

## **PAPERS IN EUROPEAN AFFAIRS SERIES # 2**

Giulia Bertuccio, *The European Union dependency problem:  
Analysis of the post-Ukrainian Crisis Period* (May 2020)

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**The European Union Dependency Problem:  
Analysis of the post-Ukrainian Crisis Period**

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Honours College: Tackling Global Problems at EU Level

Final Essay

## **Introduction: The European Union and the Gas Dependency Problem**

The European Union (EU) is defined as a sui-generis institution whose structure strongly relies on confederalism (Nugent 2017). It is composed of twenty-seven member states in the European continent that agreed to cooperate on an economic, political, and social level (Nugent 2017). The first attempts at European integration began with the post-war establishment of the European Coal and Steel Community, in which six countries (namely France, the Netherlands, Belgium, Luxembourg, Germany, and Italy) began economic integration (Nugent 2017). The agreement later expanded in other policy areas in what is called the spillover effect and widened to other nations (Nugent 2017). The Community of countries officially became the European Union with the Treaty of Maastricht in 1992 (Nugent 2017). Nowadays, one can confidently affirm that the EU is one of the most incredible integration processes among states. However, as affirmed by former minister of foreign affairs Mark Eyskens, the EU is a “economic giant, political dwarf and a military worm” (Nugent 2017). Specifically, when it comes to foreign policies the European Union has proved to be particularly weak. One of the main issues that have divided public opinion within the EU is the European reliance on Russian natural resources, specifically gas. Russia is the dominant supplier of gas to European states, accounting roughly 40% of the total demand within the EU. While trading itself is not intrinsically bad, it has proved several issues in the case of the European and Russian relations. The Russian federation has used its natural resources power as political weapon. The reason behind this is simple: as domestic production of gas is rapidly falling in Europe because of shifting preference towards imported resources, large exporters of cheaper gas such as the Russian Federation can greatly benefit from it on both an economic and geopolitical level. Specifically, Russia has used its energy power in the European Union’s dependency in four following ways: firstly, by interrupting supply both totally and partially. Secondly, by threatening of stopping supplies. Thirdly, by imposing pricing policies in a “carrot or stick” way to impose a certain attitude. Lastly, by creating and exploiting the EU’s energy debts (US 6). As a result, the European Commission has attempted to diversify suppliers especially after the start of the Crimean war, which rose strong geopolitical tensions globally (DeMicco 2014, 4). Therefore, this paper will explore what alternatives the European Union has to decrease its dependency on Russian gas and how that might impact EU stability as a whole. It will begin by first explaining the various institutions that are involved in the issue, such as the Common Foreign and Security Policy (CFSP) and Gazprom. It will then briefly address

the advantages and disadvantages that rise from being so dependent on a country's natural resources, in

order to outline the issue. Lastly, thanks to the theoretical framework and examples of policies provided, it will explain the different alternatives that the European Union has to diversify its suppliers and how that might benefit all EU countries both internally and on an international level. The research approach it will use will mostly rely on the analysis of current events combined with literature by expertise on the matter, both for practical knowledge on the functioning of the EU and for scientific knowledge on the gas issues. The vision of the paper will attempt to contextualise the problem and argue for a continuous soft power approach to avoid any tensions towards Russia or other cooperating countries in light of events such as the war in Crimea and the rise of Euroscepticism among Member States, who do not believe in the power of the EU anymore. This essay will argue the European Union has the right diplomatic tools to guarantee the wealth and safety of its citizens while becoming a more independent and relevant political power globally.

### **The Gas Dependency Problem: Actors in a Historical Context**

The Russian Confederation is the second largest producer of natural gas in the world, second to the United States of America (DeMicco 2014, 4). Its prominence in Europe is not only geographical but also convenient, as Russia has offered cheap gas for the past years. As a result, most countries within the European Union have experienced a fall in natural gas production up to 8.1% in 2017 and 2018. The only exception remains Romania which to this day is the only EU country that supports domestic resources. Consequently, although Europeans have not increased their gas consumption, gas imports from Russia have increased drastically. The main issue is how relevant natural resources are for daily life of individuals. States cannot stop providing them because of tensions with the suppliers. What this implies is a strong economic and political dependency on the state that agrees to provide said resource. In the case of Russia and its relations with the European Union, there is one main case that proved how politically strategic gas could become, namely the Ukrainian crisis. After tensions between the Ukrainian and Russian governments which could not agree on gas and transit prices escalated, Gazprom decided to cut gas supply to Ukraine in 2006 and 2009 (DeMicco 2014, 4). This had dramatic results on gas supplies in all of Europe. For instance, France's import fell by 25-20%, while Austria up to 33% (Spanjer 2006, 2889). The fear of this happening again arose in March 2014, when the European Council declared rising

tensions between Russia and Ukraine (DeMicco 2014, 4). As the crisis culminated with the annexation of Crimea, the former European Commission led by Claude Juncker began looking for ways to finally diversify gas suppliers. Out of the different

options, the most interesting one came from a close partner, namely the United States of America under President Barack Obama (DeMicco 2014, 4). Cooperation between the US and the EU had to be agreed with the Transatlantic Trade and Investment Partnership (TTIP) (DeMicco 2014, 4). This was a fundamental step to guarantee smoother commerce of gas across the ocean. However, the Commission also had to consider lifting environmental bans that were stopping the production of domestic gas. Shortly after this, Russian President Vladimir Putin communicated he could, under extreme circumstance, cut the gas supplies directed to Ukraine (DeMicco 2014, 4). This would have had terrible consequences on the EU as well and, as the Ukrainian crisis fully escalated, sanctions did not target the natural resource sector. There are two reasons for that: one is, clearly, because the European Union did not want to damage its trade relations with Russia. The second one depends on the cost of infrastructure to provide gas from two different world regions. Although gas itself is cheap, the pipelines needed to transport it across the globe involve billion of euros and, therefore, necessitate long-term agreements (Koven 2012, 5). The European Union has too much at stake to risk losing a partner like Russia. Although some might argue that 61% of the Russian gas goes to the European market, it is important to notice that Russia is more prepared than the EU is to a scenario in which partnership is broken (DeMicco 2014, 4). As of May 21, 2014, Putin signed a contract in the gas sector with Beijing that ensures an alternative partner the moment the European one fails (DeMicco 2014, 4). One can confidently consider this a wicked problem. Wicked problems refer to those issues in global politics that is too complex to solve. Each solution will inevitably lead to more obstacles to arise, making the matter particularly intricate. When applying this concept to the European Union's gas dependency on Russian gas, there are a few characteristics one can identify as critical to comprehending the difficulty of the context. First of all, policy making in this area requires a multilevel approach. Not only do negotiations and agreements require a deep political, economic, and social context, but they also need excellent communication among parties, namely Russia, the EU, and partly Ukraine, who have high-stake priorities and are, therefore, not willing to compromise easily. Some might argue against the European Commission's attempt to come up with a strategy towards natural resource independency while still strongly relying on Russian gas. The soft-power approach of the European Union and its inability to coercively convince other nations to compromise are just two of the arguments against the EU principles as a whole (Nugent 2017). However, one needs to be wary when assuming that coercive, hard powers are more effective in times of tensions. European countries cannot accept a situation in which political



action affects the economy and EU citizens to such a great extent. It needs to proceed with caution while still

guaranteeing optimal standards of growth, especially during a time in which the European Union is well aware that any drastic Russian response will damage the EU more than its supplier. Continuous research of new gas supplies that can avoid the fear of sudden resource cuts. If this was to be accomplished, the European Union would gain more legitimacy in confrontations vis-à-vis with the Russian Confederation and, successively, achieve better results on a global level as well .

### **The Decision-Making Process of Supranational Institutions**

When it comes to decision making for new policies, the European Union follows specific procedures which are strictly related to the different organs of the EU. It is defined as multilevel because it involves different entities, different states, whose priorities all differ in cause, scopes, and competences. First of all, it is important to remember that the European Council is the highest institution of the EU. It consists of the State leaders of all Member States, the president of the European Commission and the president of the European Council (Nugent 2017). This entity has the key role of establishing the broad goals and principles of the European Union, which then shape the way the other entities in the Community operate (Nugent 2017). Once established the direction towards which the EU is going, responsibility goes to the European Commission. The latter is a body consisting of twenty-seven Commissioners which form “the College” which have the right of initiative. The Commission is appointed every five years and each member comes from one of the EU countries and represents a different policy area (Nugent 2017). The two most prominent figures, namely the president of the Commission and the and the Vice-President or High Representative are responsible for enforcing EU plans and ensuring a smooth external relations respectively. Specifically, the High Representative also leads the Common Foreign and Security Policy (CFSP). CFSP was established in 1993 by the Treaty of Maastricht and it consists in managing the broad field of foreign policy-making within the European Union (Nugent 2017). Not only does it direct the way the EU should approach specific issues, it also forces Member States to operate within its conditions. In this field, the European Commission is not the only entity with the right of initiative: both single Member State and the High Representative for Foreign Affairs and Security Policy can bring up an issue to the EU (Nugent 2017). The current HR is Josep Borrell, with Von Der Leyen as president of the Commission. However, it is relevant to note

that this paper will refer to the previous Jean-Claude Juncker Commission, which was appointed from 2014 to 2019 and dealt with

most of the Ukrainian crisis. The former High Representative was, therefore, Federica Mogherini.

### **The Common Foreign and Security Policy in a Multilevel Context**

Considering the importance of foreign affairs, the Common Foreign and Security Policy decisions need to be unanimous (Nugent 2017). Under specific circumstances some states can decide to abstain and not follow the provisions imposed (Nugent 2017). This is true if less than one third of countries refuse to apply the decisions. If more than 30% is against it, then the decision will not be considered valid (Nugent 2017). In the case of diversification of gas resources and dependency on Russia, the European Union can find itself in a very complex context. One of the major issues of reaching unanimity within the EU consists in how different each nation's goals, priorities, and approaches are regarding specific problems. For instance, one can confidently confirm that most of the gas imports from Russia are used by the major economies and countries in the Union. However, the same does not apply to Romania and Croatia, which both value the importance of domestic gas. The Romanians are almost self-sufficient: as one can see from data, although the country consumes the highest amount of gas in South-East Europe, it also provides for eleven billion cubic metres of gas and plans to keep the same rate until 2025 while consuming fourteen billion (Asenov 2018, 233). A similar scenario applies to Croatia, producing 75% of gas consumed in the country (Asenov 2018, 233). However, these are limited cases: in the same region one can also find the most reliant nation on Russian gas, namely Bulgaria importing 90% of its gas consumption (Asenov 2018, 233). When the second Russian-Ukrainian crisis occurred in 2009, Eastern European nations such as Slovakia and Hungary received only 20% of the annual amount of gas in their pipelines (Asenov 2018, 234). Not only did that bring energy issues within each nation's borders, but it also implied the inability to reach the other countries. For instance, although not in the EU, Bosnia and Herzegovina experienced a severe gas crisis and Hungary had to provide for the nation by giving part of its reserves (Asenov 2018, 234). However, no European Union country has enough resources to suffice for a long period of time for both itself and other nations. What this implies is that each Member State will respond differently to the possibility of gas cuts. Independent countries, which are more in Eastern Europe, would not prioritize the issue in the agenda on an economic or resource level, but would probably emphasise the need to avoid rising tensions on a political level. Highly-reliant nations, on the other hand, will aim to continue

obtaining the most convenient amount of gas for the cheaper price (DeMicco 2014, 19). The impact of natural resources in the economy is their priority. This is

the reason why Russian gas has been so prominent: Russia did not establish a fixed price but changes is according to market demands, making it a more appealing commodity to buying nations. Lastly, one EU Member State has had the most confirmed how multilevel this issue can be politically, economically, and to a certain extent militarily: the Republic of Cyprus. The latter is an island in the South-East Mediterranean that joined the European Union in 2004 after multiple controversies (*Mediterranean Quarterly* 2014). The complex history of the nation have divided the island into a Greek entity and a Turkish one and led to partial integration of the EU agreements to the territory (*Mediterranean Quarterly* 2014). Specifically, while the Greek Republic of Cyprus is fully part of the Union, the Turkish Republic of Northern Cyprus (TRNC) is not (Nugent 2006, 54). When gas reserves were found on the Turkish side, military and political tensions between the EU and Turkey arose (*The Guardian* 2018). To this day, debate on a pipeline that would transport gas in that area have severely undermined stability in the Mediterranean, proving how one economic factor can have a spillover effect in all other policy areas, to the point of even deeply affecting geopolitical stability.

### **Moving towards Short-Term and Long-Term Solutions**

When approaching these problems policymakers need to use both theoretical and practical knowledge. While theoretical knowledge comes from specific fields of expertise, practical knowledge consists in being able to pursue what is considered desirable by using policies, laws, and agreements. The latter specifically require both formal and informal sessions of analysis. As one can notice from the multilevel approach to foreign policy issues, it is fundamental to create agreements that respect and take into consideration every nation's priorities and goals while still managing to achieve the pre-established aims. Regarding the issue of gas diversification after the Ukrainian crisis, theoretical knowledge is mostly scientific and economic; policy makers need to pay attention to gas prices and pipelines costs, possible alternatives to traditional gas transportation, and possible partners that are willing to cooperate with them. Once established those factors, they can proceed to consider with more practical factors such as building a solid plan for the Union as a whole. This paper will argue that there are three points to take into account before expressing any solutions: first, relations between Russia and the EU need, for the time being, remain stable. In order to do so, countries in the EU will have to acknowledge their dependency on the Russian Confederation (Spanjer 2006, 2889). Secondly, the European Union should not aim to obtain a fixed gas pricing, as this has shown to exacerbate trading with Russia (Spanjer 2006, 2889). Lastly, it is fundamental to continue looking for alternatives and understand that

the major EU supplier might look for a different, more convenient market (Spanjer 2006, 2889). While the first two elements would benefit both countries that want to continue receiving Russian gas and nations that fear harsh political consequences as tensions escalate, the last point reminds highly-dependent countries of the essential need to have access to multiple markets. Intensive considerations have been made to understand how expensive gas imports and building pipelines can be. These infrastructures are extremely costly and need long-term agreements and strategies that ensure investing in them will not be a useless effort (Koven 2012, 5). For instance, the building of the Nord Stream 2 pipeline by Gazprom, which crosses the Baltic Sea to arrive in Germany costs twelve billion dollars (Koven 2012, 15). It is 1200 kilometres long and transports up to 55 billion cubic metres of gas (Koven 2012, 15). As a result, it is clear how expensive these investments can be. They cannot, therefore, be accepted without consulting other alternatives. One of the most common proposals is called Liquid Natural Gas (LNG) (DeMicco 2014, 4). LNG consists in liquifying gas in order to transport it on cargo ships, just like oil (DeMicco 2014, 5). Although its relevance has increased globally, with the United States as the leading exporter, it only corresponds to 15% of gas imports in the EU (DeMicco 2014, 5). Furthermore, LNG is more expensive, also because of the high costs of infrastructure: producing liquified gas requires specific machinery that is not easily available. How should the European Union then proceed to intervene in the diversification? First of all, it should divide tasks into short-term and long-term ones. Short-term provisions included maintaining a stable relation with Russia. Specifically, the EU has been avoidant in admitting that it deeply relies on the Russian federation and President Putin has strongly accused this attitude. Furthermore, the EU has insisted in fixing gas pricing, hoping it would guarantee more stability (Spanjer 2007, 2890). However, this has become a failing proposal, as the Russian market is strongly against it. The economy of the Federation is quite weak if one excludes its reliance on natural resources. As a result, it is obvious that the country would like to keep prices flexible to the demand (Spanjer 2007, 2891). Long-term, the EU needs to work towards alternative pipelines that diversify the market. It is important to note this should not be seen as a way to undermine the Russian economy, as it was sometimes argued by the Russian Government, but as a way to prevent future damages. Although expensive and complex, the EU cannot wait to have a gas emergency to draft a plan. One interesting example of alternative to gas from Russia is the South Stream pipeline (DeMicco 2014, 7). The latter was initially developed by the Russian government to provide resources in the Southern European region. It was supposed to become an alternative to other

infrastructures coming from Turkey that could have damaged the market. However, the European Commission realised



the South Stream clashed with the EU standards on security and the environment (DeMicco 2014, 7). As a result, the construction was suspended and as of January 2020, substituted by the Trans Adriatic Pipeline (TAP) which is part of the Southern Gas Corridor with resources coming from Azerbaijan.

### **The Impact of a More Independent Europe: Blessing or Curse?**

The consequences of these solutions have, once again, impact on both the short and the long run. First and foremost, the European Union needs to be ready for a sudden gas embargo. Being prepared for such an event implies having enough support from different partners and companies both within and outside of the EU to guarantee to guarantee gas supplies for a specific amount of months. This means strong cooperation on a European level as well. Countries that do not rely on Russian gas should continue to keep part of their independency both for their safety and for diminishing the amount of gas reserves spent in case of an emergency. In the long run, countries whose economy and reserves depend on gas would finally find new partners to continue benefiting from the infrastructure they invested in. Furthermore, by expanding the network of nations that cooperate with the European Union, the EU will re-establish part of its relevance that has been lost. This can have a positive impact on the perception of the European project in its entirety, as it has experienced heavy waves of Euroscepticism. Specifically, more and more leaders in Europe argue the EU has very little influence with its diplomatic approach compared to other superpowers that believe in hard-power. However, proving a fruitful management of the natural resource dependency would prove the successful outcomes of soft power approaches in a world of coercive ones, based on threats. It might, in more idealistic scenarios, even help restoring the lost belief towards the EU. Not all effects might be positive, however; Russia is well aware of its leverage on the Union thanks to its resources. As a result, it would not be surprising to see threatening actions towards the EU. Therefore, strong foundations to overcome potential crisis will be needed and the European Union should not take the issue lightly. Russia's actions would be motivated by the loss of political leverage and not because of economic reasons only. Economically, the Russian government will most likely find a suitable market thanks to the agreement signed with China in the past years.

## **Conclusions: the Future of the European Union**

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This paper analysed the historical and political context of the European Union's dependency on Russian gas provided by Gazprom, a state owned company famous for its natural resources. Specifically, it explored the sudden research of the European Commission to find alternative suppliers after the Ukrainian crisis. Ukraine has always played a key role in natural gas transport. However, as the tensions increased in 2006, 2009, and finally in 2014 with the invasion of Crimea by Russian troops, the country became less of a trustworthy actors in resource provisions to European countries. As a result, the paper proceeded to analyse the decision-making process within the European Union that attempts to create solid plans to solve the crisis. In order to achieve such a result, one needs to first acknowledge the multilevel structure of the issue. This implies constructing theoretical and practical knowledge that explore the width and depth of the phenomenon. One can call the gas import a wide issue because it involves multiple global actors, namely Russia, the European Union, its Member States and Governments, and companies such as Gazprom. Furthermore, it is deep because it affects the political, economic, and social sphere as well the relations and policies of countries. The paper explored the basis on which the Common Foreign and Security policy should build its provisions. These consist on a union of both knowledge provided by expertise and procedural knowledge on how to maintain stable relations with Russia while still seeking for alternatives. Research shows that it is hard for the European Union to find an alternative to the expensive costs of pipelines, especially when there is no chance of gas consumption to decrease in the next few years. Even Liquid Natural Gas (LNG), which countries like the United States and Egypt offer, are expensive and, in the Egyptian case, also do not transcend political tensions. Therefore, the only solution is investing in trade alternatives. In the meantime, strategical practical methods should be employed to deal with the rising tensions. For instance, the literature advises to maintain stable relations with Russia by emphasising the country's role in natural resource dependency and allowing it not to have fixed pricing. The new pipelines, such as the one coming from Kazakhstan or EastMed in the Mediterranean might become useful alternatives. The European Union should aim to have a coherent and stable strategy throughout the years to ensure continuous stability. Furthermore, it will need to maintain its relevance in global politics even though it is not as powerful as other nations when it comes to natural resources. EU countries entered the Union aware of this fact, but still willing to keep their influence in the world. As a result, the idea of having a lot of different partners in

all spheres of policy will guarantee the continuation of a more stable European project that will not fall under the threats of those who use power coercively.

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