\textsuperscript{497} “Climate Change and Energy,” Conservatives, 
\url{http://www.conservatives.com/Policy/Where_we_stand/Climate_Change_and_Energy.aspx}.
sources and have pledged 1 billion pounds toward the construction of a carbon capture and storage power station.\textsuperscript{498} Like the UK’s other major parties, the Tories support a wide variety of policies to combat climate change, but not at the expense of British industry.

The Liberal Democrats are Britain’s third party, and they represent a combination of social democratic and liberal ideals. The Liberal Democrats (Lib Dems) are business friendly, and support traditional liberal policies like reducing taxes, increasing civil liberties, and marriage equality. They also support social democratic policies like increasing funding for pensions, education, and the national healthcare system.\textsuperscript{499} This blend of ideals places the Lib Dems slightly left of center.

When it comes to energy policy, the Lib Dems focus primarily on reducing the carbon emissions that are responsible for climate change and economic growth through green jobs. According to the Lib Dems climate change and energy policy brief, they “believe there is a huge opportunity to get out of this recession by going green, strengthening the economy and creating jobs that last. As well as investing in green infrastructure, we’ll insulate homes and force energy companies to make bills fair so you can afford to keep warm.”\textsuperscript{500} The Lib Dems are also in favor of using

\textsuperscript{498} Ibid.
renewable energy sources like wind and wave power over building new nuclear or coal fired power plants.\textsuperscript{501} 

The current ruling coalition, which has been in place since 2010, is made up of the Conservatives and Lib Dems. The government has four primary aims for economic growth: “to create the most competitive tax system in the G20; to make the UK the best place in Europe to start, finance and grow a business; to encourage investment and exports as a route to a more balanced economy; and to create a more educated workforce that is the most flexible in Europe.”\textsuperscript{502} As expected these policies tend to be more business friendly, given the respective ideologies of the ruling coalition partners.

\textbf{Economic Structure}

The UK is a classic example of a Liberal Market Economy (LME) according to Hall and Soskice, the creators of the varieties of capitalism typology. Though not an archetype, like the United States, it is the most liberal economy in Europe. In a LME, “firms coordinate their activities primarily via hierarchies and competitive market arrangements.”\textsuperscript{503} In a typical LME market generated price signals provide firms with the motivation to supply or demand goods and services.

\textsuperscript{501} Ibid.
The UK, like many other European nations, faced a number of major economic challenges in the immediate post-war period. To solve these problems and ensure productivity and growth, Britain turned to “competitive market relationships underpinned by formal legal contracting.” Britain’s long standing tradition of craft unions led firms to negotiate wage agreements with multiple entities. Had the craft unions organized into larger industrial organizations, they would have had more power, and Britain probably would have seen wage coordination similar to that found in post-War Germany. To increase productivity, British firms “obtained finance, skills, and technology via the types of competitive market relationships prominent in LMEs. In many cases, they secured finance through short-term bank credits and securities on terms that were sensitive to a firm’s current profitability.” Also in contrast to Germany, the UK relied on the formal education system to develop workers’ skills, rather than cooperation between trade unions and employer associations. These arrangements have persisted over time in Britain.

In the UK, we can see the preference for liberal market arrangements over strategic partnerships both in the domestic energy industry and in Britain’s preferences for energy market liberalization at the EU level. The UK led the EU in energy market liberalization from the 1980s to “facilitate competition and ensure efficiency in Britain’s gas and electricity markets.” Furthermore, the UK’s gas and

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505 Ibid.
electricity markets have been open to foreign competition since the late 1990s.\textsuperscript{506} This early experience with energy market liberalization led the UK to be a strong supporter of similar policies in the EU, such as the 3\textsuperscript{rd} energy package.

As expected, the UK has no strategic partnership with Russia/Gazprom to deliver gas supplies. This is partially because “the UK government favoured market-based solutions, rather than hierarchical governance structures or national champions favoured in CMEs, to manage energy import dependency and curtail reliance on Russian gas imports.”\textsuperscript{507} This position is easier for the UK to maintain because it has some domestic gas supplies. Furthermore, the experiences of British firms (like BP) in Russia have made the UK wary of closer relations with Gazprom.\textsuperscript{508}

\textbf{Analysis}

Despite the fact that the UK has been historically euroskeptical, this position has not been consistent across EU policy areas. Indeed, the UK has been a strong supporter of energy policy integration, and was an early leader on energy market liberalization. This support has been determined by policy preferences at the national level, such as the UK’s commitment to a low carbon economy and the

\textsuperscript{507} Ipek and Williams, “Firms’ Strategic Preferences,” 23.
\textsuperscript{508} Ipek and Williams, "Firms' Strategic Preferences,” 23.
British view of the EU as an actor that can contribute to the international dimension of its national energy policy, particularly regarding its goal of mitigating climate change and reducing greenhouse gases globally. Like the other member states included in this study, the variables which most impact British national preferences for further integration in energy security policy vary in comparison with other member states.

One of the most important variables influencing British national preferences is its variety of capitalism. As the only true liberal market economy in Europe, the UK has a long history of market liberalization. Indeed, Britain has some of the most liberalized energy markets in Europe, and this was true before the 3rd Energy Package entered into force. Along these lines, the UK has no national champions in the energy industry.

The push in Britain for market liberalization came in the 1980s under the conservative government of Prime Minister Margaret Thatcher. Despite the fact that market liberalization is generally the purview of the Conservatives, the Labour Party also supported energy policy integration and market liberalization during the UK’s 2005 European Council Presidency. Though there are certainly policy differences between the Conservative and Labour parties, both have been largely in agreement with the UK’s larger goals of decarbonization and reducing greenhouse gases. This makes the political ideology variable important for policy

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implementation at the national level but less important at the EU level. In this case, variety of capitalism is a stronger predictor of national preferences in Britain.

The variables that directly affect British – Russian relations play a very small role in determining national preferences. The UK has no pipeline or other large infrastructure projects with Russia, although the two countries are involved in several upstream energy ventures with Russian firms. These have been moderately successful, though plagued by difficulties with the Russian state apparatus. Along these lines, while there is some evidence of negative historical narratives concerning Russia, this has not made an impact on British energy policy preferences. Similarly, the UK also has a history that has been largely free of Russian influence. Though the two countries have fought both together and against each other, there is no lingering history of resentment and fear.

Finally, the UK’s tendency toward euroskepticism has not hindered its support for further integration on energy policy matters. This makes the attitudes toward integration variable far less important than it is in most of the other cases in this study.

Conclusion
Unlike many of the other countries in this study, Britain’s relationship with Russia has no real bearing on energy policy preferences in the UK. This position is likely a function of a number of factors, some of which were not studied directly as variables in this case.

Geography has been an important factor. The UK is the furthest country in the EU from the Russian border and, there has been little fighting between the two countries and no instances of Russian troops on British territory. There is no history in the UK of fear and suspicion when it comes to Russian intentions, and historical events like the Great Game and the Cold War have not left a permanent black mark on the British collective psyche. Also because of its location, there are no pipelines running from Russia to the UK, as the distance is too great for pipeline projects to be either practical or affordable.

The UK also has larger domestic oil and gas supplies than any other EU country, making it less dependent on imports than most. British imports of Russian energy are minimal, and Russian energy policy choices have little impact on British national preferences for energy security integration because even an extreme supply disruption (for instance the Russia - Ukraine gas crises in 2006 and 2009) has a negligible impact on domestic markets in the UK.

The UK is not only a liberal market economy, but the most liberal in Europe. British energy markets were liberalized and national champions unbundled long before the 3rd Energy Package was even considered in the EU. This commitment to

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market liberalization holds at the EU level in spite of British euroskepticism, and of the variables studied in this case it has the most influence on British preferences regarding energy security policy at the EU level.

Unlike Poland or Lithuania, for instance, the UK has taken a different approach to securing its energy supplies, one that relies less on the efforts of the EU. Instead, the UK has chosen the path of decarbonization combined with diversification of energy supplies from reliable sources like Norway. Its unique geographical position combined with its liberal market economic structure has made relations with Russia a non-factor in British national preference formation.
CHAPTER NINE:
LITHUANIA

Historical Context

In many ways, the history of Lithuania is tied to that of Poland and Russia. Though once an empire stretching from the Baltic to the Black Sea, pagan Lithuania found it difficult to stand alone against the Teutonic Order, a German force bent on Christianizing the last pagan nation in Europe. In 1386, Lithuanian Grand Duke Jogaila married the heiress to the Polish throne in return for Christianizing Lithuania, creating a dynastic union between Poland and Lithuania. Jogaila became King of Poland and Vytautas, his cousin, was named Grand Duke of Lithuania after a six year civil war which saw Vytautas ally with the Teutonic Order to wrest power from Jogaila’s brother Skirgaila. Vytautas is revered today as a Lithuanian national hero.

Poland and Lithuania united into one state, the Polish-Lithuanian Commonwealth, in 1559 which endured until the third partition of Poland in 1795. Once Poland ceased to exist as a state, Lithuania became a Russian province. Lithuania, along with the Poles, rebelled twice to restore the Commonwealth, and Lithuania was severely chastised by the Russians for their rebellion. “Under Tsarist

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rule, Lithuanian schools were forbidden, Lithuanian publications in the Latin script were outlawed, and the Roman Catholic Church was severely suppressed.”

Despite these efforts, Lithuania retained its linguistic and cultural traditions. In 1840, the Statute of Lithuania was replaced by Russian law, and “the name Lithuania disappeared from official documents and imperial authorities henceforth began to refer to the lands of the former Grand Duchy as Russia’s North-western Provinces.”

Lithuania would remain under Russian rule until 1918.

When the Tsar abdicated in 1917, Lithuania was the first of the Baltic States to declare its independence, and it fought a war with Poland (1918 – 1920) to defend it. Lithuania succeeded in fending off a 1918 Red Army invasion, but in 1920 Poland annexed Vilnius (Lithuania’s capital city) and the surrounding region and held this territory until World War II. During this time, Lithuania refused to establish diplomatic relations with Poland. During its brief period of independence, “Lithuania made great strides in nation building and development,” despite the loss of Vilnius introducing land reform, a currency, and establishing schools and universities. Illiteracy was reduced, and art and literature flourished.

Like Poland, however, Lithuania was also affected by the Molotov-Ribbentrop Pact. In 1939 the USSR forced Lithuania into a nonaggression pact that allowed 20,000 Red Army soldiers to be garrisoned throughout the country. A pro-communist government was installed and noncompetitive elections led Lithuania to

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513 Kasekamp, 73.
‘join’ the Soviet Union in August 1940. “Soviet rule brought about radical political and economic changes and Stalinist terror, which culminated the deportations to Siberia of more than 30,000 people on the night of June 14 – 15, 1941.”515 The German invasion stopped the terror, and Lithuania again declared independence and formed a provisional government. Partisans took over the two largest cities. Germany replaced the provisional government with a Lithuanian Council of Trustees that had some local autonomy.516

During the war the much of the provisional Lithuanian government went underground and supported the nationalist Lithuanian resistance, as did most of the country’s political factions. The resistance thwarted German efforts to create a Lithuanian SS unit, but Germany retaliated with arrests and university closures. As in many other German occupied nations, Lithuania’s Jews suffered most at the hands of the Nazis. “About 185,000 Jews, or 85 percent of the community’s population, were massacred by Nazi squads, which were helped by Lithuanian collaborators in a number of localities.”517

Though the Soviet Union recaptured Lithuania in 1944, the country’s full Sovietization “was obstructed from 1944 – 1952 by an armed partisan resistance movement.”518 After eight years and up to 30,000 casualties, Lithuania finally fully submitted to Soviet rule. The resistance movement never fully disappeared; it went underground.

516 Ibid.
517 Estonia, Latvia and Lithuania Country Studies, 182.
518 Ibid.
As a result of World War II and Soviet rule, Lithuania – and more particularly Vilnius – became distinctively Lithuanian. Vilnius was a multinational city before the war with only a small minority Lithuanian population. Polish was the primary language spoken. During the war most of Vilnius’ “Jews had been killed in the Holocaust, and about 80 percent of Wilno (Vilnius) Poles left for Poland after the war.”519 The Lithuanian communists were also nationalists who feared Polish more than Russian culture. The post war resettlement policy was directed by Lithuanian communists who “decided to throw the republic’s resources behind the removal of Poles from Vilnius.”520

Unlike in the other Baltic Soviet republics, the Poles of Vilnius were replaced by Lithuanians from the countryside, and not by Russians. Lithuania was slow to industrialize in the 1950s, and this was more conducive to slow migration to the city, rather than the pan-Soviet influx that accompanied the more rapid industrialization experienced by Lithuania’s neighbors.521 Lithuanian nationalism and communism co-existed in a way that was not experienced by the other Soviet Socialist Republics. By the end of the communist era, the result was a more Lithuanian Lithuania with a strong Lithuanian national identity.

Soviet rule remained in place until Mikhail Gorbachev came to power in 1985. Encouraged by Gorbachev’s reforms, public demonstrations began in Vilnius in 1987, and by 1988 an independent political movement, the Lithuanian

520 Snyder, The Reconstruction of Nations, 92.
521 Snyder, The Reconstruction of Nations, 94.
Reconstruction Movement, was organized in support of Gorbachev’s policies of glasnost, democratization and perestroika. The movement also supported Lithuanian nationalist causes such as the restoration of Lithuanian as the country’s official language, protection of the environment, and sharing the truth about the Stalinist years. The movement gained popularity and this, combined with the appointment of a new first secretary of the Lithuanian communist party, led to the declaration of Lithuanian sovereignty and the separation of the Lithuanian Communist Party from Moscow in 1988. The Lithuanian Communist Party was defeated in the March 1990 election, winning only 23 of 141 seats. The newly elected Parliament voted unanimously for independence on March 11, 1990. This led the Kremlin to set up an energy blockade against Lithuania. Indeed, Moscow did not accept Lithuanian independence until the failure of the 1991 August coup in the Soviet Union. All three Baltic States were admitted to the United Nations on September 17, 1991.

Post-Communist Lithuania’s Relations with Russia

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524 Kasekamp, 171.
In the early post-Communist era, Lithuania had better relations with Russia than its neighboring Baltic States Latvia and Estonia. Lithuania was granted independence from the USSR just two weeks after the 1991 coup attempt, and Russian troops left Lithuania a year before leaving Latvia, Estonia or even Germany. At independence, Lithuania granted citizenship rights to Russians and other permanent residents and chose to work with Moscow on the issue of the Kaliningrad Oblast rather than laying claim to the territory. For these reasons, Vilnius and Moscow had cooperative relations for the first decade after communism.

Relations soon destabilized, however. The Baltic States bid to join NATO was a major source of contention. The Baltic States lobbied hard for admission and were formally accepted as candidate countries in 1997. Russia's response was predictably hostile. Indeed, Yevgeny Primakov, then Russia's Foreign Minister, told reporters that "it is unacceptable to Russia for the Baltic countries to join NATO." He had no objections to the adherence of the Baltic States to the European Union, but their bringing of a military infrastructure created by Russians into NATO would undermine Russia's "relations with NATO as a whole." Although Russia made numerous offers to provide for the security of the Baltic States, Lithuania (as well as Estonia and Latvia) declined the offer in favor of NATO membership.

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526 Ibid.
528 Black, Russia Faces NATO Expansion, 210.
and the other Baltic States eventually joined NATO in 2004 after years of tough rhetoric and threats of possible retaliation by Russia.

Although Lithuania's NATO membership has been settled since 2004, the country still fears for its security in light of Russian maneuvers. For instance, in early December 2012, “At a meeting of NATO and Russian ministers in Brussels, Lithuania expressed fears over accumulation of munitions in the Russian Kaliningrad region near Lithuanian borders, saying the move was a mere political message to Russia's neighbors and did not make any sense in terms of defense.” Russia has claimed that its actions were in response to NATO’s missile defense system.\(^{529}\) In response to the Russian military buildup, NATO Chief Anders Fogh Rasmussen said that this action “is a complete waste of Russian financial resources, because it is a buildup of offensive military capacities directed against an artificial enemy, an enemy that doesn’t exist.”\(^{530}\)

After the 2012 elections, the new Lithuanian government has sought to improve relations with Russia by calling for a ‘reset’ in relations.\(^{531}\) The Social Democrats have a history of good relations with Russia, and were supportive of Russian investment in the Lithuanian energy sector. Indeed, the privatization of Lietuvos Dujos took four years (from 2000 – 2004) because of this stance and the


heated political debates it inspired. The Homeland Union party, by contrast, did not see Russia as a desirable investor.

Shortly after assuming office, Foreign Minister Linas Linkevicius met with Russian Foreign Minister Sergei Lavrov in February 2013 to discuss bilateral relations. The meeting was productive and “Lithuania and Russia agreed to focus on their areas of agreement before tackling lingering disputes over security and energy issues.” According to Linkevicius, “We agreed that our bilateral agenda and our bilateral relations should be intensified and strengthened.” He continued,

“This does not mean that we can forget the differences, which, unfortunately remain between us and there are a number of issues where our opinions differ. But we should strengthen our future relationship and try to find a common denominator where we have a consensus and try to look for positive examples for our agenda.”

In a change of course from his predecessor, Linkevicius also said that Lithuania’s efforts to comply with the EU’s unbundling provision cannot be forced by Vilnius

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and Brussels. He will be looking to cooperate with Russia and Gazprom on this issue rather than unilaterally enforcing unbundling measures.\footnote{Ibid.}

PM Butkevicius’ April 2013 meeting with Russian PM Dmitry Medvedev underscored the focus on areas of cooperation like science, technology and culture. The two Prime Ministers agreed to resume bilateral meetings of working groups on trade and economic issue, which had been suspended in 2011.\footnote{“Lithuanian Prime Minister: I Have a Pragmatic Look on Relations with Russia,” 15min.lt, April 8, 2013, \url{http://www.15min.lt/en/article/world/lithuanian-prime-minister-i-have-pragmatic-look-on-relations-with-russia-529-323518}.}

**Energy Relations with Russia**

Though Lithuania has had better relations with Russia than its neighbors in the Baltics, energy has been a major cause of tension between the two countries. Since the 2009 EU mandated closure of the Ignalina nuclear power plant, which used the same technology as the Chernobyl plant in Ukraine, Lithuania has been 90% dependent on Russian energy.\footnote{Valentina Pop, “Taking on Gazprom: Lithuania’s Battle for Energy Independence,” EU Observer, June 10, 2013, \url{http://euobserver.com/lithuania/120406}.} This overwhelming energy dependence has made the Lithuanian government very uncomfortable.\footnote{Author interview with Lithuanian Official, Brussels, May 2012.}

One area of contention between Lithuania and Russia was the 2007 sale of the Mazeikiu Nafta oil refinery. Though it was eventually sold to Poland’s PKN Orlen, Russian firms also bid to purchase the refinery. Coincidentally, Russia
stopped pumping oil to the refinery in 2006 just before the sale. The official reason is for the disruption of oil deliveries was that the pipeline required repair.\textsuperscript{538} “There was speculation in the EU that Russia was using the blockage to prevent the Lithuanians from selling the Mazeikiu complex to the Polish oil group PKN Orlen, rather than to one of the Russian firms that had also bid for it.”\textsuperscript{539}

To date, crude oil deliveries to the renamed Orlen Lietuva refinery via the Druzhba pipeline have not resumed. Although the Lithuanian government offered to help finance the repair of the pipeline, Russia has claimed that there is “no technical possibility of its repair.”\textsuperscript{540} By contrast, Belarus (where the Lithuanian branch of Druzhba splits from the main pipeline) has claimed that the pipeline is in good condition and fit to transport oil.\textsuperscript{541}

In January 2011, Lithuania submitted a complaint to the European Commission regarding Gazprom’s role in gas supply and distribution. In a statement, the Lithuanian Ministry of Energy said that “The Ministry of Energy of the Republic of Lithuania launched a complaint to the European Commission requesting it investigate the abuse of a dominant position by the Russian gas supplier, Gazprom.”\textsuperscript{542} This complaint came shortly after a conflict between Lithuania, Gazprom and Germany’s E.ON Ruhrgas on unbundling transport and

\textsuperscript{538} Woehrel, “Russian Energy Policy Toward Neighboring Countries,” 12.
\textsuperscript{541} Ibid.
supply assets. Gazprom and E.ON each hold a substantial stake in Lithuania’s major gas company Lietuvos Dujos.\textsuperscript{543}

In September 2012, the European Commission opened a formal anti-trust investigation against Gazprom “for allegedly hindering competition in Central and Eastern European gas markets.” This investigation is at least partly a result of Lithuania’s 2011 complaint. According to then Prime Minister Kubilius, "Reports on antitrust investigations only confirm the matters which we have repeatedly spotlighted. We can only reaffirm that Lithuania addressed the EC Competition Directorate back in the spring of 2011."\textsuperscript{544} The investigation is ongoing, but the Commission has indicated that they will file anti-trust charges against Gazprom.\textsuperscript{545}

Several other actions are also ongoing in Lithuania-Russia energy relations. One is negotiations between Lithuania and Gazprom over gas prices for long term take or pay gas contracts. Similar negotiations have taken place in Poland, Germany and in other Central and Eastern European countries. Although negotiations are in progress, Lithuania has one bargaining chip to play: the opening of an LNG terminal in Klaipeda in 2015. The terminal could conceivably cover all of Lithuania’s gas requirements eliminating the need to make any purchases from Gazprom.\textsuperscript{546} EU Energy Commissioner Guenther Oettinger has encouraged Lithuania to use this

\begin{itemize}
\item \textsuperscript{543} Ibid.
\item \textsuperscript{544} "Lithuania Steps Forward as Whistleblower in Gazprom Row," Euractiv, September 6, 2012, \texttt{http://www.euractiv.com/energy/lithuania-steps-forward-gazprom-news-514650}.
\item \textsuperscript{545} Alan Riley, "Gazprom on the Ropes," New York Times, October 11, 2013, \texttt{http://www.nytimes.com/2013/10/12/opinion/gazprom-on-the-ropes.html?_r=0}.
\item \textsuperscript{546} Valentina Pop, "Taking on Gazprom: Lithuania’s Battler for Energy Independence," EU Observer, June 10, 2013, \texttt{http://euobserver.com/lithuania/120406}.
\end{itemize}
bargaining chip in its efforts to become independent from Russian energy.\textsuperscript{547} Negotiations were opened in May 2013, and PM “Butkevicius, speaking on LRT television on April 7, said transit terms would be negotiated together with gas prices. He said Lithuania wouldn’t consider any delay in the implementation of EU rules on separating gas sales and transmission, nor did it want to sign a long-term supply contract with Gazprom.”\textsuperscript{548}

In addition to the EU Commission probe mentioned above, Lithuania is also involved in a law suit against Gazprom. The suit is for €1.4 billion and alleges that Gazprom distorted gas prices in Lithuania between 2004 and 2012. Similar suits have been filed by other Central and Eastern European countries. Gazprom owns nearly 38\% of Lithuanian gas company Lietuvos Dujos, and the government of Lithuania claims that “Gazprom assigned board members to AB Lietuvos Dujos who then agreed to inflate energy prices.” According to former PM Kubilius’ office, “These board members could have acted in the interest of Gazprom rather than AB Lietuvos dujos, when casting their vote regarding amendments to the gas supply agreement.”\textsuperscript{549}

\section*{Lithuania’s Energy Policy}

\textsuperscript{547} Ibid.
Lithuania is not a major producer or consumer of energy. Indeed, it ranks in the bottom five among EU countries on both counts. Lithuania possesses no domestic natural gas or coal resources and very little domestic oil. In 2011, Lithuania produced approximately 8,000 barrels per day of liquid fuels (2,000 barrels per day of crude oil), and consumed approximately 60,000 barrels per day. Lithuania imported the balance from Russia, as well as all the natural gas it consumed in that year.\textsuperscript{550} Lithuania has no LNG terminals to import gas from other sources, and is completely reliant on Soviet era infrastructure for gas imports.

Before 2009, Lithuania was an energy exporter, and 77\% of its total electricity generation came from nuclear energy. Since the Ignalina plant was decommissioned in 2009, Lithuania has been dependent on electricity imports.\textsuperscript{551}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{figure9_1.png}
\caption{Lithuania's 2012 Electricity Imports by Country\textsuperscript{552}}
\end{figure}

\textsuperscript{550} “Lithuania Country Analysis Note,” U.S. Energy Information Administration, \url{http://www.eia.gov/countries/country-data.cfm?fips=LH}.
\textsuperscript{551} “Lithuania Country Analysis Note,” U.S. Energy Information Administration, \url{http://www.eia.gov/countries/country-data.cfm?fips=LH}.
\textsuperscript{552} Ibid.
Lithuania is home to the sole oil refinery in the Baltic States. Now owned by PKN Orlen, a Polish firm, Orlen Lietuva (formerly Mazeikiu Nafta) processes about 10 million tons of crude oil annually and exports gasoline and diesel fuel to the Baltic States, Western Europe, the US, Ukraine and other countries.553

Lithuania’s energy policy goals can be divined from the title of its national energy strategy: National Energy Independence Strategy of the Republic of Lithuania. The goal of this strategy is to “ensure Lithuania’s energy independence before the year 2020 by strengthening Lithuania’s energy security and competitiveness.”554 The strategy lays out a number of actions in each energy sector that will help achieve this goal.

In the electricity sector, Lithuania plans to fully integrate into European energy systems by linking in to the Polish and Swedish power sectors, by further developing the Baltic States electricity market and integrating it into neighboring markets in Scandinavia and Central Europe, and by connecting the Baltic transmission systems with the European continental system. Lithuania also plans to build more electricity generating capacity by constructing a new regional nuclear power plant and increase the use of renewable energy sources. Finally, Lithuania plans to fully comply with the unbundling and other regulations in the EU’s third energy package.555

In the heating sector, Lithuania plans to increase energy efficiency and move away from natural gas by incorporating the use heat generated by biomass. In the oil sector, Lithuania plans to replace oil with renewable energy sources and increase competition.

In the natural gas sector, Lithuania plans to construct a LNG terminal in port of Klaipeda, which will open in 2015, to ensure that there is sufficient gas to meet any needs that cannot be covered by renewable sources. Lithuania is also planning to construct a new underground gas storage facility and a pipeline that will link the country with Poland and the EU’s gas markets. Finally, Lithuania plans to fully comply with the unbundling and other regulations in the EU’s third energy package.556

Many of these goals will be achieved by increasing the use of renewable energy sources. “The state will aim to reach the target of no less than 23 % of renewable energy in final energy consumption, including no less than 20% of renewable energy in the electricity sector, no less than 60% in the district heating sector and no less than 10 % in the transport sector.”557 Another way that Lithuania plans to achieve its goals is by increasing energy efficiency by 1.5% annually through 2020. These activities will also lower Lithuania’s greenhouse gas emissions by 46% compared to their 2008 levels. These actions will allow Lithuania to be independent from one single external energy source (Russia) and help to ensure

that the country's three key principles: security of supply, competitiveness and sustainable development. Figure 9.2 below indicates how Lithuania's energy sources will be restructured through 2020.

**Figure 9.2: Structure of Lithuania's Energy Sources**

**Attitude Toward Further Integration**

Lithuania, like most post-communist states, is a strong supporter of the European project. Politically, the discourse in Lithuania surrounding acceding to the Union revolved around three major issues: protecting the state and its sovereignty,

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cultural values, and economics. Since joining the EU in 2004, “Lithuania has endeavored to employ the EU framework and institutions as a channel to customize the EU with the help of the Nordic, Baltic and Central European countries and to introduce into the European agenda Lithuanian interests, values, norms and experiences.”\textsuperscript{560} This includes policy areas like energy, relations with Russia, and the Eastern Neighborhood.

Public opinion in Lithuania has also been strongly in favor of integration with Europe. Indeed, Lithuania would not have become a member of the EU without public support. “This support was made most explicit during the referendum on membership in the European Union on May 10-11, 2003, when 91.07\% of those participating (the turnout was 63.37\%) approved Lithuania’s accession to the EU.”\textsuperscript{561} Support for European integration has also endured throughout Lithuania’s membership, though the economic crisis has certainly taken its toll on public opinion. In the spring 2009 wave of the Eurobarometer survey, 71\% of respondents indicated that they believed Lithuania benefitted from EU membership. This number declined to 66\% in the autumn wave.\textsuperscript{562} In the spring 2012 wave, 47\% of respondents indicated that they tended to trust the European Union as an


\textsuperscript{562} Dragomir, “Lithuanian Public Opinion and the EU Membership,” 308.
institution. This compares to 31% of respondents throughout the EU. In the autumn wave, trust numbers improved by 2 percentage points both in Lithuania and EU wide. 49% of respondents indicated that they tended to trust the European Union as an institution. This compares to 33% of respondents throughout the entire European Union.

Lithuania has been particularly supportive of further integration in the energy policy sphere, which is evidenced by the country’s priorities on energy for its 2013 European Council Presidency. The Lithuanian Presidency plans to focus on three overarching goals throughout its tenure: a credible, growing and open Europe. According to Lithuanian President Dalia Grybauskaite, “energy will be one of the underlying priorities of the Lithuanian presidency agenda.”

Though there is a lot of focus on economic growth and credibility, energy policy also takes center stage. Under the second goal, a growing Europe, the Lithuanian Presidency will “pursue the EU's commitments to complete the internal energy market by 2014, and ensure that no Member State remains isolated from the European energy networks after 2015.” Under the third goal, an open Europe,

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Lithuania plans to work toward “better coordination in the external dimension of EU energy policy.”\textsuperscript{567}

**Major Infrastructure Projects: Cooperating with Russia**

Lithuania has not participated in any major post-Soviet energy infrastructure projects with Russia. However, due to Lithuania’s Soviet past, it is still connected to the Russian (former Soviet) grid system and imports electricity and gas from Russia. Oil imports come from Russia via the port at Klaipeda since the trunk line from the Druzhba pipeline was shut down in 2006 (see discussion of the Orlen Lietuva refinery above).

**Energy National Champions**

Lithuania has no real energy industry national champions. This is partially because it is a small country that is all but completely dependent on foreign sources of natural gas and oil. Lietuvos Dujos, Lithuania’s biggest gas company, engages in natural gas purchases, sales and transmission and distribution. It was once state owned, but was privatized in two stages in the 2000s. Currently, Lietuvos Dujos is owned by Germany’s E.ON Ruhrgas (38.9%), Gazprom (37.1%), the Lithuanian

Ministry of Energy (17.7%) and a number of small shareholders (6.3%).\textsuperscript{568} As mentioned above, the privatization of Lietuvos Dujos was a source of political debate. At the time (2000 – 2004), both the ruling Social Democrats and Lietuvos Dujos itself wanted to see Gazprom as an investor. “This is evident from the privatization provisions released by Lietuvos Dujos in 2000 which required that the prospective investor should guarantee gas supplies and potentially alternative sources of gas.” \textsuperscript{569} Gazprom was, and remains, the only supplier able to meet this requirement. During the privatization process, Lithuania was also in negotiations with Gazprom for a new gas contract and this was another factor that supported cooperative relations with Russia and Gazprom on behalf of the Social Democrat-led coalition.\textsuperscript{570}

Lithuania has complied with the unbundling provisions included in the 3\textsuperscript{rd} Energy Package. In December 2013 AB Amber Grid will take over natural gas transmission activities from Lietuvos Dujos.\textsuperscript{571} AB Amber grid is a spin-off company that will serve as a Transmission System Operator (TSO) under the rules of the 3\textsuperscript{rd} Package. Unlike many other member states, Lithuania chose the most drastic option available under the 3\textsuperscript{rd} Energy package: full ownership unbundling.

\textsuperscript{569} Agnia Grigas, The Politics of Energy and Memory Between the Baltic States and Russia, 120.
\textsuperscript{570} Agnia Grigas, The Politics of Energy and Memory Between the Baltic States and Russia, 123.
Historical Narratives

Lithuania is a small nation that was first threatened by the Teutonic Order, then subsumed into the Polish-Lithuanian Commonwealth and later into the Russian Empire and finally the Soviet Union. These events were formative and they now make up “the backbone of the Lithuanian national narrative, and even upstage the more positive aspects. This forms the image of a ‘nation of innocent sufferers’, of perpetual noble victims, proud of their weakness, and constantly on the defense.”

Evidence of the persistence of this perspective is seen both in Lithuanian history textbooks and in written responses to questions regarding Lithuanian independence provided by students born between 1988 and 1992 – those who have no real memory of the Soviet era.

In some ways, the past is very much alive in Lithuania and it plays a role in relations with its neighbors, particularly Russia and Poland. Referencing the Molotov-Ribbentrop Pact: “Poland, Lithuania, Latvia, Estonia and Finland who were heavily victimized by this treaty officially deem it a point of departure for Hitler-Stalin aggression. This interpretation has influenced ‘national historical doctrines’ of these countries and forms the citizens’ collective identity. With the exception of Finland ... Poland and the Baltic republics often bring this question to the foreground of foreign affairs and treat it as a relevant issue.”

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573 Matus Korba, “Hostages to the Past – Politicization of History and Relations Between Russia and its Western Neighbors,” Center for European and North Atlantic Affairs,
After the fall of the Soviet Union, a newly independent Lithuania reoriented itself toward the West. “After 1991, Lithuania continued to perceive Russia as the other, still a threat to the state’s security.”\(^{574}\) One reason for this, and for Lithuanian politicians’ support for their country’s NATO and EU membership bids was the result of the “Russian Duma elections in December 1993, when Vladimir Zhirinovskij, having repeatedly insisted that the Vilnius and Klaipeda regions were not part of Lithuania, received a quarter of the votes.”\(^{575}\) Even today, Lithuania as a NATO member is wary of Russian military exercises in the Kaliningrad Oblast. Because Russia is viewed as the ‘other,’ its intentions are almost always under suspicion. “Russia’s increasing proclivity to use energy resources as a means of political pressure seen in the form of embargos on energy exports for a great number of Central and Eastern European countries” has complicated the matter even further.\(^{576}\)

**Economic Ideology**

Lithuania has many active political parties, but two have dominated Lithuanian politics: the Social Democrats and the Homeland Union – Lithuanian

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\(^{574}\) Dragomir, “Lithuanian Public Opinion and the EU Membership,” 297.

\(^{575}\) Ibid.

Christian Democrats, which is a centrist-conservative party. However, neither of these major parties has been able to obtain a majority of votes to form a government. In the most recent parliamentary election, the Social Democrats won 38 of 141 seats in the Seimas. Their leader, Algirdas Butkevicius is now Lithuania's Prime Minister. The Social Democrats formed a ruling coalition with the Labor Party, the Order and Justice Party (both centrist parties) and the Lithuanian Polish Election Action Party. They hold 87 seats in the Seimas. The Homeland Union Party won 33 seats in the October 2012 election.

Before the 2012 election, the Homeland Union Party was the leader of the ruling coalition with the Liberal Party. Led by former Prime Minister Andrius Kubilius, the conservative government enacted a number of austerity reforms to prevent bankruptcy after the 2008 financial crisis brought an end to the cheap Scandinavian credit that fuelled Lithuania’s economic boom. Although painful in the short term and very unpopular, austerity measures were ultimately successful, and Lithuania has returned to robust economic growth (6% in 2011).

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has been praised by organizations like the IMF and other European governments for taking the necessary steps to ensure financial solvency.\textsuperscript{583}

The Social Democrats have returned to power based on the lack of public support for the previous government’s austerity program. Their primary goal, according to the Government Program passed by the Seimas, is to “proceed along the path of building a welfare state.”\textsuperscript{584} In this program they also place blame for Lithuania’s economic recession squarely on the shoulder of the previous government. The ruling coalition, led by the Social Democrats, has prioritized job creation, healthcare and education, while promising to distribute the tax burden more fairly. According to the programme, the essence of tax reform will be “a more equitable distribution of the tax burden between labour and capital, higher progressivity in income and property taxation, and application of only those tax privileges that are socially significant and purposeful.”\textsuperscript{585} The government also plans to continue with the construction of the LNG terminal at Klaipeda, and hopes to depoliticize energy projects.\textsuperscript{586}

\section*{Economic Structure}

\textsuperscript{583} “Lithuanian Election: Voters Dump Austerity Government.”
\textsuperscript{585} Ibid.
\textsuperscript{586} Ibid.
As is the case with Poland, it is clear that the CME vs. LME distinction is not able to cover all of the divergent economies in Europe. It’s also clear that Lithuania and Poland and are not both in the same category of Dependent Market Economy or DME. One reason for this distinction is that foreign direct investment plays a smaller role in the Baltics than it does in East Central Europe. What isn’t clear from the existing literature is how to classify Lithuania in terms of the varieties of capitalism typology. Indeed, one scholar has even made that argument that there is a distinct variety of Baltic capitalism to which Lithuania belongs.

Because there is very little consensus about Lithuania’s place in the varieties of capitalism typology, this variable isn’t particularly useful for this analysis. Furthermore, if distinct varieties of capitalism are developed to cover groupings as small as the Baltic States, it brings into question the usefulness of the typology as a whole. As the types become more restrictive, they also become less useful for making generalizations.

Analysis

Lithuania, like so many other Central and Eastern European countries, has been a victim of its history. Unlike other CEE countries, though, Lithuania and the other Baltic States were even further integrated into the Soviet system, because they were not just Warsaw Pact members, but also members of the USSR. Like Poland, Lithuania has a lot of skepticism about Russia and its intentions. This has been particularly marked in energy relations, but also applies to security issues as well. President Dalia Grybauskaite said recently regarding Russian pressure on Lithuania that "It can’t get any worse. Nothing worse can happen at this stage." Members of the new ruling coalition have been more cautious in their assessment.

As in the other cases examined in this dissertation, some variables matter more than others and the two most important variables are historical narratives and economic ideology. Lithuania has always had a favorable attitude toward further integration, and this holds true particularly in the energy sector. For Lithuania, further integration means less dependence on Russia, and less dependence on Russia will help this country achieve its most important energy policy goal. It will also help Lithuania economically. “Figures from the European Commission show Lithuania pays more for its gas than any other EU state apart

590 Author interview with Lithuanian Official, Brussels, May 2012.
592 Author interview with Lithuanian Official, Brussels, May 2012.
from Bulgaria.” Energy Minister “Neverovic says it pays 20 percent more per thousand cubic metres than Germany.”

As mentioned above, history is very important. Lithuania’s historical narratives tend to portray the country as a victim of Russian aggression, not just in the Communist era, but long before. This narrative is part of what led Lithuania to turn so sharply toward Western institutions after the Cold War and eventually join the EU and NATO. It is also part of the driving force behind Lithuania’s skepticism about Russia’s intentions. This skepticism has been fueled by incidents such as the cessation of oil deliveries to Orlen Lietuva, Russian military exercises in Kaliningrad and also cyber attacks that appear to originate from Russian domains.

Politics also has an important impact on national preferences. The final variable that plays a role in Lithuania’s energy security policy preferences is the economic ideology and other preferences of the ruling party. The current ruling coalition is further to the left on the economic spectrum than the former coalition. However, they have only been in office since November 2012. In addition to their short time in office, Lithuania assumed the Presidency of the European Council in July 2013. This has been an important milestone for the country, and further integration on energy security policy issues continues to be a priority for the new government. They have also, however, taken a different tone with Russia and hope to engage in more cooperative relations even if the Lithuanian government’s

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593 Baker, “Energy Dependent Lithuania Takes EU Helm.”
594 Ibid.
position changes little. Though it is too soon to predict what the results of this new tone might be it is possible that relations will improve at least marginally. The Social Democrats, currently leading the ruling coalition, have traditionally had better relations with Russia, and have been supportive of Russian investment in Lithuania’s energy sector. More positive relations could potentially help Lithuania make headway in changing its narrative on Russia.

Several of the variables examined here had no bearing on Lithuania’s national preferences on energy security policy. For instance, Lithuania has not participated in any energy infrastructure projects with Russia in the post-Communist period. Lithuania has also not received any of the preferential treatment (such as lower gas prices) that tends to accompany participation in pipeline or other projects. In addition, Lithuania has no national champions, and as such there is no major lobby to impact the preferences of MPs and other government officials. Finally, Lithuania’s economic structure is still being defined in terms of the varieties of capitalism typology. Because there is nothing coming close to scholarly consensus, this variable is not particularly useful in this analysis. It might well be that Lithuania’s economic structure has an impact on energy security policy preferences, but at this time it is not possible to evaluate that impact.

**Conclusion**
In Lithuania, the strongest factor influencing national preferences toward further energy security policy integration in the EU is Lithuania’s shared history with Russia and its associated historical narratives. Because Lithuania tends to view itself as a ‘perpetual noble victim’ (see above), many of its past and present foreign policy decisions are defensive and this applies to energy security policy as well. For instance, support for further integration, the external dimension of EU energy policy, the 3rd energy package (particularly unbundling), and the construction of a new LNG terminal are all defensive actions that Lithuania has taken to protect itself from what some perceive to be Russia’s sinister intentions. Looking outside the realm of energy security policy, Lithuania’s decisions to join the EU and NATO were motivated by the same fear of Russia.

The other major factor influencing Lithuania’s preferences is its favorable attitude toward integration. This attitude, however, is based on history which fuels Lithuania’s desire to turn away from Russia toward Western institutions like the EU. Lithuania also believes that further integration in energy security policy will help the country achieve one of its most important energy policy goals: independence from Russian energy.595

Although Lithuania’s new left leaning coalition government is taking a more cooperative tone with Russia in meetings and negotiations, it has not suspended the actions of the former government when it comes to measures taken to ensure the country’s energy security. Under the Social Democrat led coalition, unbundling

595 Author interview with Lithuanian Official, Brussels, May 2012.
continues to move forward with the approval of the spinoff of AB Amber Grid, which will be responsible for transmission. The Social Democrats also plan to continue moving forward with the construction of the Klaipeda LNG terminal. The coalition has claimed that it wants to depoliticize energy relations, but this desire has not prevented them from staying the course set by the prior government.

Relations with Russia are likely to be difficult as long as historical prejudices remain as they are in Lithuania. By contrast, Lithuania’s support for European integration both in the realm of energy security and writ large should remain strong.
CHAPTER TEN:
FRANCE

Historical Context

France and Russia have a complex and intertwined military and cultural history. Like the other European ‘great powers,’ France and Russia have been both allies and adversaries. “Historically, diplomatic relations between France and Russia began as early as 1717 under the reign of Peter the Great when the first Russian ambassador was sent to France.”  

Peter himself also visited France in 1717 during his drive to modernize and Europeanize Russia; and it was under Peter’s reign that the Russian aristocracy was forced to learn to speak French and adopt European customs. French fashion and opera were also popular among the elites. Despite the popularity of all things French in Russia, the French tended to view Russians very differently, “combining a condescension towards the Russians as students of their culture with contempt for them as ‘monkeys who know only how to imitate.’”

The Russian court, aristocracy and educated elite continued to use French as its primary language until after the Napoleonic Wars. Indeed, Russian was

598 Figes, Natasha’s Dance, 63.
underdeveloped as a language in comparison with other European languages and French was used to fill in the gaps which existed due to the absence of words to express feelings and to name many everyday household items. “The written language of the eighteenth century was a clumsy combination of archaic Church Slavonic, a bureaucratic jargon known as Chancery, and Latinisms imported by the Poles.”

Furthermore, “basic literary concepts, most of them to do with the private world of the individual, had never been developed in the Russian tongue.” Russia’s poets and authors, such as Pushkin, Tolstoy and others, were largely responsible for the development of Russian as a literary language. This was spurred forward in part due to Napoleon’s 1812 invasion of Russia.

Through most of the eighteenth century, relations between France and Russia were “uncooperative and distant” yet near the end of the century this began to change. The French Foreign Ministry hoped to achieve an alliance with Russia “aimed initially at carving up the declining Ottoman Empire’s possessions in southeast Europe and north Africa. The two nations would then continue to work closely together to make themselves the dominant powers in western/southern and eastern/northern Europe respectively.” Tsar Paul (son of Catherine the Great) was amenable as relations had deteriorated with his traditional allies: Britain and

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599 Figes, Natasha’s Dance, 50.
600 Figes, Natasha’s Dance, 50.
601 Michael Adams, Napoleon and Russia, (New York: Hambledon Continuum, 2006), 47.
Austria-Hungary. At the turn of the nineteenth century, Russia was on better terms with France than it had been before Napoleon rose to power.\footnote{Adams, \textit{Napoleon and Russia}, 56.}

France and Russia were allies early in Napoleon’s reign, yet this alliance did not last. Indeed, Napoleon’s downfall began with his failed invasion of Russia in 1812,\footnote{Adams, \textit{Napoleon and Russia}, xxi.} and the decimation of his Grand Army.\footnote{Richard K. Riehn, \textit{Napoleon’s Russia Campaign}, \citeyear{Riehn:1991}.} “More than any other event or factor, it was the failure to defeat Russia, and the horrendous losses sustained in trying to do so, that ultimately brought down one of Europe’s greatest conquerors.”\footnote{Adams, \textit{Napoleon and Russia}, xxi.} Russia’s eventual success in driving Napoleon out of Russian territory was not just a military victory; it was also culturally important for Russia. In fact, some scholars believe that “the war of 1812 was a vital watershed in the culture of the Russian aristocracy. It was a war of national liberation from the intellectual empire of the French.”\footnote{Figes, \textit{Natasha’s Dance}, 101.} This demonstrates the deep impact of French culture on eighteenth and nineteenth century Russia.

France and Russia were also involved in a number of other alliances, including those that emerged victorious in the two World Wars. The two World Wars, however, were not watershed events for relations between France and Russia. Before the outbreak of WWI France, Russia and the UK were allied in the Triple Entente, which was opposed to the Triple Alliance (Germany, Italy, and Austria-Hungary) and aimed at controlling Germany’s power in Europe. Russia was
forced to withdraw from the Triple Entente and from the war altogether in 1917 due to internal pressure, which culminated in the Russian Revolution and the eventual takeover by communist forces led by Vladimir I. Lenin. In World War II the USSR and France were allies and both countries participated in the post-war occupation and reconstruction of Germany. Yet France was largely occupied by Germany and did not participate in high level meetings between the ‘Big Three’ – the UK, the US and the USSR.

During the midst of the Cold War, former French President Charles de Gaulle was one of the first Western leaders to start talks with the Soviet Union. Arguably, “for de Gaulle, engaging in dialogue with Russia was a way to promote France as a partner in the conduct of relations between the two superpowers at the time, shedding new light on France’s potential role on the international scene.”607 This early relationship, and de Gaulle’s visit to Moscow in 1966, was a precursor to the beginning of the economic relationship shared by Paris and Moscow today.608

**France’s Post Cold War Relations with Russia**

In the post-Cold War era, France’s relations with Russia can be characterized as a strategic partnership or, indeed, a special relationship, 609 as Paris has

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608 Le Noan, “France,” 33.
sometimes referred to its relations with Moscow. In 1998, France and Germany paired with Russia diplomatically in what is known as the Yekaterinburg Triangle, named after the Russian city where it was initially formed, to accommodate Russia’s unique position in Europe and sustain its domestic transformation. Since that time, Russia has transformed economically from a country in debt to one with a substantial surplus, yet in areas like democracy and human rights, Russia has been backsliding. Though the Triangle has been able to come together on some international issues, such as their shared opposition to the US war in Iraq, little else has been accomplished. This does not, however, reflect negatively on bilateral relations between France and Russia, which continue to be strong.

The Franco-Russian relationship today has been built on a combination of personal relationships, for instance between Vladimir Putin former French President Jacques Chirac, and policy alignment. Though Putin and Sarkozy were not close friends, “they shared an interest in ambitious business projects and a desire to assert the greatness of their countries.” Indeed, “since 1989, all French presidents have in fact promoted and strengthened the role of the relationship with Moscow as a key element of EU and European security as a whole.” Francois Hollande, elected in May 2012, is continuing France’s approach to Russia. This

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611 Gomart, “France’s Russia Policy,” 147.
613 Le Noan, “France,” 34.
approach has, in part, hoped to offset the German-Russian relationship and ensure that France remains a central player in European politics and security. France's position vis-a-vis Germany has deteriorated both due to France's perceived weakness during the economic crisis and because Sarkozy and Merkel did not work particularly well together. Some have argued that “the strengthening of the relationship with Moscow could be seen as an answer to changes in the ‘balance of power’ within the EU and an illustration of France’s political and economic competition with Germany.” France’s relationship with Russia, while good, is not as comprehensive as Germany’s relationship with Russia. This is in part because France is less dependent on natural gas imports, which are a key component of the German-Russian partnership.

The bilateral relationship has survived disagreements on a variety of international and geostrategic issues and changes of leadership in both countries. This is exemplified by Sarkozy’s negotiation of the August 2008 ceasefire agreement between Russia and Georgia, which were then at war over the break-away region of South Ossetia. Some have argued, however, that Sarkozy put both his personal prestige and Paris’ relationship with Moscow ahead of the actual negotiations, and he “was criticized in both France and Europe for giving in to Russia, whether he

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615 Le Noan, “France,” 41.
617 Delcour, “France,” 45.
acted by ignorance or out of self-interest.”

Sarkozy was also criticized specifically for not taking the concerns of EU member states like Poland and the Baltics under consideration during the negotiations process. Indeed, Russian troops continue to occupy Abkhazia and South Ossetia. There have been other ups and downs, and Franco-Russian relations are currently strained by French support for a potential intervention in Syria. In spite of disagreements, however, the relationship will continue to be profitable for both countries.

Top French and Russian leaders meet at least annually as part of the bilateral Franco-Russian Cooperation Council for Security Issues. This organization was founded by the heads of state of each country in 2002 and “this forum brings together once a year the foreign and defense ministers of France and the Russian Federation. It is a forum for cooperation and dialogue between our two countries, Russia being a top-level partner of France.” The most recent meeting between the French and Russian Foreign Ministers took place in Moscow on September 17,

618 Le Noan, “France,” 35.
619 Le Noan, “France,” 35.
2013 and “the two conceded their differences on Syria but stressed the importance of moving forward with diplomatic efforts.”

France has also been successful in establishing closer economic relations with Russia over the last few years. Indeed, “in the first three quarters of 2011, the volume of bilateral trade between France and Russia expanded by 34%, from $22.6 billion to $30 billion.” Economic cooperation has also overlapped with military cooperation, exemplified by the June 2011 agreement that will see France supply Russia with two Mistral helicopter carriers. The deal has been called, “the most significant transfer of Western military technology to Russia since the end of World War II.” The agreement also provided Moscow with an “option to order two additional vessels which would then be built in Russia under French licenses.” This deal was unpopular among France’s NATO allies, particularly in the wake of the 2008 Russia-Georgia war. “The Mistral-class ships are able to carry up to 16 helicopters, such as Russia’s Ka-50/52 choppers. Their landing barges and hovercraft allow vehicles, tanks and soldiers to be deployed to shore.” According to Russian Admiral Vladimir S. Vytosky, who “bluntly evaluated the potential benefits the equipment could have offered during the five-day Georgian war in

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624 Delcour, “France,” 45.
626 Delcour, “France,” 46.
2008: 'Everything that we did in the space of 26 hours at the time, this ship will do within 40 minutes.'" France and Russia are also cooperating in the energy sector, but that will be discussed in the sections below on energy relations and infrastructure projects.

**Energy Relations with Russia**

France’s three large, vertically integrated energy companies - Electricite de France (EDF), Gaz de France Suez (GDF SUEZ), and TOTAL SA – are involved in a variety of partnership projects with Gazprom and other Russian firms, which will be discussed in greater detail below under the sections on Major Infrastructure Projects and Energy National Champions. This section will focus on higher level energy partnerships between France and Russia and will include partnerships outside the realm of traditional oil and gas pipeline projects.

Unlike Italy and Germany, France did not begin importing natural gas from Russia in the 1960s. France’s energy relationship with Russia developed later. Currently, France imports approximately 13% of its natural gas needs from Russia, most of which are via long term take or pay contracts. However, like many other large gas companies throughout Europe, GDF SUEZ, France’s largest natural gas

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firm, has had success in renegotiating its gas contracts with Gazprom to obtain more favorable prices.\textsuperscript{630} France also receives approximately 14\% of its oil imports from Russia.\textsuperscript{631}

France and Russia are also cooperating in the nuclear energy sector. In 2011, the French and Russian governments issues a statement on the nuclear power sector pledging to cooperate on nuclear power issues, particularly nuclear safety, and the statement noted that, “The government of the French Republic and the government of the Russian Federation note the organization of a strategic partnership between the EDF group and the companies belonging to the Rosatom State Nuclear Energy Corporation, and intend to lend their full support to this work, particularly with a view to improving nuclear safety and organizing cooperation in third countries.”\textsuperscript{632} Cooperation has focused on prospective technologies for recycling spent nuclear fuel and the use of radioactive isotopes in medical applications.\textsuperscript{633}

Although relations between France and Russia are good, they are comparatively shallow when it comes to energy simply because France’s energy needs differ from countries like Germany, Italy and most of Central and Eastern Europe, which tend to be dependent on Russian oil and gas to supply their energy


\textsuperscript{632} “France and Russia Pledge to Cooperate on Nuclear Energy,” France in the UK, French Embassy in London, November 18, 2011, \url{http://www.ambafrance-uk.org/France-and-Russia-pledge-to}.

\textsuperscript{633} “Russia, France Strike Nuclear Cooperation Deal,” Ria Novosti, June 8, 2010, \url{http://en.rian.ru/world/20100608/159347441.html}.
needs. Not only does France import comparatively less oil and gas from Russia, it also doesn't have the long term energy relationship with Russia that Germany and Italy have developed based on these long term commercial relations.

**France’s Energy Policy**

French energy policy is very different from the other cases included in this study. The primary reason is France’s heavy reliance on nuclear power to meet its electricity needs. This makes France far less energy dependent than it would be if nuclear power was not such a substantial part of its energy mix.

Though France is Europe's second largest economy, it possesses very few domestic fossil fuel resources. Thus, France depends heavily on imports to meet its fossil fuel needs. Indeed in 2011, France was the world's 12th largest importer of oil and 7th largest importer of petroleum liquids.\(^{634}\) Oil represents approximately 29% of France’s total primary energy supply. France imports oil primarily from Norway (15.2%), Russia (14.2%), Kazakhstan (11%), and countries the Middle East (22%) and North Africa (13.4%) among a variety of other small suppliers via pipeline or by sea.\(^{635}\) France’s imports from the North Sea and the Middle East have been

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declining, while those from Africa and the former USSR (including Russia) have been on the increase.636

Natural gas makes up only about 16% of France’s total primary energy supply, which is low compared to most European countries due to the use of nuclear power for electricity generation, and because France has a lower population density than many other member states.637 Natural gas is imported via pipeline and as LNG, and France’s biggest natural gas suppliers include Norway (34%), the Netherlands (17%), Russia (13%), Algeria (13%), and Qatar (6%).638 Coal makes up only 5% of France’s total primary energy supply.639

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Nuclear energy is France’s primary fuel source, making up 42% of total primary energy supply. France is the second largest producer of nuclear power in the world after the United States. France has 58 operable nuclear reactors which generate approximately 75% of total electricity generation, and France is the world’s largest exporter of electricity as well as an exporter of nuclear reactor technology.\textsuperscript{641} Although France made a long term commitment in the 1970s to increase its nuclear power capacity and decrease its oil consumption, there has been some pushback by the political left. Indeed, while campaigning French President


\textsuperscript{641} “France Country Analysis Note,” Energy Information Administration, \url{http://www.eia.gov/countries/country-data.cfm?fips=FR&trk=m}. 

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Hollande promised to cut nuclear power’s share in France’s electricity mix from 75% to 50%.

France is also a producer of renewable energy, and is Europe’s second largest producer of biofuels after Germany. Though renewables were responsible for 8% of total primary energy supply in 2010 (as noted in Figure X above), this number has been increasing rapidly and in 2012 grew to 16% of France’s energy mix. In addition to biofuels, France also produces other renewable such as hydroelectric energy, wind, solar, etc.

France’s energy policy is currently in a state of flux. After Francois Hollande became France’s first Socialist President in over 20 years, the country embarked upon a national debate on the future of its energy mix, which lasted approximately eight months – from November 2012 through June 2013. Though France adopted a document outlining 15 energy proposals, it was a watered down version of the original 15 due to significant backlash from the French business community, including organizations like the Union Francaise des Industries Petrolieres (UFIP), France’s oil industry lobby, and the Mouvement des Entreprise de France (MEDEF), France’s major business lobby organization. Business groups were particularly

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concerned about the government’s desire to cut energy consumption by 50% between 2020 and 2050. The document was also skeptical of Hollande’s plan to cut nuclear power’s share in France’s electricity mix from 75% to 50%, and it included language which proposed to study the social and environmental consequences of this plan. This document is not binding, but will be used in the preparation of a national energy law toward the end of 2013.

There is some evidence that Hollande will try to reorient France’s energy policy both toward the left and toward the European Union and closer integration. At the May 2013 European Council Summit, Hollande called for “a European Energy Community,” and although he didn’t provide many details regarding what this would entail, it is a signal that France might want to move forward with a common European approach to energy policy. Some have argued that France’s change of course on energy policy is due to “the country’s troubled domestic energy outlook. The French government seems to be pursuing more European cooperation to make it possible to push through unpopular reforms at home and to prepare France for a less nuclear future.”

Only time will tell if Hollande will continue to push for an energy community, or if this will fall by the wayside if domestic reforms are enacted.

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646 Ibid.
Attitude Toward Further Integration

Along with Germany, France has been one of the traditional drivers of European integration. After World War II, France lived with the fear that its large, heavily industrialized (though defeated) neighbor would once again grow strong and threaten the continent with war. France was also concerned with more immediate topics like its own economic recovery and recuperating from the national humiliation it experienced at the hands of Germany in two world wars. France, as one the occupiers of post-war Germany, insisted that “Germany would be demilitarized, decentralized and deindustrialized.”\textsuperscript{648} It was only the “lifting of Allied restrictions on German steel production and the prospect of renewed Franco-German tension” that provided the impetus for reconciliation which came in the form of the Schuman Plan to create the European Coal and Steel Community (ECSC).\textsuperscript{649}

Although France has a long pro-integration history, the Eurozone economic crisis has had an impact on public opinion about the benefits of EU membership. A 2012 Pew Research Global Attitudes Project survey shows the toll that the crisis has taken on public opinion in France – while 60% of French survey respondents had a positive view of the European Union as a whole, only 36% believe that European integration has strengthened the French economy. Furthermore, only 31% believe

\textsuperscript{648} Desmond Dinan, Ever Closer Union, An Introduction to European Integration, (Bounder: Lynne Reiner, 2005), 20.
\textsuperscript{649} Dinan, “Ever Closer Union,” 22 - 23.
that the adoption of the euro has been a good thing for France. According to Pew, “The public is very worried about joblessness, inflation and public debt, and those fears are fueling much of this uncertainty and negativity.”

This attitude can also be seen at the top, where Hollande has been more reluctant than his predecessor to cede sovereignty to the EU on financial matters. Hollande is ideologically opposed to the austerity measures supported by former President Sarkozy and German Chancellor Angela Merkel. Indeed, Hollande’s Parti Socialiste has criticized Merkel and her “selfish” insistence on austerity as the solution to Europe’s three-year-old debt crisis. Although they disagree on how to solve the economic crisis, Hollande has been trying to work with Merkel but “the Socialists’ undiplomatic broadside at Merkel and her economic policy will do little to improve ties between France and Germany, seen as the driving force behind European integration.”

France’s long term pro-integration perspective is not consistent across policy sectors. France, supported by energy companies like EDF and GDF SUEZ, did not support the Commission’s original proposal for the 3rd Energy Package. For instance, France, along with Germany, Bulgaria, Austria, Greece, Latvia, Luxembourg

651 Ibid.
and the Slovak Republic, submitted a proposal for a ‘third way,’ which provided an alternative to the Commission’s proposals for complete ‘ownership unbundling’ of vertically integrated energy companies.\footnote{8} A compromise position was eventually accepted. Hollande is, however, more likely to agree to long term EU climate targets, though this impacts climate policy rather than energy security policy.

**Major Infrastructure Projects: Cooperating with Russia**

France has cooperated with Russia on several major energy projects in the post-Cold War era. The biggest, and arguably most important, is the Nord Stream pipeline, running from Vyborg, Russia under the Baltic Sea to Lubmin, Germany (see Figure 10.2 below). With a capacity of 55bcm of gas per year, the 1,224 km twin pipeline system is the most direct natural gas connection between Russia and Western Europe.\footnote{6} The first stream came online in November 2011 and the second in October 2012, and the project has the capacity to supply gas to supply 26 million households, which is equivalent to 10% of Europe’s gas needs.\footnote{7} Nord Stream AG, the firm that operates the pipelines, is owned by Gazprom (51% stake), two German firms: BASF/Wintershall (15.5%), E.ON Ruhrgas (15.5%), a Dutch firm: Gasunie

\footnote{8}{“Eight States Oppose Unbundling, Table “Third Way,”” Euractiv, February 1, 2008, \url{http://www.euractiv.com/energy/eu-states-oppose-unbundling-tabl-news-219274},}
\footnote{6}{“Operation of the Nord Stream Pipeline System,” Nord Stream, \url{http://www.nord-stream.com/pipeline/operations/}.}
\footnote{7}{“Controversial Project Launched: Merkel and Medvedev Open Baltic Gas Pipeline,” Spiegel Online, November 8, 2011, \url{http://www.spiegel.de/international/europe/controversial-project-launched-merkel-and-medvedev-open-baltic-gas-pipeline-a-796611.html}.}
(9%), and a French firm; GDF SUEZ (9%). These five companies provided 30% of the funding for Nord Stream, and the rest was obtained through commercial loans.\textsuperscript{657}

\textbf{Figure 10.2: Nord Stream Pipeline Route}\textsuperscript{658}

Compared with Germany, for example, France came late to the project, only signing on officially in March 2010. As mentioned above, GDF SUEZ owns a 9% stake in Nord Stream, and France will also receive approximately 1.5 billion cubic

\textsuperscript{657} “Background Information” Nord Stream, February 2013, \url{http://www.nord-stream.com/pipeline/}.

meters of Russian gas from the pipeline beginning in 2015. France’s late start has not hindered its desire to cooperate with Gazprom on Nord Stream, however, and in June 2013 GDF SUEZ and Gazprom signed a document that lays out conditions for cooperation between the two companies to explore the expansion of Nord Stream. According to Jean-Francois Cirelli, GDF SUEZ Vice Chairman and President,

“GDF SUEZ is very pleased with the work carried out alongside Gazprom within Nord Stream, a project which is highly strategic for Europe’s gas supply in the long run. The implementation of the two Nord Stream lines was very efficiently achieved, within schedule and budget. This is why we are willing to investigate together the interest to further develop this infrastructure, which contributes to the diversification of supply routes to Europe.”

In addition to Nord Stream, France’s EDF is also a shareholder in the offshore section of South Stream, a pipeline that will run from the Russkaya compressor station on the Russian Black Sea coast under the sea to Bulgaria, as indicated by Figure 10.3 below.

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The offshore section of the pipeline will be approximately 900 km in length and will reach a maximum depth of over two kilometers. The projected annual capacity of South Stream is 63 billion cubic meters of gas. Shareholders in the offshore section of the South Stream project (South Stream Transport) include Gazprom (50%), Italy’s ENI (20%), Germany’s Wintershall (15%) and France’s EDF (15%). Construction of South Stream’s offshore section is projected to begin in the second quarter of 2014. According to EDF, signing onto the South Stream shareholders agreement “will accelerate the construction of the gas pipeline which

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661 “South Stream,” Gazprom,  

662 “South Stream,” Gazprom,  

663 “South Stream’s Offshore Section Construction to Start in Second Quarter of 2014,” South Stream,  
will transport Russian gas to Europe along the Black Sea floor. The South Stream pipeline meets an important strategic objective for the company and represents a key component of EDF’s partnership with Gazprom."

The final route from the Bulgarian coast to Central Europe, where the pipeline will terminate, has not yet been decided. Two options are currently on the table, as noted in Figure 10.3 above and these options offer routes that run both northwest and southwest from Bulgaria.

**Energy National Champions**

France has a number of vertically integrated energy firms such as Electricité de France (EDF) and Gaz de France Suez (GDF SUEZ) that are at least partially state-owned. For instance, the French government owns 84.44% of EDF, and 36.7% of GDF SUEZ, though the sale of some shares is currently under consideration to raise funds to finance strategic investments. TOTAL SA, a vertically integrated multinational energy company, and the largest corporation in France, is privately owned by institutional, individual and employee shareholders. France is also

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home to a number of other smaller utilities and energy firms like Areva, but they do not qualify as national champions.

EDF is involved in electricity generation, transmission and distribution. Most of EDF's electricity is generated via nuclear power which supplies “the base load and meet(s) daily, recurrent demand,” but they also operate fossil fuel fired power stations (3.6% of production) and generate electricity from renewable sources like hydropower (6% of production), wind, solar, biomass, geothermal and marine sources. In addition to operation in France, EDF operates throughout Europe, Asia, Africa and the Americas. EDF also operates in Russia, particularly in the area of nuclear safety. According to EDF, “There are already a number of projects underway in which France and Russia are cooperating in an active collaborative effort, primarily in the following areas: operating safety at nuclear power plants, technical support programs, station inspections, staff training, improving safety measures during the development stage of nuclear plants and the introduction of research and development.”

As a result of the 3rd Energy Package, EDF’s transmission activities are operated by a subsidiary RTE-EDF Transport. The distribution network is

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672 Ibid.
operated by another subsidiary – ERDF (Electricite Reseau Distribution France) – “it guarantees access to the network for all users, applying objective, transparent, and non-discriminatory standards.” ERDF is a public limited company with its own board of directors and supervisory board.675

GDF SUEZ is also a highly diversified vertically integrated energy company. While EDF is primarily invested in electricity generated by nuclear power, GDF SUEZ is primarily invested electricity derived from gas and other fossil fuels as well as gas for heating, industrial applications, etc. Involved in production, distribution and transmission of electricity, GDF SUEZ is the largest electricity producer in the Netherlands and Belgium, the second largest electricity producer in France and the fourth largest in Europe.676 GDF SUEZ is also active in Central and Eastern Europe, Asia, the Middle East, Latin America, the UK and Australia.677 GDF SUEZ has a highly diversified generation capacity comprised of natural gas, nuclear, hydroelectric power, coal and renewable sources (biomass, wind, solar).678

GDF SUEZ is active across the entire spectrum of the natural gas value chain from exploration and production, transport, storage and distribution. As mentioned above, GDF SUEZ owns a 9% stake in the Nord Stream Pipeline. The company also provides associated energy services such as energy efficiency and industrial

677 Ibid.
678 Ibid.
Like EDF, distribution activities are managed under a subsidiary – Gaz Reseau Distribution de France (GrDF) – wholly owned by GDF SUEZ and set up in 2008 to comply with 3rd Energy Package regulations.

Although forced to comply with EU regulations, EDF and GDF SUEZ together “opposed the competition commissioner’s proposals for ‘unbundling’. In the third energy package negotiation process, the French government’s preferences for protection of its traditional national champions, such as GDF and EDF, were evident.” As national champions, these two companies have a powerful voice within the French government, and France has worked hard to protect their influence (and its own assets).

TOTAL SA is also a global vertically integrated energy company that operates along all aspects of the oil and gas value chain including the following: exploration and production, refining and petrochemicals, trading and shipping, and finally marketing and services. Unlike the two companies listed above, TOTAL operates in the oil and refining industries supplying petroleum products such as automotive

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fuels, lubricants, etc. and operating service stations. TOTAL SA is privately owned.

TOTAL, like other large French firms, is also involved in a strategic partnership with Gazprom to possibly develop the Shtokman gas field in Siberia, which is estimated to hold 4 trillion cubic meters of natural gas. The Shtokman partnership consists of Gazprom (51% stake), TOTAL (25% stake) and Norway's Statoil (24% stake). In April 2013, TOTAL’s CEO, Christophe de Margerie said that TOTAL and Gazprom are working together to determine how they can make this field profitable to develop. He said, "We are seeing whether other technologies can be used to make the field cheaper." “If preliminary results are satisfying we will set up a schedule, if not we will abandon it. The good thing is that we keep talking with Gazprom.”

Historical Narratives

Although Franco-Russian relations are harmonious today, the relationship between France and Russia has been described as a ‘love – hate’ relationship. As mentioned in the first section of this chapter, in early Franco-Russian relations the French tended to view the Russians as “students of their culture with contempt for

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them as ‘monkeys who know only how to imitate.’” By contrast, the Russian aristocracy was fascinated by all things French. After the Revolution, however, many French felt an attraction to Russia because they “were not happy with the Revolution and looked to Russia as the place where they could thrive.” Russia’s Catherine the Great was heavily influenced by French thinkers, and 20th Century French intellectuals like Sartre and Farrago were, likewise, influenced by Russia’s socialist ideology. The French Revolution also had an impact in Russia, which eventually led to the 1917 Russian Revolution.

Today things are different, but despite the Gerard Depardieu incident – in which the iconic French actor made headlines in early 2013 when he accepted Russian citizenship after leaving France to avoid the government’s proposed 75% income tax on millionaires – the French don’t generally have a favorable opinion of Russia. According to the Pew Research Global Attitudes Project, in 2012, only 36% of French survey respondents had a favorable view of Russia. The French also don’t have a favorable opinion of Russian President Vladimir Putin in particular. Indeed, 82% of French survey respondents hold a negative view of

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686 Figes, Natasha’s Dance, 63.
Putin, and only 14% of French respondents feel that the Russian government respects its’ peoples’ personal freedoms. Furthermore, 58% of respondents also expressed concern about European energy dependence on Russia, despite the fact that France itself is not dependent on Russian energy.

**Economic Ideology**

France has a Presidential system, with the President playing a far bigger role in national politics than the Prime Minister. President Hollande is the leader of the French Socialist Party (Parti Socialiste or PS), which leans significantly further left than Angela Merkel’s Christian Democratic Union or David Cameron’s Conservatives. However, Hollande has only been in power in France since his election in May of 2012. This is the first time in 24 years that France has elected a Socialist President.

When it comes to economic ideology, the PS has three major goals: first, to restore the competitiveness of French businesses, second, to institute fairer taxes,
and third to ensure Europe's recovery from recession.\textsuperscript{695} To achieve these goals, the PS launched a public investment bank that would finance projects by French companies that were not met by traditional commercial banks and debt products. The PS has also increased taxes and negotiated on behalf of France and PS’ goals on the 7 year 2014 – 2020 EU budget.\textsuperscript{696}

On energy policy matters, Hollande has been solidly on the left. This includes policies in favor of reducing France’s nuclear power capacity from 75% of electricity generation to 50%, and the early closure of France’s oldest nuclear power plant by 2016. Opened in 1977, the Fessenheim nuclear power station has been a safety concern since Japan’s 2011 Fukushima disaster.\textsuperscript{697} Hollande’s energy policy stance has not been popular with EDF, France’s biggest nuclear power generator.\textsuperscript{698} Hollande has also come out in support of continuing France’s ban on hydraulic fracturing (‘fracking’), and is in favor in increasing climate change targets – another measure that has been unpopular with France’s energy companies. As noted above, Hollande has also called for the development of a ‘European Energy Community,’ but this might signal more interest in reforming French energy policy than in really engaging with the EU on energy policy matters. Indeed, some scholars “expect

\textsuperscript{695} “Economie, Entreprise, Industrie,” Parti Socialiste, \url{http://www.parti-socialiste.fr/nos-idées/economie-entreprise-industrie}.
\textsuperscript{696} Ibid.
\textsuperscript{698} Ibid.
France to remain a very difficult partner in EU energy policy. But more open to the single energy market than before.\textsuperscript{699}

**Economic Structure**

According to Hall and Soskice, the developers of the Varieties of Capitalism (VoC) typology, France and a cluster of other countries make up a potential 3\textsuperscript{rd} type of capitalism which they’ve termed ‘Mediterranean’ capitalism. Along with France, this includes Italy, Spain, Portugal, Greece and Turkey. These countries are characterized by “a large agrarian sector and recent histories of extensive state intervention that have left them with specific kinds of capacities for non-market coordination in the sphere of corporate finance but more liberal arrangements in the sphere of labor arrangements.”\textsuperscript{700} In France, many top business leaders have come from the public sector, and they have tended to be from the same small set of elite schools as most high ranking government officials.\textsuperscript{701} This has led many French companies to rely more on government assistance than on coordination between firms, such as you see in Germany. However, this type of non-market coordination

\textsuperscript{699} Dreyer, “What is Behind France’s Call for a ‘European Energy Community,’” Energy Post.
does not impact international relationships, though the preference for non-market coordination certainly does.

When looking at energy policy and VoC, it’s the capacity for non-market coordination among firms that is of interest and so France, therefore, can be considered as behaving more like a coordinated market economy (CME) than a liberal market economy (LME). EDF and GDF SUEZ’s long term strategic partnerships with Gazprom, which include long term contracts for gas supply purchases and stakes in the Nord Stream and South Stream pipelines, are evidence of this. Indeed, Ipek and Williams depart from Hall and Soskice’s original classification and consider France to be a CME along with Germany and Italy.702

Analysis

Although France historically supported European integration, this has not carried fully over into the energy policy sector. France, along with a number of other member states, was an opponent of “ownership unbundling” as originally proposed by the Commission in the 3rd Energy Package. EDF and GDF SUEZ were both particularly opposed to this measure. France also supported the removal of the “Gazprom Clause” from 3rd Energy Package legislation.703 French firms also oppose some of the energy policy changes proposed by President Hollande, which might turn France toward Europe as a means of moving domestic reform forward. As in

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702 Ipek and Williams, “Firms’ Strategic Preferences,” 20.
703 Ipek and Williams, “Firms’ Strategic Preferences,” 21.
the other five cases examined in this dissertation, some variables are more important than others when it comes to France’s national preferences on energy security policy at the EU level.

France and Russia have had a long history and have had favorable relations since De Gaulle led France’s rapprochement with Russia during the Cold War. These relations continue today, even if they are as equally based on policy and mutual benefit as they are on history and personal relationships. Though Franco-Russian history is rich, it is not a particularly important variable in determining France’s national energy policy preferences.

In France, business and commercial interests play a large role in energy policy preferences. This can be seen through a variety of the variables discussed in this case. For instance, all of France’s national champions are involved in strategic partnerships with Russia. EDF and GDF SUEZ are both involved in major pipeline projects and TOTAL SA has a stake in the Shtokman natural gas field. This also demonstrates the importance of France’s economic structure in that although France is not dependent on Russia for oil or gas, French firms still seek strategic partnerships with Russia over market based relationships.704

In addition, France has a number of important lobby organizations, such as UFIP and MEDEF, that have an impact on energy policy at the highest level. Indeed, former French Energy Minister Delphine Batho blames the pro-nuclear and shale gas lobbies for her summer 2013 firing. Batho “said she was a victim of pressure

704 Ipek and Williams, “Firms’ Strategic Preferences,” 22.
from economic interests who wanted to overturn a 2011 fracking ban and were opposed to her aim of cutting France's dependence on nuclear energy by developing renewable energy sources.”

However, the pro-shale gas lobby has not had success in overturning France’s ban on hydraulic fracturing. Hollande’s call for a ‘European Energy Community’ could be a response to the strength of these organizations.

Other variables are less important in this analysis. Indeed, how the French view Russia is not a particularly important variable in that views of Russia, Russian President Putin, and European energy dependence on Russia are overwhelmingly negative. This has not stopped France from having good relations with Russia in both the business and energy sectors. Similarly, economic ideology has also not really played a role in France’s preferences regarding European energy security policy to date; although there is evidence that this may change, particularly if it will help Hollande bring reform to France's domestic energy policy and particularly in the role of nuclear power in France’s energy mix.

Conclusions


In France, history is an important factor when it comes to Franco-Russian relations writ large, but it is less important when it comes to how France forms its national energy security policy preferences. Commercial and state interests, which often converge in the energy sector, play a far bigger role. Part of the reason for this is that France is not dependent on Russia as an energy supplier, receiving only 14% of its oil and 13% of its gas imports from Russia. France is also largely dependent on domestic nuclear energy to generate electric power. This gives less weight to Russia’s position as an important energy supplier for Europe.

France’s national champions, two of which are partly state-owned, play a major role and have been opposed to EU legislation like the original draft for the 3rd Energy Package. This legislation was only approved after the ‘ownership unbundling’ requirement was watered down. France’s energy national champions are also part of powerful lobbying organizations that have wielded their influence over national energy policy matters at the highest level, including France’s 2012 – 2013 national debate over the future of French energy policy and France’s energy mix.

France’s economic structure is also very important. Indeed, even though they are not motivated by issues of energy dependence, France’s national champions seek strategic partnerships with Russian firms rather than market based relationships.

The economic ideology variable, though important at the domestic policy level, is not yet important when it comes to France’s national preferences on EU
energy security policy. One reason for this is very likely the amount of power wielded by France’s national champions, which tend to protect their commercial interests when it comes to policy matters like unbundling. As noted above, this could change under Hollande’s leadership.

Because French energy policy is currently in a state of flux, national priorities might change both with regard to France’s energy mix and in its European energy security policy preferences. This is more likely to happen if Hollande and the PS remain in power, though given French political trends over the past 20 years, this appears unlikely. Furthermore, Hollande was elected to office with the hope that he would better manage France’s economic crisis and he has not met the demands of the French public. This has led to a decrease in his popularity as President, and in June 2013 only 26% of the French were satisfied with his performance in the Presidency.707 This makes Hollande the least popular President in modern French history.708 If Hollande continues to be unpopular, he is unlikely to be re-elected, which would return France’s center-right to power.

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708 Ibid.
CHAPTER ELEVEN: BULGARIA

Historical Context

Bulgaria, though historically connected to Russia in many ways, does not share with many of the states in Central and Eastern Europe the same experience of being invaded, conquered and subsumed into the Russian Empire. Indeed, Bulgaria was subsumed into the Ottoman Empire in 1393 and remained under Ottoman rule until 1878. Like the Polish or Lithuanian states under Russian rule, Bulgaria ceased to exist as a separate state while it was part of the Ottoman Empire.\(^\text{709}\)

Bulgaria and Russia share a Slavic heritage with similar cultures and linguistic traditions. Also like Russia, Bulgaria is an Orthodox Christian country. Throughout the nearly 500 years of Turkish occupation, “religion was of key importance for the preservation of Bulgarian culture and identity; the existence of the Russian “Big Brother” meant an important support for this.”\(^\text{710}\) Indeed, in the last century of Ottoman rule, Bulgarian priests were often educated in Russia and


\(^{710}\) Tamas Szemler, “Friends will be Friends? Bulgaria, Russia and the Eastern ENP Partners,” East European Studies 1 (2009), 133.
this increased their Slav consciousness in comparison with priests who were educated in the Balkans under the Greek Orthodox tradition.\footnote{Crampton, \textit{A Concise History of Bulgaria}, 66.}

Russia was ultimately the reason for Bulgaria's liberation from Ottoman rule. The Russo–Turkish wars, which were fought in the Balkans, saw Russia enter what is modern day Bulgaria several times, but it was not able to drive the Turks out for good until 1878.\footnote{Szemler, “Friends will be Friends?” 133.} Although Bulgaria finally achieved its freedom from the Ottoman Empire and resumed its statehood, it was largely controlled by Russia,\footnote{Ibld.} which had an effective veto on state matters such as high level ministerial appointments and the drafting of constitutional amendments.\footnote{Crampton, \textit{A Concise History of Bulgaria}, 90.} Although Russia exerted an extreme amount of influence on Bulgaria, it did not completely control the Bulgarian Tsar’s decision making. This was in evidence when Tsar Alexander Battenburg started a war in the Balkans and annexed neighboring territories Macedonia and Eastern Rumelia. The Tsar was forced to abdicate in 1886 by the Russian backed military.\footnote{Crampton, \textit{A Concise History of Bulgaria}, 101.} This conflict (1885 – 1886) was one of many episodes of Balkan instability that could be considered a precursor to World War I, in which Bulgaria fought on the losing side.\footnote{Szemler, “Friends will be Friends?” 133.}

World War I and its aftermath also saw Russia’s hold on Bulgaria loosen. Bulgaria lost territory in World War I, and its economy was in shambles after the war. However, the interwar period was largely peaceful for Bulgaria (in spite of
internal political struggles), and it also saw the first appearance of the Bulgarian Communists. Allied with Moscow, this group tried to organize an uprising in September 1923, but it was easily put down by the government.\textsuperscript{717}

In the lead up to World War II Bulgaria, like Nazi Germany, wanted to reverse the peace settlement that ended WWI. Indeed, Bulgaria signed onto the German – Italian – Japanese tripartite pact in early March 1941. Bulgaria then allowed the German army to bridge the Danube and cross Bulgaria on its way to Greece.\textsuperscript{718} Bulgaria was allied with the Axis powers through 1944, which it changed sides after Soviet forces entered Romania and declared war on Bulgaria.\textsuperscript{719}

Throughout the war the communist Fatherland Front (FF), which formed in 1941 in opposition to the fascist national government, made regular radio broadcasts into Bulgaria calling for Bulgarian neutrality, the return of civil liberties, a decent standard of living, and a ban on fascist organizations. The FF also welcomed the Soviet Army with open arms when then entered Bulgaria on September 8, 1944, as did most Bulgarian citizens.\textsuperscript{720} On September 9, the FF was part of a successful coup d’état and they formed a new administration with members of other opposition groups, though the communists retained control of key ministries. A one party communist system was not installed in Bulgaria until 1947.\textsuperscript{721}

\textsuperscript{717} Crampton, \textit{A Concise History of Bulgaria}, 153.
\textsuperscript{718} Crampton, \textit{A Concise History of Bulgaria}, 167.
\textsuperscript{719} Crampton, \textit{A Concise History of Bulgaria}, 177.
\textsuperscript{720} Crampton, \textit{A Concise History of Bulgaria}, 175.
\textsuperscript{721} Crampton, \textit{A Concise History of Bulgaria}, 180.
This system remained in place until 1989, and it faced little opposition because living conditions in Bulgaria actually improved under the communist regime. Throughout the Soviet era “Bulgaria was known as the most faithful Soviet ally within the COMECON system of states. This legacy has left the state with scarce civic and political opposition.” It wasn’t until the 1980s and the accompanying economic downturn that the Bulgarian opposition began to really organize. Just one day after the fall of the Berlin Wall, the communist party General Secretary Todor Zhivkov resigned under pressure from the opposition groups and mass emigration by the ethnic Turkish minority which had been oppressed and forced to assimilate during the communist era. Unlike Poland or Lithuania, the resignation of Bulgaria’s communist leader was not brought about by ‘people power’, but rather by the communist party leadership itself. Before Bulgaria’s first free elections in 1990, the Bulgarian Communist Party dismantled the state apparatus and rebranded itself as the Bulgarian Socialist Party (BSP). The BSP achieved electoral victory in Bulgaria’s 1990 election.

Bulgaria’s Post Cold War Relations with Russia

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722 Crampton, A Concise History of Bulgaria, 196.
724 Crampton, A Concise History of Bulgaria, 211.
725 Crampton, A Concise History of Bulgaria, 212.
Though it had been a faithful ally of the Soviet Union, “after 1989 Bulgarian foreign policy was re-orientated significantly not only as a result of the pull of the EU and NATO, but also because of Russia’s profound weakness under Yeltsin.” Evidence of this weakness was Russia’s lack of involvement in the Balkans during the wars of the 1990s. Bulgarian – Russian relations also slipped due to Bulgaria’s economic and political transition which was accompanied by economic crisis in both countries in the late 1990s. Relations began to deepen after both countries recovered from their respective economic crises and Bulgaria’s political situation became more stable. This was aided by Russia’s increasing visibility on the international stage.

In the post Cold War era, Bulgaria’s relationship with Russia can be characterized as pragmatic. Indeed, Leonard and Popescu classify Bulgaria as a ‘friendly pragmatist,’ and of the post-communist member states it has had the best relations with Russia. The relationship has also been referred to as a ‘rough friendship’ or a ‘cold marriage’ due to tensions over energy projects.

After the Cold War ended, the Bulgaria’s economic relationship with Russia changed dramatically. Once Bulgaria’s primary export market, Russia was replaced by the EU, which is now Bulgaria’s number one trade partner. Today, the bilateral

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727 Szemler, “Friends will be Friends?” 134.
trade relationship is dominated by Russia, and Bulgaria has a significant trade deficit with Russia.\footnote{Szemler, “Friends will be Friends?” 137.}

Bulgaria’s post-communist trade relations with Russia have been principally in the energy sector, and indeed, the first bilateral agreements signed between the two countries in the post-Cold War era were on energy projects. This is largely because Bulgarian products (primarily agricultural) are no longer competitive in the liberalized Russian market that was built after the collapse of the communist system.\footnote{Bozhilova, “Bulgaria,” 192.} In 2008, only 3% of Bulgaria’s exports were destined for Russia, “while Russian imports reached 14.6 per cent of total imports.”\footnote{Ibid.} These imports consist primarily of energy resources and energy by-products. Bulgarian-Russian energy relations will be discussed in more detail in the following section.

Political relations have been friendly between Bulgaria’s ruling Bulgarian Socialist Party (BSP) and Moscow. The BSP is the successor of the Bulgarian Communist Party, which also had friendly relations with Moscow. The center-right Citizens for the European Development of Bulgaria (GERB) party, which was in power from 2009 – early 2013, is pro-European and tends to look toward Germany for guidance. The GERB government was also at odds with Russia on geopolitical issues like its stance on Syria, though it claimed not to be Russophobic.\footnote{Clive Leviev-Sawyer, “Bulgaria and Russia: Reset or Continuity?” Independent Balkan News Agency, June 11, 2013, \url{http://www.balkaneu.com/bulgaria-russia-reset-continuity/}.}
Energy Relations with Russia

Bulgaria has been importing fossil fuels from Russia since the late 1950s, “when oil and gas pipelines to the Eastern European member states of the Council for Mutual Economic Assistance (CMEA) were constructed.” Today, over 60 years later, the energy relationship between Bulgaria and Russia is characterized by almost complete dependence. Indeed, Gazprom is the sole natural gas exporter to Bulgaria. Bulgaria currently receives Russian gas imports via Ukraine, which left Bulgaria without gas supplies during the 2006 and 2009 Russia – Ukraine gas crises. Bulgaria was one of the hardest hit by the crises and received no gas for three full days. This led the government to issue an ‘austerity ordinance’ which cut gas to all but essential services like hospitals and schools.

Like its political relations, Bulgaria’s post communist energy relations with Russia can also be characterized as pragmatic, as can Russia’s energy policy toward Bulgaria. Indeed, Russia hopes to maintain its dominant position as Europe’s largest gas supplier and Bulgaria is in a strategic position for Russia as it seeks to expand its export pipeline options through the route known as the Southern Corridor. The proposed South Stream pipeline, which will be discussed in further detail in the

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section on Major Infrastructure Projects below, is one example of this. Because of its strategic location, Bulgaria is trying to leverage its position to create a more equal playing field on energy projects with Russia. This leaves Bulgaria with a continued interest “in the implementation of large energy projects, but not at any price.”

There have been three major energy projects proposed by Moscow that involve Bulgaria, and these have been referred to as the ‘grand slam’ by former Bulgarian President Georgi Parvanov. South Stream, which will be discussed below, is one that will bring Russian gas under the Black Sea and on into Europe. The two other projects include the Burgas-Alexandroupolis oil pipeline and the construction of a Bulgarian nuclear power plant in Belene. Two of these projects however, the Burgas-Alexandroupolis pipeline and the Belene Nuclear Power Plant, have been scrapped by the previous government “in an effort to diversify the country’s energy sector away from Russia.” South Stream is still in the works, though construction on the Bulgarian section will not begin for some time. Bulgaria dropped its participation in the Burgas-Alexandroupolis pipeline because the “project envisaged almost no benefits for Bulgaria but posed high-level environmental risks and other liabilities for the Bulgarian Black Sea coast, a popular

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737 Ibid.
739 Daborowski, “Bulgarian-Russian Games in the Energy Sector: An Outcome is Getting Closer.”
The Belene Nuclear Power Plant project was dropped due to funding issues and concerns regarding its economic viability.

The energy relationship between Bulgaria and Russia is not just government-to-government; it also involves coordination and market penetration at the firm level. Overgas, Inc. AD is Bulgaria’s largest privately owned natural gas firm, and it imports gas to Bulgaria from Gazprom. Overgas is owned jointly by Overgas Holding AD (50%), OAO Gazprom (0.49%) and OOO Gazprom Export (49.51%). Overgas Inc. “has a majority interest in 5 city gas distribution companies. Their scope of business incorporates investment, design, construction, operation and maintenance of gas distribution networks, facilities and equipment related to the use and sale of natural gas.”

In addition, Bulgaria’s oil industry is largely controlled by Russian firms. A subsidiary of Russia’s LUKoil is the biggest player in Bulgaria’s oil sector and it is also one of the country’s largest companies. LUKoil Bulgaria also controls Bulgaria’s only oil refinery and the country’s largest oil terminal. Through its chain of gas stations also LUKoil also has a 25% market share in liquid fuel sales.

Finally, Russia has been accused of engaging in a variety of activities to put pressure on the Bulgarian government and achieve its own energy goals in the country. Indeed, after Bulgaria decided to withdraw from the Belene Nuclear Power

745 Daborowski, “Bulgarian-Russian Games in the Energy Sector: An Outcome is Getting Closer.”
Plant project, Rosatom subsidiary Atomstroyexport filed “a claim for 1bn Euro compensation for work it had carried out already.” Russia has offered to drop this claim if the project is restarted. Furthermore, Russia and pro-Russian Bulgarian factions have been accused of staging protests which led to the country’s 2012 ban on hydraulic fracturing (fracking), which could potentially provide Bulgaria with its own domestic natural gas supplies. Russia has also been accused of playing a role in toppling the former Bulgarian government. “Doubling and tripling of electricity bills in January is widely believed to have been an orchestrated manipulation aimed at provoking open public discontent and protests in the streets of the country.” These protests led to the collapse of former Prime Minister Boyko Borisov’s government. Borisov’s government was led by the Citizens for the European Development of Bulgaria (GERB) Party. The GERB party wanted to move Bulgaria away from energy dependence on Russia.

**Bulgaria’s Energy Policy**

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Bulgaria has very few domestic oil or natural gas resources, and largely relies on imports from Russia to supplement meager domestic supplies. Bulgaria does have domestic supplies of coal, and it also produces nuclear power, which provides just over one-third of the country’s electricity needs. Coal is Bulgaria’s primary energy source, comprising 36% of the country’s energy mix. This is followed by oil (24%), nuclear power (21%), natural gas (12%) and renewable energy sources (6.5%). Please see Figure 11.1 below.

**Figure 11.1: Bulgaria’s Energy Mix**

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751 The data used to create this chart was obtained from Tomasz Daborowski’s article “Bulgarian-Russian Games in the Energy Sector: An Outcome is Getting Closer.” Daborowski obtained this data from the Bulgarian National Statistical Institute, [http://www.nsi.bg/otrasalen.php?otr=37&a1=1224&a2=1225#cont](http://www.nsi.bg/otrasalen.php?otr=37&a1=1224&a2=1225#cont).
Bulgaria depends heavily on energy imports, and meets over 70% of its energy demand through imports of oil, gas and nuclear fuel from Russia.\(^\text{752}\) This is largely due to Bulgaria's reliance on Soviet era energy infrastructure and the expense involved in the construction of new infrastructure (pipelines, etc) in a time of economic crisis. Please see Figure 11.2 below.

\[\text{Figure 11.2: Bulgaria's Energy Dependence}\]


Bulgaria’s Energy Strategy to 2020 (updated in 2011), which was approved by the national Council of Ministers and passed by the National Assembly, reflects five major priorities for Bulgarian energy policy over the short to medium term. These priorities include:

1. Guaranteeing security of supply
2. Meeting renewable energy targets
3. Increasing energy efficiency
4. Developing a competitive energy market and policy for meeting energy needs
5. Protecting consumer interests

Like other EU member states, Bulgaria is bound to the “20-20-20” targets specified in the EU’s climate and energy package. These targets include a 20% reduction in greenhouse gas emissions compared to 1990 levels, increasing the share of renewable energy sources to 20% of the national energy mix, and finally increasing energy efficiency by 20%. Bulgaria’s country specific targets are not quite as stringent as those which must be met by the EU as a whole – 16% of electricity must come from renewable energy sources, and 10% of fuels should be biofuels – due to Bulgaria’s relative poverty and lack of modern infrastructure.

755 Ibid.
The government also identifies a number of challenges that must be overcome to implement its strategy and comply with EU regulations for renewable energy, climate change targets, etc. These challenges include the energy intensity of Bulgaria’s economy (which is 89% higher than the EU average), the high level of reliance on energy imports from Russia, and the need to develop in an environmentally sustainable way.⁷⁵⁷

To meet these goals (and overcome the challenges listed above), the Bulgarian government proposes to diversify its sources of gas supplies, build interconnectors with neighboring states Romania, Greece, Turkey and Serbia, and increase natural gas storage both by expanding existing storage at Chiren and by building a new storage facility at Galata. Bulgaria is also looking into the construction of an LNG terminal, but no plans are currently in the works to move this forward.⁷⁵⁸

To guarantee Bulgaria’s gas supply, the country has joined the South Stream project to bring Russian gas directly to Bulgaria under the Black Sea, avoiding the traditional Ukrainian choke point. Though this will potentially provide relief from gas supply disruptions, “it might also cannibalize on the existing transit infrastructure and related gas transit payments for Bulgaria and it will divert public

⁷⁵⁷ Ibid.
funds when these are badly needed for other public necessities.” South Stream also does not help Bulgaria diversify away from Russian gas. Bulgaria had also signed on to the EU backed Nabucco project, which would have brought Azerbaijani gas from the Caspian Sea to the EU through Bulgaria and on to Central Europe. However the Shah Deniz Consortium, the group that would supply gas for the pipeline, chose an alternate pipeline route that will run through Turkey, Greece, Albania and on into Italy. The Trans-Adriatic Pipeline (TAP) pipeline might also supply Bulgaria via an interconnection with Greece, offering some relief from dependence on Russian gas imports.760

The government also will integrate the use of carbon capture and storage technologies to ensure that coal fired power plants are modernized or shut down if they pollute too heavily.761 Bulgaria also plans to increase its production of renewable energy sources such as hydropower, wind, solar, geothermal and biomass. The strategy also calls for the further development of nuclear energy762 and improvements in energy efficiency such as:

“improvement of the efficiency in the generation of electrical and heat energy, reduction of energy transmission and distribution losses, earlier

use of more economical vehicles and more intensive use of the public transport, timely improvement of the energy characteristics of the existing buildings and introduction of stricter energy standards for newly constructed buildings, including energy self-sufficient buildings, and consistent tax policy for more efficient energy use.”

Bulgaria also hopes to increase household and municipal gasification. At this time, “only 1.5% of the Bulgarian households are gasified. The increase of this percentage to 30% in 2020 and replacement of the electricity used for heating by highly efficient natural gas appliances” will also improve energy efficiency. The government believes that this will also decrease costs for consumers, but until the country is able to diversify its gas supplies, “the high border price of gas drains Bulgargaz (the importer) and Bulgartransgaz (the system operator) of their ability to charge good margins,” and so gas prices are likely to remain high.

Attitude Toward Further Integration

Bulgaria applied for EU membership in 1995 along with many of the other post-Communist Central and Eastern European states and accession negotiations were opened in 2000. However, Bulgaria was not part of the 2004 accession wave due to the “failure to introduce necessary reforms in key areas, in particular in the judicial

764 Ibid.
Bulgaria's accession to the EU was a long and difficult process, but public support for integration remained high throughout. This is in part due to Bulgarians' distrust in their own national government and institutions. Indeed, “combined with trust in EU officials and the belief in democratic values as determinants of support, this suggests that Brussels is perceived as capable of raising the level of good governance and lowering corruption by placing additional checks upon national politics.”

These non-economic reasons to support EU membership are just as important to Bulgarians as economic reasons for membership, which include both the potential for national economic growth and individual gain due to free movement.

Bulgarians continue to feel optimistic about the future of the European Union, and the national debate on the EU in Bulgaria is basically non-existent due to near universal pro-European attitudes. According to the results of the Standard Eurobarometer 79 (May 2013), 60% of Bulgarian respondents are optimistic about Europe's future. This is in spite of the fact that only 48% of respondents felt...

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768 Tanasolu and Colonescu, “Determinants of Support for European Integration,” 374.
themselves to be citizens of the EU. Other factors that contribute to Bulgarians' pro-European attitudes include the fact that accession is seen as Bulgaria's biggest modern achievement, and the fact that the country views sovereignty differently than other EU member states because its "history shows that sovereignty is usually not lost in negotiations where you are treated as equal."  

Bulgaria is the poorest country in the EU, and has been hit hard by the financial crisis in the Eurozone due to both its poverty and its many financial ties with neighboring Greece. These ties are particularly apparent in the banking sector, as nearly one quarter of Bulgaria's banks are owned by Greek banks. Bulgaria has been much more successful at weathering the financial crisis than Greece, however, and "its relative financial discipline underlines the differences with Athens: its debt-to-GDP ratio is around 16% and it has small annual budget deficits (before 2009 these were preceded by almost a decade of surpluses)." Bulgaria has worked to assure the EU that it is not and will not become like Greece. Furthermore, Bulgaria "sees that its hopes of escaping economic slow-down are directly linked to the survival and the reinvigoration of the Eurozone."  

Although Bulgaria is pro-EU, it has not always been pro-European energy policy. For instance, Bulgaria, along with Germany, France, Austria, Greece, Latvia, Luxembourg and the Slovak Republic, submitted a proposal for a 'third way,' which

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provided an alternative to the Commission’s proposals for complete ‘ownership unbundling’ of vertically integrated energy companies. A compromise position was eventually accepted. In spite of this compromise position, Bulgaria has not yet transposed EU internal energy market rules. Despite Bulgaria’s position on the 3rd Energy Package, in recent years Bulgaria’s energy policy “has mostly fallen in line with EU directives and diversification plans. But mounting pressure from Russia and growing internal opposition increase doubts over the sustainability of current policy decisions.”

**Major Infrastructure Projects**

Bulgaria is of strategic importance to Gazprom in the development of the South Stream pipeline, which is planned to make landfall in Bulgaria itself. Though the final route has not been chosen, both available options will run through Bulgaria, as indicated below in Figure 11.3. Gazprom and Bulgarian Energy Holding (BEH) have signed a variety of agreements on cooperation and incorporated South Stream Bulgaria, which is owned jointly by Gazprom (50%) and BEH (50%).

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The offshore section of the pipeline will be approximately 900 km in length and will reach a maximum depth of over two kilometers. The projected annual capacity of South Stream is 63 billion cubic meters of gas. Construction of the offshore section of South Stream is scheduled to begin in the second quarter of 2014. There is no estimated date for the beginning of construction of the Bulgarian section.

When South Stream becomes operational, Bulgaria will become the biggest Russian gas transit country in Europe. In return for its participation in South Stream, Bulgaria received “very preferential prices” for Russian gas, according to

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Gazprom CEO Alexey Miller. Bulgaria’s new gas contract, though of the ‘long term take-or-pay variety,’ represents a 20% reduction in the country’s gas prices.\textsuperscript{781}

As mentioned above, under the GERB government (2009 – 2013) Bulgaria backed out of two other major infrastructure projects with Russia – the Burgas-Alexandroupolis oil pipeline and the Belene Nuclear Power Plant – for a variety of political and environmental reasons. The ruling Bulgarian Socialist Party (BSP) coalition is considering reinstating plans to construct the Belene Nuclear Power Plant. “The Bulgarian Socialist Party has a unanimous stance on Belene – and it is that Belene is necessary for Bulgaria,” BSP lawmaker Tasko Ermenkov said on Tuesday, September 24, 2013.\textsuperscript{782} Financing for the project has yet to be worked out, and this must happen in order for the project is to be finalized and for construction to move forward.

**National Champions**

Bulgaria has one major national energy firm – Bulgarian Energy Holding (BEH) – which was incorporated in 2008, and it is the parent company for a variety of subsidiaries which are responsible for every aspect of the Bulgarian energy


industry from exploration and production to storage, transmission and distribution.

The subsidiaries of BEH include the following:

- Mini Maritsa Iztok EAD is Bulgaria’s largest coal mining company, and it “exists in order to operate for public benefit, it provides the basis for power generation from own energy sources, thus guaranteeing the energy independence of the country and the national security.”[^783]

- Maritsa East 2 TPP EAD is Bulgaria’s largest thermal (coal-fired) power plant, and one of three plants in the Maritsa East complex. The plant uses coal from the Maritsa East Mines.[^784] The plant has been rehabilitated to decrease carbon emissions in accordance with EU requirements.[^785]

- Kozloduy NPP EAD is Bulgaria’s only nuclear power plant, and it provides over one-third of Bulgaria’s annual output of electricity. Kozloduy provides both the cheapest and cleanest option for Bulgarian electricity generation. The plant was designed to support six reactors of Russian design, but when Bulgaria joined the European Union, it agreed to shut down the first four before the end of their lifespan. Currently there are only two reactors are in operation.[^786]

- Natsionalna Elektricheska Kompania EAD (NEK) is responsible for all aspects of electricity other than distribution including generation, transmission,

imports and exports, purchase and sale, the construction and maintenance of generation and transmission facilities, investment and energy efficiency.\textsuperscript{787}

- Electricity System Operator EAD (ESO) was created to comply with European 3\textsuperscript{rd} Energy Package regulations, and it is responsible for “planning, coordination and control of the electrical power system of the Republic of Bulgaria.” ESO also “provides for the operation, maintenance and reliable functioning of the power transmission network, keeps and maintains the auxiliary networks, carries out maintenance activities and services in the field of the energy sector.” It is also responsible for the Bulgarian electricity market.\textsuperscript{788}

- Bulgargaz EAD is Bulgaria’s sole public gas supplier and it is responsible for negotiating with suppliers and purchasing gas to cover domestic demand. Bulgargaz also negotiates deals for transmission, distribution and storage with Bulgaria’s transmissions systems operators (TSO), distribution systems operators (DSO) and storage systems operators (SSO). Bulgargaz is obligated by the state to provide customers with an uninterrupted supply of gas.\textsuperscript{789}

- Bulgartransgaz EAD is a gas transmission and storage firm that transmits gas within Bulgaria as well as through Bulgaria to neighboring countries.\textsuperscript{790}

- BulgarTel EAD is actually a telecom company, and the only subsidiary of BEH that is not in the energy industry.\textsuperscript{791}

\textsuperscript{787} “Home Page,” Natsionalna Elektricheska Kompania EAD, \url{http://www.nek.bg/cgi?d=1000}.

\textsuperscript{788} “About Us – ESO,” Electricity System Operator, \url{http://www.tso.bg/default.aspx/eso/en}.


\textsuperscript{790} “About Us,” Bulgartransgaz, \url{http://www.bulgartransgaz.bg/en/pages/about-us-1.html}.

\textsuperscript{791} “The Company,” BulgarTel, \url{http://bulgartel.bg/page/4}. 

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BEH is one of the largest companies in the Balkan region, and a national energy leader, whose assets as of December 31, 2012 amount to BGN 14.5 billion. The group's total revenue for 2012 amounted to BGN 6.5 billion, and the group employs approximately 21,000. BEH is 100% state owned.\textsuperscript{792}

In July 2013, the European Commission opened proceedings against BEH, and specifically against its subsidiaries Bulgargaz and Bulgartransgaz, which will lead to an investigation to determine whether they've been using their dominant market position to limit competition. The Commission expressed "concerns that these companies may be preventing potential competitors from accessing the Bulgarian gas transmission network and the gas storage facility by explicitly or tacitly refusing or delaying access to third parties."\textsuperscript{793}

\section*{Historical Narratives}

As mentioned above, Bulgaria was part of the Ottoman Empire from 1393 - 1878 and it did not exist as a state for nearly 500 years.\textsuperscript{794} Indeed, “Russia is credited as the force behind Bulgaria's liberation from the centuries old rule of the

\begin{itemize}
\item \textsuperscript{792} “Bulgarian Energy Holding,” Bulgarian Energy Holding, \url{http://www.bgenh.com/en/}.
\item \textsuperscript{794} R. J. Crampton, \textit{A Concise History of Bulgaria}, (New York: Cambridge University Press, 2005), 28.
\end{itemize}
After Bulgaria’s liberation from Ottoman rule, the country experienced a national revival which “pitted 'traditionalists' and 'modernists' against each other, the former arguing against the 'constant importing of civilizational models from abroad' [the west], the latter emphasizing the need for 'national rejuvenation' that could only be achieved through the borrowing of liberal traditions.” The Bulgarian Orthodox Church, whose influence increased after the Ottoman period, was anti-European and expressed pro-Russian sentiments which were combined with negative attitudes toward the westernization or Europeanization of Bulgaria.

As mentioned above, Bulgaria was the Soviet Union’s most faithful ally among the CMEA states, which included the members of the former communist bloc. When the USSR collapsed, Bulgaria had no feelings of enmity toward Russia. Bulgaria also shares “a Slavic heritage with Russia, a linguistic, cultural, religious and historic affinity that served to encourage its close approximation with the former Soviet Union.” Although there are certainly Russophobic forces in Bulgaria, most Bulgarian historical narratives concerning Russia are primarily either positive or neutral.

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797 Ibid.
Economic Ideology

Bulgaria is currently in a state of political uncertainty. In February 2013 the center-right government, led by the GERB Party, resigned amid public protests about living standards (including electricity prices) and allegations of widespread corruption. The government had been in place since 2009. Elections followed in May 2013, but although GERB won a plurality of the vote with 31%, no party won a majority. The BSP won 27% of the vote. Voter turnout was low, at around 50%. Indeed, “international observers say that the election was generally well run, but add that scandals and fraud allegations have eroded trust in state institutions.”

At this writing, the GERB party, though it won a plurality of the vote, is in opposition. The BSP has formed a coalition government with a minority party, the ethnic Turkish Movement for Rights and Freedoms (MRF) party. As such, they control only 120 of the 240 seats in parliament, which is not enough to open sessions. In September 2013, GERB decided to boycott parliament for three days. Although the move was meant to show that the BSP was unable to govern, it also blocked GERB’s own no-confidence motion, which was scheduled for Friday, September 27.

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802 Ibid.
The political crisis in Bulgaria comes atop an economic crisis. The Bulgarian economy is expected to grow by only 0.6% in 2013, despite more favorable predictions for Europe’s larger economies and the end of the recession in the Eurozone. Bulgaria’s political crisis has also deprived the country of badly needed investment funds, deepening its economic woes. Like many other countries on Europe’s periphery, Bulgaria has been plagued by high unemployment. Official estimates place Bulgarian unemployment at 12%, while unofficial estimates are closer to 18%.

The BSP is the successor party to the Bulgarian Communist Party, and surprisingly was the victor in Bulgaria’s first democratic election in 1990. Throughout the 1990s the party made little ideological progress on issues like market reform. It was only after the party’s defeat in 1997 that it began to transition to a center-left social-democratic platform. In its 2005 program, the BSP said that it wants to “ensure an equality of opportunity for all Bulgarians in the context of a market economy. In addition, the party was openly seeking to attract “small-business entrepreneurs” with its election campaign: it promised not only better and more efficient legal framework but also lower taxes and fees.”

805 “Bulgaria Election Fails to End Political Stalemate,” BBC.
Economically, the ruling BSP has been only nominally socialist. From 2005 – 2009, the coalition government led by the BSP “deviated from most anti-poverty policies and instead embarked on a neo-liberal economic model.”\textsuperscript{808} Unlike GERB, however, the BSP hopes to increase economic cooperation and infrastructure projects with Russia. According to BSP Party Leader Sergei Stanishev,

"We have the ambition, and this is an ambition of the government headed by Oresharski, to refresh economic relations and projects between Bulgaria and Russia. Not in order to serve foreign interests, as our opponents claim, but in order to make sure that Bulgaria develops as a modern, economically strong and technologically advanced country, which has a powerful voice."\textsuperscript{809}

By contrast GERB, which was in power from 2009 – February 2013 is a center-right party that was elected in 2009 based on promises to curb corruption, fight organized crime and reform the justice system. Once the financial crisis began to impact Bulgaria in 2009, the government initiated austerity policies aimed at preventing a deficit by cutting costs almost at the pace of revenue contraction.\textsuperscript{810} Bulgaria however did not enact any economic stimulus. The benefit of this strategy


is that Bulgaria will likely emerge from the crisis without much public debt.” If the BSP, now in power, decides to continue these policies then the long term social impacts like increasing inequality and the continuing failure to integrate the country’s Roma minority will be difficult to avoid due to spending cuts.

**Economic Structure**

Like Poland and Lithuania, Bulgaria was not considered when Hall and Soskice originally developed their varieties of capitalism typology. This largely because these countries were in transition at the time; and they were in the process of developing western style economic and democratic institutions. Indeed, it’s clear from the literature that the CME vs. LME distinction is not able to cover all of the divergent economies in Europe, nor was it really intended to. It is also clear that Bulgaria cannot truly be characterized as a coordinated market economy, liberal market economy, or dependent market economy according to the definitions presented within this dissertation.

Within the varieties of capitalism literature, there has been very little analysis done on Southeastern Europe. Lane and Myant have described Bulgaria as part of a group of states that has “lower levels of privatization and greater state coordination” and that has “developed appropriate governmental, societal and

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811 Ibid.
political institutions only because they have been ‘tutored by the conditionality requirements of the EU and the IMF.’ This is clearly outside the bounds of the above categories.

Because so little work has been done on Bulgaria’s economy and the varieties of capitalism typology, this variable isn’t particularly useful for this analysis. Furthermore, if distinct varieties of capitalism are developed to cover groupings as small as the Baltic States or Southeastern Europe, it brings into question the usefulness of the typology as a whole. As the types become more restrictive, they also become less useful for making generalizations.

Analysis

Bulgaria has supported European integration throughout its time as a member state, but its preferences regarding integration on energy policy issues tend to fluctuate. For instance Bulgaria, along with a number of other member states, was an opponent of “ownership unbundling” as originally proposed by the Commission in the 3rd Energy Package. In addition, the 2008 intergovernmental agreement signed by Bulgaria and Russia regarding South Stream is in direct violation of the 3rd Energy Package legislation in that it does not allow for third

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party access to the pipeline.\textsuperscript{814} In spite of these apparently ‘pro-Russia’ decisions, Bulgaria’s energy policy has generally fallen into line with the EU, and indeed, Bulgaria has benefitted from closer cooperation on energy policy particularly when it comes to the ongoing EU investigation of Gazprom business practices in Central and Eastern Europe. It is expected that the EU will charge Gazprom “with abusing its dominant position in central and eastern Europe.”\textsuperscript{815} As in the other five cases examined in this dissertation, some variables are more important than others when it comes to Bulgaria’s national preferences on energy security policy at the EU level.

One of the most important variables in this case is the preferences of the ruling party. Indeed, the BSP has historically been in favor of increasing economic and energy ties with Russia while the opposition GERB party is in favor of diversification away from Russian energy supplies. It was under the BSP that Bulgaria signed the intergovernmental agreement with Russia on South Stream that has been problematic for the European Commission. Although the BSP has only been in office a short while, it has already spoken out in favor of increasing ties with Russia, and it is possible that Bulgaria will reinstate the Belene nuclear power plant project under the BSP government.

Major infrastructure projects also matter for Bulgaria, as noted above with South Stream. Indeed, Bulgaria’s agreement to move forward with South Stream led


to a 20% gas price reduction on behalf of Gazprom. As also mentioned above, Bulgaria also defied EU 3rd Energy Package law in signing the intergovernmental agreement with Russia for the South Stream project.

Bulgaria and Russia have a long history and relations have generally been good both throughout the communist era and since it has come to an end. Unlike many of the former communist states in Central and Eastern Europe, Bulgaria has either positive or neutral historical narratives when it comes to Russia. This makes Bulgaria less fearful and suspicious of Russia’s intentions than either Poland or Lithuania. This doesn’t mean that there are no tensions between Bulgaria and Russia, just that these tensions are the result of policy and not rooted in history.

Some variables were not particularly important for this analysis and these include national champions and economic structure. Although Bulgaria has national champions, there is no evidence that they wield sufficient power to impact national preferences by pressuring lawmakers. The economic structure variable says very little about Bulgaria because it is all but non-existent in terms of the varieties of capitalism literature.

Conclusions

One of the difficulties with the Bulgarian case is that the country has not been as vocal on its energy policy preferences as have other member states. In addition, the Bulgarian delegation was not available for interviews on either of the occasions
that I was in Brussels to conduct fieldwork. This was due in part to a shakeup in staffing at the Bulgarian representation and also because Bulgaria does not keep a permanent staff in Brussels. Another difficulty in determining Bulgaria’s policy preferences is that Bulgaria is bound to Russia by its communist era energy infrastructure and is currently unable to diversify suppliers due to the cost of pipeline construction (although Bulgaria did try by signing on to Nabucco) and LNG terminal construction. Moscow has also allegedly interfered with Bulgaria’s attempts to explore for shale gas by financing demonstrations against hydraulic fracturing. Indeed, Bulgaria has few good choices when it comes to energy policy and antagonizing Moscow over energy issues would not bring Bulgaria any benefit.

Of all the member states included in this study, Bulgaria has the most complicated and drawn out energy relationship with Russia. Bulgaria is in a strategic location for Moscow’s plans to expand export routes to Europe through the Southern Corridor, thus avoiding historically problematic transit states like Ukraine and Belarus. Bulgaria, though completely dependent on Russian gas to supplement meager domestic supplies, has worked to leverage this position and create a level playing field for itself in its energy dealings with Russia. Bulgaria has been under a lot of pressure; so much that one government was forced to resign.

As in all the cases in this study, history and its associated narratives are important. Bulgaria was part of the Soviet Empire, but it doesn’t have a longer history of oppression and brutality at the hands of the Russians like Poland or Lithuania. If that was the case, it would have bred a different relationship between
Bulgaria and Russia than the one you see today, and would probably be comparable to that found between Poland or Lithuania and Russia which is built on a foundation of suspicion and fear. Interestingly, Bulgaria is similar to the UK here, in that the lack of historical angst makes Russian policy choices important. In other countries, policy choices have to be looked at in the context of history.

Bulgaria’s relations with Russia look to improve during the tenure of the BSP, which is clearly pro-Russian in its orientation. This could create tension between Bulgaria and the EU, should the country decide to become involved in more Russian energy projects or should Bulgaria decide to overlook EU legislation in favor of Russian interests.
CHAPTER TWELVE: FINDINGS

Results

Energy policy continues to be a contentious issue when it comes to deepening European integration. Indeed, European energy policy has been blamed for increasing consumer energy bills and the shutdown of gas-fired power plants. This is due to EU regulations that favor inefficient and expensive renewable energy sources over natural gas. Indeed, the IEA predicts that 60% of gas-fired power stations will be shuttered by 2016 because their operating costs will exceed revenues. Furthermore, gas-fired plants “that are indispensable to ensure security of supply during peak hours... are being replaced by volatile and non-schedulable renewable energy installations that are heavily subsidized.” 816 Energy companies have also warned that the EU’s energy policy will lead to blackouts due to plant closures. 817 This is just the most recent issue in a long spate of complaints by both member states and industry alike regarding European energy policy issues.

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Another major complaint has been a lack of solidarity, or unity, on energy policy. This complaint has been particularly prominent when energy relations with Russia are tense, either at the member state or Union level.

I began this dissertation with the hope of determining whether and how Russian external energy policy has impacted energy security policy development in the EU by exploring how member states form national preferences toward energy policy issues. This dissertation began by asking seven research questions which correspond to five hypotheses presented in Chapter 4. Two of these questions could not be answered based on a lack of variation in the dependent variable (vote) in the Council of Ministers voting data as discussed in Chapter 5. Five of these questions have been addressed through the data collected for the case studies in Chapters 6 - 11, and these questions are as follows:

**Research Question 2**: Do we find a relationship between a member state’s involvement in major infrastructure or other energy sector investment projects with Russia and resistance to further integration in the energy security policy sector?

**Research Question 3**: Is there a relationship between the presence of powerful national champions in member states and their resistance to further integration in energy security policy? Conversely, are

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powerful national champions not present in MS that support further integration?

**Research Question 4:** Do negative historical narratives concerning Russia lead member states to desire further integration in the energy security policy sector?

**Research Question 5:** Do states that are resistant to further integration differ in their national economic ideology (liberal vs. conservative vs. labor) from those who support further integration?

**Research Question 5a:** Do states that are resistant to further integration differ in their local variety of capitalism from those who support further integration?

Clearly these research questions can be answered with a binary ‘yes’ or ‘no’ but that would defeat the purpose of gaining a deeper understanding of how member state preferences are formed that was the basis of this research project. Indeed, all five of the questions stated above have far more complicated answers which will be explained in detail below, but first immediately below is a table that provides a graphical summary of where each country falls on the five variables examined in the case studies.


Table 1: Case Study Results

<table>
<thead>
<tr>
<th>Case</th>
<th>Infrastructure Projects</th>
<th>National Champions</th>
<th>Historical Narratives</th>
<th>Party Ideology</th>
<th>Variety of Capitalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>Yes</td>
<td>Unclear</td>
<td>Mixed</td>
<td>Center-Right</td>
<td>CME</td>
</tr>
<tr>
<td>Poland</td>
<td>No</td>
<td>Yes</td>
<td>Negative</td>
<td>Center-Right</td>
<td>DME</td>
</tr>
<tr>
<td>UK</td>
<td>No</td>
<td>No</td>
<td>Neutral</td>
<td>Right</td>
<td>LME</td>
</tr>
<tr>
<td>Lithuania</td>
<td>No</td>
<td>No</td>
<td>Negative</td>
<td>Center</td>
<td>N/A</td>
</tr>
<tr>
<td>France</td>
<td>Yes</td>
<td>Yes</td>
<td>Positive</td>
<td>Center-Left</td>
<td>CME</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Yes</td>
<td>Yes</td>
<td>Neutral-Positive</td>
<td>Center-Left</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Research Question 2: Major Infrastructure Projects

Research question 2 above addresses major infrastructure projects, and there are three countries of the six studied that either have been or are currently involved in major pipeline projects with Russia: Germany, France and Bulgaria. Germany and France partnered with Gazprom to construct Nord Stream, and all three countries have partnered with Gazprom to construct South Stream.

Germany, France and Bulgaria also opposed the 3rd Energy Package as originally presented, and each signed on to a proposal for a ‘third way’ to unbundle their vertically integrated energy firms. These three member states have the best relations with Russia of those countries included in the study. They are also the least likely to prefer further integration on energy security policy.
The remaining member states - the UK, Poland and Lithuania - are not involved in any pipeline projects with Gazprom at this time. The UK is not in a geographically favorable position for pipeline construction, and Lithuania (and the Baltics) represent a market that is too small for such a major investment. Poland did partner with Gazprom to construct the Yamal Europe pipeline, but felt betrayed by Russia when Gazprom decided to build Nord Stream (which bypasses Poland in favor of an undersea route directly to Germany) rather than construct Yamal Europe 2, which would have run through Poland. At this time, Gazprom is actually considering moving forward with Yamal Europe 2.\footnote{“Yamal – Europe-2,” Gazprom, \url{http://www.gazprom.com/about/production/projects/pipelines/yamal-evropa-2/}.  
\footnote{Tim Gosling, “Poland Eyes Opportunity to Press Russia on Gas Prices,” Business News Europe, October 8, 2013, \url{http://www.bne.eu/story5411/Poland_eyes_opportunity_to_press_Russia_on_gas_prices}.}  

Poland has agreed to begin talks with Gazprom, and national champion PGNiG hopes to negotiate an additional reduction in gas prices through the process.\footnote{Tim Gosling, “Poland Eyes Opportunity to Press Russia on Gas Prices,” Business News Europe, October 8, 2013, \url{http://www.bne.eu/story5411/Poland_eyes_opportunity_to_press_Russia_on_gas_prices}.}

\textbf{Research Question 3: National Champions}

Research question 3 above addresses the presence of national champions in the member states studied. Three of the member states have national champions that are state-owned: Poland, France and Bulgaria. However, the simple presence of national champions does not seem to have an impact on national preferences regarding energy policy. While France and Bulgaria have been lukewarm on further integration, Poland fully supports it. This might be in part because Poland’s gas
national champion has little influence over national politics, unlike national champions in the coal sector which have more power. Bulgaria’s national champions also seem to have little influence, and don’t appear to be a factor in national preferences toward energy policy beyond the fact that the state wants to retain control over the energy industry.

Also complicating the analysis of this variable is Germany. Germany has no state owned national champions, but it has several large vertically integrated energy firms which are privately owned and that wield a significant amount of influence through trade and industry organizations. Lithuania and the UK do not have firms that are structured in this way. Thus it appears to be the size, structure and influence of the energy firms in the member states that is important, not whether or not they are strictly considered to be national champions. Smaller vertically integrated firms may be state-owned, but often have no influence on policy preferences due to their size and/or market share.

The presence of national champions also appears dependent on the economic structure of countries. The UK, as a liberal market economy, liberalized its energy markets long before this became an area of legislation at the EU level, and it has no privately owned energy firms. Though home to one of the largest multinational energy companies – British Petroleum (BP) – the UK has no state owned energy firms, and even BP is fully unbundled in accordance with EU law.
Research Question 4: Historical Narratives

Research question 4 discusses historical narratives. Among the six cases included in this study, we find different types of narratives at play. Poland and Lithuania clearly have negative historical narratives associated with Russia. Both member states share a past experience of being invaded, conquered and occupied by Russia (as part of the Russian Empire and USSR/Communist Bloc), and this has resulted in attitudes of suspicion that are not present in the other member states included in this study. They also have the worst relations with Russia of the member states studied.

The UK has neither negative nor positive historical narratives associated with Russia, and its relations with Russia are positive in some areas, such as trade and negative in others, particularly concerning human rights and judicial issues. Bulgaria has primarily positive historical narratives associated with Russia, and its relations with Russia have been pragmatic and without the suspicion and resentment often seen in Poland and Lithuania.

In Germany, national historical narratives are generally inward looking and have tended to focus on National Socialism since the end of World War II. This is slowly beginning to change. That said, the German literature on national historical narratives does is not address Russia. Germany today, despite a history of wars with Russia and the incorporation of Eastern Germany into the Communist Bloc, has a generally positive view of Russia and Russians.
France, also with a history of wars with Russia, has a negative view of Russia and Russians. This is due to the fact that, although there has been a long friendship between France and Russia, France tends to view Russia as historically inferior. This is largely due to the Russian elite’s use of the French language and fascination with French culture before the Napoleonic Wars. This somewhat negative view of Russians as barbaric has continued today.

Clearly national historical narratives aren’t the only important part of history to impact member state relations with Russia. In addition to historical narratives, the historical context of member states’ relations with Russia is very important in this analysis. For instance Germany and France have a long history of relations with Russia, and Russia called on aspects of both French and Germany culture when it came to its modernization and development. Germany assisted Russia in its early economic modernization and Russia relied on French culture and language for its cultural modernization. This gives Germany and France an early cultural superiority over Russia that none of the other member states studied possessed. By contrast, Lithuania and Poland were both subsumed into the Russian Empire and Lithuania was later also subsumed into the Soviet Union and Poland the Communist Bloc.

Member states that have poor relations with Russia, like Poland and Lithuania, tend to prefer more integration in energy security policy at the European level. This is in part because they are suspicious of Russia’s intentions when it comes to energy policy (or other) decisions and they hope that being part of a larger
bloc will help protect them from mistreatment at the hands of Russia and Gazprom. Member states that have more neutral relations with Russia, like the UK and Bulgaria, tend to have more neutral historical experiences that don't include being invaded and conquered. Finally member states that have positive and cooperative relations with Russia are the former continental great powers that have a history early superiority over Russia which later turned to the equality between great powers. The UK is an odd case here because it has relatively neutral relations with Russia but it was also a great power. In this case, the UK was also geographically isolated and primarily fought Russia through proxy wars or at sea. The UK was also not as big of a player in continental politics and warfare as were France or Germany and has no real cultural connections with Russia.

**Research Question 5: Economic Ideologies**

Research question 5 discusses the economic ideologies of the ruling parties in each member state and we find most member states have party ideologies clustered between the center-left and center-right of the European political spectrum. The literature argues that those in the center tend to prefer more integration, but the evidence gathered for these case studies shows that this is not entirely the case. Both France and Germany have a strong preference for European integration, and this preference has been stable over successive governments. However, their preference for integration writ large has not translated over into the energy sector. On the other side, the UK is one of the most euroskeptic countries in
the Union, but it is strongly in favor of integration in the energy policy sector, particularly when it comes to market liberalization. The Labour Party under Tony Blair was more in favor of European integration than any Conservative government.

Poland has a strong preference for integration writ large and integration in the energy security policy sector, and its current government sits at the center-right. Under the previous government, which was further to the right, Poland was both slightly more euroskeptic (though still supportive of EU membership) and far more Russophobic.

Lithuania's current government sits at the center-left and its preferences are for integration both writ large and in the energy policy sector. This, however, has not changed drastically from the position of the former government, which was center-right. Bulgaria, which is strongly pro-Europe like many of the newer member states, currently has a center-left government which tends to favor closer relations with Russia, particularly in the energy sector. Bulgaria's preferences on energy policy integration seem to fluctuate some according to the party in power. The prior government, which was center-right, was in favor of being closer to the EU and weaning Bulgaria off its dependence on Russia.

It's clear from the research conducted for these case studies that economic ideology is not the only political factor that impacts national preferences for European energy policy integration. Nationalist parties like Poland's PiS tend to be more Russophobic, particularly in Central and Eastern European member states. They also tend to be more euroskeptic than other parties. France's National Front
(FN) is another example. FN leader Marine Le Pen has called for policies to curb Muslim immigration into France and wants France to exit the Euro.\textsuperscript{821} The FN is furthest to the right on France’s national political spectrum.

\textbf{Research Question 5a: Economic Structure}

Research question 5a also addresses economic issues, but from a structural standpoint rather than an ideological one. This variable relies on the varieties of capitalism typology to make an argument regarding member states’ integration preferences. Of the member states included in this study, France and Germany can clearly be considered Coordinated Market Economies. These two countries are also in strategic partnerships with Gazprom, and both tend to not be supportive of further integration in the energy policy sector. The UK can clearly be considered a Liberal Market Economy, and it engages with Gazprom and other energy suppliers based on liberal market relationships. The UK is not involved in a strategic partnership with Gazprom or any other Russian energy supplier, though it is invested in the Russian energy sector. Attempts at partnership, such as TNK-BP have not ended well because Russia is not a liberal market economy and Russian energy firms tend to seek strategic partnerships at the pleasure of the Russian state rather than market oriented relationships. The UK, though euroskeptic, is supportive of further integration in the energy policy sector.

\textsuperscript{821} Honor Mahony, “France’s National Front Tops EU Election Survey,” EUObserver, October 9, 2013, \url{http://euobserver.com/political/121724}. 
Poland, Lithuania and Bulgaria do not clearly fit into either of these categories. Poland exhibits some market coordination in the energy sector, but not enough to impact national preferences on energy security policy. This coordination, particularly evident in the coal sector, does impact Polish preferences regarding climate change policy, however. Lithuania has a very small energy sector that shows little evidence of market coordination. The Lithuanian energy sector is open to foreign investment, but Lithuania has no strategic partnership with Gazprom. Bulgaria shows some evidence of market coordination in the energy sector, but this is partly because the state has chosen to retain control over a large portion of the energy sector and has created the 100% state owned Bulgarian Energy Holding to house these subsidiaries. In addition, however, Russia and Russian owned firms are very active in the Bulgarian energy industry both as suppliers and operators. Bulgaria is involved in a strategic partnership with Gazprom, and it shows less preference for close energy policy integration than do Poland, the UK or Lithuania.

**Hypotheses**

The answers to the research questions listed above provide some evidence in support of the hypotheses I made about national preference formation based on the literature. The hypotheses are listed below:
Hypothesis 2: there is a connection between member states involvement in large infrastructure projects with Russia and resistance to further integration in the energy security policy sector.

Hypothesis 3: there is a connection between the presence of powerful vertically integrated national champions in member states and resistance to further integration in the energy security policy sector.

Hypothesis 4: there is a connection between negative historical narratives about Russia and a desire for further integration in energy security policy.

Hypothesis 5: national preferences toward energy security policy integration are impacted both by the economic ideology of the party in power as well as the variety of capitalism present in the national economy (liberal market economy vs. coordinated market economy).

Hypothesis 2: Infrastructure Projects
The evidence from the case studies supports the hypothesis that there is a connection between involvement with major infrastructure projects and resistance to further integration. All the states that have been or are currently involved in strategic partnerships with Gazprom (such as Nord Stream or South Stream) were opposed to the 3rd Energy Package as originally presented. However, if Poland and Russia decide to move forward with Yamal – Europe 2, then this would weigh in against this claim. Poland has been very committed to further integration in European energy security, and it is unlikely that a strategic partnership with Gazprom would change this position.
Hypothesis 3: National Champions

The evidence from the case studies does not support the hypothesis that there is a connection between national champions and resistance to further integration. While France is certainly a case in which national champions have contributed to national preferences on energy security, Poland provides evidence to the contrary, as does Bulgaria.

It does seem, however, that there is a connection between large vertically integrated energy companies and national preferences, so the presence of a national champion in and of itself doesn’t appear to be a factor. These companies also seem to have more power in coordinated market economies like Germany and France. BP is a huge energy company, but it doesn’t appear to impact the UK’s national preferences, and this is very likely because the UK is a liberal market economy. Indeed, it appears that there might be a connection between national champions and economic structure, but more cases would need to be added to this study in order to determine this.

Hypothesis 4: Historical Narratives

The evidence from the case studies is largely in favor of the hypothesis that there is a connection between negative historical narratives about Russia and a preference for further integration in energy security policy. The one exception here is France, which tends to have negative historical narratives concerning Russia but
has both good commercial and political relations with Russia (and Gazprom). The reason for this is discuss in the section above on Research Question 4.

This hypothesis should be expanded to historical experience because national narratives, while useful, don’t tell the entire story. It appears that a historical experience of being invaded, conquered and subsumed by Russia is more important than the quality of a country's narratives. Though negative historical narratives can result from this experience, we see in the case of France that they could also be due to other causes which are shallower and which did not lead to national trauma.

**Hypothesis 5: Economic Factors**

There is some evidence to support the hypothesis that national preferences are impacted by economic factors which include economic ideology and economic structure. The evidence from the case studies indicates that parties on the left to center-left tend to have better relations with Russia than parties on the right, as is the case in Bulgaria, Poland, Lithuania and Germany. However, it is not universally true that parties that are further to the right have poor relations with Russia as evidenced by Bulgaria, France and Germany. It is also true that parties at the center of the European political spectrum (including the center-left and center-right) tend to prefer deeper integration generally. This preference does not always extend to energy security policy however, as shown particularly by France and Germany. In addition to economic factors, nationalism also appears to be a factor that influences
national preferences on integration, and nationalism is more common in parties on the political right.

There is some evidence that economic structure plays a role in national preferences on energy security policy integration, but this applies specifically to Germany, France and the UK, the only states that can be clearly classified as either coordinated market economies or liberal market economies. Indeed, this variable is not very useful when applied to the newer member states. Because their economies behave differently than those of the Western member states, this variable does not really contribute to explaining the national preferences of the newer member states.

**Multicollinearity?**

Although it cannot be measured as such, there appears to be some correlation between two of the variables in the six case studies included in this project. Specifically, the presence of large vertically integrated energy corporations that influence national preferences tends to occur in coordinated market economies like Germany and France. It is very likely that the structural conditions found in a CME make it possible for these corporations to exist and become powerful.

In a coordinated market economy, firms coordinate their activities through strategic partnerships and other non-market relationships rather than through market activities. This leaves room for coordination with the state and with other domestic and international firms that would not happen in a liberal market
The informal institutions and relationships that develop over time in a coordinated market economy seem to provide an environment that is favorable for national champions. By contrast, liberal market economies don’t provide this environment. Clearly this only applies to economies that can be classified as either CMEs or LMEs, and does not address other environments which are favorable for national champions such as state capitalism like that found in Russia or China.

In a brief scan of the literature, I did not find any other scholar who has made this connection. It would require further research on additional cases to see if this applies further than the two studied here, although I suspect that Italy would also fall under this characterization – a CME with powerful national champions (ENI, for instance). Cases from outside Europe can also be added to determine whether or not this phenomenon applies across CMEs.

**Surprises**

The literature on European integration seemed to indicate that there is a difference between the ‘old member states’ and ‘new member states’ on issues of both national preferences toward energy policy and relations with Russia. While I think a larger study would find that this is partly true, this analysis indicates that there is a spectrum of positions on both issues among both groups of member states. The East – West dichotomy is far too simple of an explanation
Another surprise was the fact that general support for European integration did not necessarily translate into support for energy security policy integration and vice versa. Germany and France have traditionally been the drivers of European integration, but both have been less than supportive of energy security policy integration. By contrast, the UK has been traditionally skeptical of European integration and has opted out of a number of provisions such as the Euro and the Schengen area. However, the UK has been a strong supporter of energy policy integration including those measures designed to increase energy security for the bloc.

The importance of historical narratives was not surprising, but the importance of the historical baseline was. Of the six cases in this dissertation, Poland, Lithuania and France probably have the most negative historical narratives concerning Russia. France, however, has positive relations with Russia and French energy firms are involved in strategic partnerships with Gazprom. Poland and Lithuania have often tense relations with Russia, particularly concerning energy.

Although the historical narratives are negative in all three cases, the historical baseline is different. Poland and Lithuania have a history of being invaded, conquered and then subsumed by Russia. France not only does not share this historical experience, but rather can be considered Russia’s equal (the French would claim they are superior) in Great Power relations.

Bulgaria and Germany have the most positive historical narratives concerning Russia and yet Germany has far better relations with Russia than
Bulgaria does. In the case of Bulgaria, Russia again would view this country not as an equal (like Germany) but rather as a former satellite state that it wishes to exert influence over. Russia might have similar goals in each member state (the advancement of Russian political and economic interests), but its tactics are different based on this historical baseline.

History is not just an important factor, in some cases it is the most important factor when it comes to both national preferences and relations with Russia, and part of what the EU is struggling to overcome in forming a common energy policy is this history. Russian foreign energy policy, in some ways, is only important when this history is not getting in the way and this applies to both positive and negative historical experiences.

Poland and Lithuania clearly have negative historical experiences with Russia, as have been described throughout this dissertation. This leaves these countries with legacy of fear and suspicion and so they tend to look for ulterior motives in all Russian external energy policy decisions. By contrast, Germany has largely positive experiences with Russia and Russia views Germany as its equal in terms of Great Power status. Germany view Russia as a reliable energy supplier and strategic partner. History has given Germany o reason to be either suspicious or fearful. In terms of states with negative historical experiences with Russia, Russia also isn't helping itself to overcome these. Shutting off the gas, banning imports of meat, wine or dairy products and other punitive trade measures that are timed suspiciously around policy differences only fuel suspicion and fear.
Difficulties with this Research

The first difficulty I encountered in pursuing this research was the lack of variation in my dependent variable in the quantitative portion of this dissertation. Though this problem was anticipated, I believe that the argument I make in this dissertation would be stronger if there was some correlation between the quantitative and qualitative findings. That said, because I was unable to generate any usable quantitative findings, the case study research became more in depth to compensate for the lack of statistical data analysis.

The second difficulty I encountered was in the fieldwork process. Though most people I approached for interviews were happy to be of assistance, this was not universally the case. Two of the case studies in this dissertation were not supplemented by interviews: Bulgaria and France. In the case of Bulgaria, I determined that the staff of the Permanent Representation had been recalled and replaced shortly before my first trip to Brussels in May 2012, and therefore their lack of response to my email messages was not surprising. I had no better luck in September 2012. I also learned that Bulgaria does not keep a permanent staff at its Permanent Representation in Brussels; so again, their lack of response was not surprising. By contrast, the staff at the French Permanent Representation was responsive to my email messages but they simply refused to meet with me. They
also refused to participate in a phone interview which could have been conducted at their convenience.

It was very easy to obtain information about Bulgarian energy policy, relations with Russia, history, etc. What was not easy to obtain was a clear picture of Bulgarian national preferences toward energy security policy at the EU level. There was more information about France’s energy policy preferences available, but less information about French energy policy. For instance, France was the only country that did not have an ‘energy policy to 2020’ type document readily available in either English or French. I don’t believe that the lack of interviews was particularly harmful in the French case, but I do believe that the Bulgarian case would have been strengthened by a clearer picture of national energy policy preferences. Adding interviews to both cases is an area of further research that, I believe, would be worth pursuing.
Conclusions

From its conception, the primary purpose of this project has been to explore how Russian external energy policy has impacted energy security policy development in the EU by examining how member states form national preferences on energy security policy issues. To address this question, I reviewed the literature and developed a set of hypotheses and research questions the answers to which, I hoped, would provide some insight. They did, at least in part, but it was not exactly what I expected. The answer is – History Matters.

The influence of history was one of many variables studied in this dissertation, but the literature on its affects on integration was limited to recent historical developments, notably France and Germany’s animosity in two World Wars or the Central and Eastern European countries’ experience with the Soviet Union and socialism. It neglects to look at longer term historical events that can lead to a variety of different outcomes ranging from a legacy of deep suspicion to a lasting friendship. Indeed, our understanding of history needs to be expanded when looking at EU – Russia relations, and this is evident when looking at energy security policy.
The historical experiences of some of the Central and Eastern European member states has had such a prominent affect on their national identities that forming good relations with Russia will be very difficult, particularly on energy policy matters. The reason for this is that Russia’s policy actions are almost always viewed with suspicion. Furthermore, Russia has not helped its own cause by engaging in retaliatory trade measures, such as the 2013 ban on Lithuanian dairy products.\(^8\)\(^2\)\(^2\) Indeed, if Russia’s overriding goal is to reassert power in the Baltic States, trade measures that infuriate neighboring governments only intensifies their desire to maintain their westward orientation. Although this is but one very recent example, many of Russia’s retaliatory measures have been taken in the energy sector.

In fact, “while Moscow employed a number of hard-power tactics in the 2000s – such as boycotts of Baltic goods, sanctions on Baltic transit and a cyber-warfare campaign against Estonia – the most consistent focal point of pressure has been the energy sector.”\(^8\)\(^2\)\(^3\) This is because the Baltics are approximately 90% dependent on Russian energy. The Baltics have not been alone in receiving this treatment from Russia. In 2008, the Czech Republic experienced a 50% cut in oil supplies from Russia only days after the Czech government agreed to host a US


missile defense site. Russia claimed that the cut was technical in nature, but former Czech Prime Minister Mirek Topolanek and many others remained skeptical.\textsuperscript{824} Since 2000, Russia has cut energy supplies on more than 50 occasions, primarily to Eastern European states and members of the CIS.\textsuperscript{825}

Even though all of the over 50 energy supply cuts have not been inflicted on EU member states, the fact that they occur even to Russia’s supposed “allies” like Armenia and Belarus exacerbate member states’ suspicion about Russia’s intention to consolidate power in the former Soviet space. Even if Russia’s intent is a combination of the technical and the commercial, the coincidence in timing leads to increased distrust and fear in countries that are already prone to these feelings due to their historical experience of being invaded and/or occupied by Imperial Russia or the USSR. Until these misgivings can be eased tension will continue, particularly on energy issues.

By contrast, many Western EU member states view Russia as a reliable energy supplier, and infrastructure projects like Nord Stream and South Stream make Russia even more reliable for states further west because they cut out troublesome transit countries like Belarus and Ukraine.\textsuperscript{826} Western member states, however, are not burdened with the same types of past conflicts with Russia. These


\textsuperscript{825} Agina Grigas, “Can EU Face Down Russia Over Energy Policy?” Open Democracy Russia, March 18, 2013, \url{http://www.opendemocracy.net/od-russia/agnia-grigas/can-eu-face-russia-down-over-energy-policy}.

\textsuperscript{826} Interview with subject matter expert, September 28, 2012.
countries were often allies, sometimes adversaries but almost always equals. This has tended to make energy relations both easier and less fraught with misgivings and distrust. These states also tend to overlook Russia’s domestic and foreign policy decisions in favor of good commercial relations.

Finally, for those states that have a more neutral historical experience with Russia, Moscow’s domestic and foreign policy choices matter more for the quality of relations than do historical experiences. In the case of the UK, policy decisions have determined how tense relations become, not history, and relations tend to be pragmatic. This is also largely true for Bulgaria, which has more positive historical narratives concerning Russia than most other Central and Eastern European member states, but has generally neutral and pragmatic relations with Russia.

The External Actor

Scholars usually think of European integration as an internal phenomenon, which includes negotiations between member states and actions and positions taken by the various EU institutions. This dissertation augments the traditional approach to EU studies by making it clear that external factors also impact integration in an important way. Russia as an external actor has certainly affected integration on energy security policy matters both through its external energy policy and through its historical legacies within the EU.

The idea of Russia as an external actor has largely not been dealt with in EU policymaking. Relations with Russia are certainly important, as are energy policy
issues, but it does not appear that Russia has been considered as a potential impediment to further integration. Many scholars and observers have discussed Russia’s ‘divide and rule’ tactics within the EU, but the mechanism by which this tactic works has not yet been explored. Yes, Russia uses carrots and sticks when it comes to energy relations with member states, but would not be as successful as it has been without the historical factors discussed so frequently in this dissertation.

Policy Recommendations

Jean Monnet envisioned the European Coal and Steel Community (ECSC) as a means of preventing future conflicts in Europe as well as a vehicle for Franco-German reconciliation after two World Wars had devastated the Continent. The early negotiations and process of reconciliation was the key to the success of the European project. Over time, France and Germany have been able to come together and have driven the engine of European integration for decades. The Franco-German partnership has been facilitated by the personal friendships between French and German leaders beginning with French President Charles de Gaulle and German Chancellor Konrad Adenaur, and has continued through today despite occasional friction. Direct relationships are necessary but not sufficient for maintaining good relations, and while they are present both within the EU and between some of the larger Western member states and Russia they are missing between many of the Central and Eastern European member states and Russia.
No process of reconciliation or rapprochement has taken place between the Central and Eastern European member states most affected by their histories with Russia. Indeed, most discussions (academic or otherwise) of reconciliation in Europe tend to deal with ethnic and social conflict surrounding either World War II or the Balkan wars that took place during the 1990s.

The 2010 plane crash that took the lives of the Polish President and much of the government was one opportunity for rapprochement to take place, yet it did not. Although there was an outpouring of grief and good will from the Russian people, rapprochement was stymied by the blame game played between the Polish and Russian governments. Each interpreted the cause of the crash differently, and Jaroslaw Kaczynski, former Prime Minister and brother of Poland’s late President, went so far as to claim that the crash was not an accident.827

Other efforts have been made toward reconciliation, but the process has been slow. In August 2012, the Russian Orthodox and Polish Roman Catholic churches signed a reconciliation appeal that called on both nations to “forgive each other for past historical wrongs.”828 Also in 2012, the Carnegie Endowment established the Euro-Atlantic Security Initiative (EASI) which gathered “former policymakers, diplomats, generals, and business leaders from Russia, the United States, Canada, Central Europe, and European Union nations came together to chart

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a roadmap of practical action that would allow the region to leave its past behind and to start to build a more secure future based on mutual trust and cooperation." The EASI’s final report calls on Russia to take the first step in reconciling with the Baltic States and argues that "demonstrating respect for the formerly aggrieved party by treating it as a genuine equal" will be crucial for the reconciliation process.

Until reconciliation occurs and feelings of mistrust and fear abate, relations between some Central and Eastern European member states and Russia will be tense and there will be skepticism about Russian policy choices within these countries. This goes far deeper than energy policy recommendations and calls to make the Central and Eastern Europeans feel safe by improving their energy security. These historical experiences that are, in some cases, at the root of national identity must also be addressed in moving forward or moving forward will not happen. The EU should do what it can to facilitate this process by bringing parties together, sponsoring talks, etc., all the while understanding that reconciliation can only happen if all parties are on board.

As this process moves slowly forward, it is also important that both Brussels and the more powerful member states like Germany acknowledge that the concerns of Central and Eastern European member states about Russia are legitimate, even if they do not share them. Dismissing the fears of countries like Poland and Lithuania is, in part, denying their historical experience, and is counterproductive to

integration. This is part of the reason for the uproar in Poland over the Nord Stream Pipeline when it was first negotiated between Germany and Russia. Even Germany will admit that this was not handled well, and that this decision alienated it from its neighbors for a time.\textsuperscript{830} Acknowledging Poland’s concerns could have prevented the temporary deterioration in relations that resulted from Nord Stream.

**Areas for Future Research**

This dissertation has generated a number of new research questions that can be pursued as part of a future research program on national preference formation and energy security policy. Some of these are more complicated than others, requiring different research designs. A few of these will be outlined briefly below.

**East vs. West German Perceptions of Russia**

While Germany as a whole has a positive view of Russia, it is not clear whether being a part of the Communist Bloc has caused a difference in how Russia is viewed in the East vs. in the West. This question is one that would be interesting to explore, relating both to questions of energy security policy preferences but also in terms of the East – West divide which continues to persist in Germany itself.

Angela Merkel, as an East German, has had a very different relationship with Russia and President Vladimir Putin than her predecessor in office Gerhard

\textsuperscript{830} Author interview with German Officials, September 20, 2012.
Schroeder. Merkel has been more vocal about issues like Russian human rights abuses.\textsuperscript{831} Schroeder, by contrast, had a very strong friendship with Putin, which Merkel criticized before becoming Chancellor.\textsuperscript{832} In this way, the different ways in which Russia is perceived by east and west could have a direct impact on relations between the two countries and on preferences for integration on energy security policy.

It is clear that major economic differences also still exist between east and west in Germany,\textsuperscript{833} and a Gallup Poll on wellbeing in Germany reflects that “adults living in East Germany are twice as likely as adults in West Germany to rate their lives poorly enough to be considered "suffering," at 12% and 5%, respectively. Germans in the West are significantly more likely than those in the East to be "thriving" -- 43% vs. 29%, respectively.”\textsuperscript{834} Determining the role that differing perceptions from west to east have played in German national preferences is project can probably only be completed by engaging in extensive fieldwork in Germany which would include interviewing a variety of government officials from both sides of the Cold War divide.

\textsuperscript{834} Nicolas Scharioth, ““Suffering” in Germany Twice as High in East as in West,” Gallup, June 20, 2012, \url{http://www.gallup.com/poll/155252/suffering-germany-twice-high-east-west.aspx}. 
**National Preferences & Energy Security Policy**

EU member states exhibit a lot of variety in both their national preferences and in relations with Russia. For this reason, it would be interesting to add some additional cases to this study. If this study were to be expanded, potential additions would include one of the Scandinavian countries, probably either Sweden or Finland (because Denmark would likely be similar to the UK case) and an additional country from Central Europe, perhaps the Czech Republic or Hungary.

The Scandinavian countries, Finland in particular, have also had relations with Russia that have been difficult at times, yet they have avoided the blatant tension witnessed between Poland or the Baltics and Russia. Similarly, Central European countries had different experiences with Russia under communism and their politics also vary significantly. For instance, the Czech Republic had an independent President from 2003 – 2013. Former Czech President Vaclav Klaus was unaffiliated with a political party, leaned heavily toward liberal market economics, and tended to be euroskeptic. He was also a dividing force in Czech politics that made improving relations with Moscow a priority. Yet Czech – Russian relations have not always gone smoothly, particularly after the Czech Republic signed on to host an American missile defense site. Like Finland, the Czech Republic would make an interesting addition to this study because it is different than the other cases examined here.
Conflict Resolution

It also seems like there is some interesting research to be done at the nexus of European energy security policy and conflict resolution. Applying some of the principles of conflict resolution such as track two diplomacy, and mid-level approaches, etc. could be valuable in identifying ways to improve relations between the Central and Eastern European member states and Russia. Track two diplomacy “grew out of the observation that private individuals, meeting unofficially, can find their way to common ground that official negotiators can’t.”\(^{835}\) Track two efforts would help to change attitudes and opinions at the ground level and therefore “trickle up,” so to speak, to elected officials and other elites. Mid-level approaches involve middle-range leaders that could be from academia, NGOs or religious organizations and involve problem solving workshops, conflict resolution training and peace commissions.\(^{836}\)

In addition, it might be interesting to frame the problem of reconciliation in terms of conflict analysis. This would involve looking at factors such as the sources of conflict, the parties to the conflict and their interests, issues that have fueled or contributed to the conflict, the tactics used by both parties, changes that might affect the status of the conflict, and potential outcomes, to gain a different perspective on improving relations between Central and Eastern European member states and Russia. A wide variety of conflict analysis frameworks are currently in use.


The United Nations Development Group recommends a three stage conflict analysis which includes the following steps: analysis of key conflict factors, actors and capacities for peace. A different conflict analysis framework was developed by ConflictSensitivity.com, which recommends gathering information on the conflict profile (or context), causes, actors and their interests, and dynamics. Another notable example was developed by Christopher Mitchell at the School for Conflict Analysis and Resolution at George Mason University. Mitchell recommends the analysis of the following aspects of conflict: sources, parties, interests/issues, tactics, changes, enlargement, goals, outcomes and how the parties envision winning the conflict.

Other conflict analysis frameworks have been developed by organizations such as The World Bank and the Office of the Coordinator for Reconstruction and Stabilization at the U.S. State Department. All of these frameworks recommend the analysis of common elements, such as the conflict context, actors, interests, causes, etc, and would provide a new perspective on the potential for reconciliation between EU member states and Russia.

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**External Actors**

In looking at the impact of external actors on European integration, there are not many other cases in which one actor (country, organization, etc.) has had a strong impact on integration. One potential case that could be interesting to investigate is the impact of the United States and/or NATO on the development of a Common Security and Defense Policy (CDSP) in Europe, outside the early role that the US played in the formulation of the ECSC. This seems like the most obvious case in which an outside actor or actors have impeded the progress of an important policy area early in the development of the EU, the argument being that the security guarantees provided by the US and NATO impacted member state preferences for a European military force. The United States is now encouraging the EU to develop the CDSP further. This type of project could be structured in a way that is similar to this dissertation.
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**Chapter 12: Findings**


Chapter 13: History Matters – Conclusions and Policy Recommendations


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