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Russia's energy policy Dependence, networks and special relationships

Marc Ozawa
Ion Alexandru Iftimie



Research Division

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The authors

Marc Ozawa is a Senior Researcher in the Research Division of NATO Defense College where his focus areas are Russia, Eurasia, the High North, and energy security. He is also an Associate Researcher of the Energy Policy Research Group at the University of Cambridge. He has published works on European-Russian relations, Russia's relations with neighboring states (Baltics, Scandinavia, and China), and energy security policy.

Ion A. Iftimie is a member of the NATO Energy Security Analysis working group for Systems Analysis and Studies (SAS) at the NATO Science & Technology Organization in Paris, France. He has over one decade serving as a senior military officer for the United States Department of Defense (DoD). He was also the 2020 Eisenhower PhD Candidate Fellow and Visiting Scholar at the NATO Defense College.

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List of abbreviations

bcm	billion cubic meters
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Company
CO ₂	Carbon dioxide
EC	European Commission
ECE	Eastern Continental Europe, or Eastern and Central Europe
EU	European Union
EU-27	the members of the European Union after Brexit
EU-28	the members of the European Union before Brexit
DG Energy	Directorate General for Energy
GDP	Gross Domestic Product
IEA	International Energy Agency
IOC	International Oil Company
KGB	Komitet Gosudarstvennoi Bezopasnosti - Committee for State Security (Russia)
LNG	Liquefied natural gas
Mtoe	Million tons of oil equivalent
NATO	North Atlantic Treaty Organization
NSS	National Security Strategy of the Russian Federation
RC	Reflexive Control
TNK BP	Tyumenskaya Neftyanaya Kompaniya British Petroleum
TPES	Total Primary Energy Supply
UK	United Kingdom
UN	United Nations
US	United States
USD	United States Dollar
USSR	Union of Soviet Socialist Republics

Introduction

This *Research Paper* has two central questions. First, is Russia using natural gas as an instrument of power to influence NATO member states in Europe? Second, if so, then how is it being used to influence their foreign and domestic policies? For NATO, this is an important question because energy supply disruptions can cripple not only military mobility and operations, but also the economic well-being of member states. While a strong economy is not solely dependent on natural resources, without access to them, the industries and economies that support the military are left vulnerable. Under the right conditions, severing access to (or manipulating the cost of) vital natural resources can have significant economic, social, political and even national security consequences. For NATO, this was clearly demonstrated by the oil crises in the 1970s. The notion that nation states, if given the opportunity, will use economic statecraft to address defense and security disputes is not new. But understanding how petrostates, such as Russia, leverage their neighbors' energy needs for political ends is still a developing topic. Understanding the subtle intricacies of this issue is needed in order to: 1) moderate growing disagreements among Allies and Partner Nations in regard to Russia-NATO relations; and 2) avoid the perception that the Allies no longer share a common vision for the Euro-Atlantic security community.

Despite the measures taken since the 2014 Russia-Ukraine crisis, Europe has not reduced its energy dependence on Russia. Indeed, the opposite has occurred. Both sides, Europe and Russia, have become more resilient to each other's energy policy restrictions, albeit with considerable variation across Europe. At the local level, several Allies in Europe (such as Estonia, Lithuania and Poland) have become less dependent on supply disruptions from Russia by making changes to the natural gas infrastructure – by building new liquefied natural gas (LNG) terminals, for example. However, this has not reduced the level of dependence in terms of energy imports from Russia. Other Allies and Partner Nations (particularly in southeast Europe, in the Black Sea and Balkan regions) have actually become more vulnerable to a Russian supply disruption than before 2014, despite the cancellation of the South Stream pipeline. For Western Europe, the situation remains largely unchanged except for the completion of the Nord Stream 2 pipeline and the development of green energy sources. This *Energiewende* is in its early phases, and the recent incremental buildup

of green energy production is still being offset by growing overall imports of hydrocarbon resources from Russia.

Despite its Enhanced Opportunities Partner status within NATO, Ukraine's position in the region has probably become the most compromised in recent years. Not only does war continue in the Donbass, with no resolution over Crimea in sight, but Ukraine's importance as the main transit country between Russia and Europe is also diminished with the construction of the pipelines Nord Stream 1 and 2 and TurkStream.

Russia influences the Allies, the Partner Nations and their respective governments through an unequal balance of mutual dependence. This was the reality a decade ago; and, although Europe began to recalibrate the parameters of this relationship after the Russia-Ukraine crisis, over the past five years the balance is once again tipping in Russia's favor. This is evidenced by Europe's growing level of dependence on Russian natural gas, petroleum-linked trade flows, the construction of new pipelines and Russia's development of alternative markets to Europe. All of these developments strengthen Russia's position as Europe's largest supplier of natural gas, while reinforcing her near monopolistic position for natural gas resources transported from the east (not only from Russia, but also from the Caspian and Central Asian regions).

The picture, however, is not black or white. During the last five years Europe has made strides in building resilience to supply shocks and thereby strengthening "access to supply", one of the three pillars of energy security (supply, environment, and the economy). This was achieved through the introduction of new LNG import terminals, as well as by building gas storage facilities and engineering reverse-flow capacity in the pipeline system. This allows countries in eastern Europe to receive supplies from the west, should Russia cut natural gas deliveries for any reason. Likewise, NATO member states have made advances in environmental and economic regulation, but these two factors were always less relevant to trade relations with Russia. One notable achievement has been in Europe presenting a united rebuke to Russia over the annexation of Crimea. This manifested itself in sanctions that targeted Russia's natural gas industry by restricting investments and access to technology. In response Russia made the "pivot to the east", a political and economic reorientation that aimed to build trade and security links with China as opposed to Europe. This has led to China stepping in as an alternative market and investor for Russia. China has also developed industry-specific technology for LNG terminals that would otherwise have come from western companies. As such, Russia, like Europe, is cultivating its own resilience to changing circumstances in its relations with Europe.

NATO too has adapted to changes in the security environment. After the "gas wars" between Ukraine and Russia following the Orange Revolution in 2005 and the Russo-

Georgian War of 2008, NATO for the first time defined “energy security” at the 2008 Bucharest Summit. This resulted in important changes to NATO’s approach to energy security, in three areas. The first is through what NATO calls “Strategic Awareness”, by keeping informed of the relevant issues and sharing information among member states. The second is through the protection of critical infrastructure. Lastly, NATO promotes energy efficiency in military operations, thereby contributing to the energy security of Alliance activities.

With respect to partnerships, NATO’s key relationship is with the European Union (EU), which is responsible for regulating energy security policies within its borders in conjunction with national governments. In contrast to the EU, on energy matters NATO is limited to the three areas identified in the previous paragraph. However, since the Joint Declaration by the President of the European Commission (EC) and Secretary General Stoltenberg in 2016, both organizations have been making efforts to strengthen EU-NATO cooperation. Given the EU’s role as the primary regulator of energy markets in Europe, one question that this Research Paper raises for the Alliance is to what extent NATO should be involved in matters of energy security beyond its own operations. The two perspectives that have dominated the debate about the Alliance’s role are the more geopolitically based arguments for NATO involvement, and the more technical-commercial arguments that all matters of energy security should be deferred to the EU and national governments. Geographically, the former position is often promoted by eastern European member states along with the US, while the latter viewpoint is typically advanced by western European member states.

The European shift from coal to natural gas

Coal fueled the Industrial Revolution during the nineteenth century, resulting in unprecedented economic growth for both the European and the North American continents. The shift to oil started in the early twentieth century, proving to be most advantageous for Britain during World War I when the oil-powered Royal Navy managed to outmaneuver the coal-powered German High Seas Fleet.¹ But the initial surplus of oil also ended during World War I, with the attention of both economists and military strategists increasingly shifting to the scarcity of oil reserves and to the possibility that they might actually run out at some point. Despite these concerns, oil had replaced coal as the energy of choice in both Europe and North America by the mid-twentieth century. Dependency of the industrialized world on oil increased to such an extent, that by 1967 disruption of oil supplies from Saudi Arabia, Iraq, Kuwait, and Libya for three months

1 E.H. Shaffer, “Canada’s oil and imperialism”, *International Journal of Political Economy*, Vol.35, No.2, p.55, 2006.

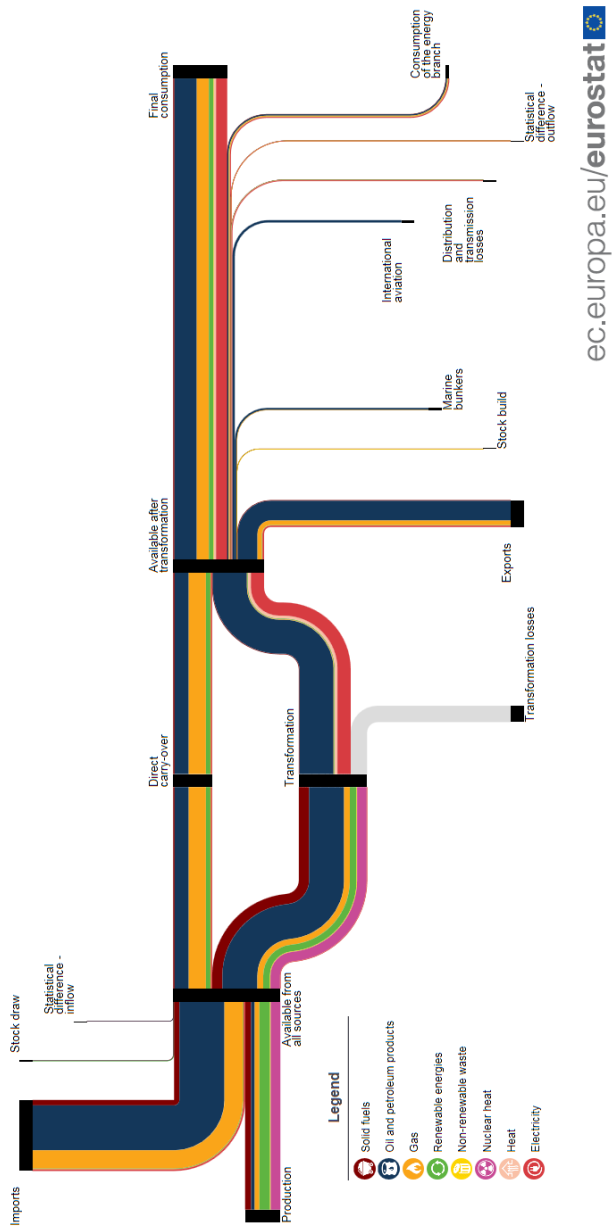
would cost the United Kingdom £1.2 billion, almost crippling its economy.² Fears that oil could be used as an instrument of coercion against Western Europe and the United States were further exacerbated in 1973, when Saudi Arabia, Egypt, Syria, and the Persian Gulf sheikhdoms attempted to curb US support for Israel by imposing an “oil embargo”.³ This embargo failed, however, on 17 March 1974, less than six months after it was imposed, indicating how hard it is in actual practice to use oil as an instrument of coercion.

If the European economies in the nineteenth century were fueled by coal and in the twentieth-century by oil, in the twenty-first century their energy markets have so far been experiencing a rapid transition to natural gas. Due to the coal-to-gas push in Europe, consumption of natural gas has been rising faster than any other primary energy source. As a result, natural gas is currently Europe's second leading energy source in terms of consumption and imports (see Eurostat Sankey diagram for the EU), and has replaced coal as the number one fuel for generating electric power.

2 K. Thorpe, “The forgotten shortage: Britain's handling of the 1967 oil embargo”, *Contemporary British History*, Vol.21, No.2, p.215, 2007.

3 M. Ahrari, “OAPEC and ‘authoritative’ allocation of oil: an analysis of the Arab oil embargo”, *Studies in Comparative International Development*, Vol. 14, Iss.1, p.13, 1979.

Energy balance flow for the European Union (EU-28), 2017



Source: Eurostat, 2017.

Environmental and economic considerations indicate that the increase in both consumption and imports of natural gas to Europe will likely continue to grow over the coming decade. From an environmental perspective, natural gas remains a cleaner-burning fossil fuel, and its efficient combustion translates into considerably less carbon emissions when compared to coal or oil. Given Europe's efforts to limit emissions of carbon dioxide and greenhouse gas, this means that imports and consumption of natural gas will continue to grow. From an economic perspective, cheap natural gas (relative to the cost of oil) also translates into cheaper electricity and faster economic growth. Thus, natural gas might soon become Europe's most important primary energy source, surpassing oil consumption in terms of percentage contribution to total primary energy supply (TPES) by source. This dependency on imported natural gas has had, and will continue to have, geopolitical and security consequences. Like in the case of oil, fears are now growing that dependencies on foreign natural gas could tempt unreliable suppliers to use these dependencies as political and economic tools of coercion.

In Europe, the problems caused by use of natural gas as an economic weapon are not as acute as was the case with oil during the 1973 Arab oil embargo. Whereas the market for oil is global (albeit significantly restructured post-1973, to overcome any future oil embargoes), there is no true global market for natural gas. Supply chains for natural gas are structured in such a way as to alleviate the problems associated with oil embargoes, because flexibility in transportation differs significantly for natural gas and for oil. Chiefly, with the high price of shipping LNG globally, moving large quantities of natural gas remains dependent on the existence of transregional pipelines, often leaving nations within these regions at the mercy of pipeline politics.

Situating Russian natural gas in the debate

The turbulent pipeline politics in Europe after the fall of the Soviet Union have renewed concerns about whether natural gas can be used by Russia as an effective instrument of unilateral sanctions. Ronald Reagan was among the first to highlight that a Kremlin-controlled European natural gas pipeline infrastructure would provide the USSR a great opportunity to control not only its sphere of influence in Eastern Europe, but also many NATO Allies west of the Berlin Wall. For this reason, during his first term in office, Reagan attempted (unsuccessfully) to stop the further construction of natural gas pipelines between Russia and Germany⁴. His legacy seems forgotten today, particularly with the construction of the Nord Stream 1 and 2 pipelines between Russia and Germany, and

⁴ C. Lin, *The prince of Rosh: Russian energy imperialism and the emerging Eurasian military Alliance of the Shanghai cooperation organization*, Berlin, Institute for Strategic Political Security and Economic Consultancy (ISPSW), p.2, 2009.

TurkStream between Russia and Turkey. These developments caused many American politicians to conclude, in the words of former senator Richard Lugar, that “natural gas will be the currency through which energy-rich countries leverage their interests against import dependent nations. The use of energy as an overt weapon is not a theoretical threat of the future; it is happening now”.⁵ In line with this assessment, in 2019, the US President signed into law sanctions against contractors supporting the completion of the Nord Stream 2 and TurkStream Russian gas projects.⁶

There are two sides of this paper’s central question. The first is whether Russia has used natural gas as a tool of political influence, and the second is whether this was the intention of the Russian leadership. Scholars have tended to focus on the latter topic, which typically develops into a debate about whether natural gas trade is dominated by economic or political forces. While there is ample evidence that Russian leadership has used its resources for political aims (not only natural gas but also other petroleum products), and has every intention of continuing this practice, to answer this question definitively is practically impossible given the confidentiality of decision-making in the Kremlin. One can, however, examine the evidence in order to build the decision-makers’ worldview perspective and look for patterns in the body of information and data. This, combined with insights from individuals close to the process, provides a relatively clear view of the drivers and mechanisms behind Moscow’s actions.

Timing and the need for a new examination

Given the importance of the topic and the geopolitical events involving Russia since the end of the Cold War, there has been a proliferation of literature on the subject. What then is the value that this study can bring to the debate on Russia’s energy strategy towards Europe and, likewise, on European energy security *vis-à-vis* Russia? There are three factors that warrant a fresh examination of these issues. The first is the ever-changing nature of energy markets. In recent years, the European natural gas market has experienced tectonic shifts that impact Russia’s position as a supplier. This includes changes in how natural gas is priced, not to mention the dramatic drop in oil prices. Traditionally, natural gas has been traded in long-term contracts that index the prices to oil. Over the past decade, these contracts have been gradually restructured to spot market indexation. This means that prices will be much more dynamic and suppliers will need to account for more short-

5 D. Lugar, “Senator Lugar’s keynote speech to the German Marshall Fund Conference in Advance of the NATO Summit”, Riga, Latvia, 27 November 2006.

6 AFP, “Pompeo threatens new sanctions over Russia-Germany pipeline”, 15 July 2020, <https://www.voanews.com/usa/pompeo-threatens-new-sanctions-over-russia-germany-pipeline> (accessed 23 July 2020).

term circumstances in their decisions. The shift has been gradual, and there are still some trade arrangements that are governed by the old contract structures that index natural gas prices to oil. Thus, fluctuations in the oil market will also impact natural gas and, likewise, the profitability and attractiveness for Russia in different markets. In other words, the incentive structures for Europe to buy Russian natural gas have changed dramatically. On the whole, Europe is paying less for natural gas today than before the transition to spot market indexation, because the markets have become more competitive and the price of oil has remained low. Although Russia remains Europe's largest single natural gas supplier, competition has driven prices down. Figure 2 illustrates the European spot prices for oil from 2015-2020.

Figure 2. Crude oil spot prices (Brent)



Source: Energy Information Agency, *Spot Prices for Crude Oil and Petroleum Products*, <https://www.eia.gov/dnav/pet/hist/RBRTED.htm> (accessed 10 October 2020).

The second fundamental change in recent years is the transformation of infrastructure, specifically the introduction of new pipelines and LNG terminals. The pipelines, Nord Stream 1, Nord Stream 2 and TurkStream, provide Russia with alternative routes to transport natural gas to different regions in Europe, thereby bypassing the traditional transit states of Ukraine, Belarus, and Poland. This ability reinforces Russia's position in the European market as a near monopolistic supplier for many European states. Conversely, the introduction of new LNG terminals in the Baltic region allows those NATO member states most affected by Nord Stream 1 and 2 to have alternative supplies to Russia, thus reducing their dependence on Russia to some extent.

The third factor is the transformation of the European geopolitical landscape since 2014 and Russia's annexation of Crimea. This impacts Russia's approach to natural gas exports in a few ways. The most direct effect is through western sanctions that have targeted Russia's petroleum industry. This has affected Russia's newest natural gas projects by limiting investments and access to LNG-specific technology. Until 2014, western international oil corporations (IOCs) were the primary investors in the development of Russian LNG. The major players have since put a hold on their participation in these projects and were replaced by Chinese companies who stepped in with the necessary capital and technology.

The war in Ukraine also raised concern in Europe over dependence on Russian natural gas, which temporarily at least united European countries in opposition to Russia's actions. This moved the development of EU-wide regulations forward and strengthened the common Energy Union regulatory framework of the EU.⁷ With respect to pipeline projects, this put a halt to Russia's Black Sea route (South Stream) and slowed down the construction of Nord Stream 2.

Another political development is Russia's reorientation to the east, and specifically toward China. This reduces Russia's long-term prioritization of the European market. With a reduced emphasis, it will diminish Russia's dependence on Europe and, likewise, Europe's leverage over the trade relationship. Considering the extent to which interdependence constrained Russia's use of natural gas as a foreign policy tool, this new development expands the options for Russia to not be as prudent as it had in the past.

Not only does this study incorporate these new factors into our understanding of Russia's natural gas relationship with Europe, it also offers an integrated assessment of three dimensions that are typically treated as separate in the subject literature. First, it situates natural gas in the overall trade relationship of European countries with Russia. This provides a more holistic understanding of how natural gas can influence governments.

7 T. Maltby, "European union energy policy integration: a case of European Commission policy entrepreneurship and increasing supranationalism", *Europe-Asia Studies*, Vol.67, No.5, May 2015, pp.809-830.

Next we examine domestic actors associated with the natural gas industry and the impact that companies, organizations and individuals have on European politics at the country level. And finally, we situate the role of natural gas within Russia's overall national security approach *vis-à-vis* Europe and NATO. The combination of these dimensions provides a clearer and more informed picture for the central question of natural gas as an instrument of influence on European governments and their respective policy making processes.

Methodology, approach, and structure

The approach that we employ is mixed methods. Considering the authors have published works on the subject, not to mention direct experience working for some of the companies included in the study, we draw on these experiences. For primary sources, we include publicly available trade and industrial data along with evaluations from semi-structured interviews that took place over the course of the past decade. Those interviewed include representatives from some of the petroleum companies and political departments that are the subject of this study, both from Russia and NATO member countries. Additionally, journalists, analysts, and academics that have in-depth, first-hand knowledge of the events were also interviewed. Most interviews were non-attributed, but a description of the interviewees' company, position and organization is available in the footnotes. The authors also reference notes from discussions they have had with company executives and policy-makers over the period 2014-19. Another source of information is published works. They include interviews and memoirs of political and commercial actors that impacted European negotiations with Russia.

In designing the research project, the authors looked to three dimensions of analyzing Russian influence on European states. They are well established by the extant literature and represent the general assumptions – or hypotheses – of the study. The first is that energy trade creates dependencies and these dependencies can influence governments and decision-makers.⁸ The second is that domestic actors, in this case energy companies, prominent individuals and trade associations, contribute to the policy-making process of their home countries in a variety of ways.⁹ Therefore, they also merit investigation and are included in this study. And finally, we approach the study with the understanding that, although industrial relations with governments will vary from state to state, commerce and governance are intertwined. This tendency is more pronounced in larger, strategic industries such as energy, and this relationship is by definition highly pronounced in countries where

8 J. Haslam, "A pipeline runs through it", *National Interest*, Vol.92, 2007, pp.73-79.

9 M. Kaczmarek, "Russia's policy towards China: the role of domestic actors", in M. Kaczmarek, W. Michnik, A. Monaghan, V. Rotaru, "Russia's Emerging Global Ambitions", *NDC Research Paper 11*, July 2020.

the main companies are state-owned, like Russia.

These dimensions are the basis for the structure of this *Research Paper*, which is divided into five sections. We first provide an assessment of Russia's strategic aims *vis-à-vis* natural gas. The next two sections examine the question of influence through trade dependencies, first through natural gas and then in the context of overall trade of total goods and services. In the fourth section, we explore the influence of domestic actors, while the final section situates the role of the natural gas industry in Russia's security approach to NATO member states individually and NATO as a whole. In the case of Russian natural gas exports, because this is only relevant to European NATO member states, the study confines the geographic region to Europe and Russia. As such, we often refer to the territory of the EU and its regulatory framework as a means of grouping together the affected NATO member states in Europe. This also has implications for much of the collected trade data, which typically cover the EU-28. For most of the period discussed here, the United Kingdom was still a member of the EU, and therefore we sometimes refer to the "EU-28" as shorthand for most NATO member states located in Europe.

Russia's energy policy as a foreign policy instrument

"It's quite clear that, today, Russia doesn't consider us a partner, but an adversary. And, obviously, we will have to adapt to that".

*Anders Fogh Rasmussen
Former NATO Secretary General
New York, 25 September 2014*

The following section examines the role of energy in Russia's foreign policy toolkit as a result of historical patterns, NATO-Russia relations, Russia's dependence on natural resource exports, and a strategy of reflexive control. Russia is on a quest to achieve great power status. It perceives NATO as a hostile alliance, as a threat to Russian national security rather than as a prospective ally. Nevertheless, Russia knows that it does not have the means to confront NATO militarily as long as the United States stands to defend its European Allies. For the time being, Russia can only achieve its grand strategic objectives *inter alia* by using its vast natural resources, like oil and natural gas; and by leveraging Europe's scarcity of natural gas and choice of suppliers. To emphasize this point, the US Secretary of State Mike Pompeo went as far as to describe the Russian gas projects as "the Kremlin's key tools to exploit and expand European dependence on Russian energy supplies [that] ultimately undermine transatlantic security".¹

In the Energy Strategy 2035 draft document, the Russian Ministry of Energy highlighted that the oil and gas industry amounts to "a quarter of the country's GDP and about a third of investments, more than half of exports and about 40 percent of the federal budget revenue".² Its relevance is further emphasized in the Energy Strategy of Russia through 2030, the Foreign Policy Concept, and the National Security Strategy of the Russian Federation until 2020.

¹ M. Lee, "US warns firms about sanctions for work on Russian pipelines", *The Washington Post*, 15 July 2020, <https://www.washingtonpost.com> (accessed 23 July 2020).

² A. Novak, "On the draft Energy Strategy for the period until 2035", Ministry of Energy of the Russian Federation, 2 April 2020, <https://minenergo.gov.ru/node/17492> (accessed 14 July 2020).

Russia's National Security Strategy to 2020 asserts that Russia's principal goal is to become a global economic and military power.³ Russia's national security is thus dependent above all on energy security, which is subject to Europe's dependency on Russian natural gas and on the economic benefits associated with oil. Energy security is thus closely identified with both economic and national security, and threatening it could even lead to military confrontations, particularly in Russia's near abroad. This said, Russia's economic and military potential is limited, leaving the energy sector as the main source of Russian power and influence. Economically, Russia's goal to belong to the top five countries by size of GDP has not come to fruition (Russia is not currently even among the top 10)⁴. Militarily, despite a show of force in Ukraine, Russia remains too weak and too poor to impose its will against the Allies through brute military force. Instead, energy security and geo-economics are the top priority of Russia's National Security Strategy to 2020.

The resurgence of Russia as an energy power is also asserted in the Foreign Policy Concept, where "energy became a consistent part of Moscow's security thinking due to its ability to produce high revenues and its use as an instrument of power, particularly during the gas conflicts with Ukraine".⁵ Finally, the Energy Strategy of Russia through 2030 also identifies energy security as "one of the most important components of national security", and defines it as the "protection of the country, its citizens, society, state and economy" against the threats to energy supply and demand. Energy security must be provided "without prejudice to any national interests whatsoever". Furthermore, the document projects that for the following two decades Russia will "undeniably remain the leading player on the world hydrocarbon market", particularly due to Europe's increasing demand for natural gas; and that the energy sector "will retain its crucial role in resolving the important strategic task" of geo-economic stability.

This is to say that Russia's status as a global power cannot be achieved without the use of oil to increase national wealth, and without the use of natural gas to promote Russia's national interests. While an argument has been made that natural gas can be used successfully as an instrument of coercion against NATO member states, oil remains an important piece of the Russian strategy, because it provides Russia the profits it needs not only to grow its economy, but also to leverage the losses incurred from Russia using natural gas primarily for political rather than economic ends.

3 "National Security Strategy of the Russian Federation to 2020", ETH Zurich, May 2009, <https://www.files.ethz.ch/isn/154915/Russia's%20National%20Security%20Strategy%20to%202020%20-%20Rustrans.pdf> (accessed 23 July 2020).

4 World Bank, Gross Domestic Product 2019, <https://databank.worldbank.org/data/download/GDP.pdf> (accessed 23 July 2020).

5 M. de Haas, "Medvedev's security policy: a provisional assessment", Russian Analytical Digest 62, June 2009, p.2.

Russia-NATO relations

Geographically, less than half of Russia is found in Europe, causing many security analysts to mistakenly assume that Russia's interests ought to coincide with those of the West. The bigger half of the Russian territory lies, however, east of the Urals, on the Asian continent, where the outlook on life and management of society play an equally important role in defining Russia's foreign and domestic policy. In line with its geography, the past century of Russian history illustrates that Russia will resist the Western agenda of democratization. This resistance was also emphasized by the Russian President Vladimir Putin, who argued that "blindly copying foreign models, will inevitably lead to Russia losing its national identity"⁶. Envisioning a Russia free of any Euro-Atlantic influences, Putin further stated in his widely cited 2007 speech at the Munich Conference on Security Policy that Russia "will no longer accept the status of the West's junior partner as during the 1990s", sending a clear message to the West that Russia's interests will no longer overlap with those of the Euro-Atlantic community.⁷

Naturally, Russia blames NATO and the West for this antagonistic relationship, pointing to NATO enlargement eastward, which was largely perceived not only as a threat to Russian borders, but also as a betrayal by the North Atlantic Alliance. Since the end of the Cold War, six former Warsaw Pact members (Bulgaria, Hungary, Poland, Romania, the Czech Republic, and Slovakia), three ex-Soviet Baltic Republics (Estonia, Latvia, and Lithuania), Albania and four former states of the Federal Republic of Yugoslavia (Croatia, Montenegro, North Macedonia and Slovenia) have joined the Alliance. Russia views this as a violation of an alleged 1989 no-NATO-enlargement pledge made to Soviet President Mikhail Gorbachev in exchange for allowing German reunification.⁸ More recently, Russia points to the decision to base NATO ballistic missile defense systems in Eastern and Central European countries, particularly in Poland and Romania, to portray NATO as a hostile alliance rather than a partner. But while Russia's interests are unlikely to overlap with those of the Euro-Atlantic community in the near to medium term, it is also unlikely that Russia will have the means to confront NATO despite its recent *de facto* occupation of eastern Ukraine and annexation of Crimea.

6 C. Thorun, "Explaining change in Russian foreign policy: the role of ideas in post-Soviet Russia's conduct towards the West", New York, Palgrave MacMillan, 2009, p.37.

7 A. Tsygankov, "Russia's foreign policy", in S.K. Wegren and D.R. Herspring (eds), *After Putin's Russia: past imperfect, future uncertain*, 4th Edition, Plymouth, UK, Rowman & Littlefield Publishers, Inc., 2010, p.223.

8 "What Gorbachev heard", *National Security Archive*, 2017, <https://nsarchive.gwu.edu/briefing-book/russia-programs/2017-12-12/nato-expansion-what-gorbachev-heard-western-leaders-early> (accessed 13 October 2020).

Russia as an energy super-state

In 1904, Sir Halford John Mackinder warned that Russia could replace the Mongol Empire as the largest contiguous empire in history because it occupies “the central strategical position held by Germany in Europe”.⁹ This world empire, he argued, will be in sight if Russia exploits its “vast continental resources”. Mackinder’s point was also underlined by Vladimir Putin in his graduate studies dissertation from the Saint Petersburg State Mining University, that emphasized strategic planning for Russia’s vast natural resources as its main source of state power.

Christina Lin, former director for policy planning at the US Department of Defense, described the document as Putin’s plan to use the Russian resource sector to “once again reassert Russia’s imperial status”.¹⁰ While natural gas did not play a significant role in the dissertation, the strategic planning and the management (by the state) of the production and transportation of natural resources did. In the introduction, Russia is presented as a “region with high natural resource and industrial-economic potential”.¹¹ Putin then wrote that the purpose of his study was the “strategic planning of natural resources in the region, including the formation of national strategy, forecasting and planning of national strategic goals and objectives, as well as economic incentives, levers and incentives for implementation of the strategy [by the state]”.¹² This “geo-economic”, “long-term” planning of natural resources of the state, he argued, “is applicable to solving any problem associated with national objectives abroad [...] and for the regional organization of export-oriented natural resources industries”.¹³

The use of natural resources by the state as a geo-strategic tool is also known as “resource nationalism”. Over the past two decades Russia has been consolidating its control over the energy sector through the use of state monopolies such as Transneft and Gazprom, where the government maintained controlling ownership; thus effectively containing the influence held by foreign investors in the oil and gas industries. Through the use of resource nationalism, Russia has managed to become an energy super-state, a geo-political model that allows Russia to use its natural resources (and in particular its natural gas reserves) as strategic assets and political tools in its foreign relations and negotiations

9 H.J. Mackinder, “The geographical pivot of history”, *The Geographical Journal*, Vol.23, No.4, 1904, pp.421-437.

10 C. Lin, “The Prince of Rosh: Russian energy imperialism and the emerging Eurasian military Alliance of the Shanghai Cooperation Organization”, Berlin, Institute for Strategic Political Security and Economic Consultancy (ISPSW), 2009.

11 *Ibid.*

12 *Ibid.*

13 I. Ifimie, *Natural Gas as an Instrument of Russian State Power*, Washington, DC, Westphalia Press, 2015.

with many European and NATO countries.¹⁴

Russia understands that the control of natural gas pipeline networks is a matter of geopolitics just as oil was, and also remains to a certain extent, a matter of economics. Both the political (promoted through the use of natural gas reserves) and the economic dimensions of this control are meant, however, to act as tools to project Russian power abroad.

Russia leverages its natural resources and energy sector (including the natural gas pipeline networks) to achieve both domestic political stability and geopolitical objectives. Domestically, Russia uses the large revenues it generates from exporting its natural gas resources to accomplish political goals. Furthermore, by securing its control of the production and transportation networks of natural gas, President Putin has been able to effectively take control of all major centers of political power. Internationally, Russia is actively using its natural gas production and transportation system as tools to influence European political decisions. Sustainment of this geopolitical model is, however, dependent on revenues from oil production, and on maintaining a monopoly on the sphere of natural gas production and transportation west of the Urals. Regarding the first of these priorities, Russia's economic development is dependent on large profits from oil; and with regard to the second point, exerting political influence in many NATO countries is dependent on maintaining a monopoly of natural gas transportation infrastructure. This led Francis Fannon, the Assistant Secretary of the US Bureau of Energy Resources, to assess that "the Kremlin has continued to push Nord Stream 2 in its effort to exploit and expand European dependence on Russian energy"¹⁵ rather than for economic gains.

Natural gas in Russian national security strategy

Russia is the second largest producer (after the United States) and the largest exporter of natural gas in the world.¹⁶ Russia's geopolitical and energy potential thus lies in its natural gas reserves and export pipeline networks. For this purpose, Russian national security strategy is an extension of Putin's economics dissertation, which comes with one clear-cut message: that the management of natural resources cannot be left to business alone. As the chief originator of post-Soviet resource nationalism, Putin views the energy sector (and particularly natural gas) as an effective tool that Russia can use to regain its strength (as he

14 I. Bremmer, *The end of the free market*, New York, Penguin Group, 2010, p.63.

15 State Department, "Secretary Michael R. Pompeo at a Press Availability", 15 July 2020, <https://www.state.gov/secretary-michael-r-pompeo-at-a-press-availability-9/> (accessed 23 July 2020).

16 CIA, "The world factbook: Russia", 30 June 2020, <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html> (accessed 23 July 2020).

put it in his 2006 State of the Nation Address) because “the weak get beaten”.¹⁷

Given Russia's monopoly of natural gas supplies to many NATO states, Russia may indeed be poised to remain a regional energy superpower for the foreseeable future. Because the export of natural gas serves a political goal, it will remain of central significance for Russian security strategies; and maintaining the monopoly of supply of natural gas by pipelines to Europe is at the core of Russia's national security policies. To this end, Edward Lucas identified in 2009 four goals that Russia has in order to maintain its monopoly on natural gas trade in Europe (that are still valid in 2020): first, “the Kremlin wants to prevent European countries from diversifying their sources of energy supply, particularly in gas;” second, “it wants to strengthen its hold over the international gas market”; third, “it wants to acquire downstream assets – distribution and storage capability – in Western countries”; and finally, “it wants to use those assets to exert political pressure”.¹⁸

Ultimately, Russia's national security strategy is based on maintaining Europe's dependence on Russian natural gas via pipelines from Russia. The main pillar behind Energy Strategy 2035, the Energy Strategy of Russia through 2030, the Foreign Policy Concept, and the National Security Strategy of the Russian Federation until 2020 is, thus, Russia's control of the natural gas transportation network and export pipelines to Europe. All these documents placed the energy sector (and particularly its oil and gas industry) at the core of Russian foreign policy.

Reflexive control through divisions

In his 1999 Russia at the Turn of the Millennium speech, Putin highlighted that Russia's long-term strategic vision and methods of achieving it have changed.¹⁹ Russia today uses reflexive control (RC) as a means to interfere with the decision-making process of an opponent in support of its grand strategic ends. In Putin's own words, these goals can only be achieved through “deliberate planning reforms based on prediction, managing and adapting expectations to achieve strategic objectives” of natural resources as part of an “ordered, controlled, and integrated set” of strategic decisions that are generated to support the greater national interests of Russia²⁰.

While much has been written on the military uses of reflexive control, little attention has

17 C. Thorun, *Explaining change in Russian foreign policy: the role of ideas in Post-Soviet Russia's conduct towards the West*, New York, Palgrave MacMillan, 2009, p.31.

18 E. Lucas, *The new Cold War: Putin's Russia and the threat to the West*, New York, Palgrave MacMillan, 2009, p.163.

19 V.V. Putin, “New year address by acting President Vladimir Putin”, *Office of the President*, 1999, <http://en.kremlin.ru/events/president/transcripts/22280> (accessed 13 October 2020).

20 V.V. Putin, “The strategic planning of regional natural resources under the formation of market relations”, graduate studies dissertation in Economics, Saint Petersburg State Mining University, 1997.

been given to its use in international relations. RC is defined as “the means of conveying to a partner or an opponent specially prepared information to incline him to voluntarily make the predetermined decision desired by the initiator of the action”.²¹ Russia appears to be using pipeline politics as part of RC strategies to achieve its political and economic objectives by dividing the newer NATO Allies, who joined the Alliance after the Cold War, from the older original NATO Allies.

The concept of RC and manipulating the decision-making process of one's enemies and allies for the interest of the state is not new, and was taught to KGB officers as “the Soviet concept of influencing an adversary's decision-making process”.²² A student of RC during his years with the KGB, Putin hinted in his dissertation (even though he never termed the concept by its name) that RC must become an integral part of Russia's grand strategy, and that the management of Russia's natural resources is a matter of the state, for the interests of the state, and not those of private entities. While this concept is closely associated with that of *realpolitik* based primarily on practical and material factors and considerations, it differs partly in that RC allows for short-term material/economic loss on condition that long-term grand strategic political gains are achieved.

At the strategic level, Russian RC blends economic threats with incentives to achieve its political grand strategic ends, where natural gas dependencies play a central role in Russia's use of RC against NATO and EU member states. By pursuing a divide-and-rule strategy, Russia is able to use its monopoly on natural gas pipeline infrastructure to Europe to secure bilateral deals with individual NATO member states, to the detriment of NATO as a whole; although mostly to the detriment of many of the new NATO members. Legacy NATO states such as Germany, Italy and France reflexively engage in this type of behavior in pursuit of their own short-term economic interests, leaving their eastern neighbors at the mercy of Russia and, ultimately, weakening the entire Alliance politically in the long-term.

This strategy is meant to undermine NATO consensus and, to a certain extent, Russia has already accomplished that. In January of 2018, Gazprom reported record-breaking 2017 natural gas export figures, controlling 40 percent of the European natural gas market.²³ Only two years later, the Nord Stream 2 pipeline with a total capacity of 55 billion cubic meters (bcm) of gas per year (on top of Nord Stream's 55 bcm capacity) is also now a reality (which will further increase this dependency). The 110 bcm of combined

21 T.L. Thomas, “Russia's reflexive control theory and the military”, *Journal of Slavic Military Studies*, Vol.17, Iss.2, 2004, p.240.

22 V. Lefebvre and V. Lefebvre, “Reflexive control: the Soviet concept of influencing an adversary's decision-making process”, Englewood, CO, SAIC, 1984, p.4.

23 “Annual Report”, *Gazprom*, 2018, <https://www.gazprom.com/investors/disclosure/reports/2018/> (accessed 13 October 2020).

natural gas capacity of Nord Stream 1 and Nord Stream 2 is expected to transform political relations in Europe, and could divide the older and newer NATO members not only in the field of natural gas, but geopolitically as well. This is, however, not a diabolical Russian plot to tear up the Alliance, but an attempt typical of Soviet strategy: to divide and weaken its neighbors, in order to ensure it has the upper hand in geopolitical terms. Since Germany is the top importer of Russian natural gas, the Nord Stream 1 and 2 pipeline projects were supported by many officials who benefited from their “financial ties to Russia’s Gazprom, thereby furthering European acceptance of Moscow’s pipeline projects”.²⁴

In the end, the lack of political agreement between the Old and New NATO, particularly in the natural gas field, means that many new NATO members cannot count on old NATO members’ support in their relations with Russia. But old NATO states alone cannot be blamed for Europe’s divisions. Russia used similar RC strategies to those it used with Germany and France in its natural gas negotiations with nearly every new NATO member nation. With some NATO members continuing to enjoy the benefits of good economic relations with Putin’s Russia by signing long-term deals for natural gas at the expense of other NATO members, NATO as a whole is negatively impacted.

24 K. Smith, “Russia-Europe energy relations, implications for US policy”, Washington DC, CSIS, 2010, p.4.

Europe's dependence on Russian natural gas

Natural gas as an instrument of Russian power

EU states (outside of its technically recoverable shale gas reserves that remain unexplored due to environmental concerns associated with fracking) have access to very limited domestic reserves of natural gas. Consequently, the EU's consumption of natural gas is 65.2 percent dependent on natural gas imports and this dependence is projected to grow to 83 percent by 2030.¹ Traditional European fears of imminent fuel shortages have also been replaced by fears regarding the increasing dependency on risky energy suppliers. The lack of flexibility in the transportation of natural gas to Europe and the overreliance of most European countries on natural gas supplies by pipeline make Europe's worries about imported natural gas of particular concern. Compared to oil, which "can be transported by some combination of rail, truck, or ship without major processing, natural gas must be compressed, liquefied, or chemically transformed to take advantage of non-pipeline transport".² Because of this, natural gas can be used as an instrument of economic coercion if one nation controls the transport by pipeline to another nation, and/or if the latter nation does not have access to an affordable alternative source of energy to circumvent their dependence on trade with the former. This makes the eastern European NATO members more compromised than the original NATO members due to simple geography.

The dependence on Russian natural gas across Europe differs significantly, based on two geographic considerations: (1) proximity to Russia (the closer the nation, the more likely it is to be connected to the Russian natural gas infrastructure and exports); and (2) access to LNG supplies. With regard to proximity to Russia, one EU member state (Finland) and six EU-NATO members (Lithuania, Latvia, Estonia, Slovakia, Bulgaria, and the Czech Republic) rely almost entirely on Russian gas, with at least 85 percent of their domestic natural gas consumption being supplied by Russia.³ Over the past two decades,

1 "Gas Trade Flows – Analysis", IEA, <https://www.iea.org/reports/gas-trade-flows> (accessed 23 July 2020).

2 S. Mahnovski, "Natural resources and potential conflict in the Caspian Sea region", in T. Szayna (ed.), *Fault-Lines of Conflict in Central Asia and the South Caucasus*, Santa Monica, CA, Rand, 2003, p.120.

3 "Gas Trade Flows – Analysis", IEA, <https://www.iea.org/reports/gas-trade-flows> (accessed 23 July 2020).

“Russia has already revealed its willingness to withhold natural gas supply based on political disagreements”⁴ in some of these nations.⁵ For many NATO members, there is no viable alternative to tackling this economic dependence on Russia in the short term. The regional dependence is only expected to grow, and the Russian share of natural gas net imports in many new NATO member states and Finland could exceed 90 percent by 2030.⁶ As relations between NATO and Russia continue to deteriorate, the concern among many Allies is that Russia’s monopoly of natural gas to eastern Europe could impact NATO’s overall ability to achieve consensus. With regard to access of LNG supplies, there are currently 23 operational LNG regasification terminals located across eight western NATO countries, compared to four LNG terminals in eastern NATO countries (of which, none are located in Eastern and Central Europe). While the increase in LNG imports and access to alternative suppliers of natural gas offers some flexibility to western NATO Allies, there are very limited alternatives to the dependency of many eastern NATO members on natural gas imports from Russia. This has changed somewhat over the past five years, with new LNG terminals in the Baltic region.

The myth of Russian-European natural gas interdependency

Contrary to data showing that Europe may soon become hostage to Russian natural gas, an argument has often been made that Russia needs to sell its gas to Europe more than Europe needs to buy it. While Russian natural gas imports represent – give or take – 40 percent of EU’s natural gas consumption, they also represent more than 70 percent of Russia’s overall natural gas exports (see Figure 3). Simple arithmetic dictates that a complete shutoff of Russian natural gas to Europe would hurt the Russian economy more than Europe. This interpretation is fundamentally wrong because currently Europe lacks a united energy front in its negotiations with Russia and does not yet have a fully integrated energy market and natural gas infrastructure. Thus, in their energy trade relations with Russia, each European country must be looked at independently of the others, revealing that the east European NATO countries need to import Russian natural gas more than Russia needs to sell it to

4 J.A. Urban, “US access to the global LNG market”, *OPEC Energy Review*, Vol.32, No.3, p.228, 2008.

5 In March 2011, former Lithuanian Energy Minister Arvydas Sekmokas accused Russia of often putting economic pressure on the Lithuanian government. During the building of its LNG terminal, Russia was charging Lithuania higher rates than any other EU country as a punishment for taking steps to break away from Russia’s natural gas monopoly. Eventually, however, the LNG terminal in Klaipėda forced Russia to decrease the price of natural gas by pipeline to the Baltic States, but that also made LNG imports in the region less attractive. This fact is important to bear in mind, because it provides a strong argument that Russia will use its natural resources as an instrument of coercion against New NATO member states most susceptible to this type of coercion.

6 R. Lajtai, A. Czinkos and T. Dinh, “Nabucco VS. South Stream: the effects and feasibility in the Central and Eastern European region”, 24th World Gas Conference, Buenos Aires, Argentina, KPMG in Central and Eastern Europe, 5-9 October 2009.

them (see Figure 3). For example, 100 percent of Lithuania's natural gas imports come from Russia (despite the new LNG terminal in Klaipėda); but that amounts to less than half of 1 percent of total Russian natural gas exports to Europe. Therefore, if Russia decided to cut the supply of natural gas to Lithuania (or simply increase the price), for example, the Lithuanian people would greatly suffer; while Russia could theoretically recuperate its losses by slightly increasing its natural gas exports to other European nations.

Figure 3. Tearing down the myth of “interdependency” between the EU and Russia

EU Member	Gas Share of TPES in percentage	Dependency on Russian Gas in percentage	Share of Russian Gas Exports to EU in percentage
Austria	22	57	4
Belgium	25	14	1
Bulgaria	14	100	2
Croatia	25	62	0
Cyprus	0	0	0
Czech Republic	15	36	2
Denmark	17	61	1
Estonia	7	80	0
Finland	6	100	1
France	16	27	6
Germany	23	57	30
Greece	12	84	1
Hungary	31	94	4
Ireland	30	5	0
Italy	39	38	13
Latvia	26	100	1
Lithuania	29	100	0
Luxembourg	19	25	0
Malta	0	0	0
Netherlands	40	66	14
Poland	15	76	6
Portugal	20	0	0
Romania	27	89	1
Slovakia	24	84	2
Slovenia	10	63	0
Spain	21	0	0
Sweden	2	0	0

Source: drawn up by the authors with data from Eurostat 2017 EU Sankey diagram, from <https://ec.europa.eu/eurostat/web/energy/energy-flow-diagrams> (accessed 17 June 2020).

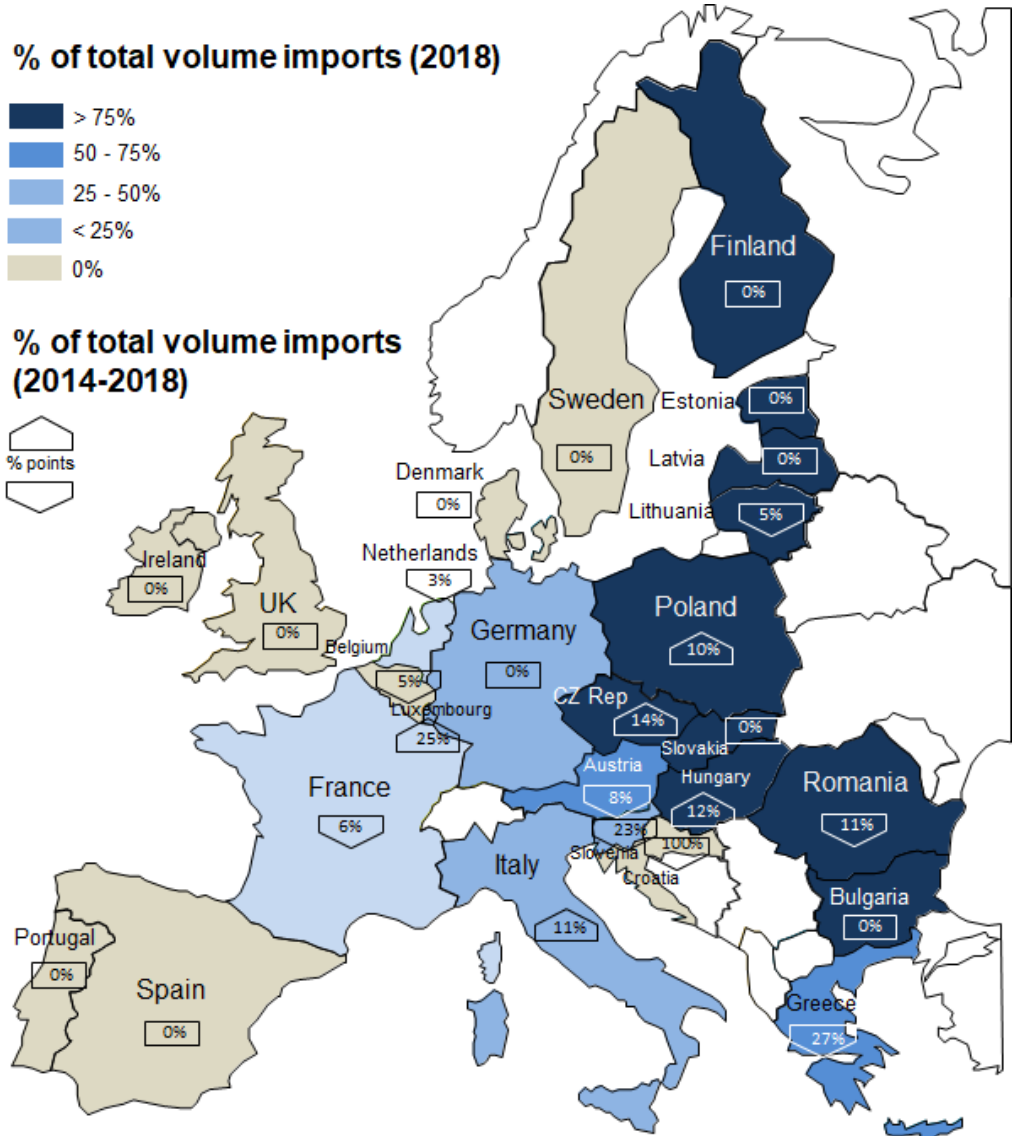
As seen above, while oil and gas are often perceived to be impacting Europe's energy security equally, in the absence of accessible and affordable LNG supplies, the inflexibility in the transportation of natural gas to east European NATO members satisfies both the necessary and sufficient economic and political conditions for Russia to successfully employ natural gas as an economic instrument of national power in this region (whereas this was not the case with oil). Figure 3 is just one illustration of regional energy challenges, placing many NATO member states almost entirely at Russia's mercy. The fear is that these nations are less likely to stand united with all NATO members against Russia in more than just words, in which case Russia needs only to find a reason to renegotiate the price of natural gas with these nations in order to pressure them.

Influence through natural gas dependence and EU responses

Influence on NATO through the governments of its member states comes in multiple forms, but the clearest and most tangible way that Russia exerts influence is through the control of energy supplies. This creates a dependence on Russia that is often underestimated or explained away through the notion of European-Russian "interdependence". Dependence on Russian natural gas is not as simple as a percentage indicator may imply. For instance, countries on the Eastern Flank will typically have a higher dependence based on the share of Russian natural gas of their total consumption of natural gas or their entire energy consumption (including all energy sources in addition to natural gas – i.e., oil, coal, etc.). NATO member states in Western Europe that have a 30 percent or less dependence on Russian natural gas can still experience devastating effects on their economies in the event of a prolonged supply disruption. This is because of the pass-through effect of natural gas shortages, which will affect industries differently based on how dependent each sector is on natural gas. For example, the average citizen of Germany would experience electricity blackouts and heating disruptions (all the more pronounced in the winter time). However, there would also be short-term secondary effects such as power disruptions to manufacturers and feedstock shortages for chemical industries. In the medium term, however, a prolonged supply disruption may threaten the existence of entire industries because their energy costs can price them out of the market.

The following figure illustrates the dependence on Russian hydrocarbon products (including natural gas, oil, and oil by-products) of individual NATO and EU member states.

Figure 4. Energy dependence on Russia, with percentage changes (2014-2018)



Source: drawn up by the authors with data from Eurostat and the UN Statistical Database, “UN Comtrade – International Trade Statistics Database”, <https://comtrade.un.org/> (accessed 23 July 2020).

Over the past decade, Europe's dependence on Russian natural gas has increased, and this trend stands in contrast to the EU's attempts at diversifying Europe's supply sources. The EU has led the effort in two ways that have most directly impacted agreements with Russia. The first is through "unbundling" energy transportation systems.⁷ The aim is to separate suppliers from transporters and marketers of natural gas, so that no single actor has a monopoly. In practical terms, this means that Gazprom may not control the entire value chain from production to operating pipelines and distributing natural gas within Europe. In theory, projects such as Nord Stream or South Stream would be illegal under the new regulations. How the regulations are interpreted is less clear. For instance, both Nord Stream 1 and 2 were approved, whereas South Stream was not. Each of these cases teaches more about current legal interpretations of new EU regulations than the impact Europe's dependence on Russia. Ultimately, they illustrate that the EU is still developing a robust and functioning policy framework resistant to political pressure.

The second way the EU has attempted to deal with dependence on Russian natural gas is through empowering market mechanisms – for example, by developing spot markets, diversifying supply and unbundling the industrial value chain. These measures are laid out in the EU Energy Union Package, included as Annex 5. Currently there are two types of markets for wholesale natural gas in the EU. The first is long-term contracts between the supplier, typically Gazprom for Russia, and the consumer company in Europe, which is usually a private company. Often referred to as "take or pay" or "Groningen" contracts, their duration is typically over twenty years and some even extend beyond thirty years. The price of natural gas under these contracts is indexed to the price of oil. Although oil and gas markets are completely different, there are historical reasons why gas would be linked to oil, such as being extracted from the same hydrocarbon fields and the existence of power facilities that are able to switch between burning methane or petroleum by-products (namely heating oil). But these facilities are the exception rather than the rule and, consequently, European industrial consumers have been increasingly purchasing natural gas from spot markets. The EU has supported this transition, which Russia initially opposed.⁸ In recent years, however, European customers have put sufficient legal pressure on their Russian counterparts to renegotiate their long-term contracts and to incorporate spot markets as a pricing mechanism.⁹ The details of each contract are commercial secrets,

7 HJ, "Third Energy Package", Text, Energy – European Commission, 21 May 2019, https://ec.europa.eu/energy/topics/markets-and-consumers/market-legislation/third-energy-package_en (accessed 20 September 2020).

8 "Quarterly report on European gas markets", Brussels, European Commission, 2014, https://ec.europa.eu/energy/sites/ener/files/documents/201410_q3-4_quarterly_report_gas_market.pdf (accessed 12 September 2020).

9 "Careful what you wish for", *The Economist*, 12 July 2012, <https://www.economist.com/special-report/2012/07/12/careful-what-you-wish-for> (accessed 23 July 2020).

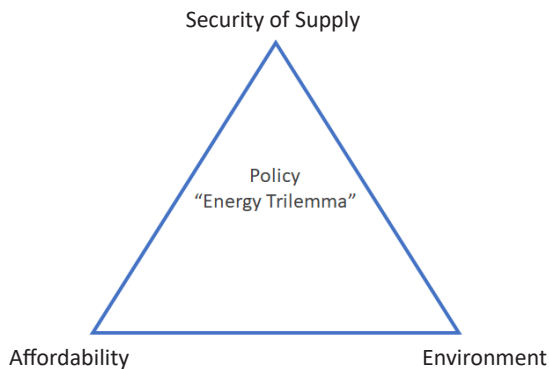
but we do know that even the largest state-owned companies like Gazprom and Rosneft have conceded to pressure to move their contracts over to spot market pricing rather than oil price indexation.

Through the promotion of alternative and “green” energy resources, the EU has also attempted to diversify its overall supply profile, which theoretically would reduce dependence on any single hydrocarbon resource. This approach has had mixed results across Europe, but the outcomes have been offset by a total rise in overall energy consumption, particularly in the sectors and industries that are gas intensive. More on this development follows in the next section.

Natural gas and trade dynamics with Russia

In order to understand how natural gas trade with Russia can influence governments, it is also important to see where the commodity fits into the overall trade relationship. On the one hand, there are clear and apparent ways that the level of trade flows and profile of commodities may influence trade in energy and, consequently, the policies of a government in the fields of energy, economic development, climate and security. The interlinking of these different policy areas is often described as the “energy trilemma”, in which government leaders and policy makers must navigate a tension between three different priorities.¹ These include the security of supply, economic security, and the environment, which in some cases may be interchangeable with “human security”. Depending on their economic profile, resource endowments, and geographic circumstances, states will shift from emphasizing one policy area over another. For example, a highly industrialized resource-poor state such as Germany will prioritize security of supply more than a resource-rich country such as Denmark (hydrocarbons and wind). Using this example and conceptual framework, there is a clear link between overall trade and energy trade on a country’s policies and priorities.

Figure 5. The Energy trilemma



¹ “World energy trilemma index 2017: monitoring the sustainability of national energy systems”, <https://www.worldenergy.org/publications/2017/world-energy-trilemma-index-2017-monitoring-the-sustainability-of-national-energy-systems/trilemma/> (accessed 7 November 2018).

But what does this mean in practice? This section explores the relationship between energy trade with Russia and total trade flows. It begins at the regional level, before going into the dynamics of trade at the state-to-state level. The analysis then investigates the micro links between natural gas, trade in other commodities and industries that are directly impacted by natural gas deals. Finally, we introduce indirect links through industry networks and situate natural gas trade in the policy-making process that would apply to many NATO member states.

An examination of Russia's energy overall trade relations with NATO's European member states reveals a unique pattern. First, overall trade, just like natural gas imports from Russia, is not equal. Europe experiences imbalances with Russia, which is an indicator of greater dependence in numerical terms. Although many European politicians and analysts point to the fact that Europe and Russia have "interdependence" (meaning that dependence on Russia for energy is secure), we have seen in the previous section that the interdependence is unequal. Second, there exists a pattern in trade flows that resembles a barter type of exchange. Russia overwhelmingly exports natural resources to Europe and receives manufactured finished goods. This symbiotic relationship is even codified into some of the bilateral trade agreements.

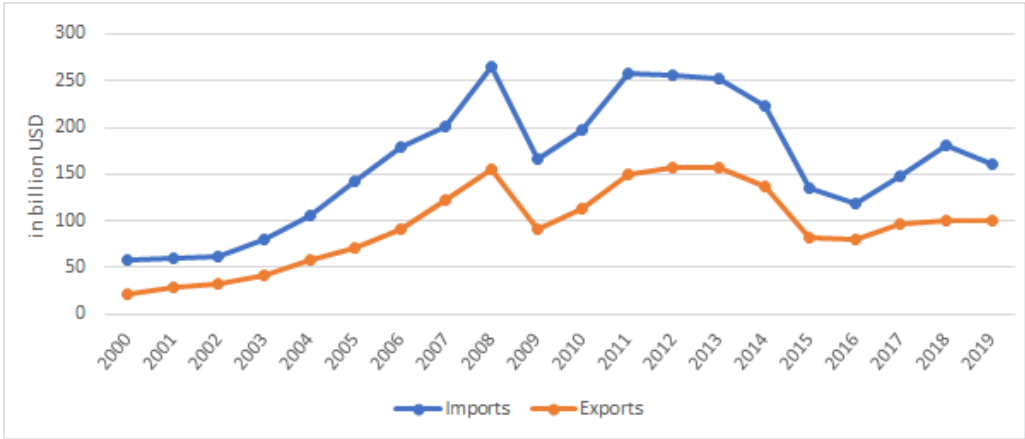
Another important aspect of trade flows is that, as links grow in one sector of trade, they typically expand into other sectors. Economists refer to this as "spillover effects of international trade".² Thus, energy trade in natural gas can reinforce links to oil, industrial equipment, machinery and manufactured consumer goods. All of these industries have historically strong links to government. This section will examine the overall trade relationship between Europe and Russia while delving into the "spillover effects" of natural gas on other industries that provide channels of influence on governments, both directly through lobbying and personnel, and indirectly as a mass employer in society.

Starting from 2000, trade between Russia and the EU grew from USD 79.6 billion to a high point in 2008 of USD 420.6 billion. Trade levels over the past decade have fluctuated following the financial crisis and the imposition of sanctions in response to Russia's illegal annexation of Crimea in 2014. In 2019, total trade flows between the EU-28 and Russia amounted to USD 261.5 billion, according to United Nations statistics. Despite the ebb and flow, the overall trend has been one of growth, particularly in natural resources. The following figures illustrate the trend in total trade flows, along with a breakdown of the top industries and commodities dominating trade flows.³

2 T. Ihori, "Spillover effects and the terms of trade within a two-country model", *Journal of International Economics* 22, No.3, 1 May 1987, pp.203-218.

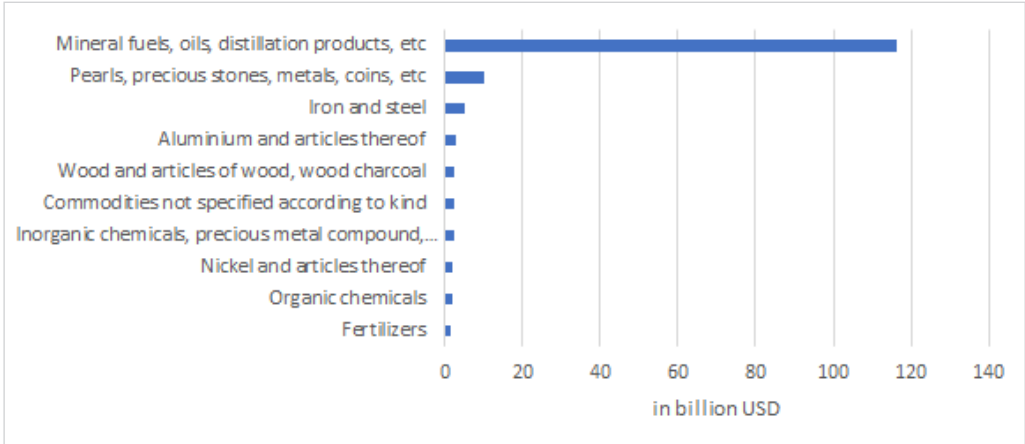
3 United Nations Comtrade, "UN Comtrade - International Trade Statistics Database", <https://comtrade.un.org/> (accessed 23 July 2020).

Figure 6. EU-Russia trade flows



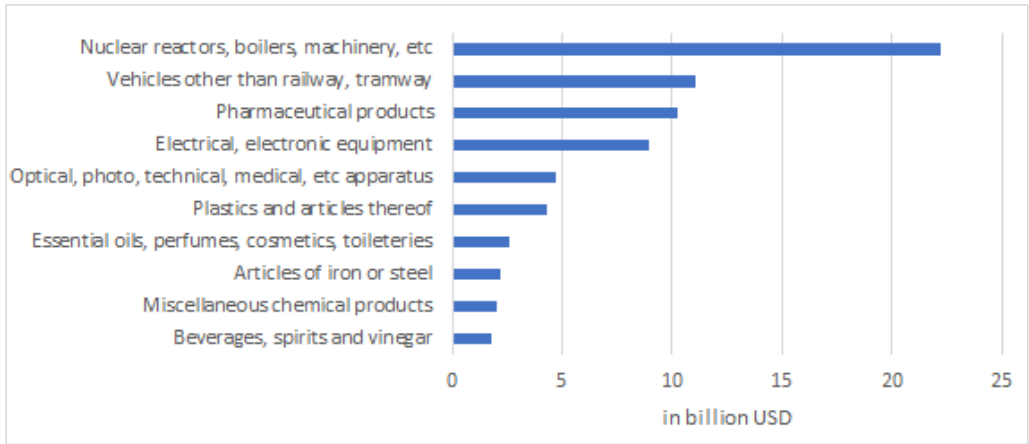
Data source: United Nations Comtrade, “UN Comtrade - International Trade Statistics Database”, <https://comtrade.un.org/> (accessed 23 July 2020).

Figure 7. EU-28 top imports from Russia in 2019



Source: United Nations Comtrade, “UN Comtrade - International Trade Statistics Database”, <https://comtrade.un.org/> (accessed 23 July 2020).

Figure 8. EU-28 top 10 exports to Russia in 2019



Source: United Nations Comtrade, “UN Comtrade - International Trade Statistics Database”, <https://comtrade.un.org/> (accessed 23 July 2020).

By far the main products that Russia exports to Europe are energy and natural resources. In exchange, Europe exports primarily manufactured finished goods, along with pharmaceutical products.

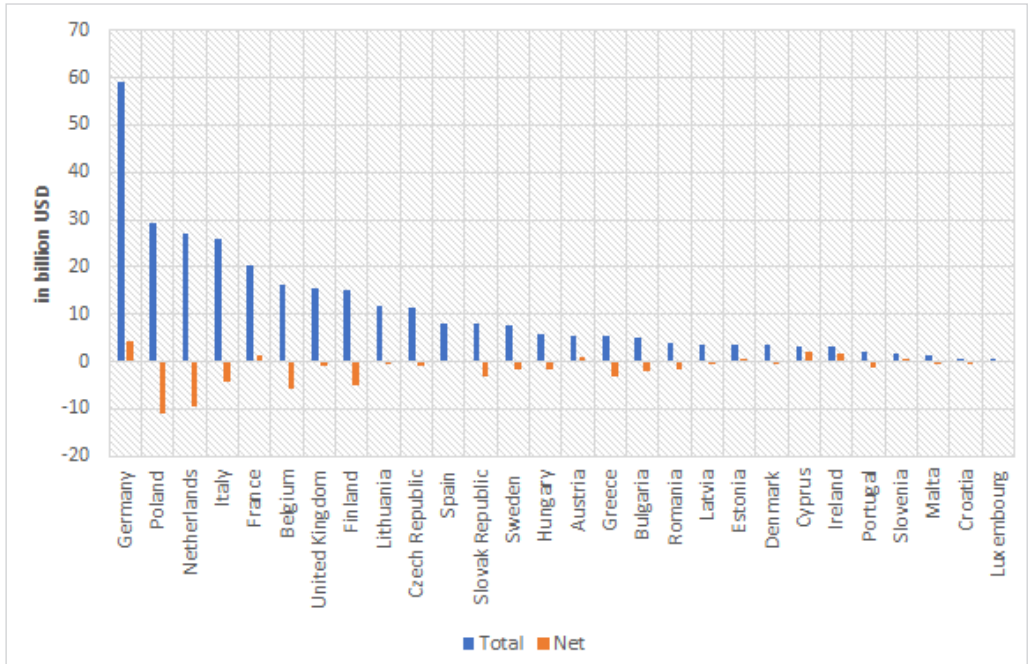
Despite the introduction of EU programmes and initiatives over natural gas markets, the majority of contracts in the past were negotiated bilaterally. Thus, it is also useful to look at trade flows at the country level in order to understand how the level and type of trade may influence individual governments. And clearly, Russia has demonstrated, and will continue to demonstrate, a preference for dealing bilaterally with member states rather than through NATO or the EU. Because Russia aims to sow division within NATO, putting pressure on individual governments for better trade deals is a vulnerability with which the Alliance must reckon. This was clearly demonstrated as a tactic during the Cold War, which failed in the 1960s but clearly created divisions within NATO during the 1980s. In the 1960s, NATO invoked sanctions against the Soviet Union for industrial large diameter steel pipes that could be used for pipelines. The same approach was attempted in the 1980s, but failed to garner consensus.⁴

A country level analysis reveals a few things. First, Russia’s main trading partners are

⁴ A. Stent, *From embargo to ostpolitik: the political economy of West German-Soviet relations, 1955-1980*, Cambridge, Cambridge University Press, 2003.

in western Europe, reflecting the same patterns of purely natural gas trade. Second, most countries have a negative imbalance in their trade relations with Russia, meaning they import a higher value than they receive from exports.

Figure 9. EU-Russia trade flows (2017)



Source: United Nations Comtrade, “UN Comtrade - International Trade Statistics Database”, <https://comtrade.un.org/> (accessed 23 July 2020).

There are a few exceptions to this pattern, and they are concentrated among the largest economies of Europe. Across the board, Russia’s primary export is natural resources; and, unless the trading partner has its own domestic resource supplies, the imbalances are due to oil and gas imports from Russia. Geography also plays a role in trade levels. For instance, Denmark, which has a mid-tier economy, not only has its own natural resources but imports much of its energy shortfalls from Norway, which is in close proximity. Although the Netherlands used to have a trade surplus with Russia, its dwindling domestic supplies mean that it must increasingly import. The UK is another country that used to be a net exporter of natural gas. In recent years, it has become a net importer of natural gas and

this partly explains the rise in imports from Russia (the rest imported through LNG). And in 2017, the UK had a trade deficit with Russia amounting to USD 801.5 million. Simply put, overall trade relations appear to have an influence on individual countries' level of support (or concern) regarding energy dependence on Russia. From a Russian perspective, it is also clear that there is a greater incentive to trade with states that account for the largest markets than with smaller national markets. Specifically, those states in eastern Europe that fall between Russia and the major markets are less prioritized than Germany and France, for example.

However, these smaller states have a different strategic value from an energy security perspective. Because the pipelines connecting Russia with Western Europe run through most of them, they have a degree of leverage over energy negotiations with Russia. For this reason, Russia is trying to bypass these countries through underwater routes, which are more costly to construct, but link Russia directly with the primary markets. The clearest examples are Nord Stream and TurkStream. The latter was originally envisaged as South Stream, connecting Russia directly with Bulgaria and the rest of the European market. This type of route cannot be justified purely for economic reasons, because they are more expensive than land-based pipelines. They only make sense when taking security factors into account. Recalling the "energy trilemma" in the case of Russia and Nord Stream, the security issue is dependent on relations with neighboring states, or "security of access to markets", whereby the security issue for Germany is "security of access to supply". Between Russia and Germany, the security consideration played a stronger role for the former. Maps of both pipelines may be found in Annexes 2 and 3.

How then do non-energy trade flows influence energy relations and vice versa? This happens in a variety of ways. The clearest link is when non-energy products are linked to a natural gas contract. This has been a typical situation involving the steel industry, responsible for constructing many of the pipelines to transport Russian natural gas to Europe in the first place. This link was at the heart of the NATO pipeline embargo of 1962-63, which was directed at the potential exchange of "pipelines, valves and tankers" for oil. As Stent explains, "West Germany's interest in the Soviet oil and natural gas industry was focused much more on the export of steel pipe than on the import of oil".⁵ The steel industry of Germany and the UK also played a role in successfully lobbying against future pipeline embargos in the 1970s and 1980s, creating division within the Alliance about the dangers of Russian energy imports. Companies such as John Browne Engineering (UK), Creusot-Loire (France), and Nuovo Pignone (Italy) participated in the expansion of the natural

5 A. Stent, *From embargo to ostpolitik: the political economy of West German-Soviet relations, 1955-1980*, Cambridge, Cambridge University Press, 2003, p.100.

gas pipeline infrastructure during this period, in addition to European public financiers from Germany and France.⁶ In a case of history-repeating-itself seemingly, Nord Stream 1 and 2 were built using pipelines constructed primarily by Germany's Europipe.⁷ To make an example of this behavior, the US Senate announced in August of 2020 that "the board members, corporate officers, and shareholders of Fährhafen Sassnitz GmbH will be prohibited from entering the United States, and any property or interests in property they have within our jurisdiction will be frozen [for] providing significant goods, services, and support for the Nord Stream 2 project, including by provisioning vessels for the project".⁸ Additionally, there are the service providers and suppliers for these large scale infrastructure deals, followed by other direct industrial links to private customers that use natural gas as a feedstock. These are often large petrochemicals companies and agricultural conglomerates that use by-products of natural gas. A prime example is Germany's BASF who, seeking to break the regional monopoly on Russian natural gas supply held by E.ON Ruhrgas, set up its own long term supply contracts with Gazprom in the 1990s.⁹ Over the years, BASF has grown its trading business with Gazprom, not only for its own natural gas needs but also to market and sell natural gas in the European market through its subsidiary, Wintershall.

The next level is through industrial networks and personnel exchanges between companies, organizations, and government departments. Particularly with industries that are considered vital to a country's economy, there is a higher degree of interaction between these entities, both directly and through industrial networks. With respect to trade with Russia, many countries have influential associations and commerce organizations that provide platforms for these critical industries to interact, coordinate, and lobby. One example of this is from Germany, with an active association for industries that deal with Russia called the German Eastern Business Association (*Ost-Ausschuss der Deutschen Wirtschaft*). This association played a role in securing a key state-backed insurance policy to offset the risk of their dealings with Russia, thereby providing a competitive edge for this country's industry.¹⁰ This reinforced overall trade growth with Russia, and it illustrates how other sectors have influenced energy relations and vice versa. A more detailed examination of non-state actors, such as private companies and associations, will be provided in the

6 P. Lewis, "A Soviet project tempts Europe", *The New York Times*, 30 May 1982, <https://www.nytimes.com/1982/05/30/business/a-soviet-project-tempts-europe.html>, accessed 19 August 2020.

7 Gazprom, <https://www.gazprom.com/projects/nord-stream/> (accessed 19 August 2020).

8 T. Cruz, T. Cotton & R. Johnson, United States Senate letter to Fährhafen Sassnitz GmbH, 5 August 2020, <https://www.cruz.senate.gov/files/documents/Letters/2020.08.05%20Final%20Mukran%20Port%20Letter.pdf> (accessed 19 August 2020).

9 K. Westphal, "Germany and the EU-Russia energy dialogue", *The EU-Russia energy dialogue: Europe's future energy security*, London, Routledge, 2016.

10 A. Rahr, *Russland gibt Gas: die Rückkehr einer Weltmacht*, Munich, Hanser Publications, 2008.

next section.

Finally, the broadest way that overall trade can impact energy relations is through the governance process itself. Most governments try to promote trade that works in their country's favour and, all things being equal, will look to promote mutually beneficial trade deals that maximize its economic profile. A country with a highly industrialized economy that is resource-poor – which describes many NATO member states – will aim to promote the ideal balance of industries in their foreign policies with resource exporters. As the previous examples illustrate, this has been the case with Germany, the UK, France and Italy. Thus these issues will spill over into NATO interactions, as was the case recently with President Trump's critique of Nord Stream 2 that was also a promotion of US LNG exports. This is not the first time that a Russian pipeline project has caused tensions within the Alliance. This was also the case with the "pipeline embargo" of the 1960s, followed by US concern with Chancellor Brandt's implementation of Ostpolitik. Another pipeline project even drove a temporary wedge into the "special relationship" between US President Reagan and British Prime Minister Thatcher in the 1980s.

Energy trade cannot be separated from the overall trade relationship between "market" and "supplier" countries. To understand the energy relationship between any NATO member state and Russia, one must examine energy trade in the context of total trade, on the one hand, and then the overall bilateral relationship, on the other. The latter also takes place in a regional and global multilateral environment.

In summary, this section has examined the context of overall trade relations at three levels. The first is through direct industrial links, such as pipelines for natural gas deals, the related services and supplier companies for energy projects, and the industrial consumers of energy exemplified by the petrochemicals and agricultural industries. The next link is through associations and industrial networks. And finally, there is the link between industries and government leaders, who have a holistic approach to governing their economies and promoting their industries in trade relations abroad. The final point is that energy projects can sometimes evoke different responses among Allies, based on individual needs and threat perceptions of Russia. The examples provided were pipelines, but the same could be said for long-term natural gas contracts. This illustrates the tension between commercial and security interests that are characteristic of international energy trade, particularly natural gas.

Non-state actors in European-Russian energy relations: corporations, networks and special relationships

The following section explores the impact of non-state actors on European-Russian energy

relations. The non-state actors included in this analysis are companies, organizations, and individuals that are prominent in their countries' energy sectors and also have strong links to government and the policy-making process. What is meant by "prominence" is the size and visibility of the organization with respect to influencing government policies or being directed by their respective governments. A table listing these entities may be found at the end of this section.

Energy companies have historically had strong links to government and, likewise, impact on foreign policy. Whether it be the Nobel's petroleum dealings in the Caspian Region at the turn of the 20th century, British Petroleum's support of the Shah in Iran, or the role of oil leading up to the US-led coalition that toppled Saddam Hussein, energy companies and the pursuit of access to energy supplies have played a strong role in international politics over the past century.¹¹ Links to government by definition reflect the capacity to influence a country's policies, be they domestic or foreign policy. As an illustrative example, LNG companies in the United States had been lobbying the Trump administration about the potential to sell US LNG to Europe and in 2018 at NATO's 70th anniversary meeting, and President Trump took the opportunity of shaming Germany about the dangers of Europe's dependence on Russian natural gas.¹² Although Secretary General Stoltenberg pointed out that this was a "trade issue", implying it was separate from NATO, this did not stop the topic of Nord Stream 2 from spilling over into US-NATO discussions at the highest level.¹³

It goes without saying that companies who are wholly or partially owned by the state will have stronger links to government. We include both public and private companies, and treat them on a case by case basis, because the degree to which the companies influence governments, and vice versa, is not necessarily dependent on whether it is a public or private company. The nature of the relationship is conditioned by a variety of factors such as the historical role of the company, the country's tradition of government-industrial relations, and whether the company is profitable, to name a few. It is not uncommon for companies to be wholly or partly privatized and then renationalized, thereby making the distinction less determining for the control structure between the government and company.

With respect to Russian companies, the nature of the relationship is clear. Although companies are encouraged to be profitable, business is conducted within certain parameters. The company's direction must first fit into the national security strategy and

11 For an authoritative account of these episodes see D. Yergin, *The prize: the epic quest for oil, money, and power*, New York, Simon and Schuster, 1990, and D. Yergin, *The quest: energy, security, and the remaking of the modern world*, New York, Penguin Press, 2011.

12 R. Chilcote, *Trump scolded Germany for buying gas from Russia. Here's what we know*, PBS Newshour, 2018. <https://www.pbs.org/newshour/world/trump-scolded-germany-for-buying-gas-from-russia-heres-what-we-know> (accessed 20 August 2020).

13 *Ibid.*

benefit the state through revenue generation and mass employment. Second, the Kremlin may intervene when it sees fit even for non-economic – in other words, political – reasons. For the most part, economic and political goals overlap. The state and society benefit from an efficient and profitable company. However, as the range of Russian gas price contracts among European states illustrates, economics is not the only determinant of prices and the provision (timely delivery) of supplies. Occasionally what would typically be a commercial exchange becomes political. This is of greater concern to those countries that are highly dependent on Russian supplies, and used to be part of the USSR or the Soviet bloc during the Cold War. The security of market-based prices and consistent access to Russian gas is conditioned by the countries' bilateral relationship with Russia. The most extreme illustration of political influence on natural gas trade is Ukraine, which has suffered major supply disruptions over the past two decades. The price of natural gas and the operational control of the infrastructure remains at the heart of bilateral negotiations, such that even the EU and other countries (Germany and France) have had to intervene to mediate Ukraine's gas negotiations with Russia – not only because disputes can impact the delivery of supplies to the rest of Europe, but also because gas has a determining effect on political stability in the region, whether on NATO's borders or within NATO territory.

European domestic actors

There are a few ways that Russia can influence the governments of NATO member states through domestic energy companies. The first is by providing commercial incentives to the companies, thereby co-opting a powerful domestic actor into a deal or joint venture. Prominent examples include Total, ENGIE, BASF, E.ON, BP, and ENI, to name a few. While these companies are from the largest European NATO members, Russia's main petroleum companies have similar partners in most European NATO member states. The partnership company will often become a local advocate for Russian interests in its country, and influence the threat assessments of policy-makers on their Russian partners. As Kaczmarek puts it, “[domestic players] at the very least, partially ‘filter international pressures and opportunities...and mitigate factors such as historical grievances or suspicions’”.¹⁴ From a practical perspective, having a domestic partner also enables Russian representatives to meet directly with government officials and industrial networks. It provides more access to these people than they might otherwise get and, in doing so, builds confidence in Russian companies' projects at the local level. To be clear, not all Russian-initiated projects have a political element. Companies such as Gazprom and Rosneft are

14 M. Kaczmarek, “Russia's policy towards China: the role of domestic actors”, in “Russia's Emerging Global Ambitions”, *NDC Research Paper 11*, July 2020.

driven by commercial interests, but it is the melding of the two dimensions, economic and political, that differentiates these companies from most western private international energy companies. As one Gazprom executive explained, “of course we want to maximize profits, but we also have other factors such as job creation and social programs”.¹⁵ The former chief of Gazprom exports also alluded to this: “In my office there are two telephones, one is my normal company line and the other phone is one that I must always answer when rings”.¹⁶

Although influence sometimes comes in the form of companies aligning with Russia’s political goals, it should also be mentioned that engaging prominent individuals, namely politicians (usually they are retired) and their political parties, is another way of exerting influence. This is not unique to Russian companies; but, because of the prominence of energy companies in political-industrial circles, the strategy to co-opt these individuals will often be enacted through an energy company rather than other industries. Influential individuals are typically provided large consulting contracts or high-level positions; in return, they not only offer valuable political intelligence but also bring their networks and credibility to the projects. One of the most visible examples was the former German chancellor, Gerhard Schroeder, who shortly after leaving government joined the Nord Stream pipeline consortium. Over the past decade he has served in a variety of consulting roles for Gazprom. And this is not limited to Europe. The recent United States Secretary of State, Rex Tillerson, worked as the CEO of ExxonMobil and was awarded the Russian Order of Friendship by Vladimir Putin for leading deals with Rosneft.¹⁷ When it comes to political parties, energy companies or their subsidiaries (themselves not necessarily energy companies) will function as the vehicle for delivering financial support or in-kind support – i.e., clandestine activity aimed at bolstering the party in elections (election tampering).

Furthermore, there is a second group of individuals that are already part of networks accessible to Russian energy companies. Although they are nationals of NATO member states, they have a long-standing history of working with Russian energy companies. This second category of individuals is nearing retirement, if not already retired. In eastern Europe, these are professionals who often trained in the USSR to acquire skills in mining, engineering or the management and administration of petroleum companies. One such figure that the author interviewed was in the diplomatic service after German reunification, and moved to an influential post for Russian affairs at the Federal Ministry of Economic

15 Non-attributed, “Interview with Executive from Gazprom Marketing and Trading”, London, 29 October 2014.

16 Non-attributed, “Interview with Executive from GazpromNeft”, Moscow, 12 November 2012.

17 R. Shabad, “Why Russia honored Trump’s Secretary of State pick”, CBS News, 2016. <https://www.cbsnews.com/news/what-did-russia-give-to-trumps-secretary-of-state-pick-rex-tillerson/>, accessed 20 August 2020.

Affairs and Energy.¹⁸ An interview with one Latvian diplomat confirmed that after the Cold War, governments in the East Bloc had few choices but to recruit from the existing energy industry professionals.¹⁹ There are even persons coming from their countries' former security services who, in the course of their careers, concentrated on the financial and business practices of western (non-Soviet bloc) countries. This is a type of legacy network between professionals who remained in place after the end of the Cold War, as specialists in their field. Because of their relationships in Russia and knowledge of the Russian language and business practices, many of them rose to leadership positions in national energy companies or moved into the private sector after the end of the Cold War. One such individual is Matthias Warnig, a former officer of the East German security services (Stasi), who is now the CEO of the Nord Stream Consortium. Although not proven, media accounts suggest the possibility that Warnig knew Putin from their time in Dresden, where they were both posted in the 1980s – Putin as a KGB officer, and Warnig for the Stasi. Despite Warnig's denial of knowing Putin before Nord Stream, this claim is further supported by Warnig's tenure as the head liaison of Dresdner Bank in St. Petersburg when Putin worked for the municipality, with responsibility for organizing foreign business projects.

Russian domestic actors

The following are the main Russian companies that are the most common investors and partners in natural gas deals and joint ventures with European companies. They are either directly or indirectly (through subsidiary companies) involved in all of the large-scale natural gas deals between Europe and Russia over the past decade. They are frequently represented in Europe, either in the form of a wholly owned subsidiary or in a joint venture.

The first is Gazprom, Russia's biggest natural gas company, which is also the largest natural gas company in the world. The most prominent subsidiaries in Europe are GazpromExport, GazpromNeft, and Gazprom Germania, although Gazprom has local offices in most countries where its gas is distributed. The company, which generated revenues over USD 120 billion in 2019, is the successor to the Soviet natural gas industry.²⁰ It has operations along the entire natural gas value chain, from exploration and extraction to processing, transporting, distribution and marketing. Within the territory of the Russian Federation, it has a monopoly over the pipeline network, and any natural gas going through

18 Non-attributed, "Interview with Executive from the German Federal Ministry of Economic Affairs and Energy", Berlin, 12 October 2012.

19 Non-attributed, "Interview with Latvian diplomat", Berlin, 23 October 2012.

20 *Gazprom*, Forbes, 2020, <https://www.forbes.com/companies/gazprom/#5fed2be47ec8> (accessed 21 August 2020).

Russia to the European market has to go through Gazprom's pipelines. Gazprom along with Rosneft, which is its counterpart in the oil sector, are the jewels in the crown of the Russian petroleum industry and the backbone of Russia's economy. Although Russia flirted with the privatization of the oil industry after the collapse of the Soviet Union, natural gas has remained firmly in the hands of the state.²¹ The head of Gazprom, Alexei Miller, is part of Vladimir Putin's inner circle. Hailing from St. Petersburg, like most of the heads of Russian industry, he moved to Moscow with Putin.²²

Rosneft is Russia's largest oil producer and exporter.²³ Like Gazprom, it is also involved in natural gas, particularly in LNG and global projects that are not necessarily bound by the Russian pipeline infrastructure. In this way, Rosneft is more of the global arm of the Russian petroleum industry, whereas Gazprom is more regional, confined to Eurasia and its two primary markets – Europe and, increasingly, Asia.²⁴ It should be noted that Rosneft is the heir of Yukos and TNK-BP. While much of Russia's oil assets were sold off in the 1990s, either to foreign investors or to well-placed individuals through shady privatization schemes (those who would later become oligarchs), Putin reversed this course during his first term with a wave of nationalization in the strategic sectors of the Russian economy, beginning with the petroleum industry.²⁵ The head of Rosneft, Igor Sechin, is a long-time ally of Vladimir Putin and part of his inner circle who moved to Moscow from St. Petersburg along with Alexei Miller.²⁶

Novatek is Russia's largest private natural gas company and the second largest natural gas producer.²⁷ Novatek has been a rising star in the Russian petroleum sector in recent years, and it is the recipient of Russian assets and joint ventures with foreign actors, namely Total and E.ON. By far Novatek's greatest strategic project is Yamal LNG, where the company is the lead operator and manager of the consortium that involves both European and Chinese participation.²⁸ Novatek courted Chinese investors when Western companies

21 B. Whitmore, "Russia: the end of the loans-for-shares", *Radio Free Europe*, 29 September 2005, <https://www.rferl.org/a/1061761.html> (accessed 21 August 2020).

22 I. Bremmer and S. Charap, "The Siloviki in Putin's Russia: who they are and what they want", *The Washington Quarterly*, No.30, 2007.

23 *Rosneft*, *Forbes*, 2020, <https://www.forbes.com/companies/rosneft/#26771842498d> (accessed 21 August 2020).

24 A. Åslund and S. Fisher, "New challenges and dwindling returns for Russia's national champions, Gazprom and Rosneft", *The Atlantic Council*, 5 June 2020, <https://www.atlanticcouncil.org/in-depth-research-reports/report/new-challenges-and-dwindling-returns-for-russias-national-champions-gazprom-and-rosneft/> (accessed 21 August 2020).

25 T. Gustafson, "Putin's petroleum problem: how oil is holding Russia back – and how it could save it", *Foreign Affairs*, November/December 2012.

26 T. Stanovaya, "The Putin regime cracks", Carnegie Moscow Center, 7 May 2020, <https://carnegie.ru/2020/05/07/putin-regime-cracks-pub-81726> (accessed 21 August 2020).

27 "Novatek", *Forbes*, 2020, <https://www.forbes.com/companies/novatek/#2db34e18d0eb> (accessed 21 August 2020).

28 M. Humpert, "China continues to invest in Arctic natural resources as two Chinese national oil companies secure a 20

were restricted by sanctions resulting from Russia's illegal annexation of Crimea. Sanctions impacted not only foreign investment, but also access to LNG technology.²⁹ In response, the China National Petroleum Company (CNPC) and China National Offshore Oil Corporation (CNOOC) stepped in with the cash and technology that Novatek needed to finish the project. Together, these two Chinese companies have a 20 percent stake in Yamal LNG. Another interesting feature of Novatek is that it is the company with the largest share of foreign investment cited here, which is reflected in the company's foreign leadership. This underscores the deepening ties between Novatek and Total, which not surprisingly announced that it was exploring a new joint venture with Novatek to replicate Yamal LNG on a natural gas field next to the current facility. The extraction, processing and liquefaction megaproject is estimated to cost USD 21 billion, and will include a liquefaction plant for export to both Europe and Asia.³⁰

Lukoil is the largest private oil company in Russia, and the country's second largest company after Gazprom.³¹ Like all of the main petroleum companies, it deals in both oil and natural gas, but the primary commodities of production are oil and petroleum by-products. The chairman of Lukoil, Vagit Alekperov, is also its founder, who oversaw the formation of the company as a state-owned enterprise in the last month of the Soviet Union's existence, and then through the company's privatization in the following years.³² Lukoil is the company with the longest history of being publicly traded and having commercial operations both in Russia and abroad. Something unique about Lukoil is that the company survived the period of nationalization under Putin's first two terms unharmed, unlike Yukos. This implies that the leadership was able to demonstrate sufficient adherence to Vladimir Putin's implicit rules of operating a private company in the energy sector.

These four companies and their subsidiaries are the main companies of Russia's energy sector. Despite the fact that two are state-owned and two are in private hands, the leader of each company responds to direction, either explicitly or implicitly, from the president. As the example of Mikhail Khodorkovsky and demise of Yukos illustrate, even private companies are beholden to the state. They are allowed to operate as long as they stay out of politics and follow the direction of the state. There exists an implicit understanding that

percent stake in Russia's massive Arctic LNG 2 Project", *High North News*, 29 April 2019, <https://www.highnorthnews.com/en/china-acquires-20-percent-stake-novateks-latest-arctic-lng-project>, accessed 21 August 2020.

29 N. Mehdiyeva, "When sanctions bite: global export leadership in a competitive world and Russia's energy strategy to 2035", *NDC Russian Studies*, No.1, February 2017, <http://www.ndc.nato.int/research/research.php?icode=0> (accessed 21 August 2020).

30 N. Wakim, "Paris pourrait soutenir un projet gazier dans l'Arctique", *Le Monde*, 4 September 2020, p.15.

31 "Lukoil", *Forbes*, 2020, <https://www.forbes.com/companies/lukoil/#11c46ecb1f2c> (accessed 21 August 2020).

32 J. Corcoran, "Lukoil: Russia's sleeping giant", *Petroleum Economist*, 8 July 2016, <https://www.petroleum-economist.com/articles/corporate/company-profiles/2016/lukoil-russias-sleeping-giant> (accessed 21 August 2020).

company goals must align with those of the state. For the most part, operating a profitable commercial venture does not go against the interests of the state. Politics (non-commercial interests) influences these companies only periodically, when the state deems it necessary.

**Table 1. Prominent European and Russian
energy/services companies taken into account in the study**

European	Russian
BASF (Germany)	Gazprom and subsidiaries
BP (United Kingdom)	Lukoil
E.ON (Germany)	Novatek
ENGIE (France)	Rosneft and subsidiaries
ENI (Italy)	
Siemens (Germany)	
Total (France)	

Conclusion

Europe would do well to consolidate its bargaining power in its natural gas negotiations *vis-à-vis* Russia.¹ A divided Europe that does not have a common energy security policy – and a strong institution to enforce it – is inevitably weaker. Most East-Central European (ECE) countries are especially vulnerable to Russia's use of natural gas as an instrument of coercion, and they are bound to remain so without the support of NATO's larger European member states, Germany, France, the UK and Italy. While Russia can afford to disrupt natural gas supplies to individual countries because of the asymmetric interdependence in the trade of natural gas between these states and Russia, Moscow could not use natural gas as an instrument of coercion against a united European front. The consolidation of bargaining power in Europe (which has yet to materialize) would underscore that Russia needs to export its natural gas to Europe as a whole.

The fuels of the distant future in Europe will most likely revolve around renewables (such as solar and wind), nuclear (despite the Fukushima nuclear crisis and Germany's decision to shut all its nuclear reactors by 2022) and new energy (such as fusion). Until green power will be able to take on the electricity load, Europe will continue to depend “on gas for heating and some electricity – but the bulk of the supply comes from Russia, which hasn't hesitated to use energy as a form of political blackmail”.²

Considering the growth in natural gas and petroleum products trade flows, changes in the natural gas infrastructure and the prevailing different positions on Russia within the Alliance, we have argued that the balance of dependence has been shifting toward a stronger position for Russia. This study's outlook is confined to the near to medium term, out to 2030. However, it is important to note that Russia's ability to put divisive pressure on NATO member states with natural gas, the likes of which have caused the current rift between some European states and the US (Germany, France and Italy in support, with the US, Poland, Estonia, Latvia, and Lithuania in opposition), is valid for the foreseeable future, in at least the near to medium term. Recent events including the coronavirus pandemic have kept oil prices low, and the outlook for the future will depend much on how quickly and to what extent the global economy recovers.

1 E. Christie, P. Baev and V. Golovko, “Vulnerability and bargaining power in EU-Russia gas relations”, *FIW-Research Reports* 2010/11, No.3, March 2011.

2 B. Walsh, “The gas dilemma (Cover Story)”, *Time*, No.177, p.42, 2011.

Most threatening to Russia is the long-term shift to renewables and green energy. The fact that we are experiencing a surge in electric vehicle sales is a grim development for petrostates, because the transportation sector is the highest oil-consuming sector of the world's economy. As demand for oil diminishes, this will put more pressure on Russia to make up for lost revenue with natural gas, thereby reducing any room to manipulate prices for political purposes. Thus, the long-term outlook for Russia's natural gas industry is more promising than oil, and this makes natural gas an even more strategic matter of security for Russia's future dealings with Europe.

With respect to NATO and Russia, the two are growing further apart politically. Although European imports of Russian natural resources have grown steadily, the interdependence that once constrained Russia's behavior is diminished. At the same time, trading with Russia remains as divisive an issue as ever within Europe and the Alliance. The show of a unified front toward Russia regarding energy imports that existed in 2015 has eroded. As one observer at an EU-sponsored event put it, "during the official panels, all of the [European] countries spoke with one voice about Ukraine, but then during breakouts, each country tried to have bilateral talks with the Russian delegation".³

The growing split between Europe and Russia is taking place not only at the political level, but also at the level of individual networks. Despite the contentious history between Russia and many of the east European states, a network of relations has developed between west European and Russian individuals in both government and the private sector. These relationships formed the foundations of trust that enabled large-scale collaboration to take place and flourish over the past five decades.⁴ Academics have scarcely covered this aspect of European-Russian energy cooperation; and, when they have, it has been underappreciated. Conversely, practitioners involved in joint projects and commercial dealings often emphasize this 'relationship capital' as having been integral for the success and stability of operations over the years.⁵ Whether or not the development of such a network was by design, the fact that it existed introduced a degree of stability to European relations with Russia, and it was part of the interdependence between both sides. Although we argue the interdependence was skewed in Russia's favour, these relationships transcended politics and were an asset that Europe could use to get through diplomatic impasses. Two examples come readily to mind. The first is the use of these individuals during the 2010 gas war between Ukraine and Russia, when Europe, and instrumentally Germany,

3 Non-attributed, "Interview with DG Energy conference participant", Brussels, February 2016.

4 M. Ozawa, "Trust and European-Russian energy trade: the case of oil and gas partnerships and long-term contracts", *EPRG Working Paper Series*, University of Cambridge, No.1409, July 2014, <http://www.eprg.group.cam.ac.uk/eprg-1409/> (accessed 13 October 2020).

5 *Ibid.*

mediated a breakthrough agreement.⁶ The second occurred in 2013, when a network of individuals lobbied the Putin government to pardon and release the CEO of Yukos, Mikhail Khodorkovsky, who at that point was imprisoned in a Siberian jail. In the midst of the Ukraine crisis, Vladimir Putin gave an interview warning that the “trust that we’ve built over the years is at risk – it would be a tragedy to lose this”.⁷ With the loss of these critical relationships, either because of age (retirement) or through insurmountable political headwinds, Europe has lost a lever of counter-influence that it used to have over Russia.

At the country level, security considerations appear to be losing the battle with commercial interests. In one prominent NATO member state, Germany, the joint venture infrastructure project (Nord Stream 2) that was frozen after Crimea was recently approved at the national level, and then arbitrated in the EU courts with support from the German government.⁸ Before Crimea, German energy companies took an active role in driving the formulation of energy policy. However, as one diplomat from the country put it, “the Ukraine Crisis changed everything; we told [the energy companies] that security trumps business now”.⁹ Five years on, with construction of Nord Stream 2 near completion, it appears that Europe is returning to business-as-usual with the energy companies having taken the lead in the energy policy-making process. This is further exacerbating the gulf between the US and the older European NATO members, as demonstrated by the United States Senate’s formal notice to German commercial participants in the context of sanctions imposed on companies and individuals involved in the construction of Nord Stream 2.¹⁰ At the global level, this also reflects the growing sense of competition for markets, particularly between Russia and North America (the US and Canada) over access to the European market. Regardless of whether NATO chooses to relegate matters of energy security to the EU, it will continue to find itself in the crosshairs of the energy security debate, because it is one of the few platforms where states with competing positions congregate.

The fear of many policy-makers and military strategists is that European divisions can and will ultimately express themselves geopolitically in divisions among NATO’s old

6 K. Westphal, “Russian Gas, Ukrainian pipelines, and European supply security”, Stiftung Wissenschaft und Politik, No.11, 2009.

7 Official website of the President of Russia, “Interview to German TV channel ARD”, President of Russia, <http://en.kremlin.ru/events/president/news/47029> (accessed 23 July 2020).

8 C.A. Matamoros, “Russia’s Nord Stream 2 Pipeline takes EU to court”, *Euronews*, 26 July 2019, <https://www.euronews.com/2019/07/26/nord-stream-2-pipeline-takes-eu-to-court-for-trying-to-stall-project-with-unfair-legislati> (accessed 1 October 2020).

9 Non-attributed, “Notes from Interview with German diplomat”, Cambridge, February 2016.

10 Original letter found in Annex 6: E. Solomon and K. Manson, “US Senators’ Letter on Nord Stream 2 sparks outrage in Germany”, *The Financial Times*, 19 August 2020, <https://www.ft.com/content/f43fa079-bf7f-4efa-8f72-ae9fd4a5368f> (accessed 21 August 2020).

and new member states. Brzezinski wrote that “Russia’s policy toward NATO – driven by historical resentment of the Soviet defeat in the Cold War and by nationalist hostility to NATO’s expansion – is likely to try to promote division between the United States and Europe and, within Europe, between NATO’s old members and NATO’s new members”.¹¹ These divisions are amplified by the unwillingness of many ECE countries to oppose Russia – because of fear that Russia will use its monopoly of natural gas as an instrument of coercion that could slow down economic growth – and by the reluctance of many west European countries to oppose Russia politically – for fear of losing the short-term economic benefits that Russia offers them. Germany, for example, despite being the least susceptible European NATO member to Russian coercion, will still support Russia’s policies as long as the short-term economic gains are ensured.

In the past, there were networks of relationships holding deals together and thereby bringing a measure of stability to European-Russian energy trade. This was also instrumental for resolving conflicts. Despite the contentious politics, these networks can provide a sort of pressure valve when formal negotiations are at an impasse or when they break down. These relationships were critical in the past; and, looking ahead, the inclusion of commercial networks in security discussions at the national, EU and NATO level can help to mitigate risk of further conflict in energy dealings with Russia and build consistency of messaging between government and the private sector towards Russia, thereby mitigating opportunities for Russia to ‘divide and rule.’

There is another reason to expand the network of stakeholders involved in energy relations with Russia. The fact that energy companies are included in the operational command of security structures in Russia means that there exists a degree of coordination between the government and industry that is impossible to replicate in the NATO context.

However, this does not mean that a degree of coordination cannot take place between NATO and industrial actors. The more involved private companies are in the discussions of security considerations, the more it will help to promote an alignment of goals and common threat assessments, thereby empowering Europe to better negotiate with Russia on future trade arrangements.

Whatever the policy positions turn out to be, Europe and NATO can only benefit from greater inter-organizational collaboration between NATO and the EU in terms of coordinating policies and presenting a united and consistent message on energy security and Russia. The substance of the security discussion would be advanced with greater participation from the private sector, not to mention that their involvement will be necessary

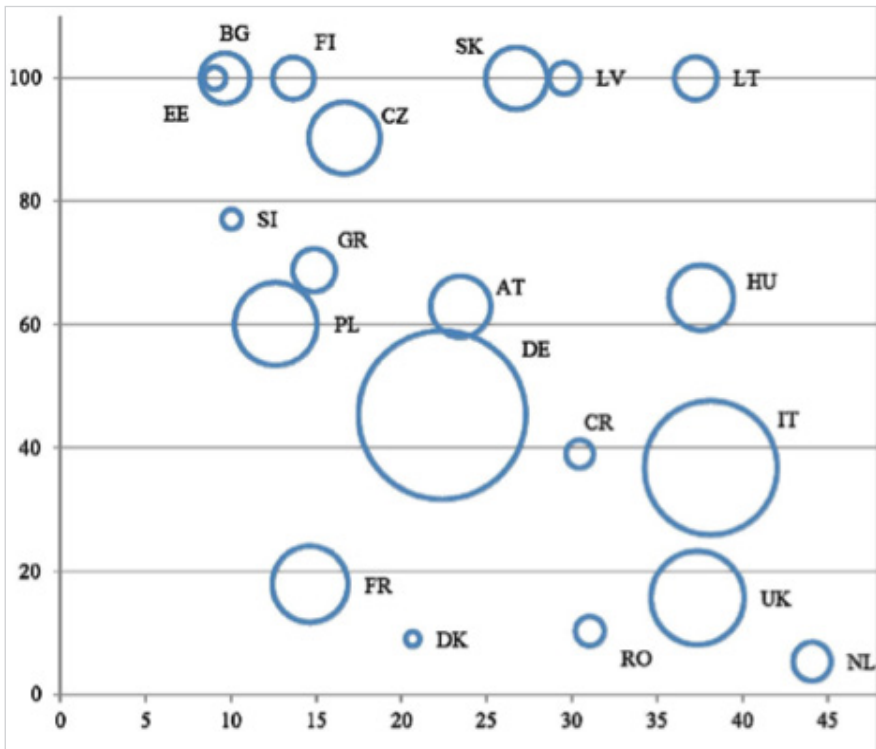
11 Z. Brzezinski, “An agenda for NATO: toward a global security web”, *Foreign Affairs*, Vol.88, No.5, September/October 2009, p.3.

for the implementation of future policies that extend beyond national borders. Individual channels are probably not enough. There needs to be consistent interaction among NATO, the EU and private actors in order for security issues to be effectively communicated throughout the organizations. Because each organization has its own focus reinforced by an individual functional culture (for example, DG Energy staff are mostly trained in economics), multiple interactions will be important for inter-institutional learning.

Additionally, considering Russia's 'pivot to the east' and growing security cooperation with China (which includes both energy and military collaboration), the rise of China will have geopolitical ripple effects in Europe's energy relations with Russia. This is illustrated already by the example of Yamal LNG. China's growing interest in the Arctic as both a trade route and source of energy will further drive it to cooperate with Russia, and this is a security consideration that will grow for NATO in the future. This scenario further underscores why energy must be part of a broader security discussion that spans the range from military to economic affairs. Countries like Russia and China have an integrated security approach in their foreign relations. If NATO states approach energy relations with these countries purely from a commercial perspective, they will be doing so at a distinct disadvantage. The more coordinated their energy dealings are with other stakeholders, both at the national level and at the European and NATO level, the stronger their position will be in the future.

Annex 1

Dependence on natural gas supplies from Russia



Horizontal axis: % of natural gas in the energy mix

Vertical axis: % of Russian natural gas in national natural gas consumption

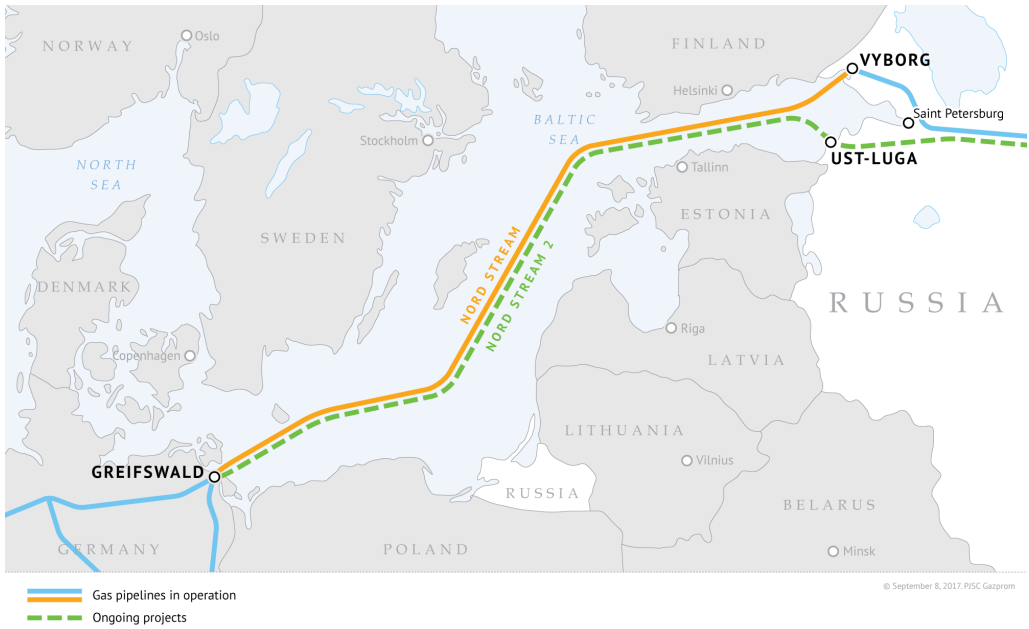
Size of the circles: volume of imported Russian natural gas

Estimates based on preliminary industry data for 2013, including natural gas volumes traded by Russian companies but not necessarily produced in Russia.

Source: European Commission's European Energy Security Strategy (2014).

Annex 2

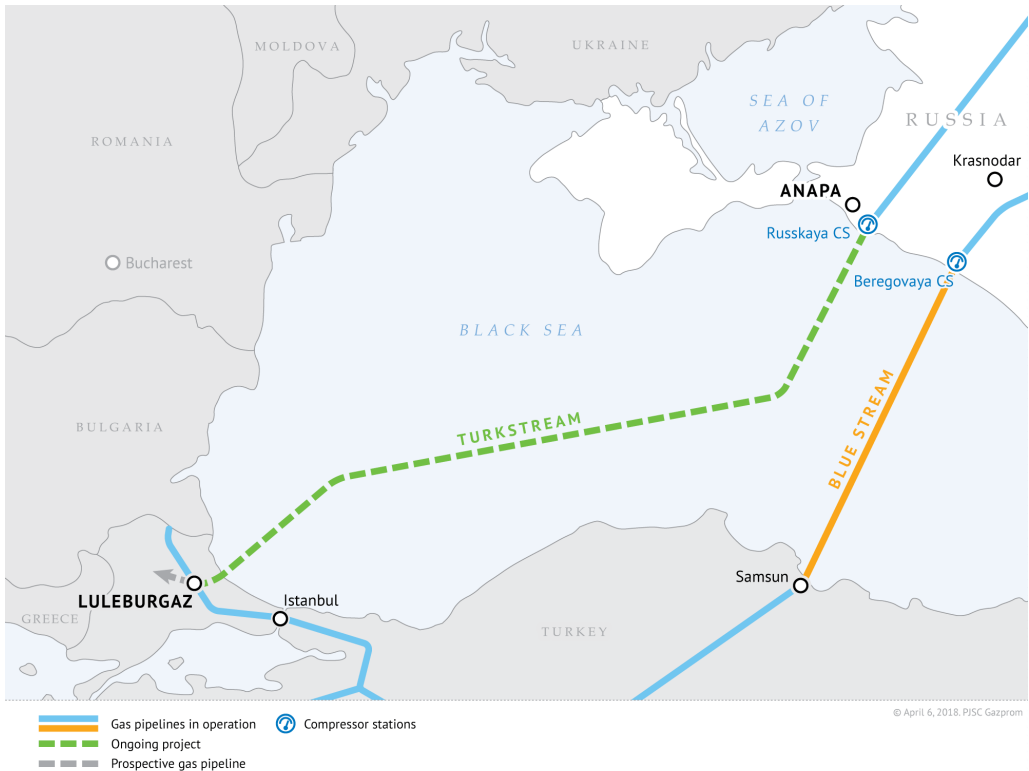
Map of Nord Stream 1 and 2 pipelines



Source: Gazprom, <https://www.gazprom.com/projects/nord-stream/>

Annex 3

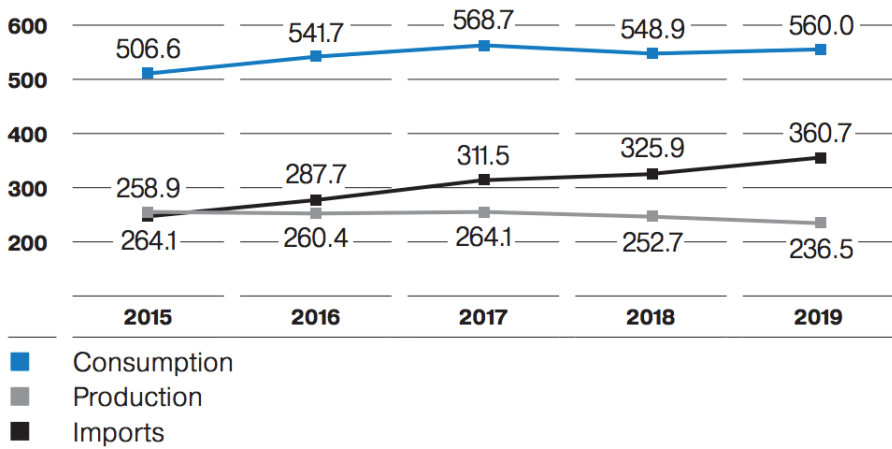
Map of TurkStream pipeline



Source: Gazprom, <https://www.gazprom.com/press/news/2019/june/article482897/>

Annex 4

EU-28 Natural Gas Consumption, Production and Imports (2015-2019)



Units are in billion cubic meters (bcm).

Source: PJSC Gazprom, 2019 Annual Report, <https://www.gazprom.com/jf/posts/72/802627/gazprom-annual-report-2019-en.pdf> (accessed 20 August 2020).

Annex 5

EU Energy Union Package document (excerpt)



Brussels, 25.2.2015
COM(2015) 80 final

ENERGY UNION PACKAGE

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK

A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy

The Energy Union in fifteen action points

1. Full implementation and strict enforcement of existing energy and related legislation is the first priority to establish the Energy Union.

- The Commission will use all instruments to ensure that Member States fully implement energy legislation, in particular the 3rd Internal Energy Market Package, and it will strictly

enforce the Treaty's competition rules.

2. The EU needs to diversify its supply of gas and make it more resilient to supply disruptions.

- The Commission will propose a resilience and diversification package for gas in 2015-2016 by revising the existing security of gas supply Regulation.
- The Commission will prepare a comprehensive strategy for liquid natural gas (LNG) and its storage, and
- The Commission will work with Member States to develop access to alternative suppliers, including from the Southern Gas Corridor route, the Mediterranean and Algeria, in order to decrease existing dependencies on individual suppliers.

3. Intergovernmental agreements should comply fully with EU legislation and be more transparent.

- The Commission will propose a revision of the Decision on Intergovernmental Agreements in 2016 to ensure compatibility with EU legislation before agreements are negotiated, involve the Commission in such negotiations, develop standard contract clauses covering EU rules and make commercial gas supply contracts more transparent.

4. The right infrastructure is a precondition for completing the energy market, integrating renewables and security of supply.

- The Commission will support the implementation of major infrastructure projects, particularly the Projects of Common Interest, through the available financial means, e.g. the Connecting Europe Facility, the European Structural and Investment Funds and the future European Fund for Strategic Investments to leverage the necessary private and public funding.
- The Commission will bring together information on EU-funded infrastructure projects to bring more coherence and to maximise their impact.
- The Commission will create a dedicated Energy Infrastructure Forum to discuss progress on major infrastructure projects with Member States, regional cooperation groups and EU institutions. It will meet for the first time in late 2015.

5. Creating a seamless internal energy market that benefits citizens, ensuring security of supply, integrating renewables in the market and remedying the currently uncoordinated development of capacity mechanisms in Member States call for a review of the current market design.

- The Commission will propose legislation on security of supply for electricity in 2016.
- The Commission will propose a new European electricity market design in 2015, which will be followed by legislative proposals in 2016.

6. The regulatory framework set-up by the 3rd Internal Energy Market Package has to be further developed to deliver a seamless internal energy market to citizens and companies.

- The Commission will review the regulatory framework, in particular the functioning of

ACER and the ENTSOs, in 2015-2016 and will propose appropriate actions to reinforce the European regulatory framework.

7. Regional approaches to market integration are an important part of the move towards a fully integrated EU-wide energy market.

- The Commission will develop guidance on regional cooperation and engage actively in regional cooperation bodies with Member States and stakeholders.

8. Greater transparency on energy costs and prices as well as on the level of public support will enhance market integration and identify actions that distort the internal market.

- The Commission will produce biennial reports on energy prices, analyse in depth the role of taxes, levies and subsidies and seek the phasing out of regulated prices below cost.
- At the national and local levels, action should be taken to protect vulnerable consumers through social policies.

9. The EU has set itself the target of reaching at least 27% energy savings by 2030.

- In 2015 and 2016, the Commission will review all relevant energy efficiency legislation and will propose revisions, where needed, to underpin the 2030 target.
- Member States and regions should make more use of European funds for renovation of housing.

10. Buildings have huge potential for energy efficiency gains. Retrofitting existing buildings to make them energy efficient and making full use of sustainable space heating and cooling will reduce the EU's energy import bills, reinforce energy security and cut energy costs for households and businesses.

- The Commission will develop a 'Smart Financing for Smart Buildings'-initiative to make existing buildings more energy-efficient, facilitating access to existing funding instruments.
- The Commission will propose a strategy to facilitate investment in heating and cooling.

11. The EU needs to speed up energy efficiency and decarbonisation in the transport sector, its progressive switch to alternative fuels and the integration of the energy and transport systems.

- The Commission will propose a comprehensive road transport package promoting more efficient pricing of infrastructure, the roll-out of intelligent transport solutions and enhancing energy efficiency.
- The Commission will take further action to create the right market conditions for an increased deployment of alternative fuels and to further promote procurement of clean vehicles. This will be delivered through a mix of national, regional and local measures, supported by the EU.

12. The EU agreed a climate and energy framework for 2030 at the October European Council. This

now needs to be implemented. The EU will provide an ambitious contribution to the international climate negotiations.

- The Commission will propose legislation to achieve the greenhouse gas reduction target agreed at the October 2014 European Council both in the Emissions Trading System and in the sectors outside the Emissions Trading System.

13. The EU has agreed the target of at least 27% at EU level for renewable energy by 2030.

- The Commission will propose a new Renewable Energy Package in 2016-2017. This will include a new policy for sustainable biomass and biofuels as well as legislation to ensure that the 2030 EU target is met cost-effectively.

14. The EU needs to develop a forward-looking, energy and climate-related R&I strategy to maintain European technological leadership and expand export opportunities.

- The Commission will propose a European energy R&I approach, comprising an upgraded Strategic Energy Technology Plan and a strategic transport R&I agenda, with a limited number of essential priorities and clear objectives, in 2015-2016.
- The Commission will develop an initiative on global technology and innovation leadership on energy and climate to boost jobs and growth.

15. The EU will use all external policy instruments to ensure that a strong, united EU engages constructively with its partners and speaks with one voice on energy and climate.

- The Commission, with the HR/VP, and the Member States will revitalise the EU's energy and climate diplomacy.
- The Commission, with the HR/VP, will develop an active agenda to strengthen EU energy cooperation with third countries, including on renewable energy and energy efficiency.

The Commission will make full use of the EU's external trade policy to promote access to energy resources and to foreign markets for European energy technology and services.

Annex 6

US Senate letter outlining sanctions on Nord Stream 2 affiliated companies



August 5, 2020

Harm Sievers, Managing Director of Mukran Port
Fährhafen Sassnitz GmbH
Im Fährhafen 20
18546 Sassnitz / Neu Mukran
Germany

Fridjof Ostenberg, Legal Director of Mukran Port
Fährhafen Sassnitz GmbH
Im Fährhafen 20
18546 Sassnitz / Neu Mukran
Germany

Dear Messrs. Sievers and Ostenberg:

Fährhafen Sassnitz GmbH operates Mukran Port, which is knowingly providing significant goods, services, and support for the Nord Stream 2 project, including by provisioning vessels for the project. Mukran Port stores Nord Stream 2 pipes and provisions the Russian-flagged vessels Fortuna (IMO: 8674156, MMSI: 273395690) and Akademik Cherskiy (IMO: 8770261, MMSI: 273399760), after officials from the Russian Federation publicly and repeatedly indicated they intend to use one or both of these vessels to complete the Nord Stream 2 project.

This letter serves as formal legal notice that these goods, services, support, and provisioning risk exposing Fährhafen Sassnitz GmbH and Mukran Port, as well as your board members, corporate officers, shareholders, and employees, to crushing legal and economic sanctions, which our government will be mandated to impose. These sanctions include potentially fatal measures that will cut off Fährhafen Sassnitz GmbH from the United States commercially and financially. The only responsible course of action is for Fährhafen Sassnitz GmbH to exercise contractual options that it has available to cease these activities.

There is a broad array of U.S. sanctions and guidance targeting the Nord Stream 2 project, reflecting years of bipartisan, bicameral, and interbranch efforts and constituting a whole-of-government consensus that the pipeline must be stopped.

On December 20, President Trump signed into law the National Defense Authorization Act (NDAA) for Fiscal Year 2020. Title LXXV of the bill, the Protecting Europe's Energy Security Act of 2019 (PEESA), requires that the President impose broad sanctions on foreign persons or companies involved in providing vessels for the installation of deep-sea pipeline for the Nord Stream 2 project. The sanctions are mandatory and there is no discretion in imposing them.

On July 15, Secretary of State Pompeo announced that the U.S. considers support for the construction of Nord Stream 2 to be sanctionable pursuant to Section 232 of the Countering America's Adversaries Through Sanctions Act (CAATSA), which authorizes sanctions on persons or companies that provide "goods, services,... or support" "for the construction of Russian energy export pipelines", which is ultimately owned by Gazprom. In testimony to the Senate Foreign Relations Committee later that month, Sec. Pompeo confirmed that the "reason that we made that change in that language" regarding CAATSA was because the United States is "fully intent [on] sanctioning those that violate the provisions that are there, both in CAATSA and otherwise", which prohibit involvement in the Nord Stream 2 project.

On July 23, the U.S. Senate passed its version of the NDAA for Fiscal Year 2021. The bill clarifies and expands PEESA by requiring sanctions against persons or companies that engage in any pipe-laying activities for the construction of Nord Stream 2, that facilitate providing vessels for such activities, or that provide insurance or certain services for those vessels. As with the prohibitions described in the FY20 NDAA, the sanctions are mandatory and there is no discretion in imposing them.

Your provisioning of the Fortuna or Akademik Cherskiy will certainly have become

sanctionable the instant that either vessel dips a pipe into the water to construct the Nord Stream 2 pipeline, or engages in any pipe-laying activity relevant to the project, but your exposure extends to any activities related to goods, services, or support of the pipeline. The law requires that “the President shall” issue the designations.

The board members, corporate officers, and shareholders of Fährhafen Sassnitz GmbH will be prohibited from entering the United States, and any property or interests in property they have within our jurisdiction will be frozen. Any property or interests in property that Fährhafen Sassnitz GmbH has within United States jurisdiction will also be frozen, as will any future property that comes into our jurisdiction, including any transactions that pass through our financial system. In fact, all American persons and companies will be forbidden from engaging in any transactions with any of those persons or with Fährhafen Sassnitz GmbH, including exporting goods through Mukran Port or importing goods from Mukran Port, or insuring ships that conduct such activities. Fährhafen Sassnitz GmbH and its board members, corporate officers, shareholders, and employees will be cut off from the United States.

These sanctions are not just mandatory but immediate. Under some scenarios, the law contemplates good faith wind-down periods when ongoing sanctionable activities were ceased immediately after the passage of sanctions. However, in your case, against the backdrop of multiple Congressional statutes and guidance from our government, and of Russian declarations that they intend to use the Fortuna or Akademik Cherskiy to finish construction of Nord Stream 2, it is difficult to envision any good faith exemptions.

The U.S. government knows that the Nord Stream 2 pipeline is near completion and considers it a grave threat to European energy security and American national security. Investments in and support of the pipeline moreover introduce risks to the hygiene of the U.S. financial system and reputational risks to all companies involved in related transactions, including any American companies. The administration and Congress, and both parties, are united in their commitment to ensure that the pipeline remains uncompleted and those threats are never realized.

The Russian Federation has expressed its willingness to tolerate sanctions on its ships and companies to complete the Nord Stream 2 pipeline. Russian officials assess that the economic and geopolitical windfalls from the pipeline are worth the cost. They also believe that sovereign immunity and raw economic power insulate them from potential legal liability.

The calculations that Fährhafen Sassnitz GmbH must make are different. If you continue providing goods, services, and support for the Nord Stream 2 project, including by provisioning the Fortuna and Akademik Cherskiy, you would destroy the future financial viability of your company. In the meantime, you would devastate your shareholders' value and surely face billions of dollars in shareholder derivative suits for your breach of fiduciary duty.

We urge you to take immediate action to prevent these scenarios.



Ted Cruz
United States Senator



Tom Cotton
United States Senator



Ron Johnson
United States Senator

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