SWEDEN AND THE NEGP:
A Pilot Study of the North European Gas Pipeline and Sweden's Dependence on Russian Energy

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Sweden and the NEGP

Developments between 2004 and 2006 indicate that a North European Gas Pipeline (NEGP) through the Baltic Sea, from Russia to Germany, may be realised in the coming decade. This would provide Europe with yet another opportunity to diversify its import channels of gas. It is however reasonable to assume that the NEGP also could change the strategic pattern and be a source of friction.

The NEGP may rock the regional stability and reduce the potential of the new EU members to become security providers in Europe's northern dimension. It also gives increased leverage and influence to Russia, a state that has moved in an authoritarian direction under President Putin.

The aim of this pilot study is to elucidate on the NEGP pipeline and Sweden's increasing dependence on Russian energy. A subsidiary aim is to outline a set of concerns that have bearing on the situation for the EU and Baltic Sea Region and that need to be further addressed.

In conclusion, the NEGP will enhance Russia's direct leverage on Poland, Ukraine, and Belarus, as it will allow Russia to turn off gas supplies without affecting exports to other parts of Europe. Russia will also increase its leverage over the states that will or may be connected to the NEGP (Germany, and possibly Belgium, Denmark, the Netherlands and the UK).

Even if Sweden is not embracing the NEGP, it is today highly sensitive as it imports most of its energy. It is increasingly dependent on Russian oil and is partly dependent on imports of electricity from Russia. Should the NEGP materialise and Sweden becomess connected in the future, it would likely be dependent also on natural gas.

It is of paramount importance for the energy security of the connected states how the pipeline is constructed and operated. If there will be technical possibilities for Russia to tamper with the flow of gas to individual states without affecting supply to others, there are tangible threats to the importing states.

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Abstract

The aim of this pilot study is to elucidate on the North European Gas Pipeline (NEGP) and Sweden's increasing dependence on Russian energy. A subsidiary aim is to outline a set of concerns that have bearing on the situation for the EU and Baltic Sea Region and that needs to be further addressed.

The conclusions are that the NEGP will enhance Russia's direct leverage on Poland, Ukraine, Belarus as it will allow Russia to turn off gas supplies without affecting exports to other parts of Europe. Russia will also increase its leverage over the states that become connected to the NEGP (Germany, and possibly Belgium, Denmark, the Netherlands and the UK).

The security dimensions of the NEGP are further under-assessed even in international comparisons and there are numerous uncertainties concerning the consequences and impact. Publicly available information is not exhaustive and the magnitude of the problems and frictions that may arouse in the regional context are unknown and must be further addressed.

Keywords

Sweden, Russia, Baltic, CIS, security, energy, natural gas, oil, pipelines, commodities, NEGP, Baltic Sea, dependence, vulnerability

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SVERIGE OCH NEGP: en förstudie av gasledningen genom Östersjön samt Sveriges beroende av rysk energi

Sammanfattning

Syftet med denna förstudie är att belysa frågor kring gasledningen genom Östersjön samt Sveriges ökande beroende av rysk energi. Ett underordnat syfte är att peka ut ett antal problem som har bäring på situationen i relation till EU och Östersjöområdet och som måste belysas ytterligare.

Slutsatsen är att NEGP kommer att öka Rysslands direkta makt över Polen, Ukraina och Vitryssland genom att Ryssland kan kontrollera gasflödet till dessa länder utan att exporten till övriga Europa påverkas. Ryssland kommer även att öka sitt inflytande över de stater som ansluts till ledningen (Tyskland, men eventuellt även Danmark, Belgien, Nederländerna samt Storbritannien).

De säkerhetspolitiska dimensionerna av NEGP är vidare underanalyserade, även vid internationella jämförelser och det finns ett flertal osäkerheter rörande deras konsekvenser och genomslag. Öppet tillgänglig information är inte uttömmande och omfattningen av problem och friktioner som kan uppstå i ett regionalt sammanhang är okända och måste vidare utredas.

Nyckelord

Sverige, Ryssland, Baltikum, OSS, säkerhetspolitik, energi, naturgas, olja, råvaror, rörledning, NEGP, Östersjön, beroende, sårbarhet

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Foreword

This base data report focuses on the North European Gas Pipeline in the light of Sweden's general dependence on Russian energy. It is partially based on an article written by the author within the FOI R&D group on *Security Policy Analysis* at the Division for Defence Analysis, aimed at the international research community. This report, in contrast, takes the role of being a pilot study on a topic of rising importance. The research has mainly been conducted within the NOSS-project (North European Stability and Security), and it thus connects to previous work within the project.[1]

The study also draws on the finding of previous reports of Russia's development[2] and more specifically, on Russia's energy policy and reliability as an energy supplier.[3] This pilot study is far from exhaustive and many questions are raised, but few answers are given. This is the task for further research.

Finally, I would like to thank my colleagues at FOI for their rewarding support and constructive criticism during the writing process. I would especially like to thank Wilhelm Unge who has scrutinised the report, Ingmar Oldberg and Jakob Hedenskog whose work I have greatly benefited from and finally Ingemar Dörfer who assisted me in planning the initial drafts of the report with Bo Ljung as project manager.

Robert L. Larsson
Stockholm, June 2006

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[1] Ljung, Bo (red.) (2005), *Nordeuropeisk säkerhet och stabilitet [North European Security and Stability]*, Stockholm: The Swedish Defence Research Agency (FOI), FOI-R--1626--SE, and Oldberg, Ingmar (2006), *Tysklands säkerhetspolitik från Schröder till Merkel [Germany's Security Policy from Schröder to Merkel]*, Stockholm: The Swedish Defence Research Agency (FOI), DRAFT.

[2] Leijonhielm, Jan, *et al.* (2005), *Rysk militär förmåga i ett tioårsperspektiv - problem och trender 2005 [Russian Military Capability in a Ten-Year Perspective - Problems and Trends 2005]*, Stockholm: Swedish Defence Research Agency (FOI), June 2005, User Report. FOI-R--1662-SE.

[3] Larsson, Robert L. (2006a), *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, Stockholm: The Swedish Defence Research Agency (FOI), Scientific Report FOI-R--1934--SE.

Executive Summary

- The NEGP will likely materialise, although it may not be operational in 2010 as planned. It is first and foremost a political project but it seems to be commercially sustainable (although not the economically best option). It stands clear that the security magnitude of the NEGP is so large that it must be further addressed.

- The NEGP will enhance Russia's direct leverage on Poland, Ukraine, and Belarus, as it will allow Russia to tamper with gas flows without affecting exports to other parts of Europe.

- Due to the NEGP, Russia will also increase its leverage over the states that become connected to the pipeline (Germany, and possibly also Belgium, Denmark, Finland, the Netherlands and the UK).

- Even if the NEGP enhances the diversification of gas imports for Germany and other states, it is merely a diversification of supply routes – not a diversification of supplier. Many problems thus remain.

- It is of paramount importance for the energy security of the connected states how the pipeline is constructed and operated. If there will be technical possibilities for Russia to tamper with the flow of gas to individual states without affecting supply to others along the line, there are tangible threats to the importing states.

- Ukraine, Belarus, the Baltic countries and Poland will further loose transit money and counter-leverage on Russia. This situation is promoted by Russia. The regional power balance will thus shift to Russia's favour. The NEGP is evidence of bilateralism still prevailing over common EU priorities.

- The NEGP might further rock the stability, which in turn causes frictions and reduce the potential for the Baltic Sea Region states to act as security providers in the region.

- Due to European dependence on gas, Russia will, to some extent, be able to affect the marginal cost for gas usage in Europe and by that create less incentive for the power industry to modernise (i.e.

Germany's ageing coal power plants). The NEGP will aggravate the situation.

- Regardless of the NEGP, Sweden has to face the question whether it is prepared to increase its usage of natural gas, given uncertainties concerning geological reserves and future costs of fossil fuels. Numerous political questions will arise, i.e. the issue of a trade-off between satisfying energy needs and other political priorities?

- Dependence is not problematic *per se*, but the lack of alternatives and Russia's development leads to vulnerability. Repercussions in the wake of a crisis might not necessarily be instant, but can be embodied as partial supply interruptions, contractual disagreements, technical difficulties, price increases or other frictions.

- Although a full and permanent supply interruption is highly unlikely, existing barriers against usage of the energy levers are few and weak. By and large, they do not provide any real inertia against annoying behaviours, frictions or short-duration cut-offs.

- Russia's use of the energy lever on importers could to various extent affect domestic importers (firms), energy consumption needs (power generation or fuel production), domestic end-consumers (households and industries), foreign consumers of re-exported products, foreign relations to third parties and development and relations within the EU. This could lead to a tendency of appeasement by any importer of Russian energy.

- The NEGP has also potential military implications in that it might need military protection or could serve intelligence purposes.

- The security dimensions of the NEGP are under-assessed even in international comparisons and there are numerous uncertainties concerning the consequences and impact. Publicly available information is not exhaustive and the magnitude of problems and frictions that may arouse in the regional context seem to be large, but they are mainly unknown and must be further addressed.

Content

Introduction

As the energy strategy of the European Union is still in the making, every single EU-member has opted for bilateral policies towards energy exporters, trying to tackle mounting energy demands at a time when global hydrocarbon resources slowly but steadily are being depleted. Russia is a highly important energy exporter to Europe while Europe in turn is an important market. In short, 80 per cent of Russia's oil exports and 60 per cent of its gas exports go to Europe. From Europe's point of view, Russian gas made up 50 per cent of Europe's gas imports in 2005.

EU's domestic gas production gradually falls and net imports will, according to the International Energy Agency (IEA), increase dramatically in the future. In 2030, the import needs will probably be five or six times higher than EU's domestic gas production. However, Russia's exports of gas to Europe will not necessarily meet this demand by itself as Russia might prioritise other markets. In the short-term, however, Europe will be the key market for the bulk of the Russian gas. The main reasons are simply geographic proximity and existing infrastructure.

Table 1: Gas Suppliers to the EU 2005

Country	% of total imports
Russia	50
Algeria	23
Norway	22
Others	5

Source: EU figures in: Energimyndigheten (2006), *Europas naturgasberoende: åtgärder för tryggad naturgasförsörjning* (Eskilstuna: Energimyndigheten), p. 21.

A responsible approach from the EU would however ensure that this proximity would not be the only guiding factor in the European-Russian relations. The EU Green Paper on Energy stipulates that diversification of imports ought to be a guiding principle.[4]

Europe's Diversification and International Competition

Large-scale import diversification is a daunting task, but there are ongoing projects for bringing Caspian energy to Europe and great opportunities to give Turkey a greater role as an energy hub.

[4] EU Commission (2006), *Green Paper: A European Strategy for a Sustainable, Competitive and Secure Energy*, Brussels: The EU Commission, 8 March 2006, COM (2006)105 Final.

An example of such a project is the Baku-Tbilisi-Erzerum (BTE) pipeline, aimed at channelling gas from the Caspian Sea via Georgia to Turkey. Given Turkey's interest in EU membership, it is possible that Brussels would be willing to take advantage of Turkey as a transit state even if this would not be part of a formal EU plan.[5] Even Iranian gas could be imported to Europe via either Azerbaijan and/or Armenia via Georgia to Turkey.

Table 1: European Gas Dependence on Russian Gas Supplies 2003

Country	**% of total imports**	**% of total consumption**
Austria	77	65
Finland	100	100
France	24	23
Germany	37	33
Greece	76	76
Italy	32	26
Netherlands	17	6
EU15	28	18
Czech Republic	74	73
Hungary	86	66
Poland	85	58
Romania	91	29
Slovakia	100	97
Slovenia	60	60
Central/Eastern Europe (12 states)	87	60
Turkey	61	60
Total Europe (28 states)	38	26

Source: Calculated from Cedigaz, Trends and Figures in 2003 from *Natural Gas in the World 2003*, cited in Stern, Jonathan (2005), *The Future of Russian Gas and Gazprom*, Oxford: Oxford Institute for Energy Studies, p. 143.

Moreover, there is an increasing interest in Liquefied Natural Gas (LNG), but currently only 10 per cent of European gas transport is in the form of LNG[6] and pipeline transported gas will keep its premier position.

Despite these and other efforts, Europe is bound to continue its reliance on Russian oil and gas. There are hence reasons to explore what the consequences of this can be. Russia has so far been unwilling to ratify the Energy Charter Treaty and the Transit Protocol, which other CIS states have.[7] These are key documents

[5] Lynch, Dov (2000), *Russian Peacekeeping Strategies in the CIS: the Cases of Moldova, Georgia and Tajikistan* (Basingstoke, New York, N.Y.: Macmillan in association with the Royal Institute of International Affairs Russia and Eurasia Programme: St. Martin's Press), pp. 20-22.

[6] Energimyndigheten (2006), *Europas naturgasberoende: åtgärder för tryggad naturgasförsörjning [Europe's Gas Dependence: Measures for Secure Gas Supply]* (Eskilstuna: Energimyndigheten), p. 13.

[7] The main reason why Russia has refused to ratify the treaty is Gazprom's wish to remain a monopoly (and it has had the ability to create opposition in the Duma, especially up until 2001). Stern, Jonathan P. (2005), *The Future of Russian Gas and*

that Russia needs to adhere to if it wants to convince Europe that it is honest in its intentions of becoming a reliable supplier for the foreseeable future. So far, Russia's track record has given Europe strong arguments to question its reliability as a supplier.

Despite the high-profile Russian-EU energy partnership launched in 2000, only a few issues are dealt with at the aggregated EU-Russia level. One reason is that not all European states are members of the EU, while another reason is that most states pursue their own agendas and thus opt for bilateral policies towards Russia. This circumstance is promoted by Russia. Russia prefers a situation where it can deal directly with Brussels when it suits Moscow and go for bilateral approaches when Brussels is difficult to tackle or lack the authority to be decisive. It is also an opportunity for Russia to sow dissension. The EU has not taken any actions to prevent single members from entering long-term contracts that other members considers problematic.

A core problem in European-Russian relations is that there is no ground for common values. Evidence shows that the 'strategic partnership' that president Putin often boasts about is not respected by Russia.[8] One example where diverging positions are immanent is the gas sector where both the EU and the WTO have called for liberalisation. Putin has taken a firm stand and declared that:

> *The gas pipeline system is the creation of the Soviet Union. We intend to retain state control over the gas transportation system and over Gazprom. We will not divide Gazprom. And the European Commission should not have any illusions. In the gas sector, they will have to deal with the state.*[9]

Simultaneously, the EU and its members cannot afford to refrain from dealing with Russia, the world's foremost supplier of natural gas and

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Gazprom (Oxford: The Oxford University Press/The Oxford Institute for Energy Studies), p. 137.

[8] See, for example, Menkiszak, Marek (2006), *Russia vs. the European Union: a "Strategic Partnership" Crisis*, Warsaw: Centre for Eastern Studies (OSW), January 2006, 22.

[9] Putin cited in Fredholm, Michael (2005), *The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?*, Swindon: Conflict Studies Research Center, September 2005, 05/41, p. 9.

second largest supplier of crude oil. Distancing itself from Russia would bring along a risk of loosing ground in the global battle for energy. This would be problematic as the major consumers of oil, such as the United States, together with emerging economies like China and India, increase their energy consumption many-fold. As a consequence, Russia's role will increase in importance even further. A new great game has hence come to take place on the Eurasian landmass, where all great powers compete for access to the energy resources in Russia and the former Soviet Union.[10] Europe must master this game if it wants to become an engine of growth and prosperity.

The NEGP – A Change in the Strategic Pattern

Developments between 2004 and 2006 indicate that a North European Gas Pipeline (NEGP) trough the Baltic Sea, from Russia to Germany, may be realised in the coming decade. This would provide Europe with yet another opportunity to diversify its gas imports. However, this diversification is largely artificial as it is only a diversification of supply routes, not a diversification of suppliers. It is also reasonable to assume that the NEGP will affect the strategic pattern and be a source of friction. It is a project that divides the littoral states of the Baltic Sea into factions, which may rock the regional stability and thus reduce the potential of the new EU members to become security providers in the region. It also gives increased leverage and influence to Russia, a state that has moved in an authoritarian direction under President Putin.

For Denmark and Sweden, Norway and the Middle East have been the key suppliers of oil. Finland is long since dependent on Russian natural gas and Sweden gradually increases its imports of Russian energy. Increasing dependence on Russian energy can have implications also for the wider Baltic Sea Region (BSR), which might affect Sweden's foreign policy both in the regional and in the EU contexts. Politics, economy, energy and strategy affect each other. As a consequence, Sweden stands before a strategic crossroad and must decide whether or not it wants to increase its usage of natural gas and subsequently become connected to the NEGP, should it materialise. Even if Sweden today is not embracing

[10] Noreng, Øystein (2000), 'Rørledningar er storpolitikk: Det nye store spillet om oljen fra Kaukasus og Sentral-Asia [Pipelines are Great Politics: The New Great Game about the Oil from the Caucasus and Central Asia]', *Internasjonal Politikk*, Vol. 58, No. 2.

the NEGP project, there might be a time when it will. For Sweden, the issue is aggravated by the fact that it has cornered itself by putting limitations on its usage and expansion of both hydropower and nuclear power at the same time as it has set out to reduce its dependence on oil. Despite certain reluctances to energy imports, it is facing a situation of increased oil and electricity imports from Russia. The issue of gas and the NEGP is open to the future and consequently, these issues must be addressed if regional stability is to prevail.

Aim of the Study

The primary aim of this pilot study is to elucidate on some aspects of the NEG pipeline and Sweden's increasing dependence on Russian energy in general. A subsidiary aim is to find out if identified issues are of such a magnitude for the EU and the Baltic Sea Region that they have to be further addressed.

Approach of the Study

This study first and foremost approaches the NEGP from a security-political standpoint, which means that environmental or commercial aspects will only be marginally treated. As a pilot study, it is far from exhaustive and does not have the character of a pro/con priority list for a potential Swedish connection to the NEGP (although the BSR perspective is dominant). It is neither a full vulnerability analysis where levers and counter-levers are scrutinised. What the study does, however, is to sketch and canvass the current situation and point to issues that are, or might develop into risks, threats, problems or concerns for Sweden, the BSR and the EU – hence to give a starting point for further research.

The discussion is hence hypothetical in some ways, and it is important to stress that it does not take the form of a rigid prediction. The rationale is instead to illustrate that there are many concerns to be acknowledged should Sweden or any other state in the future decide to get connected to the NEGP.

It is not a theoretical study, although a few definitions of concepts are taken from the so-called neoliberal interdependence tradition.[11] It can

[11] Keohane, Robert O. and Nye, Joseph S. (2001), *Power and Interdependence* (New York: Longman).

also be said that 'energy safety' concerns the physical safety of supply and critical infrastructure while 'energy security' can be a much wider concept. A narrow definition of energy security basically boils down to the issue of 'security of supply', e.g. whether an end-customer receives energy. A broader security definition, which this study relies on, shows that energy security also encompasses issues that have bearing on the strategic, political, military, and economic or foreign policy related fields. It includes the aspect of security of supply (at the right time/price/reliability etc.), but also political and security related issues that have any correlation to energy trade. Energy security also relates to economic security, which can be defined as:

> *[…]the ability to protect or to advance [an actor's i.e. state's] economic interest in the face of events, developments, or actions that may threaten these interest.*[12]

It is reasonable to assume that it is more difficult to protect or advance these economic interests if there is a high degree of dependence. An analysis of the NEGP and Sweden's energy dependence on Russia must at least address a set of five topics, namely:

1) The status and perceptions of the NEGP
2) The concerns and consequences by the NEGP
3) Sweden's energy situation with emphasis on imports from Russia
4) Russia's energy policy and usage of the energy levers
5) A discussion on the safeguards and potential triggers

Outline of the Study

This study consists of six chapters, each corresponding to the topics above. The overall structure is based on an idea of having the most relevant chapters first. After this introductory chapter, the second chapter gives an overview of the NEGP project and the perceptions held by various actors concerning the pipeline.

The third chapter outlines and discusses some of the political and security concerns that the NEGP brings along and that ought to be

[12] Neu, C. R. and Wolf, Charles Jr. (1992), *The Economic Dimensions of National Security*, Santa Monica: RAND/National Defense Research Institute, MR-466-OSD, pp. xi-xii.

further studied. It also discusses the question of what the risks for Sweden, the BSR and the EU are (and could be).

The fourth chapter is descriptive in nature. It canvasses Sweden's energy situation and provides a review of Sweden's energy imports, more specifically of crude oil, natural gas and electricity. It moreover details Sweden's sensitivity in terms of energy imports from Russia and briefly raises the topic of vulnerability.

The fifth chapter looks at one aspect of vulnerability by addressing the policy of the energy supplier – Russia. Russia's intentions and capabilities are covered and the chapter outlines a few cases of when Russia has used its oil and gas as levers in its foreign relations.

In order to give some perspective on the aspect of vulnerability, the final chapter mentions one issue that could act as a catalyst for strained relations between Russia and a single EU member. The chapter also details some of the barriers that exist against supply interruptions.

An executive summary with the most important conclusions is found in the beginning of the report. A reader who is short on time is advised to read the executive summary and chapters one to three in order to grasp key facts. Each chapter has an overview in the beginning and a summary at the end.

2 The North European Gas Pipeline

Overview: The chapter gives an overview of the North European Gas Pipeline (NEGP) project, which can be seen as a prelude to the coming chapters.

The North European Gas Pipeline – the NEGP[13] received great attention when it, on 11 April 2005, was announced at a trade fair in Germany that Russia and Germany had signed an agreement on constructing the pipeline. The aim of the project is to bring Russian gas to Europe, especially Germany. Discussions have been going on since 1993 and the first feasibility studies were made during 1997, but since then, progress has been slow. In 2002, the idea was embraced by the EU and even declared a priority. This granted it support from the European Bank of Reconstruction and Development.[14]

The tentative route of the NEGP is from Vyborg at the Gulf of Finland to Greifswald in Germany, but the exact stretching is not decided yet. Possibly, there will be a branch also to Kaliningrad according to Alexei Miller, the CEO of Gazprom, the Russian gas monopoly behind the NEGP.[15] There has also been a discussion on whether a leg would be built to Sweden.[16] According to the official website, there *will be* a spur to Sweden,[17] but Sweden has not officially approved of it. Finland has not been invited to join the project, and the issue has not enjoyed a central position in public debate. Legs might also be constructed to Denmark,

[13] It is sometime called the Baltic Undersea Gas Pipeline or is abbreviated NEG or even NEP.

[14] Sinijärv, Riivo (2006), 'The NEGP: Estonian Perspective', in: Kazin (Ed.) *Baltic Mosaic 2006* (St Petersburg: Baltic Research Center).

[15] RosBusinessConsulting (2005), 'Gas Pipeline to Secure Kaliningrad Supply', *RosBusinessConsulting*, Published: 4 July 2005, Last accessed: 6 July 2005, Internet: http://top.rbc.ru/english/index.shtml?/news/english/2005/07/04/04133414_bod.shtml.

[16] Moscow News (2005), 'Russia's Gazprom Begins Construction of a North European Gas Pipeline', *Moscow News*, Published: 22 August 2005, Last accessed: 28 November 2005, Internet: http://www.mosnews.com/money/2005/08/22/gazprompipeline.shtml.

[17] NEPG (2006b), 'Importance', *The NEGP*, Published: N/A, Last accessed: 29 March 2006, Internet: http://negp.info/. The official map also shows that the NEGP will run over the island of Gotland – this is not the case.

Belgium, the Netherlands and the UK, but nothing has been officially confirmed.

Neither has complete financing of the pipeline been finally settled yet. Official figures of investment costs have varied around EUR 4bn while other estimates state that it is expected to cost some $US8-10bn. The NEGP will be designed, built and operated by Gazprom's subsidiary company - The North European Gas Pipeline Consortium (NEGPC). Gazprom will own 51 per cent of it while the German BASF/Wintershall and E.ON/Ruhrgas will take 24.5 per cent each. During April 2006, Gazprom announced that another partner would be admitted. The short-listed candidates were Gas de France, BP, Transco and Gazuni. The rationale would be that the project needs support for promoting gas on the European market.[18] As there is no problem of finding customers for Russian gas, this announcement could be interpreted as a new way of building popular support for the project and an attempt to reduce the negative perceptions held by European states.

In August 2005, Gazprom started construction of the first leg in the Leningrad Oblast.[19] Work is expected be completed by 2010, but this schedule seems optimistic.[20] The pipeline will initially be fed from the gas fields in Western Siberia (from the Yuzhno-Russkoye deposit) although gas might later come from the Yamal and Shtokmanskoe fields in the far north.[21] There are however many unclear aspects of these facts. Gazprom has signed a deal with BASF that gives BASF a 35% (minus one share) in the Yuzhno-Russkoye field. In return, Gazprom increased its ownership from 35% to 50% (minus one share) in German Wingas, along with a stake in BASF's production subsidiary in Libya.[22]

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[18] RosBusinessConsulting (2006), 'Partner Wanted for NEGP', *RosBusinessConsulting*, Published: 27 April 2006, Last accessed: 28 April 2006, Internet: http://www.rbcnews.com/free/20060427182336.shtml.

[19] Moscow News 'Russia's Gazprom Begins Construction of a North European Gas Pipeline'.

[20] Ringmar, David (2006), *Naturgasledning i Östersjön - North European Gas Pipeline*, Stockholm: Näringsdepartementet, 15 March 2006, Promemoria 2006-03-15.

[21] Ibid.

[22] Belton, Catherine (2006), 'Gazprom Swaps Shares of Gas field for BASF Assets', *Moscow Times*, Published: 28 April 2006, Last accessed: 28 April 2006, Internet: http://www.moscowtimes.ru/stories/2006/04/28/043.html.

Table 2: Technical Features of the NEGP[23]

Stretch:	Vyborg to Greifswald
Length:	1,200 km long
Size:	1,219 mm
Pressure:	210 atm working pressure
Estimated total investment:	More than EUR 4 bln.
Operational:	Estimated 2010
Total Energy capacity:	275TWh
Capacity Swedish spur:	10TWh
Volume capacity:	55 bcm/year (27.5 for the first stage, two pipelines required to reach 55bcm/year).

Russia's View

A project of this dignity would never materialise without strong support from the Kremlin. Putin has thus given it his blessing and he is a strong driving force behind it. The rationale behind the project from Russia's point of view is first of all that it reduces Russia's dependence on transit states, for example the Baltic states, Belarus and Ukraine. The NEGP would hence allow Russia to export gas straight to its preferred customers in Europe. Transit dependence in Russia's view is problematic from a geopolitical point of view, but expensive transit fees are also a strong argument. Russian reluctance to become dependent on actors and structures that it cannot control itself is a pivotal aspect of Russian foreign energy policy (on which there is a longer comment in chapter five).

In addition, the NEGP gives Russia greater leverage over these states and it has the option of choosing to export to markets that are more lucrative and that hold a more positive view of Russia than the former Soviet republics do. As evident below, the NEGP has as a result not been appreciated by the Baltic states, Belarus, Ukraine or Poland. Russia has so far been unwilling to acknowledge their concerns. Instead, Putin has chosen to emphasize the economic side to the project. He has for example underscored that "to politicize economic relations is counter-productive and harmful" and further that "the Russian Federation respects interests of gas transit countries, but it is going to protect its

[23] NEPG (2006c), 'Technical Features', *The NEGP*, Published: N/A, Last accessed: 29 March 2006, Internet: http://negp.info/news/news3.html, Ringmar *Naturgasledning i Östersjön - North European Gas Pipeline*.

economic interests".[24] Putin is indeed right insofar that economic concerns are pivotal to Russia.

Russia's view has nonethless also been based on geopolitical priorities and it remains an open question whether Russia will take actions to improve its reputation concerning reliability and neighbourly solidarity. As is indicated below, several of the Baltic Sea littoral states have strong negative perceptions of the NEGP as they see it as a new Russo-German strategic energy axis. Even if Russia has been a rather reliable energy supplier to Western Europe (even at the peaks of the Cold War), European perceptions of the Soviet Union were of such a nature that most European states limited their energy imports from the Soviet Union. Given Russia's inclination to utilise its energy policy as political lever against weak neighbours even in the post-cold War era, these perceptions are still at large. It can hence be expected that Russia must undertake serious measures if their perceptions are to be changed. So far – it has not.

Germany's View

From Germany's horizon, the NEGP is an excellent project to secure its energy imports and mounting gas needs. Germany's energy dependence is a key reason, but there are diverging opinions on how to tackle the problem. It seems to be the case that half of the capacity of the NEGP is earmarked for Germany but Roland Götz, an energy analyst at the think-tank SWP in Berlin, claims that the energy security dimension of the NEGP is more of a selling point than a reality to Germany. The reason is that there are other and better options (for example the Yamal 2 route through Belarus and Poland).[25] The financial gains from the NEGP are hence rather meagre to Germany.[26]

Given the fact that the NEGP will be several billion dollars more expensive than other options and that gas prices will rather increase than decrease, the NEGP is no bargain. It must also be remembered that the

[24] NEPG (2006a), 'Direct Speach', *The NEGP*, Published: N/A, Last accessed: 29 March 2006, Internet: http://negp.info/news/news17.html.
[25] Götz, Roland (2005), *The North European Pipeline: Increasing Security or Political Pressure?*, Berlin: The German Institute of International and Security Affairs (SWP), September 2005, SWP Comments 42.
[26] Götz, Roland (2006), 'The NEGP: German and European Interests', in: Kazin (Ed.) *Baltic Mosaic 2006* (St Petersburg: Baltic Research Center).

diversification brought along by the NEGP is artificial (as Russia still is the supplier). Germany will not have a fallback position that is fundamentally different from the NEGP. The conclusion is that in both security and economic terms, the NEGP seems less potent than official German and Russian stands proclaim.

However, traditionally, Russian gas has been imported via Belarus, Poland and Ukraine to Germany. This has made Germany vulnerable to Russian supply interruptions aimed at Ukraine or Belarus. This issue is largely resolved by the NEGP. Moreover, Gazprom has been a driving force as it is seen as economically wise to construct the NEGP, partly due to its close integration with German energy companies (E.ON, Ruhrgas, BASF/Wintershall, Wingas). The energy issues has become so important to Germany that Chancellor Merkel ensured that energy security was the first issue to be addressed at the governments first national security summit. The plan is to include the issue in a new national security strategy.[27]

The former German Chancellor Gerhard Schröder has been responsible for much of the project and he has been more than pleased with the Russian-German agreement. When the agreement was announced, he subsequently claimed that there now "was interdependence in economic issues".[28] This can be seen as a natural continuation of the relations between the two countries that started when Schröder took office and was enhanced when Putin was inaugurated as President of Russia.

During Schröder's tenure, Germany became Russia's most important trading partner. The interdependence was seen in German dependence on Russian energy and Russian dependence on German goods and

[27] Benoit, Bertrand (2006), 'Berlin Clears Schröder over Guarantee to Gazprom', *Financial Times*, Published: 3 April 2006, Last accessed: 4 April 2006, Internet: http://financialtimes.printthis.clickability.com/pt/cpt?action=cpt&title=FT.com+/+World+/+Europe+-+Berlin+clears+Schröder+over+guarantee+to+Gazprom&expire=&urlID=17787538&fb=Y&url=http://news.ft.com/cms/s/6c57626c-c33c-11da-a381-0000779e2340,s01=1.html&partnerID=1702.

[28] Dempsey, Judy (2005), 'Russian Gas to Flow to Europe via Baltic Sea', *International Herald Tribune*, 12 April 2005, p. 1.

investments.[29] Germany's imports are set to increase within the coming decade and although diversification has become a keyword, geographic proximity to the world's supreme supplier to natural gas has left Germany only one viable option – relying on Russia. As the interdependence is largely asymmetric and Russia attempts to boost its own independence, it is questionable if it will be a security provider in the same way as the Coal and Steel Union in Europe has been.

The personal friendship between Putin and Schröder is also a key explanatory variable behind the NEGP project. The bonds between the two have continuously been strengthened, for example trough mutual birthday celebrations.[30]

The Personal Russian-German Connections

The Head of Dresdner Bank's Russia Operations, Matthias Warnig, is meant to be CEO of the project and in April 2006 he was appointed by the shareholder's committee (se table).[31]

It is interesting to note that Warnig and Putin, according to some sources of the Wall Street Journal, have been acquainted even since Putin's time in Dresden in the 1980s. Warnig was then an officer of the Stasi, the East German Secret Police and Putin was a representative of the KGB in Dresden. Warnig and Putin claim today that they first met in St. Petersburg in the 1990s.

Dresdner was also the bank that took care of the valuing of Yukos core assets (Yuganskneftegaz) before it was sold to Rosneft.[32] More specifically, the Dresdner Kleinwort Wasserstein, the investment branch

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[29] Oldberg *Tysklands säkerhetspolitik från Schröder till Merkel [Germany's Security Policy from Schröder to Merkel]*.

[30] Ibid.

[31] NEGP (2006), 'First Meeting of the Shareholder's Committee of the North European Gas Pipeline (NEGP) Company's [sic]', *NEGP*, Published: N/A, Last accessed: 3 May 2006, Internet: http://negp.info/news/news23.html.

[32] Crawford, David and White, Greg (2005), 'Dresdner Official to Get Post with Baltic Pipeline', *The Wall Street Journal Online*, Published: 9 December 2005, Last accessed: 9 December 2005, Internet: http://online.wsj.com/article/SB113407711212417638.html. Concerning the Yukos affairs, see Larsson *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, , pp 89-112.

of Dresdner bank, valued Yuganskneftegaz to between $14.7 and $17.3 billion (after liabilities), but Rosneft in 2004 only paid $9.4 billion for it. In December 2005, Dresdner also bought one-third of Gazprombank for $800 million and acted as advisor to Gazprom when it acquired Sibneft for $13 billion.[33] There are reasons to believe that there is more to these connections than merely increased bilateral integration of the banking and energy sectors – but that lies outside the scope of this report to assess. It does show, however, how close the official and commercial ties of Germany and Russia have become.

For long, there have been speculations on both Putin and Schröder taking positions at Gazprom or the NEGPC.[34] There is no evidence that Putin would do this, but Schröder was nonetheless awarded the position of head of the 'shareholders committee' of the NEGP (which is similar to a board of directors).[35] He accepted the position on 9 November 2005 after Putin personally persuading him,[36] but

Table 2: Members of the Shareholder's Committee

Member	Affiliation
Alexei Miller	Chairman of the Board of Executive Directors of OAO Gazprom
Alexander Medvedev	Deputy Chairman of the Board of Executive Directors of OAO Gazprom and Director-General of OOO Gazexport
Vlada Russakova	Member of the Board and Head of Strategic Development at OAO Gazprom
Schröder	Head of the Shareholder's Committee and former Chancellor of the Federal Republic of Germany.
Eggert Voscherau	Deputy Chairman of the Board of Executive Directors and Director of Personnel of BASF AG
Reinier Zwitserloot	Chairman of the Management Board of Wintershall AG
Dr. Burckhard Bergmann	Member of the Management Board of E.ON AG and Chairman of the Management Board of E.ON Ruhrgas AG
Hans-Peter Floren	Chairman of E.ON Ruhrgas Transport AG & Co. KG.

Source: Author on data in: NEGP (2006), 'First Meeting of the Shareholder's Committee of the North European Gas Pipeline (NEGP) Company's [sic]', NEGP, Published: N/A, Last accessed: 3 May 2006, Internet: http://negp.info/news/news23.html.

[33] Korchagina, Valeria (2006), 'Schröder Defends His Pipeline Role', *Moscow Times*, Published: 31 March 2006, Last accessed: 31 March 2006, Internet: http://www.moscowtimes.ru/stories/2006/03/31/001.html.
[34] Economist (2005), 'Russia's Energetic Enigma', *The Economist*, 8 October 2005p. 75.
[35] Kommersant (2006), 'Gerhard Schroeder Confirms Engagement', *Kommersant*, Published: 29 March 2006, Last accessed: 30 March 2006, Internet: http://www.kommersant.com/doc.asp?id=661666.
[36] Boykewich, Stephen (2006), 'Germans Question $1Bln for Gazprom', *Moscow Times*, Published: 3 April 2006, Last accessed: 3 April 2006, Internet: http://www.moscowtimes.ru/stories/2006/04/03/001-print.html.

the official announcement came in March 2006.[37]

The reactions on the appointment have been disparate. Some consider the appointment to be good as it gives the project political clout, while for example Reinhard Buetikofer, the co-chairman of Germany's Green Party, and Rainer Bruederle, an official of the Free Democratic Party, have complained, questioning whether Schröder will be able to keep public and private affairs apart. The Chief strategist of the Russian Alfa Bank, Chris Weafer, sees the appointment as a reward by the Kremlin for Germany's soft treatment concerning sensitive issues, such as Chechnya.[38]

More criticism followed when it was disclosed that Schröder would get US$300,100/year for holding this position.[39] In April 2006, it was also revealed that Schröder, four weeks before leaving office, had agreed to a financial guarantee of one billion Euros by Deutsche Bank and KfW (the state-owned development bank) to Gazprom. The Merkel government found no irregularity, but the criticism was still harsh. The government however did not comment on Schröder's position or financial deals.[40]

The case also raises questions about how suitable it is for a prominent politician to take a job after leaving office, which is so closely connected to previous responsibilities. It will also mean that Schröder's successor, Angela Merkel, will face a tougher challenge in improving relations to the Baltic countries and Poland if Schröder's heritage continuously colours the relations. During Merkel's first time in office, she however took the opportunity to show Russia, the EU and the former Soviet states that it was possible to cooperate with Russia without sacrificing a firm stand on human rights and criticism of Russia's violations in Chechnya. She further made it clear that even though Germany's stand on the NEGP remained, the relation to Russia was, unlike the relation to the US, not based on common values.[41] In addition, Merkel raised concerns of

[37] Korchagina 'Schröder Defends His Pipeline Role'.
[38] Korchagina, Valeria (2005), 'Schroder to Head New Gas Pipeline', *The Moscow Times*, Published: 12 December 2005, Last accessed: 12 December 2005, Internet: http://www.moscowtimes.ru/stories/2005/12/12/001.html.
[39] Korchagina 'Schröder Defends His Pipeline Role'.
[40] Benoit 'Berlin Clears Schröder over Guarantee to Gazprom'.
[41] Oldberg *Tysklands säkerhetspolitik från Schröder till Merkel [Germany's Security Policy from Schröder to Merkel]*.

becoming too dependent on Russian energy and called for diversification and promoted energy efficiency.[42]

Poland's View

Poland is naturally highly displeased with the NEGP project. Some politicians called it a nightmare and ex-Prime Minister Marek Belka has pushed for alternatives in Brussels. A leader of the Polish opposition, Jan Rokita, also urged that the NEGP should be on the agenda in the negotiations between Russia and the EU.[43] Zbigniew Siemiatkowski, the former Head of Poland's Security Service illustrates Polish perceptions by stating "Russia's new imperialism – yesterday tanks, today oil".[44] Poland's President, Alexander Kwasniewski has also been sceptic and called the project a mine to European security.[45] Naturally, Poland appreciated Merkel's subtle turn in Germany's relations to Russia.

The reasons for the aversion is that from Poland's point of view, the NEGP increases Russia's leverage on Poland, as Russia can turn off gas supply to Belarus or Poland without affecting the much more important customer Germany. Poland's and Belarus' vulnerability therefore increases by the NEGP. This causes further frictions in the tense Russian-Polish relations and boosts Poland's strive to go into nuclear energy.[46] It is possible to identify a Russian strategy to divide and conquer within the former Warsaw Pact. While the Baltic states, Ukraine and Poland are supposed to be held on a short leash, Moscow has indicated a strategy of supporting a new energy hub in Hungary, a country that seems to hold idealistic perceptions of Russian energy trade. This is interesting to note, as its neighbours on the Balkans (for example Greece and Bulgaria) have been rather reluctant to give increased leverage to Russia.

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[42] Ibid.

[43] Pustilnik, Marina (2005), 'Russia, the New Energy Imperialist', *Moscow News*, 10-16 August 2005, p. 9.

[44] Zalewska, Luiza and Majewski, Michail (2004), 'Siemiatkowski odeslal J&S ad acta', *Rzeczpospolita*, 3 December 2004. (Quote kindly translated by Wilhelm Unge).

[45] Oldberg *Tysklands säkerhetspolitik från Schröder till Merkel [Germany's Security Policy from Schröder to Merkel].*

[46] Unge, Wilhelm and Tobiczyk, Mateusz (Forthcoming 2006), *The Energy Problem - Security Leverage and Dependence (DRAFT)*, Krakow: The Institute for Strategic Studies (ISS).

Poland's attempts to diversify its energy imports (by taking energy from Norway) has so far failed,[47] but if Germany was to connect its gas pipeline network to Poland, and by that reduce its vulnerability, Poland's scepticism might decrease. Intra-EU redistribution schemes could possibly tackle several of the issues discussed hitherto.

It is important to stress that although Poland has tried to prevent Russia from gaining too much influence, it has not only acted in an obstructionist manner. In fact, Poland has been a key driving force in the development of a common energy strategy for the EU. One reason is that single member states have very limited leverage on Russia. The EU, as a collective, can however:

> *[…]achieve reasonable goals of cost-effectiveness, guarantees of uninterrupted supplies and hence energy security. Energy non-solidarity undermines the overall idea of political and economic solidarity of the Union.*[48]

Estonia's, Latvia's and Lithuania's View

The Baltic countries have tried to move the debate on the pipeline to relate to the environment, for example by joint attempts within the Baltic Assembly. There, they have pointed to the environmental and ecological risks by having the pipeline at the bottom of the Baltic Sea. They claim that dumped chemical weapons from the Second World War may be affected and pose a grave environmental threat. Gazprom has defied the allegations.[49] Nonetheless, Latvia and Lithuania have put forward an ambition to get connected to the NEPG if it was to be built.[50] The strong reason for such a leg is that Latvia has large storages in Incukalns and Doele.[51] The land-based option, the so-called Amber pipeline, is a practically dead initiative. Viktor Kaluzhny, Russia's ambassador to

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[47] Stern *The Future of Russian Gas and Gazprom*, p. 116.

[48] Unge, Wilhelm, *et al.* (2006), *Ideas for an EP Resolution on EU Energy Security*, Krakow: Insitute for Strategic Studies (ISS), 6 January 2006.

[49] Vodo, Vladimir, *et al.* (2005), 'Pribaltiiskie strani vykrychivayot Rossii gazoprovod [Baltic Countries Twist Russian Gas Pipeline]', *Kommersant*, Published: 28 November 2005, Last accessed: 28 November 2005, Internet: http://www.kommersant.ru/doc.html?docId=630188.

[50] Oldberg *Tysklands säkerhetspolitik från Schröder till Merkel [Germany's Security Policy from Schröder to Merkel].*

[51] Sinijärv 'The NEGP: Estonian Perspective'.

Latvia has said that the reason that any onshore pipeline through the Baltic states have not been considered is that it has been impossible to find a political dialogue between the countries.[52]

Both Latvia's and Lithuania's energy relations with Russia have been filled with tension. One reason is Russia's strident attempts to attain control over Ventspils Nafta in Latvia by staging a cut-off of oil supply to the port of Ventspils. A blockade has for example been going on since 2002 and the official reason has been that Ventspils' tariffs are too high, (compared to tariffs at Russian Primorsk). This policy is approved by Moscow, but several independent oil companies have objected and filed official complaints with the Kremlin. Latvian authorities have even contacted the EU Commission, pointing out Russian aggressive policy as 'politically coloured', but those complaints have been met with little understanding.[53]

Lithuania, on the other hand, has seen Russian attempts to acquire its Mazeikiu refinery. The official Lithuanian reluctance to this was so strong that when it decided to sell the refinery, it chose the US Corporation Williams International instead of a Russian company. Williams International thus took over parts of Mazeikiu Nafta in 2001, but Lukoil, which delivered oil to the refinery then made it more difficult to get oil from Russia.[54] This could be interpreted as a statement that Russia's reliability is greater if Russia controls the Lithuanian company. One problem was that Yukos later bought Mazeikiu Nafta[55] and when the Yukos affair started, the refinery risked ending up in the hands of the Russian state. The situation is still not solved. The Minister of Economy of Lithuania gave his view on Russia while saying "Don't Let Ivan to the

[52] Spruds, Andris 'The NEGP and Russia's Gas Diplomacy: Latvian Perspective', p. 18.
[53] Lelyveld, Michael (2003), 'Moscow Seeks Takeover of Latvian Oil Port', *RFE/RL*, Published: 12 February 2003, Last accessed: 19 July 2005, Internet: http://www.rferl.org/features/2003/02/12022003171518.asp.
[54] Zashev, Peter (2004), *Russian Investments in Lithuania: Politics, Business, Corporate Culture*, Turku: Pan-European Institute/Turku School of Economics and Business Administration, 10/2004, p. 17.
[55] Wagstyl, Stefan (2005), 'Oil and Gas Needs Give Moscow Influence', *Financial Times*, A, 21 February 2005, p. 11.

Pipe".[56] Another reason to Lithuania's reluctance is that its transit income from gas transport to Kaliningrad might disappear. However, this income is not pivotal to Lithuania and the loss of leverage is not as large as it first seems.[57]

Estonia has also been affected by Russian energy policy, but the relations have been somewhat better compared to those of the other Baltic states. It has pushed for a gas pipeline to Finland and Estonia receives its gas from Russia, but the workload of the pipeline has been heavy.[58] The NEGP will possibly ease this situation, but Estonia has also been eager to build a pipeline to Finland (The Baltic Connector) in order to reduce Russia's direct power over Estonia (even if the gas from Finland is re-exported Russian gas). It is nonetheless advantageous also for Russia as it might increase Gazprom's gas market if also the Western parts of Estonia are penetrated.[59] Estonia as well has been a strong advocate of the Amber pipeline.[60]

The View of Sweden and other Baltic Sea Littoral States

Compared to the states on the east side of the Baltic Sea, there has been little public discussion in Sweden concerning the NEGP. The private sector has pushed for increased gas usage in Sweden, and the NEGP would clearly be beneficial to the companies involved. However, Sweden has indicated that it is not interested in any connection for the time being.

The UK has declared that it is very positive to the NEGP project,[61] and it has been involved in the project all since 2003.[62] One reason is naturally

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[56] Quote by the Minister of Economy of Lithuania, Vincas Babilus, cited in Zashev *Russian Investments in Lithuania: Politics, Business, Corporate Culture*, p. 13.

[57] Janeliunas, Tomas and Molis, Arunas (2006), 'The NEGP Drops Away Lithuania's Hopes to Become Transit Country.' in: Kazin (Ed.) *Baltic Mosaic 2006* (St Petersburg: Baltic Research Center), p. 23.

[58] Sinijärv, Riivo 'The NEGP: Estonian Perspective'.

[59] Ibid.

[60] Paet, Urmas (2006), 'Report by Foreign Minister of Estonia Urmas Paet on the Activities of the Baltic Council of Ministers in 2005', *Estonian Ministry of Foreign Affairs*, Published: 25 November 2005, Last accessed: 31 March 2006, Internet: http://www.vm.ee/eng/kat_140/7138.html.

[61] Wagstyl 'Oil and Gas Needs Give Moscow Influence', p. 11.

[62] Sinijärv 'The NEGP: Estonian Perspective'.

that the project has the subsidiary aim of connecting to the British grid. At a time when the UK has become a net-importer of natural gas, any additional diversification option is welcomed. The UK has been, however, less eager to embrace Putin's coercive policy and it was rather worried when Gazprom revealed its intentions to acquire a stake in British Gas.[63] The Netherlands holds similar views as the UK, which is understandable as any connection to the UK would also pass the Netherlands. The Dutch company Gasunie has also expressed its will to take part in the project.[64] In fact, construction of the UK-Dutch leg, the so-called Interconnector Expansion has already started, and it is expected to cost around SEK 1.8 bn.[65]

Denmark is, unlike other Baltic Sea states, a producer of gas. The NEGP could hence be seen as a competitor to Denmark. However, as Denmark according to some prognoses might become a net importer during the coming decade, access also to Russian gas is welcomed.[66] Denmark has further been involved in the environmental assessments of the project when in 1998 the company Ramboll presented a study to the Helsinki commission.[67]

Finland has been rather passive in the public debate. One reason is that it during the last couple of years has been left outside the project and it is unclear whether a spur to Finland is planned. Finland has also been upset about the fact that it earlier had plans for a similar project (from Finland to Germany) where the Finnish company Neste Oy (later Fortum) together with Gazprom created the company North Transgas. Finland had looked forward to becoming a transit hub, but it was clear that Russia did not want any transit country.[68] A spur to Finland cannot be excluded.

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[63] Macalister, Terry, *et al.* (2006), 'Russia's Gazprom Considers Bid for British Gas Owner Centrica', *The Guardian*, Published: 3 February 2006, Last accessed: 6 February 2006, Internet: http://www.guardian.co.uk/russia/article/0,,1701338,00.html.
[64] Global Pipeline Monthly (2005), 'Netherlands: Gasunie May Join Baltic Gas Pipeline Project', *Global Pipeline Monthly*, Vol. 1, No. 1, p. 4.
[65] Ringmar *Naturgasledning i Östersjön - North European Gas Pipeline*.
[66] Kostisushev, Sergey (2006), 'Gas Perspectives of Denmark and Gazprom', in: Kazin (Ed.) *Baltic Mosaic 2006* (St Petersburg: Baltic Research Center), p. 37f.
[67] Sinijärv, Riivo 'The NEGP: Estonian Perspective'.
[68] Smith, Hanna 'The NEGP and Growing Bilateralism Between Russian and the European Union', p. 9.

Conclusions: Russia, Germany, the UK and the Netherlands support the project while Estonia, Latvia, Lithuania, Poland, Belarus and Ukraine are against it. However, should it materialise, Latvia and Lithuania wish to connect to it, but it is doubtful if they will be allowed to. Sweden has not yet taken any official stand. The control and management of the NEGPC has resulted in great criticism and will likely serve as a precedence case in European affairs in terms of how close ties a former governmental official can have to certain projects after leaving office. Many unclear links, terms of the project and management of the NEGP are unknown, secret or non-transparent – which stresses the need for further assessments.

3 The NEGP - Issues of Concern

Overview: The chapter outlines and discusses some of the political and security concerns that the NEGP brings along (and that ought to be further studied). It touches upon the topic of what the risks for Sweden, the BSR and the EU can be from dependence on Russian energy in general and from the NEGP in particular. Comments on Sweden's sensitivity and vulnerability are made in the subsequent chapters.

Increased Russian Leverage on the non-NEPG-connected Neighbours

One of the pivotal security concerns for the BSR is that the NEGP will enhance Russia's power over the gas tap to Poland, Ukraine, and Belarus and to some extent also the Baltic states. The reason is that the NEGP will bypass them and Russia will be able to turn off the tap without risking other exports to Europe. The result is that Russia's leverage over its neighbours will increase. All of these states have severely negative experiences of coercive Russian energy policy and they see the threats as imminent. They have even securitised the energy issues and included them in their national security concepts and other strategic documents.[69] What these states, practically, have done to tackle the newly emerged problem should be investigated further.

The vulnerability of Russia's neighbours increases parallel to increases in Russia's strength, but the vulnerability is also exacerbated by a few parameters. First, by being transit states for much of the gas to Europe, Ukraine, Belarus and Poland have enjoyed some counter-leverage on Russia (as they have been able to control the tap for further exports to other end customers). This will due to the NEGP be reduced. To what extent this have any practical impact is difficult to say, but the perceptions of a power loss is present.

Second, the states in question will lose some of the money they received in transit fees. When Russia uses the NEGP for sending gas to Western Europe, the total amount that will be sent through transit states will decrease. Given a limited amount of gas that could be exported to Europe at a given time, Russia will have a strong card in its negotiations

[69] Larsson *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, pp. 184-192, 201-226.

with transit states over transit fees. Transit states will further be less able to link the transit fees to concessions of gas purchases.

Third, if a leg is built to Kaliningrad (which currently is uncertain), Russia is able to secure supply to its exclave at the same time as Lithuania will lose some of its leverage on Kaliningrad. Naturally, Kaliningrad, as a Russian territory, is top priority to Russia. Kaliningrad gets most of its electricity from the Lithuanian nuclear power plant Ignalina, which hitherto has provided Lithuania some leverage on Russia.

Fourth, energy security in the Russian notion usually means secure access to consumer markets. The NEGP will enable Russia to bypass the markets it pays less attention to. Russia will thus (and to some extent), be able to prioritise more lucrative markets than the Baltic or CIS ones. Today, there is nothing that points in the direction of Russia abandoning these markets altogether, but the problem must be considered. This is also one reason why Latvia and Lithuania have stated that they dislike the NEGP (but that they despite this want to connect to it).

Finally, there are reasons to assume that the balance between Russia and its neighbours will become, due to the NEGP, more asymmetrical than it already is. As Russia is the only, or main, supplier of gas, their vulnerability seems to increase more than the security of exports does for Russia. The regional stability will thus be rocked.

In conclusion, the NEGP seems to make the situation worse for the Baltic states, Ukraine, Belarus and Poland than other actors gain from it (since they are stronger and Russia's inclination to act coercively is less apparent).

Increased Russian Leverage on the NEPG-connected States

Naturally, Russia's ability to control the gas flow will increase with regards to the states that become connected to the pipeline. If one assumes that this will be Germany, Denmark, the Netherlands and the UK (possibly also Belgium) they might become more sensitive to Russian pressure. However, there are more to it than this. First of all, Russia's ability to use the tap for whatever reason depends on construction of the pipeline. It is not for sure that there will be full technical flexibility to

control gas flows. It is hence of paramount importance for the energy security of the connected states how the pipeline is constructed and operated. This must be further analysed and disclosed data on the pipeline has so far not been exhaustive.

If there will be technical possibilities for Russia to tamper with the flow of gas to individual states without affecting supply to others, there are tangible threats to the importing states, which must be thoroughly assessed. Irrespectively of the technical construction, Russia's power over European energy imports will be further strengthened and therefore it would be unwise to refrain from exploring scenarios where gas supplies are cut, for whatever reason. It can also be assumed that the NEGP have a military dimension, e.g. concerning military protection of the pipeline and usage of the infrastructure for military or intelligence purposes.

It is true that Russia traditionally has been a reliable supplier to 'the West' and therefore many analysts conclude that Western Europe does not have to worry about Russia's reliability.[70] However, are not Estonia, Latvia, Lithuania and Poland parts of 'the West' today? Without acknowledging the priorities of the new members, EU might lose some of its legitimacy in the northern dimension.

By staging cut-offs or conducting coercive actions towards Georgia, Moldova, Belarus and Ukraine and misbehaving toward EU and NATO members, Russia's reliability can be questioned even if the flow of energy mainly is uninterrupted. It is unlikely that Russia explicitly and immediate would cut energy supply if a minor crisis was present, but it would not be wrong to assume that importers could face technical problems, contractual disagreements, increased obstacles in negotiations, price increases or that Russia turns to other customers once existing contracts expire.[71]

[70] Monaghan, Andrew (2005), *Russian Oil and EU Energy Security*, Swindon: Conflict Studies Research Centre, November 2005, 05/65, and Stern *The Future of Russian Gas and Gazprom* .

[71] Larsson *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*, p. 296f.

Domestic Energy Concerns

There are also other concerns at dependence, which may or may not exactly be related to the NEGP. First, industries and consumers of energy naturally want governmental policy to act in their interest. Hence, when an importer's dependence increases, this is one of the vulnerability aspects that must be accounted for. Should energy supplies to an importer be halted or messed with, for example as a result of its foreign policy, the importing energy companies would likely hold the government responsible and possibly increase their lobby activities for, if not a shift in the foreign policy course, some kind of cushioning policy. Should a disruption come about, only the importing companies would be initially affected. But, if long-duration interruptions come about, also end-consumers (e.g. the electorate) are affected. This naturally has political implications and if it goes this far, an impact on energy consumption could possibly be seen. This has been the case in Ukraine.

Second, there are political questions to tackle as a result of increased imports of Russian energy regardless of the NEGP, for example, should Sweden close down its nuclear plants and import electricity from Russia. From Sweden's point of view, Russian electricity is environmentally unfriendly as it largely stems from coal and nuclear power.

Despite the agreement with the EU of phasing out Ignalina, it is noteworthy that the profitability of the Lithuanian nuclear power plant Ignalina might increase if it is able to sell more electricity (for example if Russia sells its electricity to Sweden (as Russia then may buy more electricity from Ignalina). According to Lithuanian politicians, Lithuania is prepared to keep the power plant running as long as it is economically feasible. Hence, Sweden would contribute to the prolonged operation of Ignalina while closing down own nuclear plants.[72]

Finally, neither should it be forgotten that energy imports are not only an issue of urgent energy consumption needs, the importance for the refining industry and the potential for re-exports are also pivotal for the

[72] Trelleborgs Allehanda (2005), 'Miljövänlig energi [Environmentally-friendly Energy]', *Trelleborgs Allehanda*, Published: 9 August 2005, Last accessed: 31 August 2005, Internet: http://www.trelleborgsallehanda.se/apps/pbcs.dll/article?AID=/20050809/DEBATT/108090760/1098/OPINIONART.

oil market (that are less affected by the NEGP). This means that importers of refined products from Sweden might have to bear parts of the burden for Sweden's foreign policy. Naturally, this raises the threshold for a policy against Russia that risks affecting energy supply. Lost autonomy and embedded appeasement risks are other consequences.

Risks of Appeasement

The case of Germany has shown that when dependence on Russian energy has increased, a rapprochement and subsequent appeasement of Russia seem to have followed. Crucial factors have been the friendship of Putin and Schröder, but also integration and cooperation by the major energy corporations Gazprom, Ruhrgas, E.ON and BASF/Wintershall. An apparent consequence put forward by analyst and journalists alike, which is not visible in the political declarations, is that German criticism of Russia's lack of democracy and rule of law seemed to vanish under Schröder. So did criticism about Russian human rights abuses and the war in Chechnya.[73] Germany's behaviour came under fire by both other European states and NGOs. The situation has however changed under Chancellor Merkel. As no state wants to be limited in its foreign policy by dependence, this risk must be acknowledged even if it only has an impact on the margin. And, more importantly, this could be seen as a central part of the Kremlin's geostrategic agenda.

The Risk of Regional and Intra-EU Frictions

First, the examples above highlight a problem that dependent actors might face, namely prioritising among its neighbours. If, for example, Russia continues to act coercively on the Baltic energy market, Sweden might have to choose what to do. Staying silent in order to secure its energy needs will negatively affect the relations to the Baltic countries, and possibly also other EU members and even the US. Or would Sweden 'sacrifice' the Baltic countries in order to secure good relations with Russia?

If Sweden chooses to be a loyal EU member, it runs the risk of affecting the relations to Russia and subsequently the supplier. In a less drastic form, this has already happened for Germany as Poland and the Baltic

[73] Benoit, Bertrand and Thornhill, John (2005), 'Fear That Gas Supply Gives Russia Too Much Power over Europe', *The Financial Times*, 12 January 2005, p. 2.

countries have looked upon the Russian-German axis with great scepticism. There are numerous scenarios where this risk might surface and it must be stressed that the risk as such not necessarily relates to security or high politics, but may also be a less apparent subsidiary factor in regional negotiations over environmental issues in the Baltic Sea region. The NEGP just adds yet another dimension to this problem.

There is also a risk for what can be called an energy dilemma. If the EU sees Russia as unreliable, it tries to diversify its imports. A result would be that Russia sees the EU as a non-committed consumer and thus try to diversify its export further.[74] This may seem as a theoretical argument, developments during 2006 show that it is a tangible risk. After a meeting between Putin and Merkel in Tomsk in April 2006, Putin publicly showed disaffection of Europe's perceptions. He stated that

> *Even during the Cold War, during the standoff between the two systems, the Soviet Union guaranteed energy to all its partners in Europe. Day by day, hour by hour!*
>
> *And now we hear about some sort of dependence on Russia. Understand us! Put yourself in our place. What are we supposed to do in these circumstances? We begin to look for other markets.*[75]

There are natural limitations to the extent of this risk, but the NEGP shows how committed Russia is to invoke its priorities of energy export independence.

Second, the EU as such might be affected negatively as a clash might emerge in the process of developing a common energy strategy. In March 2006, this was declared as an intention by the EU when it released its Green Book on Energy.[76] This energy game, where Russia aims to create and play by its own rules, may have wider repercussions on the development of a common EU energy policy as it also brings about risks of increased internal (EU) competition. It has been argued that as issues

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[74] Se discussion in Monaghan *Russian Oil and EU Energy Security*.
[75] Kolesnikov, Andrey (2006), 'Putin and Merkel's Market Relationship', *Kommersant*, Published: 28 April 2006, Last accessed: 2 May 2006, Internet: http://www.kommersant.com/page.asp?idr=527&id=670446.
[76] EU Commission *Green Paper: A European Strategy for a Sustainable, Competitive and Secure Energy*.

in the BSR (such as energy) become securitised, problems also occur when states compete from access and influence within the EU framework.[77] Key points, from the horizons of the new EU members have been that "the EU should expand its redistribution possibilities within the Union in order to be able to solidarily assist a member state facing energy shortage or cut-off".[78] Russia's ability to sow dissension seems to be a key factor in Russian leverage over the EU and its member states and this must be further analysed in coming vulnerability analyses.

Becoming Dependent on Scare Resources

This report does not focus on the geological or economic issues, but a comprehensive analysis of the NEGP and any state's increasing dependence on Russian gas, oil and electricity must encompass also these dimensions. For example, there are reasons to believe that Russia's energy reserves that are available to Europe (and located for example in Western Siberia) are rather small. In addition, there is evidence that Russia's energy exports may be reduced in the coming decade. The reasons are many and this is not the place for such a discussion, but it illustrates the problem.

Even if a leg of the pipeline is built to Sweden and it would be financed by the private sector, Sweden, however, will have to face the question whether it is prepared to create a situation where it becomes dependent on gas at all, as Russia's geological ability to export gas in a decade or two is an aggravating factor.

What would be the back-up plan when gas in the North Sea is being depleted? Use other fuels or turn to other suppliers? Considering the long-term perspective in energy-related investments, the problem must be tackled already at early stages. Other states that already have the infrastructure for domestic natural gas usage are not as affected by this issue as Sweden is.

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[77] Browning, Christopher S. and Joenniemi, Pertti (2004), 'Regionality Beyond Security? The Baltic Sea Region after Enlargement', *Cooperation and Conflict*, Vol. 39, No. 3, p. 245ff.

[78] Unge, *et al. Ideas for an EP Resolution on EU Energy Security.*

For other states, like Germany for example, a concern would be that by increasing dependence on Russian gas, Europe's power industry might be manipulated. The reason is that Russia would be able to affect the marginal cost for gas usage in Europe and by that create less incentive for the power industry to modernise its already aging coal power plants. This could have large consequences for future power generation, the economic situation and price on electricity. If Sweden's precarious energy situation remains, electricity imports from Germany will continue and its implications would be obvious. In a negative scenario, the balance of trade could be affected as well. These and other power-generating aspects of Sweden and the EU deserve further attention in the light of Russia's increasing importance to Europe.

Further Consequences and Issue of Concern

It can also be said that due to the NEGP, the projected Yamal 2 pipeline is unlikely to be built and neither will any "Amber pipeline" through the Baltic states materialise.[79] The strong political underpinning of the NEGP is enhanced by the fact that it would have been cheaper to expand existing pipelines via Ukraine, Poland or Belarus.

It is a common idea in dependence theory that vulnerability also relates to the actor's liability to suffer costs also when policies have been altered, i.e. it is rather long-term in nature.[80] Consequently, there are several issues and questions that must be dealt with when dependence increases.

Would a small state, such as Sweden, be willing to stand back in its advocating of human rights or democracy in order to satisfy its energy needs? Would it be willing to acknowledge Russia's activities in Chechnya as justified? Would it be willing to keep silent if fellow EU-members, such as the Baltic countries or Poland, fell prey to Russian energy cut-offs, hostile take-overs or blackmail? Would it in such a case be willing to accept a worsening of the relations with these states as a result of keeping silent or taking Russia's stand?

A key problem today is that many things are unknown, unclear or shielded from insight. Agata Loskot, a Polish expert on energy security

[79] Götz *The North European Pipeline: Increasing Security or Political Pressure?*.
[80] Keohane and Nye *Power and Interdependence*, p. 13.

has pinpointed a few of these issues. Firstly, the resource base is unclear. Secondly, the precise conditions of the projects are unclear, for example the exact markets, the exact stretch or foreign partners. Thirdly, the costs of the project are unknown, as are certain parts of optimal capacity. Fourthly, neither has the financial backing been settled.[81]

Conclusions: There are numerous unanswered aspects and issues of concern related to the NEGP. Problems relate to increased power to Russia, vulnerability for its neighbouring states, appeasements risks and risks of regional and intra EU-frictions. The outline above underscores that several of these concerns must be further addressed.

[81] Loskot, Agata (2006), 'The NEGP: Strategic Interests and a Number of Unknowns', in: Kazin (Ed.) *Baltic Mosaic 2006* (St Petersburg: Baltic Research Center), p. 27.

4 Sweden's Energy Situation

Overview: The chapter canvasses Sweden's energy situation in terms of production and usage. It provides a review of Sweden's energy imports, more specifically crude oil, natural gas and electricity. Sensitivity and dependence are not problems *per se*. However, if the ways of tackling dependence problems are insufficient or if the supplier is unreliable, sensitivity leads to vulnerability.

Sweden's Energy Situation

Sweden is far from self-sufficient in energy and has a relatively high energy-usage ratio compared to other IEA countries. In 2003, the industrial sector took the lion's share of the energy consumption (39%), while the residential and transport sectors took 22% respectively. The commercial sector used 14%.[82]

The total primary energy supply (TPES) for Sweden was 51 MToe (million tonnes of oil equivivalents) in 2002. 34% of this was made up by nuclear energy, 29% of oil, 16% of biomass, 11% of hydropower, 5% of coal, 1.5% of natural gas, 0.7% of peat and 0.1% of solar and wind production. It must however be noted that nuclear power does not generate more electricity than hydropower does. This is an anomaly that stems from the fact that nuclear power is assumed to operate at 33% efficiency while hydropower operates at nearly 100% in converting the energy of water into electricity. Two thirds of the heat produced by nuclear power is wasted trough cooling water systems. This aspect is of pivotal importance when discussing energy efficiency and impact on environment. The TPES concept is thus a ratio of the energy loss measured at the raw materials compared to the final energy output at end consumers. Usage of the concept has not yet had great impact in Sweden, although it is being used in for example Germany.[83] There are ongoing research projects on reducing this waste. In other terms, nuclear and hydropower produced 46% each of Sweden's electricity in 2002.[84]

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[82] IEA (2004), *Energy Policies of IEA Countries: Sweden 2004 Review*, Paris: The International Energy Agency (IEA), p. 19.

[83] Lars, Jens (2005), 'Aktuella EU-direktiv i ett europeiskt perspektiv [Current EU Directives in a European Perspective]', *Energiledarkonferensen*, Energiledargruppen, Stockholm, 15 November 2005.

[84] IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 17f.

Due to the current intention of phasing-out nuclear energy in Sweden, the energy production shares would be expected to shift gradually away from nuclear power. But at the same time, hydropower will not be expanded as rivers are protected. Swedish policy stipulates that a transition towards ecologically sustainable sources should be promoted, and usage of fossil fuels should be kept low.[85] This is one reason why a governmental commission against oil dependence has been created.

The commission was established in December 2005 with the purpose to facilitate structural development aimed at decreasing dependence on oil.[86] A series of public hearings have taken place, but no impact has yet been seen.

In 2004, Swedish usage of natural gas (then 2% of total power production compared to 24% globally) generated about 9.3Twh.[87] The Swedish natural gas sector is currently being deregulated (as the electricity and oil sectors already are).[88] According to suggestions put forward to the government by Svenska Kraftnät, the aim is to manage the gas sector in the same way as the electricity sector. In the long-run perspective, the goal is to have a common Nordic gas market.[89] The development of natural gas is therefore very slow and has neither been promoted nor opposed by the government. The IEA has further noted the existence of a Swedish perception that natural gas is a competitor to biofuels, a domestic resource with lower GHG emissions. The Swedish tax regimes by and large favour biofuel and electricity before natural gas, but there are great inconsistencies. Peat, which is not very important for Sweden,

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[85] Ibid., p. 20f. To a great extent, these policies originate from an agreement in 1997 between the ruling Social Democratic Party (*Socialdemokraterna*), the Centre Party *(Centerpartiet)* and the Left Party (*Vänsterpartiet* – formerly the Communist party).
[86] Swedish Government (2006), 'Kommissionen mot oljeberoendet [The Commission Against Dependence on Oil]', *Swedish Government*, Published: 16 February 2006, Last accessed: 6 April 2006, Internet: http://www.sweden.gov.se/sb/d/6326;jsessionid=abqbOqO0Peaf.
[87] Energimyndigheten, *Europas naturgasberoende*, p. 23.
[88] BM (2005), 'Naturgasen avregleras för företagskunder [Natural Gas is Deregulated for Corporate Customers]', *ERA*, Published: 21 June 2005, Last accessed: 31 August 2005, Internet: http://www.era.se/nyh/vn.shtml?id=693848938.
[89] PJ (2005b), 'Naturgasen organiseras som elen [Natural Gas to be Organised as Electricity]', *ERA*, Published: 28 April 2005, Last accessed: 31 August 2005, Internet: http://www.era.se/nyh/vn.shtml?id=583550632.

has large emissions of GHG but is treated as biomass and consequently exempted from all taxation.[90] This has resulted in partisan clashes.

Sweden stopped domestic nuclear fuel production in 1977 due to environmental reasons. Since then, fuel is mainly imported by the US Company Westinghouse Atom AB in Västerås.[91] Given the fact that also nuclear power can be seen as an imported source of energy, IEA figures show that in 2002, of Sweden's total primary energy supply (TPES) 70% was imported.[92] The conclusion is that Sweden's situation generally can be seen as one of high import dependence and sensitivity.

Sweden's Energy Sensitivity – Russia in Focus

Imports of crude oil have shifted greatly over time, not least during the last years. Imports from Iran and Norway have gradually declined, while imports from Denmark seemingly have risen. One explanation is that statistics show country of dispatch (rather than country of origin). Denmark is first and foremost a country of dispatch. The most interesting *de facto* rise is therefore imports from

Table 3: Sweden's Crude Oil Imports 2001-2004

Country	**Share of total import**			
	2001[93]	2002[94]	2003[95]	2004[96]
Denmark	12 %	15 %	18 %	29 %
Russia	**5 %**	**20 %**	**19 %**	**27 %**
Norway	46 %	34 %	38 %	26 %
Iran	16 %	11 %	15 %	8 %
Great Britain	9 %	13 %	5 %	6 %
Venezuela	4 %	5 %	4 %	4 %
Saudi Arabia	6 %	-	-	-
Others	2 %	2 %	1 %	0 %

Sources: Svenska petroleuminstitutet 2001-2004

[90] IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 84.
[91] Uranium imports came from Canada, Russia, Uzbekistan and Australia. Näringsdepartementet (1995), *Betänkande omställning av energisystemet (med underbilagor)*, Näringsdepartementet, Energisektionen, SOU 1995:139-140, p. 115.
[92] IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 19.
[93] Svenska petroleuminstitutet (2001), *Oljeåret 2001 Sammanfattning [Oil of the Year 2001 Summary]*, Stockholm: Svenska petroleuminstitutet (SPI).
[94] Svenska petroleuminstitutet (2002), *Oljeåret 2002 Sammanfattning [Oil of the Year 2002 Summary]*, Stockholm: Svenska petroleuminstitutet (SPI).
[95] Svenska petroleuminstitutet (2003), *Oljeåret 2003 Sammanfattning [Oil of the Year 2003 Summary]*, Stockholm: Svenska petroleuminstitutet (SPI).
[96] Svenska petroleuminstitutet (2004), *Oljeåret 2004 Sammanfattning [Oil of the Year 2004 Summary]*, Stockholm: Svenska petroleuminstitutet (SPI).

Russia. Since 2001, Russia's share has risen by 540% (from 5% to 27% of total imports), as seen in the table.

When it comes to heating gas oil (*Eldningsolja typ 1*), Russia is also the key state. In 2004, Sweden imported 262,000m^3 from Russia, which was a 44% share of the total imports. Concerning fuel oils (*Tjockolja Eo 2-6)* Russia's share was more modest of only 41,000m^3 (about 11%).[97]

Also when it comes to electricity, Sweden is turning to Russia. During cold winter days, Sweden's electricity gap is the largest in the Nordic region (even if Finland and Norway also have problems). In 2003, the gap reached 1,900MW and 1,500MW (79%) of this was provided by Russia (while the rest was provided by Poland and Germany).[98] Russia's future importance can also be expected to increase.

In July 2005, Bas-El (a company which constitutes of 15 of the most energy-intensive companies in Sweden that together use about 25TWh/year – about half of the electricity consumption by the industrial sector in Sweden)[99] suggested that an electricity cable should be built from Russia, via Kotka in Finland, to Sweden. Which Russian consortium were to be responsible was not disclosed, but capacity is expected to be about eight TWh. Possibly there will be one additional cable according to Bas-El as stated to Swedish Television. Russia would hold a majority stake of the cable and the rationale behind the cable is said to be an attempt to tackle Sweden's rising electricity prices. The

[97] Svenska petroleuminstitutet (2005), 'Import och export av eldningsoljor 2004 [Imports and Exports of Heating Fuels 2004]', *Svenska petroleuminstitutet [Swedish Petroleum Institute]*, Published: N/A, Last accessed: 12 August 2005, Internet: http://www.spi.se/statistik.asp?art=58. N.B. Statistics show countries of dispatch, not necessarily countries of origin.

[98] FNB (2003), 'Norden beroende av elimport (Nordic Region Dependent on Electricity Imports]', *Hufudstadsbladet*, Published: 4 November 2003, Last accessed: 12 August 2005, Internet: http://195.255.83.67/cgi-bin/mediaweb?Newsp=hbl&Date=031104&Depa=ekonomi&Story=06510709.txt&Model=juttu.html.

[99] PJ (2005a), 'Basindustrin vill stärka elförsörjningen [The Base Industry Wants to Enhance Supply of Electricity]', *ERA*, Published: 13 June 2005, Last accessed: 31 August 2005, Internet: http://www.era.se/nyh/vn.shtml?id=142333082.

state-owned ore-mining company LKAB is one of the companies spearheading the initiative to import electricity from Russia.[100]

Although natural gas only makes up 1.5% of Sweden's TPES, gas has taken 20-25% of the available market in those areas where it has been introduced. The industrial sector uses 44% of the consumed gas within this area. Currently all gas comes from the Dong company in Denmark and the gas grid is limited to the west coast (between Trelleborg and Stenungsund). The Swedish importer, Nova Naturgas AB, is owned by Ruhrgas (30%), Statoil (30%), Fortum (20%) and Dong (2%). Yet, Fortum and Sydkraft now E.ON (owned by German E.ON to 55% and Statkraft to 45%) have been interested in extending the gas grid also to Stockholm and the Mälardalen region.[101] E.ON is one of the companies that are the forerunners in promoting increased usage of natural gas in Sweden.[102] Sweden does currently not use LNG, but there are plans for an import terminal in Stockholm or Nynäshamn. E.ON has also been granted permission to construct a new pipeline to Sweden from Germany via Denmark to Trelleborg – called the Baltic Gas Interconnector (BGI).[103]

Sweden's energy imports of Russian energy in specific can in conclusion be characterised as highly sensitive and highly dependent. An import index is however no proof of vulnerability, but only of sensitivity.

Sweden's Energy Vulnerability

In short, "the vulnerability dimension of interdependence rests on the relative availability and costliness of the alternatives that various actors face."[104] Hence, if there are no viable options, the situation goes from one of sensitivity to one of vulnerability. There are numerous issues that can be used to identify a situation of vulnerability.[105] Four general points can illustrate when vulnerability occurs. A state, which is dependent, becomes vulnerable when:

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[100] (2005), *Rapport 19.30*, 29 July 2005 on Sveriges Television Kanal 1 (Swedish Television Channel 1).

[101] IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 79f.

[102] Ringmar *Naturgasledning i Östersjön - North European Gas Pipeline*.

[103] Energimyndigheten *Europas naturgasberoende* , p. 30f.

[104] Keohane and Nye *Power and Interdependence* , p. 11.

[105] Szuprowicz, Bohdan O. (1979), *How to Avoid Strategic Mineral Shortages: Dealing with Cartels, Embargoes and Supply Disruptions* (Toronto: John Wiley and Sons), p. 274. (A detailed account of all of these points is found in this source).

> *1) The supply of the material in question is relatively concentrated in a few geographic sources, especially if they are in nations that have substantially different political or economic systems and aims,*
>
> *2) supply is readily subject to manipulation or to interruption as a consequence of such contingencies as political decisions, wars, internal upheavals, labour strikes, terrorism, or embargos,*
>
> *3) there are no readily available economical substitutes for, or stockpiles of, the particular material, and*
>
> *4) recycling possibilities are limited in scope or not feasible within the time available.*[106]

Sweden's ability to tackle dependence was often assessed during the cold war, especially in connection to trade with the Soviet Union.[107] Today, the issues have disappeared from public discussions, but still have to be tackled. Concerning the points above, it can be said that with regard to Russia, points one and two are of greatest importance and will be addressed to some extent in the following chapters. The issue of recycling is not covered in this report, but stockpiling and storage issues, point number three, are managed by the Swedish Energy Agency that operates the Swedish National Emergency Sharing Organization (NESO). Shortfalls in oil are met by demand restraint, fuel switching and stock draws. Sweden has no state-controlled oil stocks today.[108]

Dependence on oil for power generation has gradually decreased (from 77% in 1979 to 33% today),[109] but it is unlikely that further decreases can be made according to IEA.[110] Stocks are thus necessary. In order to reach the IEA emergency reserve commitment, Sweden's regulation obliges oil

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[106] Jordan, Amos A. and Kilmarx, Robert A. (1979), *Strategic Mineral Dependence: The Stockpile Dilemma*, Washington: Georgetown University/The Center for Strategic and International Studies, The Washington Papers 70, p. 18f.
[107] See, for example: Industridepartementet (1980), *Mineralpolitik: Slutbetänkande av mineralpolitiska utredningen [Mineral Policy: Final Report by the Mineral Policy Review]*, Stockholm: Industridepartementet, Statens offentliga utredningar 1980:12.
[108] Energimyndigheten (2005), *Beredskapslagring av olja [Stockpiling of Oil]*, Eskilstuna: Energimyndigheten, p. 45.
[109] Ibid., p. 45.
[110] IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 85.

companies and large consumers to hold stocks of oil (25% of last year's net imports or consumption). However, there are ongoing plans to close certain stockholding agreements with Denmark, Finland, Ireland and Great Britain.[111]

Redistribution of electricity for the Nordic countries is ongoing and the so-called Estlink between Estonia and Finland and NordNed between Norway and the Netherlands increase the capacity by 350 MW and 700 MW respectively outside Nordel.[112] Specifically Sweden has to import electricity during peak consumption periods in wintertime. The Swedish electricity transmission system operator (*Svenska Kraftnät*) has been instructed by the government to keep a reserve capacity of up to 2,000MW, but it is seen as a temporary measure (between 2003 and 2008) while waiting for a commercially sustainable solution to meet peak demands.[113]

Although Swedish usage of gas is small, pipeline capacity for natural gas in Sweden is 2 bcm/year, (that could be expanded to 2.9 bcm/year). Currently only 0.98bcm/year is used.[114] Due to technical and geological reasons, Sweden does not have any storage facilities for natural gas, apart from a plant for demonstrational purposes.[115] The Swedish system has been spared from accidents, non-planned cut-offs or shortages, but this storage will likely be used if Sweden is facing a shortage, although it is so small that it only has an impact on the margin. Should Sweden face a boycott or likewise, it does not have the resources to act by itself. It would then have to use the mechanisms of the EU gas directive that grants support to single member states for up to eight weeks.[116]

In addition, all of Sweden's imported oil is of course not used for power generation. The transport sector uses 60% of imported oil, while the industrial sector takes 22%, residential sector 6%, and 6% is used for non-energy usage.[117] In general, one third of all refined oil is exported[118] and

111 Ibid., p. 78f.
112 Nordel (2005), *Power and Energy Balances: Forecast 2008*.
113 IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 27.
114 Ibid., p. 79.
115 Ibid., p. 82.
116 Energimyndigheten *Europas naturgasberoende* , p. 35.
117 IEA *Energy Policies of IEA Countries: Sweden 2004 Review*, p. 74.
118 Ibid., p. 78.

when it comes to fuel heating oils, Sweden exports much more than it imports. Figures from 2004 for example show that Sweden imported 358,000m^3 and exported 3,222,000m^3 (mainly to the USA, Great Britain, Norway and the Netherlands).[119] Sweden's dependence on Russian oil hence has bearing on issues related to power generation, but also to the refining industry and it is a factor in the balance of trade when it comes to re-exports.

As indicated, neither dependence nor vulnerability poses an immediate danger unless something happens that triggers a crisis. The question naturally arises what would be a trigger? A few examples are wars, revolutions, civil unrest, nationalisation, state monopolies, boycotts and transport availability.[120] Russia indeed has all of these elements, although it was some 15 years since the latest "revolution". When it comes to antagonistic political risks connected to security of supply of energy carriers, there are security dimensions that lie beyond the issue of getting enough energy for immanent consumption needs. Therefore, if dependence is seen in a political security context, also sensitivity is important.[121] The vulnerability points listed above can be seen in the context of Russia becoming a key provider of energy to Sweden. This analysis only goes so far, and a full vulnerability analysis (including Swedish barriers and counter-levers on Russia) would have to be made before any increase in dependence could be undertaking without any serious security concerns.

[119] Svenska petroleuminstitutet 'Import och export av eldningsoljor 2004 [Imports and Exports of Heating Fuels 2004]'.
[120] Szuprowicz *How to Avoid Strategic Mineral Shortages: Dealing with Cartels, Embargoes and Supply Disruptions* , p. 281. See this source for further comments.
[121] Keohane and Nye *Power and Interdependence* , p. 14.

Conclusions: Sweden has, as a result of its energy policy and political deadlock over nuclear power, ended up in a precarious situation. As no efficient, economically or politically feasible or environmentally sustainable alternative energy source has emerged, the closing down of nuclear reactors and the abstention from expanding hydropower have left Sweden with the only option, at least for the near future, to import energy. This option is problematic as the imported energy is often produced in environmentally unsustainable ways.

An import index is no proof of vulnerability, but only of sensitivity. Sweden's energy imports of Russia energy can therefore be characterised as highly sensitive and highly dependent. If dependence is seen in a political security context, as it ought to be concerning the NEGP, sensitivity is important. Sweden is furthermore vulnerable to some degree and if the supplier acts coercively, vulnerability increases. This is further discussed in the next chapter.

5 Energy from Russia's Point of View

Overview: The starting point for this section is Russia's intentions, which are visible in its pursued policy, public statements and in official documents. The Kremlin's capabilities are covered further on. The chapter outlines a few cases when Russia has used its oil and gas as levers in its foreign relations, especially against the states of the CIS.

Russia's Perceptions

Russia has outlined its intentions in a series of documents published since 1992 and the latest Energy Strategy was released in 2003.[122] It is the main document today and it has basically replaced earlier versions. The strategy states that one of Russia's prime concerns is energy security, but energy policy is also meant to contribute to the overarching goal of national security. Energy policy is supposed to be used to avert geopolitical and macroeconomic threats, and Russia therefore aims to take advantage of its geopolitical position. It explicitly states that energy national security is the main task of the energy policy.[123]

In general, there is a relatively high degree of harmony between what is stated in the strategy and its pursued policy.[124] It can therefore be assumed that Russia will try, at least to a reasonable degree, to follow the main provisions also in the future. The strategy outlines Russia's goals, policy and visions to the year 2020.

'Energy security' in the Russian notion usually encompasses the idea that Russia must ensure access to consumer markets. Occasionally, the physical safety of important infrastructure is included. The security of supply for consumers is, however, less frequently emphasised, which has been evident in international negotiations within the framework of the G8 and the WTO.

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[122] Ministry of Industry and Energy (2003), 'Energeticheskaya Strategiia Rossii na period do 2020 goda [Russia's Energy Strategy until the Year 2020], Utverzhdena no 1234-r, 28 August, 2003.' *Ministerstvo promyshlennosti i energetiki Rossii*, Published: Last accessed: 7 February 2005, Internet: http://www.mte.gov.ru/docs/32/189.html.

[123] Ibid., p. 17, 40f.

[124] See Fredholm *The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?*.

Russia's notion of energy and security also results in an ambition to reduce transit of energy carriers from territories controlled by the CIS states while increase exports via channels controlled direct or indirect by Russia. It is a key issue for Russia to reduce its own transit over third-part territory and ensure that vital infrastructure is developed and remains under state control.[125] The strategy basically says that Russia opts for policies aimed at making other states dependent on Russian energy while Russia takes action to escape own export dependence. This is evidence of Russia acknowledging great importance to the power of dependence and independence.

Simultaneously, Russia aims to be a reliable trading partner.[126] This is a difficult balancing act that explains much of Russia's contradicting behaviour. It is also worth considering that the nature of the Russian state, as argued by Robert Cooper in this book 'Breaking of Nations', is to be characterised as 'modern' while Sweden and most parts of Europe instead are 'post-modern'.[127] Holding this perspective in mind facilitates understanding of Russia's pursued policy that focuses on hegemony, ownership and independence (while interdependence has been a key word for the development within the EU).

Putin himself is not against private property, but he holds the belief that private companies cannot take control from the state as the state speaks for the Russian people. The ceding of assets in the 1990's was a mistake that must be reversed. A mixed system where some property is state owned and some is private is best for Russia, but Putin dislikes the 'Western management-style'.[128]

Putin is driving a process of delineation of the energy and commodities sectors. He has the intention to continue marketisation where appropriate and enhance state control over the commanding heights of

[125] Ministry of Industry and Energy 'Energeticheskaya Strategiia Rossii na period do 2020 goda [Russia's Energy Strategy until the Year 2020], Utverzhdena no 1234-r, 28 August, 2003', pp 68-71.
[126] Ibid., p. 41.
[127] Cooper, Robert (2003), *The Breaking of Nations: Order and Chaos in the Twenty-first Century* (London: Atlantic Books).
[128] See: Olcott, Martha Brill (2004), 'Vladimir Putin and the Geopolitics of Oil', *The Energy Dimension in Russian Global Strategy* (Houston: The James A. Baker III Institute for Public Policy of Rice University).

the sector and the economy. Practically this means that the Kremlin will keep its grip over strategic resources and pivots for exports while the majority of the sector will be run by the market forces. It must however be underscored that the main actors (Gazprom, RAO UES, Rosneft and Lukoil) are Kremlin-loyal firms. Despite clashes of interests, it is highly unlikely that they would undertake strategic projects that are not sanctioned by the Kremlin.

Russia's Capabilities

Further, Putin's hard-line view on economic security and energy is not shared by all members of the government or administration and there are several fractions and agendas. The somewhat liberal groups, however, have much less impact on policymaking than the hard-liners do. In fact, the highest echelons of power today have a background in the security structures, even to a higher degree than during the time of the Soviet Union.[129]

It is important to underscore that these people, known as the *siloviki*, not only hold state positions within the bureaucracy or parliamentarian committees, but also virtually all important posts on the boards of Russia's energy companies (Gazprom, Rosneft, UES, Transneft to mention but a few).[130] As a result of this policy, a new echelon of politically correct state oligarchs has emerged. Putin has declared that these men hold board position in order to secure the interest of the state, not to profit. As the level of corruption is high, there is nevertheless room to question if not the two possibilities can be combined. There are also reasons to stress that many Russian export hubs are controlled or at least influenced by criminal structures and the predictability of supplies is thus reduced even further. This is an aspect of security of supply that needs to be acknowledged and investigated.

The powers of the president are nonetheless problematic, as in some ways he is powerless, but in other ways extremely powerful. This has, and may further result in overzealous actions. In strategic energy

[129] Novaya Gazeta (2005), 'Agenti Vliyaniya [Agents of Influence]', *Novaya Gazeta*, Published: 30 August 2004, Last accessed: 5 July 2005, Internet: http://2004.novayagazeta.ru/nomer/2004/63n/n63n-s45.shtml.
[130] Larsson *Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*.

matters, it yet seems that most intentions can be implemented. The parliament has become a conveyor belt for presidential decisions and the Kremlin's wish is obeyed both by state bodies and by energy corporations. Together, this means that the responsiveness to political decisions can be expected to be rather high, despite interdepartmental clashed and fractions[131]

In this context, it could be said that economic success rather than military strength constitutes a state's power position. There are also indications that economic power today is more important than it has been. Traditional policy that gives priority to hegemony, sovereignty, and unilateralism will fail to produce the right outcomes.[132]

However, to remain a strong nation, there is a need to pay attention to 'soft powers'. Too great an emphasis on traditional power runs the risk of undermining the soft power that actually may bring along a solution to the present problem.[133] 'Soft power' is merely not, as many analysts believe, all means but military ones. Soft power also concerns values, ideas, culture and boils down to the ability to get a desired outcome by attraction, as others want what you want. Hard power, in contrast, is the ability to get a desired outcome by threats and rewards, no matter if they are economic sticks and carrots or military coercion. Together they make up what neoliberals call 'behavioural power'.[134]

Russia, which found itself in an awkwardly weak position after 1991, acknowledges the importance of soft and behavioural power, but the old ideological element has evaporated and been replaced by a pragmatic policy line where hard security prevails, even when it comes to economic means and energy policy. Its modernist conception rests on the belief held by the Russian leadership that great power status primarily comes from its size, resources, armed forces and nuclear arsenal. Fifteen years of turmoil and relentless reform resulted in an impotent military situation where strategic missiles were the last, highly symbolic, linchpin of Russia's great power status. Gradually Russia has come to realise that

131 Ibid.
132 Nye, Joseph S. (2002), *The Paradox of American Power: Why the World's Only Superpower Can't Go it Alone* (New York: Oxford University Press), p. 8f.
133 Ibid., p. 8f.
134 Keohane and Nye *Power and Interdependence*, p. 220.

economic levers can be used as both complements and as substitutes for military force, and they are gradually given greater roles in rhetoric and practice.[135] Energy is set to become Russia's primary non-military tool for boosting its international respect, partly by coercion and partly by reliability.

A better term for Russia's energy policy is nonetheless one of 'resource power', which is possession of resources usually connected to the ability to get a preferred policy outcome.[136] Even if Russia does not have the ability to get a preferred outcome, it harbours illusions that it has, which is one reason why it tries to pursue such a policy. Coercive foreign policy by economic means has often been a prelude to higher levels of conflicts. This means that trade restrictions, freezing of financial assets, embargoes etc. may be followed by military actions.[137] Today this does not have to be the case even if it has occurred (for example the sanctions against Iraq). Instead, coercive energy policy can stand as tool of power itself, either as complement or as substitute to military force. Russia has lately refrained from overt military operations in the CIS area, but during times of strained relations between Russia and Georgia, there has been a military factor next to economic and political pressure.

Whether this trend towards increased non-military pressure continues remains to be seen (should Russia's military strength improve9. Russia's conventional military capability is on the rise again. There are nonetheless paramount uncertainties concerning the political, military and economic course of Russia and its energy policy will largely depend on the general development of society.

Russia's Energy Supply Interruptions

During the reign of Yeltsin, energy cut-offs frequently occurred. The frequency has since dropped, but the practice still seems to be used. A few cases can be mentioned here. Georgia is largely dependent on foreign energy suppliers and unexplained cut-offs have occurred on

[135] Leijonhielm, *et al. Rysk militär förmåga i ett tioårsperspektiv - problem och trender 2005 [Russian Military Capability in a Ten-Year Perspective - Problems and Trends 2005].*
[136] Keohane and Nye *Power and Interdependence* , p. 220.
[137] Neu and Wolf *The Economic Dimensions of National Security*, p. 7.

politically important occasions.[138] Often the official reason has been Georgia's debts,[139] but cut-offs seem to have coincided with special occasions, such as elections, bilateral negotiations or Russian bombardment of Georgian territory.[140] One such occasion was in January in 2001[141] and other supply interruptions followed in 2003. It is worth underlining that Georgia (especially MPs) often accuses Russia of everything negative that falls upon Georgia and interprets Russia's energy policy as a means to harm and hurt Georgia deliberately.

In Ukraine, Russia has attempted to gain influence by exchanging debts for infrastructure. There are also several examples of Russian pressure and coercive energy policy coinciding. One example was in 1993[142] and another case was in 1995.[143] Further, ever since the beginning of the 1990s, Russia and Belarus have been arguing over energy (among other things) and Gazprom has cut the gas flow on several occasions, in 2003 and 2004 for example. Some of these interruptions have affected Poland even if they were not meant to do so. [144] Another occasion was as late as in 2005/2006 when Russia turned off the gas flow to Ukraine after

[138] Civil Georgia (2003b), 'Shevardnadze Calls for 'Revising the Contract' with the U.S. Energy Company', *Civil Georgia*, Published: 10 January 2003, Last accessed: 19 July 2005, Internet: http://207.218.249.154/cgi-bin/eng/detail.pl?id=5034.
[139] Civil Georgia (2003a), 'Itera to Cut Gas Supply to Georgia Because of Debt', *Civil Georgia*, Published: 28 August 2003, Last accessed: 19 July 2005, Internet: http://207.218.249.154/cgi-bin/eng/detail.pl?id=4833.
[140] Cornell, Svante, E. (2001), 'The Caucasus under Renewed Russian Pressure: Realities on the Ground and Geopolitical Imperatives', *Analysis of Current Events*, Vol. 13, No. 3, p. 10.
[141]Baran, Zeyno (2001), 'Georgia under Worst Pressure Since Independence', *The Center for Strategic and International Studies (CSIS)*, Published: 10 January 2001, Last accessed: 19 July 2005, Internet: http://www.csis.org/ruseura/georgia/gaupdate_0101.htm.
[142] For details of see Felgenhauer, Tyler (1999), *Ukraine, Russia and the Black Sea Fleet Accord*, Woodrow Wilson Center, Woodrow Wilson Case Study 2.
[143] Balmaceda, Margarita Mercedes (1998), 'Gas, Oil and the Linkages between Domestic and Foreign Policies: the Case of Ukraine', *Europe-Asia Studies*, Vol. 50, No. 2, p. 260.
[144] RFE/RL (2004), 'RFE/RL Newsline 18 February 2004', *RFE/RL*, Published: 18 February 2004, Last accessed: 21 June 2005, Internet: http://www.rferl.org/newsline/2004/02/180204.asp.

Ukraine refused to give in to Russian pressure of price increases and demands for transit pipelines.[145]

In the winter of 1992-1993, Yeltsin cut energy supplies to Estonia, Latvia and Lithuania in order to affect a policy change.[146] In Lithuania, Russia cut oil deliveries on nine occasions only in 1998-1999. The reason was that it wanted Lithuania to cede control over pipelines, ports and refineries to Lukoil.[147] Another example are the gas cut-offs that coincided with the adoption of Estonia's law on aliens, which affected the situation for the ethnic Russians living in Estonia.[148] Also in the case of Moldova, gas cut-offs and threats thereof have been common. In the winter of 1999 Gazprom cut off gas supply to Moldova, claiming Moldova's continuously rising debt as a reason.[149] To what extent these cut-offs have political underpinnings or not can be debated in each case, but the perceptions of the target states are clear and will thus have an impact on the overall energy relations.

At an aggregated level, it can be said that, according to the IEA, no full cut-off has occurred to Western customers since 1968 when energy deliveries started.[150] Apparently, Russia acknowledges a difference in importance between former Soviet states and Western Europe. On this basis, imports of Russian energy can be divided into three groups. The

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145 Larsson, Robert L. (2006b), *Rysslands energipolitik och pålitlighet som energileverantör: risker och trender i ljuset av den rysk-ukrainska gaskonflikten 2005-2006) [Russia's Energy Policy and Reliability as Energy Supplier: Risks and Trends in the Light of the Russian-Ukrainian gas Conflict 2005-2006)*, Stockholm: The Swedish Defence Research Agency (FOI), january 2006, FOI-R--1905--SE.

146 Smith, Keith C. (2004), *Russian Energy Politics in the Baltics, Poland and Ukraine: A New Stealth Imperialism?*, Washington D.C.: Center for Strategic and International Studies (CSIS), December 2004, p. 6.

147 Ibid., p. 6.

148 Oldberg, Ingmar (2003), *Reluctant Rapprochement: Russian-Baltic Relations in the Context of NATO and EU Enlargements*, Stockholm: The Swedish Defence Research Agency (FOI), FOI-R--0808--SE, p. 51.

149 Johansson, Andreas (2003), *Whither Moldova? Conflicts and Dangers in a Post-Soviet Republic*, Stockholm: The Swedish Defence Research Agency (FOI), FOI-R--0990--SE, p. 29.

150 Ahrend, Rudiger and Tompson, William (2004), *Russia's Gas Sector: The Endless Wait for Reform?*, Paris: Organisation for Economic Co-operation and Development (OECD), Economic Department, 17 September 2004, Economics Department Working Papers 402 (ECO/WKP (2004)(25), p. 21.

first group is the former Soviet territory, basically the CIS and the Baltic countries where numerous incidents have been recorded.

The second group is made up by former Warsaw Pact members of which some now also are EU and NATO members. Against these states, Russia has been less willing to use the energy weapon to the same extent as against its former space and satellites, but they are definitely being seen as affordable "collateral damage". Poland, for example, has suffered from gas cut-offs to Belarus.

Concerning the third group, which basically consists of the Western states of Europe, the USA and possibly Japan and India, no cut-offs aimed at them have been made as far is known, but issues of concerns exist, especially as these states are affected by Russia's policy towards the CIS states. How China is seen in Moscow can be debated, but it would likely fall into the Eastern Europe category. Russia cannot handle China in the same way as CIS states but it might be prepared to cut off supply and take political bad-will, should China and Russia be on a confrontational policy line.

Russia's Coercive Energy Policy in Aggregated Terms

If these cases are penetrated and put in a wider context, a pattern emerges, namely that the energy lever can be used in several ways and serve several purposes. By and large, these actions can have military, political, social, economic or other non-military foreign-policy related underpinnings. The imminent reasons or drivers could be several, i.e. relate to a will to enforce some kind of political concession in ongoing negotiations, enforce infrastructure take-over, enforce economically favourable deals and make a political statement. [151] All incidents where Russia has used the energy weapon are political statements in one way or another, but in the 1990s, the driver of enforcing concessions was common. The findings further draw attention to the fact that Russia's previous usage of the energy tool has taken many forms, namely:

- supply interruptions (total or partial),
- threats of supply interruptions (covertly or explicit),

[151] Leijonhielm, Jan and Larsson, Robert L. (2004), *Russia's Strategic Commodities: Energy and Metals as Security Levers*, Stockholm: Swedish Defence Research Agency (FOI), FOI-R--1346--SE, p. 114f.

- pricing policy (prices as carrots or sticks),
- usage of existing energy debts,
- creating new energy debts,
- hostile take-overs of companies or infrastructure,

There have been over 55 incidents (cut-offs, explicit threats, coercive price policy and certain take-overs) since 1991 (of which only a few are unconfirmed). At least twenty of these have occurred during Putin's reign. The frequency has thus not been reduced dramatically. Only eleven of the incidents occurred without any political underpinning. The majority has both political and economic underpinnings. There are long-term strategic underpinnings in almost every case.

Over forty cut-offs of energy supplies have occurred against the Baltic and CIS countries since 1991 (three unconfirmed and technical failures or sabotage not included). Fifteen of these were during Putin's tenure. In addition, there have been serious threats on at least three occasions that were put forward by Russia without any actions taken. Incidents where Russia has put forward political demands in connection to its energy policy (or exerted clear punishment for unwanted actions) is a matter of discussion and definition, but on seven occasions appear to be the case.

The argument is often heard that Russia's interruptions or infrastructure take-overs are market-driven actions. Indeed, this is true in some cases, but the argument basically rests on the assumption that the Russian companies can be characterised as market actors in the western sense and that there are neither political nor other underpinnings to their actions. To Russia's defence it must be said that acting in the grey zone between business and politics is a practice that exists also by Western states and energy corporations. An important difference is that importers of energy are willing to *give* political concessions in return for energy while Russia *demands* political concessions as payments for a certain energy policy. This gives Russia a strong lever.

The Kremlin and the energy firms act in tune when it comes to many projects of strategic nature. Russia for example focuses on strategically important but economically questionable infrastructure projects. Basically, Russia is willing to take economic losses to attain political gains, but if the whole process is taken into consideration and in the

wider context, also the politically driven actions have an economic rationale.

Conclusions: 'Energy security' in the Russian notion encompasses the idea of secure access to consumer markets. It is also a key issue for Russia to reduce its own transit over third-part territory and ensure that vital infrastructure is developed and kept under state control. The energy strategy stipulates that Russia opts for policies aimed at making other states dependent on Russian energy while Russia takes action to escape own export dependence.

Kremlin controls 100 per cent of the gas and 30 per cent of the oil. In addition, it controls all vital bottlenecks and all important infrastructures for exports. It does not always have to act by force as several actors perform in harmony with the Kremlin's desire, sometimes due to a form of 'self-censorship' where energy firms refrain from acting in conflict with Moscow's intentions. Market, political and economic drivers exist under a strategic umbrella in Russia. Often it boils down to the intention of extending Russia's influence abroad. The political level is prepared to endure political bad-will not only for its political priorities, but also for economic reasons (where the revenues mainly, but not exclusively, go to energy firms). Energy companies are often willing to conduct economically unwise activities in the interest of the state.

Russia has used its energy levers against the Baltic and CIS states at several occasions. This does not exclusively take the shape of supply interruptions, but also coercive price policy, selective marketisation or a policy of intimidation.

6 Potential Barriers and Triggers?

Overview: The chapter mentions one issue that could act as a catalyst for strained relations between Russia and a single EU member in order to show that such negative scenarios are not as implausible as one might expect. The chapter also details some of the barriers that exist against supply interruptions.

Sweden, Denmark and the UK have had difficult relations with Russia when it comes to issues related to Chechnya. Denmark can here illustrate the problem. In short, the Chechnyan spokesperson Ahmed Zakayev in 2002 appeared on a conference in Copenhagen. He was shortly after arrested by the Danish Police on the grounds of being a suspected terrorist. Russia demanded that he should be extradited, but the Danish authorities refused, as Russia could not produce sufficient evidence of this being the case. Consequently, Russia chose to boycott an EU summit in Copenhagen (that later moved to Brussels) and threatened to boycott Danish goods. Zakayev was nevertheless released.

The situation quickly became serious. Threats were heard from Russian politicians and industrialists alike, even if officials claimed that business-relations would not be harmed. Yet, many Danish companies operating in Russia quickly experienced "bureaucratic checks" and other problems of red tape. Putin's party, the United Russia, called for that "[e]ach Russian must give up travels to Denmark, Danish goods, and contacts with Denmark [sic] companies."[152] Russia concluded that it basically was prepared to sacrifice Danish products (and the Danish export market) by a boycott in response.

Danish exports to Russia mainly consist of foods and raw materials (42%), but also of machines and equipment (24%), furniture (3%), footwear (2%), pharmaceutical products (2%). 15 % of Russia's meat

[152] Akhtyrov, Akhtyam (2002), 'Denmark to Learn the Price to Pay: This is the Price Denmark Will Pay for Crossing Russia', *Pravda.ru*, Published: 4 December 2005, Last accessed: 29 July 2005, Internet: http://english.pravda.ru/main/2002/12/04/40383_.html.

imports come from Denmark.[153] In the words of the Russian web-paper Pravda.ru:

> *We should also keep it in mind that Denmark is Russia's largest insulin supplier; thousands of Russian people suffering from diabetes need this medicine. The problem is very pressing; a presidential program was developed for substitution of imported insulin with domestically produced insulin. Unfortunately, production of Russian insulin hasn't started yet.*
>
> *It is not ruled out that Russian diabetics, as well as millions of Russians, are indignant at the Danish authorities that openly keep aloof from the "Ahmed Zakayev problem" and let Danish police settle it. Unfortunately, Russian diabetics might die without Danish insulin.*
>
> *…*
>
> *At the same time, this doesn't mean that we shouldn't seek Ahmed Zakayev's extradition at any price. We must. However, if the Danish authorities keep on hesitating with the extradition, Russian special services should organize Zakayev's kidnapping for a subsequent fair and open trial in Russia.*[154]

The problems that in fact did emerge were not directly a matter of Danish national security, but experiencing these kinds of action or diplomatic pressure (stemming from formal or informal channels) has a bearing on both the foreign relations and the business climate. The impact on trade in the long perspective may be small, yet it is a question that any state choosing to increase its imports has to face. The case above is not a one-time problem.

The UK has also been targeted for pressure by Russia for the same reason. It is reasonable to assume that every state that chose to prioritise rule of law instead of giving in to this kind of blackmail will have to

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[153] Slobodanuk, Dmitry (2002), 'Boycott of Denmark Become Russia's Idee Fixe', *Pravda.ru*, Published: 11 June 2002, Last accessed: 22 July 2005, Internet: http://english.pravda.ru/main/2002/11/06/39240_.html.
[154] Ibid.

countenance the same treatment, even if the method or exact response may differ.

Also Sweden has touched upon this sensitive issue, for example in 2005 when one of the cars belonging to the Russian embassy was destroyed by left-wing hooligans. Russia let it be known that it saw the incident as a consequence of Sweden's soft line on terrorism (as the Chechnyan terrorist Shamil Basayev had been interviewed a few days earlier by the TT News service).[155] On other occasions, Sweden has been accused of giving in to Russian pressure. One example is a conference on Chechnya in 2004 where Umar Chanbiev, the Minister of Health of the non-Moscow loyal Chechnyan administration, appeared as a speaker. Allegedly, Russia attempted to put pressure on the Swedish Foreign Ministry not to take part. According to a Swedish Peace Group (*Svenska freds- och skiljedomsföreningen*) the Swedish authorities gave in to the pressure and abstained from participating.[156]

Barriers against Supply Interruptions

There exists theory that says that a weak state in its relations with a strong can link unrelated issues as a means of extracting concessions form the strong state (as the domestic interactions are less complex).[157] Concessions received by weak states have most often been stemming from them blackmailing Russia. This has been the case by Turkmenistan, Ukraine and Turkey, for example in its negotiations on gas prices. This can be interpreted as a counter strategy aimed at tackling Russia by using the same means as it has used against them. The counter-strategies of small dependent states usually include using the leverage that Russian transit dependence bring along, but the barriers against bad behaviour by Russia are smaller than they first seem.

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[155] Henriksson, Ola (2005), 'Rysk diplomatisk protest mot bilbrand [Russian Diplomatic Protest Against Car Fire]', *Sveriges Radio/Ekot*, Published: 23 March 2005, Last accessed: 29 July 2005, Internet: http://www.sr.se/ekot/.

[156] Careborg, Anna (2004), 'UD påstås gå Putins ärenden [The Foreign Ministry Accused of Running Putin's Errands]', *Svenska Dagbladet*, Published: 22 October 2005, Last accessed: 8 December 2005, Internet: http://www.svd.se/dynamiskt/inrikes/did_8333150.asp. and Blom, Frida and Uggla, Martin (2004), 'UD vägrar fredsdialog [The Foreign Ministry Refuses Peace Dialogue]', *Svenska Dagbladet*, Published: 21 October 2004, Last accessed: 8 December 2005, Internet: http://www.svd.se/dynamiskt/brannpunkt/did_8326076.asp.

[157] Keohane and Nye *Power and Interdependence*, p. 27.

Some argue that Russia needs revenues from energy exports and would thus not be inclined to cut supplies, as a situation of interdependence is present. This is true when it comes to interruptions of long duration, but in basically all previous cases, cut-offs have been rather short and most often only partial. They have not inflicted any great economic loss to Russia. In fact, some cut-offs in combination with debts have resulted in Russian take-over of energy infrastructure, something that in the long run can be profitable. Besides, by having a currency reserve of US$225bn and an oil stability fund of over $US60bn, Russia can easily afford these losses.

There is a degree of interdependence, as Russia is dependent on foreign states for transit, but Russia is willing to go to great lengths to bypass transit (for example by the NEGP) and the asymmetries are so large that even the widest definitions of interdependence are not generous enough. Hence, Russia's capability to use the energy lever increases. Should a large conflict or even war materialise, unlikely as it seems, dependence on Russian energy would be devastating.

Additionally, the impact from political bad-will that so far has fallen upon Russia is negligible. Within the former Soviet territory, Russia's reputation as a reliable energy provider is already destroyed. The West got a wake-up call during the Russian-Ukrainian gas row of 2005/2006, but Russia is practically insensitive to international criticism, which has been displayed by its stand on Chechnya. Hence, even if Russia misbehaves further, there is no evidence of this having an impact on the West's willingness to import Russian energy. Russia's behaviour nonetheless seems to have been a driving factor in the EU's development of the Green Book.

Conclusions: A trigger of a crisis can be small at first sight, but a crisis may develop in a vicious way once commenced. Even if problems are not matters of national security, pressure stemming from formal or informal channels has a bearing on both foreign relations and business climate. The impact on trade in the long perspective may be small, however, it is an issue that any state choosing to increase its imports has to face. It is reasonable to assume that every state that chose to prioritise rule of law instead of giving in to blackmail will have to countenance the same sort of pressure, even if the method or exact response differs. The barriers against coercive behaviour are very small. Only against long-duration supply-interruptions the barriers safeguard against malign policy.

Appendix: Acronyms

AES	American Energy System
ASPO	Association for the Study of Peak Oil
Baltrel	The Baltic Ring Electricity Co-operation Committee
Bd	Barrels/day
Bcm	Billion cubic meters
Bmt	Billion metric tons
BPS	Baltic Pipeline System
BTC	Baku-Tbilisi-Ceyhan Oil Pipeline
BTE	Baku-Tbilisi-Erzerum Gas Pipeline
Cif	Cost, insurance, freight (for prices)
CIS	Commonwealth of Independent States
EIA	Energy Information Agency
EU	European Union
FEC	Federal Energy Commission
FOI	*Totalförsvarets forskningsinstitut* (Swedish Defence Research Agency)
FSB	*Federalnaya Sluzhba Bezopasnosti* (Federal Security Service)
IEA	International Energy Agency
G8	Group of eight
GHG	Greenhouse Gases
GTE	Gas Transport to Europe
IGO	International Governmental Organisations
INOGATE	Interstate Oil and Gas Transport to Europe
JSC	Joint Stock Company
LNG	Liquefied Natural Gas
MIC	Military-Industrial Complex (also VKP/OPK)
Mcm	Million cubic meters
Mmt	Million metric tons
MP	Member of Parliament
MPS	Murmansk Pipeline System
NATO	North Atlantic Treaty Organization
NEGP	North European Gas Pipeline
NGO	Non-Governmental Organisation
OPEC	Organization for Petroleum Exporting Countries
P/R	Production/reserve ratio
PSA	Producer Sharing Agreement
TEK	Fuel and Energy Complex
Trcm	Trillion cubic meters
Tcm	Thousand cubic metres
TRA	Tax/Royalty Agreements
TRACECA	Transport Corridor Europe Central Asia
TPES	Total primary energy supply
UCTE	Union for the Co-ordination of Transmission of Electricity
UES	United Energy System
UHL	Unconventional Hydrocarbon Liquids
UN	United Nations
VIC	Vertically Integrated Company
WTO	World Trade Organisation

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