

# PAPERS

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## **A STUDY ON CONTEMPORARY RUSSIAN GAS POLICY TOWARDS EUROPEAN COUNTRIES**

*Kyung Suk Lee*

## **AN ANALYSIS OF HOW THE EU UNDERSTANDS ITS STRATEGIC PARTNERSHIP WITH CHINA**

*Nguyen Thi Thuy Hang*

# A STUDY ON CONTEMPORARY RUSSIAN GAS POLICY TOWARDS EUROPEAN COUNTRIES

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*From the Cold war period to present, one of Russia's most pivotal resources has been energy. Russia is built on the bedrock of its energy industries which act as a buttress for the Russian nation itself. Among its various energy resources, Russia possesses a significant amount of natural gas compared to other countries around the globe. As a result, Russia has amassed strong gas ties with European countries. This paper utilizes case study analysis and content analysis in order to shed light on the substance of Russia's gas policy towards European countries. By scrutinizing the numerous Russia-EU gas pipelines, this paper deduces three definite aims of Russian gas pipeline politics in Europe. Russian gas pipeline politics have been implemented to: 1) minimize the role of the transit country; 2) directly target the gas markets of countries with high gas demand; and 3) wield political leverage against members of the Commonwealth of Independent States (CIS). Based on the assumption of the bureaucratic inertia of Russian gas policy, Russia is expected to utilize the same gas pipeline politics towards East Asia.*

After the collapse of the Soviet Union, the annexation of Crimea in 2013 re-focused the world's attention on the significance of Russian gas policy towards European countries. The Crimean annexation has overturned the regional political topography in Europe as well as the bigger picture of international politics. This was caused by Moscow's aggressive foreign policy, a main part of which was built on the energy issue between Russia and Ukraine. Putin's annexation of Crimea was driven to undermine Ukraine's energy and gas diversification strategy. For the strategy to work, the Crimean peninsula was of strategic importance.<sup>1</sup> The Crimean annexation is an example of how

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1 Frank Umbach, "The Energy Dimensions of Russia's Annexation of Crimea," *NATO Review Magazine*, <http://www.nato.int/docu/review/2014/nato-energy-security-running-on-empty/Ukraine-energy->

Russia's energy policy, as well as being one of the seminal components of international politics between Russia and European countries, is highly connected to Russian foreign policy. So far most research as to Russian gas policy has been conducted as a subfield of Russian foreign policy.<sup>2</sup> Specifically, Russia's gas policy has not been treated per se, but handled as a crucial academic subject under the big picture of Moscow's foreign policy. Research based on economic perspectives such as cost and benefit analysis and new institutional economic theory has also been mainstream in studies regarding Russian gas policies.<sup>3</sup>

However, this paper approaches Russia's gas policy by probing individual Russian gas pipelines in accordance with Russia's varying political-economic circumstances and deduces the concrete aims of Russia's gas policy. This paper concentrates on analyzing the political and economic foundations of the pipelines through a theoretical frame of both case study analysis<sup>4</sup> and content analysis.<sup>5</sup> John Gerring defines case study as an intensive study of a single unit for the purpose of understanding a larger class of similar units. A unit connotes a spatially bound phenomenon observed at a single point in time or over some delimited period of time.<sup>6</sup> In terms of Russian gas pipeline politics, political, economic, and historical characteristics are merged. Grasping the essence of Russian gas policy, case study analysis is most applicable when considering comprehensive variables. Examining

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independence-gas-dependence-on-Russia/EN/index.htm (accessed September 21, 2014).

- 2 See Jeronim Pervoc and Robert Orttung, "Russia's Energy Policy: Should Europe Worry?" *Russian Analytical Digest* 18, (2007): 2-7; Zeyno Baran, "EU energy security: time to end Russian leverage," *Washington Quarterly* 30, no. 4 (2007): 131-144; Elina Brutschin et al., "The EU and Russian gas: Is Ukraine a game changer?" *Oesterreichische Gesellschaft fuer Europapolitik*, September 2014, 1-6; Michael Ratner et al., "Europe's Energy Security: Options and Challenges to Natural Gas Supply Diversification," Congressional Research Service, August 2013, 1-29; Fraser Cameron, "The Politics of EU-Russia Energy Relations," *Eurussia Centre*, 2010, 20-29.
- 3 Evert Faber Van Der Meulen, "Gas supply and EU-Russia relations," *Europe-Asia Studies* 61, no. 5 (2009): 833-856; F. McGowan, "Can the European Union's Market Liberalism Ensure Energy Security in a Time of Economic Nationalism," *Journal of Contemporary European Research* 4, no. 2 (2008); D.J. Dudek et al., "Should Russia Increase Domestic Prices for Natural Gas?" *Energy Policy* 34, no. 5 (2006); V. Milov, "The EU Russia Energy Dialogue: Competition versus Monopolies," Paris, Institut Francais des Relations Internationales (2006).
- 4 Bennett Andrew and Elman Colin, "Case Study Methods in the International Relations Subfield," *Comparative Political Studies* 40, no. 2 (2007): 171.
- 5 Bernard Berelson, *Content Analysis in Communication Research* (Glencoe, IL: Free Press, 1952); Ole R. Holsti, *Content Analysis for the Social Sciences and Humanities* (Reading, MA: Addison-Wesley, 1969); Klaus Krippendorff, *Content Analysis: An Introduction to Its Methodology* (Newbury Park, CA: SAGE, 1989).
- 6 John Gerring, "What is a case study and what is it good for?" *American Political Science Review* 98, no. 2 (2004), 342.

individual gas pipelines is helpful for the sake of understanding the core of the Kremlin's aims in Russian gas pipeline politics. The second primary methodology is the Actor-Specific Theory of Foreign Policy Analysis which is utilized to measure political and economic circumstances of respective Russia-EU gas pipelines. In particular, this paper uses the Valerie M. Hudson analytical tool,<sup>7</sup> the Actor-Specific Theory of Foreign Policy Analysis, which is utilized to measure political and economic circumstances of respective Russia-EU gas pipelines. Understanding how humans perceive and react to, shape and are shaped by the world around them<sup>8</sup> is the crux of Hudson's Actor-Specific Theory of Foreign Policy Analysis. Snyder, Bruck, and Sapin argued that:

by emphasizing decision-making as a central focus, we have provided a way of organizing the determinants of action around those of officials who act for the political society. Decision makers are viewed as operating in a dual-aspect setting so that apparently unrelated internal and external factors become related in the actions of the decision-makers.<sup>9</sup>

Russian pipeline routes towards the EU are mainly dependent upon Russian presidents and high officials, therefore grasping their political economic intentions sheds light on the aims of Russian gas pipeline politics. However, how can decision makers' intentions be measured? In this regard, content analysis is a powerful tool to inspect decision makers' objectives. For the sake of analyzing the Russian high officials' intentions for Russian gas pipeline politics, this paper accumulates Russian high officials' historical documents, newspaper stories, political speeches, open-ended interviews, diplomatic messages and official publications. Most sources are gleaned from the website of the Ministry of Energy of the Russian Federation.

This paper analyzes each Russia-EU gas pipeline's route, as well as its political economic background and sets establishes concrete aims of Russia's gas policy towards Europe as 1) minimizing the role of the transit country to diminish economic loss; 2) targeting directly those European countries with high gas demand in order to maximize economic profit; and

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7 Valerie M. Hudson, "Foreign Policy Analysis: Actor-Specific Theory and the Ground of International Relations," *Foreign Policy Analysis* 1, no. 1 (2005): 1-30.

8 Ibid., 1.

9 Richard Carlton Snyder et al., *Foreign Policy Decision-Making: An Approach to the Study of International Politics*, (Glencoe, IL: Free Press, 1962), 85.

3) hedging the Commonwealth of Independent States (CIS) to deter their political stance towards a pro-EU one.

[Figure 1] Map of Russia's Gas Pipelines



(Source: <http://burnanenergyjournal.com/the-ukraine-russia-conflict-flows-out-of-an-energy-pipeline/>)

## Overview of Gas Pipelines Constructed during the Soviet Period

As Figure 1 depicts, during the Cold War period, the Soviet Union constructed three important pipelines: the Brotherhood, the Soyuz pipeline and the Trans-Balkan pipeline. The Brotherhood and Soyuz pipelines ran from Russia through Ukraine to Slovakia. From Slovakia the pipelines split into two branches. A smaller branch ran through Austria to southern Germany and Italy, while the larger branch of the pipeline continued to the Czech Republic, where it entered Germany at Olbernhau and Waidhaus.<sup>10</sup> The

10 Uwe Remme et al., "Future European gas supply in the resource triangle of the Former Soviet Union, the Middle East and Northern Africa," *Energy Policy* 36, no.5 (2008): 1628.

2750km-long Brotherhood pipeline was the first gas pipeline, bridging Russia, Ukraine, Slovakia and Western Europe. Completed in 1967 it had an annual capacity of about 30 billion cubic meters (bcm) and began operation in 1968.<sup>11</sup> Natural gas exports through this pipeline represented about 25 percent of the natural gas consumed in Western Europe and about 70 percent of Russian gas exports to Western Europe.<sup>12</sup> The Soyuz gas pipeline from Orenburg provided gas transportation for about 27 bcm per year from the Russia/Ukraine border to the Ukraine/Slovakia border and to Central and Western Europe. It guaranteed the reliability of Russian or Central Asian gas transit to European countries, gas supply to the Western regions of Ukraine and adjacent Moldova and Belarus, as well as the transit of Russian gas to the Balkans area. The Soyuz pipeline was put into operation in 1978.

Lastly, the Trans-Balkan pipeline was based upon an intergovernmental agreement between the Soviet Union and Turkey on September 18, 1984. In February 1986, a contract was signed with the Turkish company BOTAŞ, providing an incremental supply of gas for 25 years (1987-2011) of up to 6 bcm per year. The first deliveries of Russian natural gas to Turkey from the Soviet Union began in June 1987 via Romania and Bulgaria by the specially constructed Trans-Balkan pipeline. In 1998, a long-term contract for delivery of an additional 8 bcm per year to this region through 2022 was signed with BOTAŞ. Russian gas only entered Turkey via transit through Ukraine, Moldova, Romania and Bulgaria. Basic knowledge about the three main Russia-EU gas pipelines constructed during the Soviet era provides an understanding of how the Russia-EU gas pipeline routes have evolved after the collapse of the Soviet Union. Based upon the main three Soviet-EU gas pipelines, Moscow has extended or developed its gas pipeline routes in accordance with the following aims of Russia's gas policy.

### **Aims of Russian Gas Policy (1): Minimizing Ukrainian influence**

Before the collapse of the Soviet Union, all Soviet pipelines crossed its own territory. The question of how Russian gas reached the European market was neglected for some time, since there was no "transit" issue during the Soviet period. However, since 1991 and throughout the 1990s, Ukraine, Moldova and Belarus have argued for their sovereignty and the "transit" issue has

11 David G. Victor et al., *Natural Gas and Geopolitics: From 1970 to 2040*, (London: Cambridge University Press, 2008), 131.

12 Ksenia Borisocheva, *Analysis of the Oil and Gas-pipeline links between EU and Russia* (Athens: Center for Russia and Eurasia, November 2007), 22.

begun to stand out. Ukraine especially emerged as the single most important transit country for Russian gas exports to Europe. Between 1991 and 2000, 93 percent of Russian gas exports went through Ukraine. However, during the 1990s, the following reasons exacerbated the Ukrainian/Russian gas relationship: 1) Ukrainian inability to pay for up to \$50/bcm per year of gas imported from Russia, leading to very high levels of debt; 2) reduction of Russian gas supplies to Ukraine for short periods of time aimed at restoring the payment discipline of Ukraine; and 3) Ukrainian unauthorized diversions of volumes of gas in transit to European countries. From 1991-2000, details of the levels of debt, the delivery reductions which took place and whether they were justified, and the diversion of gas by Ukrainian parties became hotly contested issues.<sup>13</sup> Moreover, the 2006 and 2009 gas crises between Russia and Ukraine propelled Russia to reduce its dependency on the transit country.

The 2006 Ukrainian gas crisis happened due to a conflict over gas prices in the very country that had a monopoly of transit. Until December 31, 2005 Ukraine had paid \$50/trillion cubic meters (tcm) to Russia, while the market gas price in the West at the time was \$150/tcm. Therefore, on January 1st, 2006, Gazprom demanded that Ukraine pay \$150/tcm, a threefold increase from the earlier change. Gazprom insisted that Ukraine must pay the same gas price that was decided by the European gas market because the previous contract had expired. Ukraine, on the other hand, continued to reject the increase in gas price.<sup>14</sup> Moscow did not hesitate to shut down the gas supplies to some of its post-Soviet neighbors in order to secure its higher energy prices. The crisis of 2006 was resolved by the political intervention of Putin, who imposed a complex agreement<sup>15</sup> and the flow of gas resumed once the Ukrainians agreed to pay the market price.

The second Ukraine gas crisis took place in January 2009. During the second gas crisis, Russian gas exports to Ukraine were cut off on January 1 leading to gas deliveries to several European member states being affected on January 2. On the night of January 6 to 7 all gas supplies from Russia to Ukraine and the EU were cut off. Moscow claimed that Ukraine had stolen Russian gas bound for European consumers. According to Moscow, between January 1 and 6, 86 million cubic meters of gas was stolen by Ukraine.

13 Stern Jonathan, "The Russian-Ukrainian gas crisis of January 2006," *Oxford Institute for Energy Studies* 16 (2006): 6.

14 Marshall I. Goldman, *Petrostate, Putin, Power and the New Russia* (New York: Oxford University Press, 2008), 145.

15 Tugce Varol, *The Russian Foreign Energy Policy* (Kocani: EGALITE, 2013), 248.

Moscow contended that the reduction of Russian gas supplies was felt in seven European countries: the Czech Republic, Turkey, Poland, Hungary, Romania, Bulgaria, and Greece. The Russian gas supplies had dropped by 5-30 percent. By January 5, the volume of unauthorized gas tapping amounted to 65.3 million cubic meters.<sup>16</sup> Therefore, Gazprom CEO Alexei Miller stated on January 6 that Gazprom had stopped all deliveries into the system because Ukraine had closed it down. On the other hand, Ukraine claimed that they used a certain amount of gas as “technical” fuel needed to operate the network.<sup>17</sup> The two sides finally negotiated two new contracts covering supply and transit which were signed on January 19, 2009. Putin and Timoshenko signed an agreement to end the dispute, and the heads of Gazprom and Naftogaz signed a supply and a transit contract, both covering the ten year period from 2009 to 2019.<sup>18</sup> According to the agreement, it was accepted that the price for natural gas for Ukraine in the first quarter of 2010 was to be \$305 and \$330 in the second quarter. On January 22 of the same year, the pipelines began to operate again and two days later levels of gas returned to normal. The 1990s conflict between Russia and Ukraine and the following Ukrainian Crisis in 2006 and 2009 took place because Ukraine insisted on its own sovereignty power regarding the Russian gas pipeline in its territory. As Table 1 reveals, Russian gas export routes highly depend on Ukraine. Approximately 90 percent of the total amount of gas exports has transited across Ukrainian territory. Ukraine has used this dependency as a negotiation tool to further its political and economic interests. Conversely, Russia has regarded Ukraine as one of the detrimental transit countries which has damaged its national security and interest. In this respect, after the collapse of the Soviet Union, Russia constructed various bypass gas pipelines to minimize the export dependency on Ukraine.

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16 Unauthorized gas tapping refers to how Ukraine utilized a certain amount of gas for its economy that should have been transited to Balkan countries. From January 1 to 5, 2009 Russia's gas pipeline indicators showed that 65.3 million cubic meters of gas had been transited to Ukraine. The Balkans' countries didn't receive the corresponding amount of gas from Ukraine.

17 Simon Pirnai et al., “The Russo-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment,” Oxford Institute for Energy Studies, Natural Gas, February 2009, 19-20.

18 Ibid., 25-26.

[Table 1] Gas Transit Volumes through Ukrainian GTS (Gas Transportation Services)

Year	Total Transit	Transit to EU+*	Ratio Percent	Transit to CIS
2000	120.6	109.3	90	11.3
2001	124.4	105.3	84	19.1
2002	121.4	106.1	87	15.3
2003	129.2	112.4	86	16.8
2004	137.1	120.4	87	16.7
2005	136.4	121.5	89	14.9
2006	128.5	113.8	88	14.7
2007	115.2	112.1	97	3.7**
2008	119.6	116.9	98	2.7
2009***	120.0	116.9	97	3.2

(Source: Michael Gonchar et al., "The impact of Nord Stream, South Stream on the gas transit via Ukraine and security of gas supplies to Ukraine and the EU," *Electronic Publications of Pan-European Institute*, August 2009, 63.)

Remarks:

Transit volumes according to official figures of NAK Naftogas of Ukraine

\*EU+ means EU countries and Turkey

\*\* This figure only represents transit via Moldova (after construction of the bypass gas pipeline Sokhanovka-Oktyabrskaya transit from Russia to Russia through a short run via East of Ukraine was not performed)

\*\*\* Indicative figures for 2009 according to technical agreement between NAK Naftogas of Ukraine and OAO Gazprom as of June 4, 2009.

### Yamal-Europe Pipeline

The Yamal Europe pipeline was the first gas pipeline constructed to minimize Ukrainian influence. With a total length of approximately 4000 km, the Yamal-Europe gas pipeline connected Western Europe with the rich natural gas deposits of the Yamal peninsula which is located in northwest Siberia, a strategic oil and gas region of Russia. The transnational Yamal-Europe gas pipeline runs across four countries: Russia, Belarus, Poland, and Germany. The new export corridor increased flexibility and reliability of Russian gas supply to Western Europe. The European Union qualified the Yamal-Europe as the top-priority investment project implemented as part of the Trans-European Network (TEN). The gas pipeline construction started in 1994, and in 2006 the Yamal-Europe gas pipeline reached its design capacity of 32.9

bcm upon commissioning of the last compressor station.<sup>19</sup> Putin mentioned on November 17, 2007 at a Russia-EU energy dialogue the negative impact of the problematic transit countries: “Problematic relations between Moscow and countries located along energy transit routes to Europe create a source of instability and undermine the reliability of supplies.”<sup>20</sup> Thus, diversification of transit routes in order to minimize the impact of transit routes is significant for Russia. In this respect, Putin gave an official speech at the Davos World Economic Forum on January 28, 2008 about the role of the Yamal-Europe pipeline:

One of the key problems is the safe transit of energy. There are two ways to solve the issue and both of them must be used...The second way is development and diversification of transportation routes for energy resources. We have been actively working in this direction for a long time. Only in recent years we fulfilled such projects as gas pipelines Yamal-Europe and Blue Stream.<sup>21</sup>

He went on to say that “life has proved their urgency and demand.”<sup>22</sup> By the completion of the Yamal-Europe gas pipeline, Moscow was able to reduce transit instability and increase the reliability of its gas supply system. Gazprom Chairman Rem Vyakhirev mentioned that “With the Yamal pipeline, European customers will be able to receive Russian gas from different directions. This increases the reliability of the system, increases the security and, as a result, raises the price.”<sup>23</sup>

### *Blue Stream*

The Russian-Turkish Blue Stream gas pipeline was launched as the result of the signing of an intergovernmental agreement between Russia and Turkey. On December 15, 1997, Russia and Turkey signed a 25-year deal under which the Russian gas company Gazprom would construct a new gas export

19 See, <http://www.gazprom.com/about/production/projects/pipelines/yamal-evropa/>.

20 “Putin gave a speech at Russia-EU energy dialog,” November 17, 2007, [http://eng.globalaffairs.ru/number/n\\_9785](http://eng.globalaffairs.ru/number/n_9785) (accessed September 30, 2014).

21 “Putin’s speech at Davos World Economic Forum,” January 28, 2009, <http://rt.com/politics/official-word/putin-s-speech-davos-world-economic-forum/> (accessed October 2, 2014).

22 Ibid.

23 Paul Klebnikov, “Sorcerer’s apprentice,” *Forbes Online*, September, 1997, <http://www.forbes.com/forbes/1997/0922/6006052a.html> (accessed November 12, 2014).

pipeline to Turkey for the annual delivery of around 14.15 bcm of natural gas by early 2000. The Blue Stream is a 1,250 km pipeline that connects Russia to Turkey. It runs from the Izobilnoye gas plant in southern Russia across the Black Sea bed to the Turkish port of Samsun, and onwards to Ankara. Construction began in the 1990s and was completed in October 2002. The Blue Stream's design capacity of 16 bcm was reached in 2007, providing a major alternative to Ukraine above ground gas transit to Western markets.<sup>24</sup> The Blue Stream was intended for deliveries of Russian natural gas to Turkey going under the Black Sea with the express intention of avoiding third countries issues (the Trans-Balkan gas pipeline). Russia attempted to reduce former friction of gas supply with Ukraine that took place during the 1990s. Putin assessed the construction of the Blue Stream as finding a direct path to have an access to a new gas market.<sup>25</sup> Also, Putin remarked to foreign media on January 2009 that the Blue Stream diminished dependency on transit countries:

The most important thing today, one of the key issues, is to ensure the safety of supplies. Russia has long set the task of diversifying supplies of our energy. To this end...we built the Blue Stream pipeline to Turkey on the bottom of the Black Sea. By the way, it is operating today at full capacity, which goes some way to ease the situation.<sup>26</sup> If we had built, if nobody had impeded our building of such a pipeline system under the Baltic Sea, that pipeline would already be in operation. We very much hope that the current events will encourage us all to adopt civilized market forms of cooperation.<sup>27</sup>

### *Nord Stream*

In line with the increase of gas supply of the EU during the 2000s, Gazprom, E.ON Ruhrgas and BASF/Wintershall agreed to construct the North European

24 Kevin Rosner et al., *Gazprom and the Russian State* (London: GMB Publishing Ltd, 2006), 51.

25 Russian Government Archives, "Prime Minister Vladimir Putin attends United Russia's interregional conference titled 'Strategies for the Socio-Economic Development of Southern Russia up to 2020. The 2011-2012 Program,'" May 6, 2011, <http://archive.government.ru/eng/docs/15104/print/> (accessed September 30, 2014).

26 Russian Government Archives, "Russian Prime Minister Vladimir Putin met with foreign media," January 8, 2009, <http://archive.government.ru/eng/docs/2956/> (accessed September 30, 2014).

27 Ibid.

Gas Pipeline in September 2005, otherwise called Nord Stream.<sup>28</sup> The Nord Stream links Russia's Baltic Sea coast near Vyborg with Germany's Baltic Sea coast in the vicinity of Greifswald. The Nord Stream gas pipeline is a fundamentally new route for Russian gas export to Europe. The Nord Stream has two parallel legs, each of which has an annual capacity of 27.5 bcm of natural gas. The first Nord Stream pipeline began operating in November 2011, sending the first supplies from Russia to an estimated 26 million homes in the EU. The second stretch of the Nord Stream gas pipeline began operation in October 2012. The Nord Stream has a full capacity of 55 bcm per year, which it reached in 2013.<sup>29</sup> The target markets for gas supplies via Nord Stream are not only Germany but the UK, the Netherlands, France, Denmark and others. This new gas pipeline is significant for meeting the increasing natural gas demand in the European market. The EU's annual demand for natural gas imports, which was approximately 307 bcm in 2011, will increase to 450 bcm in 2035.<sup>30</sup> Because there are no transit countries in the Nord Stream, gas transmission costs are reduced and any possible political risks are eliminated. The Nord Stream provides customers in Western Europe with the most reliable gas deliveries.

The Nord Stream construction was motivated by the 2006 gas dispute between Russian Gazprom and Ukraine. Approximately 80 percent of Russia's gas exports to European markets flow through Ukraine. And when Gazprom in January 2006 reduced the supply levels to Ukraine, Western Europe, especially Germany, was affected. However, the Ukrainian gas cut-off also caused severe economic loss to Russia as well. In this regard, Russian gas policy attempted to reduce its dependency on Ukraine. Dmitry Medvedev gave a remark that the construction of the Nord stream altered the topic of gas transportation:

Ukraine is of great interest to us as a partner, that's for sure. Our interest has not waned, because Ukraine is our closest neighbor and a country with which we have an affinity and close partnership in a whole range of areas. But the topic of natural gas has changed somewhat in recent time.

28 Bendik Solum Whist, "Nord Stream: Not just a pipeline: An analysis of the political debated in the Baltic Sea Region regarding the planned gas pipeline from Russia to Germany," Fridtjof Nansen Institute, 2008, 5.

29 Ibid., 6.

30 International Energy Agency (IEA), *World Energy Outlook* 2013.

Putin also mentioned that the Nord stream played a significant role to reduce transit risks. “As for reducing transit risks, as we have repeatedly noted, with the launch of the Nord Stream, Ukraine has lost its role and significance as an exclusive transit country for Russian gas supplied to Europe.”<sup>31</sup> Putin highlighted that the problem of transit countries has severely damaged Russian national interest and argued that the construction of the Nord Stream was the breakthrough to overcome the traditional Russian predicament:

The truth is that following the breakup of the Soviet Union, Russia lost direct access to its largest export markets. This created the problem of transit countries, which has sought to profit from their monopoly of position by obtaining unilateral advantages. This was the root of the well-known conflicts. Naturally, such a situation did not serve Russia’s interests, nor those of our energy consumers. That was why the key European energy companies and governments of many European countries, including Germany, backed Russia’s plans to build gas pipelines under the Baltic Sea (Nord Stream) and under the Black Sea (South Stream). With these routes in place, the European continent will have diversified and flexible system of gas supplies. This paper is confident that all far-fetched problems in the energy sector will be left in the past.<sup>32</sup>

### *South Stream*

On June 23, 2007 in Rome, ENI Chief Executive Paolo Scaroni and Gazprom Vice-Chairman Alexander Medvedev signed a memorandum of understanding to build a gas pipeline from Russia to Italy, the South Stream. The South Stream is under construction now and is due to be completed in 2015. The South Stream will originate on Russia’s Black Sea coast at Beregovaya, the same starting point as that of the Blue Stream pipeline to Turkey. The South Stream will run some 900 kilometers along the seabed of the Black Sea to Bulgaria and reach a maximum water depth of more than 2,000 meters. Then the South Stream will traverse Bulgaria, Serbia, Hungary, and Slovenia and terminate in Italy. Moreover there are several pipeline branches from

31 “Prime Minister Vladimir Putin meets with Gazprom CEO Alexei Miller,” Russian Government News April 19, 2012, <http://www.highbeam.com/doc/1G1-287179473.html> (accessed September 30, 2014).

32 Vladimir Putin, “Russia and Europe: From an Analysis of Crisis Lessons to a New Partnership Agenda,” *Süddeutsche Zeitung*, November 25, 2010, <http://www.denmark.mid.ru/fp-e-02.html> (accessed October 4, 2014).

Serbia to Croatia, from Serbia to Bosnia & Herzegovina, and from Hungary to Austria. Launching the South Stream was also a policy reflecting Russia's intention to reduce overland transit through neighboring countries. The South stream on the seabed of the Black Sea is intended to circumvent both Ukraine and Turkey.<sup>33</sup>

Putin addressed the significance of the South Stream in Milan with his Italian counterpart Silvio Berlusconi in 2010:

The South Stream is also very important, since it guarantees the supply of Russian natural gas, if difficulties arise similar to those that, due to a series of issues, unfortunately, recently occurred in Ukraine, a country where there is a lack of political stability. So the South Stream pipeline ensures that countries like Bulgaria, Romania, and Italy will not be left without natural gas.<sup>34</sup>

Furthermore, Putin directly mentioned the negative impact of transit countries and this impact was the external driving factor of construction of the South Stream: "After the Soviet Union's disintegration we found ourselves beholden to a host of mediators and transit countries. We plan to start laying the South Stream on the Black Sea bottom at the end of this year."<sup>35</sup> In this regard, along with the Russian gas pipeline diversification policy, the South Stream will play its strategic role to minimize the detrimental impact of transit countries. Putin asserted the necessity of Russian gas pipeline diversification policy in front of the Ukrainian Prime Minister, displaying Russia's firm will to overcome the problem

It is necessary to diversify energy supply routes to Europe as far as possible. We shouldn't limit ourselves to using the existing transit facilities; I have already mentioned that we are ready to consider working with our Ukrainian partners on improving Ukraine's gas transportation system. We also need to eliminate risks and

33 Vladimir Socor, "South Stream: Gazprom's New Mega Project," *Eurasia Daily Monitor*, 2007, [http://www.jamestown.org/single/?tx\\_ttnews%5Btt\\_news%5D=32826&no\\_cache=1#.VLDmbyusU4w](http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=32826&no_cache=1#.VLDmbyusU4w) (accessed October 3, 2014).

34 Russian Government Archives, "Prime Minister Vladimir Putin and his Italian counterpart Silvio Berlusconi hold a joint news conference following talks in Milan," April 26, 2010, <http://archive.government.ru/eng/docs/10354/> (accessed September 30, 2014).

35 Russian Government Archives, "Prime Minister Vladimir Putin delivers his report on the government's performance in 2011 to the State Duma," April 11, 2012, [http://www.veleposlanistvorusije.mid.ru/doc/pr\\_eng\\_18042012.htm](http://www.veleposlanistvorusije.mid.ru/doc/pr_eng_18042012.htm) (accessed October 1, 2014).

diversify these routes, as well as build new pipelines, namely the Nord Stream along the Baltic seabed and the South Stream along the Black seabed, in the Balkan direction.<sup>36</sup>

Most recently Medvedev readdressed the South Stream will open a new gas export route bypassing Ukraine:

We used traditional routes across Ukraine as our main supply routes. The volume of transit gas supplies to Europe across Ukraine increased in 2013 to a total of over 86 billion cubic meters. We've been consistently increasing our supplies using other routes, such as the South Stream project, which is one of Gazprom's priority investment projects, is on schedule. We've begun the construction of onshore sections of the pipeline in Bulgaria and Serbia. Gas supplies to Europe using the South Stream will begin in late December 2015. This will give us an additional gas exports route.<sup>37</sup>

## **Aims of Russian Gas Policy (2): Direct Targeting of High Demand Markets**

The Russian economy has had high dependency on energy exports, not only of oil but also of gas, because energy exports are the primary revenue source for Russia. According to the U.S. Energy Information Administration (EIA), Russia exported almost 90 percent of its annual gas production to European countries in 2012. In 2013, oil and gas sales accounted for 68 percent of Russia's total export revenue. Energy industries in Russia are the crux of support for the economy. However, since 2001, most European countries have attempted to diversify their gas supply from Russia. European Commission president José Manuel Barroso officially declared that the EU's primary aim of gas supply is diversification. Particularly, after the Ukraine gas crises in 2006 and 2009 European countries realized the jeopardy of high dependency on Russian gas supply. Therefore as Figure 2 illustrates, since 2001 gas exports through Russian gas pipelines have been steadily declining. In 2001, gas imports from Russia through the gas

36 Russian Government Archives, "Prime Minister Vladimir Putin held negotiations with Ukrainian Prime Minister Yulia Tymoshenko in Moscow, following which Gazprom and Naftogaz Ukraine signed a contract for the sale and purchase of natural gas for 2009-2019," January 19, 2009, <http://archive.government.ru/eng/docs/3036/> (accessed October 1, 2014).

37 Russian Government Archives, "Dmitry Medvedev holds a meeting with Gazprom Board Chairman Alexei Miller," March 4, 2014, <http://government.ru/en/news/10886/> (accessed October 1, 2014).

pipelines of Europe accounted for 46 percent but in 2012 only accounted for 34 percent.

Along with declining European dependency on Russian gas, Moscow has aimed to maintain its gas supply for the Russian economy. Particularly, its main target is countries that have high gas demand and low gas dependency on Russia. Table 2 shows an analysis of European gas dependency by country done by Tugce Varal.<sup>38</sup> He classified the European countries into four groups: Low Dependent countries who import natural gas at a ratio of 0-25 percent, Moderate Dependent countries importing at 25-50 percent, Dependent countries importing at 50-75 percent and finally High Dependent countries importing at 75-100 percent.<sup>39</sup>

According to the BP statistical review of world energy Germany was the largest gas consumption country in 2013 (annual gas consumption of 83.6 bcm). Next was the United Kingdom (73.1 bcm), Italy (64.2 bcm), Turkey (45.6 bcm), France (42.8 bcm), and the Netherlands (37.1 bcm). Except for Turkey, all of the top five countries are EU members and belong to the Low Dependent group (the United Kingdom, Italy, and France) or the Moderate Dependent group (Germany and the Netherlands). Russian gas policy is directly targeting these countries by constructing gas pipelines in order to increase the gas supply. This chapter analyzes how Russian gas pipelines which have already been constructed or are currently under construction have played a role in directly targeting specific countries which have high gas demand and are categorized into the Low Dependent or Moderate Dependent group.

### *Nord Stream*

The Nord Stream was planned to target western European countries such as Germany, the UK, the Netherlands, and France. The UK and France belong to the Low Dependent group and Germany belongs to the Moderate Dependent group. As of 2014, Germany is the largest gas consumption country in Europe and its total gas consumption is also the highest in Europe among these four countries. However as Figure 3 shows, gas imports through Russian gas pipelines in Germany and France have been declining steadily.

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<sup>38</sup> Varal, *The Russian Foreign Energy Policy*, 207.

<sup>39</sup> *Ibid.*, 209.

[Table 2] Dependency Model for the EU-27 members

Low Dependent 0-25 Percent	Moderate Dependent 25-50 Percent	Dependent 50-75 Percent	High Dependent 75-100 Percent
Belgium	Germany	Czech Republic	Bulgaria
Spain	Greece	Estonia	Lithuania
France	Latvia	Romania	Hungary
Italy	Netherlands		Poland
Luxembourg	Austria		
Slovenia			
Sweden			
United Kingdom			
Ireland			
Cyprus			
Malta			
Portugal			

(Source: Tugce Varol, op. cit., 209).

\*Denmark is out of dependency

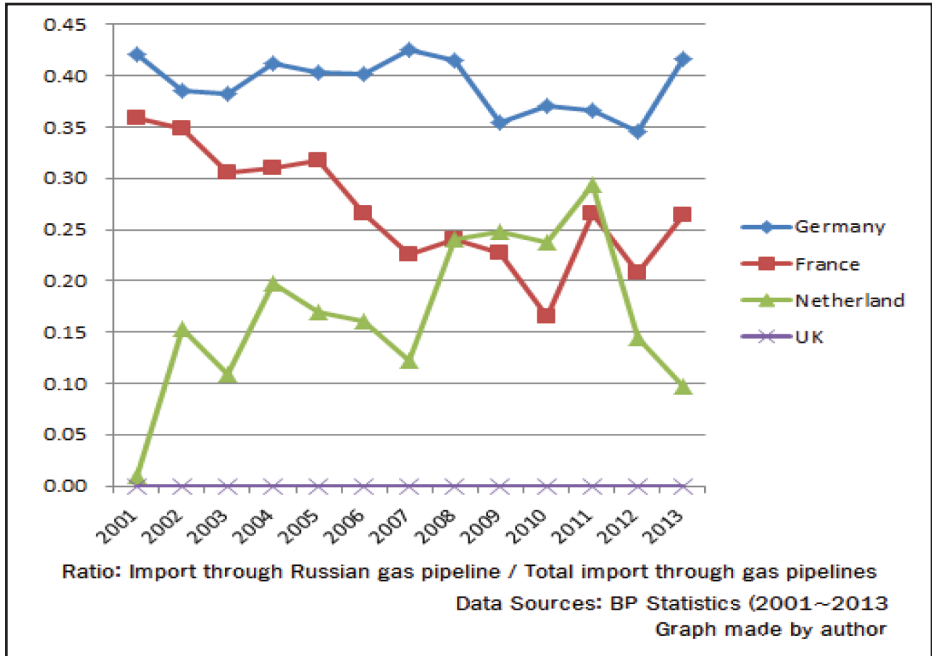
It is noteworthy that the UK didn't import any amount of gas at all through Russian gas pipelines. Only the Netherlands gas imports through Russian gas pipelines were increasing until 2011 but plummeted in 2012 and 2013.

Therefore, Moscow constructed the Nord Stream, which can supply a full capacity of 55 bcm per year, targeting major western European countries. As of 2014, the Nord Stream gas pipeline is not connected with all four countries, but Germany has been supplied by the Nord Stream since 2013. After Nord Stream began operating, German gas imports from Russian gas pipelines increased by 42 percent in 2013, compared with 35 percent in the previous year. It is expected that a similar trend will be observed in other countries as well in the future. Medvedev explained economic condition was one of the contributing factors for building the Nord Stream:

Naturally the development of Nord Stream, building new lines is possible under two conditions. The first condition is economic. It lies in the fact that there will be consumption and there will be customers willing to buy gas. This will spur the development of new fields and new volumes of pipeline gas will be supplied to Europe.

The construction of the Nord Stream is a financial and economic issue.<sup>40</sup>

[Figure 2] Share of Gas Import through Russia's Gas Pipelines in Germany, France, the UK and the Netherlands (2001-2013)



Putin frankly mentioned that he decided upon the construction of the Nord Stream due to its economic potential stating, “as for the Nord Stream project, it is one of the largest gas supply investments, but it is important that Russia expands the basis of its economic potential.”<sup>41</sup> Medvedev congratulated Gazprom employees by mentioning on the twentieth anniversary of the company that, “unique projects like the Nord

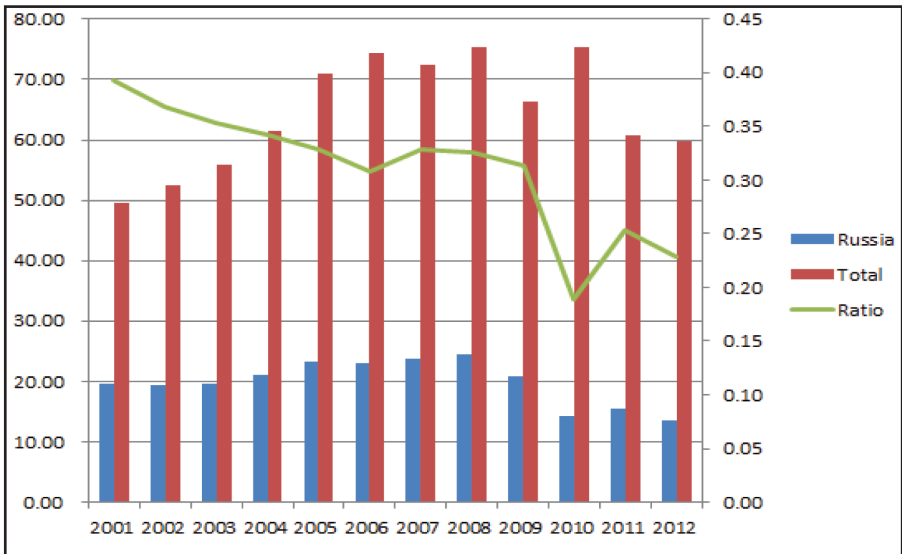
40 Russian Government Archives, “Dmitry Medvedev holds a news conference following the Baltic Sea Forum,” April 5, 2013, <http://government.ru/en/news/1182/> (accessed October 1, 2014).

41 Russian Government Archives, “Prime Minister Vladimir Putin and Chancellor of the Federal Republic of Germany Angela Merkel hold a joint news conference following Russian-German talks,” Nov. 26, 2010, <http://archive.government.ru/eng/docs/13124/print/> (accessed September 30, 2014).

Stream gas pipelines enable Gazprom to enter new markets,”<sup>42</sup> and that the Nord Stream is expected to increase Russian national economic interest. Also, Putin made no bones about telling CEOs and top managers of leading German companies that the Nord Stream is for Russian economic interests:

Yes, it's about our interests. We wanted to make more money. We wanted to see the pipelines on our soil, so we would make more money on transit. But why should we suffer? It finally seems to me that people are beginning to understand these fundamental things if they don't understand them already. This is, first of all, an understanding of interdependence and mutual interests. It is natural that we are now looking for ways to further develop our relations in such a way as to minimize the risks, which would allow us to work according to common rules that would create a more competitive environment for our businesses.<sup>43</sup>

[Figure 3] Share of Gas Import through Russia's Gas Pipeline in Italy (2001-2012)



42 Russian Government Archives, “Prime Minister Dmitry Medvedev congratulates Gazprom employees on the 20<sup>th</sup> anniversary of the company,” February 20, 2013, <http://government.ru/en/news/440/> (accessed September 30, 2014).

43 Russian Government Archives, “Prime Minister Vladimir Putin, on a working visit to the Federal Republic of Germany, takes part in the 4th annual economic forum of CEOs and top managers of leading German companies,” November 26, 2010, <http://archive.premier.gov.ru/eng/events/news/13118/> (accessed September 30, 2014).

*South Stream*

The main target country of the South Stream is Italy which belongs to the Low Dependent group. The Italian gas market is attractive like that of Germany. Italy's gas consumption was 64.2 bcm in 2013, making it the third largest gas consumption country in Europe. However, as Figure 4 depicts, since 2001, Italy's gas dependency on Russia has been declining, even though gas imports through other gas pipelines were increasing up to 2010. The gas imports through Russian gas pipelines accounted for 40 percent of imports in 2001, but plummeted by 23 percent in 2012. After the 2009 Ukraine crisis, the gas imports through Russian gas pipelines accounted for 19 percent of imports. In contrast to Italy's dependency on Russia, as Figure 5 reveals, Austria, Croatia, Hungary, Slovenia, Serbia, and Bulgaria have maintained high gas dependency on Russia. According to a BP statistical review of world energy, the individual ratios of gas imported by these countries, which are the shares of gas imported through Russian pipelines compared to total gas imports through all gas pipelines, were almost all above 60 percent. Notably, Bulgaria, Hungary, and Croatia's ratios were above 80 percent, meaning that their gas dependency on Russian gas pipelines is extremely high. Serbia, Slovenia, and Austria also have relative high gas dependency on Russian gas pipelines. Therefore, the construction of the South Stream is exclusively targeting the Italian gas market by maximizing the Russian gas export revenue through it.

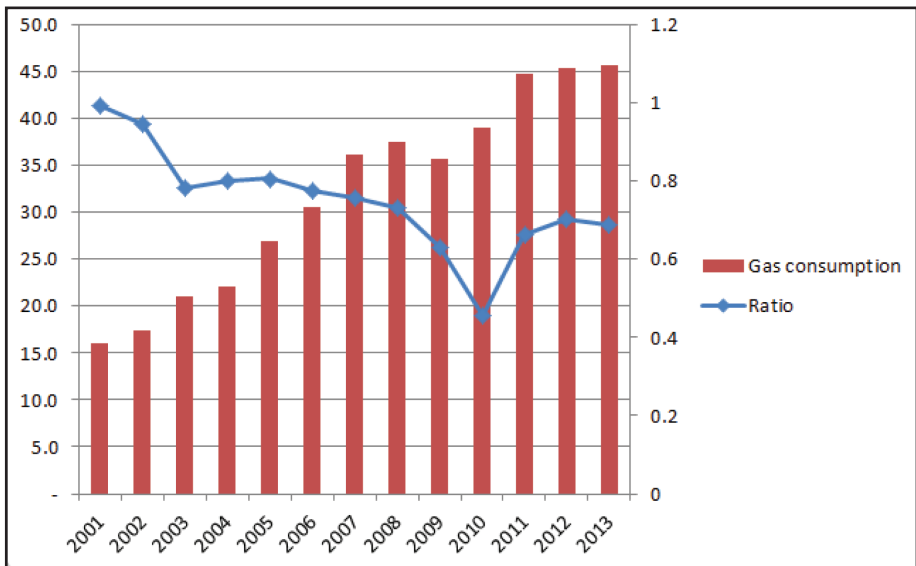
Italian high officials advocated the construction of the South Stream because the Italian government has striven to secure a stable gas supply. Franco Frattini, former Foreign Affairs Minister of Italy, mentioned on April 27, 2009 that, "Italy will appeal that the South Stream gas pipeline which was included in the list of prioritized projects of the European Project," and Federica Guidi, former Italian Minister of Economic Development, also said on March 7, 2014 that, "Italy will continue to support the South Stream, which is among strategically important infrastructure projects. South Stream further strengthens the existing gas supply network." In line with the increasing Italian gas market, Russia has planned to enhance its gas influence through the South Stream. Putin evaluated that the South Stream will certainly improve the energy component, revive the energy sector in that part of Europe, and will stabilize energy supplies to the European markets.<sup>44</sup> Also he mentioned that, "The South Stream gas pipeline enables

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44 Russian Government News, "Prime Minister Vladimir Putin meets with Turkish Minister of

Gazprom to enter new markets. It is important because of its strengthening of production potential and maintenance of impressive gas production volumes.”<sup>45</sup> It is thus obvious that Putin thought the South Stream would contribute to overcoming Russian economic difficulties. On February 16, 2010, Putin gave an official speech to the media after the Russia-Greek intergovernmental talks and mentioned, “South Stream is designed to help overcome the current economic difficulties and create the conditions for post-crisis development. It is a major international European project built on market principles.”<sup>46</sup> Like the Nord Stream, the South Stream is also a strategic instrument for Russia to increase its gas exports targeting the South-West European countries. Putin and Dmitry Medvedev also assessed that the South Stream will give Russia additional gas exports.<sup>47</sup>

[Figure 4] Share of Gas Import through Russia’s Gas Pipeline and Gas Consumption in Turkey (2001-2013)



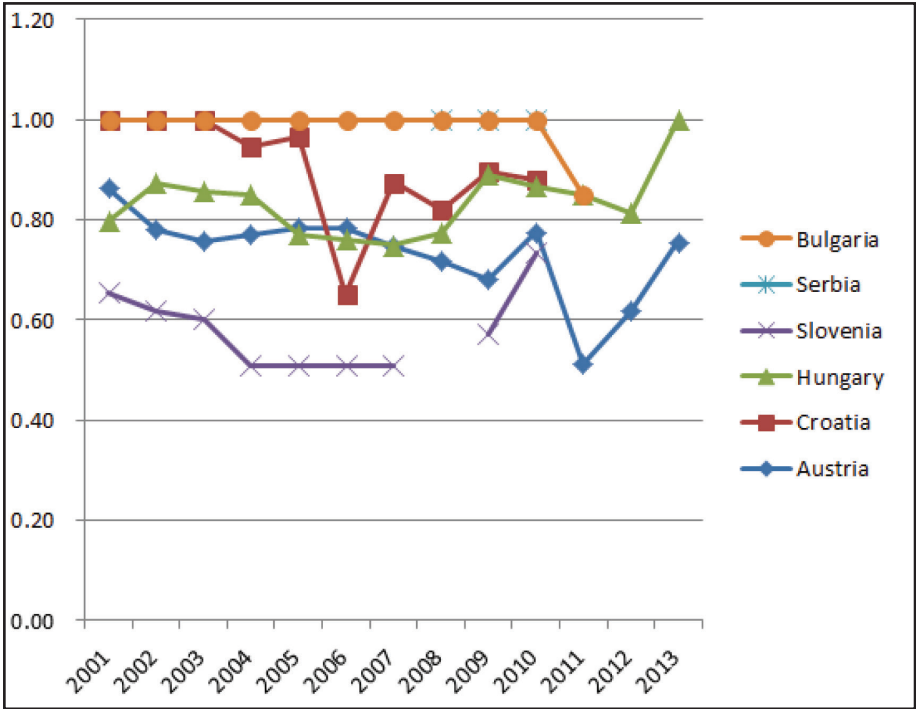
Energy and Natural Resources Taner Yiddish,” December 28, 2011, <http://www.highbeam.com/doc/1G1-275897562.html> (accessed September 30, 2014).

45 The Russian Government Archives, “Prime Minister Dmitry Medvedev congratulates Gazprom employees on the 20<sup>th</sup> anniversary of the company,” December 20, 2013, <http://government.ru/en/news/440/> (accessed September 30, 2014).

46 Russian Government Archives, “Prime Minister Vladimir Putin and Greek Prime Minister George Papandreou speak to the media following Russian-Greek intergovernmental talks,” February 16, 2010, <http://archive.government.ru/eng/docs/9423/> (accessed September 30, 2014).

47 Russian Government Archives, “Dmitry Medvedev holds a meeting with Miller.”

[Figure 5] Share of Gas Import through Russia's Gas Pipelines in Bulgaria, Serbia, Slovenia, Hungary, Croatia, and Austria (2001-2013)



\*Ratio: Import through Russia's gas pipeline / Total import through gas pipelines

(Source: BP energy statistics 2001-2013) / Graph made by author

### Blue Stream and Blue Stream II

Along with Germany and Italy, the gas market of Turkey is also one of the emerging markets in Europe. During the 2000s, excluding 2010, Turkey's national gas consumption has been increasing steadily. Turkey's gas consumption in 2013 was 45.6 bcm, the fourth largest gas consumption among countries on the European continent. However as Figure 6 describes, since 2001, gas dependency on Russia has been declining. In the early 2000s, Turkey imported almost all gas through Russian gas pipelines. The ratio of Russian gas pipeline dependency was 99 percent in 2001 and 94 percent in 2002. However, dependency has been plummeting gradually and Russian gas pipeline dependency in 2013 was 68 percent. In over 10 years the dependency ratio dropped almost 30 percent.

Recovering the Russian gas market share in Turkey's gas market in the mid-2000s, the Blue Stream was constructed in 2002 and in 2007 reached its full capacity level of 16 bcm. Putin spoke of how Russia had found a direct path to the new market.<sup>48</sup> The Kremlin realized how important the Turkish gas market was due to its continuous growth into the present. Indeed, the Turkish government asked the Kremlin to increase the gas supply. Putin said in 2010 that, "Russia's closest neighbors sometimes ask Russia to increase the volume of contracted gas. For example, in the past few years Turkey asked Russia to increase gas supplies in winter."<sup>49</sup> Putin instructed Gazprom CEO Alexi Miller to resolve contractual challenges to increasing the gas supply to Turkey. Alexi Miller stated that:

We are ready to resolve such problems. Turkey is one of the largest buyers of Russian natural gas and has asked us several times in the last few years to increase supplies. For example, in late August it had problems with gas supplies through the Iran-Turkey pipeline. Acting at the request of our Turkish colleagues, we doubled gas deliveries to them through the Blue Stream pipeline. We supplied additional volumes of gas for ten days, helping Turkey to deal with the emergency. We have sufficient capability to help our partners if this happens again, and this concerns not only Turkey but also other countries.<sup>50</sup>

According to BOTAS forecasts in 2012, Turkey's gas demand will almost double from 45 bcm in 2012 to 81 bcm by 2030. The main driver of this rapid growth will be gas-fired electricity generation.<sup>51</sup> In order to preempt the Turkish gas market and increase the Russian gas market share in Turkey, Putin mentioned that after the completed construction of the South Stream, the Russian government was considering the building of a Blue Stream II pipeline across the Black Sea to Turkey: "The decision will depend on the consumer market in Cyprus and other countries. Israel is unlikely to import our gas, so we should consider other consumers. We are discussing these

48 Russian Government Archives, "Prime Minister Vladimir Putin attends...Program."

49 Russian Government Archives, "Prime Minister Vladimir Putin holds a meeting with Gazprom CEO Alexei Miller," October 8, 2010, <http://archive.premier.gov.ru/eng/events/news/12513/> (accessed September 30, 2014).

50 Ibid.

51 Gulmira Rzaeva, "Natural Gas in the Turkish Domestic Energy Market: Policies and Challenges," *The Oxford Institute for Energy Studies*, February 1, 2014, <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2014/02/NG-82.pdf> (accessed October 11, 2014).

options with our Turkish friends.”<sup>52</sup>

Moreover, Putin considered the construction of a Blue Stream II as an instrument to hedge the construction of the Nabucco pipeline. Turkey and Azerbaijan signed an agreement on the Shah Deniz-2 gas field. As a result, Azerbaijan will supply gas to Turkey via the Nabucco pipeline.<sup>53</sup> This sort of Turkish gas diversification strategy will definitely damage Russian gas policy. Therefore, in order to maintain Russian gas influence over Turkey, Putin officially declared the possibility of construction of a Blue Stream II:

The prime minister of Turkey and I have previously discussed the possibility of building a Blue Stream II pipeline, as well as additional trunk pipelines and pipeline offshoots along the bottom of the Black Sea, from Russia directly to Turkey. This could involve gas deliveries to third countries. These are all viable projects backed by the necessary raw materials and resources. We will continue to work in this direction.<sup>54</sup>

Moreover, Gazprom CEO Alexei Miller mentioned that the Turkish government will support the construction of a Blue Stream II:

Turkey supports the Blue Stream II project - to build a third pipeline section parallel to the two pipelines running across the Black Sea and delivering gas to Turkey. Turkey wants the projected capacity of the new pipeline to provide not only for gas transit via Turkey, in particular to Israel, but also for gas supplies to the Turkish domestic market. Gazprom enjoys a good reputation as a reliable supplier to the Turkish market; every year we help our Turkish partners in the

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52 Russian Government Archives, “Prime Minister Vladimir Putin meets with participants of the 7th meeting of the Valdai International Discussion Club in Sochi,” September 6, 2010, <http://archive.premier.gov.ru/eng/events/news/12039/> (accessed September 28, 2014).

53 Nabucco pipeline is a planned 3,300km natural gas pipeline project which is intended to bring up to 31 Bcm annually of Central Asian gas from the eastern end of Turkey, across Romania, Bulgaria, and Hungary into Austria by 2020. Construction is expected to begin in 2008 and finish in 2011-13. It aims to bypass Russia and would transport BTC gas to Central Europe. For these reasons this pipeline has a substantial geo political significance and is strongly supported by the EU. However, it has encountered financial problems and lack of political will in some member states, with particular reference to Hungary, which in March 2007 announced that it had agreed to a Russian proposed extension of the Blue Stream pipeline project instead. See Borisocheva, 22.

54 Russian Government Archives, “Prime Minister Vladimir Putin and Turkish Prime Minister Recep Tayyip Erdoğan hold a joint press conference following Russian-Turkish bilateral talks,” June 8, 2010, <http://archive.premier.gov.ru/eng/events/pressconferences/10922/> (accessed September 30, 2014).

event of regular disruptions of gas supplies from third countries during the winter season. Turkey would like to buy more Russian gas after 2015, including via the Blue Stream II gas pipeline. We have reached an agreement that, after the new Israeli government takes office, we will initiate, together with our Turkish colleagues at a corporate level, putting this project into basic documents which would allow us to launch it, if only at its pre-project stage.<sup>55</sup>

Nevertheless, the construction of Blue Stream and the projected Blue Stream II demonstrates how Russia has been striving to increase its gas influence over Turkey, as well as emerging gas markets in Europe.

### **Aims of Russia Gas Policy (3): Wielding Political Leverage towards CIS**

Hedenskog and Larsson (2007), argue that Russia interrupted the gas supply to Ukraine in 2006 and 2009 as a key strategic goal for Russia to keep the former CIS area intact and restore it as an exclusive zone of Russian influence. They contended that the halt of Russian gas supply to Ukraine was one of Russia's political strategies to wield political leverage, in other words a neo-imperial policy. However, Roderic Lyne (2006) did not consider "neo-imperial" to be an accurate description. He characterized the actions of Russia's energy companies in the post-Soviet space a "post-imperial hang-over not wholly unlike the British experience for a generation and more after the Second World War." Similarly, Vladimir Milov (2006) used the term "post-imperial syndrome" and described the Russian energy diplomacy as "highly unpredictable." In contrast with those who talked of neo-imperial aspirations, he did not believe that Moscow had a clear long-term strategy on how to use energy for political purposes. Furthermore, Hirdman argued that, "the Russians have learnt from their mistakes and realized that these kinds of actions will not benefit them in the long run. So, during the latest dispute with the Ukraine, they did not turn off the gas but tried to negotiate a deal."<sup>56</sup>

In stark contrast to Milov and Hirdman's argument, however, this paper advocates the conclusions of Hedenskog and Larsson. Russian gas pipeline politics have been implemented based upon obvious intentional

55 Russian Government Archives, "Vladimir Putin had a working meeting with Gazprom CEO Alexei Miller," April 3, 2009, <http://archive.government.ru/eng/docs/3769/> (accessed September 30, 2014).

56 Solum Whist, 24-25.

political leverage over CIS member states. As of 2014, CIS has consisted of nine member states, and Turkmenistan is currently an associate member of CIS while Georgia withdrew in 2009. Most recently Ukraine withdrew from CIS in March 19, 2014. What is remarkable is that currently Ukraine has shifted its political stance to be pro-EU, having just received an IMF tranche and both American and European loan promises. Furthermore, Ukraine has prepared to reach an agreement on a free trade area with the EU. However, these sorts of political maneuvers by Ukraine have been perceived as a national security threat to Russia. If Ukraine completely alters its political stance to be pro-EU, this change will trigger huge economic damage to the Russian economy as well as aftermath that could spread to other CIS member states. Therefore, this paper argues that Russia has constructed the Nord Stream and the South Stream to wield economic pressure on Ukraine not to alter its political stance. Furthermore, Russia has planned to intensify its political alliance among CIS members through the construction of the pre-Caspian gas pipeline, blocking the disturbance on CIS member states derived from the change of Ukraine's political stance.

### **Nord Stream/ South Stream: Hedging Against the Ukrainian Pro-EU Movement**

In a speech at the meeting of the Russian-Ukrainian Interstate Commission's Committee for Economic Cooperation on October 15, 2013 Dmitry Medvedev discussed the Ukrainian political stance. Currently Ukraine has withdrawn from the CIS and has tried to reinforce its political alliance with the EU. Medvedev insisted that Ukraine has its own choice as a sovereign state, but Ukraine must be cautious in terms of altering its political stance because Russia will regard Ukraine as a national threat if Ukraine becomes involved in the EU's market order.<sup>57</sup>

Soon the Ukrainian trade and economic policy in its legal and practical aspects will be more in harmony with EU policy. Of course, this is Ukraine's sovereign choice, but we should analyze all the ensuing consequences of the relevant decision, the document to be signed, in respect to our bilateral cooperation, so that we do not

57 Russian Government Archives, "Meeting of the Russian-Ukrainian Interstate Commission's Committee for Economic cooperation," October 15, 2013, <http://government.ru/en/news/7425/> (accessed September 30, 2014).

create additional problems or increase risks on our markets.<sup>58</sup>

Also, Medvedev explained how Russian producers will be protected against competition if Ukraine becomes an associated EU member during a meeting with Federation Council members.<sup>59</sup>

Ukraine is moving in seven-leagued strides toward signing a so-called Norwegian-model agreement on associated membership with the European Union. So what policies could the Russian Government adopt - including legislative moves - to protect our markets? We are talking about protecting our markets and producers from potential competition. I'm sorry to say we'll have to use all protective procedures and protocols that we have the right to use as a WTO member. We'll simply restrict their access to these goods - both European and Ukrainian. In this case Ukraine will no longer be entitled to the special treatment - partnership treatment so to speak that it has enjoyed until now. Yes, we'll be friends and trade partners but we'll trade with Ukraine in the same way as with our other partners - without any privileges - and, possibly, even with some restrictions considering what I've said earlier.<sup>60</sup>

The most important transit country, Ukraine, has an impact on Russian gas exports which can directly damage the Russian economy. Therefore, Moscow at the same time is operating a channel of conversation to maintain its political ties with Ukraine. Putin stressed the important role of Ukraine and wanted to preclude the worst situation: "Some states are losing their exclusive hold on the transit of Russian gas; but these partners remain very significant. And I hope that our joint work with both Ukraine and Belarus...we should continue to work with all our partners on a mutually advantageous basis."<sup>61</sup>

In line with opening this channel of communication, Russia has utilized the gas pipeline politics as one of the most strategic instruments in

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<sup>58</sup> Ibid.

<sup>59</sup> Russian Government Archives, "During a meeting with Federation Council members Dmitry Medvedev explained how Russian producers will be protected against competition if Ukraine becomes an associated EU member," September 23, 2013, <http://government.ru/en/news/5990/> (accessed September 30, 2014).

<sup>60</sup> Ibid.

<sup>61</sup> The Russian Government Archives, "Prime Minister Vladimir Putin meets with Gazprom CEO Alexei Miller."

pressing Ukraine. At a meeting between Medvedev and Ukrainian President Viktor Yanukovich on June 27, 2012, the Russian prime minister exploited the gas pipeline card in order to reconcile the political relationship with Ukraine,<sup>62</sup> stating, "It is very important to move forward in the areas of cooperation we have always discussed with you. We are discussing all issues at the presidential and prime ministerial levels, ranging from technological cooperation and the setting up of new production facilities to the complex issues of energy cooperation, including the gas issue. I'm certain we will discuss this today."<sup>63</sup> On the other hand, Medvedev attempted to hedge Ukraine's political pro-EU stance by mentioning the Nord Stream and the South Stream:

Ukraine is not as important to us as a transit country now that we have the Nord Stream and the South Stream under construction. An alliance between Russia and Ukraine can be formed only on condition of Ukraine's withdrawal from a whole number of institutions, including the Energy Union accession accord. That is, if Ukraine is interested [in our involvement]. If not, then we'll go our separate ways and Ukraine could then remain in any international alliances as it sees fit, with this being its right as a sovereign country. But if we enter into an alliance, we should make sure our interests are upheld. Talks on this issue continue; Ukrainian partners send us signals every now and then but the process hasn't advanced beyond those signals so far. Well, we'll see as we go along.<sup>64</sup>

The cited official statements of Russian high officials above display how the Kremlin has utilized the gas pipeline ambivalently to exercise its political leverage. Russia has invariably attempted to tie Ukraine under Russian political leverage through gas pipeline politics. On the Ukrainian side, this sort of political pressure from gas pipeline politics has had a large effect in changing its political position because the Ukraine economy still has a high dependency on Russian gas supply.

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62 The Russian Government Archives, "Dmitry Medvedev meets with Ukrainian President Viktor Yanukovich while on a working visit to Kiev," June 27, 2012, <http://government.ru/en/news/4811/> (accessed September 30, 2014).

63 Ibid.

64 The Russian Government Archives, "During a meeting with Federation Council ...EU member."

## **Pre-Caspian Gas Pipeline: Reinforcing the Political Alliance between the CIS Member States of Turkmenistan, Uzbekistan, and Kazakhstan**

According to Bertil Nygren, there are three foreign policy arenas on which Russia plays with CIS countries: the politico-military (or geo-political) arena which includes security, military and defense cooperation as well as conflict issues, border issues, and separatist issues; the politico-economic (or geo-economic) arena including economic cooperation and conflict issues, especially energy issues and Russian takeovers of companies in the CIS countries; and the politico-cultural arena which consists of ethnicity and identity issues, migration and “language politics.”<sup>65</sup> Russia has three different foreign policy arenas in which to maintain its strategic relationship with CIS member states. Russia assessed the political strategic relations with CIS countries to increase Russian national security and interests. Therefore, Russia has struggled to lay a more robust foundation for the integration of CIS member states in the politico-economic arena, especially regarding energy issues. In this respect, Russian gas pipeline politics have played a pivotal role in wielding Russian political leverage on CIS member states. Prime Minister Medvedev attended an expanded meeting of the CIS Council of Heads of Government, and mentioned that Russia is interested in ensuring stable energy deliveries to CIS member states.<sup>66</sup> This remark strategically targeted most of the CIS member states, which single out securing a stable gas supply as an urgent national task. Medvedev’s official speech displayed Russian intentions to wield political leverage by providing a stable gas supply. On May 21, 2010 Putin signed an energy cooperation project with CIS member states announcing that Russia will shore up CIS member states’ energy supply.<sup>67</sup> Putin remarked, “I am referring to the launching of specific, comprehensible and attractive initiatives and joint program across the CIS, including in the energy sector, transport, high tech, and social development.”<sup>68</sup> This also depicts how Russia will use the energy issue in integrating the CIS member states. In 2007, Russia and three

65 Bertil Nygren, *The Rebuilding of Greater Russia: Putin's Foreign Policy towards the CIS Countries* (New York: Routledge, 2008), 5.

66 Russian Government Archives, “Prime Minister Dmitry attends an expanded meeting of the CIS council of Heads of Government,” May 30 2012, <http://government.ru/en/news/5398/> (accessed September 30, 2014).

67 Russian Government Archives, “A number of documents have been signed following the meeting of the heads of government of the council of CIS countries,” May 21, 2010, <http://archive.premier.gov.ru/eng/events/news/10682/> (accessed September 30, 2014).

68 Ibid.

countries of the CIS, Turkmenistan, Uzbekistan and Kazakhstan, signed an intergovernmental contract of construction for the pre-Caspian gas pipeline. Conventionally, Russia has supplied gas via the Central Asia Center (CAC) gas pipeline system to Turkmenistan, Uzbekistan, and Kazakhstan. But the gas demand in those countries has risen steadily so the Kremlin decided to construct a pre-Caspian gas pipeline parallel to the CAC pipeline. The surging energy demand in CIS member states makes them susceptible to Russian political clout because Russia is the most powerful gas supplier to those countries.

## Conclusion

Since the Soviet period, Russia has been the dominant gas supplier for Europe. Through three gas pipelines which were constructed during the Soviet period, Russia had exported gas to buttress its economy. The Brotherhood pipeline, the Soyuz pipeline, and the Trans-Balkan pipeline had connected the Soviet Union with European countries and had fulfilled European gas demand. However, after the collapse of the Soviet Union, Russia faced a significant predicament which altered Russian gas policy. The transit country issue had emerged coupled with the collapse of the Soviet Union. After the break up the Soviet Union, all Russian gas pipelines had to traverse post-Soviet countries, particularly Ukraine. Ninety-three percent of total Russian gas exports traversed Ukrainian territory, and Ukraine had begun to exercise its sovereignty over gas pipelines. Ukraine took an advantageous position and utilized the transit country issue to enhance its national interest. Therefore, after the breakup of the Soviet Union, the first aim of Russian gas policy was to minimize the role of transit countries. The transit issues had caused a heavy economic and political burden to Russia. In response, Russia constructed the Yamal-Europe gas pipeline, the Blue Stream and the Nord Stream which currently bypass Ukraine, as well as the South Stream, currently under construction.

Ukraine and Russia had suffered from several gas crises in 2006 and 2009, which resulted in the European countries' gas diversification policy. In line with the increasing gas demand in the European gas market, the European countries' move to construct different gas pipeline routes from Central Asia has contributed to lowering gas dependency on Russia. However, on the Russian side, the European countries' diversification policy has alarmed Moscow, due to the fact that it could damage the Russian economy. Therefore, the second aim of Russian gas policy was to

directly target the European countries which have had high gas demand but relatively low dependency on Russia. Main targets were the western European countries such as Germany, France, the UK, the Netherlands, and Italy. The Nord stream primarily targeted Germany in addition to France, the UK and the Netherlands. The South Stream primarily targeted Italy, even though the South Stream crosses other several onshore countries. The Blue Stream was also planned to directly target Turkey, and the Blue Stream II is under discussion to maintain Russian gas influence over Turkey. Economic grounds as well as political reasons were pivotal for developing Russian gas policy. Particularly, Russia has exploited political leverage over CIS member states to hedge the pro-EU political movement. A high level of integration among CIS member states helps not only to improve Russian security but also to boost its economy. Therefore, Russia has exploited the pre-Caspian gas pipeline to maintain its political leverage over CIS member states. The bypassing of Ukraine by the Nord Stream and the South Stream also have indirect political influence on Ukraine. The Ukrainian economy is highly reliant upon Russian gas supplies, but in response to the Ukrainian pro-EU movement, Russia has gradually cut off gas supplies to Ukraine in order to hedge its political shift.

On May 21, 2014 the Russo-Sino gas pipeline deal prompted Russia to shift its focus to the East Asian gas market. Conventionally, Russia has highly concentrated on the European gas market and has taken fruitful political and economic interests. However, in 2014, after the aggressive political drive of Russia towards Ukraine, a harsh level of sanctions from the European Union and the United States has played a decisive role in altering the big picture of Russian gas policy. Combined with this external driving force, declining political control from the Kremlin to the Russian Far East has also propelled Russia to seriously consider the East Asian gas market. The East Asian gas market is an attractive target for Russia because the traditionally energy-poor East Asian countries, the Republic of Korea, Japan, and China, have severely thirsted for a stable energy supply. In this respect, the altered Russian stance towards East Asia is expected to modify the sweeping energy dynamic in East Asia. The full-fledged energy supply and demand structure is now set up. However, what is Russia's concrete gas pipeline blueprint for East Asia? And how can East Asian countries have more equitable gas cooperation with Russia? Based upon the assumption of bureaucratic inertia of Russian gas policy, the aforementioned three aims of Russia's gas policy will be a useful compass to anticipate how Russia will unfold its gas policy towards East Asia. **Y**



# AN ANALYSIS OF HOW THE EU UNDERSTANDS ITS STRATEGIC PARTNERSHIP WITH CHINA

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*From the European perspective, the rise of China challenges the European Union (EU) on intellectual, technological, organizational, economic and political fronts but also offers ample opportunities for cooperation. The EU has attached increasing importance to building a strategic partnership with China. However, what Brussels means when it talks about forging a “strategic partnership” with China and on what conceptual ideas and principles it wants this “strategic partnership” to develop have not been made clear. This paper aims to offer insight into the EU’s ideas of strategic partnership with China. It will begin with a review of the EU approach to China. Next, it will make an assessment of the thinking behind EU-China communications to show the differences between their respective conceptualizations of strategic partnership. Then, it will demonstrate the difficulties caused by these differences and recommend how the two sides should manage them.*

Both the EU and China have changed dramatically during the past 20 years. With a population of 480 million, the Euro as a single currency and the world’s largest GDP, the EU has played an important role in international affairs.<sup>1</sup> China, with a population of over 1.3 billion has achieved unprecedented economic growth through its dramatic reforms.<sup>2</sup> This unprecedented economic growth has enabled China to become increasingly important in the world. Both the EU and China express interest in expanding and further deepening their relationship. As Commissioner Benita Ferrero-Waldner stated in February 2005: “There is no greater challenge for Europe than

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1 Fraser Cameron, “The Development of EU-China Relations,” *European Studies: A Journal of European Culture, History and Politics* 27, no. 18 (2009): 47.

2 Ibid.

to understand the dramatic rise of China and to forge closer ties with it.”<sup>3</sup> Yet it seems unclear what Brussels means when it talks about a “strategic partnership” and whether it shares the same conceptual ideas and principles with China. The EU insists on proclaiming that it stands for a values-based foreign policy with a focus on “effective multilateralism.”<sup>4</sup> China affirms that its rise is peaceful and aimed at developing a “harmonious world.”<sup>5</sup> In recent years the EU has published several policy papers on China while there were just two Chinese policy papers on the EU published in 2003 and 2014, both of which were highly appreciative of the relationship with the EU.<sup>6</sup> An analysis of how the EU thinks of its strategic partnership with China is required for both academic and policy circles to have a better picture of EU-China relations. Thus, this paper begins by reviewing the EU approach to China before evaluating the thinking behind various communications in the EU and China. Then, it will demonstrate the main difficulties caused by the EU and China’s divergences in conceptualizing a “strategic partnership” and put forth some recommendations for managing the conceptual gap.

### The EU Approach to China

In 1995, the EU published a significant Communication of the Commission, “A Long-Term Policy for China-Europe Relations,” which outlined a long-run course for EU-China relations into the twenty-first century. In this very first policy paper on China, the European Commission indicated the vital role of China in the European Union’s external affairs:

The time has come to redefine the EU’s relationship with China, in the spirit of the “new Asia strategy” endorsed by the Essen European Council. Europe must develop a long-term relation with China that reflects China’s worldwide, as well as regional, economic and political influence. Europe’s relations with China are bound to be a cornerstone in Europe’s external relations, both with Asia and globally. Europe needs an action-oriented, not a merely declaratory

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3 Ibid.

4 Ibid.

5 Ibid.

6 Ministry of Foreign Affairs of the People’s Republic of China, “China’s Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-win Cooperation,” 2014, [http://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/wjzcs/t1143406.shtml](http://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wjzcs/t1143406.shtml) (accessed July 14, 2014)

policy, to strengthen that relationship.<sup>7</sup>

Three more policy papers on China were published in 1998, 2003 and 2006 that, in the same tone as the first one, laid the ground work for the development of a stronger EU-China Comprehensive Strategic Partnership.<sup>8</sup>

Since the beginning of diplomatic relations between the EU and China in 1975, the EU's policy on China has been implemented on two levels. On the level of the EU, the European Commission and today's European External Action Service (EEAS) have engaged China by promoting the modernization of its society and socialisation in the international environment, assisting China in development projects, and having dialogues with China on human rights as well as rule-of-law enforcement. The EU's framework for advancing cooperation with China was described in the EU's China strategy paper 2007-2013. The mid-term review of this strategy was released in 2010 and concluded that the response strategy for the future EC cooperation programme should take the contradiction in China's nature into consideration: "...that of a developing country in terms of certain traditional indicators on the one hand, and that of a significant player on the world stage in economic and political terms on the other."<sup>9</sup> At the national level, the EU Member States desired to have good political relations with China and thus tended to turn a blind eye to sensitive issues on China's sovereignty, human rights and democracy. With this approach the EU Member States, particularly Germany and France, have received lucrative contracts for their national companies.

Economic considerations have been the driving force of the EU's China policy. Since 2004, the EU has been China's biggest commercial partner and China has become the EU's second biggest commercial partner. A growing number of European companies have been investigating and relocating production in China, increasing the amount of EU foreign direct investment in this Asian country. Also, Chinese direct investment in Europe has been increasing overwhelmingly as observed by Thilo Hanemann and Daniel H. Rosen:

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7 European Commission, "A Long-Term Policy for China-Europe Relations," 1995, [http://eeas.europa.eu/china/docs/com95\\_279\\_en.pdf](http://eeas.europa.eu/china/docs/com95_279_en.pdf) (accessed July 27, 2014)

8 EU-Asian Centre, EU's Key Documents on China, [http://www.eu-asiacentre.eu/links.php?cat\\_id=24&level=0&tree=24&code=4](http://www.eu-asiacentre.eu/links.php?cat_id=24&level=0&tree=24&code=4) (accessed July 29, 2014)

9 European External Action Service, "China Strategy Paper, 2007-2013," 2006, [http://eeas.europa.eu/china/csp/07\\_13\\_en.pdf](http://eeas.europa.eu/china/csp/07_13_en.pdf) (accessed July 27, 2014)

Europe is experiencing the start of a structural surge in outbound direct investment in advanced economies by Chinese firms. The take-off was only recent: annual inflows tripled from 2006 to 2009, and tripled again by 2011 to \$10 billion (€7.4 billion) for the year. The number of deals with a value of more than \$1 million doubled from less than 50 to almost 100 in 2010 and 2011.<sup>10</sup>

Unlike the United States, which has serious commitments to its Asian allies and thus is likely to confront China in the region militarily and politically, the EU's lack of commitments in Asia enables it to avoid contentious matters with China. This helps the EU to develop economic relations with China rapidly and still engage this Asian country in a broad range of issues pertaining to human rights and democratization. For instance, in a 2006 Communication on China, the European Commission indicated clear political conditions for its proposal to remove the EU arms embargo on China. However, Brussels has never had open confrontations with Beijing the way Washington has on political and security issues. It is noticeable that the majority of EU policy makers have not seen China as a potential enemy or as a military threat to current global security.

But the European general public seems to perceive China differently than the government does. In fact, Europeans have held a negative view about developing commercial ties with China in the same way that Americans have.<sup>11</sup> These general public views in Europe reflect the emerging discourse which underscores the economic challenges posed by China in the EU. The European markets have been flooded with cheap products and more Europeans have become unemployed because of China's tendency to become a low-cost competitor in high-skill industries.<sup>12</sup>

In general, the EU has based its approach to China on the concept of change through economic integration. Hence, it seeks to promote a liberal internationalist agenda. The main idea of this approach is that in an increasingly interdependent world the rise of China is sophisticatedly

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10 Thilo Hanemann and Daniel H. Rosen, *China Invests in Europe: Patterns, Impacts and Policy Implications*, (New York: Rhodium Group, 2012), 1, [http://rhg.com/wpcontent/uploads/2012/06/RHG\\_ChinaInvestsInEurope\\_June2012.pdf](http://rhg.com/wpcontent/uploads/2012/06/RHG_ChinaInvestsInEurope_June2012.pdf) (accessed July 20, 2014)

11 German Marshall Fund of the US, "Transatlantic Trends" 2012, Washington, September 12, 2012, <http://www.gmfus.org/archives/survey-eu-more-likely-to-view-china-as-military-threat-than-previous-years/> (accessed August 25, 2014).

12 Jonathan Holslag, "The Strategic Dissonance between Europe and China," *Chinese Journal of International Politics* 3, no. 3 (2010), <http://cjp.oxfordjournals.org/content/3/3/325.full> (accessed June 24, 2014).

interconnected with and supported by Chinese economic integration into the society of nations. Implicitly, it is unavoidable for China to get involved in non-economic fields of policy. This ultimately leads to the full openness of Chinese society which is likely to embrace all the values of democracy and human rights and adopt a peaceful and cooperative policy stance towards the world. Such a scenario is considered by the EU's leaders to be in the interest of the EU.

In recent years, a growing number of scholars and policy makers have begun to argue for the need to link economic benefits for China with political conditions in the EU-China relationship.<sup>13</sup> In a similar fashion, the European Parliament, some national Parliaments and several political forces of the EU Member States have increasingly criticized China's trade policies and practices, which in the European view have created unfair competition in EU and China commercial relations. More reciprocity in EU-China relations is what key EU policy makers like the EU Commissioner for Trade Karel De Gucht are very much concerned about and call for over time.

In 2003, Brussels and Beijing launched a strategic partnership. In 2010, this strategic partnership was brought to new heights with an inclusion of foreign affairs, security issues and global challenges such as climate change and global governance. The EU-China strategic partnership features a high degree of institutionalization. Since 1998, an EU-China summit has been organized every year. Also, an EU-China High-Level Trade and Economic Dialogue as well as an EU-China High-Level Strategic Dialogue have been organized annually since 2008 and 2010, respectively.

The growing degree of institutionalization reflects that the EU desires to develop bilateral relations with China in not only trade and commerce but also on strategic issues. The EU acknowledges that China is emerging as a force in a multipolar world and developing multilateral relations in such a world is beneficial to both the EU and China. Though both the EU and China are highly appreciative of the strategic partnership that they are seeking to build, it is likely that they are using the same term, but with different connotations.

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13 John Fox & François Godement, *A Power Audit of EU-China Relations*, (London: The European Council on Foreign Relations, 2009), [http://www.ecfr.eu/page/-/ECFR12\\_-\\_A\\_POWER\\_AUDIT\\_OF\\_EU-CHINA\\_RELATIONS.pdf](http://www.ecfr.eu/page/-/ECFR12_-_A_POWER_AUDIT_OF_EU-CHINA_RELATIONS.pdf) (accessed August 18, 2014).

## Differences in Conceptualizing a Strategic Partnership

At the Europe-China Forum organized by Friends of Europe and the Chinese Mission to the EU on November 26, 2013, participants had a discussion on all aspects of EU-China relations including elements of the 2020 Strategic Agenda adopted by the EU-China summit in Beijing on November 21, 2013. At this forum, one European participant said: “there is a trust gap in EU-China relations.”<sup>14</sup> This “trust gap” is firmly rooted in the differences between the EU’s and China’s understandings of strategic partnership.

### *Strategic Partnership from the European Perspective*

The 2003 European Security Strategy (ESS) “A Secure Europe in a Better World” is a brief but comprehensive document that analysed and defined for the first time the EU’s security environment, identifying key security challenges and setting out the political implications for Europe.<sup>15</sup> This document explains why the EU needs to have strategic partnerships. It argues for the importance of advancing EU relations with the US and Russia as the heads of the EU unanimously stated that:

there are few if any problems we can deal with on our own. The threats described above are common threats, shared with all our closest partners. International cooperation is a necessity. We need to pursue our objectives both through multilateral cooperation in international organizations and through partnerships with key actors.<sup>16</sup>

The EU stressed that the transatlantic relationship is vital and that the EU needs to build an effective and balanced partnership with the United States. At the same time, the EU needs to work for closer relations with Russia, a main factor in European security and prosperity. Additionally, the EU “should look to develop strategic partnerships, with Japan, China, Canada and India as well as with all those who share [the EU’s] goals and

14 Friends of Europe, “Ten Years On: Rebooting the EU-China Strategic Partnership,” 2013, <http://europesworld.org/think-tanks/ten-years-on-rebooting-the-eu-china-strategic-partnership/#.ULHOPmSx64> (accessed July 12, 2014).

15 European External Action Service, “The European Security Strategy,” 2003, <http://www.eeas.europa.eu/csdp/about-csdp/european-security-strategy/> (accessed July 20, 2014).

16 Ibid.

values, and are prepared to act in their support.”<sup>17</sup>

Yet, the European Council shifted from this concentration on common goals and values when in its 2010 document “Trade, Growth and World Affairs: Trade Policy as the Core Component of the EU’s 2020 Strategy” it underlined that such strategic partnerships should be “based on mutual interests and benefits and on the recognition that all actors have rights as well as duties.”<sup>18</sup> This shows that the heads of the EU have no clear statements of what strategic partnerships are.

For European practitioners, the concept of strategic partnership remains confusing. At a meeting of EU leaders and foreign ministers in Brussels on strategic partnership on September 16, 2010, one EU diplomat pointed out that: “it’s like love - no one can define it. You only know what it is when you experience it.”<sup>19</sup> Another EU diplomat added that the term had been thought up a few years ago “without anyone ever really defining what it meant and whether, indeed, the others regard us as their strategic partners.”<sup>20</sup>

Obviously, the term “strategic partner” is not well-defined in EU usage. This concept is mainly employed for political aims - either to underline the significance of a partner country or to highly praise the partnership with that country. Also, it is used as an alternative to full-fledged EU membership, as mentioned in the negotiations of Turkey’s entry into the EU. The EU Member States mostly see the concept of “strategic partnership” with China as relating only to selected issues and shy away from what are considered sensitive matters in their bilateral relationship. For European scholars, the concept of EU strategic partnership, which was introduced into the European discourse in the late twentieth century, remains hotly contested. The list for potential partner states has been extended, but the instruments of building partnerships have been devised inconsistently. Particularly, what role a strategic partnership has in EU economic and political affairs has remained ambiguous. This was reflected in a statement by the President of the European Council Herman Van Rompuy in September 2010: “We have strategic partners, now we need a strategy.”<sup>21</sup>

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17 Ibid.

18 European Commission, “Trade, Growth and World Affairs: Trade Policy as the Core Component of the EU’s 2020 Strategy,” 2010, [http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc\\_146955.pdf](http://trade.ec.europa.eu/doclib/docs/2010/november/tradoc_146955.pdf) (accessed July 20, 2014).

19 Andrew Rettman, “Ashton Designates Six New ‘Strategic Partners,’” 2010, <http://euobserver.com/institutional/30828> (accessed June 24, 2014).

20 Ibid.

21 Herman Van Rompuy, “EU External Relations,” 2010, <http://www.consilium.europa.eu/uedocs/>

The European academic circle seems to be making more effort to search for the European meaning of “strategic partnership.” In their policy paper for the EU in 2010, Sven Biscop and Thomas Renard offered a clear explanation of why the EU needed a strategy:

In a world that is increasingly multipolar and interdependent – this is to say interpolar – the EU cannot continue to approach emerging global powers without a clear strategy. The EU has therefore created a new instrument to engage with other global actors: strategic partnerships.<sup>22</sup>

These two scholars point out the main rules of establishing a strategic partnership in a post-Cold War inter-polar world:

The first rule of strategy-making is to know thyself. Seemingly evident, it is actually not that clear which values and interests the EU seeks to safeguard, and which kind of international actor it wants to be. Therefore, the EU should start its strategic review by looking at itself and try to identify the purpose of its foreign policy. But there are many dangers in looking too much into the mirror, and furthermore the EU cannot pretend to become a strategic actor if it continues to ignore the other strategic players. This is not about knowing thy enemy (arguably the EU has no direct enemies, although strategic surprises should never be entirely ruled out), but about knowing “the other.” Finally, a last principle of strategy-making could be: know thy environment, or to put it in other words, know the rules of the game. If the EU hopes to become a global power, it needs to understand – or better to shape – the rules defining international relations.<sup>23</sup>

In his 2010 working paper for Friderici, a European think tank for global action, Giovanni Grevi argued that how strategic partnerships can be defined depends on how vital the partnerships are in helping to advance or achieve European interests and objectives:

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cms\_Data/docs/pressdata/en/ec/116494.pdf (accessed July 20, 2014).

22 Thomas Renard and Sven Biscop, “A need for strategy in a multipolar world: Recommendations to the EU after Lisbon,” *Egmont Security Policy Brief* no. 5 (2010), <http://aei.pitt.edu/14426/> (accessed June 25, 2014).

23 Ibid.

the EU should identify what its main interests and objectives are and consider strategic those partnerships that tangibly help it advance or achieve them. Strategic partnerships are those that both parties regard as essential to achieve their basic goals. This is because the cooperation of strategic partners can lead to win-win games and, conversely, because such partners are those who could inflict most harm to one another were relations to turn sour. Strategic partnerships are therefore important bilateral means to pursue core goals.<sup>24</sup>

Obviously, the EU itself is still searching for the meaning of “strategic partnerships.” The term normally means what the EU wants to achieve when establishing a strategic partnership. Its aims for strategic partnerships are to jointly promote effective multilateral cooperation while pursuing common challenges. Put simply, the EU desires to be an active actor in seeking common ground on issues of mutual interests and concerns, assisting each other’s political agendas and acting at both the regional and global levels. It is noticeable that what these issues of mutual interests and common concerns comprise is different from partner country to partner country. The nature of the EU’s strategic partnerships with emerging countries in general, and with China in particular, is that they allow the EU to pursue its goals and spread its norms at the international level.

### *Strategic Partnership from the Chinese Perspective*

Chinese leaders and scholars appear to have a clearer understanding of strategic partnerships compared to their European counterparts, especially with regards to the China–EU “strategic partnership,” for which they have displayed a positive stance and attitude. Speaking in 2004 at the Investment and Trade Forum jointly sponsored by China’s Ministry of Commerce and the Directorate General for Trade of the European Commission in Brussels, Chinese Premier Wen Jiabao explained what China means when referring to a comprehensive strategic partnership with the EU:

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24 Giovanni Grevi, “Making EU Strategic Partnerships Effective,” *Fride Working Paper* 105, 2010, [http://www.fride.org/download/WP105\\_Making\\_EU\\_Strategic\\_ENG\\_dic10.pdf](http://www.fride.org/download/WP105_Making_EU_Strategic_ENG_dic10.pdf) (accessed June 24, 2014)

It is a shared view of the two sides to work for a comprehensive strategic partnership. By “comprehensive,” it means that the cooperation should be all-dimensional, wide-ranging and multi-layered. It covers economic, scientific, technological, political and cultural fields, contains both bilateral and multilateral levels, and is conducted by both governments and non-governmental groups. By “strategic,” it means that the cooperation should be long-term and stable, bearing on the larger picture of China-EU relations. It transcends the differences in ideology and social system and is not subjected to the impacts of individual events that occur from time to time. By “partnership,” it means that the cooperation should be equal-footed, mutually beneficial and win-win. The two sides should base themselves on mutual respect and mutual trust, endeavour to expand converging interests and seek common ground on the major issues while shelving differences on the minor ones.<sup>25</sup>

In the twelfth China-EU summit in 2009, Premier Wen Jiabao elaborated on the concept of comprehensive strategic partnership and stressed that the current situation demanded that China-EU ties should be more strategic, comprehensive and stable. The EU and China needed to expand consensus on major issues concerning the development of the world community and deepen cooperation in political, economic and cultural areas:

The two sides should also make sure they are on the right path for sustainable development...I hope to have a candid and in-depth talk with the EU leaders. We need to make concerted efforts to ensure the meeting is a success, which could manifest resolutions of both sides on jointly coping with challenges and achieving common development...It is of great significance for both China and the EU, and will influence the world in a constructive way.<sup>26</sup>

Chinese analysts are positive about the necessity for developing the China-EU comprehensive strategic partnership even though the two sides have had disputes on such issues as the arms embargo, China's market economy status and trade. Therefore, the comprehensive strategic partnership

25 Wen Jiabao, “Vigorously Promoting Comprehensive Strategic Partnership Between China and the European Union,” 2004, <http://www.chinamission.be/eng/zt/t101949.htm> (accessed June 24, 2014).

26 Xinhua, “Wen Calls for more strategic, Comprehensive, Stable China-EU Ties,” 2009, [http://www.china.org.cn/world/2009-11/30/content\\_18978182.htm](http://www.china.org.cn/world/2009-11/30/content_18978182.htm) (accessed June 24, 2014).

presents a significant institution contributing to stability in China-EU ties. With this institution, China and the EU are able to have open dialogues on a broad range of issues including politics, economics, jurisdiction, society, culture, environment, technology and information.

Clearly, both Chinese and European leaders understand that their partnership is important to the prosperity of their economies and the advancement of their citizens. Their partnership also contributes to stabilizing the regional and global orders as both China and the EU are important players on the world's economic and political stage. In addition to the significance of the EU in China's foreign relations, the reality that Chinese analysts highly appreciate the partnership between their country and the EU indicates that the Chinese foreign policy circle embraces the concept of a strategic partnership. China has been seeking to build partnerships with different countries since the late 1990s.<sup>27</sup> For Chinese policy-making and academic circles, a partnership means that neither party should view the other one as an enemy; the parties need to treat each other with respect and equality; the parties should not intervene in each other's internal affairs; the parties need to coordinate with each other to advance their common political and economic interests and they need to support each other in international affairs. Although the concept of "strategic partnership" has not been well defined in general, it in fact represents an important institutional framework through which China can advance cooperation with its most important partners, especially with the EU. From the Chinese perspective, one of the fundamental functions of the strategic partnership is to increase consensus and reinforce mutual trust. This serves as a firm base from which China and the countries it sees as strategic partners can cooperate and coordinate in the international system and thrive in harmony.

## Conceptual Differences

Though the EU has released many policy papers on China and regarded China as its strategic partner, it continues to make complaints that there is more competition than cooperation in the China-EU strategic partnership. China has reflected its dissatisfaction with the EU by expressing that the EU approach to China tends to be commercial rather than strategic.

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27 Feng Zhongping and Huang Jing, "China's strategic partnership diplomacy: engaging with a changing world," European Strategic Partnerships Observatory Working Paper 8, June 2014, [http://fride.org/download/WP8\\_China\\_strategic\\_partnership\\_diplomacy.pdf](http://fride.org/download/WP8_China_strategic_partnership_diplomacy.pdf) (accessed November 16, 2014).

Their unhappiness with their strategic partnership is deeply rooted in the differences between their respective understandings of a strategic partnership.

China perceives strategic partnership as a long-term, well-rounded and stable relationship while the EU holds that such a partnership should be predicated on market penetration and a common approach to global governance. This comes from the fact that the EU is in its post-modern period while China is still emphasising the modernization of its society. Thus, the EU and China have been struggling to execute the proclaimed strategic partnership.

Though China and the EU use the same term of “strategic partnership” when speaking about their relationship, the connotations and conceptualizations of the term may be conceived differently. Jonathan Holslag stated that: “Europe’s posturing as a liberal normative power has resulted in a strategic disconnect with China.”<sup>28</sup> Eberhard Sandschneider, a European scholar, observed that “most so-called ‘strategic partnerships’ are not ‘strategic’ in a strict sense of the word. In a more narrow definition, strategic partnerships should be based on a mutual perspective on basic values, interests and actions to be taken in specific situations.”<sup>29</sup> Regarding the partnership between China and the EU, he underlined that “China is too big and the EU is too multifaceted to simply declare a ‘strategic partnership’ and paint the world in black and white.”<sup>30</sup>

Stanley Crossick echoed Jonathan Holslag’s view when adding that the current relationship between China and the EU is neither a partnership nor strategic.<sup>31</sup> Gustaaf Greeraerts emphasized that China and Europe have to agree on which interests they will build the pillars of their strategic partnership. One of the main setbacks in the EU-China relationship has been its obsession with dialogues without a common view on how the world order actually binds them together.<sup>32</sup>

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28 Jonathan Holslag, “The Strategic Dissonance between Europe and China,” *Chinese Journal of International Politics* 3, no. 3 (2010), <http://cjip.oxfordjournals.org/content/3/3/325.full> (accessed June 24, 2014).

29 Eberhard Sandschneider, “The Strategic Significance of China-EU Partnership,” 2009, <http://www.cpifa.org/en/q/listQuarterlyArticle.do?articleId=40> (accessed July 10, 2014)

30 Ibid.

31 Stanley Crossick, “China-EU Strategic Partnership: State of Play,” 2009, <http://crossick.blogactiv.eu/2009/10/13/china-eu-strategic-partnesr-ship-state-of-play/> (accessed July 22, 2014)

32 Gustaaf Greeraerts, “China, the EU and the New Multipolarity,” *European Review* 19, no.1 (2011), <http://www.vub.ac.be/biccs/site/assets/files/apapers/China,%20the%20EU%20and%20Multipolarity-2.pdf> (accessed July 24, 2014)

The Chinese academic circle appears to be cautious about the substance and realization of a EU-China strategic partnership, and they especially question whether the EU is able to fulfill the promise of a strategic partnership.

### **Impacts of Conceptual Differences**

The conceptual differences regarding strategic partnership give clues as to why there is still friction between the EU and China. Since the late 1990s, the EU has been seeking to socialize China with its own post-modern values such as respecting the rule of law, promoting human rights, and creating a liberal economic order. The EU has expected to advance those values in China through conditional and constructive engagement. Yet the reality shows that the EU and China have not agreed on these values. China's stance in multilateral organizations indicates that its eco-political goals and norms are still different from those of Europe. This divergence can be seen in their views and attitudes towards Africa, Iran, and climate change. The EU believes that they can further cooperate with China on the issue of climate change, yet this has turned out to be a source of tension. In particular, the EU has not succeeded in pushing China to fully open its markets. Though China entered the World Trade Organization in 2001, it was reluctant to further open new sectors. The EU has been worried about the possibility that the Chinese state may use its invisible hand to exert influence on China's economic transition. This implies that the EU has not gained what it expected to achieve from its relations with China.

With its values of democracy, freedom, human rights, and good governance, the EU may think of itself as a good strategic partner in the international system. Yet it does not seem easy for the EU to attract China with these values. Thus, developing a strategic partnership between the EU and China is still a very daunting task. Modern states and post-modern states naturally have difficulty in adapting to each other. This is even more difficult for China (a modern state) and the EU (a post-modern state) as they have to do it in a changing world order.

### **Managing the Differences**

The conceptual gap between the EU and China in understanding strategic partnerships, especially the EU-China strategic partnership, is hard to close because of two main reasons. First, both the EU and China have ill-

defined concepts of a strategic partnership. Second, the concept of the EU-China strategic partnership has been affected by dynamic developments in their relationship at bilateral, regional, and global levels. As the would-be superpowers, China and the EU are both employing the instrument of strategic partnership as a means to realize their ambition of becoming influential actors on the world stage. The lack of clearness in conceptualizing a strategic partnership and of historical knowledge of the other caused by physical distance and commercial dominance has resulted in friction and conflict in EU-China relations. Put simply, the gap in a shared understanding of the term “strategic partnership” has led to increasing frustrations in the EU-China relationship. This gap needs to be bridged.

Both China and the EU have a responsibility to manage this gap. Four steps should be taken into consideration by the two sides. First, they need to have a better knowledge of each side’s norms and values. This means that an extensive examination of the differing backgrounds of linguistics, histories, societies, politics, economics and cultures in China and the EU needs to be carried out. This will be a starting point for the EU and China to learn about the hidden factors shaping the Chinese and European perspectives and thus their respective perceptions of strategic partnerships. Both China and the EU need to find out the other’s preferences as the EU and China are currently at different stages of development.

Second, the EU and China need to push forth the development of a common strategic concept. This has invited more debate from scholars and policy-makers. Such a debate will help to set up policy priorities and strategies that will assist in the successful implementation of strategic policies. Thus, more strategic debate is necessary within the EU as well as in China.

Third, a clear expression of priorities, interests, and aims would help to enhance mutual trust between China and the EU. For instance, if the EU can have a better understanding of the priorities that its strategic partner China has set forth, it will be able to shape its policy towards China. To achieve this, the EU should also demonstrate to China what it is prioritizing on its agenda. The exchange of priorities, interests and aims can be supported by the exchange of people. More programs allowing the exchange of scholars and policy-makers who would be allowed to live in each other’s countries for a certain period of time would help enhance mutual understanding of each other’s perspectives and policy lines.

Last but not least, both China and the EU should make concerted efforts in building their partnership. Though this is not a natural partnership,

it is necessary for both China and the EU to sustain a partnership with each other. The rhetoric of a declining EU and rising China can negatively influence the minds of decision-makers in China and the EU. However, it is the global challenges for and the interdependence of these would-be great powers that put them in a situation in which it is necessary to understand and compromise with each other.

## Conclusion

The conceptual differences of a strategic partnership may have heavy costs. Clarity of thought would contribute to building a real strategic partnership between the EU and China. This paper explains that China and the EU both expect to be each other's strategic partners. However, their understanding of strategic partnership is not the same and so they expect to achieve different goals in the partnership. The conceptual differences on strategic partnership help to explain why frustrations remain between the EU and China. The EU's endeavors to enforce the rule of law, promote human rights, and create a liberal economic order on a global scale seem to clash with China's concentration on economic development and modernization. This means that it will continue to be an uphill journey for the EU to realize its strategic partnership with China. This journey can be successful if both the EU and China see that this partnership is in their interests and if they advance research on each other's historical, linguistic, cultural, eco-political, and social backgrounds, support people-to-people exchange programs, invite more debate on common strategic concepts, and clearly express their priorities and goals. Another important factor that will decide whether the EU and China can be real strategic partners is whether or not they are willing to make concerted efforts to coordinate with each other. Building a strategic partnership is not easy, and it is particularly difficult in the case of the EU and China. Y