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Is Russian Energy diplomacy a smart power tool of foreign policy in the EU?

Masters by Research Thesis

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Date of Submission: 31/07/2015

Abstract

Power is an essential element of human existence and manifestation of power can be found in every dimension of human social life from interpersonal relations to international political disputes. Russian national resource power, in particular, has recently become a more prominent topic of research among scholars of Russian foreign policy study and international politics. There are two major trends in foreign policy literature that stand out – a study of Russian hard coercive power capacity and a preoccupation with the use of Russian soft power. If the former is a straight forward study of Russia’s military power and territorial dominance, the latter embraces the original soft power concept of Joseph Nye (1990; 2004a; 2004b; 2008; 2010; 2011) to assess Russia’s power performance capabilities. Thus, the extensive EU gas market specifically is an object of geopolitical race for regional influence and political dominance, particularly with Russia as the main driver. As the likelihood increased that Russia would dominate European gas supply, the question emerged as to how Russia would use its gas diplomacy to influence EU member states’ policies and extract political concessions.

The thesis aims to move away from the traditional approach of segregating power models and the task to objectively measure it by the characteristics of power tools in use. Instead it acknowledges the improbability to effectively measure the intensity of power types used by Russia and embraces Joseph Nye’s conceptualisation of mixed power – smart power. In examining Russian smart power it adopts comparative methodology to understand whether Russian energy diplomacy has characteristics of smart power foreign policy in the EU.

Acknowledgement

I would like to thank my supervision team, in particular Dr Andrew Mycock and Dr Shaun McDaid, whose advice and support throughout this project were greatly needed and deeply appreciated.

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Introduction

Power is an essential element of human existence and manifestation of power can be found in every day dimension of human social life from interpersonal relations to international political disputes. Russian power, in particular, has recently become a topic of research among scholars of Russian foreign policy study and international politics. Alas, the concept is commonly used and applied in social sciences, it is very difficult to measure and the analysis of Russian power has remained limited in scope and practical conceptualisation.

There are two major trends in foreign policy literature that stand out – a study of Russian hard coercive power capacity and a preoccupation with the use of Russian soft power (Aslund, 2006; Avgerinos, 2009; Bilgin, 2011; Feklyuena, 2012). If the former is a straight forward study of Russia's military power and territorial dominance, the latter embraces the original soft power concept of Joseph Nye to assess Russia's power performance capabilities. Such assessment has often resulted in conclusion that Russia is ultimately failing to produce soft power. The conclusion is similar if Russian soft power effectiveness is analysed beyond the criteria set by Nye. Neither of these, however, seem to produce sufficient conceptual or practical measurement of power and its effective use. Hence, the issue of Russian policy subject lacks micro-conceptualisation and the importance of the recipient of Russian power is overlooked.

The thesis aims to move away from the traditional approach of segregating power models into hard power and soft power, instead the task is to objectively measure smart power strategies in use by assessing appearances of Russian power tools deployed. It acknowledges the challenges to effectively measure the intensity of power types used by Russia and therefore embraces Joseph Nye's conceptualisation of mixed power – smart power. In examining Russian smart power it adopts comparative methodology to understand whether Russian energy diplomacy has characteristics of smart power foreign policy in the EU. By drawing attention on to the energy diplomacy and applying Nye's 5 point criteria to identify smart power tools.

Putin's Russia has often been associated with the rise of Russia's importance as a European energy supplier (Bousenna & Locatelli, 2013, Locatelli, 2014). Thus, the extensive EU gas market specifically is an object of the geopolitical race for regional influence and political dominance, particularly with Russia as the main driver. As the likelihood increased that Russia would dominate European gas supply, the question emerged as to how Russia would use its gas diplomacy to influence EU member states' policies and extract political concessions. Big projects define the understanding of Russian foreign energy policy. In the case of the gas conflicts with Ukraine in 2006 and 2009 Russia had

demonstrated an acute desire for profit, employing a set of opportunistic actions that lacked a coherent geostrategic vision. As a response to this claim (Bousenna & Locatelli, 2013), the Nord Stream project in 2011 and the South Stream project in 2012 were implemented and launched respectively showing the Kremlin's desire to sustain 'the reliable supplier' image. Concurrently, the annexation of Crimean peninsula in 2014 shows Russian disinterest to follow the international norms and a willingness to use established gas relations with the EU as a political leverage.

Related to this is the impact Russia has on European energy security (see works by Aalto, 2008; Soderbergh et al, 2010; Bousenna & Locatelli, 2013). In Europe, it is often portrayed as an unreliable supplier, dedicated to use the gas as leverage against its customers, implementing transit infrastructure projects to avoid transit states, and maintaining a monopoly on existing routes to Europe (see works by Monaghan, 2007; Saunders, 2008; Pohler, 2009; Smith Stegen, 2011; Crandall, 2014; Kropatcheva, 2014). A minority of the literature on Russian energy policy, however, portrays a more pragmatic Russia by focusing on the rationality of its actions (see works by Bozhilova & Hashimoto, 2010; Orttung & Overland, 2011). The vast majority of literature on foreign energy policy, however, reaches consensus and focuses on Russia as a potential 'energy superpower' and the impact that the energy surplus has on its foreign policy (see works by Baev, 2008; Rutland, 2008; Shaffer, 2009; Van Der Meulen, 2009; Dellecker & Gomart, 2011). The high natural energy prices of the first decade of the twenty first century have turned Russia's energy resource wealth into economic wealth and converted it into political confidence on the international stage. It is, as President Putin (2006) has noted, a key element of Russian diplomacy.

Since gas diplomacy is the main driver of Russian foreign energy policy, the nature of diplomatic tools shapes the patterns of its international behaviour. Over the years many scholars tried to provide formulas to quantify power in international relations, however the concept of power is surpassingly elusive and difficult to measure (see works by March, 1966; Tellis et al, 2000; Baldwin, 2002; Keltner et al, 2003). Any academic attempt to develop a single index of power is challenging because power depends upon human relationships that vary in different relationships contexts (Nye, 2011, p.14). During the current cycle of the gas market the EU has experienced an influx of demand from domestic consumers that cannot be satisfied by the volume of domestic gas supply (see works by Spanjer, 2007; Van Der Meulen, 2009; Umbach, 2010; Bousenna & Locatelli, 2013; Smith, 2013). This sustained rise in demand also impacts the shifts in the power structure between agent and customer countries.

When the power of resources is concerned, in a perfect market, the agent would not have any power over resource pricing or distribution. The system of supply and demand would determine

these outcomes. But if the producer can find a way to change the structure of the market by introducing a monopoly, it can ultimately gain power over its clients. For example, although Brussels holds a far greater power than the Kremlin in conventional terms of population count, life expectancy, economic development and combined military budget, Russia has successfully fragmented European unity. In the complexity of changed systems arrangements, the agent can find and exploit structural holes to prevent direct communication between individual parts of the network. The EU-Russian energy forum is therefore composed of a series of interrelated, yet diverse bilateral relations. France, for example, views Russia as one possible provider for its domestic market consumption needs among other alternatives such as Norway and Algeria. Germany, although not exclusively, is considerably dependent on Russian natural gas imports. Thus, Russia participates in energy negotiations with both France and Germany forming a rational economic and political stance. By comparison, many of the Eastern European member states tend to be anti-Soviet or Russophobic as a result of their recent historical memory. Yet, due to their strong vested desire to keep an uninterrupted delivery of Russian gas to their respective markets, the region opts out of disallowing their emotional political exuberance to undermine economic rational (De Brito et al, 2001; Bozhilova & Hashimoto; 2010).

Contrary to the prevalent perception that the EU can only be divided in terms of political integration when examining Russian international power, the division between the member states is more complex than a split between 'Old European' developed countries and Eastern and South-Eastern 'New Europe' (see policy paper for European Council of Foreign Relations by Leonard & Popescu, 2007). To identify the type of power Russian gas diplomacy is employing and how it advances foreign policy goals, one must ask how Russia divides the European gas market to employ gas diplomacy most effectively. To answer this question the researcher analyses the dynamic of Russian interaction with member states through by separating the EU into regions of foreign policy interest.

The researcher chose to conduct the power study in the EU member states due to the unique structure of the supranational organisation. The EU energy policy falls under the merit of the Treaty of Lisbon legal solidarity and has been approved a mandatory trans-union legislation in 2005 (Braun, 2012). The EU states that the researcher uses as the case studies have been divided by using socio-economic rather than geographical criteria. The four distinct areas are crystallised with which Russia engages by employing different power tactics and these areas are shared by old and new member states alike: 1) Eastern Europe and the Baltic states— Finland, Estonia, Lithuania and Poland are completely or almost completely dependent on Russian gas imports and Russian gas infrastructure. Simultaneously, these member states tend to have an overtly hostile relationship with the Kremlin

and the deteriorating political relations often spill over into energy security and commerce. 2) Central and Southern Europe – Austria, Slovakia, Slovenia, Czech Republic, Hungary, Luxembourg, Belgium, Bulgaria, Romania, Greece, Cyprus, and Malta. This is the biggest region of Russian interest. It is comprised of middle power states that maintain a close relationship with Russia due to established commercial, cultural or historical ties. However, the underpinning characteristic of the region is their willingness to focus on business interests beyond common EU political goals. 3) Northern European region is made up from Sweden, Denmark, the Netherlands, Ireland and the United Kingdom. Russian gas relations with these states are different from rest of the EU due to the region being almost completely independent from Russian gas. At the same time, the Northern European proximity to the Arctic is a main driver in relations between Russia, Denmark and Sweden. 4) The last case study examines Russian gas power in Western Europe comprised of Germany, France, Italy, Spain and Portugal. These countries occupy prominent positions in the EU due to being the driving economies of the Union. Thus, aside from Spain and Portugal they all have strongly established bilateral relations with Russia.

The purpose addressed is to establish what type of power Russian gas diplomacy uses to engage with the EU regions. A geopolitical approach to Russian gas diplomacy in the EU will therefore rest on the following keystones: 1) Identification of the power vector of gas diplomacy and its main elements in EU case study regions and 2) identification of the overall nature of Russian gas diplomacy within Russian foreign energy policy. A nominal scale is used to identify variables of Russian gas diplomacy – hard power and soft power. According to Sartori (1970, p.59) the nominal scale is a type of labelling variables that have no quantitative properties. The major premise is that identifying the extent to which Russian gas diplomacy is a smart power strategy is impossible prior to identifying the power variables defining it. Therefore, the investigation concerns itself with two questions of power theory coined by J. Nye (2011, p.208) – firstly, what goals and outcomes are preferred by the Russian gas diplomacy in the region and secondly, what resources are available to Russian gas diplomacy.

This thesis is organised in a following way. The next section will present a methodological framework for the study. In this empirical section, the researcher demonstrates the plausibility of the claim that Russian gas diplomacy is a smart power tool in the context of the four EU regional case studies – Eastern European and the Baltic States region, Central and Southern European region, Northern European region and Western European region. Further, before the thesis investigates these regions, it gives a literature review on international power types, drawing onto academic works of Professor Joseph Nye who has devised three separate types of international power – hard power,

soft power and smart power. It then presents a critical account of power in mainstream studies informed by classical international relations theories. Additionally, as the second theoretical objective it explores the domestic and external context of Russian gas diplomacy and poses the questions whether the national energy policy and the competitiveness of the global gas market affect the choice of power type used in the gas diplomacy. The analytical section is then comprised of the aforementioned case studies to investigate Russian gas diplomacy by linking it with power types. The thesis is concluded with overall trends, analysis and implications of Russian gas diplomacy in the EU as a whole. The dissertation argues that the Russo- European gas dialogue and currently undertaken Russian gas infrastructure projects within the EU borders can be credibly identified as manifestations of Russian smart power gas diplomacy. These power mechanisms in turn are direct projection of Russian foreign energy policies. Whether this analysis amounts to more than a necessary corrective to existing and increasingly scholastic aspects of contemporary international power relation thinking is unclear, but at the very least the findings collected here contribute to an important and timely debate how we should approach the study of power.

Methodology

To test the hypothesis a comparative research method is used. The term comparative is commonly applied to the research methodology designed to collect data emphasising the key similarities and differences between the chosen cases (Finifter, ed, 1993, p.105) by using the concepts that are applicable to more than one case study (Rose & McKenzie, 1991). Thus, the method possesses a methodological focus that emphasises how the analysis is conducted (Lijphart, 1971). This methodology sharpens the power of the description analysis and plays a central role in concept formation. The comparative method also favours the macro-hypothesis of the study of power as it concerns the interrelations of structural elements of total systems (Rokkan, 1970).

When using the comparative method, before one can investigate the presence or absence of some attribute, or before one can rank or measure objects in term of some variable (Lijphart, 1971), one has to form the concept of that variable (Barton & Lazarsfeld 1955). The analysis is therefore designed to investigate the relationships between Russia and the individual EU regions, while the legislative and normative frameworks of gas relations are held constant. The EU was chosen as a test study because it can be divided into smaller entities that are groups of the EU member states dissimilar in relation to each other. They all however possess an essential characteristic, that of being members of a supranational organisation which is treated as a constant. The case study regions used, for example, are recipients of Russian gas and all have similar legislative energy security framework reinforced by the Common European Energy Policy. Such comparable cases are a particularly good opportunity for applying comparative method as they allow testing the relationships among few variables while the rest are controlled (Lijphart, 1971; Mahoney, 2007). Thus the methodology used in the study addresses two purposes.

Firstly, to achieve the maximum result when comparing a vast amount of the EU member countries among themselves, four EU regions are determined, the coding of which is done using the scale of socio-political, socio-economic and cultural trends. These are Eastern Europe (EE) and the Baltic States, Central and Southern European (CSE) region, Western European (WE) region and Northern European (NE) region. The four case studies are not divided by the geographical criteria but rather by the degree of influence Russian gas

diplomacy has on the particular region. This involves an in-depth study of regional energy markets, beginning by looking to their origins and history, and moving on to examine the policy making process in action, in an attempt to gain insight into the roles played by Russia, the EU and regional powers, the relative amount of influence each holds, and the power relationships among them. The selected typology allows the seeking out of more complete stories based on a wider range of documentation and a reinterpretation of previous academic studies. 'The lengthening spectrum of political systems' (Braibanti, 1969, pp.33-34) is a source of conceptual and methodological challenge for any comparative study. While there is an end and definition to the geographical size, there is no end to the proliferation of political units (Sartori, 1970). To avoid this challenge the coding of the case studies is done to reduce the property-space (Lijphart, 1971) of the analysis by combining several test cases that express similar underlying social, cultural, political, and economic characteristics into a single test group. The advantage is that the universe of discourse is limited on the basis of the 'most similar systems design' and therefore that both the internal and external validity is considered to be enhanced (Almond and Verba, 1963; Llane and Ersson, 1999).

The data collection in the case study occurs over a 'sustained period of time' and investigates the phenomenon in a real-life context (Creswell, 2009). Thus, the data used by the researcher is collected through document interpretation to give the voice and meaning around the trends of power politics. The three primary types of the documents used are public records made available by Russian government and the EU parliament, and physical evidence such maps, pipeline plans and project blueprints and environmental reports. The data analysis consisted of examining the documents for reliable, appropriate information that is addressing the research question. No major difficulties with source survival or availability were encountered; the relevant documentary sources were in the public domain and are readily available, primarily from European Commission website. However, the main difficulty in analysing such a vast amount of resources available lay in sifting, sourcing and identifying the most relevant ones to the study conducted. Another avenue of investigation involved study of the public commentary, which is expected to have significant impact on policy development in the EU liberal democratic model of governance. The researcher examined public comments, the vast majority of which are either archived by the various

media outlets or the EU Petition Committee. It was identified that some common themes and proposals by region exist, particularly those that have broad support or extensive opposition across a significant proportion of commentators. These will be then compared to the output of the policy formation in an effort to determine whether input from public commentators tends to get incorporated into actual policy recommendations and therefore the researcher will be able to measure the extent of the soft power influence on the policy decision making.

Participant narratives and academic journal articles are used to interpret the themes of Russian gas diplomacy in regards to the individual case study regions being evaluated. The coding for this scale was carried out by analysing data collected from primary source documents such as minutes of the EU debates and committee meetings, EU Commission reports, and finalised policy statements. When coding the minutes of the EU debates and official reports, the individual statements in this data could be identified with the individual speakers, the data was not analysed at the individual level. The unit of analysis was data segments representing and reflecting the official position of the states. In addition to the sources listed, Russian periodicals and Russian politicians' speech transcripts pertaining to Russian energy politics will be utilised where required. These were translated by the researcher from Russian to English and were kept contextually as close to the original as the translation permitted.

Reliability and validity are important aspects of the document interpretation. Despite the vast amount of official documentary evidence available to conduct an investigation into the official Russian actions, there certain gaps in the official records supporting Kremlin decision making, for example there are few minutes of meetings with Gazprom executives available. Moreover, due to the character of the relationship between the Kremlin and Gazprom there are certain potential limitations with such document sources as there is no guarantee that official meeting statements will capture everything that was discussed and could be written to present Gazprom activities in a more positive light to the public. In an attempt to overcome such limitations as well as endeavour to fill gaps in documentary records evidence from policy discourse, such as public pronouncements, policy debates are used. These also include non-governmental archival materials and ethnographical techniques (outlined below) that will support pragmatism methods of research of elite-oriented study and will

eventually reach conclusions about the nature of power and policy making processes based on the evidence collected. Relevant primary sources include policy archives of governments, online archives of inter-governmental organisations, non-governmental organisations, and supranational organisations, as well as press reports, and interviews supplemented and contextualised through secondary sources. Treaties, conventions, negotiations, and procedure papers also manifest materials that were used to contextualise by the researcher.

This findings of the thesis therefore are primarily based on an analysis of current primary source documents on the topic of Russian gas diplomacy as it is developed as a strategy of foreign policy in various EU regions and on the consequent debate of power as it is constituted in international relations. Prior knowledge of the dependent variable of smart power is limited when the case studies are concerned. The research, therefore, will heavily rely on contributions of state elites and governments and of scholars from political science and IR. In particular, for the concept of smart power the author will refer to the works of Joseph Nye. The case study furthermore is a test of the proposition that smart power relations exist within Russia/EU framework. Each case study then will take the form of step-by-step investigation into each of the Russian gas projects, examining the work of the various European policy committees and attempting to evaluate the relative influence of Russian interests in producing the specific policy outcomes resulting from their work.

Literature review

Power is an absolute social force, it is a characteristic of every social interaction and the manifestations of power can be appreciated on every stage of human evolution. In its most basic form, power is the ability to get outcomes one desires. As the human race evolved and our social systems became increasingly more complicated, so did the manifestations of power. Therefore, if power is analysed in term of international politics, a simplified definition can be applied to a broad-spectrum political power – ‘the ability to influence the behaviour of others to achieve desirable outcomes’ (Nye, 2004a, p.2). Yet similarly to any generalised idea power is a contested concept. Consequently, no definition of power is widely accepted among academics and the way one perceives power reflects one’s beliefs and values.

Traditionally political power tends to be associated with political realism (Wendt, 1987; Katzenstein et al, 1998; Wendt, 1999). Historically, realist concept of power is based on the assumption that dominant military capabilities and economic resources can be paralleled with the ability of a state to establish its supremacy over other states (Wagner, 2005). A realist approach, therefore, emphasises the hard power capabilities of states. Realists accept the conceptualisation that political international environment is anarchical in nature and the use of coercive hard power by the international actors is the only way to express power (Jervis, 1998; Wilson III, 2008; Klinke, 2012). Realists argue that power is the decisive determinant of the international relations among individual states and is essential to understanding the dynamics of war and peace (Schmidt, 2007). Indeed, for all realists John Mearsheimer (2001) wrote that calculations about power are based on the states’ perception of the world around them. Given this undisputed assumption, which he argues is supported by history (Schmidt 2007), acquisition and management of power becomes central feature of the relationships among states.

When realists attempt to specify power, they usually adopt Robert Dahl’s (1961; 1968) definition of ‘A getting B to do something B wouldn’t otherwise do’. This dimension of power is also known as ‘first face of power’, and the phenomenon is understood as the production of intended effects on other states, more precisely as A affecting B’s preferences through shaping and influencing its own values (Lasswell & Kaplan, 1950). Thus Robert Dahl

(1961) emphasised that power refers to the relationship among social units and becomes an empirical regularity measuring the impact of one agent's behaviour over the behaviour of another agent. It assesses the results of power relationship with the means to an end approach. This view of power, however, poses the question of how does one identify the instances of coercion. It is on this basis that Dahl insists that the 'first face of power' only manifests in the instances of conflict (Dahl, 1961; Polsby, 1980) and it resonates well with the realist assumption of states as competing entities and of power as an ability to win wars.

Dahl's method of measuring power is criticised most effectively by Peter Bachrach and Morton Baratz (1963; 1970). They argue that the manifestation of the 'first face of power' does not take into account the difference in significance of the decisions made by states. Hence, essentially, Dahl fails to address a situation when decisions are not made at all. Thus Bachrach and Baratz propose that analysis of 'non' decisions is the 'second face of power' (Berenskoetter, 2007). Their main argument is that the measurement of power must address the question of which states have the authority to exclude issues from the discussion. This facet of power is also known as the agenda-setting power and is an ability of states to 'create or reinforce barriers to the public airing of policy conflict' (Bachrach & Baratz, 1970, p.3). If one can shape the ideas and agenda in such a way that the preferences of the others seem irrelevant, the necessity for conflict disappears. However, the subject's acquiescence in the legitimacy of the agenda is what constitutes the 'second face of power' (Bachrach and Baratz, 1963). As a result, power is exercised by those states that have the ability to mobilise 'the rules of the game' to their benefit and thus limiting the choice of which decisions can be taken. If the co-operation in agenda setting is achieved by the means of threats and coercion – it is just an instance of the 'first face of power'. Bachrach and Baratz's theory unlike Dahl's emphasises more structural features of power. Instead of assuming that power relations are the interaction of two autonomous individuals, one of which must be inevitably identified as more powerful, it moves to argue how the environment of the interaction structurally disadvantages one side (Bachrach & Baratz, 1970).

A further theoretical discussion of hard power decision making, however, complements Dahl's theory of power measurement. Hard power international behaviour is associated with a 'carrot and stick' approach (Barry, 1989; Art, 1996; Cooper, 2004, Wilson III, 2008,

Nye, 2013), a state can influence other actors to achieve its desirable outcomes by threats and coercion – ‘the stick’; or it can do it by payments – ‘the carrot’ (Baldwin, 2002; Copeland, 2010). The realist baseline takes the distribution of military capabilities (Waltz, 1979; Mearsheimer, 2001) and economic resources (Morgenthau, 1960; Aron, 1966; Carr, 2001) as the indicator for measuring power (Berenskoetter, 2007). Therefore, a hard power strategy defines power as synonymous with resources to project power because those who are best endowed with power resources should always get the desirable behavioural outcomes. If people can notice and measure resources; resource power becomes tangible (Dahl, 1961; Baldwin, 2002).

Understanding power as control over resources leads to the questions; to what extent different types of resources can be combined into a single indicator of power and to what extent resources can be used effectively across all dimensions of policy making. Regardless of A’s intention, B needs to know of A’s resources and also be aware of when and how these resources can be used (Hart, 1976). Thus, it is important to understand which resources provide the best basis for hard power behaviour. Furthermore, the states which possess the power resources need to also have a will to use them, in turn; the will becomes a power resource in itself (Hart, 1976). Although, this point is rejected by most realists (Berenskoetter 2007, p.8), defining power as synonymous to resources runs the risk of losing the behavioural dimension of power, specifically that the presence of resources must be known by others (Jervis, 1976). Joseph Nye argues that the power resources are only the tangible raw materials that can be applied within a well maintained, favourable power relationship context (Nye, 2011). Simply reducing power to resource discourse constitutes the ‘vehicle fallacy’ (Morris, 2002). Since the outcomes, not resources, are what policy-makers are concerned with, it is imperative to acknowledge the significance of relational context.

Although realist theory remains crucial to understanding the contemporary practice of international politics, critics continue to identify a variety of inconsistencies in many of its central tenants. This is especially relevant to the manner in which realists define, measure and utilise the concept of power. Generally, realism theory lacks a general consensus on the most appropriate manner to conceptualise and measure power (Baldwin, 2002; Barnett & Duval, 2005a, Schmidt). Most recently, Joseph Nye (2011) accused realists of failing to

consider the changing nature of power. Thus, the famous Thucydidean axiom that is very frequently used by international politics scholars - 'the strong do what they can and the weak suffer what they must' (Johnson Badgy, 1994) – might not have much validity if one takes time not only to define the outcomes of power but also to explore the context of a power relationship. A reversal of power dynamics has occurred since the end of the Cold War and the new concepts of empowerment have brought the sudden realisation that the 'can do' of the strong is different from the usual repertoire of international politics and as a result 'must suffer' is undergoing a transformation (Kratochwil, 1993). Joseph Nye (2008, p.28) calls it 'concrete fallacy' of power relations, implying that power projection has been undergoing changes and has been adjusting to the abundance of international actors.

Indeed, much of the contemporary sociological debate about power revolves around the issue of its maintenance (March, 1966; Foucault, 1980, Van Dijk, 1989, Tellis et al, 2000; Baldwin, 2002; Keltner et al, 2003; Kegley, 2008). The preservation of power has become a strategy for national governments due to the phenomena of reoccurring power transition and what Joseph Nye (2010) calls contemporary power diffusion. Power transition is a traditional power shift and has well-documented historical occurrences (Lemke & Reed, 1996; Lemke & Tammen, 2003; Busmann & Oneal, 2007; Chan, 2007). It takes place when power tools are shifting from one state to another. The classical narrative of power transition can be seen in the aftermath of the Industrial Revolution (Mann, 2012). Power shift occurred from the East to the West due to the technological advance of the Western empires (Justman & Gradstein, 1999). A contemporary narrative of power shift can be also seen in the decline of the Soviet Union that gave way to the development of the sole American superpower and its subsequent dominance in international affairs (Lemke, 1997). More recently the power transition is associated with the rise of Asia (Lemke & Tammen, 2003; Xuetong, 2006; Beeson, 2009; Nye 2011), more specifically the return of China to economic great power status and its ability to dominate the global market (Nye, 2010). Importantly, the EU energy market can also be described as undergoing a power transition. During this current financial cycle the EU has experienced an influx of demand from domestic gas consumers that cannot be satisfied by the volume of domestic gas supply (Spanjer, 2007; Van Der Meulen, 2009; Umbach, 2010; Boussena & Locatelli, 2013, Smith,

2013). This sustained rise in demand forces power to transition from the consumer to the supplier countries.

Joseph Nye (2010), amongst others (Jacobsson & Lauber, 2006; Chadwick, 2013), argues that power diffusion, on the contrary, is a prevailing characteristic of the current century. It is a shift downwards away from national governments to the non-governmental actors. The process is defined by the acknowledgement of power of information and the inability of even the most powerful states to control it (Reinikka & Svensson, 2004, Nye, 2010). This suggests that international politics are no longer the sole province of state governments. Individuals, private commercial organisations, NGOs and various social movements are now empowered to play a direct role in world politics (Nye, 2011). The speed and the spread of the information mean that the new actors on the international political stage are able to undercut the traditional bureaucracy of national governments. Thinking in terms of traditional power action, the flow of information enables the non-governmental actors to privatise power (Nye, 2011).

Under these circumstances of constant power shifts, hard power fails to achieve desirable outcomes (Schweller, 2010; Nye, 2011) and the traditional ways of thinking about power as a synonym to military capabilities of states no longer suffice. Hard power has become too simplistic to describe power in world politics and the dissatisfaction with this conceptualisation among international relations scholars has led to the inquiries into other forms of power. Joseph Nye (1990; 2004a; 2004b; 2008; 2009; 2010; 2011) therefore argues that due to the upset of global power balance a new understanding of power must be established. Thus, he argues that this new type of power is contrast to hard power, and proposes that there are three kinds of power: military and economic (both coercive) and 'soft power' (Nye, 2004a, p.30). For Nye soft power rests on 'the ability to shape preferences of others' by 'co-opting people rather than coercing them' (Nye, 2004a, p.5). However, soft power is not merely the influence over others because influence also rests on the hard power of coercion (Lukes, 2005). Thus, soft power always depends on the context of the relationships. It is a system of relations, which states build with their international interlocutors. Soft power, therefore, constitutes a web of relations that form political subjects by means of communication management and information sharing, performed by the state in conjunction with multiple, subnational, international and multinational actors.

The sociological, rather than economical approach of the international relations utilised, appreciates the domestic and the transnational society in which the states are embedded (McCall & Simmons, 1978; Wendt, 1994). This, undoubtedly, reflects the general relationship between the dependency and identity formation. Nevertheless much depends on the nature of the state - some states are more dependent on the domestic than international society, while others are committed to project domestic welfare onto foreign policies (Lumsdaine, 1993). The new facets of twenty first century power, thus, demonstrate that the economic interests are only achievable within the wider framework of socio-cultural and humanitarian projects (Nye, 2011). Possession of either military force or extractive resources alone cannot bring desirable results (Wilson, 2008). The application of military force, furthermore, can bring the most negative political implications (Kurlantzick, 2007). Therefore, by projecting certain narratives a country can meet its aims where the traditional use of material resources and capabilities would fail to do so (Nye, 2011). The end point of this transformation bestows meaning upon all parts of the whole. The effect of this structure is selectivity. Here one must distinguish between the story and the plot, where the story is what happened in life and the plot is the way the author has presented it happening (Nye, 2004). The practice of international relations involves constructing plots from the raw material or story of political history, intentionally filtering it as the situation demands (Keohane & Nye, 1998). Narratives, therefore, are politically efficacious since an overall heroic or inspiring national plot may mask any episodes that contradict with the plot (Nye, 2004). However, since other actors in the system will be performing similar acts of narrative projection, great powers must constantly redefine and adapt the narrative in response to others. Communications and actions as well as in response to critical events which may appear to contradict the initial narrative (Keohane & Nye, 1998).

Within soft power interdependent logic is shaped by immaterial factors – perception, imagination, narratives and role identities (Nye, 1990). Nye's concept of soft power builds on Bachrach and Baratz (1970) argument that power also operates by creating non-decisions. Nye's (1990) theory revolves around the view that power exists not only in the environment of conflict but also within consensus of interests. This for him defines soft power - managing interdependence, inciting spill-over effects and ultimately cementing the intra-regional communication - and is huge part of foreign policies of all major global

powers. This dimension of power highlights the importance of controlling the narrative. Therefore, Generally, Nye (1990) stresses that soft power unlike hard power includes intangible resources such as ideas, values, culture, and perceived legitimacy of policies.

Steven Lukes (2005) and Michael Foucault (2002) are particularly prominent in illuminating this aspect of power. Lukes introduces the 'third face of power' by arguing that the absence of conflicting interests does not necessarily mean the absence of power relationship. Furthermore, he argues that the most effective manifestation of power is when the conflict of interest is prevented from arising (Lukes, 2005, p.27). He bases his argument on the notion of real states' interests and the unconscious deviation from which is credited to the 'third face of power'. It also contains the possibility that the subject must recognise these interests (Berenskoetter, 2007). He critiques Dahl's approach by focusing on the timing of when the power is exercised. One state can change other states' preferences by changing the situation by which the subject then changes the preferred strategy. Lukes (2005) argues that it is possible to change the subject's preferences before the preferences are determined. This dimension of power is missed by Dahl (1961). Foucault (1982) similarly argues that power can be 'productive', 'disciplinary' or 'pastoral' and focuses on the power-knowledge nexus – the mechanism by which expert knowledge is produced. Therefore, he argues that power mechanisms are visible through historical analysis (Foucault, 1982; 2002) and highlights that they cannot be overcome. His argument differs from Lukes' in the fact that the latter focuses on interests, whereas the former discusses the formation of identities. Lukes and Foucault, however, both see power dynamics in terms of shifting intensity rather than a zero sum distribution (Berenskoetter, 2007). Their argument, however, takes upon the notion of Dahl's (1961) 'power over' approach and therefore leaves no room for a positive notion of empowerment found in Ardent (1998) and Moriss (2002).

Joseph Nye (2004b) builds on Lukes' 'third face power' and summarises international soft power as the ability to attract people and shape their ideas, thereby securing their obedience. Hence, soft power resources are information, he writes that soft power 'is the ability to attract and [...] seduction is always more attractive than coercion, and many values like democracy, human rights and individual opportunities are deeply seductive' (Nye, 2004a, p.6; p.15). Nye's argues that the states that possess 'multiple channels of

communication that help to frame the issue' are most likely 'to be more attractive and gain soft power in the information age' (Nye, 2004a, p.31). Therefore, shaping narratives becomes essential.

Alas, soft power lacks structure that hard power possesses. It works by the attraction of convincing others of the appeal of one's ideas. Attraction, however, is a subjective experience which raises the question of when the attraction happens in international relations (Mattern, 2007). This question in the context of soft power arises due to the academic desire of theoretical clarity as well as due to the need to measure instances of the practical uses of soft power. For states which intend to utilise soft power, successful strategy depends on the ability to understand how to make their idea and their image attractive to the target audience. Janice Bially Mattern (2007) develops such a framework of power of attraction, which ultimately can sustain empirical enquiry of international relations practices. She suggests that the attraction is constructed through the communicative exchange. The 'reality' of attractiveness 'is a sociolinguistic construct' (Mattern, 2007, p. 99) which is based on the constructed truth of the appeal of some idea and is one interpretation among many, that has crystallised through a communicative process. Thus, international actors instead of persuading each other of the only true meaning of 'reality', fight verbally over it using representative force (ibid, 2007). Representative force, therefore, is a power tool that operates through the structure of any source's narrative of reality. Narratives are frameworks that allow humans to connect apparently unconnected political or economic phenomena around casual transformation (Nye, 2008). Soft power is, therefore, often linked with public relations or 'marketing carried out by states and directed at foreign audiences' (Avgerinos, 2009, p. 117). Indeed, many terms and strategies common in the public relations field are applied to international power relations. Nye (2004b) refers to these strategies as soft power tools. Foremost among these is the idea of managing the brand of product or services. In the case of soft power strategies, the 'product' is the government and its policies, thus a government's image and reputation are called a 'national brand' (Avgerinos, 2009). National branding is 'the context in which messages are received, not the messages themselves' (Anholt, 2006, p. 272).

The considerations of the strategy of deploying soft power are additionally essential. Nye (2004a) argues that that it is important to stockpile soft power. Inherent in this logic is the

comparison of the treatment of soft power as it ought to be military power, 'something that should be kept in reserve and ready to go in situations when appropriate' (Mattern, 2007, p. 117). However, where attractiveness is concerned, soft power is a subject of representative force and stockpiling is counterproductive. As a representative force it is only beneficial to the source if the object of soft power continues to feel the impact on their perceptions. Indeed, from the perspective of deployment of power, hard power and soft power are related because they are both approaches to achieving one's purpose by affecting the behaviour of others. People are attracted to others because of different reasons, sometimes it is because of the command of power and sometimes it is attraction through inspiration (Nye, 2008). However, the intimidator can have a vision, belief in their cause and the reputation or the image of success that attracts others despite their bullying behaviour (Nye, 2008). Hard power and soft power sometimes reinforce and sometimes interfere with each other. Since it is outcomes not resources policy-makers are ultimately concerned about, one must pay more attention to the strategies of power relations.

Since Joseph Nye (1990) introduced the idea of soft power, the opinion that traditional hard power is the only way to achieve one's policy goals in global politics has diminished. Power is more perceived as a process rather than hard resources and this process can be controlled by appropriate strategies. Strategies are essential in choosing power resources successfully. The institutional framework in which smart power operates is thus essential. Therefore, Joseph Nye (2011) goes beyond the scope of soft power theory and argues that a smart power narrative is the basis of successful policy making. It was first defined by Nye (2004b) to counter the misconception that hard power or soft power alone can produce effective foreign policy outcomes. He gives a clear definition of smart power which is 'neither hard nor soft, it is both' (Nye, 2011, p.219). Therefore, it is an ability of the states to combine elements of soft power and hard power in ways that are mutually reinforcing and in such a way that the state's interests are advanced successfully and resourcefully (Nye, 2008). Nye then goes on to clarify that smart power is:

'... an approach that underscores the necessity of strong military but also invests heavily in alliances, partnerships and institutions at all levels to expand American (or

others countries) influence and establish the legitimacy of American action' (Nye, 2006, p.6).

Smart power is not about maximising power but it is about finding ways to combine hard and soft power resources into successful strategies in the new context of power diffusion. This strategy relates as a means to an end; that requires clarity about preferred outcomes, resources, and tactics for their use. Preferences and strategy in this case are linked. If preferences rank outcomes by their desirability in a given political environment, then strategy is a plan of a state's efforts to come as close to desirable outcomes as possible. Unlike the two types of power, smart power is an evaluative concept (Nye, 2011). Smart power has its roots in an American context and thus stresses that it goes beyond soft and hard as a method to the use of power that gives decision-makers a chance to choose the best way to address a specific international issues. This is because it focuses on the individual context of power relations and it challenges the very problem of power conversion.

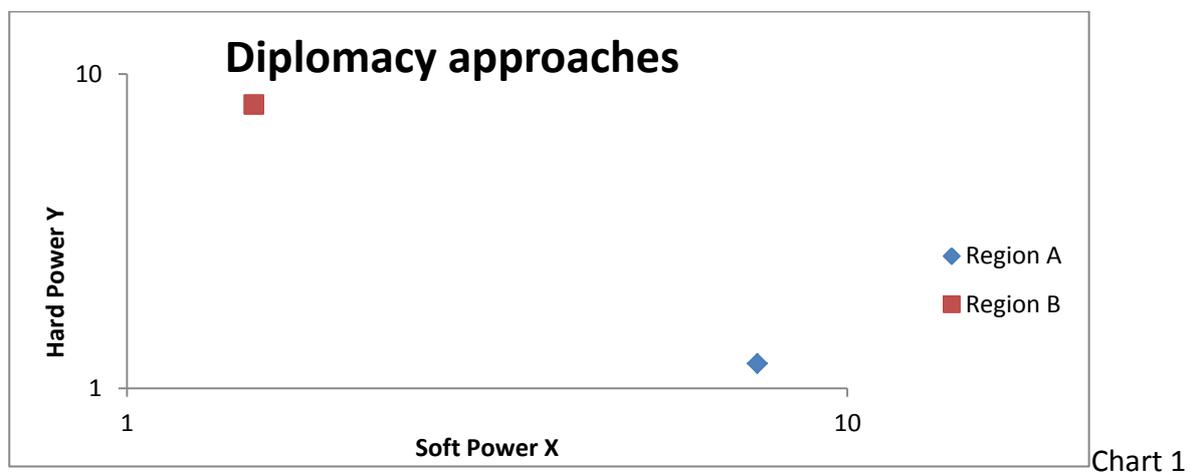
Smart power strategy, therefore, can be viewed as the practical art of balancing the demand for hegemony and international image building (Kubalkova, 1998; Barker, 2003). It is an informed way of building foreign policy. A corollary of this argument is that without addressing the balance between the phenomenon of power and human morality one cannot successfully address the phenomenon of international political change. The combination of hard power and soft power tools looks at the way in which power structures affect patterns of normative change in international power relations. These control the way in which a set of norms affects power structures (Barkin, 2003). Specifically it studies the uses and distributions of power and it addresses the issues of change in international relations in a way that neither hard power nor soft power can.

Alas, the academic smart power debate although firmly rooted in the historical, economic and regional-political contexts of international relations, has little contribution to the assessment of power in a global market. Although many theoretical statements have been made about the smart power strategies, or foreign policy directions of great powers (Nye, 2008; 2011; Ding 2008), there is a gap in the analysis of the global energy market. Therefore, when a smart power strategy is applied to the energy market, one can conclude that

because of the nature of natural gas supply infrastructures, consumer states are dependent on suppliers. Consequently, they are potentially vulnerable to the suppliers taking advantage of that dependency for political and economic goals (Shaffer, 2011). Since energy is a global commodity, each country's demand has an effect on supply for all consumers (Shaffer, 2011). The dramatic expansion of the use of natural gas fosters long-term linkages and dependencies between supplier and consumer countries, and thus there is more room for debate around the dynamics of political power. However, despite the centrality of resource power to the international security and the grandiose effects energy has on domestic political agenda, academics have paid limited attention to publishing research on the topic (Lynn-Jones & Miller, 1995). Even less attention is given to exploring the power debate within the energy market. The prominent international relations and security studies journal *International Security* has published only eight articles devoted to these issues (data from Shaffer, 2011 see Walske, 1977; Paarlberg, 1978; Fagen, 1979; Dafter, 1980; Deece, 1980; Lieber, 1980, Gustafson, 1982; Lieber, 1992). Moreover, topics that have been examined in major journals include OPEC's use of the 'oil weapon'; nuclear energy production and proliferation of nuclear weapons; the role of oil in intrastate and interstate conflicts among others. These, however, do not provide a comprehensive look at the interactions either between energy and international politics or specifically between gas producers and gas consumers by focusing on the dynamics of the energy market (Nye & Deece, 1981). Therefore, a number of issues about relationships between states' energy and foreign policies need to be examined that include increased international interests, energy nationalism, and the relations between the importers and exporters, particularly in the gas market.

It can even be claimed that smart power is the result of foreign policy application with economic goals. The process of transformation of the energy market, therefore, is accountable for the conversion of power beyond hard and soft into a method, the way in which it is exercised in different global regions to achieve economic aims. To contextualise smart power module to be applicable to energy diplomacy one needs to visualise a chart of power. To identify the discussion of duality of power, one is invited to imagine a mathematical chart where the X axis is representative of soft power and Y axis - hard power. If one is to imagine it is possible to quantify diplomacy with hard and soft power coefficients

of both axes, as shown in the Chart 1, one would unavoidably recognise that the application of power can contain both the elements of hard and soft power. The example shows two distinct diplomacy approaches in region A and region B. In the case of the region A (blue data marker) diplomacy uses pronounced hard power approaches to advance its foreign policy goals and economic gains in the region. On the other hand, region B (red data marker) exemplifies classic soft power diplomacy. Due to the complex nature of power, the chart shows that the both cases hold elements of hard and soft, the difference being, one is more pronounced than the other as shown in Chart 1.



Smart power can be identified as the only method of measuring power in any international context or region within the global energy market because it appreciates the duality of power by states.

Therefore, according to Nye (2011), smart power can be empirically measured because it provides answers to the following five points. Firstly, it concerns itself with what type of goals or outcomes are preferred by the states as it means setting conditions by understanding the context of the relationship that would encourage compromises. Smart power strategy cannot be exercised alone, it requires partners and allies. Suzanne Nossel (2004) wrote an article in *Foreign Affairs* trying for the first time to theorise 'smart power' and proposing to renew the doctrine of internationalism and to restore the values of multiculturalism. In her article she advocates the revival of the UN as the only translational organisation that is designed to provide multilateral engagement on global issues. The UN is a forum where state delegates are able to take initiative on key issues and work behind the

scenes before formal debate begins to persuade others without forcing other governments to capitulate publically its demands (Nossel, 2004).

Secondly, once the context of the relationship is understood, smart power strategy then engages with the understanding of what resources the state has in its disposition. This situation asks not only for an accurate account of all the power resources available but also how their uses will impact on the relationship context. Hilary Clinton (2009) during her confirmation hearing has explicitly endorsed smart power as a new American foreign policy strategy:

‘we must use what has been called ‘smart power’ the full range of tools at our disposal – diplomatic, economic, military, political, legal and cultural – picking the right tool or combination of tools for each situation.’

Thirdly, the position and preferences of the target states are assessed. It is essential to engage in the survey of the opponents’ thoughts, desires and resources. Nye (2008) describes the contextual intelligence of the world leaders using smart power. For example, former Chinese president Hu Jintao had reflected an erudite analysis of the current international political situation and had displayed a balanced integrated array of instruments to achieve China’s narrow political goals as well as their national purposes (Ding, 2008). China’s Peaceful Rise has created what is called a multifaceted charm campaign offering African leaders financial support and technological assistance as well as high-level attention.

The third theme leads to the fourth point of inquiry – which are the forms of power most likely to succeed? Smart power is recognition of the different forms of power and the tools and instruments that power can employ. It also depends on the context:

‘... power today is distributed among countries in a pattern that resembles a complex, three-dimensional chess game. On the top board, military power is largely unipolar. But on the middle board, economic power among states is already multipolar, with the United States, Europe and Japan representing a majority of world economic output, and China’s dramatic growth rapidly making it the fourth major player’(Nye, 2008, p.56)

Lastly, Nye (2011) argues it is important to understand what the probability of success is, both in the grand strategy level, and in the context of any individual influence attempt. A clear assessment of policy success also requires an understanding of domestic institutions and public attitudes. The accomplishment of smart power policy can only be achieved if the limitations of international and domestic situations are realistically assessed and the policy objectives are adjusted accordingly.

Joseph Nye's power debate has appealed to a vast number of academics, journalists and policy makers (Mattern, 2007, Kiseleva, 2015). The attraction of soft power has inevitably contributed to the attraction of the power debate as a whole. Soft power has become a prominent term between policy makers not only in the developed Western countries, but also in countries with no or little soft power tools by hegemonic standards like China (Nye, 2013). However, as the discourse of hegemony continues to exercise power of coercion, countries wishing to control global information narratives are forced to employ some degree of smart power strategies.

Further, the thesis explores the case of Russian energy and foreign policy and turns to examine whether Russian policy makers have responded to the appeal of smart power use. Due to Russia being a country outside the Western developed world and due to the lack of political power research within Russian energy diplomacy, the thesis must generate its own discourse of smart power in relation to Nye's five points. The following chapter of the thesis concentrates on the last, fifth point and it give the reader the assessment of Russian domestic energy policy. It also identifies the limitations of international and domestic situations that have influenced on how the Kremlin approaches energy diplomacy and formulates relevant policies.

Russian energy diplomacy formation: internal and external factors

To tease out the patterns of Russian international influence in the context of current Russia-EU gas relations, one needs to look at the historical and geographical properties of Russian international identity and it is as President Putin (2006) stated the engine to rebuild Russia's international capabilities and status. The framework of the Kremlin and Gazprom's relationship, acts as a catalyser to the Gazprom's engagement with international community (Williamson, 2000; Dixit, 2009; Locatelli, 2014). The latter is always in the unique position of being an executor of Russian foreign policy preferences while still attempting to maintain commercial credibility and draw revenue internationally. To understand the intricacies of Gazprom's behaviour in the EU regional gas markets and the patterns of engagement with its European customer states, one must draw attention to how Russian energy policy is shaped. The domestic and international factors are central to the performance of gas diplomacy and are fundamental in determining the engagement of either hard or soft power strategies.

When Vladimir Putin came to power as the President in 1999, the majority of Russia's oil and gas production was in private hands. This time is described as when 'the state let strategic management of the natural resource complex slip from its hands' (Balzer, 2006). The energy reform in 1999 left the Russian gas sector with hierarchical governance structure (Aslund, 1999). This sector was considered to be too important to be left to free internal market and state controlled planning was considered to be the most efficient way of retaining ownership and managing Russian resources (Balzer, 2006). The gas sector thus is characterised by the hierarchical coordination mechanism (Locatelli, 2014, p.54). Structurally it is categorised by the presence of Gazprom that has quasi monopoly over production of gas and full monopoly over transmission of gas (domestic and foreign pipeline networks) (Gazprom, 2014a). Simultaneously, the Russian state earns substantial percentage of its GDP through its 51 per cent shares of the company (Ericson, 2009). Alexey Miller (2010) presented the vision behind this model at the conference in Orenburg; it is to turn Gazprom into a big, vertically integrated company that's a leader in the world energy market. Therefore, this institutional context enables Gazprom to assume the role of 'National Champion' (Putin, 1997) that serves state ends internationally and domestically.

Much of Gazprom's activity internationally is founded or is reactive to the Kremlin's domestic policies. Russian energy establishment is informed by the dogmas surviving from the Soviet period, which boil down to three major points - a strong preference for state ownership, insistence on a state monopoly and faith in the inherent advantages of central state management (Dienes & Shabad, 1979; Gaddy, 2003; Bradshaw & Bond, 2004; Aslund, 2006). These characteristics besides being communist or socialist in nature also are apparent manifestations of ingrained governance habits. The centralised governance module allows the state to shape energy development strategies to ally with aforementioned characteristics and maintain the status quo over the energy sector. Habitually, the state also operates the conservative economic module which advocates and defends extremely low domestic energy prices and non-monetary relations. Russian industry regulatory measures have focused on quantity rather than profit criteria, which mean that Russian industry has access to inexpensive and stable supply of gas. This supply in terms has ensured the continued operation of alternate industries, gas being the main input in domestic electricity generation (Woodruff, 1999; Locatelli, 2014).

The central government is aware that it is more effective persuading domestic companies than their foreign counterparts to continue to provide cheap energy for domestic industry use because the former can be rewarded with tax breaks (Jones Luong, 2000). Therefore, under these circumstances, Putin's administration is even less likely to allow foreign investment in energy development. This in term jeopardises the validity of the exploration projects such as the Kovykta gas field in Eastern Siberia where British Petroleum licences were discontinued and gas development project on Sakhalin Island off the Pacific Coast where Royal Dutch Shell had controlling shares. The latter was discontinued due to the environmental concerns (Shaffer, 2001). This tendency also correlates with Soviet unreconstructed protectionism policy (Aslund, 2006), which advocates that the magnitude and location of reserves is a matter of national security. Alas, this means that the development of the new fields, particularly in the Arctic and Eastern Siberian regions, which will contribute considerably to the sustainability of Russia's resources, remain incomplete and unachievable.

It is likely that the strongest motive to favour such economically irrational decisions is the new patriotism which is encouraged by the current political elites (Popov, 2008). Although,

foreign investment would undoubtedly contribute to the increase of gas selling price and improve productive capacity through direct competition and investment, the Kremlin opts to forgo financial rewards for political gain –that is sustaining domestic electoral support. Indeed, the approach of the increased state control is politically very successful – the expansion of the power of Russian state over oil and gas sectors and banishment of the foreign investors had proven to be very popular among the population that viewed the privatisation of 1990s very negatively (Hill, 2003; Gorodetsky, 2003). The regret over the disintegration of the Soviet Union and nation’s nostalgia for the country’s greatness, its economic and military might is wildly prevalent among both the older and younger generations (WCIOM, 2005). Throughout the 1990s reform decade, the Russian population suffered a psychological trauma over the loss of greatness and international influence of the country. The nationalisation of the energy sector therefore enabled people to rate their country higher and the country’s success in gas production started to feed into the idea of Russia’s leading role in supplying the rest of the world with fuel and energy. Thus, state monopoly over gas sector and obstructing foreign investment appears to be economically irrational decision may be justified by political rationale and it further contributes to the maximisation of sovereignty that translates in even more control over gas sector.

The improvement of the domestic economy by subsidies with cheap gas has enabled Russia to strive for international superpower status and the nationalisation of energy trade is a mere echo of the Soviet energy policy agenda. It is largely because of surplus in oil and gas that the Soviet Union had been able to expand its foreign trade as it had had. The growing demand for energy export added powerfully to the growing strain between military and economic objectives in Soviet resource allocation. Soviet military presence and power in Eastern Europe increased against a deteriorating economic performance at home. Soviet Union was always willing to continue the style of control in Eastern Europe that had been developed and was in place since the end of the World War II. The essential condition behind this policy was an uninterrupted supply of oil and gas to Eastern Europe. Moscow committed to rapid increase in shipments of gas and electricity for the purpose of stabilising East European dependence on Soviet energy and gradually moving towards what Moscow regarded as a sounder and broader division of roles.

However, despite the firm willingness to hold the line on energy exports in Eastern Europe, Soviet Union had never committed to becoming a supplier of last resort. By the end of the 1960s Soviet Union had begun to take a drastically different position to oil and gas shipments to Eastern Europe by claiming they had not been in Soviet interests due to the high opportunity costs (Gustafson, 1981). The Soviet reports implied that East European energy problems were ultimately their own to solve. The choice in this case was not between guns and butter, but between two different definitions of the prerequisites of national strength (Meyerhoff, 1980). Furthermore, the leverage the Kremlin held by sacrificing their energy to Eastern European market without any apparent profit, did not buy them social peace or political stability in the region. As a result, Soviet started managing their relationships with Eastern European clients by direct pressure rather than subsidise and economic cooperation, consequently, feeling that Kremlin became a hostage of the Eastern European energy problems (Burger, 1979; Gustafson, 1981).

Russian foreign policy in new geographical Eastern Europe takes into consideration sovereignty of Ukraine and Belarus and exhibits resemblances to the Soviet energy policy. There is a perception of Russia being the 'Big Brother' due to the, linguistic, religious, traditional similarities and shared historical roots of the region (Puglisi, 2003; Rodgers, 2006). The term itself though implies that Russian government perceives the Commonwealth of Independent States (CIS), although culturally close, still inferior and in need of a constant political and economic guidance. Therefore, Russia has always sought to be 'a leading force in the formation of a new system of interstate political and economic relations on post-Union territory' (Brzezinski & Sullivan, 1997, p.290). This strategic and economic partnership applies foremost to Ukraine. After the dissolution of the Soviet Union, Ukraine remained for Russia an area of natural interest (Wilson, 2000).

In economic terms, Russia is tied to Ukraine with Soviet era gas networks. The vast majority of gas pipelines make Ukraine the largest gas transit state of Russian gas to the EU. Gas is transported along five main lines – Bratstvo (Brotherhood), Soyuz (Union), Urengoy Center, Progress/Yamburg and Severnoe Siyanie (Northern Lights) (Energy Information Administration, 2014). Simultaneously, unlike the oil market (see: Perovic, Orttung & Wenger, 2007, p.71-75), the Ukrainian gas sector has maintained its independence from Gazprom despite its numerous attempts to acquire the gas transit system (GTS). Therefore,

under this existing pattern, Russia delivers gas to Europe having no control over gas transportation. Use of the same pipelines makes it impossible to cut off gas to Ukraine without interrupting deliveries to Europe (Chernavsky & Eismont, 2012). At the same time, following the ideology of the 'Big Brother' Gazprom subsidised the Ukrainian economy with lower than market prices gas throughout the 1990s and the first part of 2000s. Until 2005 Ukraine bought Russian gas at the price of \$50 Mcm which on average was a half of what the EU countries were paying (Gazprom, 2014). The gas relations therefore have been tied to the Russian conservative economic module, allowing Ukrainian industry to integrate with world markets and the state experience economic growth. This connection is viewed by many in Kremlin as the last pillar of Russia's stability and power that must not be undermined if Russia is to be perceived as an energy superpower (Tsygankov, 2014).

Ukraine's unique position as a gas transporter gives it a transit weapon against Russia. When in winter 2005 Gazprom announced a price increase, Ukraine refused to pay the price of \$230 Mcm. The gas supply was curtailed to Ukraine, while still transiting gas to Europe. However, the transit gas was then diverted to Ukraine's domestic use and as a consequence several EU countries experienced fuel shortages. This 2005 gas crisis set precedent to farther Russian-Ukrainian negotiations. In 2007 Gazprom cut gas supply to Ukraine for a brief period but after the latter threatened to divert EU transit gas, the two sides agreed on an annual price of \$179 Mcm (Gazprom, 2014). Same scenario repeated in 2009, when Ukrainian Naftogaz refused to transport gas to the EU after Gazprom cut off its gas deliveries to Ukraine due to debts and inability to negotiate a new price agreement. At this point apparent similarities between Russian and Soviet energy policies can be seen. Although Kremlin views Kiev as economically and politically inferior and in need of subsidies, it has never committed to become a supplier of last resort. Once Ukraine exhibited willingness to employ their transit leverage against Russia, it triggered the sense of Gazprom and Russian energy sector being a hostage to Ukraine's energy problems. To exterminate the need for constant debt negotiations President Putin suggested an exchange for ownership stakes in Ukraine's GTS for stakes in Russian gas production (Kropatcheva, 2011; Heinrich, 2014). Therefore, from an economic perspective, Russian policy is dominated by the long-term calculations of reaping more profit from higher gas prices to Ukraine. The Russian MFA announced that increasing prices was a major element of emancipation that

would help to remove the rudiments of the past (Ministry of Foreign Affairs of RF, 2007). Although this violates the same economic module that Kremlin favours in domestic gas distribution, it would undoubtedly liberate Russia from Ukrainian economic pressure. Russia's goal to increase gas prices cannot be solely considered as a tool to 'punish' Ukraine, but is also dictated by cost-benefit calculations in bilateral relations. Russia, due to its dependency on energy trade, is vulnerable to both Ukraine's inability to pay market gas prices and to its willingness to use gas transit as a weapon (Phillips, 2009).

In geopolitical terms, Ukraine is viewed as the 'Heartland' (Mackinder, 1919) and maintains the 'superpower' status Russia is interested in maintaining control over Ukraine. This ambition can be summarised by the geostrategic theory that one who controls the Heartland controls the world (Mackinder, 1919, p.194). As a large borderline territory Ukraine serves to protect Russia from potential marine and overland military intervention (Tsygankov, 2014). The geopolitical value of Ukraine and its historical ties with the Russian nation, encourages Kremlin to extend same patriotic dogmas established domestically. The bygone developments and the Cold War aftermath have generated Russia and the West's mistrust in each other's intentions and had also a weighty input into strengthening the exclusionary value dynamics.

Despite the strategic and economical attractiveness of Ukraine, the Russo-Ukrainian relations change with every elected president, however, Ukraine's entitlement to cheap gas remains unchanged (Energy Information Agency, 2007). The most significant milestone would be the expansion of NATO and the US support of Ukrainian membership attempts. Victor Yushchenko's endeavour to join NATO had been denounced as anti-Russian policy, violating trust and established regional cooperation (Medvedev, 2009), and Russia began to apply pressures on his administration. Furthermore, what exacerbated the situation was the involvement of European governments in Ukrainian elections with considerable financial and political assistance. Kremlin saw that its gas subsidies to Ukraine were not paying off, official Kiev was further distancing itself from Russia. The shift in policy priorities in the area is a constant characteristic to both Soviet and Russian gas diplomacy. The cooling in Russia-Ukrainian energy relations had become apparent after Ukraine's attempts to join NATO and due to the EU interest in Ukraine after Eastern enlargement in 2004 (Trenin, 2004). Russian energy policy thus had been revised to address the issue at hand and put Ukraine back in

line with Kremlin's geopolitical vision. To echo Russian political discontent Gazprom began first price increase negotiations in 2005 echoing Sergey Lavrov's warning that only friends of Russia could count on economic and political benefits such as low energy prices, while the rest had to be prepared for relations based on market principles (Lavrov, 2007; Sokov, 2007).

Respectively, when Viktor Yanukovich was elected president, the bilateral relations improved considerably and Russia was able to negotiate new terms for its political influence. The Ukrainian leadership reversed the NATO membership course and indicated willingness to accommodate Russia in strengthening its presence in Ukrainian politics and economy (Tsygankov, 2014). In return, Russia formally invited Ukraine to join the Customs Union and reduced gas prices by 30 per cent.

The relationship between Russia and Ukraine thus depends on two factors. The defining characteristic of Russo-Ukrainian relations is the recognition of the third party involvement and thus understanding that an interlinked international system exists (Kohout, 2003). Therefore, the relations between two actors depend in part on the asymmetric relation between them equally as much as on their relations with all other actors in the system (Jervis, 1979). Russia's assertiveness and Kremlin's attempts to direct coercion in Ukraine reflect a romantic and cynical view of Russian history. Thus, the present Russo-Ukrainian relationship however has been at a staggering low. Moscow believes that the overthrow of Yanukovich was an illegitimate revolt and furthermore from the Russia's perspective the West has been hypocritical especially after demonstrating NATO unilateral decision in Kosovo in 1999 and Libya in 2011 (Lindley-French, 2014). Therefore, one can assert the invasion of Crimea was also inherently defensive. Russian overreliance on exports of gas and oil to the EU countries (IMF, 2014) with whom it is now engaged in dispute makes it especially vulnerable to the carbohydrate price fluctuations.

Secondly, the conservative domestic policy that is encouraged by the current administration and a cautious decision to recreate Russia's historical might in the sphere of direct interest. Therefore, Moscow manipulating Ukrainian political situation by using force and pressuring Rada to comply with Russian strategic interests, carries domestic political benefits for Kremlin but also overweighs the apparent costs of such actions. It is also the domestic

domain of Russian foreign policy that resonates in Ukrainian crisis. Putin's administration is notable for its inherently conservative economic doctrine built on the patriotic memory of the Soviet superpower. Therefore, Kremlin understandably rejects the notion of Ukraine changing and allying with the West and Russian gas diplomacy harks back to a nostalgic age when the world of energy commerce quaked in fear of Moscow (Lindley-French, 2014).

Historically, the shift in Soviet foreign trade priorities in 1970s became apparent and had reached unprecedentedly farther since the days of Stalin and Khrushchev. For the first time, Soviet leaders became as concerned with international profits as foreign politics (Smith Stagen, 2011). Evaluating this argument one finds a new dimension to Kremlin's foreign policy, Soviet Union incorporation into the overall network of East-West economic relation, from which it profited considerably (Maull, 1983). Thus Soviet Union became fundamentally very interested in continuous development of the natural gas agreement and by the end of 1960s Moscow fully permitted itself to depend on unstable world markets to a surprising extent (Hardt & Bresnick, 1980; Gustafson, 1982). During the 1970s, Soviets became major energy exporter to Western Europe and world markets. These sales at the time became Soviet Union's key source of foreign currency.

The monopoly on gas imports and similarities of diplomatic actions on the European stage to the Soviet agenda have undermined confidence in Russia as a partner. This apparent paradox of great resource wealth and questionable sustainability and Gazprom being the main reference to the gas prices and a political leverage of Kremlin (Bilgin, 2009) creates concerns among Russia's gas customers. Thus, European energy security must foresee economic and political impediments of Russia-EU gas relations. The cutting off of all supplies by Gazprom to Europe through Ukraine made EU countries to confront the possibility of gas supply and raised questions about Russia's reliability as a gas partner (Kulikov & Mosolova, 2009). The dispute that used to be viewed purely commercial one until recently, threatens a fresh breakdown in relations between Brussels and Moscow due to geopolitical reasons (Gow, 2009). To assess the type of integration in energy security, one needs to understand European objectives in the sphere. Therefore, the context in which the term occurs is important. European energy security is best characterised by the old concerns of security of supply and price (Khrushcheva, 2011; Aalto & Korkmaz Temel, 2012) and the new wider

social concerns in the members states when applied to sub-regional and supranational cooperation (Bilgin, 2011; Haukkala, 2013).

The inter-linkages of the economic, geopolitical and normative dimensions of European energy security can be examined by assessing the interactions between demand, supply and investment in gas transport projects (Belyi, 2003). These are undoubtedly effecting European natural gas market and necessitating substantial political investment in gas demand variations (Lise et al, 2008). European indigenous supply cannot fill the gap between consumption and production rates and can be only recovered by the import contracts. However, Russian-EU relations can be characterised by asymmetric interdependence – the EU is more important for Russia than Russia is for the EU (Dhaka, 2009). Russia is dependent on large revenues received from its gas sales to the EU (Hedenskog, at al., 2002; Goldman, 2008). Therefore, if the EU imports less from Russia, Russia will lose a significant part of its revenue and energy geopolitics where the supplier has a gas weapon against its gas customers becomes more complex (Proedrou, 2007; Kropatcheva, 2011).

To assess the type of integration in energy security, one needs to understand the economic objectives in the sphere. Therefore, it is important to understand the context in which the term occurs. It is because The Commission introduced the Third Energy Package of legislative proposal in 2007, and the additional concerns include efficiency, the socio-economic dimension and energy infrastructure (Commission, 2007). The package entered in force in 2009 and legally The Third Energy Package consists of directives for gas and energy, gas pipeline property and utilisation and addresses the issues of unbundling (Directive 2009/73/EC, Art.1; Art.9). The EU member states have different energy needs and diverging preferences in terms of energy consumption and these differences create a relative lack of unilateral energy policy (Muftuler-Bac & Baskan, 2011). Therefore, if one is to apply the intergovernmentalism theory (Moravscik, 1998; Moga, 2009) and further analyse EU energy policy with English School of international relations (Buzan, 2014), it can be argued that union level policy is only feasible if a convergence of energy interests among the member states arises. Thus, the energy security is only perceived collectively when an external threat emerges, in the case of gas security – Russia.

These dominance over gas infrastructure has allowed Russia to repeat the success of the Soviet Union to divide the EU into Eastern and Western markets, adjusting their energy diplomacy accordingly. Russia's disagreement with Ukraine in 2006 and with Belarus in 2007, are examples of Russian ruthlessness to ignore insignificant Eastern clients in favour of more profitable Western European ones. Although the conflicts did not have any sufficient practical impact on gas demand, it had however seriously undermined confidence in Russia. The clearest admission of the negative image in the West was President Putin's attempt to move away from the terminology 'Russia – energy superpower' arguing that its use was counterproductive as it had too many connotations with the USSR (Valdai Discussion Club 2006). The EU has learned from the Russia-Ukraine conflict not only that it needs to diversify transit routes but also its sources of supply (Von Liechtenstein, 2007). The Third Energy Package was a response to Russia's search of a gas containment policy given that Gazprom is actively looking for additional energy concessions from Central Asia, Middle East and Northern Africa (Socor, 2009). Alleged risks of gas dependence on Russia make the EU search for additional entry points and sources of supply from the same regions (Finon & Locatelli, 2008). The difficulty, however, of finding alternative suppliers is not limited to supply and transit problems only. The EU's legal and contractual relations with gas suppliers rather than Russia remain undeveloped (Haghighi, 2007). The EU's intention to diversify its gas suppliers is more than merely an economic issue and intersects with vital geopolitical concerns.

It is in this context of energy relations' complications that the EU has recognised Turkey's potential value as a relatively secure and independent route for importing a non-Russian gas (Tekin & Walterova, 2007). In particular, the EU signed a non-governmental accord supporting Nabucco gas project which potentially can supply non-Russian gas for Europe and may transform gas power balance in the region. The former EU Energy Commissioner, Andris Piebalgs, who signed the agreement on the behalf of the EU, endorsed it as 'essential to Europe and the EU's most important gas supply project' (Socor, 2006). The EU need for diversification, however, is not shared by Russian energy interests which have used seller's market conditions to defend market shares in the region (Tekin & Williams, 2009). Gazprom has acted to strengthen their influence in other third party regions including Caspian Sea basin, where the diversified route to supply independent gas will lay. Russian strategy to

expand further afield into new extra-regional and global energy sectors suggest prudence regarding increasing EU reliance on Russian gas, even with respect to the volumes transported through independent routes. This far encirclement necessitates a more active EU effort to ensure Turkey's capabilities as gas transit route and advances the collective EU interest in diversification on a political level.

The potential benefits of Turkey being an energy partner, however, poses a further question of its full integration within the EU. Historically, Turkey has been an associated partner from 1963 (Euroactiv.com, 2005) and has been in negotiations for full membership ever since. While many have questioned the ethical logic of the EU enlargement to Eastern Europe, the dominant role of the geostrategic reasons, especially in energy security, remains undoubted (Moravic & Vachudova, 2003). Likewise, forward movement of Turkey's membership negotiations in 2005 finds its strongest explanation in the rational calculations of the EU (Tekin, 2005). Supporters have explicitly cited the advantages on energy security issues, and that the EU and Turkey share essential interests in security, economy and dialogue of civilisations (Rehn, 2007). However, there are uncertainties surrounding the eventual fate of the accession talk due to historical, cultural and religious differences. Andris Piebalgs (2007) made a statement underlining that cooperation in energy sphere has nothing to do with the EU accession and the project is merely a work together to realise mutual benefits. EU official documents naturally use guarded language in linking energy security issues to the Turkish accession while strongly emphasising the importance of meeting EU energy objectives (The EU Council, 2008).

Therefore, the discussion makes amply clearly that EU cannot easily diversify its energy suppliers. Currently, the only key to diversification is a wider range of supplier from Middle East and independent means accessing gas supplies without crossing Russian territory. Thus, Turkish gas corridor is the only feasible mode of connecting greater diversity of suppliers to Europe via an independent route. However, treating Turkey's capacity and willingness to serve as a transit country, is matter to be addressed within existing framework of cooperation and might not be enough to ensure European energy security due to Gazprom's far encirclement market strategy in the region. On the political level, the proposed energy networks, associated with Nabucco project involve the higher standardisation and integration of regulatory environments characteristic of political union. Thus, more serious

efforts of the EU to diversify supply risks require less ambivalence on the question of Turkey's accession.

Simultaneously, rapidly changing political scenarios have been challenging the EU internal capacities for joint foreign policy formation. This has led to challenging the EU 'uniformity ideal' and the notion that the EU acts with a unity (Schmidt, 2009). The fallacy in united action can be assessed by English School of international relations, although originally developed to theorise international system and relations among states, it can also be applied to the study of regional international societies, sub-regions and supranational cooperation and energy security. In the EU context it considers different actors and can be cross-sectorial in nature and embody thinking in several expert communities simultaneously (Loschel et al., 2010; Aalto & Korkmaz Temel, 2014). Thus, the EU does not act in a perfect harmonised manner, instead each Member State although shares the general concerns and the common political culture of the Union, they lack a single command of collective action (Bozhilova & Hashimoto, 2010). Herein lies the rational choice problem that is inherent to the EU-Russia energy dialogue. This rational choice is intrinsically result orientated (Elster, 1989) and it assumes individual actors foreseeing the cost-benefit orientation. Such theory observations, therefore, lead to conventional hypothesis of the EU, namely the between Old and New Europe. In this framework, the Old Europe states are more experience in international high politics through the conduct of two wars and the respective relationship with the USSR.

The early improvements in dialogues between Russia and the EU are slow in nature and are marked by deliberate deterioration in mutual confidence since 1990s. The main interlinking point that stands out with respect to Russian energy diplomacy is Russia's desire to develop bilateral relations with individual EU member states to advance its influence on the broader EU. Bilateral agreements therefore been sought with Germany, France and Italy among others. To maintain its image as a reliable gas supplier and to enhance its position as the main gas supplier to the EU, Russia has attempted to seek long term contracts and to improve infrastructure, such as Nord Stream and South Stream pipelines. The pipelines are viewed to be a threat to the 'new' EU member states reflects the top priority status being afforded to the EU gas market, particularly Germany and the United Kingdom (Medvedev, 2005). The pipeline projects also create a 'qualitatively new stage in cooperation with

European gas customers' (Medvedev, 2005) since they will enable to deliver Russian gas directly to Western European customers, thereby creating the possibility of greater increase of Russia's economic and political foothold in Europe. Thus, Russian senior figures including President Putin and CEO of Gazprom Alexei Miller have repeatedly acknowledged the importance of retaining their commitments to meeting contractual obligation with the EU.

The narratives of the gas geopolitical games help in understanding that not only commercial and economic interests of individual actors and conditions of the market, but also strong political motivations and international interdependence are behind the foreign policies pursued in the gas sector. Even though Russia has a capacity for a 'gas weapon' to influence the EU, the practical ability of its use is severely constrained by the relationship dynamics between Russia and isolated EU regions. This process is primarily born out of a degree of reluctance of the EU as a united political legislative body to negotiate with Russia on equal footing. Indeed, the Ukrainian energy crisis resolution gives the impression that the EU treats Russia as its unequal energy partner which provides further impetus the Kremlin's ambition to regain previously lost strategic influence in its immediate vicinity. The policy is echoed by Soviet superpower status nostalgia and has gained salience during the post-Yeltsin administrations. These internal and external economic and geopolitical narratives have become symbolic of the dynamic in EU-Russia energy diplomacy and especially in the realm of energy security negotiations.

Policy development case study one - Eastern Europe and the Baltic States

When assessing the natural gas trade landscape in EE, it becomes apparent that the region is either completely or almost completely dependent on Russian gas. The 2013 annual consumption figures show that the Baltic States – Lithuania, Latvia, Estonia, and Finland are over 80 per cent, and Poland is over 50 per cent reliant on Russian gas exports to satisfy their domestic needs (BMIResearch.com, 2014). The region also remains highly dependent on Soviet-era infrastructure of gas pipelines that are linked directly to Russia (Grigas, 2012). This dependency naturally allows Russia to view the region as firstly an area of ‘privileged interest’ and secondly the Kremlin inherently assumes that the region has a lesser political value compared to the other European regions. These two main assumptions inform the way the Kremlin uses Gazprom to engage with the regional powers and to enforce energy and foreign policies. Both assumptions also encourage Russia to employ hard power coercive diplomatic tools to exercise its energy superpower supremacy and disregard regional autonomous energy policies. The dynamic of gas diplomacy in the region therefore becomes a management of political dependencies (Grygiel, 2009).

Firstly, the former Soviet bloc that are now situated in the EE, like Ukraine, historically fall under Moscow’s ‘sphere of privileged interest’. Russia’s ultimate long-term goal is to restore some degree of control over the EE corridor and these objectives are clearly articulated by former President Medvedev in foreign policy principles in what is known as Medvedev Doctrine:

‘There are regions in which Russia has privileged interests. These regions are home to countries with which we share special historical relations and are bound together as friends and good neighbours. We will pay particular attention to our work in these regions and build friendly ties with these countries, our close neighbours. These are the principles I will follow in carrying out our foreign policy’ (Medvedev, 2008).

Special historical relations inform the use of hard power strategies therefore aligning with Russia’s capabilities, the main the main set of foreign policy tools employed by Moscow is the control over energy supplies and political subversion through gas diplomacy. In the case of the region the conceptual origin of the regional Russian hard power is based on

understanding of political power which is imposed in the economic terms. Russia secured its interests in the region when Gazprom acquired shares in number of gas companies – Eesti Gaas (Estonia), Latvijas Gaze (Latvia), Lietuvos Dujos (Lithuania) and Gasum Oy (Finland) (Gazprom, 2014b). The acquisition has created a powerful network of local gas interests which ties to the Kremlin and serves as a tool of Russia's hard power diplomacy. Therefore, the realisation of Gazprom's commercial interests is directly linked to the probability of other elites adopting policies that allow it to achieve energy policy outcomes favourable to Moscow. Thus, these commercial ties also allow the Kremlin to influence major gas diversification projects such as BalticConnector, a gas pipeline that would connect Finland, Estonia and Latvia (Gasum.com, 2014). The gas pipeline would partially eliminate total Finnish dependency on Russian gas transmission infrastructure and foster the country's energy safety and market competition (Ministry of Employment and the Economy of Finland, 2014). The project however faces considerable difficulties due to Latvijas Gaze and Gasum Oy both being co-owned by Gazprom (Bugajski, 2008). This type of power projection of regional economic governance imposes on political outcomes and can be classed as 'hydrocarbon imperialism'. The Kremlin is pursuing hydrocarbon imperialism by controlling supplies of natural gas as well as pipelines and increasingly downstream assets. Moscow thus holds leverage over its customer states which are vulnerable because of heavy dependency on natural gas (Grygiel, 2010).

The economic dominance and execution of Gazprom's commercial interests in the region then can be transformed into the second tool used by Russia to maintain its influence westwards - political subversion. This includes an array of activities, from influencing policy outcomes to support for and corruption of local politicians who are favourable to Moscow. In many Eastern European countries, there is a widespread fear that the old network of former Soviet agents combined with new Russian energy supply business elites are working together to undermine the economic and political independence of Moscow's old satellites. After the collapse of the Soviet Union, the old Soviet energy import agreements were due for a renewal which for the first time posed a political and economic challenge for both sides as the regional geography had been changed and more independent players were brought to the table. Many of the contracts lost their privileged discounts which were awarded by the Soviet Union on an ideological basis, 'because those countries were no

longer 'brother' CEE countries, so there was no reason to give them discounts' (Viduna, 2014). The loss of ideological consensus and reestablishment of new geographical borders prompted an apparent shift in Russian treatment of the region. Simultaneously, the domestic political systems of the region are marred by political fragmentation, commercial weakness and ethnically mixed environments, making regional politics particularly vulnerable to Russian influence.

Russia has already tried to influence EE policy regarding the EU's Third Energy Package. It is an energy security and diversification legislation package unfavourable to the Kremlin that is aimed at ownership unbundling (Directive 2009/73/EC). In the region, that means separating Gazprom's ownership of gas distribution to the consumers from the ownership of gas transmission networks. Latvia and Estonia sought an exemption from the EU gas directive until 2014, which was available to them as the member states whose gas transmission system is not connected to the rest of the EU. Both states opted for the option of ITO (independent transmission operator) which was the most favourable to Gazprom. Latvia's Ministry of Economics commented on the decision by stating that due to geographical size of the country, the unbundling strategy proposed within Third Package would result in market fragmentation and would not be in the state's national interests. The decision was eminently guided by Latvijas Gaze and the biggest consumer of Russian gas - Latvenergo. The former played a significant role in the government's energy policy and position on unbundling. Simultaneously, the Latvian government has an agreement with Latvijas Gaze giving the company exclusive rights to ensure gas supply and distribution until 2017. Therefore, unbundling would have resulted in considerable costs for the government for breaking the contractual terms. As a result of the favourable outcome of policy negotiations, Gazprom announced in 2010 that it would lower the gas prices for Estonia and Latvia by 15 per cent. This is in line with Russia's tendency to argue that cooperative relationships would result in benefits such as lower gas prices.

On the contrary, Lithuania opted for a different approach and in 2010 a Lithuanian law proposed the separation of the partially state owned transmission business, Lietuvos Dujos, from the distribution business. Lithuania was reported to be planning to split Lietuvos Dujos into a transport and a trade component, while retaining full control over the trading company (Iskauskas, 2011). The decision rights then would shift to the Lithuanian state in

line with the Third Energy Package (Directive 2009/73/EC, Art.14). Gazprom, Lietuvos Dujos and Vladimir Putin tried to influence Vilnius's position on ownership unbundling by indirect threats of higher energy prices, international arbitration, and media assaults.

Another dimension of Russian gas diplomacy is its ability to influence the regional political agenda and narrow energy policy options to the governing elites. The linkages that Moscow has fostered between uncooperative policies and high energy prices have an element of persuading the relevant political actors that it would be dangerous to implement certain energy policies required in the national interest. The result is a form of political self-censorship. Baltic leftist parties, major business with ties in Russia and media outlets have bought into this view and lobby in favour of a closer relationship with Russia, arguing that closer cooperation would result in greater energy security.

The third tool of Russia's hard power foreign policy is aggressive gas diplomacy. The overall objective of this policy is the isolation of energy islands in the EE region by cutting out the need for transit states. The region is a corridor for Russian gas supply to Western Europe. The Yamal-Europe and Brotherhood (Urengoy-Pomary-Uzhgorod) pipelines are routed through Slovakia, the Czech Republic and Poland (Appendix 1) and supply gas to Germany, Austria and Italy. Its capacity is 100 billion cubic metres per year, which makes it's the biggest on-land gas transit route in Europe (Gazpromexport, 2014). The Yamal-Europe supplies to its full capacity 32 billion cubic metres of gas annually (Gazprom, 2014c). The Russian state has a firm hand over the Russian natural gas sector allowing Gazprom a monopoly on gas transportation and exports. In addition to this type of resource consolidation within the Russian Federation borders, the Kremlin has also challenged all unwelcome interventions in Russia's sphere of direct influence – the former Western Soviet Republics and the Warsaw Pact members. The risks of gas price hikes and cut-offs provides Moscow significant geo-economic and geopolitical leverage, which it would not shy from using against uncooperative consumers (Bryza & Touhy, 2013). Thus, to successfully implement hard power foreign policy strategies, the supplier country must not only control the energy resources and their transit, but also intend to convert their power into political gain.

The perpetuation of energy islands like currently exists among the Baltic States, poses a threat not just to the energy security of the region but also to their national security (Leppiman et al 2013). Of the Baltic States only Lithuania serves as a gas transit state for Russian gas to Kaliningrad Oblast, which is physically separated from the Russian mainland by Belarus and Lithuania. Although, Russia has never de facto cut off gas supplies to the Baltic States, this transit route served as a guarantee of supply to Lithuania. Vilnius used this as a bargaining chip when negotiating with Moscow on several occasions in the 1990s. However, during the 2000s Moscow embarked on a strategy of breaking this reliance by planning to build storage facilities which would be connected to the Nord Stream and therefore completely bypass the Baltic States.

The significant milestone of Russian and the CEE relations is the opening of the Nord Stream (Severny Potok) the first offshore pipeline that connects the Russian city of Vyborg to German city of Greifswald, passing through the Baltic Sea. The agreement officially was struck in 1997 between Russian Gazprom officials and the Finnish energy company Neste (Gazprom, 2014d). The pipeline was officially inaugurated in November 2011 and October 2012 (Dome Projection, 2012). The first branch of the pipeline carried 27.5 billion cubic metres of gas. The question of what drives the Russian Nord Stream project is a complex one. Like any other energy exporter, Russia must make both economic and political considerations.

The choice of the Nord Stream project over any other alternative proposed by the Baltic States and Poland is an excellent device to affect the domestic political decisions of those countries. Since the Russian government still has political interests in the EE region, in the analysis of Nord Stream, a political perspective should not be overlooked. While there has been no suggestion that the Kremlin has any desire to directly pressure EE countries on the subject, it is worth remembering that the Kremlin retains the political upper hand due to the common history and history of gas commercial trade in the region. To a very great extent, Russian policy objectives up to the start of the Nord Stream project could be said to be mostly the work of direct political and economic pressure.

From an economic perspective the implementation of Nord Stream to its full capacity had gone ahead with much criticism and concerns from littoral states and actors that do not

accept the arguments of the project's utility. The project's price tag had risen from an initial 4 billion euros in 2005 to 7.4 billion euros in 2008 and reach as high as 12 billion euros in 2012 (Whist, 2008) due to the increase in steel prices (OECD, 2009), operational costs, environmental requirements and seabed preparation (Art 9, Espoo Convention, 1991). The almost doubling in price and the prospect of a future price increases, has made critics question why an alternative onshore solution, which may have been considerably cheaper has not been considered.

The initial debates against the Nord Stream in the European Parliament were dominated by the representatives of the CEE region. The initial positions of the Baltic and Polish MEPs were set out in vigorous debates and petition papers which had been submitted to the Petition Committee since 2006. Although, none of the MEPs were outright opposed to the project itself, Lithuanian and Polish officials stated a preference that the new pipeline to be built on-shore through the traditional EU transit countries.

'Nord Stream will isolate Poland, the Baltic States and Ukraine [...] if Russia is going to push forward economically unviable and environmentally questionable projects, because they serve its foreign policy aims, then it should not be at our expense' (Gacek, Polish MEP 2008).

'Another issue is the cost of construction, which is several times more than if Nord Stream built the pipeline overland. It would be the population of Germany and Europe that would have to pay for these additional costs, as the costs of construction would be added to the price of every cubic metre of gas sold' (Rutowicz, Polish MEP, 2008).

A call for an alternative pipeline can be also found in the official documents of Latvia, Lithuania, Estonia and Poland. There are mainly two alternatives that have been proposed in this regard – the Yamal 2 and Amber pipelines, both of which would run along the Yamal-Europe route (as shown in appendix 1). The Yamal-Europe gas line brings Russian gas to Germany through Belarus and Poland. Baltic commentators have claimed that the construction of Yamal 2 would be several times cheaper than Nord Stream simply because it is an onshore project and because the Yamal-Europe pipeline was initially constructed in such a way that it would be possible to add a sister pipeline at a later stage (MoE Poland, 2007; SEPA, 2007; Umbach, 2007). Furthermore, in 2004 the Baltic States proposed another alternative, the Amber pipeline, which would bring Russian gas to Germany through Latvia

and Estonia. Amber financially would have been three times less expensive than the Nord Stream project and one would get all the benefits of energy security as it would not go through Ukraine and Belarus (Grabauskas, Lithuanian MEP, 2008).

The Swedish delegates advocated for further analysis on the need and demand for a new gas route, including the financial evaluation and environmental impact of the off-shore pipeline. 'No one, not even Germany, can count on more gas from Gazprom for many years to come. Nord Stream is no solution.' (Lax, Finnish MEP 2009).

Likewise, the project was widely contested by the Baltic States as being environmentally dangerous for the shallow Baltic Sea. Lithuanian MEPs announced the need for environmental review before the Parliament vote could be cast. This may to some extent have been prompted by a petition from Lithuanian environmentalist group the 'Young Conservative League' on behalf of the Baltic governments that the EU should not move forward with the new pipeline until appropriate research was carried out, including completion of environmental impacts and economic/market studies versus cost benefit analysis (0614 /2007). Finland, initially positive towards the project have asked for further investigation from Environmental Impact Assessment (EIA) to consider any land line alternatives, declaring that it would be positive from the viewpoint of EU energy security policy and the development of the EU natural gas market to also take into account the financial interests of the other Baltic States in the form of alternative pipeline routing (MFA Finland, 2007).

In February 2009 Nord Stream AG released a Nord Stream Espoo Report (Nord Stream AG, 2009). The report concluded that the proposed Nord Stream pipeline would be likely to improve consumer state gas import flow and would likely improve partner country welfare by facilitating entry and creating a new energy channel that does not depend on transiting conditions. This study did not prove satisfactory for all interested parties. Estonian officials have submitted comments on the behalf of various environmentalist groups, criticising the environmental research that was carried out by Espoo Report Group. They argued that the project was not well researched and went against the policy decision of the EU Council and International Laws on maritime safeguarding. In 2009, Finnish media broke a story about

the suspected corruption among the senior officials of Espoo Report and proposed alternative research be carried out (Lipponen, Finnish MEP, 2009).

Overall though, there was clearly a degree of consensus among the EU parliamentarians that the new Nord Stream project should be pursued with caution, but there was a significant lack of consensus between EE countries' MEPs and German MEPs during European Parliament debates, particularly on the question of the common security policy and the Nord Stream project's place in it became apparent

'I agree with the rapporteur that it is scandalous that a cross-border project of such a far-reaching nature should be treated as a bilateral issue between Russia and Germany. Protection of the Baltic and the populations of Baltic countries should be one of the EU's main priorities' (Bielan, Polish MEP, 2008)

'With regard to our dependency on Russia, I regard Russia, despite all its problems, as a partner. The ten-year EU-Russia Energy Dialogue will be taking place in November. The fact is that we are mutually dependent. Why is this? As the Russians are responsible for more than 50% of the financing for the Nord Stream pipeline, which involves an investment of more than EUR 4 billion, it is in their interests for the gas to flow through it, otherwise the investment would not be profitable for them (Oettinger, 2010).

There were also some significant disagreements among the MEPs regarding some of the financial aspects of the project and the economic impact of the project on the EU economy. Despite these differences, the committee was able to produce a comprehensive set of recommendations on how the progress should have moved forward, naming Nord Stream a strategic project under Trans-European energy regulations TEN-E (H-0231/07, 2007). It is difficult to get a clear picture on how the process unfolded, since not all the committee discussions are publicly documented. However, a speech of the EU Parliament President is available answering a question from a Polish MEP about the role of the Nord Stream project and the official stance of the EU on the project importance.

'The fact that Nord Stream is to be an underwater pipeline (that being the version of the project included in the guidelines for trans-European energy networks adopted by the Council and Parliament) is immaterial here [...] the Commission's policy is to promote the

Trans-European Energy Networks (TEN-E), and that is why has just adopted a Plan for Priority Interconnections (PPI) involving some pipelines, including Nord Stream, that has been identified as strategically important for meeting the Union's gas needs.' (H-057 5/07, 2007).

The extent to which the recommendations of the White Paper matched up with the initial discussion carried out by MEPs demonstrates that the bottom up policy decision was made to accommodate the wishes of the biggest client countries and the Nord Stream AG and Gazprom lobby. This was also confirmed by Neumann (2007) who believes that the draft of the decision and final decision of the committee was majorly influenced by the Russian lobby and commercial interests of German clients. Official sources from Latvia, Lithuania and Poland confirmed that the project, although voted to be an EU energy security issue, ultimately became bilateral German-Russian project.

'Austrian, German and Italian energy firms are doing business with the Kremlin on a bilateral basis. This leads directly to political pressure by Moscow on individual Member States. Germany is building a gas pipeline along the floor of the Baltic Sea in order to avoid Poland' (Bielan, Polish MEP, 2009)

'The bilateral agreements of some Member States, implementing projects such as 'Nord Stream', causes distrust not just over environmental issues, but also principles of solidarity, and therefore there must be transparency in this area' (Morkunaite-Mikuleniene, Lithuanian MEP, 2010).

The examination of the Nord Stream reports and further examination of expert papers and public opinion suggests that most of the project negotiations and recommendations were agreed upon only between Gazprom and associated German partners. It therefore remains questionable just how far the policy on a new gas transport route was representative of the EU consensus or was the product a bottom-up policy development process. Latvian Prime Minister Valdis Dombrovskis expressed his concern over EU consensus stating that the project was not in line with the EU common energy policy objective (Reuters, 2009).

Therefore, the petitions for discussion that were submitted in the beginning of the decision making process in 2006 are incompatible with all the final papers, and many of the

recommendations did not make it into the Final Report. To a very great extent, the policymaking process had been removed from the direct control of the EE states, and in some areas, the subsequent evolution of new energy security policy in the region has resulted in recommendations substantially different from or in opposition to the policy proposals put forward by the EE states at the earlier stages of the discussion. Ultimately, the Russian lobby succeeded in shifting the discussion of the utility of Nord Stream from the EE energy security concerns to EU economic benefits. This demonstrated that the Kremlin still regards the region as the 'zone of privileged interest' (Grigas, 2012). The process thus demonstrated a successful soft power negotiation by dividing Europe into interest groups, fully aware that EE region's capacity to influence the EU energy policy is limited compared to the influence of German representatives when economic benefits are concerned. The area of disagreement among the EU member states was the issue of the methods the Kremlin uses to bypass EE countries when negotiating Nord Stream contract terms.

'The Kremlin is using energy supplies as a political instrument in conjunction with the principle of 'divide and rule' in order to corrupt Europe country by country, from Cyprus to the Netherlands. This approach is proving remarkably successful' (Bielan, Polish MEP, 2009).

Due to the unfriendly nature of the Russian-Polish relations, the Kremlin is less reluctant to sacrifice the 'reliable exporter' status in the region. In September 2014 Gazprom reduced natural gas supply to Poland by 20 per cent over two days (Charter & Hoyle, 2014). Jaroslaw Kaczynski, a former Polish prime minister commented stating that the cut off are a part of Russian aggression strategy to expand the empire (The Moscow Times, 2014).

Furthermore, the more recent stages of Post-Soviet relations, including the various irritation around the Nord Stream project, have not been removed from the direct control of the Kremlin and therefore, in some areas, the subsequent evolution of the new relations have resulted in recommendations from EE states that are in opposition to the official policy of the EU. As a result, some of the states have been critical of Russian intentions in the Baltic Sea. This group of states is championed by Lithuania and Poland – the two countries that suspect Russia in waging a new cold war against the EU. The region therefore actively seeks to shape a more critical EU line towards Russia. Motivated by Russian political and economic pressures and also unresolved historical grievances, they can be classified as the group of

'the new cold warriors'. The mixture of deteriorated political relations with Russia often spill over into the economic field.

Policy development case study two – Central and Southern Europe

Following on from the Nord Stream case study and Russian political behaviour in the EE region, this chapter will investigate an equally topical energy policy development in the central and Southern Europe and the Balkans. This is the biggest group of the EU countries that is spread through a vast amount of geographical Europe and includes Austria, Slovakia, Slovenia, Czech Republic, Hungary, Luxembourg, and Belgium in the central European region. These middle sized and middle ranking states have little potential to really try to set the EU agenda, preferring to follow the mainstream policy which is mostly shaped by the western European region. While they are not active promoters of Russian interests within the EU legislative network, they tend to oppose actions that they fear might irritate Moscow. During President Putin's official visit to Austria he was given a friendly reminder by the hosts that Ukraine had been ruled by Vienna in 1914. The highly symbolic welcome was given while Gazprom and OMV, Austria's state controlled energy giant, signed a deal to build South Stream. This was a significant step in Russian-Austrian relations undermined the legitimacy of the ambitious EU centralised Project Nabucco pipeline which would have weakened Gazprom as Europe's biggest gas supplier (The Times, 2011).

The South Stream pipeline like Nord Stream is an off-shore gas route through the Black Sea from the Russian coastal compression station at Beregovaya to the Bulgarian town of Varna. The project was first proposed in 2008 by a special purpose company, South Stream AG, registered in Switzerland and a definite project outline was published in 2011 by Gazprom (Gazpromexport, 2014). The commissioning of the first branch of the South Stream on-shore pipeline is scheduled for late 2015 and the scheduled commission of the second branch for Austria in late 2016 (Gazpromexport, 2014). As with Nord Stream, the South Stream pipeline provided a range of political power tools used, reflecting the role played and the relative degree of influence held by each of partners or partner groups over the final policy outcomes. Since the beginning of the South Stream development process, certain inherent problems have been repeatedly cited. The economic environment of the region is design of the competition of the two prospective gas pipelines – South Stream and Nabucco, organised respectively by a consortium of six gas mega-companies and a joint venture of Gazprom and Italian ENI. It is sufficiently clear that South Stream is driven by a unique

symbiosis between Gazprom and Kremlin, with Italian ENI and the former Italian Prime Minister Silvio Berlusconi involved in a supporting role (Utkin, 2010).

It is an underlining assumption that unlike the Nord Stream, this project is not simply a classical geopolitical competition with an energy twist, nor a straight forward economic completion for profits from gaining access to the European Southern gas corridor. There are strong economic incentives behind South Stream, however, the Kremlin's material interests translate into abundant 'Great Game' (Baev & Overland, 2010). The powerful political drivers that have propelled the ambitious enterprise through the uncertainties of the financial crisis are related to the intangible motivations related to Russian prestige and credibility. From the moment the first South Stream contract was signed, Russia's intention to build the pipeline was labelled as the newest episode of the 'Great Game'. Popular as these political interpretations are in the media and public opinion polls, there is an inherent oversimplification of the assumptions of power balances and clashing interests of the competing state actors.

The popular portrayal of Russia as a revisionist power has certainly gained political validity after episodes of the Russian-Georgian war in 2008 and annexation of Crimea in 2014, which delivered a profound shock to the European security systems even if they failed to make serious impact on energy markets. However, a closer look at the Russian 'predator' reveals that Russia's preference for building an offshore leg of South Stream and eliminating transit dependency is hardly an evil plot aimed to subject particular producers and consumers. It is also a hardly plausible assumption that the Kremlin aims to establish dominance over the Southern European energy market as Gazprom is planning only a limited increase of gas deliveries to the region, many states in which have solvency issues (IMF, 2014).

This is due to the vast amount of the region still partially dependent on the Russian gas supply and Russian gas infrastructure. They also take full advantage of the opportunities presented by the Russian economic growth. The other half – Austria, Belgium, Luxembourg and Hungary – hope to become gas hubs for Gazprom in the EU. In 2014 before the South Stream project became obsolete, Hungary, Bulgaria and Romania were the biggest beneficiaries of the transit pipeline. It prompted Hungary and Bulgaria to make efforts to

enable the construction of South Stream by attempting to draft laws as a means of circumventing EU Third Energy Package rules. These laws in many ways were drafted by Gazprom officials and they undermine the unity and the values of the EU (Forbrig, 2014).

Arguably, however, what matters is not the objective of power or the ability to project it but the perception of the patterns of interactions that are prevalent among the political elites of the states involved in these interactions. This perspective also allows us to view the role of the EU in South Stream project negotiations, and as a political actor in its own right, and it is far less inclined to adopt a geopolitical perspective on bilateral energy relationships with Russia. In early discussion regarding development of a gas route directly to Southern Europe, there had been some debate as to whether energy supply security and diversification under Common EU Energy Security Policy should be undermined by construction of another direct pipeline from Russia.

‘South Stream goes against the principle of energy security in Europe, based on diverse sources and routes. Thus, if South Stream does go ahead, it should not receive EU funding at any stage’ (Gacek, Polish MEP, 2008).

In contrast to the negotiations done by Gazprom and Kremlin on a bilateral level with transit countries, Russia lacked support from official Brussels on the South Stream project. Therefore, Russia was forced to respond with drastic measures to the Third Package on the authoritative level. Russia officially send a request for consultation (WTO 14-2748, 2014) to challenge the provisions of the ‘Third Energy Package’ that are inconsistent with a number of obligations and specific commitments of the EU and its member states under the WTO agreements (WT/DS476/1, 2014). Russian Prime minister Dmitry Medvedev commented on the possible lawsuit with the EU over the unbundling rule in the ‘Third Package’ underlining that it is inconsistent with existing ties and means a rejection of existing contracts between Gazprom and transit countries (Medvedev, 2014).

Consequently, the Russian government on the behalf of Gazprom and South Stream AG initiated a lawsuit against the EU and its member states for violation of international trading standards under Article I where supply of trade services is defined as ‘by a service supply of one member through commercial presence of any other member’ (GATT, 1994) and Article IV which stipulates that the participation of developing countries in world trade shall be

facilitated through 'the liberalisation of market access in sectors and modes of supply of export interest to them' (GATT, 1994). Russian Deputy Minister of Economic Development Alexei Likhachev in his press release also pointed out that Russia is planning to start investigation within the WTO framework under Article 3 of the Agreement on Subsidies and Countervailing Measures (ITAR-TASS, 2014). Article 3 refers to the prohibition of 'subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods' (WTO, 2001). Therefore, the measures that are cited in the Third Energy Package appear to nullify or impair the benefits accruing to Gazprom and the Kremlin directly by denying a sphere of political influence or indirectly by diminishing profits under the agreement in place.

Apart from the commercially and politically damaging Third Package, the Nabucco pipeline is direct competition to the South Stream project. Nabucco has a camp of supporters, among them EU states including Poland and the Czech Republic that are known for their distinctly hostile view of Russia. However, the most crucial element for this club is the willingness of the Commission to recognise the Nabucco pipeline as a 'flag project' to protect EU energy supply diversification efforts and the security of supply (Piebalgs, 2008).

It was during Russia's chairmanship of the G8 Summit in 2006 that the topic of energy security, particularly within the EU, came to the forefront of the debate. Every proposition in the energy security agenda, goes against the vision adopted by the Commission, however the decisive cut reveals that the common core elements are: diversification, liberalisation and degasification.

Diversification is the policy that is directly aimed at reducing EU gas dependence on Gazprom services. It was recognised early on that South Stream could be potentially used by the Russian government as political leverage to control European Union behaviour. Finding some means to deal with the issue has been one of the key EU policy concerns surrounding South Stream from the start of the process. The main concern was raised around the unilateral ownership of the pipe route by the supplier company which is addressed in the EU Third Energy Package. Thus, the specification in the Third Package could be made to appear to be an EU hard power tactic against the interests of Gazprom and subsequently the Kremlin's foreign policy goals. This phenomenon potentially opens a new discussion of the

energy weapon that is used by Brussels's rather than Russian officials. This also suggests that there are implications in trading standards, when Gazprom is forced to find a commercial and lobbying solution surrounding the issue from the start of the South Stream project implementation.

The political difficulties arise from insufficient energy policy cooperation in the region and between the new South Stream transit countries. For example, if one is to look at Appendix 3, the South Stream route is mapped through the non-EU state of Serbia. This problem is particularly difficult with regards to communication of the Third Package restrictions as Serbian companies and officials are not bound by the restrictions and could use domestic legislation and international legislation under WTO standards over the EU official suggestions. The enforcement of the Third Energy Package is also difficult because of the bilateral relations Russia possess in the region, especially with non- EU member states. Serbia is the key actor in the Russian soft power strategy, as it is the only state on the route of South Stream that is not a member state but a candidate state for the EU enlargement in the Western Balkan region (Europa.eu, 2014). In December 2013 Slobodan Sokolovic, Secretary General at the National Petroleum Committee in Serbia commented on the EU Third Energy package application to Serbian gas market stating that although Serbia is obliged to implement provisions of the EU energy package in the internal market, South Stream is exempt from the legislation due to Serbia being a minority shareholder of the gas interconnection (InSerbia, 2013). The majority shares are owned by Gazprom and it is also singlehandedly the biggest investor in the regional development of the route (Bajatovic, 2014), the rest of the shares are owned by French, German and Italian companies respectively (Gazpromexport.ru, 2014). The exemption was also confirmed by Gunther Oettinger, EU Energy Commissioner, stating that:

'Serbia, an EU candidate country, is not bound by the same rules as EU members, and therefore the EU executive power has no grounds to demand the suspension of the construction' (ITAR-TASS, 2014).

The bilateral deals between Russia and Southern European EU members is an example of Russian willingness to negotiate energy deals directly with transit countries as it advances their foreign policy aim of becoming the exclusive energy supplier in the region. With

regards to policy communication, there are political identity sensitivities regarding their recognition. Such issues have been among the energy policy challenges that have encouraged Gazprom to pursue its goals through soft power strategies. Firstly, although the Third Package is a sound economic policy in terms of liberalisation of the energy market, the position of Gazprom in the EU market is largely based on business alliances with European gas giants of Gaz de France (France) and E.ON (Germany). The beneficial relationship Gazprom is enjoying with German, French and Italian gas companies includes engagement in asset share swap in order for European companies to secure access to supply sources in Siberia for example the deal between Gazprom and E.ON on the asset swaps as part of Yuzhno-Russkoye field development project (Gazprom, 2009). The problem with this policy therefore is that it is directly against the interests of these companies as it prohibits the ownership of gas infrastructure either by producer or supplier (Kommersant, 2010), which are able to mobilise support from their parent states as was apparent in the case of direct German interest in the Nord Stream project. The biggest lobby on the behalf of the European company interests is the Magritte Group comprised of the CEOs of companies like Italian ENI, Austrian OMV and German E.ON, all of which have investments in the South Stream project (Magritte Group, 2014) and in total comprise 12 utility companies representing half of the Europe's energy market. They critique multiple targets in the EU energy guidelines:

'While a document of this dimension and importance for the future of Europe's economy requires full and considered study, an initial conclusion of the Magritte Group of CEOs is that the setting of multiple targets does not support a technology neutral approach, nor does it allow a cost efficient competition between low carbon technologies' (GDF Suez, 2014).

At the same time Christian Drepper, spokesperson for E.ON disagreed with the principles on unbundling stipulated in the Third Energy Package that the new norms will not lead to lower prices (Bloomberg, 2007) and that the Third Package will discourage the competition (Euractiv, 2007). The influence of the Russian lobby should not be underestimated, but the EU Commission is reluctant to leave the 'Southern Corridor' in Russian hands knowing that South Stream is also driven by Putin's personal ambition and Gazprom's inside trading practices, so that the costlier the project, the greater the inside profits made by investors.

'The rapporteur on the Black Sea regional policy reminds us that the European Union supports new energy infrastructure and viable transport corridors, diversifying both suppliers and routes. The prime example of such an undertaking is the Nabucco Gas Pipeline, already recognised as a priority project of European interest' (Gacek, Polish MEP, 2008).

Therefore, in the case of the Southern European corridor Russia does not possess the option to persuade the European Commission of the absolute utility on South Stream as was in the case with the example of Nord Stream and potential gas supply disruptions transited through Ukraine and Belarus. It is precisely for this lack of leverage that Russia had to change its strategy and pressure points, and although Gazprom's partner companies remain equally invested in project's success, the EU Commission and the EU Parliament remain unwilling to accept Russian political ambition in exchange to commercial profits.

The relations between Russia and Southern European nations are much warmer than the rest of the EU. Greece, Cyprus and Malta also act as pro-Russian lobbies in the EU. Bulgaria, Romania, Greece and Cyprus in the southern European region, therefore, can be classified as a Russian 'Trojan horse' in the EU. Examples can be found in their veto activity in the EU Council over Russian sanctions. Fyodor Lukyanov (2015) comments that Russia is expecting the EU to be less homogeneous on the subject of economic sanctions and the Kremlin will make efforts to encourage some countries to be even more reluctant (The Times, 2015). At present European countries are divided over the extension of sanctions in June 2015; it is nurtured by the Kremlin through Greece, Hungary, Cyprus and Malta's advocacy of the Russian case. The Greek Prime Minister Alexis Tsipras stated that the sanctions against Russia are 'the road to nowhere' (The Times, 2015). An estimated 63 per cent of Greeks see Russia in a positive light against 23 per cent who favours the EU (The Times, 2015).

Policy development case study three – Western Europe

The western European region has the most influence on the common EU energy policies and is comprised by Germany, France, Spain and Italy, which is a member of this group due to its commercial interests rather than geographical criteria. Aside from Spain all have strong political and economic bilateral relationships with Russia. They have all been prized by President Putin and are shown the respect great powers owe each another. Support from these big states, particularly France and Germany, is crucial for lobbying any coherent EU policy that suits Russian foreign needs. Therefore, the approach of Russian gas diplomacy in the region is drastically different from the rest of the EU due to the understanding of mutual commercial benefit and balance of political powers.

The main characteristic of Russian gas relations with Western Europe is the perspective of interdependence (Kratochvil & Tichy, 2013). This refers to the idea that integration is possible and desirable because of the complimentary interests of Russia and its Western partners. The integration discourse is rooted in the Constructivist perspective of IR and is supported by soft power theory. Internationalists therefore support the idea that EU-Russia gas relations have a special status that extends beyond a simple trade partner dialogue (Kratochvil & Tichy, 2013). Although the legal basis for such cooperation was the Partnership and Cooperation Agreement of 1997, the goal of the main EU Western member states to integrate their energy markets materialised in 2000 in the EU-Russia Energy Dialogue (Dickel & Westphal, 2012). Thus, despite the theoretical setbacks resulting from complex realities and even if considering the epistemological deadlock of the EU system, a pragmatic theory-building can be suggested (Somers 1998; Friedrichs & Kratochvil, 2009) which highlights key negotiation components – consistent energy transportation preferences and utility maximisation (McDonald, 2003). Respectively, many factors motivate Russia to seek multipolarity, including aforementioned superpower nostalgia, the decline of the USA as an opportunity for market and utility maximisation (Ambrosio, 2005; Bozhilova & Hashimoto, 2010). The utility maximisation is therefore linked with Russian soft power objectives where

Russian and Gazprom's actions reach beyond commercial interest to state's prestige and reputation and satisfaction (Oliver & Sanderson, 1985).

The idea of integration clearly dominates Russian regional gas diplomacy (Aalto & Kormaz Temel, 2012; Kratochvil & Tichy, 2013). The Russian version of this discourse presumes that there is a symmetrical interdependence between both actors which necessitates integration. Energy interdependence is 'a cementing factor of the established relations and the factor ought to be regarded as a thing of positive value and not a threat' (Lavrov, 2007). The proper course of action, according to this discourse, is a negotiated process in which both actors contribute equally (Kratochvil & Tichy, 2013). Hence, the greater Russian long term policy objectives the more accurate and rational its actions will be. In the case of Western Europe, Russia is inclined to act as a 'friend' and this friendship enables the logic of self-interest which then is extended to the interests of those the Kremlin considers 'friends' (Digeser, 2009). The Russian 'friend strategy' is based on great power management within the EU. It concerns the interaction of large member states and the EU major energy powers within the limits of the EU competence division. Notably, in the case of the natural gas, the EU lacks great power status. Only Germany, France, Italy and UK attract neighbouring power recognition (Bilgin, 2011) and this fragmentation further explains why common EU legislation process remains limited to a co-operative type in the external gas trade. The illuminating example of Russian lobbying of the EU through the regional governments is the obstruction of the European Commission's plans for energy liberalisation in 2007.

Although, Russia can be such a power for the wider European society, the EU is characterised by the abundance of powerful energy companies forming a part of the energy security calculations (Aalto & Kormaz Temel, 2012). The great power management raises the status of the larger member states as formal institutions. Thus, the objective of the Kremlin to influence the EU energy security policy-making process is achieved by fragmenting the Union (Romanova, 2012). The narrow merit that the Russo-European natural gas dialogue has is that Kremlin and Gazprom representatives have an official forum to directly negotiate with strategic partner states (Aalto & Korkmaz Temel, 2012). For example, German-Russian energy diplomacy led by Chancellor Schroder and President Putin facilitated the implementation of the Nord Stream project which enables direct supplies of natural gas from Russia to Germany reducing transit risks in Belarus, Ukraine and the CEE

region. The interlink of the geopolitical, economic interests and normative limitations allowed Russia to turn the Russian-Ukrainian gas conflict of the mid-2000s into a driving force to strengthening individual state sense of sovereignty (Natorski & Surralles, 2008). Subsequently, the pipeline projects implemented after this conflict were a direct result of the intensified security logic and soft power lobbying in strategic partner state governments (Kirchner & Berk, 2010.) The two major examples of this process are the Nord Stream and the South Stream project implementation procedures. Both were predominantly negotiated upon with Germany and France as their respective priority projects. That the spokeswoman for ALDE group voiced collective CEE block opinion by stating that:

‘Russia is fragmenting the solidarity of EU member states by offering bilateral energy supply projects which may be exploited for political purposes with sad consequences for the common EU energy policy (Budreikaite, Lithuanian MEP, 2007).

The Russian approach to negotiating with the Western European region therefore is identified as ‘strategic partnership’ (Leonard & Popescu, 2007) where key EU member states enjoy a special relationship with Russia and are willing to undermine the common EU policies.

Russia has also attempted to maintain its image as a reliable supplier to the western customers and indeed tries to enshrine its role as the EU’s main gas supplier through seeking long term contracts and improving infrastructure links with them, such as the Nord Stream pipeline. This route although viewed as a threat by the EE region, reflects top priority being afforded in the EU common market, particularly Germany and UK (Medvedev, 2005). The project creates an unprecedented qualitatively new stage of cooperation with Western European gas customers (Monaghan, 2007), since it is now making direct deliveries to western customers and therefore increasing political and economic integration between Russia and strategic partner states. Senior Russian figures including President Putin and Gazprom CEO Alexei Miller have repeatedly underlined the importance of the EU market and reiterated their commitment to meeting contractual obligations. When Gazprom managed to avoid economic sanctions imposed on Russia, including the state owned oil monopoly Rosneft, over the conflict in Ukraine. Rick Haythornthwaite, the chair of British Centrica (2015) told The Times that whatever the United European interests are, its member

states need to be pragmatic about the realities of energy trade as it is unrealistic that Russian gas will be replaced in the near-term (The Times, 2015).

While Russian integration champions admit that Russia needs its revenues from the gas trade with Europe, they are divided on the question whether this dependence is symmetrical. Putin has also admitted that 'Russia depends even more on the European customer than they depend on their supplier' (Putin, 2006). Respectively, 44% of the EU's gas originates from Russia, while the EU market accounts for 67% of Russian gas exports. Therefore, the preference of the bilateral relationships in the region is also due to the fear of the asymmetrical negotiation partnership where Russia is considered to be the junior partner (Kratochvil & Tichy 2013). Where energy is concerned it is common in the post-Soviet space for original economic questions to escalate into political disputes. Disputes related to energy between Russia and the EU have never escalated into politically motivated hostile action. However, the media attention to energy issues between Russia and the EU accelerated when Schroder and Putin signed the Northern gas pipeline bilateral deal in September 2005 (Aalto, 2012).

The avoidance of multilateralism in negotiations is in the form of action and reaction or the lack thereof (Bozhilova & Hashimoto, 2010; de Montbrial, 2002) and aligns with the defensive realism theory and hard power theory as a mechanism to counteract and preserve national and Gazprom interests (Waltz, 1979). The sense of weakness is visible in the strategic national interest 'to create export routes that are completely independent of the adjacent countries' (Veinshtok, CEO of Transneft, 2006). This illustrates that Russia is concerned of being vulnerable to the external pressures including transit fees and route diversification (Monaghan, 2007). The feelings are particularly acute where the Third Energy Package legislation is concerned. France and Germany in particular forced compromises in the ownership unbundling part of the legislation (Talus, 2012) due to the former state monopolies German E.ON and RWE and French EDF and GDF lobbying of their states to retain ownership of the gas and electricity systems if supervised and managed by an independent operator (Euroactiv, 2009). However, vis-à-vis Russian supplies, Germany, France or Italy never challenged the Commission's antitrust inquiry in 2012 on Gazprom's possible anti-competitive behaviour related to gas market partitioning and supply

diversification (Kanter, 2012) and antitrust charges in 2015 over gas market dominance abuse (Kanter, 2015).

The avoidance of multilateralism therefore is a reflection of a hard power dynamic where Russia seeks to gain leverage over weaker counterparts (Guzman, 1998) by negotiating energy policies by isolating partners. Russia considers itself troubled by the limited access that Gazprom has to clients' internal markets. It also feels blocked by the EU's political barriers to liberation, based on the fears of economic overdependence on Russia (see European Union's Third Energy Package on unbundling laws, 2009). Therefore, Moscow would like to broaden the cooperation in the energy field 'to be not only mutually beneficial, but also based on common approaches and principles' (Khristenko, 2005) such as 'the predictability and stability of energy markets' (Putin, 2006). The massive importance of the gas exports to the EU for Russian internal stability and the alternatives that are increasingly available for the EU, Moscow's dependence on the bilateral gas trade could soon outweigh that of the EU. The described conflict of norms and policy objectives brings one to the discourse of diversification (Belyi, 2013). A fine illustration of this is the termination of the South Stream project in Southern European corridor.

The importance of realising profit interests in the region as a result of an efficient gas diplomacy and secured supply of Russian energy is very significant for the Russian state. It is even more highlighted in Western European region where Russian profit interests come before geopolitical interests. The fact that the Russian government and Gazprom have made numerous energy security justifications for the Nord Stream project reinforces this position. Economically as well, in 2010, it was predicted that although Nord Stream would not lead to a major increase of gas to Europe, it would make additional profits of between 500 million US and 30 billion US (Chyong, Noel & Reiner, 2010). This makes the project also very economically viable. Additionally, by shifting the gas flow away from Ukraine and Belarus as well as the Baltic States and Poland, the Kremlin is losing its foreign policy leverage in the post-Soviet territories (Aalto, 2012).

Policy development case study four – Northern Europe

The fourth group is made up from Sweden, Denmark, the Netherlands, Ireland and the United Kingdom. While these countries tend to be pragmatic and oriented towards business interests, they do constantly raise concerns about the state of Russian democracy and human rights abuses. They are also willing to challenge Russia when the Kremlin violates diplomatic norms and their commercial interests. Among these countries the UK is in a special position. Until just a decade ago, London was seen as Moscow's strategic partner. The former British Prime Minister Tony Blair was the first of the EU leaders to attempt to build a strong relationship with Vladimir Putin before he had been even elected President and despite the global community's concerns over human rights violations in Chechnya (The Guardian, 2000). Nevertheless, Putin's strategic resource nationalisation politics contributed to the deterioration of gas relationships, and culminated in an ever more reserved relationship after the disputes over British Petroleum and Shell's stakes in the Sakhalin II and Kovykta gas fields (The Times, 2007). Rising tensions between Russia and Europe over the Ukrainian crisis, had an impact on Russian business in the UK. The British giant BP that has been designing to extract gas from the Russian Arctic, and Shell that has been contributing on development of gas projects in Siberia, have been reported to lose GBP100 billion and are paying high price for Westminster's position on Russia (The Times, 2014).

The Nord stream pipeline's extension to supply gas to the UK and the Netherlands was scrapped in 2014 amid worsening relations between the regional powers and Russian government over the Ukrainian conflict. The preliminary negotiations of the project were held in 2012, and part of the financial Gazprom rationale was to target the UK market. John Lough sates that given the current political climate and the tensions in Russia's relationships with the western countries, there will not be a possibility that this project will be implemented (Chatham House, 2014). BP is also the leading company in promoting the Nabucco pipeline and gas transport directly from Azerbaijan. In 2013 BP secured the deal to build the Nabucco West to supply central Europe and Trans Adriatic Pipeline (TAP) to export Azeri gas to Italy (Rzayeva, 2013).

The Russian relationship with the northern European countries has a completely different dimension compared to the rest of Europe. Denmark and Sweden are almost independent from Russian gas supply as neighbouring Norway has its own reserves of natural gas in the North Sea basin and is the biggest supplier to the region. The lack of gas dependency therefore makes the region very hard to penetrate for Russian gas diplomacy. The only recent instance of political pressure exhibited by the both sides was the implementation of the Nord Stream pipeline project, which now also runs through the Swedish offshore. Russia however declared the pipeline to be a strategic asset of the official foreign policy and hence is ready to use military resources to defend the pipeline.

Concurrently, their proximity to the Arctic is widely presented as the object of the geopolitical race and Russia is considered the main driver (Overland, 2010). The Arctic holds an estimated 30 per cent of undiscovered world's conventional natural gas resources according to the assessment carried out by the US Geological Survey (USGS) (Energy Information Administration, 2012). Furthermore, most the Arctic gas is expected to be located in the Russian territorial waters. Consideration of these resources as commercially viable is what makes the regional policy about gas extraction. It is not therefore surprising that a substantial part of Arctic resources may be found in Russian areas, since the largest geographical part of Arctic waters belongs to the country. Whatever the outcomes of the global existing territorial disputes over the Arctic waters, Russia as the world's largest country in the Northern hemisphere and the country with the longest Arctic shoreline, is bound to be the main Arctic power in territorial terms.

Due to the narrative of the gas relationships in the region, Russia prefers to employ hard power gas diplomacy to advance its regional policy objectives. The example of this is the negotiations around the construction of Nord Stream. Although the pipeline is designed to deliver Russian gas to primarily Western European clients, geographically, it passes through Swedish territorial waters. The 'Swedish and Danish dilemma' (Kupchinsky, 2006) on Nord Stream encompasses various issues that are potentially damaging to Swedish and Danish sovereignty and governance. Nord Stream has potentially military implications as it may become a target of terrorist attacks. This would mean an increased Russian military presence in the Baltic Sea region that is a source of political friction. In 2006 Putin announced that the Nord Stream pipeline construction is a major priority because it ensures

that Russian energy resources go directly to the west European consumers. Therefore, Russia planned to use the opportunities offered by the navy to resolve environmental, economic and technical problems. All this incorporated a few new but yet absolutely crucial directions for the navy's activities in the Baltic Sea.

While naval activities in economic zones of the littoral states on the Baltic Sea is permitted according to international laws (Geng, 2012), Nord Stream gives Russia a reason for increased presence should it ever feel a need for it. From the Kremlin's perspective, however, patrolling the pipeline stretch should be welcomed as it is a necessary step towards an uninterrupted gas supply to the EU, but increased militarisation of the sea can thus bring political tensions. The patrol of the pipeline and the riser platform also bring increased intelligence capabilities. Given the close connection between energy companies and the Russian government, Gazprom and the Kremlin in particular, there are reasons for Swedish officials to be sceptical. Carl B. Hamilton, a Swedish MP that followed the topic closely, states that there have been mixed signals from Russian ambassador Alexander Kadalkin and Dirk Von Ameln, a spokesman from Nord Stream. According to Kadalkin the pipeline can be operated and serviced without the raiser platform, while Von Ameln claimed that there had to be one (Larsson, 2007). Carl Hamilton's Liberal party press release then stated that Putin's rhetoric and the actions of Nord Stream AG were hostile and concluded:

"Swedish military and Swedish Defence Research Agency (FOI) do not accept that the question is purely an environmental issue [...] Sweden can, with current regulations, stop the construction of service platform. Nord Stream, However, does not answer the central question, whether the management of technical issues must be done in the Swedish economic zone. Nord Stream and Russian Embassy in Stockholm are giving conflicting statements on this matter." (Carl Hamilton in Larsson, 2007, pp.4-5).

The naval activity would get Russia a competitive intelligence edge concerning all subsurface, surface and aerial monitoring of the Baltic Sea. The pipeline, for example, is laid in close proximity to the Finnish military exercise fields.

Although the risk of a terrorist attack is small and historically the frequency of such incidents is low, it does happen occasionally as demonstrated by terrorist attack in Nigeria in June 2006. Russian demands to defend the pipeline from terrorism, therefore, are likely to fall

under Swedish territorial jurisdiction. However, Russia has a strong ambition to protect its citizens and on numerous occasions indicated having a doctrine of preventive and pre-emptive strikes anywhere in the world where Russian interests or citizens are threatened by terrorism. There is legislation that allows the Russian President to send out Special Forces units abroad without seeking permission from or giving details to the Duma. Hypothetically, these forces could not be military but from Security Service the FSB, however, considering the conduct of previous operations in the Dubrovka theatre, Moscow in 2002 and in Beslan School, North Ossetia in 2004, there are reasons to be sceptical about their non-military performance.

The other point of friction between Russia, Sweden and Denmark was the environmental concerns over the position of Nord Stream. Sweden in fact, tried to argue that the risks are so grave that the pipeline must be rerouted. It succeeded, however, in 2008 to demand additional study of the potential negative impacts of the Nord Stream pipeline on the Baltic Sea (543/60 EU, 2008). The vocal debate had managed to create a public debate in several EU states, including Poland, Lithuania and Estonia, but was unsuccessful to halt the construction progress. After negotiating for four years with Danish and Swedish officials and spending 100 million EUR on environmental analysis along the entire route (Mityayev, 2009) Nord Stream AG finally obtained construction permits. During those years the pipeline was rerouted several times on environmental grounds.

Simultaneously, Russia's arctic strategy emphasises international cooperation and setting up of a regional system of search and rescue. Increased activity of Russian governmental bodies and nongovernmental organisations in international forums mutually benefits Russia presence in the Arctic improving the quality of life of indigenous peoples, modernisation of infrastructure and developing environmentally safe tourism. The document uses modern terminology and introduces environmental security as one of its key points (Overland, 2010). Many of these terms align with the soft power values such as cooperation and are given high priority.

The question of Russian expansion northwards is also a technological and organisational one. According to an estimate, Russia would need to build infrastructure to extract and transport 160 billion cubic metres of gas from its continental shelf by 2030 (Savelyeva &

Shiyan, 2010). While it needs more technology and capital, it is a reason to involve more foreign investments and companies. However, resource nationalism and the Soviet dogmas are the main obstacles of such developments pushing Russia to employ more aggressive hard power diplomacy. The issue is then also complicated by the fact that Russia is not only an energy superpower but it is also a post-Communist still undergoing transition. One of the main aspects of moving away from communist dogmas is openness to the foreign investment in strategic energy sector.

Conclusion

The examination of the interactions between energy and international politics has clearly demonstrated that the two are integrally interlinked. Commercial and political considerations considerably influence each other and can rarely be neatly separated. An integrated EU gas market has increased the degree of interdependence in the world economic and political system. No country can individually protect itself from the impact of market fluctuations. This research has focused on the nature of natural gas diplomacy. This is a reflection of two major developments: natural gas represents the fastest growing fuel in terms of European and global consumption and the nature of the natural gas transport ties it considerably more to politics between the states than most other fuel sources, including oil supply.

In extended discussion of the politics of gas supply the researcher contends that the establishment of a major supply between countries is an expression of the relations between the countries rather than the tool to build them. In the case where the pipelines have preceded the establishment of political cooperation such as the aftermath of the Soviet breakup, transit has often served as a source of friction and contention between the states. However, the value of these relationships as a model for evaluating the nature of various gas supply relationships should not be exaggerated, since the infrastructure inherited after the Soviet Union collapsed functions quite differently from the willingly established gas diplomatic ties between two or more countries. Due to the relative symmetry of dependence between Moscow and European states, the potential supply vulnerability of Western European states is much lower than that of the former Soviet republics and satellites, and Russia's dealings with its former Soviet neighbours are not necessarily a model for the pattern of Russia's future gas supplies to the rest of the EU.

At the same time, studying Russia's former Soviet neighbours is indicative as to the role of transit states in supply relations. While consumers and suppliers are rarely upset by the stability of the natural gas supply, transit countries hold the lever of influence. Accordingly, gas supply diplomacy that involves the element of transit requires a much higher degree of management and is inherently less stable than direct natural gas supply relations. Yet, Russian practices of gas diplomacy emerge in a context of superpower illusion. Much of the

Russian influence in EE and the Baltics region is inherent, the result of Tsarist and Soviet legacies as much as the current policies. Russian culture to a different extent has been a part of the social matrix in the region. Likewise, the region's energy dependency is a product of what had been a tight interdependency during the Soviet period and unsurprisingly Russia is retaining an interest in the energy policies of the successor states. This interest is amplified after 1991 when the region became a transit corridor for its gas exports to the EU.

The context is also shaped by the many self-induced weaknesses that constrain the Baltic States and EE states. The persistence of energy dependency is a reflection of the failure of the elites to address the vulnerabilities that they have inherited. Russia itself, however, is not creator of these weaknesses but it seeks to preserve them and obstruct those who seek to overcome them. This fact makes Russian gas diplomacy in the region very different from the rest of the EU. Moscow's approach also differs from what is regarded as traditional soft power. It serves to divide rather than unite and to arouse apprehension rather than provide comfort. As case study one has illustrated, Russian soft power is accompanied by harder elements and vice versa.

Russian gas diplomacy in the Southern and central Europe similar to the EE and the Baltic States are heavily dependent on the Soviet gas infrastructure. Due to this dependency the overall political climate in the region is more tolerant of the Kremlin's energy policies. This is also supported by the opportunities that are presented by Russian economic growth. More economically prominent central European countries and their economies seek to benefit from becoming Russian gas hubs for the Western European partners. Furthermore, the Southern European partners led by Greece and Cyprus, have extremely friendly relationships with the Kremlin. On the background of austerity forced upon them by Germany and the IMF, Russia has succeeded to portray itself as the saviour and the champion of economic and political equality. This results in the phenomenon also known as the 'Trojan Horse' where Southern European countries are willing and invested to promote Russian gas and overall political interests and foreign policy objectives within the EU legislative bodies.

Russia's approach to the Arctic and its gas diplomacy in the Northern European region is dramatically different from that of other EU regions. The Northern European states are

quasi-independent from Russian gas supplies. At the same time, these countries also present themselves as equals in the negotiation of global Arctic policy. The comfortable position of the Kremlin is rooted in the fact that most of the energy resources are located in the basin of Russian territorial waters. A further question is what form of international and regional cooperation Moscow will seek in extracting their energy resources, especially participation of the international companies. The Russian government has been swaying on this question. Important factors that contribute to the final decision include the demand of natural gas in the EU, the rising and subsidising tides of resource nationalism and the attitudes towards private international companies and foreign investment.

The case of Western Europe becomes apparent that the main characteristic of the regional gas diplomacy is the acute interdependence. This approach is based on the understanding of mutual commercial benefit and balance of political powers. Russia's position on maintaining the image of a reliable gas supplier to its major Western clients is the main driver of its soft gas diplomacy.

The analysis of the case studies therefore shows that Russian gas diplomacy varies in its nature according to the EU region it is engaging with. However, if the regions are seen as one whole entity, Russian gas diplomacy employs smart power tools to achieve the Kremlin's foreign energy objectives. Simultaneously, the tools available to Russia to shape the way it pursues its international goals are limited. Ultimately, Russia's power is also constrained by those tools. This predicament became most apparent in 2010 when Gazprom returned to the price renegotiations with Ukraine. The subsequent practice of gas price subsidies provided to Kiev was a manifestation of the pressures the Kremlin and Gazprom experience from their Western partners who feared gas supply disruptions. In providing subsidies to Ukraine, Russia was forced to engage in the variety of further negotiations involving energy costs and flows. Therefore, the Kremlin returned to the pre-2006 pricing patterns, in order to maintain the status of the reliable supplier in the EU, it has to sacrifice commercial interests in Ukraine.

The results of this study are also essential for any future energy policy based research as they can better anticipate Russia's further moves by having a clear understanding of what types of gas diplomacy Russia employs and the limits that these tools impose on Russian

foreign policy objectives. The examples provided in the case studies have shown that Russia is more concerned with the security of gas demand, by controlling its gas resources and its export markets. This assessment is little helped by the as yet unknown outcomes of the civil war in Ukraine and the EU sanctions imposed over Russian exports and the countersanctions that the Kremlin is willing to introduce. In light of this, gas diplomacy with an ingrained smart power orientation in the Russian-EU bilateral energy relations is critical but can at times appear limited due to the nature of the current dialogue. Yet, the gas diplomacy between Russia and European capitals has the ability react swiftly and in case of the disputes with Brussels officials. Thus, if momentum is not injected in the Russo-European energy dialogue, it is rational to expect a continuation of the reaction on reaction scenario in the bilateral negotiations with the reduced change for utility maximisation.

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