

THE ENERGY RELATIONS BETWEEN THE EUROPEAN UNION AND RUSSIA

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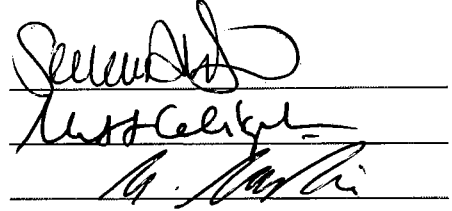
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Abstract

Energy policy is becoming one of the most significant topics in world politics, as well as in the relations between the European Union and Russia. The interdependency of the EU and Russia to each other shapes the energy policies between them. The EU seeks to decrease dependence on Russian energy sources, meanwhile, Russia is in search for protecting its energy superiority in the region. Regarding the energy policies in the world and the energy relations between the EU and Russia, this thesis will be focusing on the following question: “how does energy play a role in the relations between the European Union and Russia?” To give a proper answer to this question, the energy policies of the EU and Russia will be analysed in the light of two major policies of the IPE: Liberalism and Economic Nationalism. It is concluded that, although the EU tries to liberalised energy relations among the member states, it follows neomercantilist policies in the international arena and on the other hand, Russia follows neomercantilism in both internal and external arenas.

Özet

Enerji politikaları dünya siyasetinde en önemli konulardan biridir ve bu önem Avrupa Birliđi ve Rusya arasındaki ilişkilerde de yerini korumaktadır. AB ve Rusya'nın birbirlerine bağımlı olmaları aralarındaki enerji politikalarını şekillendirmektedir. AB Rusya'nın enerji kaynaklarına olan bağımlılıđını azaltmaya çalışırken, Rusya bölgedeki enerji konusundaki üstünlüđünü koruma durumundadır. Söz konusu tez, dünyadaki enerji politikalarına ve AB ile Rusya arasındaki enerji ilişkilerine bakarak, "AB ve Rusya arasındaki ilişkilerde enerji nasıl bir rol oynamaktadır?" sorusuna odaklanmaktadır. Bu soruya uygun bir cevap verebilmek için, AB ve Rusya arasındaki enerji politikaları, Uluslararası Politik Ekonomi'nin teorilerinden olan Liberalizm ve Ekonomik Milliyetçilik'e göre incelenecektir. AB'nin, üye devletler arasında enerji konularında liberal politikalar izlemeye çalışsa da uluslararası alanda, neo-merkantilist politikalar izlediđi diđer tarafta Rusya'nın ise iç ve dış politikada enerji konusunda neo-merkantilist politikalar izlediđi sonucuna varılmıřtır.

Abbreviations

AA – Association Agreement

CIS - Community of Independent States

CONEXO – Consolidation, Expansion and Outreach

CSTO - Collective Security Treaty Organisation

DCFTA – Deep and Comprehensive Free Trade Area

EaP – Eastern Partnership

EBRD – European Bank for Recovery and Development

ECSC – European Coal and Steel Community

ECT – Energy Charter Treaty

ENP – European Neighbourhood Policy

EP – European Parliament

EU – European Union

IPE – International Political Economy

NATO – North Atlantic Treaty Organization

PCA – Partnership and Cooperation Agreements

P4M – Partnership for Modernization

USSR - United Soviet Socialist Republic

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CHAPTER 1

INTRODUCTION

Energy policy is becoming one of the most significant topics in world politics. States cannot find the supply for the increasing energy demand. Increasing population, acceleration in industrialization and urbanization are the main reasons for this increase in the demand. In reports published by different institutions, the projections show that energy demand will continue to grow in the next decades. According to World Energy Investment Outlook (2014), demand for energy has been growing for the last two decades and it will continue to grow until 2035. Lesage and others indicates the irreplaceable situation of energy in today's world from basic needs to international political economy; however, there are still places on the earth which have not access to major energy supplies (2010). As can be seen from their argument, the world is divided into two in the energy issues. The countries can produce enough energy for their demand or others rely on the external energy sources. "[G]lobal energy policy spans four deeply intertwined key dimensions: markets; security; sustainability; and development" (Goldthau 2013, p.3). So the states are trying to fulfill their energy demands by considering these four key dimensions. Energy has a very important place in the global politics (Steven et al 2014, p.2):

(...) energy is emerging as a defining feature of globalization, of global development, and, of course, of climate change. Indeed, if the first phase of modern globalization was about its geographical spread (...), and the second was about the deepening of economic integration between existing markets (...), there's a case for arguing that the next phase is going to be heavily about energy—its acquisition, transportation, and, most importantly, the debate over whether to constrain its use.

States have different levels of energy production or consumption, or need for energy and these create different energy policies. Moreover, states' needs and demands for energy can create conflicts in the international arena. The distribution of the energy sources over the world can be one of the reasons for the uncertainty in the energy relations; some states have much more energy

sources that they can export natural gas, oil etc., while some has to import to meet their energy demand. When the inconstancy in the energy prices is added in the picture, the energy relations become more problematic. Ziegler (2010) points out that the unequal levels of energy supply, demand and resources on the world bring more instability in the international arena regarding the energy relations

With twenty-eight member states, the European Union (EU) is dealing with the same problem. The Union cannot produce sufficient energy to meet its member states' needs, and cannot achieve a common energy policy. Considering the Union's dependence on imports from third countries and its increasing demand for energy, a common energy policy is gaining more importance.

According to BP's report (2014), the EU produces low amounts of oil and gas compared to many countries. In 2014 the EU's shares of oil and gas production were 1.6% and 3.8% respectively (BP Global n.d.). Moreover, studies showed that the EU decreased production of some energy resources (coal, lignite, gas, crude oil and nuclear energy) due to the new policies; however, this makes the EU more dependent on the energy imports (Eurostat Statistics Explained n.d.). In other words, the EU cannot produce energy to meet member states' demand not only because of the insufficient energy resources but also due to change in the policies in energy production and consumption. As a result, the Union is becoming more dependent on energy imports.

On the other side of the picture, Russia, with its huge amount of gas and oil resources, is one of the biggest energy players in the world. Russian oil and gas production and its share in total production have been increasing since 1985 (BP Global n.d). Although there were lower levels of oil production between the years 1991 to 2010, Russia is gaining back its capacity and has the 12.7% of the total oil production all around the world (BP Global n.d). Russia has much more important position, compared to the EU, in the gas production. In 2014, 16.7% of the whole gas in the world was produced by Russia (BP Global n.d).

Russia is also the main energy supplier for the European Union. According to Eurostat Statistics (n.d.), Russia has very important place for the EU's energy policies, since it is the major oil and gas supplier to the Union. While Russia is primary energy supplier for the EU, the Union has been working on its energy policies, like increasing energy saving, using renewable energy sources, urging competitiveness in the internal market, and, more importantly, diversifying energy sources in the international arena and using neighbourhood policies to create a market (Green Paper 2006). All these developments create tension between the EU and Russia and these resulted with energy crises in 2000s.

Against this background in world energy dynamics and the relationship between the EU member states and Russia, this thesis will be focusing on the following question: *how does energy play a role in the relations between the European Union and Russia?*

To give a satisfying answer to this question, the thesis will resort to two major theories of International Political Economy; Economic Nationalism and Liberalism. In the next section of this chapter, these two theories will be examined.

In Chapter 2, after a quick look at the world energy dynamics, the European Union's energy policies will be covered. The growing need for energy and Green Papers (2000, 2006 and 2013) and 2020, 2030 and 2050 Targets will be reviewed. Moreover, in this chapter, the relations between the EU and Russia in terms of energy will be examined. The energy dialogue between the two will be covered by looking at the Common Spaces, Partnership and Cooperation Agreements, Energy Charter and the pipelines. The EU and Russia are linked in so many ways; to illustrate, trade, joint neighbors, energy, etc. As a result of these common areas, interdependence issues between the two have been raising. There are also various crises between two sides. After the examination of the Ukraine Crisis in 2006, 2009 and 2014, the interdependence issues between the EU and Russia will also be discussed.

Chapter 3 is related with the enlargement of the European Union and the European Neighborhood Policy (ENP). The enlargement of the EU has accelerated in the 2000s. In 2004 ten new member states joined the Union, in 2007 Romania and Bulgaria became member states and after Croatia's participation in 2013, the Union now has twenty-eight member states. With enlargement, there are new neighbors, and there occurred a need for a new policy for the neighbors. With these enlargement processes, Russia came closer to the Union and began to be more concerned about the EU's neighborhood policies, especially the Union's Eastern Partnership programme. Energy is one of the areas that Russia uses as a weapon against the EU. This chapter will also cover the energy relations between the EU and Russia after the EU's enlargement and the ENP. Moreover, deterioration in the relations between the EU and Russia especially after Ukraine's participation to the EaP, energy crises and the annexation of Crimea will be covered in this chapter.

Finally, in Chapter 4, the energy relations between the EU and Russia are explained in the light of the two International Political Economy theories described below: Economic Nationalism and Liberalism. The Union's perspective and the Russian perspective will be covered separately and the dominant theories for each party's policies will be sought.

1. International Political Economy

International Political Economy (IPE) can be classified as a subfield under international relations. Gilpin highlighted that the relations between state and market and their reaction to each other creates 'political economy' in today's world (1989). In other words, political economy seeks to analyse the relations or the discrepancy between the public and the private sector. To analyze the relations between the "state" and "market", Gilpin and many others focuses on three theories, namely Economic Nationalism, Liberalism and Marxism.

Early IPE researches in the 1970s and the beginnings of the 1980s, especially in North America, focused on two basic considerations; “the distribution of power within the global political economy, and the potential for states to engage in collaboration” (Ravenhill 2011, p. 23). There are also actors in the international arena which have impacts on the economy. As Woods explains all states and firms -local or international- form the world economy and international political economy analyses the relations between these institutions and their effects on the world economy. (2006).

The power relation between the state and market, or the “distribution of the power between the states” in the international arena and the players in the world-economy are the main subjects of IPE. The area of political economy shifts from the internal dynamics between the state and the market to a global arena in which distribution of power among the states and the competition between them to achieve the superiority in the international arena.

Energy is also an important component in the international arena. States follow policies to secure their energy needs. The relations between states can be shaped by the supplies of natural resources or demand for the energy needs. As mentioned earlier, this thesis will focus on the energy relations between Russia and the EU. In order to explain the EU’s and Russia’s energy policies, two of the IPE theories; namely economic nationalism and liberalism will be covered in this section of the thesis.

1.1 Economic Nationalism

Economic nationalism is one of the theories of IPE. As Gilpin expresses, “Economic nationalism, like economic liberalism, has undergone several metamorphoses over the past several centuries. Its labels have also changed: mercantilism, statism, protectionism, the German Historical School, and, recently, New Protectionism.” (1989, p.31). According to Balaam and Veseth, economic nationalism is a different model of the mercantilism of the eighteenth and

nineteenth centuries (2001). Although there are different names, wealth and power and the relationship between these two are composed at the center of the economic nationalism. They have important roles for a state's policies in regard of the economy and the military. Viner explains the relation between these as in the following: wealth is necessary for power; power helps to get more wealth for a state, so states should focus on getting more power and wealth (cited in Gilpin 1989).

Moreover, mercantilism has evolved since the eighteenth century, and Jones explains the phases of mercantilism/neomercantilism as below:

Three phases can be discerned in the evolution of the mercantilist/ neomercantilist approach: initially, the 'bullionist' period during which attention focused on the accumulation of wealth, (...), as the basis of the military strength (...); second phase during which the real basis of a nation's politico-military strength was seen to lie in its entire economic structure rather than its stock of valuable metals; and finally, the neo-mercantilism of the contemporary period which focuses upon the whole gamut of economic structures and policies that sustain the economic well-being of societies and their politico-military power and security (1982, pp.39-40).

As can be seen from the evolution of mercantilism, it begins with the accumulation of the valuable metals in the eighteenth century which is seen significant for the strength of a state. There is a transition period between the 'bullionist' period to contemporary period, and in this transition period, the whole economic structure gains importance for the well-being of a state. This transition can also be seen in the classical definition of policy. Guerrieri and Padoan extend the classical definition, and they add macroeconomic and monetary policies beside the trade component to explain neomercantilist policies (1986).

Another point that needs to be mentioned here is that wealth and power are inseparable components for security regarding the economic and military power of a state, and each is a basis for the other one. It can be understood from here that to achieve security, the state must have an active role in economic activities. Looking at the evolution of economic nationalist/mercantilist policies, the role of the state has an important role in economic decisions. Balaam and Veseth interpret economic nationalism as a concept where a nation's economic decisions must be in the first place comparing to the individuals' (2001). In this view, economic decisions cannot be led by

the individuals, because individuals would only think of their own good, instead of the whole society's well-being. Therefore, the state should have an active role in economic decisions and lead the individuals to act for them.

According to Woods (2006), in the mercantilist point of view, the international arena is competitive and states are trying to increase their wealth and strength by using the policies which are related to the trade protectionism. Gilpin also suggests that economic nationalism has been focusing on the wealth and dependency issues or the affiliation of power issues between the economies. (1989). It can be interpreted that international relations are based on economic relations where states make weak states dependent on them or enter in power relations in order to protect their welfare. As can be seen from writings of Woods and Gilpin, the states also have active roles in the international arena and they try to maximize their well-being by using trade or power relations.

The classical definition of neomercantilism is the current account surplus is very important and to achieve it, increasing export and decreasing import are targeted (Guerrieri and Padoan 1986). For Balaam and Veseth, in the twentieth century, especially after Second World War, neomercantilism policies were adopted by the states (2001). After the WW II, new organizations were established to promote free trade between the states and they were the major players in the twentieth century; namely the General Agreement on Tariffs and Trade (GATT), later the World Trade Organization (WTO), the Asian-Pacific Economic Conference (APEC), etc. Balaam and Veseth argued that the states began to leave classical mercantilist policies within this environment (2001). International trade still has a significant place in the wealth of states; however, the international institutions come to the stage to govern and to freer the trade relations between the states. Although the nature of international trade has changed with the end of Second World War, and there are new actors in international trade, Woods argues that the strongest states can determine the order of international relations (2006). According to neomercantilist theory, states

try to maximize their wealth and strength. In regards of Woods' argument above; the most powerful states can set or change the rules of the international trade in line with their interests and they can do this by controlling international organizations, as well. It can be interpreted that in terms of the neomercantilist point of view, there are no big changes.

According to Gee, the world system is not neoliberal, but mercantilist; moreover to prove this argument, he gives examples of the EU's policies in agriculture, Chinese regulations regarding the low exchange rates and the US' supports for the using American goods in the state (2009). As can be seen from Gee's article, important figures in the international arena follow sort of mercantilist policies in order to maximize their interests or protect their well-being. Moreover, Ziegler explains this situation as with the control of the state on the economy, a state can strengthen its statue in the international arena against competitors or decrease weaknesses (2010).

As said above, the economy under the control of the state is a very important policy in mercantilism. In this environment, energy resources and policies have a significant place in the states' agenda. Since energy is gaining more importance in the international arena, states begin to pursue energy policies in line with their benefits. According to Ziegler and Menon (2014), in the beginning of the mercantilist policies, gold and silver were the main goods which states invested for their wealth and power, nowadays oil and natural gas are playing the same role for states. Countries are becoming more and more dependent on the energy sources and the ones, who cannot produce sufficient energy to meet their demand, also become dependent on energy import and the exporter countries.

Russia is one of the important energy producing countries in the world. Russia produces 12,7% of oil and 16,7% of gas of world production (BP Global n.d.). Moreover, Russia is a big exporter of crude oil, petroleum products and natural gas, and in 2013, 68% of the export revenues came from the sale of these (EIA Independent Statistics 2014). As one of the biggest energy suppliers, Russia can use energy as policy tool in its relations with other states. Ziegler argues that

with the state ownership of the energy firms, Russia can follow neomercantilist to achieve its political and economic targets (2010).

Russia can use its oil and gas supplies as a weapon in its relations with the EU, and Ukraine energy crisis constitutes the most important example to this. Moreover, as Ziegler mentions, Russia can pursue neomercantilist policies. Rather than trade liberalisation policies, Russia seeks to maximize its benefits in energy trade and uses its oil and gas supplies to shape its relations with other states for its well-being. The European Union can also follow neomercantilist policies in the specific sectors. In the next chapters, the EU's and Russia's energy policies and its relations with the EU countries will be examined to illustrate these points in further detail. As the changes of the economic nationalism are indicated before, the neomercantilism will be used as the terminology in the following chapters.

1.2 Liberalism

As mentioned above in Gilpin's quote, economic liberalism has also changed over time; however, free trade and minimum state intervention remain as the most significant issues in liberal theory. Dunne defines liberalism as: "a theory both government within states and good governance between states and people worldwide... Liberals seek to project values of order, liberty, justice and toleration into international relations" (2006, p.188). The relationship between the people and the state has an important place in liberalism and on the contrary to economic nationalism, liberalism is in favor of minimum state intervention. Not only the internal order, but also the international arena is significant in liberalism. For the liberal view, individuals, firms or households are the main elements of society, and individuals or firms act rationally to reach their goals until the market equilibrium is achieved (Gilpin 1989). Rationality is the main aspect in liberalism; thus state intervention becomes unnecessary for society. People should be free on the

economic side and they should decide freely about their business without thinking how the end of their actions affects the whole society or the state.

There have been theories about the relationship between peace in international arena and liberal values. One of the most important theories is Kant's perpetual peace theory in which there should be change in individuals, form of government and agreement between states in the international arena (Dunne 2006). This assumption is seen as the basis for the liberal view for the international arena; hence many scholars are working on this assumption and trying to come up with more comprehensive explanations for how to abolish war in line with liberalism. According to Cobden, in the 1800s, free commerce had an important place in liberal theory because it could help to achieve a more peaceful world (cited in Dunne 2006). Moreover, David Ricardo is an important figure in supporting free trade between states. Balaam and Veseth summarise Ricardo's views as in the following: nations can achieve efficiency through free trade, and this is an important aspect for liberalism (2001). According to the liberal view, free trade bonds nations together and this will create a "universal society" in which nations feel part of a bigger formation (Balaam & Veseth, 2001, p. 51). As can be seen from here, free trade is one of the most important values in liberalism to achieve peace in the international arena. Unlike mercantilism, international trade can be a benefit for all the parties that participate in trade relations. The positive-sum aspect in the internal or international area can serve for all states in terms economics (Jones 1982,).

Liberalism has changed over the time, especially after World War I. After the war, the Great Depression affected economic policies and Keynes became the most important figure for the next decades. According to Keynes, "the state could and should use its power to fortify and improve the market, but not along the aggressive, nationalistic lines of mercantilism, and not with the oppressive force of communism" (Veseth & Balaam 2001, p. 56). So, he argues that the market should not be left self-regulated; state intervention is a necessary process. Moreover, he believes that individuals act rationally; however, the outcome can be irrational for the common of the

society (Balaam & Veseth, 2001). State intervention becomes more significant when the result of individualism is considered. Until the 1970s, Keynesian ideas dominated political economy.

In the 1980s, a new type of liberalism gained importance. "The classical liberal view of IPE asserted itself forcefully through a movement that is often called *neoconservatism*", in which eliminating state intervention to the private sector is the most important issue. (Balaam & Veseth 2001, p. 62). By the 1980s, the world was at the beginning of a new stage in which state control was again in the era of decreasing. According to Larner, 1980s were the years when neoliberalism started to rise with politicians such as Thatcher and Reagan (2000). There are five values of neoliberalism: "the individual; freedom of choice; market security; laissez faire, and minimal government" (Larner 2000, p. 7). Moreover, Campbell and Pedersen explain the aspects of neoliberalism as in the following: less state intervention and trade barriers, no regulations for the market (the problems are solved by the market player without the regulations) and free movement for capital (as cited in Mudge 2008).

As seen from the aspects of neoliberalism, the political environment begins to turn towards minimal state intervention in economic activities, trade liberalisation and the rise of individualism, after dominance of Keynesian ideas for decades. According to Mudge, there are five policies of neoliberalism: "liberalisation, deregulation, privatization, depoliticization and monetarism" (2008, p.704). In the 1980s, neoliberal theories became dominant in the world.

Moreover, with the 1990s, liberalism has become a "New World Order" for the Western world and liberal values became more popular comparing the other ideologies. (Dunne 2006). As can be seen, liberal views have never lost their importance, but they have changed over time. For some scholars, neoliberal ideas still protect their places in the 2000s. Centeno and Cohen argue that the financial crisis in 2008 may have adverse effects on primacy of neoliberalism; however, it still has power to change the era after the crisis (cited in Peck 2013).

In the energy field, according to Stoddard, “[T]he literature on international energy relations is often divided along the lines of geopolitics and market liberalism” (2013, p. 442). In other words, scholars are generally separated in two when it comes to energy politics. Scholars, who argue for geopolitics, focus on the “competition and conflict over the natural resources”; however, on the other side, scholars who follow market liberalism, focus on “the role of markets and institutions, and how they can be strengthened to foster win-win games in global energy” (Stoddard 2013, pp.443-444). In the international arena, to create “win-win games” for energy politics is important to achieve energy security.

According to Willow, most industries related with energy resources are focusing on neoliberal policies, since they link “well-being” with “economic growth” (2015, p.3). Although this statement is a criticism for these industries regarding that they do not consider the other aspects of well-being, these industries are following neoliberal policies for economic growth. The EU, on the other hand, also supports the free trade in energy among the member states and tries to have good relations with the energy supplier countries in the international arena, as stated in the classical liberalism. Moreover, as in Keynesian theories, the Union seeks a more protectionist policies, to decrease its dependence on the supplier companies, or decline its vulnerability against the energy crises (the EU’s focus on the energy policies increased after the crises between Russia and Ukraine). However, it should be also noted that, although liberalisation in the energy market is an important policy for the EU, the policies of the Union can be in line with the neomercantilism as well.

To sum up, energy resources are not equally located in the world. Some states do not have enough energy sources to meet their demand. So they need to import the sources from the states which can produce enough sources to export. Especially, in the import of the gas, states are more dependent on the neighbours, because pipeline construction is very expensive. Therefore, states follow energy policies for their well-being, and the policies should be effective as the energy is

most important component for the well-being of a state. Due to the lack of its natural resources, the European Union put energy policies on the top of its agenda. The EU has policies covering the member states; achieving a common policy and changing the energy use behaviors and attaining security of supply and diversification of supplies in the international arena (European Union Energy n.d.).

In the light of these developments, the following chapters will focus on the world energy outlook, the European Union's energy policies, the relations between the EU and Russia in regard of energy, and how these two parties act in energy relations from the framework of neomercantilism and liberalism.

CHAPTER 2

THE WORLD ENERGY OUTLOOK, THE EUROPEAN UNION'S ENERGY POLICIES AND THE EU – RUSSIA RELATIONS

In this part of the thesis, energy trends in the world are analyzed by looking at the production and consumption of oil and natural gas in the world, especially in the EU and Russia. Since the objective of this thesis is to explore the energy relations between the EU and Russia, and since oil and natural gas are the most important sources in the trade relations between the two, other energy sources will not be included in the analysis. The EU's energy policies are explored with the Green Papers of 2000, 2006 and 2013, targets set for 2020, 2030 and 2050 and the increased focus on renewable sources. Lastly the energy relations between the EU and Russia will be examined by looking at the Partnership and Cooperation Agreements, Common Spaces, Energy Charter Treaty, pipelines and the energy crises between Russia and Ukraine.

2.1. THE WORLD ENERGY OUTLOOK AND THE EUROPEAN UNION'S ENERGY POLICIES

2.1.1. World Energy Outlook

The world is becoming more and more dependent on energy supplies. The demand for energy has been surging mainly because of the increase in world population, acceleration of the phase of urbanization, and the rise of the newly industrialized countries. In the Outlook for Energy: A view to 2040, it was stated that between 2010 to 2040, the population on the world will be 9 billion, and economy will also grow more than 100 per cent; as a results, the need for energy will increase by 35 per cent (2014).

Moreover, Table 1 shows the energy demand by sources. As can be seen from the table, the need for different energy sources has been growing and will continue to grow.

Although new energy supplies or renewable sources are gaining more importance, the demand for the old sources is not decreasing.

Table 1: World primary energy demand by fuel

	1990	2000	2012*	2020	2025	2030	2035
Oil	3,231	3,663	4,158	4,469	4,545	4,600	4,666
Gas	1,668	2,072	2,869	3,234	3,537	3 824	4,127
Coal	2,230	2,357	3,796	4,137	4,238	4,309	4,398
Nuclear	526	676	642	869	969	1,051	1,118
Hydro	184	225	313	391	430	466	501
Bioenergy	893	1,016	1,318	1,488	1,598	1,718	1,848
Other Renewables	36	60	142	311	432	566	717
Total (Mtoe)	8,769	10,070	13,240	14,899	15,749	16,534	17,376

* 2012 data are preliminary estimates.

Source: *World Energy Investment Outlook 2014*: p. 24

GDP growth also has an important place in energy consumption. According to BP's report in February 2015, in 2035, GDP per person is anticipated to be more than 75% of today. This will lead to an increase in energy consumption all over the world. Although there are also promising results in the renewable energy fields, they are still not enough to meet the world's increasing energy need. Moreover, not only need for gas and oil will increase, but also demand for coal, hydro, bioenergy and other renewable energy sources will grow, as can be seen from the Table 1.

The world's major energy sources are oil, coal and gas. Since the aim of this thesis is to analyze the relations between the European Union and Russia, production, consumption and trade of oil and gas and their impact on the relations between the EU and Russia will be examined. Oil and gas consumptions for the selected regions are shown in Tables 2 and 3.

As can be seen from the tables, oil consumption has been decreasing over the years in the regions where industrialized countries are located. However, gas consumption has been increasing with a few exceptions. In the big picture, the total consumption of gas and oil in the world has

been increasing since 1980s without any exception. Moreover, the projections show that the demand for the energy will increase over next decades; the world population will become more dependent on the energy sources. However, considering the limited levels of sources –such as oil, natural gas, coal etc.-, there should be changes in the use of energy sources and this change should be supported by the governments and international organisations,

Table 2: Oil Consumption

Thousand million barrels	1980	1990	2000	2005	2010	2013	2014
Total North America	928.6	923.3	1,062.3	1,130.5	1,040.0	1,025.3	1,024.4
Total S. & Cent. America	164.0	172.6	228.5	242.7	286.3	317.8	326.5
Total Europe & Eurasia	1,198.3	1,129.0	931.2	964.5	907.7	869.3	858.9
Total Middle East	99.3	176.4	243.7	293.3	354.2	382.5	393.0
Total Africa	69.9	96.4	119.4	138.9	164.3	172.2	179.4
Total Asia Pacific	514.6	663.5	996.7	1,149.3	1,289.5	1,412.1	1,428.9
Total World	2,974.7	3,161.2	3,581.9	3,919.3	4,041.8	4,179.1	4,211.1
OECD	1,965.6	1,939.9	2,222.3	2,304.8	2,115.9	2,057.1	2,032.3
Non-OECD	1,009.1	1,221.3	1,359.5	1,614.5	1,925.9	2,122.1	2,178.9
European Union	723.9	661.7	702.9	725.4	662.4	601.8	592.5
Former Soviet Union	421.5	419.4	174.2	181.4	186.0	206.4	207.0

Source: Exxon Mobile Report 2014

Table 3: Gas Consumption

Billion cubic metres	1980	1990	2000	2005	2010	2013	2014
Total North America	638.1	637.4	794.2	782.1	849.6	928.5	949.4
Total S. & Cent. America	35.0	57.8	95.1	124.0	148.6	168.4	170.1
Total Europe & Eurasia	636.2	973.6	987.0	1,098.4	1,121.3	1,060.8	1,009.6
Total Middle East	33.1	97.1	186.8	277.0	395.4	437.7	465.2
Total Africa	19.5	39.7	57.5	85.5	107.2	120.3	120.1
Total Asia Pacific	73.8	152.5	297.0	408.2	571.6	665.3	678.6
Total World	1,435.8	1,958.1	2,417.7	2,775.2	3,193.7	3,381.0	3,393.0
OECD	908.0	999.5	1,355.3	1,433.2	1,552.4	1,609.7	1,578.6
Non-OECD	527.8	958.6	1,062.4	1,342.0	1,641.3	1,771.3	1,814.3
European Union	270.9	325.7	443.0	500.4	502.0	437.9	386.9
Former Soviet Union	360.3	643.2	525.5	566.7	575.5	571.4	568.5

Source: Exxon Mobile Report 2014

Table 4: Oil Production

Million tonnes	1985	1990	1995	2000	2005	2010	2014
Russian Federation	542.3	515.9	310.7	326.7	474.8	511.8	534.1
Total World	2,796.8	3,175.4	3,286.1	3,617.9	3,941.5	3,975.4	4,220.6
of which:							
OECD	958.8	893.8	975.9	1,005.8	926.2	857.3	1,039.7
Non-OECD	1,838.0	2,281.7	2,310.1	2,612.1	3,015.4	3,118.1	3,180.9
OPEC	771.8	1,159.2	1,317.2	1,511.5	1,694.2	1,667.0	1,729.6
Non-OPEC £	1,428.3	1,445.7	1,610.4	1,709.7	1,666.7	1,645.6	1,814.0
European Union	163.8	127.6	167.6	167.6	126.9	93.4	67.0
Former Soviet Union	596.7	570.5	358.4	396.7	580.6	662.7	677.0

Source: Exxon Mobile Report 2014

Table 5: Gas Production

Billion cubic metres	1985	1990	1995	2000	2005	2010	2014
Russian Federation	418.12	590.05	532.58	528.51	580.09	588.86	578.73
Total World	1,645.10	1,983.13	2,111.79	2,416.07	2,789.31	3,202.60	3,460.60
of which:							
OECD	784.98	851.66	976.77	1,073.86	1,084.26	1,152.55	1,248.25
Non-OECD	860.12	1,131.47	1,135.02	1,342.22	1,705.05	2,050.04	2,212.35
European Union	194.82	185.10	214.09	233.58	214.06	178.01	132.30
Former Soviet Union	581.85	747.75	633.86	651.48	727.82	735.38	760.30

Source: BP Global n.d.

Oil and gas production volumes for the regions are shown in Tables 4 and 5. Apart from the EU, oil production has been increasing for all regions; meanwhile the only decrease in gas production is occurred in Russia and the EU. As can be seen from the tables above, although there are decreases in oil and gas consumption in the European Union, the member states are still in need for energy sources. Moreover, as their biggest energy supplier, Russia produces 12.7% of oil and 16.7% of gas of world production. The next part of the thesis will analyze the European Union's energy policies.

2.1.2. The Energy Policies of the European Union

Since the beginning of the 2000s, energy has been gaining more significance for the Union. There are three basic targets set by member states in the field of energy: security of supply, competitiveness and sustainability (Green Paper of 2006). There are also plans for a European Energy Union, which will make "energy more secure, affordable and sustainable" (European Commission n.d.). Achieving more independent energy policies is one of the top concerns of the member states.

In the energy report of the EU, it is stated that “Europe is consuming, and importing, increasing quantities of energy” (2014, p.3). The member states are aware that they need to import energy to meet their consumption, and more importantly, they are concerned about the need for securing their energy supplies. Another significant point for the Union is that it has twenty-eight member states and it has been very difficult to achieve a common policy for all the members. To proceed with a common energy policy and to decrease the dependency on energy imports, the member states publish Green Papers regarding energy policies, adopting strategies and setting targets for 2020, 2030 and 2050. Moreover, renewable energy sources are another issue that the Union focuses on. This part of the thesis will cover the Green Papers, 2020, 2030 and 2050 targets and the debate on the renewable energy sources in the EU.

The EU published the Green Papers for many topics; however, the Green Papers published on 2000, 2006 and 2013 are related with the Union’s energy policies. The Green Paper: Towards a European Strategy for the Security of Energy Supply, adopted in 2000, is the first paper which indicates the Union’s dependency on foreign energy sources and the member states’ increasing demand for energy. The paper projects that to provide enough energy for the member states’ needs, the EU may have to import 70 per cent of total energy demand in the next decades if there will not be steps taken (2000). Moreover, security of supplies is another important point mentioned in the paper. It is indicated that the Middle East and Russia are two important oil and gas supply areas, which have shares in the Union’s total oil and gas import 45 per cent and 40 per cent respectively (The Green Paper, 2000). If there are conflicts with one of the Middle Eastern countries or Russia, or changes in the prices of oil or natural gas, the Union will face energy supply problems. In other words, it is argued that the EU should diversify the origins of its energy supplies.

The Union is also looking at the demand side of the policies. It is suggested that a change in consumer behavior with the help of taxation might decrease consumption and increase energy saving (Green Paper, 2000). Moreover, the internal market can play a more active role; by the

competition, it can control the energy demand by diversifying the energy sources (coal, nuclear, natural gas, oil and renewable) (The Green Paper, 2000).

To sum up, the Green Paper published in 2000 indicates the EU's dependency on the other countries for the energy sources and if there is not taken measures this dependency will increase in the next decades. So the Green Paper of 2000 suggests diversifying the energy supply countries and energy sources and changing the consumer behavior to decrease the dependency of the Union to external energy supplies.

The EU published the Green Paper in 2006: A European Strategy for Sustainable, Competitive and Secure Energy. The Green Papers published in 2000 and 2006 are not very different from each other; they both focused on the EU's dependency on the foreign energy supplies, and indicated the ways for decreasing this dependency by taking actions internally and externally. However, as written above, the Green Paper of 2006 was more detailed in categorizing the problems and the solutions.

According to Green Paper of 2006, there are six different problems arising in the energy field: rising need for investment, the Union's increasing import rate, a few number of supply countries, rising price of oil and gas, climate change and not being able to develop a fully competitive internal energy market (2006). The EU defines six key areas for the solution of these problems and for achieving sustainable, competitive and secure energy. These key areas are "competitiveness and the internal energy market; diversification of the energy mix; solidarity; sustainable development; innovation and technology, and external policy" (The Green Paper of 2006, pp. 4-5).

The Paper, published in 2006, also shows that the Union is aware of both internal and external energy problems and is willing to take action. On the internal side, a competitive energy market, a common policy for the member states, policies for the climate change are the main objectives (The Green Paper of 2006).

The paper focuses on the diversification of supplies, dialogue with the major producers and reacting efficiently to the external crisis in the international area (2006). As being the biggest energy supplier, in the relations with Russia, the Union considers a “true partnership” which can sustain sustainability and this can create new investments“(The Green Paper of 2006). Moreover, the paper suggests forming a “pan-European Energy Community”, to integrate the neighbours into the energy plan in line with the European Neighbourhood Policy to “create a predictable and transparent market to stimulate investment and growth” (The Green Paper of 2006, p.16).

The Green Paper of 2006 focuses on the new problems and the areas which the Union is facing internally and externally. It also shows that the Union has been aggressively changing its energy policy since 2000. The significant point in the paper was to emphasize the open and competitive market within Europe; by achieving these, the Europe can sustain more efficient energy consumption. Another important part of the paper was its focus on an integrated Europe to the international energy policy. As the Green Paper of 2006 indicated the “Europe has entered into a new energy era” (p.3) and the EU more focused on the energy policies.

In 2013, the EU also published another Green Paper: A 2030 Framework for Climate and Energy Policies. The Paper included the Union’s 2020 targets which the member states have achieved most of them and sets new targets for 2030. 2020 targets consist of 20% reduction in greenhouse gas (GHG) emissions, a 20% share for renewable energy sources and 20% saving in energy consumption and before 2020 (Green Paper of 2013). As indicated above, the EU has already achieved a lot in 2020 targets. In 2011 the EU decreased 16% of GHG compared to 1990, in 2010, the renewable energy sources had 12.7% share in the total energy consumption, however, the decreasing the energy consumption is a problematic area in which the saving rates can change over the years. (Green Paper of 2013)

The Green Paper of 2013 states that since the EU is in the way that the member states are about to complete 2020 targets, and the Union achieves progress in the internal energy market,

now, it can set new targets for the member states (Green Paper of 2013). So, the Union has settled new targets for 2030; as GHS should decrease by 40 per cent, 27 per cent of renewables in the total energy consumption, 27- 30 per cent raise in energy efficiency, etc (European Union n.d.). The EU focuses on efficiency and consumption of renewables in the energy field. Due to a change in consumption behavior, the demand for energy can be less and the dependency of the EU on energy imports can be lower. They achieved 18% reduction in GHS emission in the years 1990-2012, renewable energy share increased to 14.1% in 2012; however, in the energy efficiency side, the Union cannot reach 20% target by 2020, it is expecting to remain at 18-19% (European Union n.d.).

The EU also has energy policies for beyond 2030, and sets plans in the Energy Roadmap 2050. The EU believes that “a secure, competitive and decarbonised energy system in 2050 is possible” (Energy Roadmap 2050, 2011, p.3). Energy Roadmap 2050 focuses on advancing energy efficiency, raising usage of renewables, the transformation of the fossil fuels (mainly coal), nuclear energy and technological developments for increasing energy efficiency (2011).

These targets are more related to the member states’ the internal energy use. The Union sets the goals not only for increasing production but also for decreasing consumption and making more efficient use of energy sources.

The Green Paper of 2013 is more related with internal dynamics of the EU than the Green Paper of 2006 in which international dynamics and the neighbourhood policies were the main focus. In 2013, the main concerns are setting new targets, finding right policy instruments, urging competitiveness and recognizing the different capacities of member states. The most important difference of the Green Paper of 2013 from the paper is that it has set the solid targets for the next decades for the member states of the Union.

Renewable energy sources are another important point in these papers. The EU is very keen to increase the share of the renewable energy sources in the total energy consumption. Increasing

the share of renewable energy sources is indicated in the 2020 and 2030 targets. Although the share of renewables is set as 20% by 2020 and 27% by 2030, the member states have their own national targets such as 10 % for Malta or 49% for Sweden by 2020 (European Commission n.d.). Moreover, according to European Commission (n.d.), the EU should decrease the dependency on the important fossil fuels, which can lead a more sustainable progress, and this is achieved by the increase renewables in the total. Since the EU cannot produce oil and gas to meet its member states' needs and is in the way to decrease usage of energy sources like coal and nuclear powers, the renewable energy gains more importance in the energy policies of the Union.

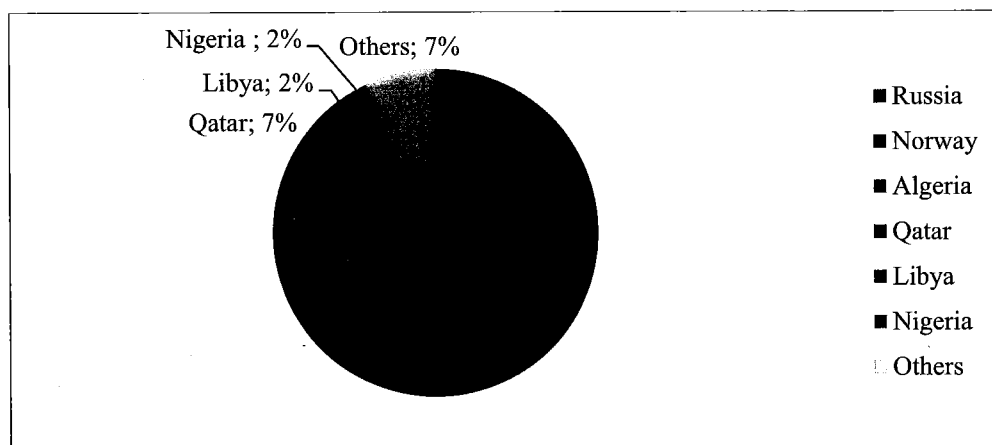
As can be seen from the policies and action taken by the member states, the European Union is keen on increasing energy efficiency, changing the energy mix and decreasing its dependency on energy imports. The Union set targets for 2020, 2030 and 2050, publishes policy papers, and includes energy policies in its international relations.

2.2. ENERGY RELATIONS BETWEEN THE EUROPEAN UNION AND RUSSIA

The European Union has focused on energy policies for more than a decade. The Union agrees on Green Papers for energy strategies (2000, 2006 and 2013), or sets targets to achieve in 2020, 2030, and 2050. Besides internal policies, the EU also has policies for the security of supplies which are very crucial considering the Union's energy dependency on other countries.

For natural gas, the Union imports from two major countries: Russia and Norway. As can be seen from Figure 1, 39 per cent and 30 per cent of the total gas importation came from Russia and Norway respectively in 2013. The other countries do not have a place as important as comparing these two countries.

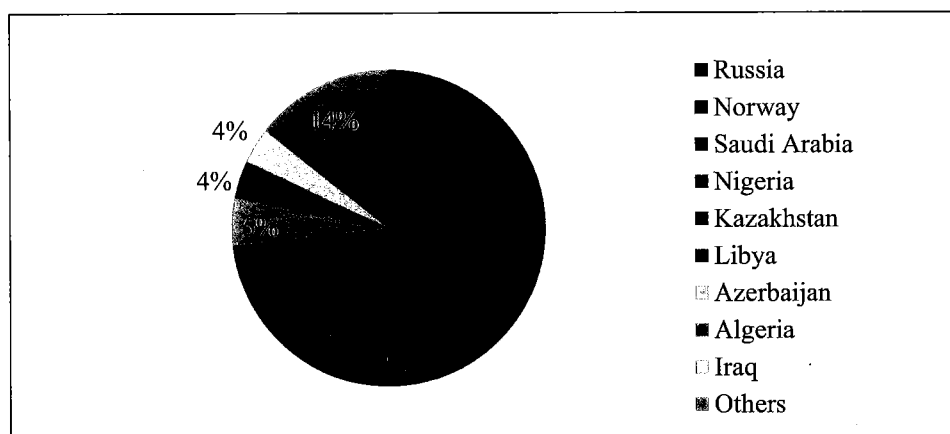
Figure 1: EU-28 natural gas imports, 2013



Source: Eurostat Statistics

Figure 2 also shows the oil imports of the EU in 2013 by country breakdown. Russia again has the highest import volume.

Figure 2: EU-28 oil imports, 2013



Source: Eurostat Statistics

Considering Russia's significance for the EU, the member states focus on the energy relations with Russia. The EU is dependent on the oil and natural gas imports and Russia is one of the biggest suppliers for the Union. The EU placed its relationship with Russia in the energy policies either bilaterally and involving Russia in its energy agreements; such as with the Partnership and Cooperation Agreements, Common Spaces and Energy Charter Treaty. The major pipelines between Russia and the EU and the energy crises between Russia and Ukraine also have

important impacts on the EU's energy policies. In this part relations between the EU and Russia will be analyzed in terms of energy policies.

2.2.1. Partnership and Cooperation Agreements (PCAs) and Common Spaces

With its twenty-eight member states, the Union has numerous neighbour countries. Especially after the end of Cold War, there were new states in the Central and Eastern Europe. The situations of these countries were very important for the Union's own security and well-being, so the EU began to contact these countries around it at the beginning of the 1990s. Hence "the European Union (EU) has concluded ten partnership and cooperation agreements (PCAs) with Russia, countries of Eastern Europe, the Southern Caucasus and Central Asia" (EUR-Lex EU Law n.d.).

These new states also mean new economic transactions and trade relations. So the EU started to settle the objectives in the relations with these countries. According to these, the objectives of PCAs are like: to achieve a platform for political dialogue, to enhance these countries politics and economies, to achieve a market economy in the area or to increase commerce (EUR-Lex EU Law n.d.).

Under these developments, the EU and Russia signed the PCA in 1994 and the agreement came into force in 1997 with ten-year duration (European Investment Bank n.d.). The PCA signed between the EU and Russia was mainly in line with the objectives mentioned below; however, to organize the energy relations among these counterparties, the agreement had an energy article. Some of the objectives are like: to ensure the supply security, to establishment of energy policy or renewing the energy framework (Trade Europa n.d.). As can be seen from the objectives the EU and Russia agreed not only for forming the energy relations in terms of securing the supplies among them but also improving the existing energy infrastructure economic and environmental

window. Moreover, a new EU-Russia Agreement was discussed in 2008 which includes all aspects of a corporation: from justice to education, energy to security, etc. (EU External Action n.d.).

“Between the EU and Russia, Partnership for Modernization (P4M) was signed in 2010 for the modernizations in the economical, technical, and the rule of law aspects” (Progress Report P4M 2014). Under the modernization process, there are achievements and on-going works. According to latest report in 2013, one of the most important achievements in the energy field is the adoption of the Energy Roadmap 2050 (Progress Report P4M 2014).

Moreover, the European Union and Russia determined the “four common spaces”, which are economy; freedom, security and justice; external security, and research and education, in order to achieve a successful long-term relation at St. Petersburg Summit in 2003 (Road Map n.d.). Energy issues are covered under the Common Economic Space. In the Road Map for Common Economic Space, the objectives (there are twelve actions determined in the road map to achieve these objectives) about the energy topic are determined to improve energy relations between the EU and Russia in terms new energy sources and advance the existing infrastructure and relations (2005).

According to the 2012 Progress Report published under the Common Spaces, the objectives regarding energy were still on the dialogue process; however, the thematic groups were formed to focus on the different issues (2013). As seen from the report, most of the objectives are still pending, but the objectives were set for the upcoming years.

The EU and Russia have been in the search for better relations after the collapse of Soviet Unions. However, after the crises between Russia and Ukraine, negotiations over the new agreement were put aside in March 2014 (EP Briefing 2015). Although, Russia is a significant trade partner for the member states, the EU began to apply economic sanctions towards Russia, and the energy sector was also in these sanctions. The briefing, published by the European Parliament (EP), indicated that “exports of certain energy-related equipment and technology to

Russia are now subject to prior authorisation by the Member States (2015, p.9). As stated earlier in this thesis, energy relations with Russia are very crucial since it is one of the biggest suppliers for the EU. As a result, the EU excluded the natural gas from sanctions (EP Briefing). However, there are not new developments on the PCA side and the latest report was published in 2013. Since then, the EU does not focus on the PCA with Russia.

2.2.2. Energy Charter Treaty (ECT)

Energy is gaining more and more importance in world politics and since 1990s states have been paying more attention to energy politics. In this environment, the Energy Charter (ECT) has a very important place. The announcement of the charter was made in 1991, the treaty was signed in 1994, and the ECT entered into the force in 1998 and various amendments have been done since then (International Energy Charter n.d.). The objective of the Charter is to “improve security of energy supply and maximise the efficiency of production, conversion, transportation, distribution and use of energy, to enhance safety and to minimise environmental problems, on an acceptable economic basis” (Pominova 2014, p.2). After the end of Cold War, new economic relations began between the states in Europe and the Energy Charter is one of the examples of this area which aims “energy security”, “competitive markets” and “sustainable development” and the importance of the charter is stated as: it sustains an international ground for energy relations, in which security and free trade are supported (International Energy Charter n.d.).

The Treaty is also important for the European Union because it is “the first economic agreement uniting the newly independent states of the former Soviet Union, including Russian Federation...” (Waern 2002, p.173). The years after the end of Cold War are important for the EU because of the new economic relations, trade areas and also new political concerns. As seen from this environment, the Treaty was designed for new economic relations with new neighbour countries in the new trade areas.

As an important actor in this geography and a major energy player, Russia signed the Charter in 1991 and the Treaty in 1994 (International Energy Charter n.d.). Povinoma argues that

Russia's initial interest in the Charter participation was to get guidelines in order to develop market legislation in the energy sector, as well as to expand opportunities to attract investment and technology needed to restore the levels of oil and gas production (2014, p.5).

In other words, Russia initially saw the ECT as an opportunity for developing its energy sector and, more importantly, it was a key for the entrance to Western world. There have been amendments on the ECT over the years; however, Russia did not sign the Amendment to the the ECT in 1998; moreover, in 2009, Russia declared that it would not be a contracting party to the ECT ((International Energy Charter n.d.). Energy policies have an important place in foreign policy, as well as in the economy in Russia. Russia has already been affected by the changes in the EU's energy policies (policies for decreasing dependency on the foreign sources, or increasing the consumption of renewable sources). There occurred disputes mostly about investments and transit provisions ((International Energy Charter n.d.).

The energy dependency of the EU on Russia puts Russia in a significant place in the ECT. Therefore, the modernization process has been launched by the EU in the ECT. In 2010 the Road Map for the Modernization of ECT, in 2012 Energy Charter policy on consolidation, expansion and outreach (CONEXO) and in 2015 the International Energy Charter political declaration were adopted (International Energy Charter n.d.). However, Russia is not a part of these modernization processes (International Energy Charter n.d.). The dialogue between the EU and Russia was interrupted with the developments in the international arena. The reasons behind this interruption will be explained in the next chapter.

2.2.3. Pipelines

Natural gas pipelines have a different side compared to other energy sources. Ericson explains the situation as in the following:

... such a system is extremely expensive to establish, making it both difficult and uneconomical to duplicate. It indeed creates a true “natural monopoly,” based on astronomical up-front investment costs, allowing the provision of transport service at an extremely low variable (marginal) cost per unit energy transported. Hence the development of such a system generally requires longterm (typically 25-year) commitments from buyers/users of the gas to purchase enough to justify the development cost (2009, p.29).

In other words, although investment costs are very high, once the pipeline construction is done, the cost of energy transportation becomes very low. However, because of the long construction duration and the high costs, the construction of new pipelines becomes very difficult for states. Therefore, as Ericson explains, pipelines create “monopolies” for both exporter and importer. He also concludes that the situation as “singular gas pipeline networks, without competition, rendering a true ‘gas market,’ and hence ‘market price,’ virtually impossible, unless a competing pipeline or sufficient liquefied natural gas supply is available” (2009, p.29). Table 6 shows Russia’s significant pipelines to Europe and Turkey and their routes.

As stated above, the trade through the pipelines could create dependency for the importer and as well as the exporter. Moreover, the EU and Russia are interconnected via natural gas and oil pipelines. There are eight pipelines -which are operating, under construction or being planned- between the EU and Russia. The Yamal-Europe, Blue Stream, Nord Stream Soyuz and Brotherhood are fully operating pipelines (EIA Beta n.d.).

As can be seen from the table below, Russia’s western pipelines are transferring gas mostly to Europe and also to Turkey. Moreover, in Russia, gas pipelines are under control of Gazprom (EIA Beta n.d.). Only Gazprom has an important place in European gas consumption. According to Gazprom’s 2014 annual report, the share of Gazprom to European consumption (including Turkey) is 26.9% in 2011, 25.4% in 2012, 29.9% in 2013 and 30.2% in 2014 (2015). These figures show that Russia has a very important place in European gas consumption.

Table 6: Russia's Major Pipelines

Facility	Status	Capacity (trillion cubic feet per year)	Supply Regions	Markets
Yamal-Europe	operating	1.2	West Siberian fields including Urengoy area	Poland, Germany, and northern Europe via Belarus
Blue Stream	operating	0.6	West Siberian fields including Urengoy area	Turkey via the Black Sea
Nord Stream	operating	1.9	West Siberian fields including Urengoy area	Germany and northern Europe via the Baltic Sea
Urengoy-Ukhta, Bovanenkovo- Ukhta, and Ukhta-Torzhok	operating and under construction	up to 6.0	Bovanenkovo field on the Yamal peninsula and Urengoy area fields	Western Russia and Europe
Soyuz and Brotherhood (Urengoy-Pomary-Uzhgorod)	operating	more than 3.5	West Siberian fields including Urengoy area, Russian Urals fields, and Central Asia	Western Russia and Europe via Ukraine
Southern Corridor pipelines	construction	2.2	West Siberian fields including Urengoy area	Turkey and Europe via Turkish stream pipeline
Turkish stream - line 1	planning	0.6	West Siberian fields including Urengoy area	Turkey
Turkish stream - lines 2-4	planning	1.7	West Siberian fields including Urengoy area	Southeast Europe via Turkey

Source: EIA Beta n.d.

There are strategic countries through which pipelines cross. In that respect, Ukraine is one of most significant countries. In 2013, according to EIA's estimations, 16 per cent of Europe's total gas consumption came through Ukraine (EIA Independent Statistics 2014). When there is a problem between Russia and Ukraine, European countries can be affected from this. The next part will cover the crises that occurred between Russia and Ukraine.

2.2.4. Russia – Ukraine Energy Crises

There have been conflicts between Russia and Ukraine after the end of the Soviet era, and, as stated in the previous section, Ukraine has an important place in energy relations. In 2013 Russian natural gas export consisted of 30% of Europe's total consumption, and half of this came through pipelines passing over Ukraine (EIA Beta n.d.). As can be understood from here, the conflicts between Russia and Ukraine result with the conflict between the Russia and the EU.

The reason behind the energy crises with Ukraine is also related to the European Union's new policies for the former Soviet Union countries. The Union has new policies for the region and Russia has concerns about the new policies of the EU. With the huge volumes of natural gas supplies, Russia has not been hesitating to use its sources as a weapon for Ukraine and eventually for the EU.

In January 2006, a natural gas crisis broke out between these two parties because of price concerns. In 2004, more than 80 % of European total natural gas importation from Russia came through Ukraine (Stern 2006). Moreover, at the end of the dispute, the gas volumes delivered to the EU decreased at the beginning of 2006, and most of the EU countries were affected by this decrease (Stern 2006). As stated above, some member states are dependent mainly on the Russian natural gas deliveries and this crisis left these states without gas for days. The decrease in export volumes shows Russia's attempts to use energy sources as a weapon. However, the dispute has more important effects on the EU and the Union decided to take actions regarding their energy dependency on Russia. As Stern wrote in his article, necessary measures should be taken to decrease dependence on Russian resources in the energy field, especially on natural gas, without losing time (2006). The crisis broke out between Russia and Ukraine has shown how vulnerable the EU is on energy issues.

The crisis in 2006 was solved; however, a new crisis occurred in 2009. Two countries could not reach an agreement on the new contract at the end of the year, and Gazprom stopped gas

transfer to Ukraine, and a few days later to the EU (Pifer, 2009). Russia was very keen on using the energy sources as a weapon. Pifer described the conflict between Russia and Ukraine as a “gas war” (2009, p.392). The crisis which occurred in 2009 had much more serious results for the EU countries. As Pirani and others indicated, for more than ten days, countries in the south east part of Europe that needed Russian gas 100% could not receive gas and other member states were also affected adversely (2009). Table 7 shows the EU’s importation of Russian gas and the results of 2009 crisis. Bulgaria and Slovakia had experienced decreases respectively 100% and 97% in the gas transfers, there were four countries (Greece, Czech Republic, Austria and Slovenia) which received less than half of normal natural gas transfers, experienced decreases.

Table 7: EU Member States’ Gas Imports from Russia and the Impact of the January 2009 Supply Crisis

	Gas from Russia, share of imports (2006)	Supply reduction, January 2009
Estonia	100%	n/a
Lithuania	100%	n/a
Latvia	100%	n/a
Finland	100%	n/a
Bulgaria	100%	-100%
Slovakia	100%	-97%
Romania	94%	n/a
Greece	81%	-80%
Czech Republic	74%	-71%
Austria	82%	-66%
Hungary	80%	-45%
Poland	69%	-33%
Slovenia	52%	-50%
Germany	44%	-10% (average) (South -60%)
Italy	30%	25%
France	16%	15%
Belgium	4%	n/a
United Kingdom	2%	n/a

Source: Schmidt-Felzman 2011, p.577

Like in the crisis in 2006, the EU began to plan for lessening its dependency on Russian gas supplies, and diversifying the supplies and supply routes. The EU started to consider other projects for the southern corridor, and to make investments for resources in Caspian Region (Kassenova 2009).

Another crisis has occurred in 2014. Russia cut off gas to Ukraine in the summer of 2014 by showing the accumulated debt of Ukraine as a reason (Stulberg, 2015). Unlike the previous crises, this time the EU countries were not affected. Stang explained that “the summer weather, plus the relatively full gas storage facilities across the continent, kept much of Europe largely unfazed” (2015, p.2). In other words, if the season was winter and there was not enough storage, the EU would be in the middle of an energy crisis again.

As it was shown above, the disputes between Russia and Ukraine did not end in the 2000s. As a result of disagreement on the natural gas prices or on the new contract, Russia cut off natural gas to Ukraine and the EU in winter of 2006 and 2009; moreover, another but less significant crisis occurred in the summer of 2014. It was seen that Russia can use its energy sources as a weapon in foreign relations; and that it does not hesitate to launch a gas war. To make sense of Russian policies, one should also focus on the enlargement of the EU and the EU’s policies toward the former Soviet Union countries, most importantly the European Neighbourhood Policy (ENP). In this context, the next chapter of this thesis will focus on the EU’s enlargement and the ENP, and their effects on the relations between the EU and Russia.

CHAPTER 3

EUROPEAN ENLARGEMENT, EUROPEAN NEIGHBOURHOOD POLICY, AND RUSSIAN FOREIGN POLICY

This chapter seeks to explore the European Union's enlargement policies and the European Neighbourhood Policy (ENP) and effects on the Union's relations with Russia. Then, the relations between the EU and Russia after Eastern enlargement and neighbourhood policies will be examined more specifically in terms of energy policies.

3.1. EUROPEAN ENLARGEMENT AND NEIGHBOURHOOD POLICY

3.1.1. The European Union Enlargement Process

The European Coal and Steel Community (ECSC) was founded in 1951 with six European countries and since then, the name of the community has been changed and 22 countries became a member to the European Union (European Commission Enlargement n.d.). Although the Union was founded more than 50 years ago, the number of member states increased drastically in the 2000s with the participation of former United Soviet Socialist Republic (USSR) countries. In 2004, ten countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia), in 2007 two countries (Bulgaria and Romania) and in 2013 one country (Croatia) joined the European Union, so the number of member states became twenty-eight (European Union Countries n.d.). There are also countries in the candidate status. The enlargement has significant effects on the EU; borders, population, politics, trade policies are all changed with the new member states.

There can be different agendas for each new member states. For example, entrance of Britain expanded the EU's external policies, or the entrance of southern countries strengthened the EU's position in the Mediterranean region, or entrance of Austria, Finland and Sweden in 1995 created a more stable environment in the Baltic region (Missiroli, 2003). As can be seen from here, the candidate country's situation is very important for the EU focusing on what that country can bring to the Union. As can be understood from Missiroli's argument, the countries joining to the Union can have a very strategic importance for the EU.

Wallace argues that the bigger Union will be wealthier and more powerful in the international arena, and by this Europe would confront with the other big actors (2000). In other words, it has largely been argued that each new member state strengthens the EU in its external policies against other actors and contributes to its economy with their population, resources, and geopolitical location.

There have also been other arguments in favour of enlargement policy. As Kuus indicates that participation of the new member states to the Union is related with discourse of Europe and with the participation of eastern countries, the Union came closer to the notion of whole and free Europe (2005).

The idea of 'making Europe whole and free' has a very important place in the enlargement process. "The free movement of goods, services, capital and persons is a basic principle of the EU" (Enlargement Publication 2015, p.11). As Kuus states, Eastern enlargement has been crucial for the EU. After the collapse of the Soviet Union, the EU shifted its focus mostly to the new countries in Eastern Europe. In 1993, the EU formed Copenhagen Council for the memberships and set the criteria for candidates. At first there were six candidate countries; Poland, Hungary, Czech Republic, Slovakia, Romania and Bulgaria (Wallace, 2000). Four of these countries (Poland, Hungary, Czech Republic and Slovakia) became member states in 2004, and Romania and

Bulgaria joined the EU in 2013. Beside the Eastern countries, there were new countries from Baltic region or Mediterranean in 2004 enlargement.

The eastern enlargement changed the borders and neighbours of the EU, thus new issues occurred after enlargement. The EU started to focus on neighbourhood policies. All these developments affected the EU's relations with Russia which is a strong and important actor in the region. The following sections will cover the European Neighbourhood Policy and the relations with Russia after Eastern enlargement and ENP.

3.1.2. European Neighbourhood Policy

European Neighbourhood Policy aims to achieve good political and economic relations with neighbour countries. These attempts became more important especially after the enlargement waves in the 2000s. The first ENP Strategy Paper was written in May 2004, a few days after the biggest enlargement in EU history (ENP Strategy Paper of 2004). On the EU External Action website (n.d.), the ENP is described like with the ENP, the Union has focused on the good relations with the countries in east and south of Europe, in terms of political and economic, and the ENP becomes the major aspect of the EU's foreign policy.

The ENP not only focuses on political and economic relations but also on issues like democracy, human rights, and the rule of law. The countries that are a part of the ENP are expected to apply these values.

There are sixteen countries in the ENP and twelve of them committed the ENP action plans – namely Armenia, Azerbaijan, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Morocco, Palestine, Tunisia, Ukraine, Algeria (Algeria is negotiating action plans) (EU External Action n.d.). It is important to note that the action plans are customized to each country bilaterally and the countries have more privileges than other neighbour countries. In other words, as Joenniemi argues

the targets of the ENP are to decrease the differences of partner countries and to create a “ring of friends” (2008). The EU creates ‘ring of friends’ for its security and economic reasons.

However, there are also regional organizations under the ENP. These are Eastern Partnership, Euro-Mediterranean Partnership and Black Sea Synergy (EU External Action n.d.). Moreover, the EU initiates projects (related with energy, health, trade, agriculture, civil protection, etc.) in the partner countries, so these countries also benefit from this partnership (EU External Action n.d.). As can be seen from here, the ENP covers many topics through bilateral or regional agreements. It also shows that how determined the EU is about building relations with the neighbour countries and bounding with them with various topics.

Beside trade and economic relations, the EU also focuses on security issues through the ENP. The ENP is significant for the EU in terms of security and stability, as the partner countries are expected to commit to values of democracy, rule of law and human rights and these values form the basis for security and stability. The European Commission has been publishing strategy papers regarding the implementation of the ENP each year since 2003. These strategy papers focus on the security problems of the partner countries, either internal or external, as well as their political situations, whether the country has democracy or not, or whether the country has democratic reforms, or whether it faces challenges against the democratic situation.

More importantly, the ENP supports the EU’s common foreign policy attempts (Sasse, 2008). The member states’ foreign policy towards the partner countries is in line with the bilateral or the multilateral agreements or the roadmap the Commission publishes. It helps the EU towards following a common foreign policy.

3.1.2.1. The Eastern Partnership

As stated before, under the ENP, there are three different regional organizations: Eastern Partnership, Euro-Mediterranean Partnership and Black Sea Synergy. Since the topic of this thesis

is related with relations between the EU and Russia, the Eastern Partnership will be covered in this section. The European Commission published “Eastern Partnership Roadmap 2012-13: the multilateral dimension” in May 2012 for the countries in the Eastern Partnership; the first title in the roadmap is democracy, good governance and stability, and there are twelve different sub-topics and for each sub-topic, objectives, EU support and target/ outcome/ timeframe are determined. Although there are different titles or policies for the partnership agreements, the Commission has the same objectives for the all partner countries.

The Eastern Partnership is based on the EU’s policies and to create good relations with eastern partners: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine (EU External Action n.d.). The European Commission explains that the better relations with countries under the EaP program are important for the EU’s foreign affairs. (Eastern Partnership: A Roadmap to the autumn 2013 Summit 2012). As seen here, these countries are significant for the EU’s foreign policy. The Roadmap has again bilateral and multilateral parts for the partner countries. The objectives under the ENP and the EaP are to build up rule of law among the former Soviet countries, to create more peaceful environment etc., and eventually, these countries will join to the EU’s internal market (Vieira 2015).

The partnership has four different platforms: “democracy, good governance and stability; economic integration and convergence with EU policies; energy security and people-to-people contacts” (EU External Action n.d.). The reasons behind the EaP can be different. According to Christou, the Eastern countries are described with “political instability” and “economic crises”, there are also problems like “terrorism” or “corruption” which eventually affect the EU countries adversely, and the presence of Russia in the region can be the main reasons for the EaP (2010). After the enlargement process, the EU came closer to these countries as well as to their problems. The problems in these countries affect the EU indirectly, like in the energy crisis between Russia

and Ukraine. At this point, the importance of the EaP becomes clearer, it aims to support countries like Ukraine economically and politically and also has policies for energy security.

It should be added that the energy issue is covered under the Eastern Partnership. In the Multilateral Cooperation document (n.d.), the energy security topic under Eastern Partnership is defined as: “Cooperation on Energy Security addresses diversification of electricity, gas and oil interconnections, as well as energy efficiency and renewable energy”. The policies and objectives are not very different from the EU’s energy policies. Diversification of the energy sources, increasing energy efficiency and use of renewable energy are the main objectives of the energy policies for the member states. By including the countries in the EaP, the EU provides a more secure energy environment.

In the Joint Declaration of the Eastern Partnership Summit in Riga, the participants indicated that new developments on the new pipelines or gas reserves with the countries Ukraine, Hungary, Poland, Slovakia, Georgia and Azerbaijan (2015). According to this report, the EU and the countries under the EaP has achieved a lot in terms of the diversification of energy sources and storage. Moreover, they have more plans and objectives for the energy sectors.

There are also problems with what the EU proposed for the countries under the EaP and in return what these countries get under the partnership. According to Korosteleva, the EU proposed those countries whether they would be a part of partnership programme, or they would be excluded for all; and this made these caused problems in their relations with Russia (2011). The eventual objective is to integrate relevant parties into the Union’s market. However, at the end, these six countries were in a tight situation between the EU and Russia, and the countries could not get the enough resources or guidance from the EU. In Ukraine’s case, Korosteleva explained the situation as “According to many government officials, the EaP ‘offers no coordination’, ‘no adequate resources’ and more importantly, ‘no sense of direction’” (2011, p.12). As can be understood here,

although Ukraine signed the EU's EaP agreement, the country did not receive the required source to deal with its situation.

The EaP does not offer a membership for the partner countries, but it offers the EU's support for democracy, good governance and stability. However, in Ukrainian case, lack of the EU's support and presence of a powerful Russia in the region, the EaP can create problems for the partner countries. But the EU continues its policies over the region. In 2014, the Association Agreement (AA) was signed by the EU and Ukraine and the EU starts to apply provisionally Deep and Comprehensive Free Trade Area (DCFTA), which is a part of AA, since the beginning of 2016 in order to improve the trade relations and to sustain economic development of Ukraine (Delegations of the EU n.d.). As can be seen from here, although the EU is criticized by the partner countries under the EaP, the Union still focuses on the region. The DCTFA offers elimination of custom duties, and trade barriers, increasing competition, etc. and more importantly for this thesis, there is a chapter regarding the trade-related energy to cover the EU-Ukraine energy trade relations regarding pricing, transport and legal regulations (Delegations of the EU n.d.).

The European Union's policies like enlargement and neighbourhood policies have major impacts on its relations with Russia, especially in the energy field. The next part of this chapter will cover Russian foreign policy and the effects of enlargement and the EaP and the energy relations between the EU and Russia.

3.2. RUSSIAN FOREIGN POLICY AND RELATIONS WITH THE EUROPEAN UNION

3.2.1. Russian Foreign Policy After the Collapse of the USSR

Russia has been in a state of change since the collapse of the Soviet Union in the beginning of the 1990s. The collapse of the Soviet Union not only had influences on Russia, but also on the

countries located in Europe and Asia. The EU has an important impact in the shaping of Russian foreign policy, i.e., the Enlargement Policy, or the European Neighbourhood Policy. This part of the thesis will focus on Russian foreign policy after 1991 and the impacts of the EU's policies on it.

Boris Yeltsin was elected as president in 1991. Breslauer and Dale indicate that "he had to address the relationship between a transformed Soviet statehood and a new-found Russian sovereignty" (1997, p.311). He was the president in the beginning of the transition period of Russia.

Moreover, with the 1990s, Russian economy was also under the change and the energy industry is a good example for this. Cukrowski explains this change with the oil industry that at the end of 1990s, there were 13 oil companies whose productions were nearly 90 per cent of total production in the country (2004). As can be seen from here, in the Soviet Unions, the new private oil companies gained a significant share in the countries total production.

The collapse of the Soviets had changed most dynamics; it opened the Western world for Russia. As Malcolm indicated in his article, in the beginning of 1990s, "Westernism" was the dominant idea in Russian Foreign Policy (cited in Malcolm 1994, p.29):

It was repeatedly declared that Russia intended 'to enter the club of the most dynamically developing democratic countries'; that it was 'the missing component of the democratic pole of the Northern Hemisphere'; that it was about to 'return to Europe'; and so on.

As can be understood from here, the relation with the Western countries is one of the most important elements of Russian Foreign Policy. However, there is another significant element for Russia; its relations with former Soviet countries. Lynch points out Russia's interests in the relations with the West as the following: conservation of Russian Federation itself, sustaining supremacy over the former Soviet countries, improving Russian economy, continuing its power over the international arena, etc. (2002). Russia was very keen on the involving the Western world, and also sustaining its precedence in the former Soviet countries with strengthening its internal

well-being, i.e. the economic and stability concerns and its external position, 'as a great international power'. Russia took sides of Serbia in the Bosnian war, did not withdraw its troops from Estonia, and beginning of the relations with NATO and G-7 countries are the examples of the changing Russian foreign policy (Griffiths 1994). As can be seen from here, Russia was in the transnational period in the 1990s, it was searching its place in the international arena.

There were also other developments in the world politics in 1990s and Russia became more active in the international politics. The relation between Russia and North Atlantic Treaty Organization (NATO) started in the beginning of 1990s. NATO initiated a Study of NATO Enlargement in 1995 and after the end of the cold war, there was a new chance to advance the security in the region and new members of NATO could help this (NATO 2015). As seen here, NATO put the former Soviet countries in its agenda for the enlargement. This conflicted with Russian policy toward the region. However, as Lynch writes, despite the reason of NATO's presence, Russia approved the enlargement of NATO in the Russian–NATO Charter of May 1997” (Lynch 2002).

First enlargement movement of NATO was in 1999 after the end Cold War, former Warsaw Pact countries Czech Republic, Hungary and Poland joined NATO; moreover, in 2004 Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia joined NATO, and Georgia and Ukraine will become member countries (NATO 2015). The enlargement of NATO with the former Soviet countries was not welcomed by Russia; moreover, the actions taken by NATO increased Russia's concerns about its precedence over these countries.

3.2.2. Russian Foreign Policy After Putin's Presidency

Vladimir Putin was elected as President in 2000, and he was in the power in years 2000 to 2008 as president, and the both Russian internal and external policies were about to change. Putin was elected in 2012 for the third time. According to Legvold, Putin had a different agenda than

the previous presidents: He focused on the economy firstly, and international policies supported the internal economics and politics (2001). With Putin's presidency, Russian economy politics has begun to change. As mentioned earlier, in 1990s, private companies had a significant portion in the energy production. However, with Putin's presidency, it began to feel state interventionism in the economy. Radygin indicates the increase of the control of the state over the important sectors such as, energy sector –oil and natural gas. (Hanson 2004). Moreover, it should be noted that in 2000s (until the global financial crisis in 2008), Russia experienced economic growth (Connolly 2011). With the state control of the strategic sectors (energy sector is one of them) and developments in international arena help the Russian economic growth. However, with the global financial crisis, depreciation in ruble and low oil prices decrease the economic growth.

In the international arena, Spechler divided Putin's presidency into four phases: In the first year of his presidency, Putin dealt with the economic, military and spiritual problems that occurred after the end of Soviets; in 2001-2002, Russia managed to have closer relations with the US and NATO; in 2002 and 2003, Russia realized that it did not get results it hoped in the first place by having closer relations with the US both in security and economic dimensions; in 2004 to 2008 the invasion of Iraq was the beginning of the deterioration of the relations with Russia and the West (2010). The evolving of Russian foreign policy in eight years was not only related with Putin's new foreign policy, but also with the developments in the international arena. The presence of the US in the Middle East with the invasion of Iraq, and –as mentioned in the previous pages- the enlargement of NATO with the Baltic States in 2004 pushed for major changes in Russian foreign policy.

Especially the invasion of Iraq had significant effects on the Russian foreign policy. The invasion was major indication of the US' unilateralism and this makes Russia to turn the countries like, China, North Korea, Iran or countries in Central Asia and East Europe, in order to create multi-polarism (Erşen 2004). In other words, although, in the first two years of his presidency,

Putin's intention was to have good relations with the US; however, with the invasion of Iraq, Putin realized that the US was to create a unilateral world and Russia was the only country that can prevent this. Eurasianism was one of the ways to a multilateral world. In 2004, in order to strengthen economic relations with China and its region, Putin emphasized that "Russia always felt itself a Eurasian country" (Schmidt 2005, p.92). As can be seen from here, Putin began to support Eurasianism to prevent the US' intention for creating a unilateral world and to strengthen the economic relations with the region.

Dugin argues that according to supporters of the Eurasianists the improvement in economics should serve for the Eurasian aspects (cited in Papava 2013). In order to achieve that, basic economic sectors must be targeted and energy has an important place in here. Since energy field is the major playing ground of Russia, countries in Eurasia (especially Azerbaijan, Armenia, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) are very important for Russia. It is argued that the countries in Central Asia are important because of the energy need of the Western countries for energy sources, especially oil and natural gas and also the transporting of resources (cited in Papava 2013). It should be noted that Eurasianism is not a current discussion for Russia. The topic has been in Russian agenda since 1920s (Marakov 2008). Currently, against the US' presence in the former Soviet and Warsaw Pact countries' region, and sustain energy supremacy against the EU, Putin uses its relations with the countries in the region.

As indicated above, Putin gave more attention to economic relations other than the previous Russian leaders. However, the concept of "modernisation" has also an important place. Freire and Simao explain that the usage of the concept in Russian politics was in more common with 2008 as the changes in Russian situation in international arena and economic improvements (2015).

The beginning of usage of "modernisation" is in the same year that Spechler defines as the fourth stage of Putin's presidency. In this stage, Russia began to focus more on external relations. Spechler explains the situation as with 2000s, NATO countries realized that their issues with

Russia are in line Washington's ideas (2010). In 2004 ten new countries joined to the EU and eight of them were the former Soviet countries and since 1999, ten Warsaw Pact countries joined NATO. Russia realized that it was losing supremacy over the former Soviet countries, and also it was separated from the Western countries. So, the "modernization" period started in Russia for both internal and external issues.

The enlargement of the EU and the EaP, are two important policies affecting relations between the EU and Russia. With these developments, the EU and Russia came much closer and there is a "new shared neighbourhood" (Flenly 2008, p.190). The foreign policies of the EU and Russia were substantially shaped under the influence of the new shared neighbourhood. Dias argues that either the EU or Russia have claims over these countries and want them under their control for security arguments (2013).

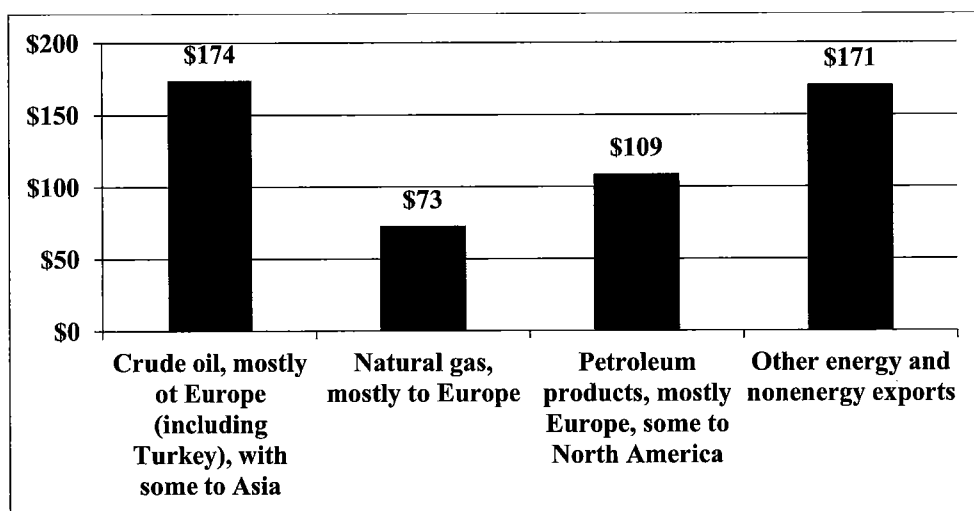
Russia has concerns about the former Soviet countries which are its irreplaceable partners for trade and security. Rumer explains that former Warsaw Pact and Baltic countries are now becoming a member of NATO and this affects the relationship of Russia and the EU; moreover, Russian security belt is now a part of NATO or the EU (2007).

The security belt for Russia was now the new shared neighbourhood and the EU was now intensifying its relations with these countries. As cited in Dias, Russia was in the search for ensuring its presence in the region through political, military and economic bases; for example, by creating an environment to protect Russian interests through regional organisations such as the Community of Independent States (CIS) or Collective Security Treaty Organisation, and deploying its troops in the region, and raising the interdependency in the region via bilateral or multilateral agreements (2013). The former Soviet countries have a very important place in Russian foreign policy, and with the EU's presence in the region, Russia started developing more accurate plans for the region.

3.2.3. The EU – Russia Energy Relations after the Enlargement and the EaP

Russia and the EU are in an interdependent relation in the energy field. The EU is dependent on the Russian natural resources, whereas Russia is dependent on the export revenues of energy sources in which the EU has a very significant portion. Russian export revenues' division into energy sources and non-energy fields for 2013 can be seen from Figure 3. In 2013, 68% of total export revenues consisted of the export of petroleum products, natural gas and crude oil mostly to Europe (including Turkey) (EIA Independent Statistics 2014). If the EU finds different sources for its energy needs, Russian economy will be affected adversely.

Figure 3: Russian export revenues in 2013



Source: EIA Independent Statistics

Moreover, Rywkin indicates that natural resources –especially in the energy field- have major importance for Russia since with them Russia can become an international economic actor and can compete with the big partners: the US, China, Japan, or the European Union (2012). After the EU's enlargement and neighbourhood policies, energy became a more significant foreign policy tool for Russia.

Russia gives importance for the former Soviet countries which are having good relations with Western countries. Since Ukraine is in the ENP countries list and the EU proposed to the country for signing a partnership country, Russia is closely monitoring Ukraine, and does not hesitate to involve the process between Ukraine and the EU. Spechler gives an example for this situation that punishment, by Russia against Ukraine when it has close relations with the EU, was increasing the natural gas prices and this led gas blockages in 2006 and 2009 (2010).

Ukraine is one of countries in the ENP (it has a committed action plan agreement), EaP and can be a member state in NATO one day. As Spechler mentions its ties with the Western countries are considered as a threat for Russia. As indicated in the Chapter 2, the energy crisis occurred after a disagreement on the price, or at the stage of the renewing of an existing contract. Russia wants to be recognized in the region, and to protect the political environment in the Soviet era. By doing that it does not hesitate to use its natural resources as a weapon. In the energy crisis, the gas transfer to EU countries was also blocked and by cutting the gas to Ukraine eventually became a message to the EU.

Although Russia is a critical player and the EU has been trying to establish good relations with Russia through PCA, Common Spaces or the Energy Charter Treaty, it should be mentioned that the EU is also looking for the ways to decrease its dependence on Russian resources. As cited in Flenly while Russia aims to own major transportation routes from Central Asia to the EU, there are also attempts by the EU to decrease Russian supremacy over this like Baku-Tbilisi-Ceyhan pipeline (2008).

All energy crises between Russia and Ukraine adversely affect the EU, and the EU is looking for the new energy strategies. As indicated in the previous chapters, the EU published Green Papers, set targets for 2020, 2030, and 2050 and increased the use of renewable energy sources. Especially after the 2009 crisis, the EU heavily focuses on the energy problems. As Neuman indicates that the crisis in 2009 showed the EU's weakness in the energy field and the

necessity of a common energy policy (2010). Moreover, another crisis took place in 2014 summer between Russia and Ukraine; however, the EU was not affected in this crisis compared to the previous ones. In addition to the energy crisis, there are also problems that “Ukraine still faces four interconnected existential crises: economic, political, territorial, and diplomatic (with Russia)” (Popescu 2014, p.1). In 2012, Ukraine could still not take a part neither with the EU nor with Russia, and Popescu showed that in 2012, 33 per cent and 25 per cent of total Ukrainian international trades were with the EU and Customs Unions countries respectively (2014).

As can be seen from the trade flows, Ukraine has trade relations with both the EU and Russia, total trade flows for two partners have very important place in Ukrainian economy. After 2012, Ukraine was still in the middle of the struggle to choose the side of either the EU or Russia. However, President Yanukovych had more pro-Russian policies. Meanwhile, there were also demonstrations by the EU supporters in Ukraine. These groups were called ‘Euromaidan’ and the demonstrations became violent in the beginning of 2014 and led the government (President Yanukovych’s government) withdraw from the power and new government was formed which would focus on the relations with the EU (Biersack & O’Lear, 2014). Although Ukraine was one of the former Soviet countries, and had good relations with Russia, in the beginning of 2014, Ukraine decided to be a part of the EU’s partnership. At the beginning, Ukraine signed the Associate Agreement with the EU. As stated in the previous pages, Ukraine is an important actor for Russia in terms of economic (trade relations and more significantly for energy transportation) and the security issues (Ukraine is candidate country for NATO membership). Russia took actions and “responded to the loss of a friendly government by setting events in motion that led to the annexation of Crimea” (Biersack & O’Lear 2014, p.248). Russian annexation of Crimea can be seen as an example to show how much Russia can go for protecting its interest over the region.

The annexation of Crimea was also important for the energy policies; Russia can sustain its energy supremacy over the region. Gardner argues that annexation is “protecting Russia’s

energy and trade center at Novorossiysk, and limiting future Ukrainian power projection, energy and resource development, as well as trade options” (cited in Gardner 2016, p.2). Russia lost a friend country with the withdrawal of President Yanukovych in Ukraine; however, it took action right after to sustain its supremacy over the region.

The EU began to imply sanctions against Russia right after the annexation of Crimea. The sanctions are various including the freeze the loans from European Bank for Recovery and Development (EBRD); restrictions over bonds and equity trade for Russian big banks and companies; restrictions over the trading energy related equipment and services, etc. (Dreyer & Popescu 2014). These sanctions have negative impact on Russian economy. Considering the decline in the oil prices and the depreciation on the rouble, financial sanctions have the biggest impact on Russian economy (Dreyer & Popescu 2014). The EU is protecting itself in the energy field, as stated in the previous chapter; the Union excluded the Russian natural gas exports to the member states from the sanctions. It should be noted that the EU’s dependency on the Russian natural gas prevents the EU to imply sanctions more powerfully. Tsakiris argues that the Union cannot imply more sanctions against Russia, without jeopardizing the EU’s energy policies (2015).

All of these show that the EU and Russia are dependent on each other in the energy relations. Although the EU implies sanctions against Russia, the Union cannot include the natural gas imports among the sanctions. Meanwhile, in addition to the EU’s financial sanctions Russian economy is also suffering from the depreciation of the rouble and the decline of oil prices; however, Russia is still focusing on the natural gas exportation to the EU in different routes – decreasing the dependency on the pipelines through Ukraine. The EU is also in the search for decreasing its dependency on the Russian energy sources, by looking for new supply countries or by changing the energy consumption behaviors. Nevertheless, the dependence of EU and Russia to each other does not seem to be ending in the near future.

CHAPTER 4

EU-RUSSIA RELATIONS IN INTERNATIONAL POLITICAL ECONOMY

THEORIES

Previous chapters seek to analyze the world energy politics, relations between the EU and Russia, especially in the energy field, the EU's enlargement and EaP programme and their effects on Russia. Each side has its own agenda and tools in the energy policies; however, at the end, they are dependent on each other. This chapter will try to explore the role of energy in the relations between the European Union and Russia under the international political economy concepts: liberalism and economic nationalism. This chapter is in the search for the dominant theory in the EU's and Russian energy policies.

4.1. ENERGY POLITICS OF THE EU AND RUSSIA

The EU cannot produce enough energy to meet the member states' needs and is dependent on the energy imports from other countries and Russia is the biggest oil and natural gas supplier for the Union. Although they are interconnected to each other the relation between the EU and Russia is unstable in the energy fields. As indicated in the previous chapters, after the collapse of the USSR, especially in the 2000s Putin's presidency, Russia gave more attention to enter the Western world, and regulated its relations with the EU accordingly. However, with the EU's enlargement with the former Soviet countries, and with the EaP programme, Russian superiority over the region is threatened. Energy is very important tool for Russia, especially with the EU, so Russia starts using its supremacy over the energy as tool in the relations with the EU. Russia punished Ukraine with stopping the natural gas deliveries to Ukraine, and eventually to the

member states, and more importantly, Russia annexed Crimea. In response, the EU starts applying sanctions against Russia. As mentioned before, the energy relations between the EU and Russia are not stable, but since they are dependent on each other, they cannot end this.

4.1.1. EU's Energy Policies under the IPE

As indicated in the previous chapters, the EU has focused on energy issues especially in the beginning of the 1990s and has given more attention to it in the 2000s. The Union cannot produce enough energy to meet its demand, so it has to come with energy policies covering both member states' consumption and securing the energy supplies.

In the energy field, "liberalisation" has an important place for the EU. The Energy Charter Treaty includes "liberalisation of trade in energy" topic, and there are decisions taken by the signatories. Some of the decisions are to eliminate the barriers in the energy trade, or free commerce of energy products (Energy Charter Treaty 2016). The EU focuses on elimination of the barriers in the energy trade, as well as the equipment, products and services. Moreover, in the latest energy manuscript, the Union attempts to create a single market for electricity and gas, in which those can be traded freely; however, the EU should also overcome the governments' interventions to the prices or supports for some firms (Energy Manuscript, 2014). As can be seen from here, the EU targets an energy market in which the member states can trade energy and related products freely in a competitive environment, in order words, without governments' interventions. Some scholars explain this as market liberalisation; for example, according to McGowan, the EU's energy policies have been changed over the years from "supply security to market liberalisation"; as the importance of the supply security decreased in the 1990s, the market liberalisation became more important for the EU's energy policies (2008). However, with twenty-eight member states, the EU cannot completely apply these liberalisation theories in practice, and it needs time to achieve a self-regulated energy market.

In the international arena, the EU also follows the mostly liberal views. As cited in Kuzemko's article, liberal views, especially market liberalism, are best for the EU's politics and economics (2014). To illustrate, as mentioned before, democracy and the rule of law are important for the international peace and stability, and the EU focuses on these values in the neighbourhood policies to sustain the security in the neighbour countries. The Energy Charter Treaty is an important example for this. There are more than fifty signatories in treaty (International Energy Charter n.d.), and with this treaty, the EU makes sure that the signatories will do their best to promote international cooperation in the energy sector (Energy Charter Treaty 2016, p.2). In other words, the EU is in the search for more stable energy markets with the multilateral agreements.

Moreover, the ENP is also important for the EU in relations with neighbourhood countries regarding security and trade. In the energy field, the neighbourhood policies serve a more secure and sustainable environment. Not only the security and diversification of the energy sources are included, but also the electricity interconnection, use of renewable energy sources and efficiency are also in the EU's agenda (Implementation of ENP, 2014). As can be understood here, the energy relations with the other countries are dealt with under a programme and the members join these programmes with the agreements.

There are also arguments that not all member states are following the liberal views in energy relations. There are other dimensions in energy issues and only looking at market liberalism is eliminating these dimensions. Although liberalism was the dominant ideology in the EU's energy policies through 1980s to 2000s, with the increasing Russian resource nationalism and the energy crises between Russia and Ukraine, the "geopolitical ideas" become more dominant in the EU's energy policies in 2000s (Kuzemko, 2014). The natural gas crises between Russia and Ukraine, especially the crises were in 2006 and 2009, left the member states out of gas in the middle of winter. Although, the EU supports the free trade and is against the trade barriers, gas blockage in the 2009 crises affected most of the member states and 6 of them received 50% less

gas due to gas blockage. Another important point here is that there is not always a collective action in the EU's energy policies. Even though the Union publishes Green Papers and set targets for all the member states, each of them has different level of energy resources or needs. McGowan argues that economic nationalism can be the dominant ideology for the member states of the Union, since the liberal views do not serve the best solution for them (2008).

The member states can follow different ideologies in their energy policies. They do not have the same energy sources or needs. Moreover, the EU's dependency on Russian energy exports and the changes in Russian foreign policy make more some member states more vulnerable in the energy field than the other ones. So the member states can have different agendas, and Young explains the member states' agendas in his article as (2013, p.427)

Spanish companies are spending heavily to increase uranium supplies from Canada, Kazakhstan, Niger, and Namibia. Scotland is turning to Middle East sovereign wealth funds for renewables investment. The British and German foreign ministers launched a joint initiative in 2011 to encourage Russia to adopt firmer plans on energy efficiency.

In the relations with Russia, the EU follows liberal views at the beginning of 1990s. The Union included Russia in the ECT, Common Spaces and PCA like the EU's general approach in the international arena. However, the liberal views have changed over the years, with the energy crisis in the 2000s, the EU started to follow more protectionist views. The EU as a whole and the member states are looking for the more secure energy sources and decrease the dependence over the Russian energy supplies. Although they are interconnected by the pipelines, the EU imposes the use of renewable sources and policies to increase energy efficiency in order to decrease the consumption of oil and natural gas of the member states.

The EU is trying to apply a common energy policy in internally and in the international area; and as many scholars argue, the dominant theory in the EU's energy politics is the liberalism. The Unions attempts a create an energy market in which prices can be settled by the market conditions without government intervention and attempt to achieve free floating of energy, energy

products and equipment within the EU borders. By looking these policies, one can say that the EU follow liberal views in the internal energy politics. However, the EU is also in the search for a common energy policy for all the member states. It publishes the Green Papers 2000, 2006 and 2013 related with the energy policies; sets targets for 2020, 2030 and 2050 for the member states, and makes policies to increase the renewable energy sources. These policies are in line with liberalism; nevertheless, the EU can follow protectionist views also. The state intervention, but not like as in aggressive economic nationalist way, has an important place in Keynesian economics, and the EU can follow this Keynesian way of state intervention.

Moreover, with the rise of economic nationalist views in the energy market, the EU's Keynesian policies can shift to the more a protectionist policy: Neomercantilism. Besides the controlling the use of energy amount or the type of the energy sources of the member states, the EU can also monitor the energy market and decide the companies which can enter the European energy market. Gazprom is a good example for this. Despite its growing share, the EU prevents Gazprom to create a monopoly in the EU's energy market. Gazprom was excluded from the process of the privatization of one of the French gas company, or Gazprom's buying of a British gas company got reaction in UK (Tsygankov and Fominykh, 2010). It is important to note that the EU's liberalisation of the energy market is against monopolies; moreover, the policies supporting to decrease dependency over the foreign resources is also against creating a Russian gas monopoly in the EU market. However, preventing Gazprom's growing share in the market is a significant indication that the EU can follow neomercantilist views to protect its energy market against the monopolies, but that it can ignore the liberal policies. Liberalisation of the European energy market is only among the member states, not for the foreign companies.

Also the EU uses its power to punish Russian actions against Crimea. It is an obvious fact that the EU and Russia are important trade partners and the Union has a significant place in the Russian trade revenues. Russian annexation of Crimea, and gas blockages against Ukraine and

eventually against the member states make the EU to use its economic power against Russia by the sanctions. In other words, as indicated in the neomercantilist theory, the EU uses its power against Russia to punish its actions. However, it should be mentioned that natural gas importation is an exemption in the sanctions; because, the member states are still dependent on the natural gas importations from Russia.

To sum up, the EU tries to make the member state to follow a common policy (i.e. attempts to increase the use of renewable sources, or setting targets for the member states) in order to decrease dependence on the external energy sources, especially Russia. Although in the publications and manuscripts, the EU supports the liberal views; such as liberalisation of the energy market or advocating the free trade; by setting targets for the member states or controlling the use of the type of the energy sources, the EU's energy policy shifts from the liberalism to a more protectionist ones: Keynesianism and even neomercantilism. In the international arena, the situation is the same. The EU supports the international treaties or agreements to regulate the energy relations. However, the Union does not hesitate to punish Russia with the sanctions for the annexation of Crimea. This should be the biggest example for the EU's neomercantilist policies.

4.1.2. Russian Energy Policies under the IPE

As mentioned before, Russian foreign policy has changed drastically under Putin's presidency. Putin primarily focused on the economic policies internally and externally. The state control over the significant sectors and the nationalisation of the important companies are the major economic developments of Putin's presidency. Moreover, former Soviet countries have still a very important place in Russian foreign policy. After the collapse of USSR, the EU increased the focus on the area, and started enlargement and neighbourhood policies especially in the 2000s. Energy became a very significant tool for Russian foreign policy. However, with the enlargement of the EU, the Union became more dependent on Russian energy imports.

On the other hand, Russia is also dependent on its energy exports revenues and the EU has the biggest portion in this. As mentioned before, in 2013, 68% of the export revenues come from the sale of crude oil, petroleum products and natural gas (EIA International Statistics 2014). Although Russia can lose its export revenues, it uses the energy sources as a weapon in international arena. Busygina and Filippov explain that the EU's and Russian interdependence of each other prevent Russia from stopping all relations with the EU (2013).

Moreover, in the classical definition of neomercantilism, wealth and power relations are the main basis. In the relations with the EU, Russia shows its power with its energy sources and does not hesitate to punish former Soviet countries which take place in the EU's policies. The energy crises with Ukraine are the most important example for this issue. Ukraine is in the significant location in which the most of natural gas pipelines are passing through Ukraine to the EU countries.

Another important point concerning neomercantilism is the state control over the economy. With the economic control over the strategic companies, state becomes more powerful both in internal and external relations. By the state control of Gazprom, Russian state becomes more powerful since "Company's share in the global and Russian gas reserves makes up 17 and 72 per cent respectively" (Gazprom n.d.). Sussex explains Russian the link between use of energy as a weapon and the state control as when the energy companies were taken under control of state in Russia, the energy sources were begun to be used as weapon in the international arena (2012). With the state control over these companies, Russia can use the energy sources as a weapon easily. Under Putin's presidency, Russian foreign policy changed to a more active player in the international arena and energy became a very important tool in foreign policy. The changing position or the increasing importance of the energy for the states has an important effect on Russian energy policies. Today, energy is a non-negligible issue for the states, and Russia can use its sources to engage the states or to interrupt the international relations.

With the collapse of the USSR, Russia gave importance to improve the relations with the Western countries. At the end of the 1990s and the beginning of the 2000s, Russia became a part of the EU's treaties and policies, for example, the PCAs, ECT, P4M, etc. However, as stated in the previous chapters, the changes in the international politics, Russia also changed its policies and became more and more supportive of the national economic views, and by the beginning of the national economic views, Russia declares its withdrawal from the agreements or the organisations, and chose to act unilaterally in the international arena according to its interests.

As stated above, after the collapse of the USSR, the relations with the former Soviet countries are still important, and when Putin became president, these countries gain more significance in the Russian foreign policy. With Putin, the Russian foreign policy begins to be changed. As Simão indicates, there are two important strategies (2016, pp.495-496):

President Putin's arrival in the Kremlin inaugurated a new style of politics in Russian foreign policy and a new strategic vision regarding the re-establishment of Russia's great power status. The first step was to reorganise power structures domestically and initiate a centralisation of power around the president. (...) The second step was to reposition the Russian economy in the global scene, using energy resources as a central means of power projection.

As can be seen from here, when Putin came to power, making Russia a great power is in his agenda and to achieve this, neomercantilist policies best serve for his interest. With the nationalisation of the energy companies, the management of these becomes easier for Putin, and in return, Putin gains more power in the foreign relations.

Moreover, power and wealth are the main elements of the neomercantilism and the definitions of wealth and power have been changed over the years. Considering the energy consumption levels in the world, oil and natural gas are one of the most important elements of the wealth and power. Moreover, as Simão argues "focus on energy as a central element in the revitalisation of Russia's global standing was accompanied by other initiatives on the economic front" (2016, p.496).

With the European enlargement and the EaP programme, Russia begins to feel threaten to lose its security belt to the EU. The bigger EU means more powerful EU in both economy and military terms. With the EaP programme, the EU also secures the neighbourhood region and increases the economic well-being with new trade relations. At the end, Russia began to concern regarding the EU's actions and this concern shows itself in the Ukrainian case. Ukraine is an important country due to transfer of natural gas through the pipelines from Russia to the EU. Since Ukraine's position, it is also important for the EU and the Union includes the country to the EaP, NATO and other bilateral trade agreements. Russia certainly uses its superiority over the energy sources in the international arena and it applied gas deductions in 2006, 2009 and 2014 to Ukraine and eventually the member states of the EU; moreover, Russia annexed Crimea on 2014. Not to lose its superiority over the natural gas, in other words, in order not to lose its wealth and power, Russia took actions in the international level, punished Ukraine and the EU's member states and annexed Crimea.

Not just Ukraine, but former Soviet countries are under Russian monitoring. Russia aims to be the biggest natural gas distributor in its region, and to achieve this aim, it focused on the problematic regions and gave support for the separatist groups, in Georgian case, these are Abkhazia and South Ossetia; however, these attempts made Georgia to look for new relations with the EU and NATO (Abuskov 2009). The energy resources are the major source of the Russian power, and to achieve monopoly on this Russia did not hesitate to interfere to the former Soviet countries.

In addition to neomercantilism, there are scholars who explain Russian foreign policy with the resource nationalism. For example, according to Ziegler, Russia has suffered from privatization movements in the energy sector under in area; however, with the beginning of 2000s, Putin changed this privatization movement, brought state control again, and resource nationalism is

dominant in the foreign policy (2010). Beside Ziegler, many scholars also argue that Russia follows resource nationalism especially in foreign affairs.

There are different definitions for resource nationalism such as the following: state control of the resource firms, nationalisation of strategic companies, shaping the policies for these companies, etc. (as cited in Wilson 2015).

Russian internal and external policies can also be defined with resource nationalism which is explained above. Not only the energy crises with Ukraine are examples of resource nationalism, but also there are pipeline projects as a counter response to the EU's projects which are bypassing Russia. Sussex gives the example of BP's project of Baku-Tbilisi-Ceyhan pipeline (2012, p.213):

Russian rent-seeking over oil and gas infrastructure has also manifested itself in Moscow's success in signing up former Soviet republics to use the Russian pipeline network. When BP announced that its new BTC (Baku-Tbilisi-Ceyhan) pipeline would bypass Russian territory in getting oil to Turkey, the Russian government swiftly championed the Caspian Pipeline Consortium (CPC) pipeline.

As stated above, Russia gave support for the separatist movements in Georgia in order to sustain its superiority over the gas distribution in the region; however, despite all Russian efforts, the pipeline was built. Since 2006, the pipeline has been working (BP, n.d.).

As mentioned before, Russian foreign policy has been in change after the collapse of the USSR. However, it can be said that especially in 2000s, neomercantilism and resource nationalism are the dominant theories in Russian foreign policy, and the energy crises in 2006, 2009 and 2014, support for the separatist groups in Georgia and the annexation of Crimea are the biggest examples for this policy. Although the EU applies sanctions over Russia in many sectors, Russia is aware that the dependence between Russia and the EU prevents the EU from being more aggressive. The exclusion of the natural gas importing from Russia is the biggest important case. Thus Russia can continue following economic nationalist policies in the energy relations with the EU by using the energy as a weapon and the third parties.

CHAPTER 5

CONCLUSION

This thesis aimed to explore the relations with the European Union and Russia in regard to energy policies. The policies followed by the EU and Russia were examined by two important theories of the International Political Economy: liberalism and economic nationalism. The dominant theories in the energy relation between the EU and Russia were analyzed.

First, the world energy outlook was examined with the reports and statistics published by the important actors in the energy field. According to these reports, the energy need will increase through the years; although, there are new energy sources, oil and natural gas will protect their importance for the next two decades, at least.

With the changes in the energy policies, the EU also adopts itself to the world energy outlook. It is an obvious fact that the EU cannot produce enough energy to meet the member states' need, and it is one of the biggest energy importers in the world. To decrease its dependency on the energy imports and achieve a common energy policy, the EU publishes the Green Papers (2000, 2006 and 2013), sets targets for 2020, 2030 and 2050 and makes policies to increase the usage of renewable energy sources by the member states.

Russia is an important actor for the EU in the energy relations. The EU imports nearly 40% of the natural gas and one-third of the oil of all the imports from Russia yearly. To secure the energy supply and ensure the sustainability, the EU is in a search for good relations with Russia. Partnership and Cooperation Agreements, Common Spaces and Energy Charter Treaty are the important tools for the EU to ensure the supply security and Russia is a part of all these. Another important point is here the pipelines between the EU and Russia. There are eight working pipelines or pipeline projects transferring Russian natural gas to Europe. As can be seen here, the EU is dependent on Russia in the energy relations. When the energy crises broke out between Russia and

Ukraine, the member states of the EU were affected adversely, and issue of supply security gains more importance once again.

However, Russian annexation of Crimea deteriorated the relations among the EU and Russia and Ukraine was stuck between these two sides. After the annexation, the PCAs are not renewed, and the EU started to imply sanctions to Russia. The sanctions are various; in finance sector, Russian big state banks and companies cannot issue Eurobonds in the EU area, or Russia cannot use loans from EBRD. Although there are sanctions in energy area, such as prohibition of energy related technological instruments' export to Russia, the EU cannot imply sanctions on natural gas exportation from Russia. Russia has also problems such as depreciation of rouble and decreasing in the petroleum prices, and these made Russia more dependent on the revenues from natural gas exportation. Although the EU and Russia have problems, this does not change the situation that they are dependent on each other.

This thesis also focuses on the EU's enlargement and neighbourhood policies. After the collapse of the USSR, former Warsaw Pact countries became member states to the EU. Each new member state strengthens the EU in terms of economy, population and resources; and changes the geopolitical location of the EU. Thirteen countries become member states in 2000s. Most of them are the former Soviet countries and with these enlargement movements, the EU and Russia become closer. The EU also starts the European Neighbourhood Policy in 2004 and it has Eastern Partnership programme under it. With the enlargement, the Union has new neighbour states and the situation of these countries is important for the EU's security. Moreover, the most of countries under the EaP are also again the former Soviet countries. With these developments, what Russia perceives as its security belt started to be under the EU's influence. In addition to that the EU is getting stronger with the enlargement movements and neighbourhood policies; with each new member states, the Union is getting more powerful in military and economic basis; moreover, with

the neighbourhood policies, the EU secures its own region and trade relations. These developments have adverse effects on the relations with Russia.

Then the thesis focuses on Russian foreign policy after the collapse of the USSR. In 1990s, Russian foreign policy focuses on the good relations with the Western world and the protecting its superiority over the former Soviet countries. However, with the presidency of Putin, Russian internal and external policies started to be changed. With the enlargement of the EU and NATO through the former Soviet countries, Russia started to feel surrender and saw the elimination of its allies –former USSR countries. The energy relations also change with the enlargement of the EU and NATO and the neighbourhood policy. Russia started to use the energy as a weapon for the former Soviet countries, especially over Ukraine, which is involving the EU's policies. The energy crises between Russia and Ukraine are the biggest examples for this, in which ultimately, member states of the EU were affected adversely.

Lastly, the energy relations between the EU and Russia are examined under the theories International Political Economy. The IPE focuses on the power relations between the markets and countries, and analyzes the place of trade relations among them in the world economy. Two of the IPE theories are examined in the energy relations between the EU and Russia: liberalism and economic nationalism. Both theories have different ideas regarding the state control over the economy and the international relations.

The EU mostly focuses on the liberal values in the international relations and also energy relations. The enlargement waves and the neighbourhood policies are the basis for the Union's security concerns and to sustain more stable international environment, the EU focuses on the organisations, bilateral or multilateral agreements. In the energy field, the EU gives more attention to the liberalisation internally and also with the countries which are the part of the EaP. Moreover, under the neighbourhood policy, the EU focuses on the liberal values; such as free trade or the rule of law, and emphasizes these values for the member states or the partner countries in the ENP.

However, in the energy relations, there are scholars who argue that the EU also embraces the neomercantilism, since the liberalism does not protect their energy interests properly. Moreover, some argue that the EU has twenty-eight member states, and there is not one theory which can cover the energy relations of all the member states. Each state follows a theory in accordance with their energy needs. The EU follows the energy policies in line with the liberal views in the regulations for the member states. Liberalisation of the energy market among the member states is an important tool for the EU. However, there are exemptions in the internal energy policies. The EU sets targets for the member states by the Green Papers, and imposes the member states following these targets, such as GHS emissions, increasing the use of renewables and energy efficiency policies. In addition to these, in the international arena, to decrease the member states' dependence on the external energy supplies, the Union's energy policies are more in line with the protectionism. Again, the Green Papers especially published on 2006 and 2013, and the sanctions against Russia are the most important examples of this. The EU follows Keynesian policies or a more protectionist theory –neomercantilism- like the state intervention to the member states in order to apply a common policy for all parties, the prevention of Gazprom from entering the EU's energy market and applies sanctions against Russia.

Russian foreign policy has been in state of change since the collapse of the USSR. In 1990s, the good relation with the Western countries was the dominant idea. However, with Putin's presidency, the foreign policy dynamics has changed drastically. In this change, energy has an important place, since Russia uses the energy sources as a weapon in the international relations.

Neomercantilism is the dominant theory in Russian internal and external policies; the state control over the strategic companies and the usage of the energy sources as leverage in the international relations are most important examples for this. Moreover, there are many scholars who explain Russia's use of energy as a foreign policy tool with the resource nationalism. This theory is also in line with the economic nationalism; such as the state control over economy,

subsidiaries for the strategic sectors and nationalisation of the energy firms. In the international area, Russia uses its superiority on the energy sources as a tool. Moreover, Russia did not hesitate to cut the gas deliveries through Ukraine or to annex Crimea when it comes to protect its superiority over the former Soviet countries.

To sum up, the EU and Russia are dependent on each other, the EU cannot cut its relations with Russia since 40% of gas imports comes from Russia, and Russia cannot use its superiority over the energy sources as a weapon directly to the EU because Russia is also dependent on the revenues from oil and gas exportation. Although, the market liberalisation in the energy field is important for the EU, the Union generally follows, protectionist policies, in line with Keynesian policies and also the neomercantilist policies. However, it is more certain for Russia side that Russia follows the neomercantilism in both internal and external energy policies. Considering the number natural gas pipelines between the EU and Russia, and the cost and time of a building a new pipeline, it seems that their dependency on each other will not end for a while.

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