European Union's Dependency on Russian Energy. Geopolitical Considerations

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Russia is not a military or economic superpower anymore, but is still an energy superpower. It's advantage? Russia controls the access to the energy resources on its own territory and the ones in its "close vicinity". Considering the geostrategic energy resources, the Caspian Sea is a "Russian lake" or a "mare nostrum". Bearing in mind that the Middle East is under "American control" and in conflict for thirty years, and China became a "black hole" in this field, absorbing anything it can, the Caspian area appeared for the European consumers "the promised land" of energy, especially after the implosion of the communist system. Now, here we find the most important international actors: Russia, USA, European Union and China. Will the Caspian area become a new "Middle East"?

Key words: *geostrategic energy resources, European Union, Russia, energy resources geopolitics.*

1. Introduction

Energy security is probably the most frequently used term in current literature and discussions concerning world economy. Even the strongest regional bloc in the world, the European Union, has this

problem on its agenda, strongly reaffirmed by Germany, which held/exercised the presidency of the Union through the first semester of 2007 – through the voice of its Foreign Affairs Minister, Frank-Walter Steinmeir, who declared "energy security as a priority of this mandate." If we add the standpoint on this issue of the world's greatest power, the United States (together with the European Union it makes for approximately two thirds of the world GDP), we will have an even better understanding of how great the importance of energy resources is, and particularly that of strategic ones (oil and natural gas). The world's hydrocarbon reserves (oil and natural gas) are unevenly spread all over the Globe, the majority of both developed, as well as developing countries being importers of oil (and oil products) and gas.

2. Oil and gas: World reserves, production and consumption

The doubtless world oil reserves are estimated, today, at approximately 140 billion tons.

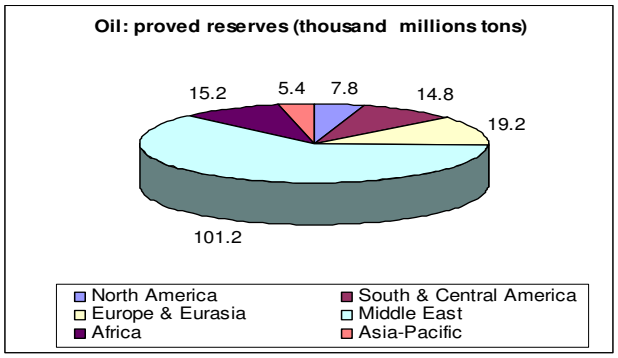
Apparently paradoxical, these are a lot larger than 25 years ago (approximately 87 billion tons), not to mention almost 70 years ago (4 billion tons in 1938). Because oil doesn't form in historical times, we find the explanation in the fact that, these days, there are methods which allow a more correct evaluation of deposits.

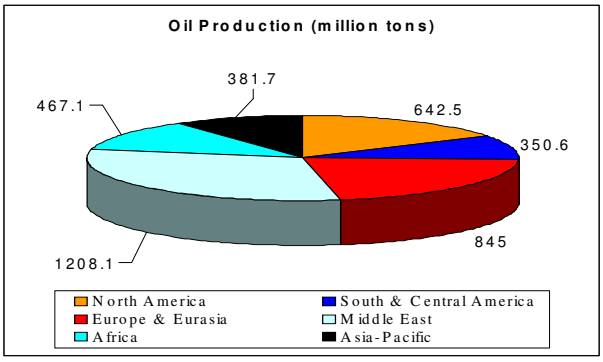
Same as in the case of other resources, oil deposits are actually concentrated as spatial distribution. Thus:

- Approximately 70% of the planet's proved reserves are found on the Asian continent, mainly under the sand of the deserts in the Middle East (between 62 and 66% out of the world total). This region is also the home of the richest countries in terms of oil: Saudi Arabia (approximately 35 billion tons – almost a quarter out of the world total), Iran (approximately 18 billion tons), Iraq (approximately 16 billion tons), Kuwait and The United Arab Emirates (each of the two countries with more than 13 billion tons);

The Middle East is the most fragile place in the world's geopolitical system; it is the place where continents meet, it is the place where the cultures and great religions of mankind meet.

- Approximately 15% is located in America (especially the Gulf of Mexico area), out of which, the following stand out: Venezuela (approximately 11 billion tons), Mexico (depends on the source, between 2,5 and 5 billion tons) and U.S.A.. The last studies point Canada outrunning Mexico on the list of rich hydrocarbons areas;
- There are added a few other „oil areas" like the Caspian Sea Area, which, according to recent estimates, would be the second region on the planet in this field (this is the explanation of the project „The Road of Caspian Energy to Europe"), Saharan North Africa, Equatorial West Africa, The North Sea and others.





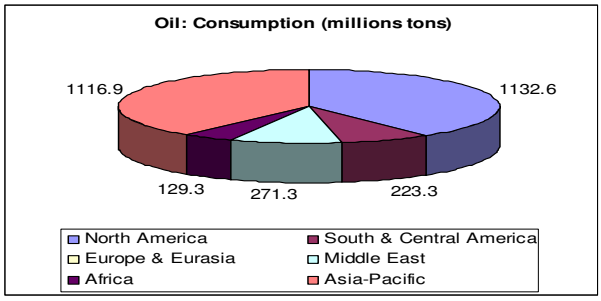
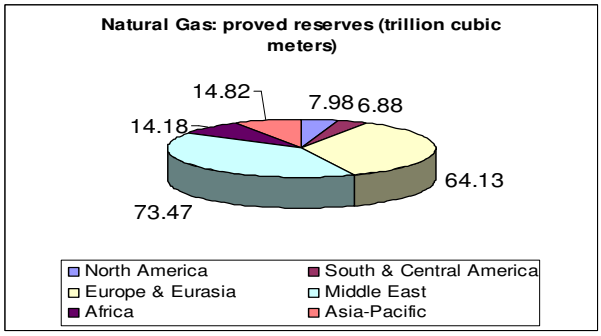


Fig. no. 1 – *World oil reserves, production and consumption*

The past several years have pointed out another energy resource, natural gas, which, left in the hands of only one actor, in the context of many beneficiaries depending on him, my become an instrument of force in influencing the foreign policy of those respective countries.

The world's certain natural gas reserves are currently appreciated at about 177 thousand billion m^3 and they are concentrated particularly in three countries: Russia (over one quarter of the world's total), Iran and Qatar (each with approximately 15% of world certain reserves).

In what concerns the production, we notice two important countries, which hold the top places: Russia and the United States (with over 500 billion m^3 each), followed, at long distance, by Canada, Great Britain and Iran. The same two countries (Russia and the United States) are also present at the top of the consumption ranking.



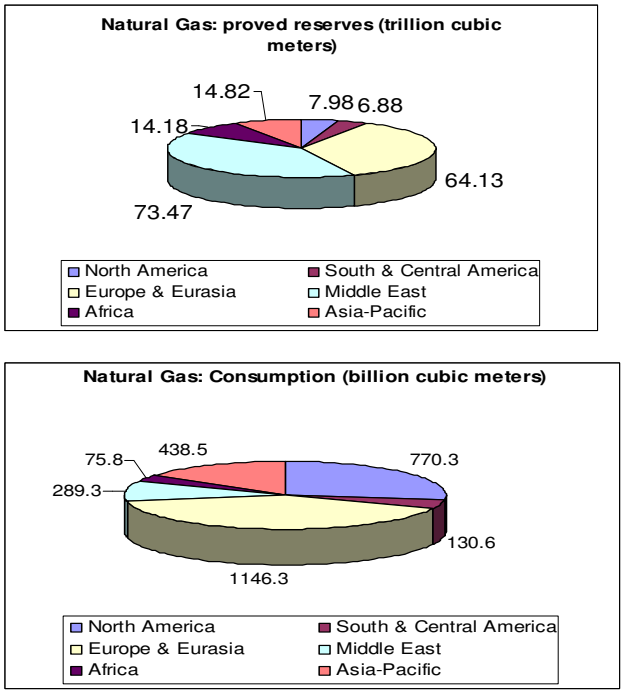


Fig. no. 2 – *World gas reserves, production and consumption*

Russia, the world's largest producer (and its second consumer), holds dependent almost entire Europe (basically, with the exception only of the Netherlands, Norway and Great Britain, who provide their necessary by themselves, from their internal production). Being energy dependent on one source is, for obvious reasons, dangerous, the more dangerous the more the "supplier" has interests contrary to those of the "beneficiary" and the more it has the possibility to force its hand or to "punish" it.

3. The Caspian Basin – the "New Middle East"

General Data. The Caspian Sea, situated at the border between Europe and Asia, despite its vast surface (371 800 km^2) and its name

(*sea*), is, in fact, a lake. From here forth the main difficulty regarding the splitting of the continental plateau (and, implicitly, dividing the propriety of oil resources) between the five countries in the area (Russia, Kazakhstan, Turkmenistan, Azerbaijan and Iran). Russia relishes the approach of the Caspian Sea as an *international lake*, which allows it to exploit at its will, "in international waters"; in exchange, Azerbaijan, Kazakhstan and Turkmenistan appeal to the "law of the sea".

Although appreciated as large, there isn't a unity among opinions regarding the area's oil reserves: 1.3 billion tons ("Oil and Gas Journal"), 2.6 billion tons ("Statistical Review of World Energy", edited by British Petroleum), 4 to 4.5 billion tons (estimates of some large companies) all the way to 2.5 times greater than those of the Saudi oil field Ghawar (estimated at almost 12 billion tons[1]). The Tengiz resource alone, situated to the north of the Caspian, on the territory of Kazakhstan, appears to hold between 10 and 15 billion tons, which represents twice as much as all the oil in the North Sea. Likewise, many sources indicate the Caspian region as the second largest oil region in the world, following the Middle East.

Given the fact that the Middle East has been for almost 30 years an area of ongoing conflicts, affecting deliveries (and, implicitly, prices) and, mainly those of oil, the Caspian Sea's entering the spotlight has been almost natural.

[1] According to *Energy choices in the Middle East,* The Centre for Strategic and International Studies, Washington DC, 2000.

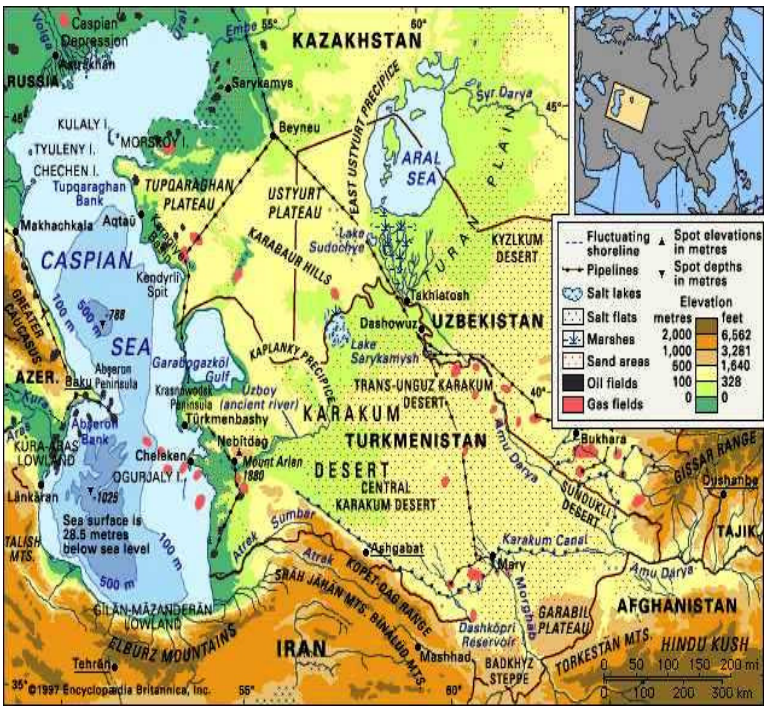


Fig. no. 3 – *The Caspian Basin*

The energy basin of the Caspian Sea presents at least two advantages to that of the Middle East:

- it is closer to the West (the beneficiary countries);
- it is more settled (there have been and there still are conflicts – those in the Caucasus, Chechnya and so on – but no wars).

Azerbaijan, Kazakhstan and Turkmenistan are the three republics separated from the former Soviet empire that have already started to have a powerful say in what regards energy resources at the beginning of the 21st century. The oil and gas reserves discovered here, but insufficiently explored, have caught the attention of the developed world, and, these hydrocarbons must reach Europe by routes that would not

create dependencies, more so since there already are two other big producers in the area, namely the Russian Federation and the Gulf countries.

Therefore, the problem of the Caspian resources is no longer an economic problem, but also a political one, reason why, to date, neither the European Union, nor the United States possesses a clear strategy towards the Caspian and, particularly, towards neighboring Russia.

In 2005, for example, the cumulated production of these three countries was less than 100 million tons, more exactly 94.9 million tons (a lot under the potential), the partition among the countries being as follows: Kazakhstan – 63 million tons, Azerbaijan – 22.4 mil tons and Turkmenistan – 9.5 mil tons.

Given the facts, two problems remain unsolved. The first consists of the financial capabilities of the aforementioned countries to invest in prospecting and exploration facilities. The second relates to the means of transporting the respective resources towards the markets they will be distributed on. With the exception of the BTC pipeline (Baku – Tbilisi – Ceyhan), the existing oil pipelines only connect to the Russian Federation, and, anyhow, can not stand the quantities of oil that are to be pumped.

In order for the Caspian oil to reach Europe, and, considering the fact the oil pipelines in the Caspian have the eastern shore of the Black Sea as there destination, and the transit through the Bosporus and the Dardanelle is limited from an ecological point of view but also in what regards transportation capacity, there are talks about building a new route from the western shore of the Black Sea towards the West, inside the European continent. Among the projects from the Caspian Sea towards Europe, we note:

- Burgas – Alexandropolis;
- Constanta – Omisalji – Trieste;
- Odessa – Brody – Gdansk;

- Turkmenistan towards Central and Western Europe, via Azerbaijan and Georgia;
- Turkey – Bulgaria – Romania.

The "Caspian" actors. There are a few categories of actors involved in the "Caspian energy route":

a) **Countries that border the Caspian Sea** (Russia, Azerbaijan, Kazakhstan, Turkmenistan; Iran is yet to draw any attention for projects regarding hydrocarbons);

b) **Hydrocarbon beneficiary countries** (mainly the European Union and the United States, but also China and Japan);

c) **Neighboring countries, that are transited** by the oil and natural gas (mainly Georgia, Turkey, Bulgaria and Romania);

d) **Big oil companies** (Exxon, Mobile and others – US, ENI and Agip – Italy, British Gas – UK, Royal Dutch/Shell – the Netherlands).

Following the Soviet Union's implosion (1991), the power from Kremlin found itself forced to promote collaborative relations with the great Western Powers, mainly with the US. This was not due to its sympathy for the western democratic system but to the desire to overcome, with Western help, the economic and political crisis. In turn, to counteract the conservative potential of ex-communist origin, seeking restoration, the Western powers caved in and made many concessions: they tolerated exaggerate claims on the part of the Russian Federation to be recognized as "the only descendant and continuer" of the former Soviet Union (this included permanent membership in the UN Security Council, even though Ukraine had a similar request), established the Common NATO-Russia Council (practically giving Russia the ability to legally express its veto regarding the Alliance's actions)

and they included it in the group of the most developed countries, the famous G7 becoming the G8.

Russia has recently stepped out of `the shadow, being more and more active on the world stage: it hosted the first G8 summit on Russian land (July 2006, Sank Petersburg), it is on the edge of being received in the WTO, it is part of the SCO (Shanghai Co-operation Organization), but, most of all, it deals the cards in the energy games it plays with the West (the energy theme hasn't missed from the agenda discussed at any single one of the important summits within the last years where Russia was present). Since the American power was surely to be the main *security supplier* for the former communist countries as well as for others, Russia chose to be their *energy supplier*. It uses its energy resources, and not seldom, for playing "political tap": "the gas war" with Ukraine and Georgia (2006), "the electric energy war" with Georgia (2005), the psychological pressure put on the European Union (especially concerning natural gas) and on Japan (oil) after having signed the contracts with China in 2006, whom is going to receive large quantities of both hydrocarbons that might affect deliveries to the other commercial partners.

In the same spirit of "political tap" we find the attitude, might we even say the boycotting by Russia of the energy projects initiated by Romania (the Constanta-Trieste oil pipeline) or to which Romania is a member (the NABUCCO gas pipeline).

4. Romania and The Caspian Energy's Road to Europe

Romania, who was one of the world's biggest producers and, at the same time, exporters of oil between the two World Wars, and respectively, of gas, after World War II (in both cases, ranking 4th), is, at present, an importer of both. Its oil production (5.2 – 5.4 million tons annually), as well as its natural gas production (10 -13 billion m^3) are insufficient to cover the country's consumption need, Romania becoming a net importer. As a consequence, Romania has become very

interested in the grand energy projects, particularly in those generically classified under the expression "the Caspian energy's road to Europe".

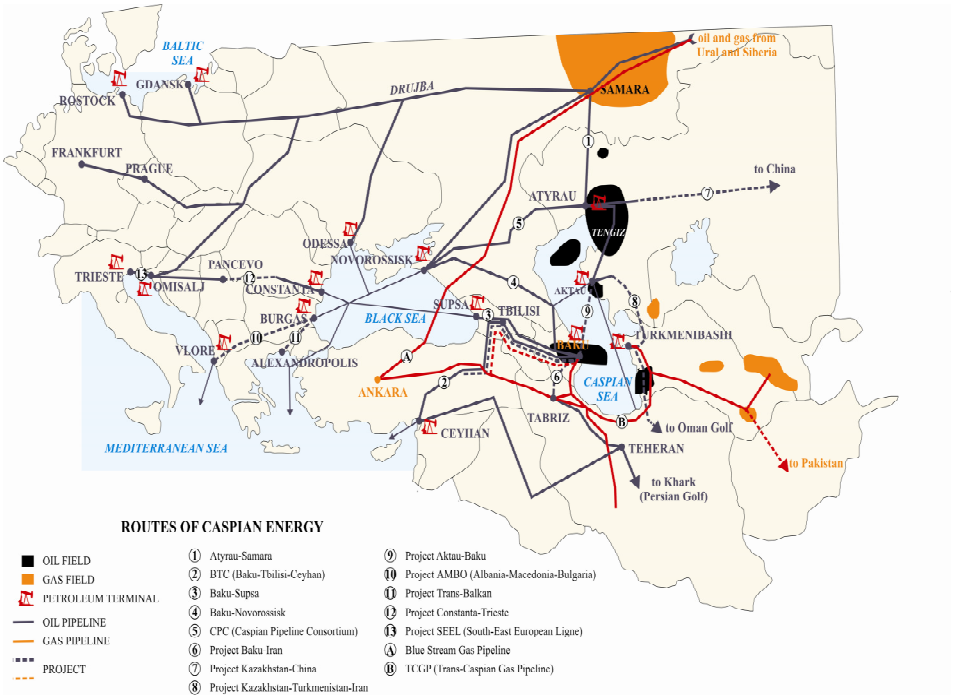


Fig. no. 4 – *Routes of Caspian Energy*

4.1. The Pan European Oil Pipeline Constanta – Trieste or the Pan European Oil Pipeline (PEOP)

On April 3rd, 2007 the agreement ("Ministerial Declaration") concerning the building of the oil pipeline Constanta (Romania) – Trieste (Italy) was signed in Zagreb, the capital of Croatia. Besides the three countries, Serbia and Slovenia were signatories as well. The document was also signed by Andris Piebalgs, the European Commissioner for

Energy, thus confirming the European Commission's interest and full support for the PEOP.

The initiative: It belongs to Romania, but has the support of the European Commission. The project isn't actually new, as it participated in the 1998 competition, when the winner was announced (with the occasion of the OSCE Conference in Istanbul, in November 1999) to be the Turkish project BTC (Baku – Tbilisi - Ceyhan), given also the support and the interests of the United States and Great Britain, although the Romanian one presented a great deal more advantages, among which:

- Shorter land route (1,400 km as opposed to the BTC's 2,000 km);
- Two thirds of the pipes already existed, lacking only to be connected;
- The absence of areas of conflict (within Turkey, the BTC crossed through the Kurdish territory);
- It traverses only low regions, the BTC requiring many pumping facilities (about 20), etc.;
- Constanta harbor has large facilities for the storage of oil and its subsequent distribution through pipeline;
- Romania has greater oil refining capacity (of over 30 million tons per year), surpassing by a lot internal production and consumption needs.

The Main Features of the Constanta – Trieste Oil pipeline:

Length: 1 360 km. *Capacity:* according to the feasibility study, performed by a consortium coordinated by Hill International UK, three alternative transporting capacities were being contemplated – 40, 60 or 90 million tons / year. *Costs:* $2.27 billion, $2.81 billion or $4.26 billion,

depending on the chosen alternative. *Completion Deadline:* 2009, 2011 or 2012. *Purpose:* the transporting of oil from the Caspian Sea region (especially from Kazakhstan and Azerbaijan), through the Black Sea (from the Caucasian oil ports, particularly, Supsa, Georgia to Constanta, Romania, the biggest port in the Black Sea region) towards Western Europe.

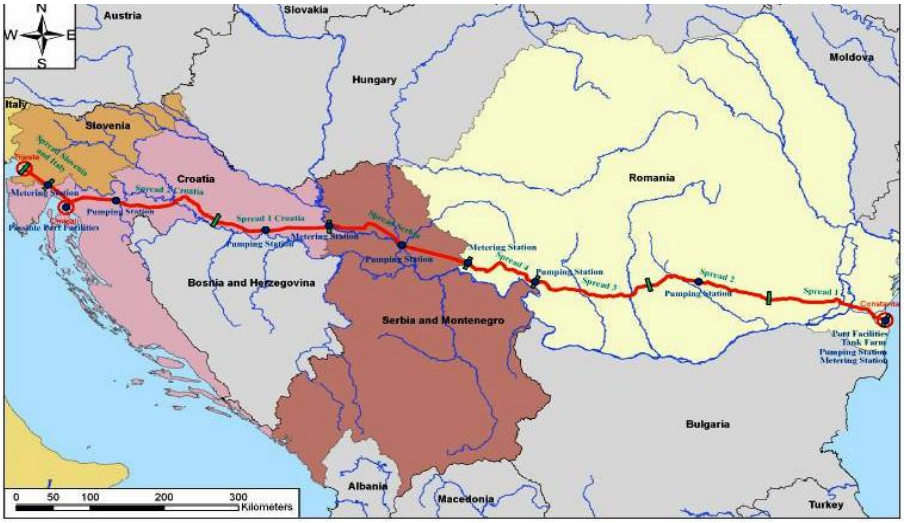


Fig. no. 5 – *The Pan European Oil Pipeline (PEOP)*

This pipeline contributes to reducing the European Union's dependency on Russian and Middle Eastern oil.
The targeted market for the PEOP project Constanta – Trieste is, obviously, the European Union; its terminal point is Trieste because from there on the connection with the Trans Alpine Pipeline Network becomes possible, through which Austria, Germany and other West European states could be supplied.

Advantages:

- The shortest route to Central and Western Europe. *Note:* Another agreement signed in April 2007 was initiated this time by Russia, for a similar pipeline, with the route Burgas (Bulgaria) – Alexandropolis (Greece, north of the Aegean Sea); Only that in order for the oil to be forwarded farther, to Western Europe, the distance and, implicitly, the costs are very high.
- It could provide for other countries on route (Romania, Serbia, Croatia and Slovenia) or nearby (Bulgaria, Hungary, Austria), all dependant, either totally or partially, on imported oil; this means the oil pipeline could be "doubled" or even "tripled".
- The oil pipeline could be doubled by a gas pipeline that could benefit from the arrangements made to accommodate the pipeline.

4.2. NABUCCO – gas pipeline

After the "gas war" between Russia and Ukraine (2005 - 2006), the European Commission regained its interest in the older NABUCCO project, as an "alternate source of energy", meaning natural gas for Central Europe (its main beneficiary going to be Austria). "It's not just a technical project, it is also a political one", said the European Commissioner for Energy, Andris Piebalgs.

Purpose: the transporting of natural gas form the Caspian Sea region (especially from Azerbaijan, although the "Iranian branch" is also under consideration) towards Central Europe, with the route Turkey – Bulgaria – Romania – Hungary – Austria. Just like in the case of the Constanta – Trieste pipeline, the NABUCCO gas pipeline aims at narrowing the dependency on Russia, who is the European Union's main supplier (40% of its consumption is provided for by Russia).

The main features of the gas pipeline are:

Length: 3,300 km. *Capacity:* 26 – 32 billion m^3/year, to begin with. *Costs:* approximately $5 billion (of which Romania is going to contribute $1 billion). *The Companies* that voiced their intention to partake in the building of the gas pipeline: OMV (Austria

Fig. no. 6 – *The Nabucco Gas Pipeline*

– around 50%, TransGaz (Romania), MOL (Hungary), BulgarGaz (Bulgaria) and Botas (Turkey). *Completion Deadline:* beginning of works in 2008, partially operational in 2011 and fully operational in 2020.

The completion of this project surged in importance to the EU as, the agreements signed between China and

Russia (concerning both types of hydrocarbons) in 2006, might render Russia's satisfying EU's need for gas impossible.

Unfortunately, the agreement regarding the project has not yet been finalized because Turkey, who initially enjoyed the idea of NABUCCO, is now delaying its signing procedures. There are rumors that, after the completion of the aquatic gas pipeline Blue Stream (Russia - Turkey) traveling the bottom of the Black Sea (in November 2005), Russia is influencing Turkey to consider building gas pipelines solely on its territory.

5. The "Political Tap "or "Russian Roulette"?

When there is only one energy supplier to a number of countries, it can dispose at its whim the stoppage of exports or any reductions of afore established export quantities. Although, in many cases, technical

reasons are thrown to the front, in reality they are by all means political (to "punish" a certain country), thus the use of the "political tap". Some analysts use the term of "Russian roulette"[1], which I consider improper: in the case of a "Russian roulette" the victim is aleatory (the person having the misfortune to pull the trigger when the bullet is in the front chamber), while in the case of the "political tap" the victim is "chosen" and certain.

For instance, in the night of 21 to 22 January, 2006, two explosions affected the main stream and a secondary branch of the gas pipeline Mozdok – Tbilisi, the main pipeline alimenting two former Soviet republics (Georgia and Ukraine). The deflagrations occurred on the Russian part, not far from the border with Georgia. Shortly after, another deflagration also cut down the supply of electric energy to Georgia.

The Russians accused the Georgians and the Armenians of "sabotage"! In reality, they had no interest, since it all took place in the midst of winter (January!) and their reserves would only last for 24 hours. Therefore, the Georgian president, Saakashvili, denounced Moscow's "blackmail": "For a long time, I had been hearing the threats of Russian politicians that we might be left without natural gas and power, and now it has happened."

Some analysts go further and notice many similar scenarios:

- After Russia substantially increased the price of its natural gas set for Ukraine and Georgia, the analysts regarding this as a form of reprisals following the "Georgian Revolution" in December 2003, the "Orange Revolution" in Ukraine in December 2004, the "Tulip Revolution" in Kazakhstan in June 2005, *GAZPROM* also announced the increase in prices for the gas delivered to Belarus (starting 2007, the price tripled). It was believed that, actually, the Russian company wanted to take over

[1] Russian roulette is a game in which you risk killing yourself by shooting at your head with a gun that has a bullet in only one of the six chambers.

50% of the stocks of Belarusian contender Beltrangaz, the owner of the pipe nexus feeding Europe, in order to stop paying taxes to Belarus in stead of them themselves cashing in directly; after Belarus' tough reaction (on the part of Russia's most loyal political partner), the Kremlin caved in.

- Russia cancelled Algeria's debt ($5 billion) on two conditions:
  - First: the buying of $4 billion worth of weapons (40 MIG 29s, 20s, SU-30 planes and 40 T-90 tanks);
  - Second: *GAZPROM*'s access to its oil and gas fields, Algeria being Europe's third energy supplier, after Russia and Norway; in addition, Algeria is also a member of OPEC.
- In March 2006, Russian president Vladimir Putin, signed together with Chinese resident Hu Jintao, an agreement by which they pledge to build two natural gas pipelines to China, thus becoming the country's number 1 supplier. The agreement spawned concern within the European Union, because the gas that was going to be delivered to China was to be extracted from Western Siberia, the same region that gives the gas Russia exports to Europeans. The deliveries were set to start in 2011, between 60 and 80 billion m^3 annually. Kremlin announced that Russia might also build an oil pipeline, thus upsetting Japan as well, since it could not meet both Asian demands.

All these elements – and others may be added (boycotting the NABUCCO project – which also includes Romania –, the recent reopening of the Burgas-Alexandropolis oil pipeline and so on) – suggest, according to some analyses, that Russia is currently transforming itself from a "defunct military superpower – although still nuclear – into a new energy superpower"[1].

[1] ***, *Russia's Newly Found "Soft Power"*, The Globalist, August 26, 2004.

Blue Stream – A Small Pipeline, Great Significance. This gas pipeline was inaugurated with huge display on 17 November, 2005, in the presence of Russian president Vladimir Putin and Turkish prime-minister Recep Erdogan, Italy's then prime-minister, Slivio Berlusconi, also taking part. The explanation for this was apparently simple: Russia "offered" natural gas, Turkey "benefited", and Italy was participating as co-constructers of the project, through ENI trust (together with Russian colossus GAZPROM).

Several facts concerning the project: the underwater pipe (the deepest one on the Globe, at 2,150 m under sea level) is 309 km in length and links the ports of Drujba (Russia) and Samsun (Turkey). It is complemented by 373 more kilometers on Russian land (from the gas fields of Izobilnoj) plus 501 km on Turkish territory (from Samsun to Ankara, the country's capital). Starting with 3.7 billion m^3 of natural gas, it is going to transport 15 billion m^3, and finally reach a double capacity.

Other pipelines have been inaugurated, both before and after, but none arose so much interest. Analysts didn't need much to notice that, in the middle of it, there was a long term, long range game that "opens new horizons for Russia"[1]. Not by chance nor by coincidence did the Kremlin propose the building of other new pipelines to Turkey, transporting not just gas, but also oil. These projects signal that "Moscow wishes to be thus capable of counterbalancing US-UK influence in the region (who were the promoters of the BTC oil pipeline, namely Baku – Tbilisi – Ceyhan) other than from the military security point of view"[2]. To put it differently, if the US has become the "security supplier" for many of the former communist countries, Russia seeks to balance this by becoming their "energy supplier", not just the supplier of South-Eastern Europe, but also of the European Union, precarious in terms of energy resources and a great deal dependent on Russia.

[1] See, for example, Federico Bordonro, *Blue Stream Opens New Horizons for Russia*, "Power an Interest News Report", November 21st, 2005.
[2] Idem.

One may therefore appreciate that, in doing so, Russia wishes to win back its influence and protect its interests in Eastern Europe, at the same time augmenting its financial power and, why not, its political one as well[1].

Caspian Pipeline Consortium. This represents another example of a project through which Russia looks after its own interests, while affecting those of transit countries (mainly Romania). The project aims to transport oil from Kazakhstan (from the great field of Tengiz), through Russia, to the Black Sea, in the region of Novorosijsk port (a huge storage and loading/forwarding facility is going to be built nearby).

Main facts[2]:

Length: 1,100 km, of which 752 km already existed (Tengiz – Komsomolik - Kropotkin), and 258 km are going to be build afresh. *Facilities:* 15 new pumping facilities, 13 storage tanks (each with a holding capacity of 100,000 m^3), 5 of which will be situated around Novorosijsk. *Main stakeholders:* the Russian government (represented by Lukoil, Rosneft and Transneft) – 24%, Kazahoil – 19%, the government of Oman – 7%, LukArco (JV Lukoil and Atlantic Richfield - US) – 12.5%, Rosneft Shell – 7.5%, Mobil (US) – 7.5%, Kaz Pipeline Ventures (JV Kazahoil, Amoco, the former Holding Munai Gaz) – 7%, and others. *Duration of project:* approximately 40 years; will operate at minimum capacity starting 2014. *Revenues:* Russia's profits alone are estimated around $23 – 24 billion.

6. An "OPEC" for Natural Gas?

We are all familiar with OPEC's role on the world scene following the "oil shock" of 1973, who knew how to exploit at its fullest the most

[1] To grasp the entire broad array of problems, see also part 4 (*Les points chauds du Globe*) of Yves Lacoste, p. 206 – 328.
[2] Also refer to Terry Adams, *Caspian Hydrocarbours, the Politicisation of Regional Pipelines and the Destabilization of the Caucasus,* Center for European Policy Studies (CEPS), Brussels, 2000.

used and sought after strategic energy resource; there have been, of course, gaps along the way, but they do not concern the subject of this paper. Lately, there is talk about a similar gas cartel. Although some are still inclined to ascribe the paternity to Iranian ayatollah Ali Khamenei, who in January 2007 made a similar proposal, "Financial Times" used the term two months before (November 2006) when, quoting a NATO Report, it mentioned Russia's desire to create such an organization. The configuration of the anticipated cartel is extremely interesting, as it would contain Russia, some countries from the Gulf Region (Iran and Qatar), from North Africa (Libya and Algeria) and from Central Asia (Kazakhstan, Turkmenistan, Uzbekistan, and others). This would certainly wage a huge amount of power, since Russia and Iran alone concentrate 43% of the world's natural gas reserves!

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