

# The EU and Russia: Devising Policy Amidst Complexity

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New Thinking For Energy

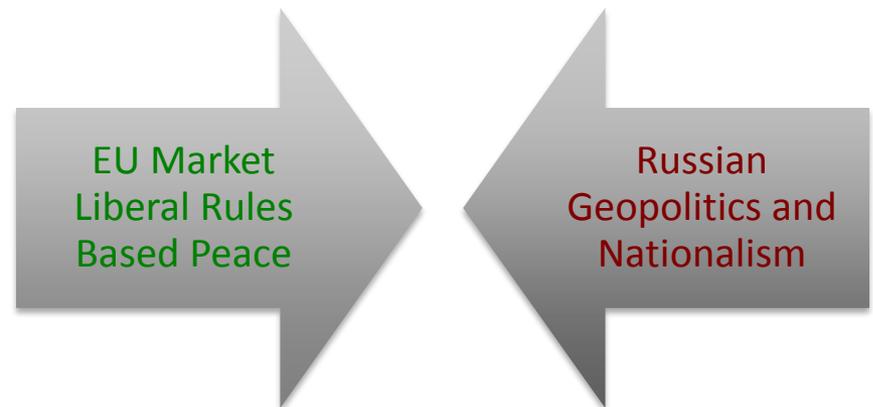


# Summary

- The puzzle: deterioration of EU-Russia energy relations and of the EU's negotiating position
- Focus the analytical lens onto the EU, and its approaches to energy, to provide explanations
- Outline four different frameworks of ideas about energy and how it should be governed – all **within** the EU
- Assess ways in which the proliferation of legitimate frameworks of ideas about energy has impacted upon EU policymaking and EU-Russia relations

# Deterioration in EU-Russia Energy Relations

- **1990s:** Russia comes in from the Cold; policy transfer and capital from the EU/West to Russia
- Russia as 'reliable' fossil fuel supplier within an *interdependent* relationship
- **Mid 2000s:** Yukos, Foreign Investment, Energy Charter Treaty not ratified by Russia, Partnership and Co-operation Agreement re-negotiation stalls, transit disputes...
- Russia increasingly understood as 'unreliable' based on geopolitical and 'resource nationalist' actions



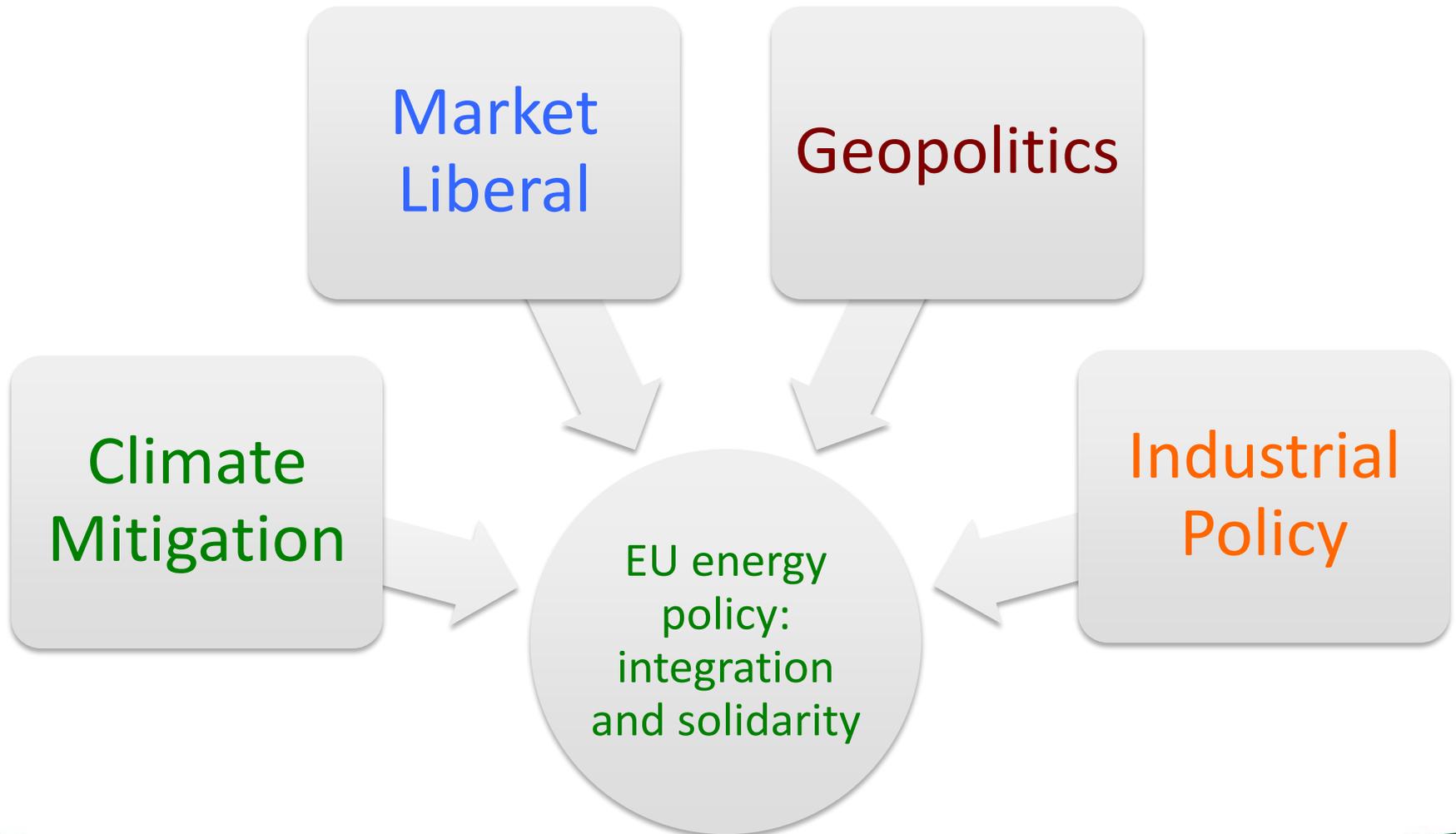
# Balance of the Relationship Changes

- Context: end of ‘the end of history’ –Western ‘soft power’ based on *knowledge authority* (market liberal as proven) challenged by decisions in BRICS countries
- *Observations:*
  - EU (normative power) has increasingly less influence over Russia
  - Putin Era: Russia has changed its mind about being a ‘taker’ of EU rules based on market liberal ideas
  - Moscow in the ‘driving seat’, Russia as ‘energy superpower’
  - Concerns mount about ‘*dependence*’ on Russia for fossil fuels
- Interpretations:
  - The EU is following the correct (market liberal) path and Russia as deviant that should/will have to reverse these decisions
  - Russia’s actions jeopardize liberalisation of energy/security
  - The EU has been too divided in energy but it must now act in **solidarity** to improve its negotiating position with Russia

# Ideas and Governance

- Ideas as explanatory variables: looking beyond interests to understand motivations for decisions and structures
- Politics: collective action, authority and finding the 'best story' to fit within given socio-economic contexts
- Ideas relate to policy:
  - Understandings of issue area and how it should be governed – i.e. objectives, instruments, types of markets
  - Embedded within institutions: rules; norms; regulations
- Credible, embedded ideas (neoliberal) confer power
- Contestation and change:
  - Alternative ideas can claim crisis and policy failure
  - Re-interpret problem – pass credibility test
  - Suggest solutions related to this interpretation

# Turn the Lens onto EU Energy: a *complex and uncertain ideational context*



## 2 Frameworks of Ideas about Energy

1990s-Early 2000s	Socio-Economic Role	Policy Objectives	Governance Strategies
<b>Market-Liberal</b>	Tradable commodity; Sector of the economy; Low intrinsic value	Competitive and transparent markets; Economic efficiency; Free trade; Integration of interdependent markets	Privatisation; Liberalisation; Market-liberal norm diffusion; Establishment of <b>multilateral</b> institutions
<b>Industrial Policy</b>	Energy important to industrial growth; energy industries and employment	Protect nascent and/or important national industries from competition	Direct state support in the form of subsidies, tariffs, tax breaks

# Market Liberal Ideas vs. Industrial Policy

- **1980s/1990s/early 2000s:**
  - *Negotiating process between the Commission, seeking integration based on liberalisation and privatisation, and member states many of whom wish to protect certain industries and/or 'national champions' (coal, nuclear...)*
  - Ongoing opposition to giving up sovereignty over decisions which affect certain energy sectors – economic growth central
- **But... direction clearly market-liberal**
  - EU identity forged post WWII: pursuit of peace via liberal, rules-based international order (reject 'power politics') – post Cold War market liberal ideas 'win' – end of ideology and **legitimacy**
  - Electricity and Gas Directives: liberalisation and un-bundling
  - International energy relations, including with Russia, based on extending European 'rules based' energy markets and trade – 'good' governance

2000s	Socio-economic Role	Policy Objectives	Governance Instruments
<b>Climate</b>	Energy use as principal emitter of carbon dioxide emissions	Reduction of carbon dioxide emissions; Energy from renewable sources; Energy efficiency	Energy policy vehicle to achieve objectives; State involvement to decide mix, to finance renewables and efficiency schemes
<b>Geopolitical</b>	Strategic asset of <b>national</b> importance; 'Lifblood' of modern economies; Energy as conferring power	Secure and reliable supply (and demand); <i>Sovereign</i> control over energy; Independence from unreliable foreign supplies	Direct state involvement; Bi-lateral relations; National control of energy assets; Solidarity (us and them)

# Ideas Articulated: ‘Competitive, secure and sustainable energy’

- **Market Liberal:**

*“The EU energy market... depends on free and transparent markets” (EC 2011: 4)*

*“The internal energy market... has not achieved its potential for transparency, accessibility and choice. There are barriers to open and fair competition” (EC 2010: 3)*

*Energy as a series of commodities (Oettinger 2011)*

- **Geopolitical:**

*Energy as the ‘lifeblood’ of our societies (Oettinger: 10<sup>th</sup> Anniversary of EU-Russia Energy Dialogue)*

*Energy as a ‘strategically important’ area of co-operation (DG Energy website)*

- **Climate and Policy Integration into Energy:**

*Calls for a “post-industrial revolution”: Energy Package 2007: 2*

*Need to increase energy efficiency worldwide and for a quantum leap in renewable and low carbon energy (Piebalgs 2006)*

# Why Frameworks of Ideas Matter

## I: EU Perceptions

- Previously dominant market liberal perspective **explains** deterioration in relations:
  - Resource nationalism is ‘wrong’ (Russia, China, India)
  - Energy security as an outcome of liberalisation, privatisation and freely trading, transparent markets
  - State interference in markets results in insecurity
  - State owned companies are inefficient, make bad investment choices, disturb markets
- Difficult to *adjust* to Russia as both capable and determined to negotiate on its own terms, also given assumptions about the end of ideological history
- EU had to an extent disengaged with political perspectives that inform decision-making in some producer states (irrelevant post end of ideological contestation)

# II: Geopolitics Within the EU

- Some Geopolitical Ideas Ingrained within Western Institutions:
  - State exercises *sovereign* rights over subsoil, UN Convention on the Law of the Sea extends rights to subsea
  - GATT trade exemptions for natural resource sectors (Article XX)
- Geopolitics Within the EU:
  - Differences between West and East European understandings of energy and Russia: EU as a vehicle to *correct* imbalances between relations between small countries and Russia (Lithuania, Poland)
  - Bi-lateral energy deals with Russia – bypassing EU
  - Nabucco: political and financial support: politically driven investments, bypasses markets as allocators of capital
- Growing degree of legitimacy of geopolitical ideas:
  - How accommodate, how not appear hypocritical to **external observers**?
  - Energy security increasingly about ‘power politics’ not markets
  - Implication for acting in **solidarity** of the wider range of views

# III: Encouraging Solidarity via Geopolitics

- Narratives emerge, within media, academic and policymaking output, which appeal to geopolitical notions of energy supply as a subject for **security**, as under threat
- *Cognitively convincing*: within the EU various groups of people appear to believe that Russia/energy can pose a genuine threat
- Fears of dependence on unreliable foreign suppliers, i.e. Russia, strategically utilised to argue for EU energy **solidarity**:
  - Piebalgs jokes about Russia-Ukraine gas transit dispute as ‘best thing’ to happen to him as Commissioner for energy: highlighted energy
  - Member States must speak with one voice in order to improve the EU’s negotiating position with Russia, and in the changing world
  - Lisbon Treaty and DG Energy – formal competence for energy
- Strategic appeal to geopolitical ideas about energy arguably, and conversely:
  - **Re-enforces** both Russia’s ‘energy superpower’ position and notions of the need for sovereignty and **national** energy policies
  - Solidarity based on *market liberal governance*, or around opposition to Russia and power politics?

# IV: Climate Change

- Some Positive Impacts on EU-Russia Relations:
  - Energy efficiency and renewable energy technology sharing as areas of lower contestation between the EU and Russia
  - Greater percentage of EU supply from EU renewable energy would mean less sense of ‘dependence’ on Russia and may serve to diffuse the politics of fear

BUT

- Impact on Russian long-term security of demand: need to balance medium and long term energy requirements
- Three pillars: competitive, sustainable and secure energy = complex new inter-relations between discrete areas of policy:
  - Are there trade offs between objectives and which objective(s) would be prioritised in such an instance?
  - Are there contradictions inherent between climate ideas about achieving a low carbon future and other approaches to understanding energy (market liberal, industrial policy)

# There's something about energy and Russia

- Energy and the contestation of rules-based, market liberal model:
  - Energy can be seen as either a pressure on market liberal governance to change, and/or as a sector **unsuited** to this form of capitalism (Kaletsky 2010; Economist 2012)
- BRICS as offering alternate economic and political models – how does the EU make a case for itself:
  - Lead by example: increasingly mixed approach to energy governance versus encouragement of the European energy model abroad
  - EU-Russia: hydrocarbon exports in exchange for EU technology and capital (other sources of available capital and technology)?
- Russia understood as both willing and able to represent a threat to Europe (Cold War ideology)
- Economic crisis does little for the EU's international credibility

# Paper

- Kuzemko, Caroline (2014) 'Energy, Ideas and Power: Explaining EU-Russia Energy Relations', *Journal of European Public Policy* 21, 1, 58-75.