

# *The EU's External Energy Security Policy and Russia*

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## **Summary**

The Groningen model (a price formation formula that started in the Netherlands) in Western Europe and the Soviet Union model between Eastern and Western Europe are of basically the same structure, and this has supported the stable supply of gas for more than forty years between Eastern and Western Europe. However, the two changes of (1) the deepening and widening of EU integration and (2) the systemic transformation of Russia and Central and Eastern Europe have shaken this stable construct.

Russia, which has moved toward a market economy, has attempted to secure its interests as a seller via: the abolition of the preferential pricing for gas for the CIS nations, such as Ukraine and Belarus, which are new transit countries for pipelines; the acquisition of ownership of pipelines; the construction of alternative pipelines; and the penetration into the downstream sector of the European energy market, etc.

This has caused all kinds of friction, beginning with the gas pipeline disputes, and energy security issues in Europe have become the focus of attention. However, this doesn't stop at "energy supply security" for Europe, but is a complex problem where the three securities of energy supply, infrastructure, and demand in the wider Europe, including the EU and Russia, are interlinked. The reason is that the EU and Russia are buyer and seller of energy resources, and are in an asymmetric mutually-dependent relationship which they can't break off, in different positions to the sellers and buyers of manufactured goods. The EU's "energy supply security" is tied not just to the interconnection and strengthening of the energy network within and without the EU, but also to promoting investment for energy-resource development in producing countries, starting with Russia, and the "energy infrastructure security" to maintain and expand production.

The EU which was confronted with the disputes between the pipeline transit countries and Russia has been accelerating the bloc's energy-market integration, and using this as a foundation they have been attempting to develop their external energy security policy. The EU, via such things as energy cooperation and the Energy Community Treaty with accession candidate countries and countries neighboring Europe, is building a "wider regulated area" and has even begun considering integrating Russia with it.

However, energy-market liberalization and the "export" of EU regulations by means of the unbundling and "mandatory third-party access" which the EU is striving to promote are fostering short-term market fluctuations and gas commoditization, and shaking the "energy demand security" as seen from the producing countries' side, hindering the project financing for large-scale investments where a long-term repayment period is necessary, such as for the development of resources and pipeline construction, and the situation is filled with the risk of complicating the sustainable securing of "energy infrastructure security". This has the potential to eventually threaten the "energy supply security" of the EU itself.

In other words, energy security in the wider Europe is the problem of how the balance is rebuilt among "energy supply security", "energy infrastructure security", and "energy demand security", and that is linked to the changes in the gas-pricing formula. In the future also, the quarreling of the EU and Russia over energy will continue, but it is expected that a constructive compromise will be formed within the framework of the energy dialogue.

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