

**The Implementation of Market Mechanisms For Gas Trade in  
The EU as a Factor of The Evolution of The EU-Russia-US  
Relations Since 2009**

A Research Proposal Presented to  
The Foreign Languages Department

by

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401

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**Table of Contents**

Abstract.....3

Introduction.....4

Literature review .....5

Methods.....9

Expected outcomes .....10

References.....12

### Abstract

Since the very beginning of the EU's gas policy liberalisation, the EU has become a region of intense competition between the US and Russia for their presence in the European gas market. This has significantly influenced the relations between them and resulted in their transformation suggesting that there might be a correlation between these two processes, which should be thoroughly investigated. Although there have been numerous studies on economic aspects of the EU's gas policy liberalisation, much less attention has been given to its political driving forces and its influence on the transformation of the relations with the EU's main energy suppliers. This study aims to examine the evolution of the EU-Russia-US relations under the EU's gas market liberalisation and determine the EU's political incentives underlying this process. A single-case study will be used to investigate pivotal factors of the transformation of the EU-Russia-US relations. A within-case analysis will be employed to explore the interdependence between the EU's gas policy liberalisation and foreign policy. The findings might contribute to the theoretical framework of energy policies and offer some practical implications for the Russian government and energy companies.

*Keywords:* Third Energy Package, Energy Dialogue, Transatlanticism, Nord Stream 2, sanction policy, protectionism

### **Introduction**

The EU's growing need for non-renewable resources implies the development of an active gas policy. The implementation of market gas instruments is aimed primarily at ensuring energy security and creating a liberalised liquid market in the EU. However, this policy directly affects the relations between the EU and its main energy suppliers, namely Russia and the US. This is primarily determined by the fact that the new gas policy of the EU does not coincide with the interests of Russia and the US. With the shift in the EU's national interests, which is energy security, and new gas policy introduced, the quality of cooperation in the EU-Russia-US triangle has changed dramatically. Consequently, the way in which it has transformed is considerably defined by the extent of agreement in the EU-Russia-US relations.

Extensive research has been conducted on the EU energy strategy and its relations with both Russia and the US. The EU's acute strategic interests in energy security and liquid natural gas supply were examined by Vimont (2016). Some researchers studied the EU's energy security challenges under Russian gas policy and the Transatlantic crisis (Rios, Leal-Arcas, & Grasso, 2015). A number of recent papers have covered the issue of EU-Russia partnership (Leal-Arcas, 2009) and European partners' diversification (Alemany & Leal-Arcas, 2015). Although much of the research has focused on the EU's energy interests and its economic relations with gas suppliers, the interdependence between the EU's gas market liberalisation and the evolution of the EU-Russia-US relations calls for more research. Additionally, political incentives of the EU for the liberalised gas policy, which might have facilitated the transformation of the relations between these three actors, should be thoroughly addressed.

This research paper aims to determine and assess the evolution of the EU-Russia-US relations as an outcome of the EU's gas market liberalisation since 2009. The study focuses

on the following research questions: 1) How have the relations between the EU and its two main gas suppliers developed with the EU's gas market liberalisation? 2) To what extent has the transformation of the US-Russia relations contributed to the implementation of market mechanisms for gas trade in the EU? 3) What political incentives has the EU been pursuing in liberalising its gas market? We put forward the following hypothesis: due to the security challenges and the threat of the hegemony of Russia and the US in the world, the EU was forced to diversify its gas market through the introduction of new legislation, which has deteriorated the quality of the cooperation in the EU-Russia-US triangle.

We expect this study to provide a better understanding of the pivotal factors, such as the EU's gas market changes, that influence geopolitical stability. We believe that the study could enable the Russian government and business structures to use the introduced market instruments to enhance uninterrupted Russian gas supply to the EU. The findings might have practical implications for the energy field to tackle acute challenges, establish new mechanisms and develop effective cooperation in the foreseeable future.

### **Literature Review**

The development of the EU's energy market and its relations with energy suppliers are issues of enormous interest in the literature. Historically the EU's gas trade system was viewed as the most prospective field of investment, but the interests of other international actors rarely overlapped there. However, since both world politics and integration processes in the EU developed, the EU's gas market has become a subject of specific interest of other actors, especially Russia and the US. The global challenges, such as energy security and dwindling non-renewable resources, have become more acute today, and, thus receive more attention from different actors. Such attention has resulted in the competition mainly between Russia and the US for the European gas market, which has made the EU's gas market vulnerable to external fluctuations. Therefore, after the rise of international competition on

the EU's gas market and the transformation of the EU's energy policy, the EU-Russia-US relations have changed significantly, which requires a thorough study.

In many studies, the need for the pan-European continual energy supply is still depicted mainly as the primary driving force for the energy gas trade liberalisation in the EU. Vimont (2016) describes energy infrastructure's development in some EU states as poor and points to the EU's strategic interest in the European energy security. Similarly, some of the literature (Longo, Olivieri, Roversi, Turci, & Turillazzi, 2020) suggests that poor funding is one of the main economic obstacles on the way to the EU's energy security since there is disagreement between the EU and its external energy partners on gas price. For instance, Kitous (2019) points out that private funds, along with government subsidies, should be attracted to offset the gap created by the lack of external funding. Likewise, several studies delve into the question of restrictions that weaken the competition, which directly affects the relations of the EU with foreign partners (Alemany & Leal-Arcas, 2015). However, these studies tend to view internal economic issues and energy security as the only strategic interest of the EU. It might be argued that economic issues could be relevant for the EU's gas policy change, but the circumstances have changed. Consequently, to analyze the EU's energy policy, political issues should also be taken into account.

In contrast to those authors who examine mostly internal energy processes in the EU, several researchers take a more pragmatic position and address the issue of the crucial role of international partners that are the main EU's motivation for implementing gas market mechanisms and that are responsible for an imbalance in the EU-Russia-US triangle. Particularly, there are some concerns about the Russian presence on the European gas market (Rios, Leal-Arcas & Grasso, 2015). It is argued that under Russian gas policy the European energy security faces new challenges of vulnerability, which inevitably calls for diversifying gas suppliers and turning increased attention to the US.

Some studies on the general EU's energy issues offer a more comprehensive description of cooperation of the EU with individual countries or groups of countries. Specifically, Korteweg (2018) claims that Russia uses its gas exports not only for the economic gains but also as a tool of foreign policy leverage in the EU. The study explores how supply disruptions, price fluctuations, and alternative transit routes are used by Russia to pursue its foreign policy interests and compares such patterns of behaviour with the US policy. On the other hand, Leal-Arcas (2009) addresses the need of the EU to intensify energy relations with Russia. It is stated in the study that the reason for engaging with Russia on trade matters lies in the establishment of peace, security, and prosperity in the XXI century. In addition, the researcher emphasizes the fact that the evolution of the EU-Russia-US relations is inevitable due to the different goals that these actors pursue.

A number of scholars investigate the goal of the EU to diversify its energy suppliers (Zuev, Ibrayeva, & Sannikov, 2018). These authors are the first to explore Caspian countries as reliable gas partners for the EU in times of the Transatlantic Partnership's collapse and the crisis that the EU-Russia relations have been undergoing since 2014. At the same time, they suggest that political fluctuations and poor infrastructure in those countries are the key challenges for the EU in diversifying its energy suppliers in Eurasia. At the same time, Dusciac, Popescu and Parlicov (2016) and Sharples (2020) analyse energy infrastructure in other countries which take part in minimizing the role of Gazprom in the EU. For instance, they report that the construction of a large capacity gas pipeline Ungheni-Chisinau in Moldova would facilitate the diversification of EU's gas suppliers, and, consequently, influence the evolution of the EU-Russia-US relations.

In fact, a diversification of gas suppliers is not limited to the Eurasian region. The research on the importance of intensifying the EU-US energy relations has not escaped the attention of the scientific community. For instance, Koranyi and Brown (2016) posit that

transatlantic natural gas trade offers important strategic and commercial opportunities for both Europe and the US, which encourages the EU-US dialogue. In particular, the study focuses on policy obstacles that hinder their gas trade liberalisation, thus preventing the EU from suppliers' diversification. However, it might be argued that intensification of the EU-US gas trade would also lead to the monopolism of the US, as was the case with Russia. Therefore, the EU's redirection from Russia to the US seems highly controversial and opens up space for further research.

On the whole, the first group of studies conducted by the researchers mainly focus on the economic aspects of gas trade transformation and the EU's energy security interest in that. There have been numerous studies on the EU-Russia partnership, in which Russian gas policy is seen as the main threat for the EU. However, much less attention has been given to the impact of the liberalisation of the EU's gas market that may be put on the EU's foreign policy.

The second group of studies examine Russian gas policy as the most controversial EU's energy partner, which might lack full coverage. There may exist other actors, such as the US, with which the relations of the EU have been affected by the new gas policy of the EU. Likewise, some studies have addressed such a change in the EU-US relations but from an economic perspective. This seems insufficient since the EU's gas market liberalisation might have had political implications that could influence the quality of the relations.

Changing political patterns in the dialogue between Russia and the US under the EU's gas market liberalisation are another area that call for a more thorough study. Specifically, it seems worthwhile to address the foreign policy dimension of the relations between these three actors under the new European gas policy.

From this review it is clear that more research is needed to identify the practical implications of the EU's gas market liberalisation and explore the pivotal factors that have

influenced the relations in the EU-Russia-US triangle. The purpose of the current research is to investigate the transformation of the EU-Russia-US relations under the EU's gas market liberalisation, and to determine the influence of political factors on this liberalisation.

### **Methods**

For achieve the study's purpose, we will employ descriptive research design, including the following qualitative methods: a single-case study, within-case analysis and SWOT analysis.

The single-case study method will be used to determine the causal factors that have facilitated the transformation of the EU-Russia-US relations while within-case analysis will allow us to examine the links between the EU's gas policy and the relations with its partners. Some studies have successfully employed these methods to clarify the influence of the energy factor on the EU's approach to foreign policy (Gerring, 2006). Additionally, SWOT analysis will be used to organise the collected data into a table and outline the key opportunities and strategic challenges to both Russia and the US with respect to energy trade in the EU.

This study will rely on the data accumulated from administrative websites and legal documents. The data will be obtained through the websites of the European Commission, the US Department of State and the Ministry of Foreign Affairs of Russia. The choice of these data sources is justified by the fact that decisions on gas supply are subject to foreign policy strategies, which fully reflects the narratives of the sides.

The analysis will be conducted on a sample of official documents of the EU, US and Russia, and the EU's energetic law. Specifically, the data will cover the foreign strategies of the three actors and the EU's gas directives within the Third Energy Package. Furthermore, these strategies will be compared with each other. Firstly, key sections regarding energy relations will be investigated. Secondly, the collected keywords will be classified by the semantic load to draw conclusions about the quality of the relations.

Although the European energy policy was established in 1951, the timeframe of this study will cover the period from 2009 to 2020. The lower time boundary is justified by the implementation of the Third Energy Package and the upper boundary reflects the year of conducting the analysis.

In this research, other gas suppliers to the EU, except the US and Russia, are not covered. This limitation is explained by the lack of references to Arabic and African countries as EU's prospective political partners in the documents of the European Commission. Our objective is to compare the EU's approaches to gas trade with its two primary partners.

### **Expected Outcomes**

The research will attempt to make several contributions to the literature on the role of energy in international relations. First, we hope to develop a better understanding of energy factors that influence decision-making in world politics. It is suggested that energy security takes preliminary concerns over historical relationships between international actors while adopting foreign policy strategies. Second, the study is significant in terms of extending the theoretical knowledge in the field of the EU-Russia-US relations' transformation since this study is the first to explore the EU's political narratives with respect to liberalising its gas policy from the neorealism perspective. The analysis might contribute to forecasting to which point the geopolitical shift and evolution of the EU-Russia-US relations may come in the foreseeable future.

In addition, the findings might have practical implications for national business structures that are part of Russian energy policy, such as Gazprom. We suggest that they use new European gas market instruments to enhance Russian gas supply to the EU and use the loopholes of a liberalised legislation to develop new infrastructure projects. Finally, the research may provide practical directions for Russian governmental bodies looking to

examine the factors behind EU-US confrontation and develop ways to strengthen the EU-Russia relations (which may, in turn, contribute to Russia's better reputation at the world arena after a period of international isolation).

Upon conclusive results, the obtained findings could stand for publication in a periodical journal, such as "Outlines of Global Transformations: Politics, Economics, Law", which publishes research on the relevant issues in world politics. Likewise, the results could be presented at the AEE Europe Energy Conference and Expo in 2021 if the pandemic restrictions are lifted.

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