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ANALYSIS

Step Up or Perish: The EU's Struggle with Russian Energy Imports and Its Role in the New Geopolitical Reality

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Abstract

In the tension between Russia and the West, currently being stoked by Russia's war on Ukraine, two things have become clear. First, the more united the West is in its reaction to the Russian aggression, the greater the impact. Second, dependence on Russian energy is the West's Achilles heel. The Nord Stream 2 pipeline, a specter of disunity that has long haunted the European Union, has turned into a significant weakness in the foreign policy sphere. The dependence has exposed vulnerability vis-à-vis Russian geopolitical ambitions and hinders efforts to build political consensus. Since not all EU members are equally dependent on energy imports from Russia, they are not on the same page as to what actions should be taken against the Russian aggression. Nevertheless, there are things that can and should be done if the EU wants to be a relevant international player. The key is not to repeat past mistakes.

Energy and the EU's Foreign Policy

While almost-unanimous Western military support is providing a much-needed lifeline for Ukraine, the influx of payments for Russian energy exports is keeping the Russian economy afloat. Even though it is clear that the EU's inability to impose a joint embargo on Russian energy imports is harming the effort to stop the Russian aggression, an agreement remains out of reach, as not all members are on the same page. Although this disunity applies to the EU's external affairs in general, the lack of a common voice in the energy sphere is especially harmful. The lack of unity is all the more apparent since the energy sector stands at the center of EU policymaking for years to come. Not only does this import-dependence constitute a security weakness, but it also highlights the importance of the EU's goal of decarbonization by 2050.

Although the European Commission's President and the European Council's President became active in the wake of the Russian invasion, expressing the Union's support for Ukraine, they could not go far beyond rhetoric or ideas such as the recovery fund without the members' consent. Furthermore, when taking a closer look, one can tell that EU unity is not seamless. Leaving aside the obvious case of Hungary—which is distancing itself from the war as its prime minister, Viktor Orbán, becomes ever more self-involved—the lack of a comprehensive agreement in the external sphere was apparent even before the hot phase of the current conflict. As a presidential candidate, current French president Emmanuel Macron toured Ukraine and Russia on his own, trying to become a mediator and apparently score political points in advance of the French presidential elections. In retrospect, not only was his mission unsuccessful, but he clearly did not speak for the EU as its ambassador. The fact that Russia has so ostentatiously overlooked the European Union as a potential discussion partner is telling.

Developments in recent months have highlighted the rise of geopolitical tensions that have been palpable since the mid-2000s. With Russia's growing ambitions, China's strengthening global position, and changes in the focus of U.S. foreign policy, the global geopolitical environment has been undergoing seminal shifts since the late 2000s. Although the EU's ambitions have also been growing, they have focused mostly inwards, trying to perfect the crown jewel of post-war European integration: the common market. There is certainly nothing wrong with that. The internal energy market is a significant integration step toward tighter cooperation and internal cohesion of the Union. However, the geopolitical reality got ahead of the EU's capabilities on the global scene, and nowhere is this currently more evident than in the energy sphere. Energy security and energy supply are determining factors for the members' economies and are thus crucial for the whole integration project. At the same time, it became apparent that in the intensified geopolitical struggle, the EU's current tools in the foreign policy sphere are simply insufficient.

What the Kremlin likely expected to be a swift operation to topple the Ukrainian government has turned into a violent, painfully protracted war where significant advances are rare and expensive. Since Ukraine is being supplied with advanced Western military technologies, the cost of Russian war efforts is mounting. Oil and gas exports have always been a major source of income for the Russian budget, and following several rounds of sanctions, they have become Russia's key remaining source of income. Embargoing Russian energy exports thus seems like a surefire way to dissuade Russia from continuing its aggression against Ukraine. Yet it is in precisely this area that EU members have been unable to agree on a joint approach. After the initial shock and occasional doubts over the future of the EU Green Deal in the wake of the Russian attack, the view that the goal of decarbonization would, in fact, help solve the current crisis prevailed. However, this unity seemed to evaporate when it came to concrete steps. The disunity became most apparent in the case of oil sanctions. Commission President Ursula von der Leyen introduced an ambitious plan to phase out Russian oil supplies by the end of this year. This is undoubtedly a potent tool against Russia's key source of income, but requires unity to make an impact. Before agreeing to the measure, Hungary, Slovakia, the Czech Republic, and Bulgaria signaled that they would need a transitional period to ready their supply portfolios before the measure was deployed, effectively delaying the impact in a situation where every week counts.

Cracks in Unity

When the Commission came up with its proposal to phase out Russian oil imports by year's end, it seemed like an ambitious yet logical step. Aiming at the biggest source of income for the Russian budget is an obvious way to seek to stop the aggression against Ukraine. However, at least four members voiced their concerns and called for postponing the measure.

The Czech Republic, quite surprisingly for some, was among them. The Czech position was unanticipated for two reasons. First, it has been one of the most visible supporters of Ukraine since the conflict began. The country has not only supported Ukraine politically, with its prime minister being among the first foreign leaders to visit besieged Kyiv in mid-March, but it has also supplied Ukraine with a significant amount of military equipment. Second, the country has boasted since the mid-1990s of being among the first post-communist countries to achieve a diversified oil and gas supply portfolio. However, it would be wrong to assume that the Czech Republic is retreating from its strongly supportive position. It all comes down to the numbers and amounts of imported oil and pipeline capacity. In 1996, the country built an alternative supply oil route to reduce its dependence on Russian crude flowing via the Druzhba (Friendship) pipeline. The newly built IKL pipeline connected the country to the TAL pipeline (Trans-Alpine Pipeline) in southern Bavaria, Germany. However, although the IKL pipeline has sufficient capacity to meet Czech consumption, the TAL pipeline constitutes a bottleneck. The pipeline bringing oil from the Italian port of Trieste needs to be expanded to supply more oil to the IKL pipeline. Projects to increase TAL's capacity were underway for several years, but they fell victim to peacetime complacency and a lack of strategic thinking. Expanding TAL's capacity was on the table in 2013 but was sidelined as unnecessary by the new government in 2014, despite the annexation of Crimea and the ensuing events. The good news is that since the project merely aims to expand an existing pipeline, the Czech Republic should be ready to wean itself off Russian oil by June 2024, according to the country's government.

Bulgaria, Hungary, and Slovakia are located on an offtake of the same trunk pipeline (Druzhba) as the Czech Republic, but their reasons for requiring a transitional period are different. As oil crudes differ in sulfur content and density, refineries are typically set up to process a specific crude. The Hungarian Duna refinery, the Slovak Slovnaft refinery, and the Bulgarian Burgas refinery are all set up to process Russian Export Blend crude oil (REB or REBCO). Their repurposing will take time and significant investment.[1] In extremis, any country can import the desired crude or finished oil products

1 Although one of the two Czech refineries, the bigger one in Litvinov, is also set up to process Russian crudes, the other (in Kralupy) can process lighter and sweeter (low in sulfur) crudes.

if necessary, but such a decision depends on price and demand. Thus, the issue with refineries and their repurposing to process non-Russian crudes is mainly related to their financial sustainability.

While the impact of cutting oil supplies from a particular supplier is generally alleviated by the global nature of the oil market and the storability of the commodity, natural gas poses a different set of challenges. Dependence on physical pipeline infrastructure and a higher share of long-term contracts, especially in central and eastern Europe (CEE), make any supply cuts more impactful. Another factor that renders the gas sector more sensitive is the use of the commodity. Natural gas is frequently used for heating, making any supply curtailment an emergency issue, especially during the heating season. Moreover, switching to alternative fuels is a relatively lengthy process. For several CEE states, the push to decrease the share of natural gas in their energy mixes has come at an unfortunate time, as these countries intended to switch from coal to natural gas in district heating. Although also a fossil fuel, natural gas produces lower amounts of pollution and was thus viewed as a transitional fuel on the way to the EU's goal of climate neutrality. Such a role is now somewhat uncertain, as the environmental reasons for higher utilization of natural gas now go hand in hand with geopolitical concerns.

The lack of unity on gas-related issues has been apparent for some time. Undeniably, Nord Stream 2 has been the reason for most arguments in recent years. One example is the row over market rules implementation between Germany and France (backed by the eastern EU members). Another example is the disunity of the Visegrad Group over the Nord Stream 2 pipeline. While the Czech Republic and Slovakia tacitly supported the pipeline, Poland was strenuously opposed to it. Hungary, for its part, was an outlier due to its special relationship with Russia, which enabled it to make individualized deals in the natural gas and nuclear sectors. It is therefore unsurprising that Hungary, quite apart from being the dissenting voice in the discussion on the Russian oil embargo, has also now shown a willingness to accept the Gazprom-proposed payment scheme for gas supplies. In fact, the Russian push to implement sanction-avoiding payment schemes and the willingness of several European buyers to comply shows that EU unity disappears when pressure is applied on strategic commodities.

The Way Forward

Despite the obstacles to an EU-wide oil and gas embargo, tighter cooperation in the energy sphere is not only the way to impede the ongoing Russian aggression, but could also potentially turn the EU into a stronger international actor. The past few months have provided additional evidence that without a joint approach to external affairs, the EU is not only unable to take on the Russian aggression, but also unlikely to become a relevant international actor in times of heightened geopolitical tensions.

When seeking a way forward, it is key to know what can—and, even more importantly, cannot—be done. The common energy policy cannot be concerned with individual states' energy policies. These are too diverse and case-specific, and any one-size-fits-all approach would not work. Thus, the EU can formulate common goals—like the goal of having a carbon-neutral economy by 2050—that provide a framework and a driving principle, but states should choose specific measures based on their capabilities. Nevertheless, the common energy policy still has the potential to be applied in several areas. The EU should take the following two steps.

1. Formulate the EU's approach to external partners and actors, mainly by enforcing the rules of the common market. The main goal going forward should be to enforce the application of the update to the 3rd energy package, i.e., apply the rules on pipelines to and from third-party countries. In this case, the EU has a blueprint of what not to do. Back in early 2019, after a brief row over the implementation of the package update, Germany was given the green light to carry on with the Nord Stream 2 project as long as it ensured its compliance with the market rules. Although it was unclear how this would be done, Germany was given a blank check. Such a solution not only lacked transparency vis-à-vis the market rules, but also rightfully angered the project's opponents (mainly Poland and the Baltic states), as they were excluded from the decision-making process. Leaving aside the Nord Stream 2 project's problematic nature, this outcome undermined unity within the EU and laid bare gross differences in understandings of the concept of energy security between the Western and Eastern parts of the Union. The West, focused on market functioning, simply did not see eye to eye with the East, which was concerned about geopolitical implications. Recent developments prove that geopolitics is a factor to be taken seriously.
2. Provide a framework for transborder cooperation, mainly infrastructure-building, and thus help share costs and mitigate risks. Such an attitude is essential now, with the need for a flexible pipeline system to mitigate potential supply cut impacts, but it will be even more needed in the future as the energy transition progresses. Here, the EU already has the tools, but reforms are needed. The chief tool is the Projects of Common Interest (PCI) list, updated every two years since 2013. The PCI initiative covers projects that the European Commission has designated as

key for developing energy infrastructure. Projects on the PCI list benefit from a streamlined permitting process and institutional backing, which should help them acquire financing. However, experience suggests that the list often includes projects with dubious sustainability or projects with contradicting goals. On top of this, the initiative does not fully cover project costs and thus in no way guarantees their completion. The fluctuation of projects listed under this initiative over the years suggests that many of them were, in fact, untenable.

The EU should reform its Projects of Common Interest initiative and implement more rigorous scrutiny of projects applying for PCI status. This will provide a clear-cut view of the desired future for EU infrastructure and give potential investors a concrete idea of which projects have institutional backing and thus represent a solid investment opportunity. In terms of financing, the EU can gain inspiration from the Three Seas Initiative, which opted for the investment fund model, relying on private capital to finance the entailed projects instead of government-provided funds. This model has the clear advantage of using state-backed funds to offer greater reliability to potential private investors. Such a financing model is suitable for smaller-scale projects with a clear implementation timeline.

Apparently, the EU is not yet ready to apply the principle of a qualified majority on energy-related measures—and frankly, given the diversity mentioned above, it would not make sense. However, the July 2021 ruling of the European Court of Justice provides the basic institutional scaffolding for making policy decisions with a broader impact on EU members or the EU as a whole. In its ruling, the Court invokes Article 194 of the Treaty on the Functioning of the EU and posits that the solidarity principle can also be applied to energy security and related issues. That effectively means that policy decisions or decisions on projects impacting more than one member state or the internal energy market as a whole should consider the interests of all involved parties. Put simply, the ruling set a precedent that large infrastructural projects, such as Nord Stream 2, should be implemented based on a broad consensus of involved parties—that is, member states. Theoretically, if the precedent is upheld, the frustration of Nord Stream 2 will not reoccur.

Homework for the EU

In light of the Russian invasion, subsequent threats, and supply cuts, it has become clear that the EU needs a joint attitude to external energy supplies. To help secure supplies, the EU's adherence to transparent rules and the weight of the Union as the biggest market for Russian gas will play a substantial role in keeping the misuse of energy supplies at bay. Whether EU members decide to make joint gas purchases or not is now of secondary importance; nevertheless, a joint effort in a geopolitically charged environment will be a necessity from now on.

The geopolitical shifts we have seen in recent years have shown that the idea of spheres of influence is not dead. If the European Union wants to be a relevant actor in such a setting, it should prioritize internal unity. An internally coherent Union could play a significant role on the international scene, given its population size and economic output. Although achieving internal unity could be a lengthy process, there are measures that the EU can implement in the short term to strengthen its position. The good news is that the Union has the tools at hand.

In a geopolitically competitive world, the EU cannot remain idle if it does not want to become irrelevant. The energy sector is crucial for its determining role in the economy. In fact, it is arguably the most important area of the Union's external relations, since it is closely related to the member states' economies and citizens' lives. The EU's ambitious goal of reaching carbon neutrality by 2050 cannot be reached in any way other than by building a coherent union with a confident external policy.

About the Author

Martin Jirušek, Ph.D., is Assistant Professor at Masaryk University, Czech Republic. His research focuses on energy security in Central and Eastern Europe (CEE), geopolitics, and the transatlantic dimension of energy security. He is Managing Editor of the *Czech Journal of Political Science* and a consultant. Martin Jirušek is currently a Fulbright Visiting Scholar at the George Washington University in Washington, DC, for the 2021–22 academic year.