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## [Unenergetic energy](#)



European leaders [adopted](#) the EU Energy Security Strategy in Brussels at the end of May 2014, just three months after Russia's annexation of Crimea. Naturally, it took several months to prepare the proposal and, in the spirit of these times, the issue of Europe's energy dependency on Russia weighed heavily. It was emphasized that Russia supplied 27% of the total EU natural gas consumption (and 39% of imports) as well as one-third of the total imports of crude oil and petroleum products to the EU. It was pointed out that nationalization of the oil sector was under way in Russia, which is of particular concern in connection with the purchase of assets in the oil refinery business in EU member states. It was stressed that 12 EU member states are either heavily (over 60%) or entirely dependent on Russian gas supplies. In other words, the Strategy constitutes a call for action.

The document defined certain specific goals and steps. In the first place, I would like to echo the calls for an increase in energy production in the European Union, the diversification of external supplies and related infrastructure and improved coordination of national energy policies and speaking with one voice in external energy policy. Apart from these objectives, the Strategy outlined steps to achieve them: provision of alternative means of delivery of energy commodities to countries most heavily dependent on Russia; establishment of the Southern Corridor for alternative sources of gas supplies from the Middle East, South Caucasus and Central Asia via Turkey; ensuring the possibility of reverse flows to and from Ukraine via Romania and the Slovak Republic; clearly defined measures for the unification of the internal energy market.

Almost three years have passed since the adoption of the Strategy and it seems today that Europe has completely forgotten that Moscow's energy weapon has not become less formidable. In 2016, Russia reached historically record high figures in terms of gas supplies to the EU without too much effort (179.4 billion cubic meters were routed to the EU and Turkey compared to 138.6 billion cubic meters in 2010, a rise of 29.4%) accounting for 28-29% of consumption and 41-42% of imports to the EU. No "diversification" of supplies occurred: gas from Iran, mentioned in the text of the Strategy "if conditions are met to lift the sanctions regime," did not arrive in Europe although sanctions were indeed lifted. The Southern Corridor remains merely on paper and construction of the majority of gas interconnectors mentioned in the Strategy is yet to even commence. As regards "one voice in external energy policy," the very notion of it sounds like an oxymoron when one compares the extremely tough resistance against the Russian plans to build additional Nord Stream lines on behalf of Poland and the Baltic States and the encouraging stances of Germany, Denmark, and even Finland.

Why are European plans aimed at reforming the energy sector so unenergetic? In my opinion, there are several reasons.

The first and the least significant reason concerns Russia's skillfully-crafted policy: on the one hand, Russia was able to ensure support for its projects from German, Italian and French businesses and shift discussions on this subject from EU level to state level. On the other hand, Russia managed to "reset" the dialogue with a number of Central European countries having convinced Bratislava, Budapest, and Sofia that Russia remains a reliable partner and that cooperation with Russia poses no threat to their national interests. As a result, all the European countermeasures against Russian "energy aggression" have boiled down to attempts to halt the construction of South Stream although, truth be told, it was commercial interests that put an end to it and not

EU objections.

The second, far more significant reason, relates to the activity of the lobby within the EU that promotes the interests of producers of energy commodities from renewable sources. In fact, the Energy Security Strategy can be considered successfully implemented only in this regard: investment in renewables exceeds 30 billion euros year upon year and the chances of the 20% target being met with respect to renewables as a proportion of total energy consumption (versus 14.1% in 2012) are pretty good. Meanwhile, the development of this sector as such (similarly to energy-saving programs) requires the diversification of supply whereas changes in the energy mix bring hope that, at some point, Russian supplies will no longer be inevitable, although it remains unclear thus far when this could possibly happen. At the same time, total energy production in the European Union fell by 3.4% in 2016 on 2013 in the light of the reports on the development of alternative energy sources, on top of a reduction of 15% in 2001-2012.

The third reason relates to the economic climate and the significant changes to market conditions which have taken place over recent years. As a result, the gap between prices of LNG and pipeline gas widened considerably in relative terms and supplies from the East (as well as the South, whenever possible) became much more beneficial. In 2016, American LNG was sold to Europe at a price of 216 dollars per 1 thousand cubic meters on average whereas pipeline gas was supplied at an average price of 169 dollars per 1 thousand cubic meters. Moreover, hopes pinned on an overnight boom prompted by the "shale revolution" in the US lay in tatters; the volume of total extraction of energy commodities in the country decreased in 2014-2015 and the Republican administration, which has just come to power, may well increase US consumption given their favored "reindustrialization" policy which renders the prospects of boosting American exports even more implausible. The situation regarding the overcapacity of regasification terminals in Europe, which began in the 2000s, seems to have every chance of becoming chronic.

Still, the most important reason which, in fact, torpedoed many provisions of the Strategy related to Russia, is something of an obvious one: the slide in prices of energy commodities which occurred between 2014-2016. The European Commission underlined categorically in the preamble to its document that the EU external energy bill stood at approximately 400 billion euros in 2013, which accounted for nearly 24% of all European imports. The 2016 bill came in at as little as 246 billion euros according to preliminary data; less than 15% of total imports of goods and services from outside the EU. Although the direction of further oil and gas price fluctuations is virtually unpredictable, the plummeting costs of energy imports have had a truly dramatic effect on European energy policy. The gargantuan expenditure required to pursue this policy (the modernization of key infrastructure alone, as detailed in the Strategy, is to cost around 200 billion euros) will almost certainly not be approved. Although this level of spending seemed feasible initially in the light of the huge costs of purchased energy commodities, these figures are seemingly off the charts given current conditions. Accordingly, as long as energy prices continue to descend, I would not expect serious countermeasures against Russia's expansion into the European energy market.

The development of Russo-EU energy "dialogue" attests to the inconvenient truth: politics is politics, but money is money. When Russian gas prices approximated 500 dollars per 1 thousand cubic meters in Europe, an increase in EU own production and diversification of supplies was discussed as a priority task during high-level meetings. "The price list" does not seem too extortionate so as to escalate all too conspicuous contradictions within the EU, since Russian energy commodities are made available at a third of the price. The agenda is dominated by other issues today and Brussels is therefore hardly likely to revisit the discussion about how to protect Europe from the Russian "pipeline weapon". This was not an impossible task 5 years ago, is not today, and will not become one in the future...

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