

European energy and climate policy in the face of the Russian interventions in Crimea and Ukraine

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A long-term, permanent crisis

1. The Russian intervention in Crimea—and its effective annexation—comes in a context in which Russian intervention in Ukraine has been a continuing feature of southeast European politics for generations. This is Russia's backyard, and from the mid-nineteenth century Crimean War to Stalin's deliberate famine in the interwar years, the mass deportation of the Crimean Tatars after the Second World War, to today's intervention, the underlying theme has been a combination of strategic interest and the belief that Ukraine is not a proper country, but rather a Russian satellite.
2. This intervention is not going to be the end of the matter. The borders of Russia have not settled down, and Europe will face instability on its eastern borders for many years to come. The question here is what Europe should do about it.

Europe's enduring energy dependencies

3. In the context of Europe's long-term energy dependency on Russia, Ukraine represents a major energy corridor. Europe has relied on Russian oil (and more recently, gas) for a century, regardless of the political regime in Russia.
4. From time to time, Russia flexes its energy muscles on those countries that are most exposed to this energy dependency. For the Baltic States, and Poland in

particular, recent events are part of a pattern, and in these cases energy security means getting out of the Russian energy “bear hug”.

5. The Russian “bear hug” has been carefully cultivated. It has several dimensions. First, and crucially, there is the development of the special German-Russian relationship. Second, there is the divide-and-rule of Gazprom’s gas contracting. Third, there are the direct corporate engagements, especially in respect of German industry, but also involving many of the key European energy companies from BP and its investment in Rosneft through to ENI and the major gas companies.

The German special relationship

6. The special relationship between Russia and Germany is deep and historical. Germany has had a long-term energy weakness—it relies on imports. However much it exploits its heavily polluting lignite coal reserves, the fact is that it has little oil or gas of its own. That is why oil figured so highly in its strategies for the Second World War (as it did for Japan), and why Russian supplies remain a core part of its broader energy supplies now.
7. The most recent manifestation of this energy relationship has been the Nord Stream pipeline direct from Russia to Germany. It bypasses the Baltic States and Poland—fellow EU members—and this was on Putin’s behalf quite deliberate. The then German Chancellor, Schröder, let Putin have his way, and within a matter of weeks of taking the decision as Chancellor, he became chairman of Nord Stream. In the years since he has played a pivotal role in many of the Russian energy dramas, including not least the BP-TNK case. Schröder turned the special political relationship between Russia and Germany into a special personal one. Some Poles even saw an analogy between the Nord Stream pipeline and the agreement between Ribbentrop and Molotov in 1939 to supply oil to Germany in exchange for carving up Poland.
8. For as long as this relationship continues, and notwithstanding the rather different personal interactions between Merkel and Putin than those with Schröder, Russia has been able to rely on an “understanding” major partner in Europe. The rhetoric may now be tougher than under Schröder, but the practice is unlikely to be very different.
9. The relationship plays out in a myriad of ways. There are the deep corporate economic ties, and associated investments. German companies have a lot to lose if the relationship breaks down. No wonder the talk of sanctions sends a

shudder through German boardrooms, and German industrial lobbies have urged restraint and caution when it comes to the possibilities of sanctions.

Gazprom as a political instrument

10. Russia has little difficulty in blurring the distinction between its key energy companies and its government. Gazprom is portrayed as an arm's length company when it suits. Yet there is no doubt it is also an instrument of the Russian government. In Russia the companies' management is intimately linked to the small political clique that runs Russia. Ministers and managers are in large measure members of the same controlling elite, and they typically reap the rewards that go with the control of Russia's fossil fuels, in turn the main drivers of the Russian economy for over a century. Both the political and the corporate are personal matters in Russia.
11. Gazprom uses its market power very effectively. The current European Commission inquiry into its conduct has already revealed behaviours that look a strong contrast to those expected in a competitive market. The long-term contracts are often opaque and they clearly differ from country to country. They can be "flexed" when it suits, as the Ukrainians have repeatedly experienced. Discrimination is the norm not the exception.

Using gas as a weapon against Ukraine

12. "Dealing" with Ukraine has been on the Russian agenda for a long time. It became much more urgent when the "Orange Revolution" broke out, when it looked like Ukraine was heading for the democratic, liberal and Western model of government. That this first arose whilst the lease on the Sebastopol military base was under review added to Russia's concerns.
13. The obvious Russian leverage on the Ukrainian government is gas, and it has been repeatedly used. Part of the strategy has been longer term—to isolate Ukraine from its European customers by bypassing it. That is what Nord Stream and now South Stream are all about. Add in Russia's frantic (and largely successful) effort to kill off the Nabucco pipeline, and the "bear hug" remained over the European customers whilst maximizing the exposure of Ukraine. Indeed, if anything, the bear hug has become tighter.
14. Just to remind the Ukrainians of the naked power of Russia, there have been two previous episodes when Russia has interrupted the supplies—2006 and 2009—punctuated by Russia's invasions of South Ossetia and Abkhazia in

2008. This not only reminded the Ukrainians that Russia had a credible threat of force, but also succeeded in scaring off the possibility of Ukrainian (and Georgian) NATO membership—that precious attribute that Poland and the Baltic states cling onto.

European passivity

15. 2006 and 2009 should have been serious wake-up calls for the Europeans, and the lessons should by now be deeply embedded in the EU's energy policies. Yet the curious feature of the energy policy that emerged from the middle of the last decade is just how little serious effort has been put into security—in particular Eastern security. Instead the main efforts have focused on the internal energy market and the climate change package. Whilst it is true that European politicians have tried to portray both of these as enhancing security, they are poor substitutes for a serious energy security policy.
16. A clue is that one of the pillars is called the “internal” and not the “external” energy market. Market integration no doubt helps, but it is the physical infrastructure that matters. Internal resilience to Russia's threats and its market power come from interconnectors, reverse flows, and common access to storage. It is true that the Commission has kept banging on about interconnectors and the physical infrastructure, but it is also true that the actual impacts on the ground have been poor.
17. It has also been claimed that the climate package has led to diversification. Lots of solar panels and wind farms are at least European energy sources. But again these add very little to security, and arguably in some cases they make matters worse because they are intermittent. The one technology that might add significantly to security—nuclear—is being deliberately phased out in Germany, and is given a second rate role in the EU Energy Road Map. It does not figure in the renewables obligation. Indeed the biggest contribution to security has probably come from the economic crisis, deindustrialization and the consequent decline in demand. Economic failure has left many European countries with excess supplies.
18. The single fuel source that has added to security is the one that the climate package should be trying to close down—coal. It has made a remarkable recovery, making a mockery of the “greening” of Europe's energy sector.
19. External security means in the first instance reducing Europe's dependence on Russia in general, and Gazprom in particular. It is striking that no serious

progress has been made on this in the last decade—indeed, if anything, matters have been getting worse.

20. What should Europe do if it is serious about energy security—and also wants to be competitive and to decarbonise? There are four components: provide substantial support for the front line states; develop alternative gas supplies; develop alternative large-scale electricity generation; and concentrate on the physical interconnections within Europe.

Serious support for front line states

21. For many in Western Europe it is all too easy to forget that for half of Europe the Second World War occupations ended in 1990, not 1945. It is perhaps the greatest triumph of the EU that the liberalization of Eastern Europe happened peacefully, and democracy became the norm. The Baltic countries remember the Soviet invasions in 1940 and the pretexts used about defending Russians living there—eerily echoed in the arguments about protecting Russians in Crimea. Estonia and Latvia still have this Russian minority question. The Baltics are overwhelmingly dependent on Russian energy supplies. For these countries energy security comes first—long before the internal market and climate change.
22. Poland has by far the biggest economy and population amongst the Eastern European countries formerly in the Soviet Union. Parts of Ukraine were once Polish. Its electricity is overwhelmingly generated by coal. Imagine how it appears in Warsaw when the EU demands that it decarbonizes, and the only short-term option is gas, and that gas comes from Russia. It might of course add renewables (including biomass) but when it comes to coal the only bulk alternative other than gas for Poland is nuclear. In effect, Poland is being left on the outside of the Nord Stream pipeline, beholden to Russia for gas supplies, and then being told to get out of coal. A more credible and sensible European policy would be to put in place mechanisms that help Poland transition out of coal, and in the process enhance its gas security. Germany has done the opposite.

Alternative gas supplies

23. In the case of other gas supplies, Europe does in fact have lots of options. But it has not invested in the political and physical requirements to turn possibilities into concrete alternatives. In addition to Russia, Europe is surrounded by potential gas supplies. These include the North Sea, the

Caspian area, and North Africa, from Libya to Algeria. To make any of these secure and long-term suppliers, the EU needs a political framework and the pipelines. The former has been strikingly absent. Why would Azerbaijan devote gas to a possible Nabucco pipeline and offend Russia in the process unless it has some serious guarantees? In the case of the oil pipeline from Baku to Tbilisi and then Ceyhan, the Americans came in with that security comfort. Not so for the Nabucco pipeline—especially when Russia and Gazprom persuaded major businesses to back other European companies. On Nabucco, it has been game, set and match to the Russians who played a very astute game.

24. When it comes to North African supplies, Europe has engaged with the so-called Arab Spring, but not so far with enduring results. Libya remains a very unreliable supplier, whilst the Algerian potential is much greater than has to date been fully anticipated. Algeria's resource potential is enormous, especially when its considerable shale deposits are added in.
25. Next there is LNG and the development of an LNG terminal network. Then there is common European storage and the provision of a strategic gas storage requirement to complement the one for oil.
26. Finally, on gas diversification, Europe has its own resources. Whilst it is true that it has rapidly depleted the North Sea (notably in the British sector), and there has been little European security dimension to the depletion policies of the member countries, there is still a lot of potential left. In addition, Europe has considerable shale gas potential. But whilst a number of countries have effectively banned shale gas, some of these same countries have been allowing the expansion of coal. A quick comparison of shale gas and coal sets the environmental contrast for all to see. Coal is really dirty compared to shale gas—yet one is encouraged and the other is banned. If either the Commission or particular member countries believe that it is possible to go straight from fossil fuels to current renewables generation, then they should ban both coal mining and fracking. If they wish to have a transition on a path that has some relation to costs and cost competitiveness, then the starting point is to exit coal before banning gas.
27. Shale gas extraction has environmental costs, as do all energy technologies. It should be regulated to take account of these costs and there are areas where it is inappropriate. But a blanket ban is at best unhelpful.

Diversifying electricity generation

28. The third policy to enhance security of supply is to encourage diversification in electricity generating technologies. The Commission has largely taken this to mean encouraging investment in *current* renewables. These cannot seriously address global climate change—most tend to be very expensive, and they make little contribution to security. In particular large-scale investment in offshore wind is not obviously good for the climate, for competitiveness and affordability or for security.
29. There are other technologies for which a better case can be made on security grounds. Nuclear fits into this category, though there are issues in relation to costs. Eastern European countries see this as an important diversification option. Yet it is noticeable that whereas consumers are being forced to pay very large contributions towards the costs of wind, solar and biomass, nuclear is not included in the renewables obligations and the associated directives. If the object is to promote technologies to address carbon emissions, then there is a good case for putting nuclear in the same low carbon box. There is a very strong case for investing in R&D and the *next* generation of renewables technologies.

Building and integrating the European networks

30. Finally there is considerable scope to build new and enhanced physical interconnections between the member states' energy networks. Interconnections have multiple benefits. They help to reduce the exposure of isolated markets in Eastern Europe to Gazprom and Russian supplies. They improve the portfolio effects of insuring against demand shocks. They enhance the ability to cope with intermittent renewables, and they provide insurance against plant failures and other system shocks. They bring competition too, and help complete the Internal Market.
31. Taking these four policy measures together would provide a great deal of comfort to those exposed to Gazprom, and would make a reality of the concept of European solidarity.
32. They do not of course exhaust the options, but all are necessary. Some argue that the best option is energy efficiency, on the mistaken assumption that increasing energy efficiency will somehow reduce energy demand. This is a mistake: energy efficiency reduces the real cost of energy and hence is equivalent to a price reduction. In a typical market a price reduction increases demand. Two centuries of extraordinary improvements in energy efficiency

(by definition a good thing) have coincided with a continuing increase in demand. Energy efficiency is a good policy in its own right, but unfortunately is of limited consequence for security of supply.

More of the same

33. There is little evidence that the European Commission, in addressing energy and climate change, is going to do much about the Ukrainian events. Indeed it is likely that it will react rather like it did in 2006 and 2009. There will be lots of speeches and exhortations to take energy security seriously, but the evidence of the last decade or so shows no real enthusiasm to grasp this problem and take decisive action. More likely, the German special relationship with Russia will serve to very gradually calm things down, and there will be a continuation of business-as-usual. For most of the history of the EU, energy policy has been notable mainly by its absence. Sadly there is not much evidence that this situation is about to change—whether or not Russia succeeds in formally annexing Crimea and continues to exploit its energy stranglehold over the rest of Ukraine.
34. Yet things do not have to be like this. The four policy measures outlined here are good for Europe anyway, as well as reducing exposure to Russia next time around.