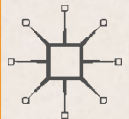


EU-Russia Energy Relations in the 21st Century

# The Politics of Power

Lars-Christian U. Talseth



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*For Karen, as always*

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# List of Abbreviations and Acronyms

AEB	Association of European Businesses
BFG	Baikalfinansgrup
CEES	Common European Economic Space
CES	Common Economic Space
CIS	Commonwealth of Independent States
Comecon	Council for Common Economic Assistance
Coreper	Committee of Permanent Representatives of the Council
Council	Council of the European Union/Council of Ministers
DG Comp	Directorate-General for Competition
DG Enlargement	Directorate-General for Enlargement
DG RELEX	Directorate-General for External Relations
DG Trade	Directorate-General for Trade
DG TREN	Directorate-General for Transport and Energy
ECSC	European Coal and Steel Community
ECT	Energy Charter Treaty
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
EEC	Eurasian Economic Community
G8	Group of Eight
GAC	Gas Advisory Council
IGC	Intergovernmental Conference on Treaty Reform

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INOGATE	Interstate Oil and Gas Transportation to Europe
IRT	European Round Table of Industrialists
ISO	Independent System Operator
ITO	Independent Transmission Operator
LNG	Liquefied natural gas
MEDT	Russian Ministry of Economic Development and Trade
MEP	Member of the European Parliament
MFA	Russian Ministry of Foreign Affairs
Minenergo	Russian Ministry of Energy
Minprirody	Russian Ministry of Natural Resources
MoU	Memorandum of Understanding
MU	Mandatory Ownership Unbundling
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Co-operation and Development
P4M	Partnership for Modernisation
PCA	Partnership and Cooperation Agreement
Phare	Poland and Hungary: Assistance for Restructuring their Economies
PPC	Permanent Partnership Council
PSA	Production Sharing Agreement
TACIS	Technical Aid to the Commonwealth of Independent States
TEP	Third Energy Package
WTO	World Trade Organization

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# 1

## Introduction

The EU–Russia Energy Dialogue was launched in Paris at the EU–Russia Summit on 30 October 2000. Present at the ceremony were Russia’s recently elected President Vladimir Putin, France’s President Jacques Chirac, European Union (EU) Commission President Romano Prodi and the EU’s High Representative for Common Foreign and Security Policy Javier Solana. The parties had agreed to initiate a dialogue that would ‘enable progress to be made in the definition of an EU-Russia energy partnership and arrangements for it’.<sup>1</sup> World energy prices were on the rise, and the EU needed to secure a steady inflow from its main supplier, Russia, which was only happy to oblige its biggest export market. The proposed partnership would be established within the framework of the Partnership and Cooperation Agreement (PCA) between Russia and the EU.<sup>2</sup> Such an agreement, which according to the Commission would

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<sup>1</sup>EU-Russia Summit, “EU/Russia Summit Joint Declaration IP/00/1239,” (Paris: EU-Russia Summit, 2000).

<sup>2</sup>EU-Russia Energy Dialogue, “Synthesis Report,” (Brussels/Moscow: EU-Russia Energy Dialogue, 2001), 2.

be legally binding by national law,<sup>3</sup> would include not only provisions for collaboration in oil, gas, coal, electricity and nuclear energy, but also measures concerning energy efficiency, technology and investment.

However, ambitions went much further than this. The Commission officials behind the Energy Dialogue wanted to build a new European Coal and Steel Community (ECSC), the progenitor of today's EU.<sup>4</sup> The Energy Dialogue was supposed to move from oil and gas to a broad patterned partnership, just like the ECSC moved from coal and steel to a political union. The ECSC analogy was never uttered in public. But as Romano Prodi himself later acknowledged, '[c]ommitments achieved through this dialogue in the energy sector could serve as a model for other sectors'.<sup>5</sup> The Energy Dialogue was a stepping stone towards a wider partnership between the eastern and western halves of the European continent.

Two 'sole interlocutors' were nominated: François Lamoureux, the Director-General of the Directorate-General for Transport and Energy (DG TREN) at the European Commission, and Viktor Khristenko, Russia's Deputy Prime Minister responsible for energy. They were named *sole* interlocutors in order to ensure efficiency and to avoid unnecessary meddling from their respective bureaucracies.<sup>6</sup> The interlocutors convened shortly after the Paris summit, and work swiftly got under way. Four thematic groups were tasked with defining the different objectives of the Energy Dialogue, which were summarised in a comprehensive synthesis report, published in late 2001.<sup>7</sup> But practical results were limited. The dialogue moved slowly, and by the end of 2004 it had stalled altogether.

During this time, both Russia and the EU underwent profound changes—the EU almost doubling in size, from 15 to 25 member states,

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<sup>3</sup> European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission—the EU-Russia Energy Dialogue," (Brussels: European Commission, 2001), 2.

<sup>4</sup> Author's interviews with Christian Cleutinx, former Director of the EU-Russia Energy Dialogue, European Commission [Brussels, 11.09.12]; EU Official A [Brussels, 22.05.12].

<sup>5</sup> European Commission, "Energy Dialogue with Russia—Update on Progress," (Brussels: European Commission, 2002), 2.

<sup>6</sup> Author's interview with Christian Cleutinx.

<sup>7</sup> EU-Russia Energy Dialogue, "Synthesis Report."

making it more heterogeneous, whereas Russia became consolidated and homogeneous, after Putin implemented his so-called power vertical, through comprehensive politico-economic reforms. All of this was accompanied by a continuous rise in world energy prices. Meanwhile, the dialogue stumbled on, without any clear sense of direction. Tensions were further exacerbated when Russia, partly due to pricing disagreements, shut off its gas deliveries to Ukraine in 2006 and again in 2009, jeopardising 80 per cent of Gazprom's exports to Europe. Integration was replaced by confrontation, which in turn was complemented by energy diversification. Discussions ground to a halt. Despite ebbs and flows, by 2013 the once vaunted Energy Dialogue had devolved into an energy diatribe. The *coup de grâce* came in 2014, when the EU suspended the Energy Dialogue, due to Russia's annexation of the Ukrainian peninsula of Crimea and Moscow's warmongering in eastern Ukraine.

Still, the events in Ukraine merely condemned what was already a dead initiative. The PCA had long since expired, and no legally binding energy partnership was in sight. The Commission's ultimate vision of a new ECSC was removed from the agenda, long before the first shots were fired in Ukraine—this despite the fact that both parties had acknowledged energy as the one area where mutual interdependency was highest, and the prospects of successful cooperation were greatest.<sup>8</sup> 'If not energy, then where?' one EU official close to the Energy Dialogue told me.<sup>9</sup> Energy was, and indeed still is, crucial for EU–Russia relations. Events in the energy sphere had repercussions into the wider relationship, as was the case with the dual gas crises in Ukraine. Similarly, non-energy-related events, such as expansion of North Atlantic Treaty Organization (NATO) into eastern Europe, and even the US incursion into Iraq in 2003, had profound consequences for Russia's relationship with the West, and hence with the EU. In this respect, the EU–Russia Energy Dialogue was always about more than just energy. So *why* and *how* did the EU–Russia Energy Dialogue fail to define and create a legally binding energy partnership? Those are the questions this book seeks to answer.

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<sup>8</sup> Author's interviews with Stanislav Zhiznin, former chief counsellor of the Russian Ministry of Foreign Affairs [11.03.12]; Christian Cleutinx.

<sup>9</sup> Author's interview with EU Official A.

Before proceeding, it is important again to emphasise that I am explaining the political failure of the official EU–Russia Energy Dialogue, not the relative economic success of the Russo-EU energy trade. While this may change with time, due to the deterioration of relations in recent years, the decline of world oil prices and the gradual introduction of alternative energy sources, EU–Russia energy relations have nevertheless been much more successful at the commercial level than at the political level. In 2014, Russia supplied 28 per cent of the EU’s consumption of natural gas, and 27 per cent of its crude oil consumption.<sup>10</sup> However, these numbers reflect the bilateral trading relationships between Russia and the myriad of actors among the EU’s member states, not the joint achievements of the multilateral Energy Dialogue. In fact, the relative success of these bilateral relationships has partly served to undermine the attractiveness of Energy Dialogue. ‘The Energy Dialogue is a formality’, as a senior Russian official told me a few years ago, noting that concrete achievements were realised ‘beyond the framework of the Energy Dialogue’.<sup>11</sup> Therefore, the successful bilateral trade relationships of the Russo-EU energy trade are part of the *explanans* (the explanation), not the *explanandum* (the thing explained). Of course, pragmatically, the dialogue could be regarded as a success, at least in the sense that it has perhaps not impeded the Russo-EU energy trade. Moreover, where there was once no fixed line of communication, dialogue emerged after 2000. But measured against its stated objective to define and create a legally binding energy partnership between Moscow and Brussels, the EU–Russia Energy Dialogue has been a failure.

## A Microcosm of EU–Russia Relations

Understanding the Energy Dialogue is important, as it is in many respects a microcosm of Russo-EU relations after 2000. For decades, energy has been the most important area of cooperation between Russia and the EU, and the Energy Dialogue was—officially, at least—the main channel of

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<sup>10</sup> European Commission, “Eurostat,” European Commission, <http://epp.eurostat.ec.europa.eu/>.

<sup>11</sup> Author’s interview with Stanislav Zhiznin.



communication. The fact that the dialogue failed in this endeavour is not an excuse to ignore it altogether. On the contrary, it is a perfect reason to study it. Since energy is of such utmost importance to the EU–Russia relationship, understanding the failure of the Energy Dialogue may help us in explaining the wider challenges of finding a sustainable *modus operandi* for the relationship between Moscow and Brussels. Therefore, it is a premise of this book that to understand the failure of the Energy Dialogue, one needs to understand this wider relationship, and, conversely, to understand this wider relationship, one needs to understand the failure of the Energy Dialogue. Much of this book will therefore focus on actors and events outside of the Energy Dialogue proper.

The accounts on the Russo-EU energy trade are legion, but they devote only cursory attention to the EU–Russia Energy Dialogue itself. Specific work on the Energy Dialogue is limited to one monograph and a handful of articles, the core of which were written by the same author.<sup>12</sup> The rest remains a tapestry of differing foci, sometimes mentioning the Energy Dialogue, but mostly ignoring it altogether. For this reason, it is imperative to address the wider EU–Russia energy literature. Some authors have pinpointed *conflicting political interests* as the main reason for the challenges faced by the EU and Russia in the energy sphere, with a hyper-bureaucratised bloc of 15 and later 28 member states failing to speak with a ‘common voice’ *vis-à-vis* a hyper-centralised Russia.<sup>13</sup> Other

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<sup>12</sup>There is really only one monograph devoted to the EU–Russia Energy Dialogue, and even that contains only a couple of chapters directly addressing it; see Pami Aalto, ed. *The EU–Russian Energy Dialogue: Europe’s Future Energy Security* (Aldershot: Ashgate, 2008). See chapters by Westphal & Aalto and Romanova. Tatiana Romanova is arguably the scholar who has concentrated most on the Energy Dialogue, see, for instance, Tatiana Romanova, “The Russian Perspective on the Energy Dialogue,” *Journal of Contemporary European Studies* 16, no. 2 (2008); “Russian Energy in the EU Market: Bolstered Institutions and Their Effects,” *Energy Policy*, no. 74 (2014). Another scholar who has devoted some sustained attention towards the Energy Dialogue is Katinka Barysch; see, for instance, Katinka Barysch, *The EU and Russia: All Smiles and no Action?* (London: Centre for European Reform, 2011).

<sup>13</sup>Michael Emerson and Nadezhda K. Arbatova, *The Elephant and the Bear Try Again* (Brussels: Centre for European Policy Studies, 2006); Vladimir Milov, “The EU–Russia Energy Dialogue: Competition Versus Monopolies,” *Russie.Nei.Visions*, no. September 13 (2006); Cameron Fraser, *The Politics of EU–Russia Energy Relations* (Brussels: EU–Russia Centre, 2009); Richard Youngs, “Europe’s External Energy Policy, between Geopolitics and the Market,” *CEPS Working Document*, no. 278 (2007); Fyodor Lukyanov, “Russia–EU: The Partnership that Went Astray,” *Europe–Asia Studies* 60, no. 6 (2008); Timofei Bordachev, “Toward a Strategic Alliance,” *Russia in Global Affairs*, no. 8 May (2006); Andrew Monaghan, “Russia’s Energy Diplomacy: A Political Idea Lacking a

accounts have pointed to *geo-economics* as the main culprit, such as competing pipeline projects and the omission of crucial transit states like Ukraine.<sup>14</sup> Still others have pointed to *economics and business interests*, arguing that Moscow and Brussels could not address elementary issues of supply and demand of the energy trade, which primarily was conducted by companies, not governments.<sup>15</sup> Some have pointed towards the

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Strategy?," *Southeast European and Black Sea Studies* 7, no. 2 (2007); Sergey Yastrzhembsky, "Trust, Not Double Standards: What Russia Expects from the EU," in *Pipelines, Politics and Power, the Future of EU-Russia Energy Relations*, ed. Katinka Barysch (London: Centre for European Reform (CER), 2008); Konstantin Kosachev, "Do We Have a Shared Future in Energy?," *ibid.*; Michal Natorki and Anna Herranz, "The Impact of German-Russian and Polish-Ukrainian Special Relations on European Foreign Policy," in *Reflecting on a Wider Europe and Beyond* (University of Tartu, Estonia, 2006); Andres Mäe et al., *Energy Security of Estonia in the Context of the Energy Policy of the European Union* (Tallinn: Riigikogu Foreign Affairs Committee, 2006).

<sup>14</sup> Pavel Baev, "Reformatting the EU-Russia Pseudo-Partnership: What a Difference a Crisis Makes," in *Responding to a Resurgent Russia: Russian Policy and Responses from the European Union and the United States*, ed. Vinod K. Aggarwal and Kristi Govella (London: Springer, 2012); James Hughes, "EU Relations with Russia, Partnership or Asymmetric Interdependency?," in *The EU's Foreign Policy in an Evolving International System, the Road to Convergence*, ed. Nicola Casarini and Costanza Muzu (London: Palgrave, 2006); Stanislav Zhiznin, *Energy Diplomacy: Russia and the World* (Moscow: East Brook 2007); Maria Lagutina, "The Nord Stream Pipeline: Energy Security or Energy Dependence?," in *Energy and Security in the Baltic Sea Region*, ed. Thomas Jonter and Ilja Viktorov (Stockholm: Stockholm University, 2011); Efstathios T. Fakiolas, "A Former Superpower Coming Out of Hibernation: Today's Russia in World Politics," in *International Politics in Times of Change*, ed. Nikolaos Tzifakis (London: Springer, 2012); Andrew Monaghan, "Energy Security—What Role for NATO?," *Nato Defense College Research Paper*, no. 29 (2006); Michael Emerson, "The EU-Russia-US Triangle," *CEPS Policy Brief*, no. 52 (2004); Jonathan Stern, *The Russian-Ukrainian Gas Crisis of January 2006* (Oxford: Oxford Institute for Energy Studies, 2006); Gawdat Bahgat, "Europe's Energy Security: Challenges and Opportunities," *International Affairs* 82, no. 5 (2006); Andrei Zagorski, "EU Policies towards Russia, Ukraine, Moldova and Belarus," in *European Union Foreign and Security Policies, toward a Neighbourhood Strategy*, ed. Roland Danreuther (London: Routledge, 2004); Nadia Alexandrova-Arbatova, "Regional Cooperation in the Black Sea Area in the Context of EU-Russia Relations," *Xenophon Paper*, no. 5 (2008); Margarita Balmaceda, *Energy Dependency, Politics and Corruption in the Former Soviet Union* (London: Routledge, 2008); Dimitrios Triantaphyllou, "Energy Security and Common Foreign and Security Policy (CFSP): The Wider Black Sea Area Context," *Southeast European and Black Sea Studies* 7, no. 2 (2007).

<sup>15</sup> Andrei Konoplyanik, "Russian Gas at European Market, Why Adaptation Is Inevitable," *Energy Strategy Reviews* 1, no. 1 (2012); Lea Sarah Kulick, *Energy Security of the European Union and Russia: A Relationship of Interdependence* (Norderstedt: Grin Verlag, 2010); Panagiotis Grammelis et al., "Refurbishment Priorities at the Russian Coal-Fired Power Sector for Cleaner Energy Production—Case Studies," *Energy Policy* 34, no. 17 (2006); Dominique Finon and Catherine Locatelli, "Russian and European Gas Interdependence: Could Contractual Trade Channel Geopolitics?," *ibid.* 36, no. 1 (2008); Jeffery Piper and Christian Cleutin, "The EU-Russia Energy Dialogue," in *Pipelines, Politics and Power, the Future of EU-Russia Energy Relations*, ed. Katinka Barysch (London: Centre for European Reform (CER), 2008); Aldo Spanjer, "Russian Gas Price Reform and the EU-Russia Gas Relationship," *Energy Policy* 35, no. 5 (2007); Jarosław Cwiek-

*conflicting legal and institutional frameworks* of the EU and Russia as the cause of failure, with the EU seeking to enforce its increasingly elaborate legal system, the *acquis communautaire*, on reluctant state-owned Russian energy companies.<sup>16</sup> Others scholars have pointed to *ideas and conflicting worldviews* as the root of the problem, with the liberal-integrationist EU fundamentally at odds with Russia's traditional focus on sovereignty and 'great powerness', or *derzhavnost*, as it is called in Russian (indeed, the fact that there is a word for it goes to show that great power is important to the Russians).<sup>17</sup>

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Karpowicz, "Russia's Gas Sector: In Need of Liberalization in the Context of the Shale Gas Revolution and Energy Relations with the European Union," *Journal of East-West Business*, no. 18 (2012); Katinka Barysch, *The EU and Russia, from Principle to Pragmatism*, Policy brief / Centre for European Reform (London: Centre for European Reform, 2006); Jonathan Stern, *The Future of Russian Gas and Gazprom* (Oxford: Oxford University Press, 2005); Michael Thumann, "Multiplying Sources as the Best Strategy for EU-Russia Energy Relations," *Russia.Nei.Visions*, no. 10d May (2006); Andris Piebalgs, "Win-Win Co-Operation Is Possible in Energy," in *Pipelines, Politics and Power, the Future of EU-Russia Energy Relations*, ed. Katinka Barysch (London: Centre for European Reform (CER), 2008); Rafael Leal-Arcas, "The EU and Russia as Energy Trading Partners: Friends or Foes," *European Foreign Affairs Review* 14 (2009).

<sup>16</sup>Romanova, "The Russian Perspective on the Energy Dialogue.;" Andreas Goldthau, "Emerging Governance Challenges for Eurasian Gas Markets after the Shale Gas Revolution," in *Dynamics of Energy Governance in Europe and Russia*, ed. Caroline Kuzemko, et al. (Basingstoke: Palgrave Macmillan, 2012); Pami Alto, *From Separate Policies to Dialogue? Natural Gas, Oil and Electricity on the Future Agenda of EU-Russia Energy Relations*, vol. March (Tartu: University of Tartu Centre for EU-Russia Studies, 2012); Manfred Hafner and Simone Tagliapietra, "Rethinking the EU Gas Security of Supply Architecture," in *A New EU Gas Security of Supply Architecture*, ed. Jean-Michel Glachant, et al. (Deventer: Claeys & Casteels, 2012); Anatole Boute, "The European Foreign Energy Efficiency Policy," in *Dynamics of Energy Governance in Europe and Russia*, ed. Caroline Kuzemko, et al. (Basingstoke: Palgrave Macmillan, 2012); Andrei Konoplyanik, "A Common Russia-EU Energy Space," *Oil, Gas & Energy Law*, no. 2 (2009); Dieter Helm, "The Russian Dimension and Europe's External Energy Policy," (2007); Katinka Barysch, *Russia, Realism and EU Unity*, Essays (London: Centre for European Reform., 2007).

<sup>17</sup>Andrei Belyi, "The EU's Missed Role in International Transit Governance," *Journal of European Integration* 34, no. 3 (2011); Viatcheslav Morozov, "Energy Dialogue and the Future of Russia," in *The EU-Russian energy dialogue : Europe's future energy security*, ed. Pami Aalto (Aldershot: Ashgate, 2008); Sergei Prozorov, "The Narratives of Exclusion and Self-Exclusion in the Russian Conflict Discourse on EU-Russian Relations," *Political Geography* 26, no. 3 (2007); Amelia Hadfield, "EU-Russia Relations: Aggregation and Aggravation," *Journal of Contemporary European Studies* 16, no. 2 (2008); Pami Aalto and Dicle K. Temel, "European Energy Security: Natural Gas and the Integration Process," *Jcms-Journal of Common Market Studies* 52, no. 4 (2014); Petr Kratochvil and Lukas Tichy, "EU and Russian Discourse on Energy Relations," *Energy Policy* 56, no. May (2013); Charles Ziegler, "Energy Pipeline Networks and Trust: The European Union and Russia in Comparative Perspective," *International Relations* 27, no. 1 (2013).

Common to all the aforementioned accounts is their somewhat superficial treatment of the Energy Dialogue. Rather than treating the Energy Dialogue as an interesting case in its own right, these accounts tend to ignore it or consider it epiphenomenal to other processes such as great power politics, geopolitical rivalry, cultural differences, neoliberal politics and so on. What is more, the accounts that actively deal with the Energy Dialogue are limited in scope, and are by now several years old. Thus, a comprehensive, up-to-date account of the EU–Russia Energy Dialogue is sorely missing.

## Five Hypotheses

The aim of this book is to understand and explain the failure of the once vaunted EU–Russia Energy Dialogue in defining and creating a legally binding energy partnership. The existing literature on EU–Russia energy relations, discussed above, provides me with five hypotheses. Respectively, these hypotheses suggest that the Energy Dialogue’s failure to define and create a legally binding energy partnership was a result of (1) *ideas and conflicting worldviews*, (2) *conflicting political interests*, (3) *diverging business and economic interests*, (4) *geo-economic interests, imperatives or events* or (5) *conflicting legal institutional frameworks*. These ‘independent variables’ each pertain to the ‘dependent variable’ of the Energy Dialogue’s failure. But taken by themselves they are incomplete. How do I separate economic interests from political interests? What comes first—ideas, politics, economics, geo-economics or legal institutions? Moreover, is ‘variable’, understood as a quantity that may assume any one of a set of values, really a useful term for my purposes? After all, I am trying to explain the emergent failure of agreement, through the ongoing process of the Energy Dialogue, 2000–2014. During this time, Russia and the EU, the Energy Dialogue and the context in which it operated changed dramatically. These changes were at once ideational, political, economic, geo-economic and institutional. Thus, rather than correlations or co-variation of causal factors, a research methodology involving static variables is not optimal to explain the failure of the EU–Russia Energy Dialogue. The reason for this is that it is impossible

to use a variable, such as ‘politics’, to investigate the changing boundaries and uses of that very variable.

## How: Narratives

To explain and understand the failure of the Energy Dialogue, I have divided my research questions into a *how* and a *why* question. To answer the *how* question first, I shall argue that the Energy Dialogue’s failure to define and create a legally binding energy partnership was due to its interlocutors’ inability to find a mutually acceptable way to put this partnership into words. To draft a mutually binding legal document or text, it is necessary to reach a common understanding. But the problem with the Energy Dialogue was that it lacked a common conceptual vision from the outset.<sup>18</sup> In other words, it lacked a narrative. A narrative, as defined by Genette, denotes ‘the representation of an event or a sequence of events’.<sup>19</sup> Similar definitions are provided by Scholes, who defined narratives as ‘the symbolic presentation of a sequence of events’<sup>20</sup>; Prince, who described narratives as ‘the representation of at least one event’ or ‘the representation of real or fictive events and situations in a time sequence’<sup>21</sup>; and Onega and Landa, who explained narratives as ‘the semiotic representation of a series of events’.<sup>22</sup>

Another definition with more practical connotations is by Michel de Certeau, who described narratives as stories that “‘go in a procession” ahead of social practices in order to open a field for them’.<sup>23</sup> In other words, narratives are needed for common social practices, such as the

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<sup>18</sup> Author’s interviews with Klaus Kleinekorte, former Eurelectric/RWE-official, consultant for the Federal Ministry of Economics and Technology, Germany [Brussels, 24.09.12]; Terry Adams, former consultant for the Department of Energy & Climate Change, UK [Phone & e-mail, 25 & 26.09.12]; Dutch Industry Official [Phone, 21.09.12]; French Official A [Phone, 27.09.12]; French Official B [Phone, 26.09.12]; Russian Official A [Moscow, 22.03.12].

<sup>19</sup> Gerard Genette, *Figures of Literary Discourse* (Oxford: Blackwell, 1982), 120.

<sup>20</sup> Robert Scholes, “Language, Narrative and Anti-Narrative,” in *On Narrative*, ed. W.J.T. Mitchell (Chicago, IL: University of Chicago Press, 1981), 205.

<sup>21</sup> Gerald Prince, “Revisiting Narrativity,” in *Transcending Boundaries: Narratology in Context*, ed. Walter Grünzweig and Andreas Solbach (Tübingen: Gunter Narr Verlag, 1999), 43.

<sup>22</sup> Susana Onega and Jose Angel Garcia Landa, *Narratology, an Introduction* (London: Longman, 1996), 6.

<sup>23</sup> Michel de Certeau, *The Practice of Everyday Life* (Berkeley: University of California Press, 1984).

EU–Russia Energy Dialogue, to take place. But to return to Genette’s somewhat simple definition of narratives as representation—what did the EU–Russia Energy Dialogue represent to its interlocutors? This was not resolved when the dialogue set off in October 2000. Both interlocutors sought a legally binding agreement to underpin their envisaged ‘energy partnership’. However, they never really addressed what this energy partnership was intended to become. Where the Commission regarded such an agreement as the first step towards a wider partnership along the lines of the ECSC, the Russian officials were more interested in securing a legal guarantee for additional investment.<sup>24</sup> Both interlocutors, the Commission and the Russian government, wanted an agreement centred on energy, to be sure; but where the former sought legal reform, the latter wanted money. In the beginning of the Energy Dialogue, the Russians would play lip service to the ECSC analogy. But they never considered it to be a realistic, or indeed a desirable, outcome.<sup>25</sup> Therefore, in want of a properly defined narrative for the Energy Dialogue, its interlocutors listed a vast number of poorly specified objectives, covering everything from oil trade to energy savings and investment.<sup>26</sup> So, despite the initial disagreements, the EU–Russia Energy Dialogue was allowed to continue on a wait and see basis.

Still, the fundamental problem remained. Although the ECSC analogy was eventually scrapped by the Commission, the lack of a common narrative for the Energy Dialogue, both between and within Russia and the EU, was never really resolved. Instead, the narrative chasm would continue to widen in subsequent years, culminating in the Ukraine crisis of 2014, during which the Energy Dialogue was suspended. The absence of a common narrative would continue to plague the Energy Dialogue throughout its existence, and thus explains how it failed to define and create a legally binding Energy Partnership, as this book will argue.

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<sup>24</sup> Author’s interviews with Vladimir Milov, former Deputy Energy Minister of Russia [Moscow, 11.03.12]; Jonathan Stern, EU speaker for the Gas Advisory Council under the EU–Russia Energy Dialogue [Phone, 06.07.12]; Stanislav Zhiznin.

<sup>25</sup> Author’s interview with Stanislav Zhiznin.

<sup>26</sup> EU–Russia Energy Dialogue, “Synthesis Report.”; author’s interviews with Vladimir Milov; Christian Cleutin; EU National Official A [Phone, 09.10.12]; EU Official A; Terry Adams; Klaus Kleinekorte; Dutch Industry Official.

## Why: Space and Time

Answering the *how* question of the failure is important, as it allows me to focus on the activities of the Energy Dialogue itself. After all, the practical failure of the Energy Dialogue emerged within the ongoing process of the dialogue. My focus on the dialogue is thus methodological. To explain how it failed, it is paramount to address the Energy Dialogue as such. By focusing on the lack of a common narrative as the explanation for the lack of legal agreement, this book places itself within the ideational spectrum of the academic literature on EU–Russia relations, described above. But the discerning reader might well object to the claim of narratives as the reason for the failure. If narratives are the cause, what, then, is the cause of the cause (*causa causans*)? What creates narratives? What forces, both inside and outside of the Energy Dialogue proper, contributed to its interlocutors' failure to find a common narrative for their energy partnership? This leads me to the *why* part of my research questions. And to answer this question, it is necessary to erase the gap between the ideational world of narratives and the material world of political interests, economic interests and events, geoeconomics and legal institutions, as per my 'hypotheses' above. Instead, the objective is to reveal their mutual interaction—as narratives, embedded in *space* and *time*. There were indeed initial differences between Russia and the EU. However, the failure of the Energy Dialogue was never pre-determined, or caused by a singular factor, but shaped in the multidimensional, unfolding time–space of Russo-European relations. To be sure, this requires further explication. To assist me in this task, I will invoke the concepts of the Soviet philosopher Mikhail Bakhtin (1895–1975).

## Bakhtinian Dialogue

This book is focused on narratives. Theoretically, therefore, my analysis is a constructivist one. But constructivism, according to Onuf, who first coined the term, is not a fully developed theory. It is rather a basket of approaches. Nevertheless: 'Fundamental to constructivism is the proposition that human beings are social beings, and we would not be



human but for our social relations. In other words, social relations *make* or *construct* people – *ourselves* – into the kind of beings we are'.<sup>27</sup> Beyond this very general description, however, there is no real consensus as to what constitutes constructivist 'theory'. Indeed, attempts have been made at distinguishing between different types of constructivism.<sup>28</sup> I will try to position my narrative approach by pointing to what I consider the two main fault lines of constructivist thought. The first distinction is between attributes and process. The second distinction is between dialectics and dialogue. I will do this to argue that an excessive focus on attribute ontology and dialectics has contributed to what Zehfuss called the de-politicisation of constructivism, and what Checkel and Katzenstein have admitted is a lack of politics and power in constructivist work on the EU, which instead has tended to favour institutional explanations.<sup>29</sup> In order to bring the politics of power back into constructivism—or, rather, the politics of *energy*—I suggest a move towards process and dialogue.

## Attributes

In 1999, the constructivist Alexander Wendt famously stated that 'states are people too'.<sup>30</sup> This was not a metaphor. No, Wendt claimed that states *were* people, with distinguishable features and abilities. Just as people are either tall, short, aggressive or peaceful, states, according to Wendt, could display a wealth of characteristics, such as size, government type and even

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<sup>27</sup>Nicholas Onuf, *World of Our Making* (Columbia: University of South Carolina Press, 1989), 58–59.

<sup>28</sup>Ted Hopf, "The Promise of Constructivism in International Relations Theory," *International Security* 23, no. 1 (1998); Richard Price and Christian Reus-Smit, "Dangerous liaisons? Critical International Theory and Constructivism," *European Journal of International Relations* 4, no. 3 (1998); Emanuel Adler, "Seizing the Middle Ground: Constructivism in World Politics," *ibid.* 3 (1997).

<sup>29</sup>Maja Zehfuss, *Constructivism in International Relations, the Politics of Reality* (Cambridge: Cambridge University Press, 2002); Jeffrey T. Checkel and Peter J. Katzenstein, *European Identity* (Cambridge: Cambridge University Press, 2009).

<sup>30</sup>Alexander Wendt, "The State as Person in International Theory," *Review of International Studies* 30, no. 2 (2004); *Social Theory of International Politics* (Cambridge: Cambridge University Press, 1999), p. 215.



a certain ‘demeanour’. Wendt is a proponent of attribute ontology, also known as substantialism, in that he focuses on the assumed substance, or features, of phenomena under study. Attribute focused research treats the objects under study, such as the EU, as a collection of properties bound together by a substantive core. These attributes are treated as analytical variables, which together determine policy outcomes.<sup>31</sup> Our objects of inquiry are things or substances, defined by their properties—authoritarian, democratic, large or small and so on.

Similarly, Wendt treats ideas as discrete variables that can be causally tested.<sup>32</sup> There are several examples of this line of thinking. In much Russian philosophy, ideas have often been assumed to have a corporeal form.<sup>33</sup> Among Western academics, Goldstein and Keohane explored ‘the substantive content of ideas’, asserting the ‘causal connection [...] between ideas and policy outcomes’.<sup>34</sup> Lucarelli and Manners sought to explain how ‘the EU is constituted as a political entity by the values, images and principles (VIPs) which shape the discourse and practice of the EU’s relations with the rest of the world’.<sup>35</sup> Likewise, Kuzemko argued that ‘ideas have been shown to be important *explanatory variables* in revealing aspects of EU–Russia energy relations’.<sup>36</sup> The EU is often classified as a ‘normative’<sup>37</sup> or ‘humanitarian’ power,<sup>38</sup> whereas Russian foreign policy

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<sup>31</sup> Charles C. Ragin, *The Comparative Method, Moving Beyond Qualitative and Quantitative Strategies* (Berkeley: University of California Press, 1987); Gary King, Robert O. Keohane, and Sidney Verba, *Designing Social Inquiry, Scientific Inference in Qualitative Research* (Princeton: Princeton University Press, 1994).

<sup>32</sup> *Social Theory of International Politics*, p. 65.

<sup>33</sup> Charles Clover, *Black Wind, White Snow: the Rise of Russia’s New Nationalism* (New Haven, CT: Yale University Press, 2016), loc 319.

<sup>34</sup> *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca: Cornell University Press, 1993), p. 11.

<sup>35</sup> *Values and Principles in European Union Foreign Policy* (London: Routledge, 2006), p. 1.

<sup>36</sup> “Ideas, Power and Change, Explaining EU–Russia Energy Relations,” *Journal of European Public Policy* 21, no. 1 (2014), my emphasis.

<sup>37</sup> Ian Manners, “Normative Power Europe: A Contradiction in Terms?,” *Journal of Common Market Studies* 40, no. 2 (2002).

<sup>38</sup> Helene Sjursen, “What Kind of Power?,” *Journal of European Public Policy* 13, no. 2 (2006).

is described as ‘neo-imperial’,<sup>39</sup> ‘post-imperial’,<sup>40</sup> ‘trans-imperial’<sup>41</sup> or ‘expansionist’.<sup>42</sup> Conflict between Russia and the EU is explained by reference to the incommensurability of these ideas, which are treated as fixed attributes. Arguably the most famous attribute centred account of international relations is Samuel Huntington’s *The Clash of Civilizations*, which located the fundamental drivers of conflict in the cultures, languages and histories of countries.<sup>43</sup> In attribute-focused accounts, ‘how’ and ‘why’ questions are implicitly preceded by a ‘what’ question.<sup>44</sup> *What* makes Russia and the EU incompatible? Cooperation between Russia and the EU has failed because of what they *are*, not because of what they *do*. This is a poor starting point for political analysis, as it tends towards essentialism instead of dynamism. To be sure, all research relies on some form of categorisation. But while categorisation is necessary, it frequently leads to reification.

## Process

This brings me to the alternative of attribute ontology, namely, process ontology.<sup>45</sup> A researcher following process ontology does not consider objects as a mere collection of stable properties. Instead, he analytically embeds the existence of objects, and their presumed features, into an unfolding set of transactional relations and mechanisms. These transactions effectively reproduce the object from moment to moment.<sup>46</sup> A ‘thing’ is only a thing in so far as it unfolds as that thing before us.

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<sup>39</sup> David Kerr, “The New Eurasianism: The Rise of Geopolitics in Russia’s Foreign Policy,” *Europe-Asia Studies* 47, no. 6 (1995).

<sup>40</sup> Dmitri Trenin, “Russia Redefines Itself and Its Relations with the West,” *Washington Quarterly* 30, no. 2 (2007).

<sup>41</sup> Celeste A Wallander, “Russian Transimperialism and Its Implications,” *ibid.*

<sup>42</sup> Richard Pipes, “Is Russia Still an Enemy?,” *Foreign Affairs*, no. 5 (1997).

<sup>43</sup> Huntington, Samuel. 1997. *The Clash of Civilizations and the Remaking of World Order*. New York, NY: Touchstone; Huntington, Samuel. 1993. *The Clash of Civilizations?.* *Foreign Affairs*, summer.

<sup>44</sup> Wendt, *Social Theory of International Politics*.

<sup>45</sup> Mustafa Emirbayer, “Manifesto for a Relational Sociology,” *American Journal of Sociology* 103, no. 2 (1997); Patrick T. Jackson and Daniel H. Nexon, “Relations before States: Substance, Process and the Study of World Politics,” *European Journal of International Relations* 5, no. 3 (1999).

<sup>46</sup> Patrick T. Jackson, “How to Think about Civilizations,” in *Civilizations in World Politics*, ed. Peter Katzenstein (Abingdon: Routledge, 2010), p. 183.

Or, in other words, the EU is only the EU as long as its politicians and population act as if the EU exists and matters. The EU does not exist in and of itself, at least not to us. The same is true with respect to Russia.

This does not mean that there is nothing beyond interaction, only that our knowledge of these ‘things’, and their ‘attributes’, is limited to that which we can infer through process—through action. As Rescher succinctly stated: “The fact is that all we can ever detect about “things” relates to how they act upon and interact with one another—a substance has no discernible, and thus no justifiably *attributable properties* save those that represent responses elicited from its interaction with others’.<sup>47</sup> Similarly, Nietzsche argued for a switch from ‘being’ to ‘doing’, by claiming that ‘there is no “being” behind doing [...] “the doer” is merely a fiction added to the deed’.<sup>48</sup> Process ontology moves the emphasis away from solid objects, whose features and qualities are stable and clearly discernible, to constellations and arrangements of historical patterns and fluctuating practices.<sup>49</sup> We can still assume a degree of regularity in the things we observe, but regularity made manifest through process, or ‘doing’. Process thus provides us with a more dynamic way of grasping the social world.

## Dialectics

This leads me to my second distinction: between dialectics and dialogue. In a sense, this is a subdivision of process ontology, as both dialectics and dialogue prioritise process over substance. Whereas Bakhtin is the main proponent of dialogue, Hegel is the progenitor of dialectics. However, Hegel’s view of time itself was nevertheless substantialist, and there is a close relationship between attribute ontology and dialectics. In Hegel’s view, time itself had features and was guided by certain mechanisms. He put great emphasis on the *a priori* attribute of reason, which, to him, informed the trajectory of history. Hegel’s view of history was

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<sup>47</sup> *Process Metaphysics, an Introduction to Process Philosophy* (Albany: State University of New York Press, 1996), pp. 48–9, my emphasis.

<sup>48</sup> *On the Genealogy of Morality, a Polemic* (Indianapolis: Hackett Publishing Company Incorporated, 1998), p. 25.

<sup>49</sup> “How to Think about Civilizations,” p. 184.

teleological. He described history as an 'Absolute Spirit' moving towards the truth. The Hegelian dialectical triplicity—thesis, antithesis, synthesis—described this goal-oriented process, with thesis as an incomplete historical moment.<sup>50</sup> The thesis was then confronted by an antithesis, whereas the synthesis occurred when the thesis and antithesis were overcome or 'sublated'. The process was then repeated, and at every stage the self and other were ultimately merged, moving the world to an ever-higher level of truth. This negation of difference and faith in progress is the essence of dialectics.<sup>51</sup>

If *The Clash of Civilizations* is the most famous attribute account of international relations, then Francis Fukuyama's *The End of History* is its dialectical equivalent. It argued that the end of the Cold War also marked the 'end point of mankind's ideological evolution and the universalization of Western liberal democracy'.<sup>52</sup> Although Fukuyama later argued that he had been misinterpreted, and that he was not prescribing an iron law, his Hegelian roots were explicit and unmistakable. And he was not alone. Dialectics and teleology are deeply embedded in the history of European integration. Dialectics form the basis of modernisation theory, whose intellectual midwife was Emile Durkheim. Durkheim envisaged an increasing functional integration between societies.<sup>53</sup> His functionalism inspired the original theoretical school of European integration, neofunctionalism, which informed the thinking of many of the founders of the European project. These neofunctionalists envisaged an ever-closer union, and argued that European integration in one sphere would gain momentum and 'spill over' into other sectors.<sup>54</sup> Indeed, this

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<sup>50</sup> Here it should be noted that Hegel, in fact, never used the terms 'thesis', 'antithesis' and 'synthesis', which are derived from the works of the German philosopher Johann Fichte. Hegel rather used the terms 'abstract', 'negative', 'concrete', as well as 'immediate', 'mediate' and 'concrete'. I will nonetheless use Fichte's triplicity in this book. See Johann Gottlieb Fichte and Daniel Breazeale, *Early philosophical writings* (Ithaca, N.Y.; London: Cornell University Press, 1988).

<sup>51</sup> Georg Wilhelm Friedrich Hegel, *The Science of Logic* (Cambridge University Press, 2010).

<sup>52</sup> Fukuyama, Francis. 1989. *The End of History? The National Interest*, summer; Fukuyama, Francis. 1992. *The End of History and the Last Man*. New York, NY: The Free Press.

<sup>53</sup> Deniz Tekiner, "German Idealist Foundations of Durkheim's Sociology and Teleology of Knowledge," *Theory and Science* 3, no. 1 (2002); Spiros Gangas, "Social Ethics and Logic: Rethinking Durkheim through Hegel," *Journal of Classical Sociology* 7, no. 3 (2007).

<sup>54</sup> Ernst B Haas, *The Uniting of Europe* (Notre Dame: University of Notre Dame Press Notre Dame, 1958).

was also the rationale behind the ECSC, which inspired the Energy Dialogue. Neofunctionalism was constructivist at its core. According to Haas, one of the proponents of neofunctionalism, integration required giving up national identities in favour of a common European, supranational identity.<sup>55</sup>

Neofunctionalism was discredited after several setbacks in European integration during the 1960s and 1970s. But it soon resurfaced in a modified form, through globalisation studies,<sup>56</sup> and later through the transitional and Europeanisation literatures.<sup>57</sup> Europeanisation, as defined by Börzel, is the ‘process by which domestic policy areas become increasingly subject to European policy making’.<sup>58</sup> As with neofunctionalism, much of the Europeanisation literature is focused on homogenisation, and the emergence of pan-European identities as both a prerequisite for and result of integration.<sup>59</sup> The interaction between Europeanisation and domestic institutional change is inherently dialectic.<sup>60</sup> Europeanisation invariably ‘uploads’ from the national and ‘downloads’ from the supranational, before being synthesised in the transnational.<sup>61</sup> The same applies to the governance literature, which recounts the movement from national governance towards post-national governance through a dialectic between globalisation and what Rosenau has called localisation.<sup>62</sup> More recently, energy governance has come into vogue, explaining the ‘ever growing role of transnational actors, such as national energy companies, as well as

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<sup>55</sup> *Ibid.*, p. 16.

<sup>56</sup> Jan Nederveen Pieterse, “Globalisation as Hybridisation,” *International Sociology* 9, no. 2 (1994).

<sup>57</sup> Johan P Olsen, “The Many Faces of Europeanization,” *Journal of Common Market Studies* 40, no. 5 (2002); Tanja Börzel and Thomas Risse, “When Europe Hits Home: Europeanization and Domestic Change,” *European Integration online Papers (EIoP)* 4, no. 15 (2000).

<sup>58</sup> “Towards Convergence in Europe? Institutional Adaptation to Europeanization in Germany and Spain,” *Journal of Common Market Studies* 37, no. 4 (2002): p. 574.

<sup>59</sup> Thomas Risse-Kappen, *A Community of Europeans? Transnational Identities and Public Spheres* (Ithaca: Cornell University Press, 2010); Jeffrey T. Checkel, *International Institutions and Socialization in Europe* (Cambridge: Cambridge University Press, 2007).

<sup>60</sup> “The Europeanization of Public Policy,” in *The Politics of Europeanization*, ed. Kevin Featherstone and Claudio M. Radaelli (Oxford: Oxford University Press, 2003), p. 45.

<sup>61</sup> “Europeanization at the Urban Level,” *Journal of European Public Policy* 12, no. 4 (2005): p. 671.

<sup>62</sup> “Distant Proximities, the Dynamics and Dialectics of Globalization,” ed. Bjørn Hettne (1995).

global externalities and spill-overs<sup>63</sup>—again, just like the neofunctionalists, cited above.

From the mid-2000s, scholars began focusing on the assumed effects of Europeanisation on neighbouring countries.<sup>64</sup> The so-called transition literature dealt with the development of democratic institutions and practices in former authoritarian regimes. Just like the Hegelian triplicity of thesis, antithesis and synthesis, democratisation, Europeanisation and transition were assumed to happen in stages. An illustrative example is Carothers' distinction between the 'opening', the 'breakthrough' and then the 'consolidation' of transition.<sup>65</sup> Underlying all of this was the familiar teleology of the Europeanisation literature. In Russia's case, however, the focus soon shifted to Moscow's alleged 'failure' to become Europeanised.<sup>66</sup>

When transition failed in Russia, scholars shifted their attention to the explanation of why—but often by asking 'what?'. *What* was it about Russia and its features that made its transition fail? Again, we observe the close relationship between attribute ontology and dialectics, with analysts pointing at Russia's assumed attributes. Some pointed at Russia's historical legacy and political culture to explain its failed Europeanisation.<sup>67</sup> One scholar invoked modernisation theory, and concluded that the failure of the Energy Dialogue was 'directly related to *the very nature* of both the EU and Russia as political projects'. The EU was a 'peace project', whereas Russia was 'unable to grasp' the 'fundamental transformation of the European political landscape'.<sup>68</sup> The failure was not due to politics or contingencies, but Russia's *a priori* inability to 'sublate' to historical

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<sup>63</sup> Andreas Goldthau and Jan Martin Witte, *Global Energy Governance, the New Rules of the Game* (Berlin: Global Public Policy Institute, 2010).

<sup>64</sup> Frank Schimmelfennig and Ulrich Sedelmeier, *The Europeanization of Central and Eastern Europe* (Ithaca: Cornell University Press, 2005).

<sup>65</sup> "The End of the Transition Paradigm," *Journal of Democracy* 13, no. 1 (2002): p. 7.

<sup>66</sup> Petr Kratochvíl, "The Discursive Resistance to EU-Enticement, the Russian Elite and (the Lack of) Europeanisation," *Europe-Asia Studies* 60, no. 3 (2008); Timofei Bordachev and Arkady Moshes, "Is the Europeanization of Russia Over?," *Russia in Global Affairs* 2, no. 2 (2004).

<sup>67</sup> Hans-Dieter Klingemann, Dieter Fuchs, and Jan Zielonka, *Democracy and Political Culture in Eastern Europe* (London: Routledge, 2006), p. 1114; Lukyanov, "Russia-EU: The Partnership That Went Astray."

<sup>68</sup> Morozov, "Energy Dialogue and the Future of Russia," pp. 43–4, 60, my emphasis.

currents. Russia's very nuts and bolts—its attributes—rendered it incapable of completing its transition.

There is a temporal dimension to this line of thinking. Both in politics and in academia, Russia has often been described as backwards and belonging to the past,<sup>69</sup> whereas the EU and the West represent the present and the future. Russia is described as 'Westphalian', 'modern' or even 'pre-modern'.<sup>70</sup> The EU, meanwhile, is frequently depicted as 'post-Westphalian', 'post-national' or 'post-modern'.<sup>71</sup> Russia is somehow 'stuck in the nineteenth century',<sup>72</sup> whereas 'global politics has moved on irreversibly towards greater interdependence' and modernisation.<sup>73</sup> Accordingly, Russia represents the exception, confirming the rule of European dialectics and assimilation. There is a long tradition in Russian intellectual thought arguing that Russia has been subject to its own dialectic, driving integration within the Eurasian space, making it distinct from the rest of Europe. This is the basis of Eurasianism, a line of thinking that gained renewed traction around the time of Russia's annexation of Crimea in 2014.<sup>74</sup> An opposite theory is that Russia is indeed on the path towards Europeanisation, but is still many decades away.<sup>75</sup>

Dialectics underpin many established constructivist theories. One such theory is the English School, whose adherents envisage the teleological evolution from 'international system' to a 'world society', premised on the development of a shared global identity.<sup>76</sup> Similar is the literature

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<sup>69</sup>Thomas Diez, "Europe's Others and the Return of Geopolitics," *Cambridge Review of International Affairs* 17, no. 2 (2004).

<sup>70</sup>Lilia Shevtsova, *Russia Lost in Transition* (Washington, DC: Carnegie Endowment for International Peace, 2007).

<sup>71</sup>Scott Nicholas Romaniuk, "Rethinking EU-Russian Relations: "Modern" Cooperation or "Post-Modern" Strategic Partnership?," *Central European Journal of International and Security Studies* 3, no. 2 (2009).

<sup>72</sup>Ivan Krastev, "Russia and the Georgian War, the Great-Power Trap," *Open Democracy*, 31 August 2008.

<sup>73</sup>Derek Averre, "Competing Rationalities: Russia, the EU and the 'Shared Neighbourhood,'" *Europe-Asia Studies* 61, no. 10 (2009): p. 1709; Iver B. Neumann, "Russia's Quest for Recognition as a Great Power, 1489-2007," *Institute of European Studies and International Relations Working Papers*, no. 1 (2007): p. 147.

<sup>74</sup>Clover, *Black Wind, White Snow: the Rise of Russia's New Nationalism*.

<sup>75</sup>Martin E Malia, *Russia under Western Eyes* (Cambridge, MA: Harvard University Press, 1999).

<sup>76</sup>Barry Buzan, *From International to World Society? English School Theory and the Social Structure of Globalisation* (Cambridge: Cambridge University Press, 2004); Hedley Bull, *The Anarchical Society*,

on security communities, which are supposedly formed between actors with shared identities, values and meanings.<sup>77</sup> Wendt described the collective identity formation of security communities as ‘a cognitive process in which the Self-Other distinction becomes blurred and at the limit transcended altogether’.<sup>78</sup> Wendt later made the case for the inevitability of a ‘world state’ emerging through a dialectical process of convergence between so-called macro- and micro-level mechanisms.<sup>79</sup> In other words, an extreme form of assimilation, to the point where all major differences vanish, and politics become obsolete—or almost.

There are of course numerous variations and refinements within the theme of security communities and the English School,<sup>80</sup> and a brief overview will necessarily imply both simplifications and omissions. For example, Pouliot has revised security communities by introducing practice as a way to understand the troubled relationship between Russia and NATO.<sup>81</sup> Practices are ‘socially meaningful patterns of action which, in being performed more or less competently, simultaneously embody, act out, and possibly reify background knowledge and discourse in and on the material world’.<sup>82</sup> According to Pouliot, ‘it is not only who we are that drives what we do; it is also what we do that determines who we are’, thus

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*a Study of Order in World Politics* (London: Macmillan, 1977); John D. B. Miller and Raymond J. Vincent, *Order and violence, Hedley Bull and International Relations* (Oxford: Clarendon, 1990); for a good application of the English School to EU–Russia energy relations, see Aalto and Temel, “European Energy Security: Natural Gas and the Integration Process.”; for more on the dialectics of the English School, see Iver B. Neumann, “John Vincent and the English School of International Relations,” in *The Future of International Relations: Masters In the Making?*, ed. Iver B. Neumann and Ole Wæver (London: Routledge, 1997).

<sup>77</sup> Emanuel Adler and Michael N. Barnett, *Security Communities* (Cambridge: Cambridge University Press, 1998); Karl Wolfgang Deutsch, *Political Community and the North Atlantic Area* (Princeton: Princeton University Press, 1957).

<sup>78</sup> *Social Theory of International Politics*, p. 229.

<sup>79</sup> “Why a World State Is Inevitable,” *European Journal of International Relations* 9, no. 4 (2003).

<sup>80</sup> Buzan, *From International to World Society? English School Theory and the Social Structure of Globalisation*; Andrew Linklater and Hidemi Suganami, *The English School of International Relations, a Contemporary Reassessment* (Cambridge: Cambridge University Press, 2006); Andrew Hurrell, *On Global Order, Power, Values, and the Constitution of International Society* (Oxford: Oxford University Press, 2007).

<sup>81</sup> Vincent Pouliot, *International Security in Practice, the Politics of NATO-Russia Diplomacy* (Cambridge: Cambridge University Press, 2010).

<sup>82</sup> Emanuel Adler and Vincent Pouliot, *International Practices* (Cambridge: Cambridge University Press, 2011), p. 6.



moving the causal arrow from being to doing.<sup>83</sup> There are indeed several other examples, such as Pouliot and Neumann's use of Bourdieu's theory of habitus, and Neumann and Sending's use of Foucault's concept of governmentality, both of which apply practice-based approaches to explain Russia's antagonistic relationship with the West.<sup>84</sup>

The works cited break with the teleology of the much of the other scholarship discussed in this section. Ostensibly, they prioritise doing over being. However, with respect to attribute versus process, they nonetheless end up on the attribute side. Adler and Pouliot have acknowledged that practices 'possibly reify' the 'patterns of action' which these practices describe, but fail to acknowledge the authors' own contribution to this reification process.<sup>85</sup> Practices do not necessarily imply process. A practice (as a noun) can 'be' as much as it can 'do' (practise as a verb). The result, again, is a de-politicisation of the study in favour of *a priori* attributes. For this reason, I will now shift to my own approach, dialogue.

## Dialogue

Dialogue is in many ways the opposite of dialectics. Mikhail Bakhtin rejected Hegel's faith in ultimate reason, and regarded dialectics as a form of monologism in that it pre-supposed the sublation (negation) of difference. Bakhtin sought to do away with what he considered to be the totalising progress of dialectics.<sup>86</sup> He has been described as a 'broken thinker [with] the pieces of his thought [...] strewn in virtually every direction'.<sup>87</sup>

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<sup>83</sup> *International Security in Practice, the Politics of NATO-Russia Diplomacy*, pp. 5–6.

<sup>84</sup> "Untimely Russia: Hysteresis in Russian-Western Relations Over the Past Millennium," *Security Studies* 20, no. 1 (2011); Iver B. Neumann and Ole Jacob Sending, *Governing the Global Polity* (Ann Arbor: University of Michigan Press, 2010).

<sup>85</sup> Emanuel Adler and Vincent Pouliot, "International Practices: Introduction and Framework," in *International Practices*, ed. Emanuel Adler and Vincent Pouliot (Cambridge: Cambridge University Press, 2011), 6.

<sup>86</sup> Iver B. Neumann, *Uses of the Other: "The East" in European Identity Formation* (Minneapolis: University of Minnesota Press, 1999).

<sup>87</sup> Anthony Wall, "A Broken Thinker (M.M. Bakhtin's Thought)," *South Atlantic Quarterly* 97, no. 3–4 (1998).

His theories have been used to study everything from nationalism,<sup>88</sup> feminism<sup>89</sup> to children's education.<sup>90</sup> However, only rarely has the theories been applied to international politics and relations.<sup>91</sup>

Dialogue literally means 'through speech' (*dia logos*). To Bakhtin, dialogue denoted the ongoing social process of meaning making between the self and the other. As such, Bakhtin was both a structuralist and constructivist—or a 'constructuralist', as it were—in that things did not really exist in and of themselves, but rather through the configuration of their relations.<sup>92</sup> Dialogue is between several voices, not just two. Bakhtin used the term heterology (*raznoreche*), or heterologue, which literally means 'different speech'.<sup>93</sup> Multiple narratives manifest both between and within individual interlocutors, both states and individuals, depending on context. Bakhtin called these different narratives 'speech genres'.<sup>94</sup> To Bakhtin, a genre was not just a literary phenomenon. It was a particular way of looking at the world.<sup>95</sup> To give an example, in the Energy Dialogue, Russia engaged differently with Germany than it did *vis-à-vis* Estonia. Conversely, the EU Commission struggled to find a common voice towards Russia in the Energy Dialogue, given the diverging preferences of smaller and bigger states. Narratives do not necessarily coexist peacefully. They are waged in ongoing battle. As opposed to dialectics, contradictions are not automatically harmonised, although they can be reconciled or silenced by various forces, as I will show below.<sup>96</sup> In dialogue, what emerges is not one but a multitude of narratives, each

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<sup>88</sup> Ana Maria Alonso, "The Politics of Space, Time and Substance: State Formation, Nationalism and Ethnicity," *Annual Review of Anthropology* 23 (1994).

<sup>89</sup> Dale M. Bauer and Susan Jaret McKinstry, *Feminism, Bakhtin, and the Dialogic* (Albany: State University of New York Press, 1991).

<sup>90</sup> Marcia Moraes, *Bilingual Education, a Dialogue with the Bakhtin Circle* (Albany: State University of New York Press, 1996).

<sup>91</sup> Iver B. Neumann, "International Relations as Emergent Bakhtinian Dialogue," *International Studies Review*, no. 5 (2003).

<sup>92</sup> Andrew Robinson, "In Theory Bakhtin: Dialogism, Polyphony and Heteroglossia," *Ceasefire*, 29 July 2011.

<sup>93</sup> *The Dialogic Imagination, Four Essays* (Austin: University of Texas Press, 1981), p. 272.

<sup>94</sup> *Speech Genres and Other Late Essays* (Austin: University of Texas Press, 1986).

<sup>95</sup> Michael Holquist, *Dialogism: Bakhtin and His World* (London: Routledge, 2002).

<sup>96</sup> Mikhail M. Bakhtin, "Discourse in the Novel," in *The Dialogic Imagination*, ed. Michael Holquist (Austin, TX: University of Texas Press, 1981), pp. 272–73.

fighting it out with the other. This holds true with ideas, politics and economics, as well as geoeconomics and legal institutions, all of which are characterised by different and competing speech genres.

A dialogical relationship does not necessarily mean two or more voices talking, as in a conversation.<sup>97</sup> Rather, it denotes the ongoing dialogue between ourselves and the world around us. What makes this relationship dialogical is that we interpret it by means of language, or ‘through speech’. Moreover, it is through dialogue we receive our language, through which we conceive or ‘author’ narratives. Still, speech is but one mode of expressing narratives. Besides ‘speech’, *logos* also translates as ‘discourse’. Narratives can be expressed tacitly through thought and practice. Indeed, sometimes actions speak louder than words, as when Russia in 2006, and again in 2009, switched off the gas supply to its former ally Ukraine. Narratives can be expressed through legal institutions, the geoeconomics of land borders and so forth. Yet narratives are not always conscious, nor are they necessarily deliberately or strategically voiced.<sup>98</sup> Moreover, narratives are never permanent. They are continuously shaped and reshaped through an ongoing dialogue between ourselves and the world. For Bakhtin, ‘[t]he dialogue of dialogues is the relation of fixity to flux, of same to different’.<sup>99</sup> Narratives are, per definition, fluid. This does not mean that there is no such thing as an identifiable narrative, or that different narratives do not change at different paces, only that narratives should never be regarded as solid attributes.

Bakhtin argued that it is through dialogue that we shape our understanding of the world and ourselves. This is a continuous socio-genesis of knowledge. For example, in order to know the centre of something, you need to know the non-centre or periphery. This is a question of definition. The relationship between the centre and periphery is thus inherently dialogical. Several accounts have dealt with the story of Russia as outside of Europe. In the eyes of the West, it was the centre, or ‘Self’, whereas

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<sup>97</sup> Julia Kristeva, *Desire in Language: A Semiotic Approach to Literature and Art* (Oxford: Basil Blackwell, 1980), p. 67; Mikhail M. Bakhtin, *Problems of Dostoevsky's Poetics* (Minneapolis: University of Minnesota Press, 1984), pp. 151–52.

<sup>98</sup> Pierre Bourdieu, *Outline of a Theory of Practice* (Cambridge: Cambridge University Press, 1977).

<sup>99</sup> Holquist, *Dialogism: Bakhtin and His World*.

Russia represented the periphery, or the ‘Other’.<sup>100</sup> Geographically situated in both Europe and Asia, Russia was a strange hybrid, a Eurasian empire. Whereas Europe was liberal, Western Christian and enlightened, Russia was authoritarian, Eastern Orthodox and backward. This rhetoric was reflected in the EU’s Common Strategy on Russia of 1999, which informed the Commission’s strategy for the Energy Dialogue. In it, the EU stated its responsibility to ‘help Russia retain its European identity’.<sup>101</sup> The post-modern EU would help Russia to modernise, and it would do so by means of ‘European standard’ institutions, market and democratic reforms. Russia was perceived as being stuck in the past and hence un-European.<sup>102</sup> Therefore, ‘othering’ is not simply spatial (Russia as apart from Europe), it is also temporal (Russia as backward), in the same ways that dialogue and narratives are.<sup>103</sup>

In the distinction between process and attributes, Bakhtin’s ontology was firmly process-oriented. He described being itself as an aesthetic *event*.<sup>104</sup> For Bakhtin, narratives operated along the two axes, *space* and *time*. He labelled this interactive interrelationship the *chronotope*, which literally means ‘time–space’.<sup>105</sup> The chronotope is a central term to my analysis. How something is perceived is contingent upon the spatiotemporal context of the perceiver and that which is being perceived. We are continuously engaged in a dialogic relationship with the past, present and presumed future. We are always authoring and reauthoring ourselves, both from and into the world in which we figure. Likewise, we are being

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<sup>100</sup> Neumann, *Uses of the Other: “The East” in European Identity Formation*; Ivan Krastev, “Russia as the “Other Europe”,” *Russia in Global Affairs*, no. 4, October-December (2007); Chris Browning, “The Region-Building Approach Revisited: The Continued Othering of Russia in Discourses of Region-Building in the European North,” *Geopolitics* 8, no. 1 (2003); Prozorov, “The Narratives of Exclusion and Self-Exclusion in the Russian Conflict Discourse on EU-Russian Relations.”

<sup>101</sup> European Council, “Common Strategy of the European Union on Russia,” (Brussels: European Council, 1999).

<sup>102</sup> Iver B. Neumann, “Russia’s Standing as a Great Power,” in *Russia’s European Choice*, ed. Ted Hopf (Basingstoke: Palgrave Macmillan, 2008).

<sup>103</sup> Diez, “Europe’s Others and the Return of Geopolitics.”

<sup>104</sup> Mikhail M. Bakhtin, Michael Holquist, and Vadim Liapunov, *Toward a Philosophy of the Act*, 1st ed. (Austin: University of Texas Press, 1993).

<sup>105</sup> Mikhail M. Bakhtin, “Forms of Time and of the Chronotope in the Novel,” in *The Dialogic Imagination, Four Essays*, ed. Mikhail M. Bakhtin and Michael Holquist (University of Texas Press, 1981).

authored and reauthored by others, in the way that Russia has often been authored as a pre-modern or modern (as opposed to post-modern) country. Bakhtin called this ‘othering’ for transgression, or ‘outsidedness’, as we can never see ourselves in the same way others see us. We can only imagine it, yet this imagination influences the way we see ourselves.<sup>106</sup>

Before I proceed to operationalise my framework, it is important to note that this is not the first attempt at using Bakhtin in international relations. For instance, Böröcz used Bakhtin to analyse the diplomatic exchange between Hungary and the EU prior to the former’s accession to the latter in 2004.<sup>107</sup> However, the account is based on a textual analysis of two book-length documents. It is thus limited to conscious self-representation by seemingly unitary actors, while largely ignoring the unconscious and contested features of political practices, of which Bakhtin had a great deal to say. This continuous contestation is especially important when examining EU–Russia relations in the 2000s. A similar problem regards Xavier Guillaume’s dialogical accounts on collective identity formation in nineteenth-century Japan.<sup>108</sup> His focus was the nation state, and by extension on recognised and consciously performed narratives. Guillaume identifies a set of narrative matrices, which together represented the ‘repertoires’ of possible, albeit not 100 per cent deterministic, actions—again blurring the division between process and attributes, discussed above.

## An Analytical Framework

Let us now try to piece all of this together. Figure 1.1 is a simple illustration of my dialogical framework, with particular reference to the EU–Russia Energy Dialogue. The two main axes, *time* (vertical, ‘y’) and *space* (horizontal, ‘x’), together represent Bakhtin’s *chronotope*, which forms the

<sup>106</sup> Sue Vice, *Introducing Bakhtin* (Manchester: Manchester University Press, 1997), p. 93.

<sup>107</sup> József Böröcz, “The Fox and the Raven, the European Union and Hungary Renegotiate the Margins of “Europe”,” *Comparative Studies in Society and History* 42, no. 04 (2000).

<sup>108</sup> Xavier Guillaume, *International relations and identity: a dialogical approach* (London: Routledge, 2011); “Foreign Policy and the Politics of Alterity, a Dialogical Understanding of International Relations,” *Millennium* 31, no. 1 (2002).

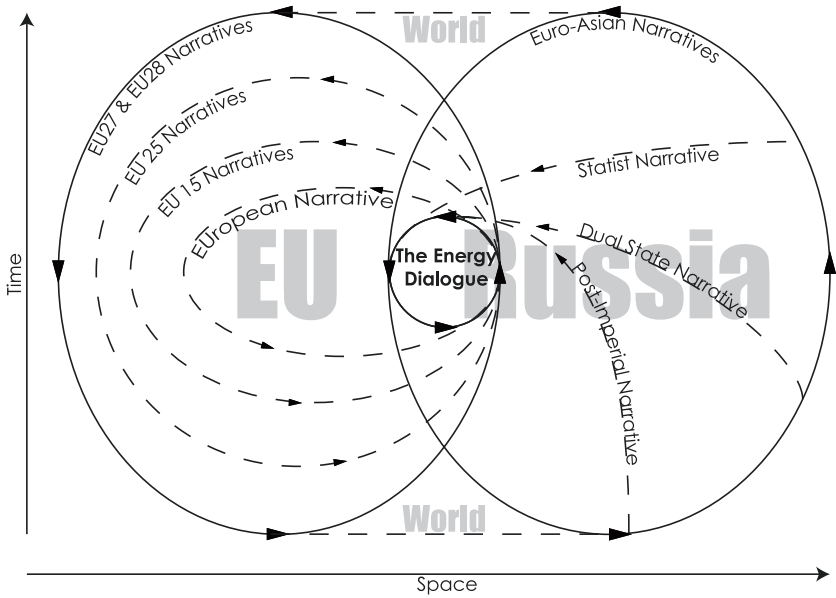


Fig. 1.1 'The EU-Russia Energy Heterologue'

main pre-condition for narrative dialogue. As Bakhtin said, chronotopes are the spaces 'where the knots of narratives are tied and untied', and where '[t]ime becomes, in effect, palpable and visible'.<sup>109</sup> Therefore, Fig. 1.1 is an attempt to visualise this continuous, interactive tying and untying of narratives. Together, the time and space axes drive the three main narrative 'cogwheels', which represent Russia, the EU and the Energy Dialogue, in a continuous feedback loop of *centripetal* (tying) and *centrifugal* (untying) processes.

Keeping in line with my understanding of dialogue as 'heterologue', or multiple narratives, I have further divided the two wheels into six sub-categories. Rather than speech genres, discussed above, I have labelled these subcategories narrative 'clusters'. The reason for this is that it is impossible to wholly isolate discrete narratives. We can only attempt approximations, because narratives are fluid and overlapping. First is the *European* narrative, which describes the pan-European, integrationist and

<sup>109</sup> Bakhtin, "Forms of Time and of the Chronotope in the Novel," 250.

supranational narratives of the Brussels bureaucracy, and in particular the EU Commission. Be advised that the capitalisation of ‘EU’ in EUropean is deliberate, not a typo. Second is the *EU15* (later *EU25*, *EU27*, and from 2013, *EU28*) narratives, which denote the myriad and conflicting narratives of the EU’s member states, both governments and companies alike. Third, moving to Russia, is the *Euro-Asian* narratives, which represents the concurrent European and Asian vectors inherent to Russian political discourse. This touches upon the complex question of identity, and whether Russia should seek closer cooperation with the West, or whether it should go its own separate, Eurasian way. Fourth, the *Statist* narrative recognises the primacy of the state in Russian political culture, which in turn collided with the EU Commission’s drive for liberalisation. Fifth, the *Dual State* narrative illustrates a key tension in Russian political life, between the formal and the informal, the constitutional state and the clandestine bureaucratic regime.<sup>110</sup> Sixth and finally, the *Post-Imperial* narrative denotes the ever presence of Russia’s imperial past, and Russia’s continued attraction towards and connection with its near abroad, including Ukraine. On the outside of the clusters, I have placed the category ‘World’, in order to account for any third-party contingencies occurring on the outside of the formal EU–Russia Energy Dialogue—including the price of oil. I will expand on these clusters more in depth in Chap. 2, where I will provide further historical context to the Energy Dialogue.

Narratives are fluid, and my six clusters are no exception in this regard. Some overlap is inevitable, for instance, between the *Statist*, *Post-Imperial* and *Euro-Asian* narratives, or the *EU15* and *EUropean* narratives, as will indeed become apparent as I proceed with their application. Moreover, it must be noted that Fig. 1.1 should be taken as a heuristic tool, not a mathematical function where different inputs on one graph ( $x$ ) will produce a given set of permissible outputs on the other ( $f(x)$ ). The purpose of the figure is to create order and a sense of direction. In this sense, the figure and the narrative clusters within are ideal types. Ideal types, as defined by Max Weber, are:

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<sup>110</sup> For more on this, see Richard Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession* (Cambridge: Cambridge University Press, 2011); Vadim Kononenko and Arkadii Moshes, *Russia As a Network State, What Works in Russia When State Institutions Do Not?* (Basingstoke: Palgrave Macmillan, 2011).

[F]ormed through a one-sided *accentuation* of *one* or *more* points of view and through bringing together many diffuse and discrete more or less present and occasionally absent *concrete individual* events, which are arranged according to these emphatically one-sided points of view in order to construct a unified *analytical construct* [*Gedanken*]. In its conceptual purity, this analytical construct [*Gedankenbild*] is found nowhere in empirical reality; it is a utopia.<sup>111</sup>

As Weber continued, ‘whoever accepts the standpoint that knowledge of historical reality should or could be a “presuppositionless” copy of “objective” facts will deny any value to ideal-types’.<sup>112</sup> Remember, I said that it is indeed impossible to identify discrete narratives. The ideal-type ‘cluster’ is thus a practical tool, not an ontological truth. Ideal types are intended to help us navigate the ‘infinite causal web’ of social reality.<sup>113</sup> In this respect, ideal types—as a way to represent an event or sequence of events—are themselves a form of narrative.<sup>114</sup> And narratives, by definition, are moving targets. The only real way to assess the efficacy of an ideal type is pragmatically, that is, through its usefulness. And the only way to consider the usefulness of an ideal type is by evaluating whether it reveals interesting and useful things about the object under study.<sup>115</sup> Therefore, the causality I am invoking is located within my ideal typification, illustrated in Fig. 1.1.

## Wait, What About the Oil Price?

I am using narratives to understand the failure of the EU–Russia Energy Dialogue. This approach gives priority to ideas over material factors. But what about the oil price? What impact did it have on the trajectory of the Energy

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<sup>111</sup> *Wissenschaft als Beruf, 1917/1919; Politik als Beruf, 1919*, Gesamtausgabe. Abteilung I, Schriften und Reden / Max Weber (Tübingen: J.C.B. Mohr, 1992), p. 191.

<sup>112</sup> *Ibid.*, pp. 192–3.

<sup>113</sup> Max Weber, *Methodology of Social Sciences* (Somerset: Transaction, 2011), p. XXX.

<sup>114</sup> Uta Gerhardt, “Ideal Type,” in *The SAGE Encyclopedia of Social Science Research Methods*, ed. Michael S. Lewis-Beck, Alan Bryman, and Tim Futing Liao (London: Sage Publications, Inc., 2007).

<sup>115</sup> Patrick T. Jackson, *The Conduct of Inquiry in International Relations: Philosophy of Science and Its Implications for the Study of World Politics* (London: Routledge, 2011).



Dialogue? There are some who have claimed that high oil prices, *ipso facto*, have spurred Russian belligerence, and thus made a partnership between Russia and the West impossible.<sup>116</sup> Still, rejecting narratives for oil prices is misleading, as the two are mutually complementary. There are two main reasons for this. First of all, while there is no denying the importance of the oil price, its causal effect on the Energy Dialogue remains oblique. For instance, in 2000, when the Energy Dialogue launched, oil prices had trebled in short time. Yet Russia chose to enter a multilateral Energy Dialogue with the EU. The same goes for the global financial crisis. Between summer 2008 and winter 2009, the oil price plummeted from 140 to 40 dollars per barrel.<sup>117</sup> Yet the inertia of the Energy Dialogue remained intact. In fact, during this brief period, Russia invaded Georgia and shut off the gas to Ukraine for the second time—arguably the two most damaging events in the history of the Energy Dialogue. Of course, this was before Ukraine 2014, after which the price of oil continued to drop, without forcing a swift resolution of the conflict. The price of oil is important, to be sure, but not in and of itself. It has to be understood in the context of narratives, which in turn are shaped by time and space. Rather than mutually exclusive, they are in fact dialogically intertwined, and need to be treated as such.

Second of all, removing the intervening causal power of narratives merely obfuscates the fact that oil prices, too, are narratives. Indeed, there is not a single oil price, but merely an average weighting of many prices, the mean of which changes every ticking second, in a perpetual dialogue of supply and demand. Economics is a game of perceptions, and perceptions vary by definition, in time and space. Therefore, the price of oil itself is heterologous. Likewise, the price of oil has no *a priori* causal value outside narratives. The price of oil only exists in so far as it is being performed and reproduced through narratives.

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<sup>116</sup> Thomas L. Friedman, “The First Law of Petropolitics,” *Foreign Policy* May/June, no. 156 (2006); Anne Applebaum, “A Crude Theory,” *Slate*, 3 January 2011.

<sup>117</sup> Barry W. Ickes and Clifford G. Gaddy, “Russia after the Global Financial Crisis,” *Journal of Eurasian Geography and Economics* 51, no. 3 (2010).

## Conclusions

By 2013, the EU–Russia Energy Dialogue was all but dead and buried. The vaunted goal of a new ECSC seemed but a pipe dream. The Energy Dialogue stagnated long before the conflict in Ukraine broke loose. That is not to say the failure was pre-determined. The story of the Energy Dialogue is a story of interaction and change. It is a story of great expectations and major disappointments. The EU and Russia of 2013 were indeed quite different from the EU and Russia of 2000. It is impossible to fully understand this development through an ontology based on fixed attributes and dialectics, as has been the tendency in much of the extant literature. A shift to process and dialogue is a better way to grasp the volatility and dynamics of EU–Russia relations in general, and EU–Russia energy relations in particular. The failure of the Energy Dialogue was never pre-determined, but shaped in the dialogical time–space of EU–Russia relations.

I have explained Bakhtin’s dialogue, narratives and ideal types. The next step is to apply my framework on the Energy Dialogue. I have argued that the lack of a common narrative helps us to understand *how* the EU–Russia Energy Dialogue failed to define and create a legally binding Energy Partnership. To explain *why* the dialogue failed, I have identified space and time, by drawing on Mikhail Bakhtin’s concept of dialogue. Granted, this may still seem quite abstract. Therefore, in order to make my spatiotemporal framework more tangible, I shall do three things throughout this book.

First, I will invoke the five ‘hypotheses’ spelt out in the beginning of this introduction—ideas, politics, economics, geoeconomics and institutions—as the basis of my chapters. Rather than being mutually exclusive, each of these five categories expresses competing narratives (how), and time and space (why), in different ways. For instance, politics is essentially the practice of competing narratives by actors dispersed through time and space, whereas geoeconomics is the narratives of space. Hence, Chapter 2 is named ‘The Narrative Dialogue’, and will cover historical background of the Energy Dialogue, to establish the ‘baseline narratives’ of the dialogue when it began in 2000. Chapter 3 will deal with ‘The Political Dialogue’, including the myriad political interests influencing the Energy

Dialogue, both within and between the EU and Russian sides. Chapter 4 will cover ‘The Business Dialogue’, including the economic drivers, actors and interests of the Russo-EU energy trade. Chapter 5 will discuss ‘The Geoeconomic Dialogue’, including the new dynamics of the EU post-expansion and the pivotal role of third countries such as Ukraine. Finally, Chapter 6 denotes ‘The Legal Dialogue’, where I shall dwell on the institutional mismatch of Russia and the EU in the Energy Dialogue, and the latter’s failure to secure a legally binding energy partnership.

Second, I will identify the evolution of the core narratives of the Energy Dialogue throughout its history. In each of my five chapters, I will apply my six ideal-typical narrative clusters—the EUropean, the EU15 (later 28), the Euro–Asian, Statist, Dual State and Post-Imperial narratives—explained above, to show how these narratives ‘flow’ through all five chapters, and together tie *this* narrative of the Energy Dialogue into a coherent whole. Third and finally, the five chapters will focus on slightly different periods of the dialogue, as per my focus on space *and* time. This is done in order to show how and why the narrative clusters changed from 2000. Chapter 2 will deal primarily with historical background. Chapter 3 will deal with the first years of the Energy Dialogue. Chapters 4 and 5 deal with the intermediary years, and Chapter 6 deals with the years until 2012. The conclusion briefly covers the events up until today and the ongoing crisis in Ukraine.

The book, like its argument, begins with historical narratives and ends with legal frameworks, by way of politics, economics and geoeconomics. This does not mean that there were no narratives in the end, or that there were not any legal institutions in the beginning. Nor does it mean that the individual chapters do not occasionally jump back and forth throughout my designated period. In this sense, the chapters are also ideal typical. The main purpose is merely to show how and why time and space influenced the unfolding narratives of the EU–Russia Energy Dialogue, its failure to define a common narrative and hence its failure to create a legally binding energy partnership.

# 2

## The Narrative Dialogue (1237–2000)

This chapter will cover the historical context of the Energy Dialogue, from the Mongol invasion of Russia in 1237 to the year 2000, and the months preceding the launch of the dialogue. As such, it will cover the ‘baseline’ narratives of the dialogue, at a time when there was careful optimism in both Moscow and Brussels. In Chap. 1, I argued that time and space affect narratives and that the narrative failure of the Energy Dialogue was never pre-determined. To Bakhtin, and indeed to others such as Kant, time and space, or the chronotope, constituted the only *a priori* principle of knowledge—the realm within which our narratives are continuously shaped. That is not to say that the essence of time and space is a matter of consensus. Quite the contrary, since we cannot fully fathom either, both space and time are highly contested concepts. For Bakhtin, ‘time in real life is no less organised by convention than it is in a literary text’.<sup>1</sup> This has several practical implications. First, whereas time conditions narratives, the narrative of time and chronology is itself a point of much dispute. A narrative, like being itself, is an aesthetic event. Second, past experiences shape our experience of the present, which in turn shapes our expectations of the future. In dialogue, which means

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<sup>1</sup>Holquist, *Dialogism: Bakhtin and His World*.

*through* speech, synchrony coexists with diachrony, or moving *through* time.<sup>2</sup> In other words, *histories* matter. Third, while time embeds certain narratives, for instance, through practices and institutions, it also changes them, over and over again.

In Chap. 1, I introduced my six narrative clusters—the EUropean narrative, the EU15 narratives, Russia's Euro-Asian narratives, the Statist narrative, the Dual State narrative and the Post-Imperial narrative. I will elaborate more on these as I progress. The chapter begins with the EUropean narrative. Amid soaring oil prices, and turmoil in the Middle East, a handful of officials within the EU Commission were determined to seek an energy partnership with Russia. The 'Prodi Plan', as it became known after Commission President Romano Prodi, aimed to increase the EU's dependency on Russian oil and gas by a staggering 70 per cent. The ultimate—albeit unofficial—objective of the plan was to form a new Coal and Steel Community with Russia, with energy cooperation leading to a wider political partnership. However, the Commission struggled with the fact that the EU did not really have a common energy policy. Second, moving to the EU15 narratives, I will discuss the heterogeneity of the EU's 15 member states, both in terms of the structure of their respective energy sectors and in terms of their willingness to allow the Commission to take decisions on their behalf.

Third, shifting focus to Russia and its Euro-Asian narratives, I shall briefly trace the roots of Russia's complex relationship with Europe. Around the launch of the Energy Dialogue, Russia's newly selected President Vladimir Putin was determined to reintegrate with Europe. But instead of a 'Unified Europe' built around the juridical pole of EU, as envisaged by the Commission officials behind the Energy Dialogue, Putin was calling for a 'greater' Europe, 'from Lisbon to Vladivostok', between two equal partners. This fundamental narrative gap would continue to plague the Energy Dialogue in future. Indeed, so, too, would Russia's past. Fourth, moving to the Post-Imperial narrative, I will discuss the legacy of the Soviet command economy as this pertained to the Russian energy sector, including 'fraternal pipelines' scattered all

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<sup>2</sup>Anthony Giddens, *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis* (London: Macmillan, 1979).

across the post-Soviet space. Moreover, Russia's Statist narrative placed a far greater emphasis on the role of the state than the liberal-minded Commission. In Russia, 'Plan Prodi', as it was called, would be reserved for state-owned companies such as Gazprom and Rosneft.

But state control over energy weakened after the breakup of the Soviet state. Finally, therefore, I will conclude with the Dual State narrative, and Russia's 'shadow structures' of patronage, which severely impaired the Russian government's ability to formulate a coherent strategy for Russian energy policy, and for the Energy Dialogue. This allowed the Commission to dominate the agenda of the Energy Dialogue in its early years.

## The European Narrative

Bakhtin talked about 'centripetal' and 'centrifugal' forces affecting narratives. He also discussed the distinction between 'externally authoritative' and 'internally persuasive' narratives. The former implies coercion, and the latter conviction.<sup>3</sup> The EU-centred narrative of 'an ever closer union' and a continent 'united in diversity' can be understood as an attempt at forging a common narrative for the member states, which would be both externally authoritative and internally persuasive—a genuine European civic identity, as it were.<sup>4</sup> When the idea of the EU–Russia Energy Dialogue was first launched, parallels were drawn with the ECSC.<sup>5</sup> This put the narrative of the Energy Dialogue squarely at the centre of the European project. The ECSC was more than a free trade area in coal and steel. It was the first step towards a wider union of the European countries, and the subsequent development into what its founders hoped would be a unified Europe. This would require reconciliation between the two main antagonists of the two world wars, France and Germany.<sup>6</sup> The plan was to make future conflict between France and Germany

<sup>3</sup> Bakhtin, *The Dialogic Imagination, Four Essays*, 424–5.

<sup>4</sup> Risse-Kappen, *A Community of Europeans? Transnational Identities and Public Spheres*.

<sup>5</sup> Author's interviews with Christian Cleutinx; EU Official A.

<sup>6</sup> Paul Reuter et al., "The Schuman Declaration—9 May 1950," (Brussels: European Union, 2012).

‘not merely unthinkable, but materially impossible’, according to the Schuman Declaration of May 1950. The declaration was coauthored by the diplomat Jean Monnet and delivered by the French Foreign Minister Robert Schuman, and led to the creation of the ECSC.<sup>7</sup> European unification was not simply an economic venture. It marked the reconstitution and reintegration of the former Nazi Germany as part of the Western world.<sup>8</sup>

The Energy Dialogue would be no different, according to François Lamoureux, the Director-General of DG TREN in the EU Commission and the EU’s first sole interlocutor in the Energy Dialogue. The Energy Dialogue was considered to be the first step towards greater integration between post-Soviet Russia and the EU.<sup>9</sup> The ECSC analogy was never uttered in public, but was well known among the early participants of the Energy Dialogue.<sup>10</sup> And as Romano Prodi, the then EU Commission President, would later make clear in an internal communiqué, ‘commitments achieved through this dialogue in the energy sector could serve as a model for other sectors’.<sup>11</sup> However, it was Lamoureux who first conceived of the idea for an Energy Dialogue with Russia, with the support of his staff at DG TREN.<sup>12</sup> Lamoureux was a respected mandarin and staunch federalist, who had served under former Commission President Jacques Delors.<sup>13</sup> He had coauthored the Single European Act and later the Maastricht Treaty, which established the EU. During the 1990s he was a core part of DG Enlargement, which paved the way for the 2004 expansion of the EU into Eastern Europe. He was a great believer in the centripetal pull of European integration. And in 2000, he had set his eyes on Russia. The Energy Dialogue ‘aims at creating a united Europe’,

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<sup>7</sup> Ibid.

<sup>8</sup> Patrick Thaddeus Jackson, *Civilizing the Enemy: German Reconstruction and the Invention of the West* (Ann Arbor, MI: University of Michigan Press, 2006).

<sup>9</sup> Author’s interview with Christian Cleutinx.

<sup>10</sup> Author’s interviews with Stanislav Zhiznin; Christian Cleutinx.

<sup>11</sup> European Commission, “Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission—the EU-Russia Energy Dialogue,” 2.

<sup>12</sup> Author’s interviews with Christian Cleutinx; EU Official A.

<sup>13</sup> Pascal Lamy, “Homme aux convictions profondes il fut l’un des bâtisseurs de l’Union européenne,” *Le Monde*, 29 August 2006.

Lamoureux would later say.<sup>14</sup> As with the ECSC, it would be a united Europe built on energy.

Opinions of Lamoureux varied. He was perceived to be both brilliant and arrogant.<sup>15</sup> He had previously been employed in the scandal-ridden Santer Commission (1995–1999), which became embroiled in a string of corruption charges.<sup>16</sup> Lamoureux was not charged with any wrongdoing, but the issue contributed to the collective resignation of Jacques Santer and the entire College of Commissioners. Politically, Lamoureux would remain a controversial figure among the opponents of a European ‘super-state’, and above all the British, as I will show in the next chapter on the political dialogue.

## The ‘Prodi Plan’

Lamoureux was a grey eminence who preferred to operate in the background. Besides, relying on an unknown Eurocrat to promote the Energy Dialogue towards the status-obsessed Russians seemed like a bad move. Hence, it would be Romano Prodi, not Lamoureux, who would be the figurehead of the initiative. Therefore, the Energy Dialogue would become known as the ‘Prodi Plan’ in its early stages. The timing of the initiative was not coincidental. September 2000 marked a ten-year peak in world oil prices (Fig. 2.1). Transport workers were on strike all over Europe over the high price of fuel. The EU’s dependency on imported energy was growing, from 50 per cent in 2000 to a likely 70 per cent within 20–30 years.<sup>17</sup> Brussels therefore needed to secure its supplies of hydrocarbons, and above all oil.

In order to lessen the EU’s dependency on the volatile Middle Eastern countries, Prodi and Lamoureux chose Russia, which was already one of the EU’s biggest oil suppliers (Fig. 2.2). Prodi announced that EU was

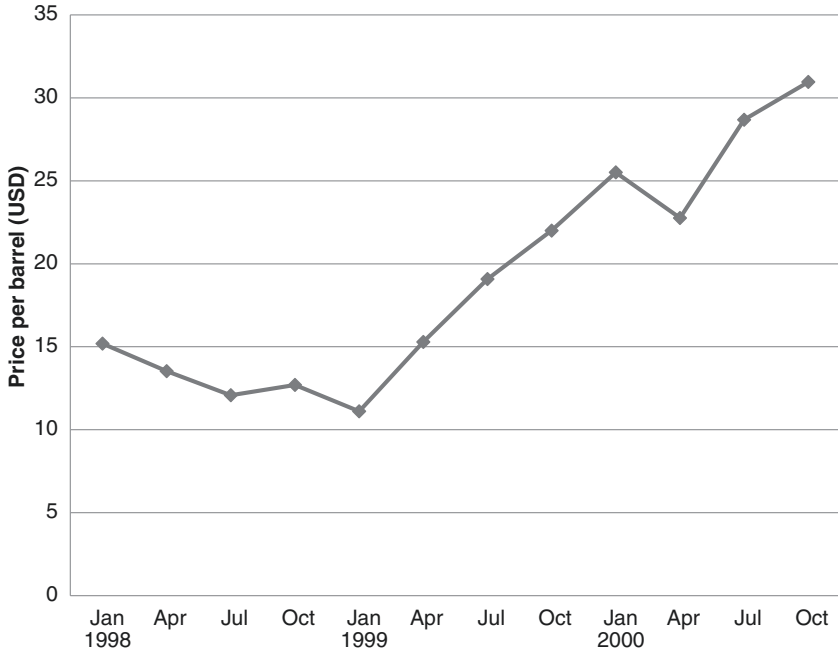
<sup>14</sup>RIA Novosti, “Russian-EU Energy Dialogue to Aim at Creating United Europe,” *RIA Novosti*, 17 October 2003.

<sup>15</sup>Author’s interviews with Christian Cleutin; EU Official A.

<sup>16</sup>Frankfurter Allgemeine Zeitung, “Korruptionsaffären der Kommission,” *Frankfurter Allgemeine Zeitung*, 17 March 1999.

<sup>17</sup>European Commission, “Green Paper, towards a European Strategy for the Security of Energy Supply,” (Brussels: European Commission, 2000), 2.





**Fig. 2.1** Average world oil prices, January 1998–October 2000 (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

prepared to *double* its gas imports, and further increase its oil imports from Russia over the next 20 years.<sup>18</sup> Russia, in the eyes of Brussels, had always been a reliable supplier. Even during the Cold War, energy supplies from the Soviet Union and western Europe remained stable, the Commission often noted.<sup>19</sup> Soviet gas exports first reached Austria in 1968, and soon expanded to Italy, Germany, the UK and others. Energy trade became a core part of Willy Brandt’s *Ostpolitik* towards the Soviet Union in the late 1970s. What emerged from the 1970s onwards was an embryonic pan-European energy trade, between the countries of the communist Council for Common Economic Assistance (Comecon) and

<sup>18</sup> Anatolii Khodorovskii and Iuliia Bushueva, “Plan Prodi,” *Vedomosti*, 3 October 2000.

<sup>19</sup> European Commission, “Green Paper, towards a European Strategy for the Security of Energy Supply,” 44.

	Total Consumption	Total Imports**	OPEC Imports	Russian Imports	Russian Imports as % of Total Imports	Russian Imports as % of Total Consumption
Slovakia	5.4	5.3	0	5.3	100	98.1
Poland	18,0	18,0	0	16.8	93.3	93.3
Lithuania	4.7	4.7	0	4.3	91.5	91.5
Hungary	6.9	5.8	0	5.8	100	84.1
Czech Republic	5.9	5.7	0.5	4.7	82.5	79.7
Cyprus	1.2	1.2	0	0.6	50.0	50.0
Finland	10.8	10.8	0	4.7	43.5	43.5
Germany	107.1	103.7	28.6	29.8	28.8	27.8
Greece	19.4	19.4	15.1	4.2	21.6	21.6
Italy	87.9	83.7	4.0	13.9	16.6	15.8
Belgium	33.9	34.0	12.5	5.3	15.6	15.6
Spain	57.0	57.0	35.7	5.2	9.1	9.1
Austria	8.2	7.5	5.2	0.8	10.7	9.8
Netherlands	55.1	54.7	26.2	4.5	15.0	8.2
Sweden	20.6	20.7	3.8	1.4	6.8	6.8
France	86.6	85.5	94.7	5.0	5.8	5.8
Portugal	11.6	11.5	7.8	0.3	2.6	2.6
UK	81.4	48.9	39.7	1.9	3.9	2.3
Denmark	8.0	3.7	0	0	0	0
Ireland	3.3	2.9	0	0	0	0
Slovenia	0.1	0.1	0	0	0	0
Luxembourg	0	0	0	0	0	0
Malta	0	0	0	0	0	0
Estonia	0	0	0	0	0	0
Latvia	0	0	0	0	0	0
EU15	590.9	**482.7	232.9	77.0	16	13.0
EU25	633.1	**523.5	233.5	114.5	21.9	18.1

\*\*Total EU15/EU25 imports are showing extra-EU25 imports only

**Fig. 2.2** EU15 and EU25 consumption and imports of crude oil in 2000 (in million tonnes of oil) (Data compiled from European Commission/Eurostat, <http://ec.europa.eu/eurostat>)

the capitalist European Economic Community. Energy, and particularly natural gas, created a form of ‘hidden integration’ between western European countries and the world beyond.<sup>20</sup> Energy was thus integral to the EU’s narrative of the interdependence and interrelationship between East and West, and a natural complement to the ECSC narrative.

## The PCA, the Common Strategy and the Green Paper

The Commission promoted a highly EU-centric vision of Europe. This becomes all the more apparent if one considers the EU’s foundational documents for the Energy Dialogue, the PCA, the Common Strategy and the Green Paper. The PCA of 1994 would provide the mandate

<sup>20</sup> Per Högselius, *Red Gas: Russia and the Origins of European Energy Dependence* (London: Palgrave Macmillan, 2013), 2.

for negotiations between the EU and Russia.<sup>21</sup> According to the PCA, ‘the full implementation of partnership presupposes the continuation and accomplishment of Russia’s political and economic reforms’. This included consolidation of democracy, respect for human rights and the transition into a market economy.<sup>22</sup> What is more, the main source of financing of the Energy Dialogue’s projects would be made through the Technical Aid to the Commonwealth of Independent States (TACIS) programme, whose stated objective was ‘to promote the transition to a market economy and to reinforce democracy and the rule of law’ in the receiving states.<sup>23</sup>

The EU’s policies for the Energy Dialogue were further specified in the ‘Common Strategy’ of the EU on Russia of 1999, and the Green Paper on energy security of November 2000.<sup>24</sup> Where the Green Paper would state the energy-specific objectives, such as projected imports of Russian oil and gas, the Common Strategy cited the political goals. In the Common Strategy the European Council had made clear its intentions to ‘help Russia to assert its European identity’.<sup>25</sup> This would require democratisation, but also investment, both of which necessitated comprehensive institutional reforms. This included the ‘progressive approximation of legislation and standards between Russia and the European Union’.<sup>26</sup> To be sure, Russia, not the EU, would be the one approximating. Later this would be put into print, as in the Commission’s 2001 Strategy Paper on Russia, where it was made clear that Russia would have to ensure ‘legislative, regulatory and institutional convergence on the basis of *European* models and standards’.<sup>27</sup> ‘European’, in this respect, meant EU models

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<sup>21</sup> European Union and Russian Federation, “Agreement on Partnership and Cooperation,” (Brussels: Official Journal of the European Communities, 1994).

<sup>22</sup> *Ibid.*, 2–3.

<sup>23</sup> European Union, “Council Regulation (EC, Euratom) No 99/2000 of 29 December 1999,” (Brussels: Official Journal of the European Communities, 1999), 2.

<sup>24</sup> European Commission, “Energy Dialogue with Russia—Progress Since the October 2001 EU-Russia Summit,” (Brussels: European Commission, 2002), 2; European Council, “Common Strategy of the European Union of 4 June 1999 on Russia,” (Brussels: European Council, 1999).

<sup>25</sup> “Common Strategy of the European Union of 4 June 1999 on Russia,” 1.

<sup>26</sup> *Ibid.*, 3.

<sup>27</sup> European Commission, “Country Strategy Paper 2002–2006, National Indicative Programme 2002–2003, Russian Federation,” (Brussels: European Commission, 2001), 16, my emphasis.

and standards. However, unlike the ECSC, which created the European Community, the EU was not preparing to include Russia into its ranks (nor was Russia ready to join the EU, as I will show below). But due to the EU's dependency on Russian oil and gas, it needed to ensure a continued supply of oil and gas. This required a beneficial investment climate, but also a guarantee that Russia, which in 2000 was still in a severely fragile state, did not collapse altogether.<sup>28</sup>

## The Narratives of Europe

The narrative of a unified, democratic Europe has firm historic precedence. After the fall of the Roman Empire, the dream of a reunification of Europe lingered on through the centuries.<sup>29</sup> From poets such as Victor Hugo to political leaders like Winston Churchill, political integration of Europe has been a leitmotif in European political discourse. But the course of European integration has been a source of dispute, even among its supporters within the EU itself. The Energy Dialogue was no exception in this respect. The initiative for the Energy Dialogue was launched by a handful of people working in the cabinet of François Lamoureux at DG TREN. Other sections of the Commission, such as the Directorate-General for Trade (DG Trade), the Directorate-General for Competition (DG Comp), and the Directorate-General for External Relations (DG RELEX), had their separate agendas towards Russia, including but not limited to energy. So the European narrative on Russia was far from unitary. It, too, was characterised by heterologue, competition and internal rivalries—something that would have profound consequences for the course of the Energy Dialogue.

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<sup>28</sup> Author's interviews with Christian Cleutinix; EU Official A.

<sup>29</sup> Walter Scheidel, *Rome and China, Comparative Perspectives on Ancient World Empires* (Oxford: Oxford University Press, 2009).

## The EU15 Narratives

But nowhere did the European narrative—or narratives—meet more opposition than from the EU's 15 member states. These EU15 narratives were centrifugal, as Bakhtin would have said, towards the centripetal, EU-centred narrative of forging a new ECSC with the Russians. They were also challenging the Commission's ambition to take lead in the EU's external energy diplomacy, which many still be regarded as the exclusive domain of the member states. At the forefront were major powers like Germany, Italy, the UK and France, all of which cultivated their own bilateral ties with Russia. The inclusion of France could seem strange, as the EU–Russia Energy Dialogue was declared at the EU–Russia Summit in Paris, by the French President Jacques Chirac, who held the helm at the rotating presidency of the Council. Moreover, the man behind the Energy Dialogue, François Lamoureux, was himself a Frenchman. But Lamoureux had been a 'Eurocrat' since the 1970s. And he was not nominated by Chirac to the Energy Dialogue, but by Romano Prodi, on behalf of the EU Commission.<sup>30</sup> Lamoureux had worked under Jacques Delors, who, like Lamoureux, was an avowed socialist. After leaving the Commission in 1995, the Socialist Party tried to convince Delors to run for the French presidency. However, Delors refused. Instead, Lionel Jospin would become the Socialist nominee, only to lose against the conservative Jacques Chirac, who ran on behalf of his party, the Rally of the Republic, a staunchly Gaullist party. The term 'Gaullism' is derived from the former French President, Charles de Gaulle, who was a firm defender of French sovereignty and *grandeur*, and a fierce opponent of European integration. In 1978, Chirac would publish what would become his Gaullist manifesto, 'The Call of Cochin' (*L'appel de Cochin*).<sup>31</sup> This Eurosceptic text was a thinly disclosed attack against French President Valéry Giscard d'Estaing and his anti-Gaullist, centrist and pro-European party, the Union for French Democracy.

The relationship between d'Estaing and Chirac, between Chirac and Lamoureux, and indeed between d'Estaing and Lamoureux is of

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<sup>30</sup> Author's interview with Christian Cleutinix.

<sup>31</sup> Jacques Chirac, "L'appel de Cochin" (1978).

importance for the course of the Energy Dialogue in its early stages. D’Estaing would later serve as a member of the European Parliament (MEP), before becoming President of the Convention on the Future of Europe, which was a body set up by the European Council in December 2001 to draft a new constitution for the EU. Prodi and Lamoureux felt that d’Estaing’s draft did too little. So Lamoureux—at the secret initiative of Prodi—became involved in drafting an alternative EU constitution, which would call for a common energy policy, and the abrogation of vetoes in the Council.<sup>32</sup>

## The Constitutional Debate of 2000

‘Penelope’, as Prodi’s alternative constitution was named, was rejected by the Commission and d’Estaing. D’Estaing’s constitutional draft prevailed, before it, too, suffered a double veto in 2005. Nonetheless, the constitutional debate provides some insight into the political climate in the EU at the launch of the Energy Dialogue. At the Helsinki Summit in December 1999, the EU accepted the formal applications from 12 countries, 8 of which were from the former Soviet Bloc.<sup>33</sup> This would make the EU more pan-European, but it would also make it more heterogeneous, and thus more difficult to manage. To tackle this issue, the Helsinki European Council set up a preparatory group for an Intergovernmental Conference (IGC) on treaty reform. The IGC was formally established on 14 February 2000 by Romano Prodi, who stressed the EU’s ‘absolute need for institutional change’.<sup>34</sup> The IGC would discuss several issues, including the size and composition of the Commission, the weighting of votes in the European Council and the voting procedures in the Council. The goal of the IGC was to reach an agreement before the European

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<sup>32</sup>European Commission, “Contribution to a Preliminary Draft Constitution of the European Union, Working Document,” (Brussels: European Commission, 2002).

<sup>33</sup>European Council, “Helsinki European Council 10 and 11 December Presidency Conclusions,” (Brussels: European Council, 1999).

<sup>34</sup>Romano Prodi, “Romano Prodi President of the European Commission Opening of the IGC General Affairs Council Brussels,” (Brussels: General Affairs Council, 2000); European Parliament, “Resolution of the European Parliament on the Convening of the Intergovernmental Conference,” (Brussels: European Parliament, 2000).

Council in Nice, in December 2000. But as has happened so often in the history of the EU, there were irreconcilable differences. D’Estaing would later describe the IGC as ‘an arena for diplomatic negotiations between member states in which each party sought legitimately to maximise its gains without regard for the overall picture’.<sup>35</sup>

The expansion and constitutional debates began in January 2000, with an interview with Jacques Delors, the former Commission President and Lamoureux’s old boss. As opposed to Lamoureux, who was a promoter of EU expansion, Delors was sceptical. The Schuman–Monnet community method of integration was no longer sustainable in a union of 25 or more, Delors said. To resolve this, Delors called for the transformation of the EU into a federation of nation states, led on by a vanguard of countries pushing the integrative agenda.<sup>36</sup> Delors’ calls were echoed up by a number of prominent European politicians and experts, including Chirac’s personal adviser,<sup>37</sup> who was joined by Germany’s Foreign Minister, Joschka Fischer.<sup>38</sup> In June, three days before assuming the presidency of the EU, Chirac made an official visit to Germany. Before the German Reichstag and the German Chancellor, Chirac called for a ‘pioneer group’ of sovereign states at the heart of the European project: ‘Neither you, nor I are considering the creation of a super European state which would replace our nation states and mark their demise as actors on the international scene’, Chirac said,<sup>39</sup> and received a standing ovation by the Bundestag.<sup>40</sup> Chirac did not mention the Commission a single time. In September, Gerhard Schröder joined the chorus, together with his Italian counterpart, Prime Minister Giuliano Amato. According to

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<sup>35</sup> Valéry Giscard d’Estaing, “Introductory Speech by President V. Giscard d’Estaing to the Convention on the Future of Europe,” (Brussels: European Convention, 2002).

<sup>36</sup> *Le Monde*, “Jacques Delors critique la stratégie d’élargissement de l’Union,” *Le Monde*, 19 January 2000.

<sup>37</sup> Jérôme Monod and Ali Magoudi, *Manifeste pour une Europe souveraine* (Paris: Odile Jacob, 2000); Valéry Giscard d’Estaing and Helmut Schmidt, “La Leçon d’Europe de Giscard et Schmidt,” *Le Figaro*, 10 April 2000.

<sup>38</sup> Joschka Fischer, “Vom Staatenverbund zur Föderation—Gedanken über die Finalität der europäischen Integration,” *Die Zeit*, 12 May 2000.

<sup>39</sup> Jacques Chirac, “Discours prononcé par Monsieur Jacques Chirac devant le Bundestag Allemand,” (Berlin: Deutscher Bundestag, 2000).

<sup>40</sup> BBC, “Chirac Pushes Two-Speed Europe,” BBC, 27 June 2000.

Schröder and Amato, integration required ‘the leadership of a group’, a group to which the founding members Italy and Germany, together with France, ‘will always belong’.<sup>41</sup> Integration should be driven by national interests, and in particular Italian, German and French interests.

## The EU’s Missing Energy Policy

Shortly after the launch of the IGC, in March 2000, the so-called Lisbon Process was initiated by the European Council. Its goal was no less than to make Europe ‘the most competitive and the most dynamic knowledge-based economy in the world’.<sup>42</sup> It called for the completion of the internal energy market, with particular focus on gas and electricity. As opposed to the oil market, where 90 of imports were carried by ship,<sup>43</sup> the gas and electricity sectors were very much dependent on physical infrastructure, such as pipelines and electricity grids, to reach end consumers. Consequently, the gas and electricity markets were more regionalised, and hence more politicised at the national level. The Lisbon process sought to eradicate these differences. But here, too, there were considerable obstacles. The main problem was that the EU was missing a common energy policy.

Narratives are both codified in and dependent on formal institutions. The goal of the Energy Dialogue was to define a common narrative, and from that create a legally binding energy partnership with Russia. But the Commission and DG TREN’s powers to regulate the internal and external energy markets were weak. The Single European Act of 1986 did not contain any specific provisions on energy, besides the stated goal of ‘progressively establishing the internal market’. Foreign relations remained firmly in the hands of the member states, with decisions made

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<sup>41</sup> Gerhard Schröder and Giuliano Amato, “Weil es uns Ernst ist mit der Zukunft Europas,” *Frankfurter Allgemeine Zeitung*, 21 September 2000; *ibid.*

<sup>42</sup> European Council, “Lisbon European Council 23 and 24 March 2000, Presidency Conclusions,” (Lisbon: European Council, 2000).

<sup>43</sup> European Commission, “Green Paper, towards a European Strategy for the Security of Energy Supply,” 88.



on consensus, and the Commission limited to an associate role.<sup>44</sup> In the Maastricht Treaty (1992), energy was briefly mentioned, and energy security remained a national prerogative. In the negotiation and conclusion of agreements between the EU and foreign countries, which would entail ‘reciprocal rights and obligations’, the Commission remained subject to the unanimous consent of the member states in the European Council.<sup>45</sup> The Treaty of Amsterdam (1997) furthered the development of the EU’s Common Foreign and Security Policy, but did not contain any specific reference to energy. And the restrictions as regarded foreign treaties remained.<sup>46</sup>

This does not mean that nothing was happening on energy. The year 1996 marked the launch of the first electricity directive, which in 1998 was followed by the first directive on gas. Both directives contained numerous provisions for privatisation and non-discriminatory access to markets and infrastructure. The provisions were feeble, and ‘no more than general principles providing for a framework, the detailed implementation of which should be left to member states’.<sup>47</sup> Moreover, the directives were focused on the internal market, not on third-party relations, as in the case of Russia. So by the time of the launch of the Energy Dialogue, the only real, legally binding agreement on energy in the EU was the Energy Charter Treaty (ECT), which I will return to below.<sup>48</sup> In total, the EU in 2000 lacked a fully functioning internal—and external—energy policy. And this in turn had much to do with the somewhat weak role of the supranational Commission *vis-à-vis* the EU’s member states, which in turn was part and parcel of the constitutional debate of 2000.

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<sup>44</sup> European Communities, “The Single European Act,” (Luxembourg: The European Communities, 1986), see Articles 8a and 30.

<sup>45</sup> “The Maastricht Treaty,” (Maastricht: The European Communities, 1992), see Articles 130s, 228 and 38.

<sup>46</sup> European Union, “Treaty of Amsterdam,” (Amsterdam: The European Union, 1997), see Article 228.

<sup>47</sup> European Council and European Parliament, “Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998,” (Brussels: Official Journal of the European Communities, 1998), see Article 9.

<sup>48</sup> Energy Charter Secretariat, “The Energy Charter Treaty and Related Documents,” (Brussels: Energy Charter Secretariat, 2004).

## Energy: Two Narratives

It was the integration of Germany's coal and steel sectors into the French economy which would pave the way for the ECSC, and later the EU itself. Somewhat ironic, therefore, that energy remained one of the most difficult policy areas to coordinate. The energy mix and structure of the energy sectors of the EU15 were indeed very diverse. On the one hand was the largely self-sufficient UK, with its vast oil and gas reserves in the North Sea. Similarly, the Dutch were among the largest gas exporters in the world. On the other hand was Germany, which, besides its native chemical energy resources, was heavily reliant on energy imports, and above all from Russia. France, moreover, remained very dependent on domestic nuclear energy. It is thus possible to speak of two main narratives of domestic energy policy. On one side was the liberal 'Anglo-Saxon' narrative of energy politics pursued by the British, and increasingly the Dutch and Spanish. On the other side was the corporative 'Continental' narrative of France, Germany, Italy and others.<sup>49</sup>

## The Continental Narrative

Germany has traditionally been described as a 'coordinated market economy', which has relied on formal institutions to regulate the market and to coordinate long-term relations between firms, suppliers and consumers.<sup>50</sup> From the nineteenth century onwards, Germany emerged as the industrial powerhouse of Europe. Its industry was predominantly located in the eastern regions, centred on the Ruhr. It was here that Germany's biggest coal and steel mines were located. These territories were so crucial for German political and economic power that they would be put under Allied military control after World War I, the International Authority of the Ruhr after World War II and later joint political administration with the launch of the ECSC. It is also in the Ruhr region that many of

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<sup>49</sup>House of Lords, "Gas: Liberalised Markets and Security of Supply, Report with Evidence," (London: House of Lords European Union Committee, 2003), 16.

<sup>50</sup>Peter A. Hall and David W. Soskice, *Varieties of Capitalism, the Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

Germany's biggest energy companies emerged, including E.ON, Ruhrgas and RWE.

The majority of Germany's energy companies were vertically integrated, meaning that a single company controlled extraction and generation, transmission and retail segments of the energy supply chain. This 'continental model' of integrated companies was prevalent in much of continental Europe, including Germany, France, Italy and the Netherlands, even though the latter would increasingly push for liberalisation or 'unbundling'.<sup>51</sup> It was also typical of the Russian system, although with its own post-Soviet idiosyncrasies, as I will discuss below. These 'National Champions' were major employers in Germany, and thus important political actors, as they in turn supplied energy to other sectors of the economy.

In Germany, with its major electricity and gas companies, energy policy and politics were intimately related. The ties between the energy industry and the government had been a common feature of German politics throughout the twentieth century.<sup>52</sup> In 2000, nowhere was this more apparent than in the ruling government coalition headed by the Social Democratic Party (SPD), which was Schröder's party. The SPD's traditional strongholds were in the north-western part of Germany, including the industrialised Ruhr region. Gerhard Schröder's Minister for Economy and Technology from 1998 until 2002, Werner Müller, who was the Minister responsible for Germany's energy policy, hailed from Essen. He had worked for several years for major energy companies such as RWE AG and VEBA (which in 2000 joined VIAG and formed E.ON, Germany's largest power company).

But coordinating the different interests between the different energy interests in Germany was exceedingly difficult. In the electricity sector alone there were over 80 regional energy suppliers in Germany, and a staggering 900 municipally owned companies.<sup>53</sup> This diversity, or heterologue, was recognised by Müller himself, who in 1999 launched a

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<sup>51</sup> Author's interview with Dutch Industry Official.

<sup>52</sup> Ulrich Laumanns, "Determinanten der Energiepolitik," in *Grundlagen der Energiepolitik*, ed. D. Reiche (Frankfurt am Main: Peter Lang, 2005).

<sup>53</sup> Torsten Brandt, *Liberalisation, Privatisation and Regulation in the German Electricity Sector* (Düsseldorf: Wirtschafts- und Sozialwissenschaftliches Institut (WSI), 2006), 5.

domestic *Energiedialog*. In the course of Europeanisation of the energy markets, there was an urgent need for Germany to ‘speak with one voice’, Müller said, because ‘the normality of the German confusion of voices will not be heard in Brussels’. Still, Germany’s intentions were to secure its national self-interest, the Minister said.<sup>54</sup>

Germany wanted to become part of the vanguard of European integration. But Germany was never at the vanguard with respect to the EU’s internal energy market. In September 2000, Germany received a formal warning from Brussels, issued by Lamoureux himself, over its laggard implementation of the first gas directive, which was strongly resisted by German energy companies.<sup>55</sup> Germany, France, Italy and others’ lobbying against the EU’s energy directives will be further discussed in Chap. 6 on the legal dialogue, where I will turn to legal institutions.

## The Russo-German Energy Dialogue

The SPD had long-standing links with the Russians.<sup>56</sup> But Russian ties transcended party politics, as one commentator said, noting that the German Ministry of Foreign Affairs was traditionally a ‘bastion of Russia sympathizers’.<sup>57</sup> The Russo-German energy trade spanned back to the Cold War. Several German companies, such as Wintershall and Ruhrgas, enjoyed privileged business relations with Russian energy companies like Gazprom, with ties extending decades back in time.<sup>58</sup> The same was true for Italy’s ENI and France’s Gaz de France. All of these ‘National Champions’ had long-term gas contracts with the Russians, which stretched between 15 and 20 years in duration. These contracts were built along the so-called take or pay principle, which meant that

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<sup>54</sup>Werner Müller, “Rede zur Abschlussveranstaltung des Energiedialogs 2000,” in *Energiepolitik für die Zukunft Leitlinien zur Energiepolitik*, ed. Energiedialog 2000 (Berlin: Friedrich-Ebert-Stiftung, 2000).

<sup>55</sup>Frankfurter Allgemeine Zeitung, “EU droht mit Verfahren wegen der Gasrichtlinie,” *Frankfurter Allgemeine Zeitung*, 13 September 2000.

<sup>56</sup>Lilia Shevtsova, “Germany: When Will the Ostpolitik Finally End?,” *Eurasia Outlook*, no. 22 October (2013).

<sup>57</sup>Daniel Brössler, “How Do You Solve a Problem Like Russia?,” *The Guardian*, 17 October 2013.

<sup>58</sup>Högselius, *Red Gas: Russia and the Origins of European Energy Dependence*.

customers would nonetheless have to pay for deliveries they did not need. This, in combination with the vertical structure of these companies, was starkly at odds with the Commission's push for increased competition in the European energy market. But the energy companies themselves, with the tacit or explicit support of their political leaders, argued that vertical integration and long-term contracts were necessary to ensure security of demand, and the investment needed to develop the required infrastructure for new energy deposits.<sup>59</sup> This was in contrast with the oil sector, which was mostly governed by short-term contracts, and where prices were set on the spot market. Prices in long-term gas contracts were linked with crude oil prices, but with a six-month delay and based on a specific formula including transit costs, alternative supply sources and other factors. Hence, gas prices, like the gas market itself, were highly regionalised.<sup>60</sup> This would become especially apparent as the EU expanded into the former Communist Bloc, with its post-Soviet idiosyncrasies.

Power-hungry Germany was highly dependent on gas and oil imports. It, too, wanted to ensure a closer relationship with Russia. In September 2000, Schröder had stressed that the energy crisis was 'an issue that all European countries are facing and must be dealt with at a European level'. The conclusion of a new constitution was crucial in resolving this issue, Schröder said, noting that 'if we don't succeed, we'll have a crisis'.<sup>61</sup> But Schröder's calls for multilateral solutions were often followed by bilateral initiatives. Shortly after his statement, Schröder flew to Moscow to meet with Vladimir Putin for the first time. There Germany and Russia launched a long-term energy partnership, starting with a billion-dollar agreement between Gazprom and Wintershall.<sup>62</sup> Cooperation in this sphere was of tremendous importance for Germany, and the EU as a whole, according to Schröder, who added that Romano Prodi 'holds the

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<sup>59</sup> Author's interviews with Klaus Kleinekorte; EU Industry Official A [Phone, 18.04.12]; EU Industry Official B [Moscow, 16.04.12].

<sup>60</sup> Jonathan Stern, "The Pricing of Gas in International Trade—An Historical Survey," in *The Pricing of Internationally Traded Gas*, ed. Jonathan Stern (Oxford: Oxford Institute for Energy Studies, 2012).

<sup>61</sup> CNN, "Schroeder Calls for European Unity in Tackling Fuel Crisis," *CNN*, 19 September 2000.

<sup>62</sup> Interfax, "Gazprom, Wintershall to Have Equal Participation in Prirazlomnoye Project," *Interfax*, 27 September 2000.

same view'.<sup>63</sup> And so the Russo-German 'St. Petersburg Dialogue' on business was launched, a mere few weeks before the launch of the Energy Dialogue itself.

## The Anglo-Saxon Narrative

Germany wanted to be at the vanguard of European integration, but remained at the rearguard with respect to the EU's common energy policy. The UK, meanwhile, was in the exact opposite position. It was one of the few actors within the EU which was largely self-sufficient with respect to energy. Moreover, the UK was very much in favour of a liberalisation of the internal energy market.<sup>64</sup> Where Germany was a 'coordinated market economy', the UK belonged to the 'liberal market economies', with competitive market arrangements built on supply and demand, deregulation and anti-trust protocols.<sup>65</sup> Long-term contracts and vertical integration were both anathema to this policy. The British gas and electricity markets were liberalised in the mid-1990s, with the once vertically integrated British Gas separated into a production company (Centrica) and a transmission company (Transco). For the British, the consolidation of the internal energy market made sense in purely business terms, at a minimal political cost, as the reforms were already in place. The British were therefore very much in favour of completing the internal market for energy, including the directives on gas and electricity.<sup>66</sup>

What the Brits did take issue with, however, was ceding to Brussels political sovereignty over energy policy, or indeed any other matter considered to be of national importance.<sup>67</sup> Since joining the European Community in 1973, London had remained lukewarm towards forming a common energy policy with the EU, including a common external

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<sup>63</sup> ITAR-TASS, "Putin Has Telephone Talks with Schroeder, Amato," *ITAR-TASS*, 30 September 2000.

<sup>64</sup> Author's interview with Terry Adams.

<sup>65</sup> Hall and Soskice, *Varieties of Capitalism, the Institutional Foundations of Comparative Advantage*.

<sup>66</sup> Dieter Helm, *Energy, the State, and the Market, British Energy Policy Since 1979* (Oxford: Oxford University Press, 2004), 372–85.

<sup>67</sup> *Ibid.*

energy policy. The UK government remained staunchly against any calls for a federation, and especially one directed by France and Germany. In September 2000, during the height of the constitutional debate, Blair and Göran Persson, the Prime Minister of Sweden, called for a 'new open method of co-ordination'. 'Jean Monnet's dream was of a Europe of equals', the two leaders said. Any decisions should be taken with the full participation of the member states, new and old.<sup>68</sup> This call for caution and unity was more a way to avoid further Franco-German dominance, or a 'French/German stitch-up', in the words of Blair himself, who later noted that the word 'constitution' had itself raised negative connotations to the sovereignty-minded Brits.<sup>69,70</sup>

In 2000, Tony Blair warned against premature institutional reform, before properly addressing 'what sort of Europe' the EU was aiming for. Intergovernmental cooperation and the EU institutions were not oppositions, Blair said.<sup>71</sup> And promoting an internal energy market, which was already in accordance with British law, was not in opposition to intergovernmentalism. Indeed, the primacy of political independence also included external energy relations. In October 2000, Blair called for European unity so that Europe could withstand and counter-balance powers such as China and Russia.<sup>72</sup> But even so, the British were already courting the Russians at the bilateral level. In March, Tony Blair became the first Western leader to visit Putin, who at this time had not yet been officially elected President. The two men discussed not only politics, but also business ties. The visit created outrage among human rights groups, the British public and within the EU, which was still sanctioning Russia due to its reported human rights transgressions in Russia's ongoing war in Chechnya. Blair defended Putin, whom the UK government previously had described as a 'Westerniser'. The British Prime Minister even offered to provide support against the 'terrorist attacks' in Russia, which were

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<sup>68</sup> Tony Blair and Göran Persson, "Reaching Out to All of Europe," *Financial Times*, 21 September 2000.

<sup>69</sup> Tony Blair, *A Journey* (London: Arrow Books, 2011), 501 & 30.

<sup>70</sup> Helm, *Energy, the State, and the Market, British Energy Policy Since 1979*.

<sup>71</sup> Tony Blair, "Speech to Polish Stock Exchange [6/10/2000]," (London: The Official Site of the Prime Minister's Office, 2000).

<sup>72</sup> Ibid.

compared with the UK's challenges in Northern Ireland.<sup>73</sup> Later, the UK would also launch its own energy dialogue with Russia.

## The 'Prodi Plan' Versus the 'Lubbers Plan'

German bilateralism and the British focus on national sovereignty in energy affairs were very different from Lamoureux and Prodi's calls for European unity towards Russia. Prodi lauded 'the strength of the Community model' and warned against 'the dangers of intergovernmentalism', which he said would render the EU an 'international talking shop'.<sup>74</sup> So to circumvent the likely opposition from the Council, Prodi would not inform the UK or most of the other member states before EU–Russia Summit. Chirac was informed, of course, and so was Gerhard Schröder. But the meetings were made in private, and nobody knows exactly how the 'Prodi Plan' was presented to the two leaders.<sup>75</sup> However, it is safe to say that Lamoureux's vision to build a new ECSC with Russia was never conveyed. Indeed, this vision had not been recounted outside Lamoureux's closest circle. It is also clear that the two leaders were somewhat sceptical. Questions were raised as to why Prodi and the Commission were doing this, when a legally binding framework for energy already existed in the intergovernmental ECT, which Russia had not yet ratified.<sup>76</sup>

The parallels between the Energy Dialogue and the ECT are indeed striking. Both were attempts at institutionalising the Russo-European energy trade. The idea of the charter was launched in June 1990, at the initiative of Dutch Prime Minister Rudolphus 'Ruud' Lubbers. The 'Lubbers Plan' was presented by Lubbers to the heads of state of the European Communities, and intended to build an all-European economic community with the Soviet Union. The first goal was to establish

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<sup>73</sup> Ian Traynor and Michael White, "Blair Courts Outrage with Putin Visit," *The Guardian*, 11 March 2000.

<sup>74</sup> Romano Prodi, "President of the European Commission Plenary Session of the European Parliament Strasbourg," (Strasbourg: European Parliament, 2000).

<sup>75</sup> Author's interview with EU Official A.

<sup>76</sup> Author's interview with EU Official A.



a new ‘Unified Energy System’ between western Europe and the Soviet Union—also on the same mould as the ECSC.<sup>77</sup> The legally binding ECT was signed in Lisbon in December 1994. The treaty covered all aspects of the energy trade, including investment.<sup>78</sup>

In 2000, the ECT had been signed by 51 countries, and ratified by 46. Russia, however, had signed but not ratified the ECT. Its main objections concerned the provisions for third-party access to its large pipeline network, which remained under state monopoly.<sup>79</sup> Efforts to get Russia aboard resumed in 1999, when work on a new Transit Protocol was initiated. But progress was slow, and by 2000 far from concluded. The ECT would remain a low priority for the Russian government.<sup>80</sup> Despite initial promises, the charter had not led to large-scale investment in the Russian energy sector. Instead, the ECT had become a talking shop over legal issues, and Russia’s economy had not prospered, but plummeted.

The ‘Lubbers Plan’ was indeed an inspiration for Lamoureux and his Commission staff when they first conceived of the ‘Prodi Plan’. But given the Russian animosity towards the ECT, it was not considered a good platform for negotiations.<sup>81</sup> Since its conception in 1994, the ECT had grown into a continental framework, stretching from Iceland in the west to Tajikistan in the east. As a result, the ECT ‘had lost its European identity’, as one former DG TREN official remarked.<sup>82</sup> Rather than pursue a ‘top-down’ approach, and continue to insist on ratification of a charter the Russians did not want, Lamoureux opted for a ‘bottom-up’ approach—finding discrete areas of cooperation and build from there, so as to gradually forge a common narrative for a legally binding, thoroughly European energy partnership.<sup>83</sup> But the promoters of the ECT did not yield. Future ratification of the ECT was firmly established in the

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<sup>77</sup> Andrei Konoplyanik and Friedrich von Halem, “The Energy Charter Treaty: A Russian Perspective,” in *The Energy Charter Treaty: An East-West Gateway for Investment and Trade*, ed. Thomas W. Waelde (London: Kluwer Law International, 1996).

<sup>78</sup> Energy Charter Secretariat, “The Energy Charter Treaty and Related Documents.”

<sup>79</sup> Author’s interviews with Russian Official A; Russian Official B [Moscow & phone, 16.02 & 30.03.12]; Russian Official C [Phone, 04.03 & 09.04.12].

<sup>80</sup> Author’s interview with Russian Official A.

<sup>81</sup> Author’s interview with Christian Cleutinx.

<sup>82</sup> Author’s interview with Christian Cleutinx.

<sup>83</sup> Author’s interviews with Christian Cleutinx; EU Official A.

PCA between Russia and the EU, hence Chirac and Schröder's insistence on its inclusion. So to ensure the Energy Dialogue a negotiating mandate under the PCA, the ECT was put on the agenda.<sup>84</sup>

The Energy Dialogue was allowed to proceed. Schröder and Chirac had given their lukewarm approval. Now Lamoureux and his men had to convince the remaining 13 member states of the EU, as well as the remainder of the EU Commission. And this would not be an altogether easy task, as I will show in the next chapter on politics.

## Russia's Euro-Asian Narratives

In the EU's common strategy on Russia, which informed the Commission's approach to the Energy Dialogue, Brussels stated its intention to help Russia 'reassert' its European identity. Moscow, on its part, was seemingly happy to oblige: 'We intend to expand our relations with the EU in all areas', Putin said after the Energy Dialogue was announced in October 2000, noting that 'at some stage, relations between Russia and Europe could take on a character of integration'. Russia seemed serious about its desire to engage with the EU, which in turn was reflected by Putin's nomination of his Vice Prime Minister, Viktor Khristenko, as the Russian sole interlocutor in the Energy Dialogue. 'Russia is before anything else a European country in its mentality, its culture,' the President continued. Still Putin added that conditions were 'not currently those which would allow Russia to become a full member of the European community'.<sup>85</sup> Russia, albeit weak, was not intent on joining the EU. Russia's unwillingness to apply for membership to the EU had been stated in its 1999 strategy towards the EU (which was largely written in response to the EU's strategy, which informed the Commission's agenda for the Energy Dialogue). The main reason for this, according to the strategy, which would cover the years 2000–2010, was Russia's vast size:

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<sup>84</sup> Author's interview with EU Official A.

<sup>85</sup> Agence France Presse, "Putin in Paris to Boost Russian Relations with EU," *Agence France Presse*, 31 October 2000.

As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies, its status and advantages of an Euro-Asian state and the largest country of the Commonwealth of Independent States; independence of its position and activities at international organizations.<sup>86</sup>

Russia's idea of Europe was different. 'The idea of a greater Europe seems quite attractive to me [...] a Europe in which there should be no hegemony of any kind', Putin said upon the launch of the Energy Dialogue.<sup>87</sup> Already here problems were brewing. Instead of a 'Unified Europe' built around the juridical pole of EU, as promoted by Lamoureux and his staff, Putin was calling for a 'greater' Europe between two equal partners. Russia did not need to become more European. Europe needed to become more Russian, or at least include it on an equal basis. This leads me back to Chap. 1, where I introduced Bakhtin's concepts through the historic narrative of Russia as Europe's 'Other'. Russia was Janus-faced, with one face looking to Europe and the other towards Asia. Russia's European narrative was defined by the chronotope, or time-space. But it was also marked by heterologue, or multiple narratives.

## East Versus West

This requires some unpacking. From 1237, Russia was ruled by the Mongols, until Tsar Ivan the Great rid Russia of the Tatar yoke around 1480. After centuries under Mongol rule, Russia was bent on rejoining civilised Europe. In 1703, Tsar Peter the Great built the city of St. Petersburg as a 'Window on Europe', and in 1768, Catherine the Great proclaimed that 'Russia is a European state'. In 1812, Russia defeated the seemingly invincible Napoleon, which led to Russia joining the 'Concert of Europe', established after the Congress of Vienna in 1814–15. Alongside the UK, Austria and Prussia, Russia was not only

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<sup>86</sup> Government of the Russian Federation, "Strategiia razvitiia otnoshenii Rossiiskoi Federatsii s Evropeiskim Soiuzom na srednesrochniui perspektivu (2000–2010 gody)," (Moscow: Government of the Russian Federation, 1999), 1.

<sup>87</sup> Associated Press, "Putin and EU Leaders Seek to Work Out Strategic Partnership," *The Associated Press*, 30 October 2000.

recognised, but also institutionalised as one of the great continental powers.<sup>88</sup> However, the Euro-Asian heterologue remained. The nineteenth century was characterised by fierce debates over Russia's relationship with the West. On the one hand were the 'Westernisers', who thought that Russia should emulate Western-style political practices. On the other hand were the 'Slavophiles', who wanted Russia's future development to be based on values and institutions derived from the country's early history, its Slavic and Orthodox roots.<sup>89</sup> This debate would be reiterated in various forms until our time. During the communist era, Soviet Russia distanced itself from western Europe, before Mikhail Gorbachev pledged a return to the 'common European home'.<sup>90</sup> Under Yeltsin, comprehensive reforms intended to secure democracy and the market economy were initiated under the auspices of Western economists. But Yeltsin's rapid privatisation campaign was excessive. It crushed the Russian economy, decimated private savings and fragmented ownership over the once state-controlled Russian energy sector. After the financial crash of 1998, Russia's economy was lying with a broken back.<sup>91</sup> Meanwhile, Yeltsin's 'take as much sovereignty as you can swallow' policy *vis-à-vis* the Russian regions threatened to unravel Moscow's political power for the second time in a decade—with the two Chechen wars as a strong case in point. Together with NATO's 1999 intervention in Kosovo, attitudes towards the West further deteriorated, and old cleavages between Westernisers and anti-Westerners re-emerged.<sup>92</sup>

Energy represented Russia's main point of cooperation with the rest of Europe. Nevertheless, the aforementioned cleavages were also on display in the Energy Dialogue. On the one hand were those who sought deep integration with the EU. On the other were those who preferred to keep

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<sup>88</sup> Neumann, "Russia's Standing as a Great Power," 138.

<sup>89</sup> Roy Allison, Margot Light, and Stephen White, *Putin's Russia and the Enlarged Europe* (Oxford: Blackwell, 2006), 1.

<sup>90</sup> Neil Malcolm, "The 'Common European Home' and Soviet Foreign Policy," *International Affairs* 65, no. 4 (1989).

<sup>91</sup> Shevtsova, *Russia Lost in Transition*.

<sup>92</sup> Neil Malcolm et al., *Internal Factors in Russian Foreign Policy* (Oxford: Oxford University Press, 1996).

the Commission at a distance, a point to which I will return in the next chapter on politics.

## The Post-Imperial Narrative

Russia at the turn of the millennium was indeed in a difficult state. Yet throughout all of this, the narrative of Russia as a great Eurasian power remained deeply embedded in Russian political discourse. ‘There are few states in the world which faced so many trials as Russia in the 20th century,’ Putin said in his millennium manifesto, on 29 December 1999, only two days before being named interim President by the ailing Boris Yeltsin. Russia, Putin underlined, ‘was and will remain a great power’. This was not just belief, but objective fact, said Putin, noting that Russia’s great power was:

[P]reconditioned by the inseparable characteristics of its geopolitical, economic and cultural existence. They determined the mentality of Russians and the policy of the government throughout the history of Russia and they cannot but do so at present.<sup>93</sup>

The Russian narrative of *derzhavnost*, or ‘great powerness’, is symptomatic of how many Russian politicians view the world. As one scholar noted, ‘Russia must be a great power or else it will not be at all’.<sup>94</sup> But in 2000, Russia’s great power had to be ensured by other means than brute military force. According to Putin, Russia’s power would have to be projected through its leadership in technological innovation, and as a source of security and the well-being of people around the world.<sup>95</sup> In order to assume this natural position of leadership, Russia needed to get its economy in shape. Russia’s biggest ‘cash cow’ was oil and gas, and Europe was its biggest market. Russia needed investment, and lots of it. However, just as energy represented Russia’s ‘great future’, as per Putin,<sup>96</sup>

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<sup>93</sup> Vladimir Putin, “Russia at the Turn of the Millennium,” (Moscow 1999).

<sup>94</sup> Neumann, “Russia’s Standing as a Great Power,” 128–29.

<sup>95</sup> Putin, “Russia at the Turn of the Millennium.”

<sup>96</sup> Ibid.

so did it represent Russia's troubled past. The command economy had left Russia with a largely unreformed energy sector. Coupled with the legacy of Yelstin's 'wild privatisation', this would continue to plague Putin and the Kremlin throughout the first decade of the Energy Dialogue.

## Lenin's Legacy

'Communism is Soviet power plus electrification', said Vladimir Lenin, a few years after the Bolsheviks had seized power in Russia.<sup>97</sup> Indeed, the same would be true for the oil and gas sectors. The Soviet economy was a command economy. All economic indicators were specified in five-year plans, which set specific targets for output for every sector, including natural resources. As time progressed, and the Soviet economy grew, so did it become increasingly power hungry. Russia had been producing oil since the imperial age. From the 1940s, subsidised natural gas, together with coal, emerged as the main source of heating in Soviet households, but also of energy for industry. Energy became indirectly tied to the Soviet welfare system, which was predominantly provided by these enterprises.<sup>98</sup> Energy, and particularly gas, was as much a right as a source of revenue.

In 1989, the Soviet Ministry of Gas Industry became the State Gas Concern Gazprom. After the fall of the Soviet Union, and Boris Yeltsin's decree of 5 November 1992, Gazprom became a joint-stock company. Gazprom's shares were distributed as vouchers, and the state's ownership in Gazprom would eventually sink from 100 to 38 per cent.<sup>99</sup> Still Gazprom's shares remained heavily regulated, and the company managed to retain its monopoly position, including control over the vast gas Russian pipeline network. Similarly, the state-owned Soviet electricity sector was reformed into a new company, RAO UES, which would also remain in state hands.

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<sup>97</sup>Vladimir Lenin, "Nashe vneshnee i vnutrennee polozhenie i zadachi partii," in *Moskovskaia gubernskaia konferentsiia RKP (b)* (Moscow 1920).

<sup>98</sup>Spanjer, "Russian Gas Price Reform and the EU-Russia Gas Relationship," 9.

<sup>99</sup>Valery Panyushkin, Irina Reznik, and Mikhail Zygar, *Gazprom. Novoe russkoe oruzhie* (Moscow: Zakharov, 2008).

The situation was very different in the oil sector. Russia's post-Soviet oil companies were derived from the defunct Ministry of Oil. The state-owned enterprise Rosneft was established in 1993, but it was not the biggest actor. A myriad of other oil companies emerged through Yeltsin's mass privatisation, the biggest of which were Lukoil and Yukos. Lukoil started out as a state-owned company, but was later privatised, at the initiative of former Deputy Minister of Oil, Vagit Alekperov.<sup>100</sup> Yukos was established in 1993 by state resolution, and later bought up by the holding company Menatep, controlled by Mikhail Khodorkovsky, a former Communist official, who would later become Russia's richest individual, and a powerful figure in Russian politics. The state retained its ownership over the state oil pipeline monopoly, Transneft, although the majority of Russian oil exports—just like EU oil imports—were transported by ship. Hence, Russia's oil wealth was privatised, and largely taken off state hands.

Nevertheless, oil remained Russia's biggest source of revenue. In 2000, Russian crude oil and oil products generated \$36 billion in export revenues, compared to \$16 billion for natural gas.<sup>101</sup> Thus, one of Putin's primary objectives upon assuming the presidency, and after launching the Energy Dialogue, was to regain the state's share of the oil wealth.

## Post-Imperial Pipelines

Oil was also the main driver in the beginning of the Energy Dialogue, at least for the Commission.<sup>102</sup> This is contrary to conventional wisdom that the Energy Dialogue was always all about gas. However, this oil focus would soon change. Even though the economic significance of Russian gas was not as urgent in the immediate context of the 'Prodi Plan', the political importance of Gazprom remained unquestionable. Energy links were the backbone of the Comecon (Fig. 2.3). In the former Soviet

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<sup>100</sup> Marshall I. Goldman, *Petrostate: Putin, Power, and the New Russia* (Oxford: Oxford University Press, 2008), 61–65.

<sup>101</sup> Bank Rossii, "Platzhnyi balans Rossiiskoi Federatsii za 2000 god," (Moscow: Bank Rossii, 2008).

<sup>102</sup> Author's interview with Christian Cleutinx.



**Fig. 2.3** Russian gas pipelines to Europe (© Samuel Bailey 2009, "Major russian gas pipelines to europe.png", Wikimedia Commons. Licence: <https://creativecommons.org/licenses/by/3.0/deed.en>)

Union, subsidised gas—like subsidised coal in Germany—remained crucial for heating and industry. Gas contracts were long term, often spanning several decades. Payment for supplies was made mostly by barter, without real concerns about either profit or competition.<sup>103</sup> The Soviet energy network was built for the long term. These were not economic

<sup>103</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 30.



pipelines, as one senior Russian official close to the Energy Dialogue later reflected:

The primary objectives of those gas pipelines were linked with geo-political and geo-economic priorities of the Soviet leadership which called for supplying gas at privileged (low) prices to ‘fraternal’ states in Eastern Europe—members of the Council for Economic Assistance (CEA), as well as to meet the needs of the Soviet Army and those of the Warsaw Pact for their defence against a putative ‘imperialist aggression’.

The bond between these ‘fraternal’ states was manifested in this pipeline network, showing how narratives can assume physical properties. The network was intended to ensure the economic consistency and solidarity of the Soviet-centred Communist world, then and in the unforeseeable future. As the official cited above said:

At a time when the ‘Bratstvo’ [Brotherhood] and ‘Soyuz’ [Union] pipelines were being built, it never even crossed anyone’s mind that one day Poland, East Germany, and least of all, Belorussia, Lithuania, Latvia and Ukraine could become gas transiting countries.<sup>104</sup>

But already in 1968 they became transit states, when Austria, then later Italy, Germany and other ‘imperialist’ countries were connected to the Soviet network. The final blow came with the Soviet collapse in 1991, an event that Putin would later describe as ‘the greatest geopolitical disaster of the century’.<sup>105</sup> It was not only the major EU member states which were concerned when several ex-Communist states formally applied to join the EU at Helsinki in 1999. Russia was concerned, too. Very concerned. Many of these countries were dependent on Russia to supply 100 per cent of their gas demand (Fig. 2.4). A shutoff would spell real disaster, as political relations between Moscow and its former subjects were not unequivocally positive. In some instances, as with the Baltics, they

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<sup>104</sup>“Geo-Economic Aspects of Gas Transmission from Russia,” *Nezavisimaya Gazeta*, 11 March 2008.

<sup>105</sup>In the official English translation of the speech, the statement was translated as ‘major geopolitical disaster of the century,’ see Vladimir Putin, “Poslanie Federal’nomu Sobraniuu Rossiiskoi Federatsii,” (Moscow: President of Russia, 2005).

	Total Consumption	Total Imports**	OPEC Imports	Russian Imports	Russian Imports as % of Total Imports	Russian Imports as % of Total Consumption
Estonia	31	31	0	31	100	100
Latvia	52	52	0	52	100	100
Lithuania	96	96	0	96	100	100
Finland	160	160	0	160	100	100
Slovakia	269	265	0	265	100	98.5
Czech Republic	349	348	0	273	78.4	78.2
Greece	79	79	0	58	73.4	73.4
Hungary	449	342	0	299	87.4	66.6
Austria	303	245	0	197	80.4	65.0
Slovenia	38	38	15	23	60.5	60.5
Poland	464	309	0	250	81.0	53.9
Germany	3344	2842	0	1300	45.7	38.9
Italy	2696	2189	1155	802	36.6	29.7
France	1664	1696	407	481	28.4	28.9
UK	4066	94	0	0	0	0
Netherlands	1629	580	0	0	0	0
Spain	712	720	554	0	0	0
Belgium	622	618	166	0	0	0
Denmark	208	0	0	0	0	0
Ireland	160	115	0	0	0	0
Portugal	97	95	101	0	0	0
Luxembourg	31	31	0	0	0	0
Sweden	38	36	0	0	0	0
Cyprus	0	0	0	0	0	0
EU15	15809	**7565	2411	2998	39.6	19.0
EU25	17557	**9046	2426	4287	47.4	24.4

\*\*Total EU15/EU25 imports are showing extra-EU25 imports only

**Fig. 2.4** EU15 and EU25 consumption and imports of natural gas in 2000 (in Petajoule) (Data compiled from European Commission/Eurostat, <http://ec.europa.eu/eurostat>)

were downright hostile. In the Russian Energy Strategy to 2020, which together with the Common Strategy on Europe was the main policy document underpinning the Russian position in the Energy Dialogue, there were raised concerns as regards the gas deliveries to the Baltic States in the face of EU expansion.<sup>106</sup> After the expansion, gas would enter the agenda of the Energy Dialogue with full force.

## The Ukraine Factor

Some key transit countries would remain in the Russian sphere of influence a bit longer. At least that is how it looked in 2000. Foremost among Russia's 'brother' nations was Ukraine. In May 2000, during a World War II memorial together with the leaders of Ukraine and Belarus—another

<sup>106</sup> Ministry of Fuel and Energy of the Russian Federation, "Osnovnye kontseptual'nye polozheniia razvitiia neftegazovogo kompleksa Rossii," *Neftegazovaiia Vertikal'*, no. 1 (2000): section 5.

nation with close historic links to Russia, as well as oil and gas pipelines—Putin noted that there could be not obstacles against cooperation for ‘kindred peoples’.<sup>107</sup> This would change in 2004, with the Orange Revolution, and in 2006, after the first Ukrainian gas crisis. The nadir was certainly reached in 2014, after the annexation of Crimea and the war in Donbass. Still, there were problems even in 2000. The issue of gas transit through Ukraine was also raised in the 2020 strategy, which discussed Kiev’s notorious non-payment of the already heavily subsidised shipments of Russian gas.<sup>108</sup> Nevertheless, a transit crisis was still not considered a significant threat, if judged by official statements at the time. Only a few weeks before the Energy Dialogue was launched, Moscow concluded yet another agreement with Kiev, on very favourable terms for the latter part. The agreement was made so, as Russia was ‘proceeding from the aim of establishing real brotherly relations with Ukraine’, as Russia’s liberal Prime Minister, Mikhail Kasyanov, told the press.<sup>109</sup>

The subsidised Russian gas to Ukraine was in fact Central Asian gas. In 2000, these ex-Soviet states were landlocked, and all export pipelines traversed through Russia. This enabled Russia to keep export prices down, and instead focus its domestic exports to the much more lucrative western European market.<sup>110</sup> At the time, Russian control over Central Asian gas supplies was so absolute, that they were considered a part of Russia’s own domestic supplies.<sup>111</sup> In the Russian energy strategy up until 2020, Turkmenistan was included in the domestic balance sheet, where it was set to supply the southern regions of Russia.<sup>112</sup>

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<sup>107</sup> Vladimir Putin, “Vladimir Putin, Aleksandr Lukashenko i Leonid Kuchma priniali uchastie v tseremonii otkrytiia pamiatnika voinam, pavshim na Prokhorovskom pole,” (Moscow: President of Russia, 2000).

<sup>108</sup> Ministry of Fuel and Energy of the Russian Federation, “Osnovnye kontseptual’nye polozheniia razvitiia neftegazovogo kompleksa Rossii,” section 5.

<sup>109</sup> Anna Raff, “Analysts: Ukraine Got Best of Gas Deal,” *The St. Petersburg Times*, 9 October 2001.

<sup>110</sup> Stern, *The Future of Russian Gas and Gazprom*.

<sup>111</sup> Author’s interview with Vladimir Milov.

<sup>112</sup> Ministry of Energy of the Russian Federation, “Osnovnye polozheniia Energeticheskoi strategii Rossii na period do 2020 goda (Protokol № 39 ot 23 noiabria 2000 g.),” (Moscow: Ministry of Energy of the Russian Federation, 2001), 39.

## Russia's Quest for Multipolarity

Despite its challenges, Russia still considered itself a great power. It was not simply the periphery to Europe's centre, or the 'Other' to the EU's 'Self'. Russia's 1999 strategy towards the EU was based on 'the objective need to establish a multipolar world', with Russia as one of the natural poles.<sup>113</sup> This need for multipolarity has permeated Russian political rhetoric to this day. It has also included energy. Europe had entered the new millennium as the 'prevailing bipolar unit', according to Ivan Ivanov, Russia's Deputy Minister of Foreign Affairs responsible for EU relations. Ivanov would become a central actor on the Russian side in the Energy Dialogue. In Ivanov's view, the European continent was split in half. On the one hand was the EU. On the other was the Commonwealth of Independent States (CIS), the regional organisation formed during the breakup of the Soviet Union, centred on Russia. 'Naturally, the backbone of Europe's political and economic space, as well as the security system in Europe, become EU-Russia relations,' Ivanov said.<sup>114</sup> However, this quest for multipolarity also meant that Russia, as a self-professed great, independent country, would continue to nurture its bilateral energy relationships with the major member states of the EU. As Ivanov remarked, Russia's activities in the EU were 'first addressed in the first turn to the national capitals', not Brussels.<sup>115</sup> This particularly concerned Russia's relationships with Germany, France, Italy and the UK, which in Russian official circles were known as 'The West European Big Four'.<sup>116</sup> To many Russian officials, the Commission was just a bureaucratic sideshow.

Russia also maintained its firm ambition to pursue further integration within the CIS. As Putin would later say in 2001, 'Russia is the nucleus of integration processes in the CIS'.<sup>117</sup> At the time, Russia was pursuing an

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<sup>113</sup> Government of the Russian Federation, "Strategiia razvitiia otnoshenii Rossiiskoi Federatsii s Evropeiskim Soiuzom na srednesrochnuiu perspektivu (2000–2010 gody)," 1.

<sup>114</sup> Ivan D. Ivanov, "Raschishchat' puti k zrelomu partnerstvu Rossii i Evrosoiuzza," *Sovremennaia Evropa* 2, no. 42 (2000): 1.

<sup>115</sup> *Ibid.*, 8.

<sup>116</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 275.

<sup>117</sup> Vladimir Putin, "Poslanie Federal'nomu Sobraniuu Rossiiskoi Federatsii," (Moscow: President of the Russian Federation, 2001).

economic and political union in the CIS, along the lines of the EU. But despite all talk of ‘kindred nations’, Putin was facing resistance. The ‘centripetal forces’ of the CIS were weakening, as Ivanov acknowledged.<sup>118</sup> In 2000, Ukraine was already courting the EU. The same was true for other countries of the CIS. Archaeological surveys were commissioned for an oil pipeline stretching from Baku in Azerbaijan, via Tbilisi in Georgia to Ceyhan in Turkey. The Baku–Tbilisi–Ceyhan pipeline was sponsored by the USA, and would completely bypass Russia, to Moscow’s great consternation.<sup>119</sup> During the 2000s, Russia’s Central Asian monopoly came under siege from multiple fronts. So, too, did Russia’s grip on Ukraine’s pipelines. In Chap. 5 on geoeconomics I will return to this, and particularly January 2006, when the first Ukrainian gas crisis struck, and ‘energy security’ climbed to the top of the agenda in both Russia and the EU.

## The Statist Narrative

Another hallmark of Russia’s *derzhavnost*, or ‘great powerness’, was the emphasis on a strong state. Indeed, another translation for *derzhavnost* is ‘state-ness’. For centuries, Russia has been under authoritarian rule. Although the Soviet command economy was history, and Putin and Russia were seeking private capital from the EU, the primacy of the state very much remained. There were thus limits, albeit fuzzy, to how far Russia was prepared to go in terms of integration with the EU. As Putin made clear in his millennium manifesto, under the subheading ‘Statism’:

It will not happen, if it ever happens at all, that Russia will become the second edition of, say, the US or Britain in which liberal values have deep historic traditions. Our state and its institute and structures have always played an exceptionally important role in the life of the country and its people.<sup>120</sup>

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<sup>118</sup> Ivanov, “Raschishchat’ puti k zrelomu partnerstvu Rossii i Evrosoiuzu,” 1.

<sup>119</sup> Andrei Konoplyanik and Anton Lobzhanidze, “Baku-Dzheikhan: stroit’ ili ne stroit’?” *Nefi i Kapital* October, no. 10 (2000).

<sup>120</sup> Putin, “Russia at the Turn of the Millennium.”

Similarly, in his July 2000 address to the Russian Federal Assembly, Putin said that a strong state was a prerequisite for Russia ‘to hold out as a nation, as a civilization’. Far too long had Russia relied on the advice of others. This, Putin said, was ‘the choice of a weak state. It was the choice of the weak’. This was a clear rebuke of decentralisation and the foreign-imposed liberal capitalist policies pursued by his predecessor. Rather than strengthen Russia, these alien reforms had threatened to unravel the entire country. Putin underlined that the country needed to reassert ‘single executive power vertical’ guided by law.<sup>121</sup> In the collective Russian political and historical narratives, a strong state was considered a necessity by many. This also concerned energy, where Putin would argue for increased government control. In his PhD thesis on resource management, Putin defended the state’s privileged position in the extraction of hydrocarbons:

Regardless of whose property the natural resources and in particular the mineral resources might be, the state has the right to regulate the process of their development and use, acting in the interests of society as a whole.<sup>122</sup>

Given that Putin was carrying several senior political positions in St. Petersburg at the time the PhD was produced, several prominent academics have questioned how much of the dissertation he actually authored himself.<sup>123</sup> In any case, the dissertation did provide clues as to the nature of Putin’s economic instincts: the state should be the guarantor of economic development. Given the importance of energy, and above all oil, for the Russian economy, it followed that the state wanted full control. The Russian government’s 2020 energy strategy of November 2000 opened by stating that:

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<sup>121</sup> “Poslanie Federal’nomu Sobraniuu Rossiiskoi Federatsii,” (Moscow: President of the Russian Federation, 2000).

<sup>122</sup> “Mineral’no-syr’evye resursy v strategii razvitiia rossiiskoi ekonomiki,” *Zapiski Gornogo Instituta*, no. 144 (1999).

<sup>123</sup> Clifford G. Gaddy, a Russia expert and senior fellow at the Brookings Institution in Washington D.C., concluded that large part of Putin’s dissertation had been plagiarised; see Clifford G. Gaddy, “The Mystery of Vladimir Putin’s Dissertation,” *The Brookings Institution*, no. 30 March (2006).

[T]o continue social and economic reforms so as to overcome the crisis and move on the path of sustainable development in Russia, given its geopolitical position, historical experience and the mentality of the population, needs a strong state power.<sup>124</sup>

In energy, and particularly gas, this meant state control over every aspect of the integrated energy supply chain, including production (upstream), transport (midstream) and refining (downstream).<sup>125</sup> This is one of the main reasons why the ECT and its provisions for third-party access to pipelines were considered anathema to Russian interests. It meant that Russia's pipeline 'monopoly' in Central Asia could be tapped by the EU.<sup>126</sup> It also challenged Russia's hold on the Ukrainian transit pipeline system. Liberalisation and privatisation were considered contrary to Russia's entire energy policy. Deputy Prime Minister Viktor Khristenko, Russia's first interlocutor in the Energy Dialogue, would make a similar remark in summer 2001, a mere few months after the Energy Dialogue had begun. When asked about the possible privatisation of state oil pipeline monopoly Transneft, Khristenko said that:

[T]he monopoly character and huge political significance of this kind of company are natural. I cannot even see any arguments in favour of partial privatization or motives, including fiscal ones, that could force us to take this kind of decision.<sup>127</sup>

Putin's drive for state control was not simply atavistic. There were competitive reasons for his line of thinking. Just as a strong state had been necessary to guard Russia against its enemies in the ancient world, globalisation demanded state-led modernisation. In order to become competitive on the world market against major multinational companies such as Shell, BP and Exxon, Russia had to create its own state champions. As Putin stated in his PhD:

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<sup>124</sup> Ministry of Energy of the Russian Federation, "Osnovnye polozheniia Energeticheskoi strategii Rossii na period do 2020 goda (Protokol № 39 ot 23 noiabria 2000 g.)," 10.

<sup>125</sup> *Ibid.*, 40.

<sup>126</sup> Author's interviews with Russian Official A; Russian Official C.

<sup>127</sup> Maria Ignatova, "Viktor Khristenko: Poka my samoedskaiia derzhava," *Izvestiia*, 8 June 2001.

The process of restructuring the national economy must have the goal of creating the most effective and competitive companies on both the domestic and world markets [...] The most promising form of such integration must be the creation, with full support from the state, of large financial-industrial groups—corporations with an inter-branch profile that will be able to compete with Western transnational corporations.<sup>128</sup>

These energy companies, Putin said, could work as an integrating factor in Russia, the CIS and the world, putting them squarely within Russia's Statist, Euro-Asian and Post-Imperial narratives. In the Putin era, this task would be assigned to Gazprom and Rosneft. The new President was set on rectifying past mistakes. During the privatisation campaign of Yeltsin, 'the state let strategic management of the natural resource complex slip from its hands,' Putin wrote, adding that:

[N]ow the market euphoria of the first years of economic reform is gradually giving way to a more measured [...] approach, allowing the possibility and recognizing the need for regulatory activity by the state in economic processes in general and in natural resource use in particular.<sup>129</sup>

Thus, a strong Russian state was always central to Putin's narrative for the Energy Dialogue, for several reasons, although the exact extent was still unclear to him in 2000.<sup>130</sup>

## 'Plan Prodi' in Russian

Prodi and Lamoureux were talking about forming a new ECSC with Russia, a metaphor to which the Russians would gladly pay lip service.<sup>131</sup> Both interlocutors spoke of an 'energy partnership', a 'legal agreement' and the need for 'integration'. In practice, however, Russia and the Commission meant very different things. 'The Prodi Plan', or '*Plan*

<sup>128</sup> Putin, "Mineral'no-syr'evye resursy v strategii razvitiia rossiiskoi ekonomiki."

<sup>129</sup> Ibid.

<sup>130</sup> Author's interview with Vladimir Milov.

<sup>131</sup> Author's interview with Stanislav Zhiznin.



*Prodi*’ in Russian, had been widely reported in the Russian media before the Paris Summit. Since September, Khristenko had been commuting to Brussels, which was troubled by the ongoing fuel crisis. On 26 September, after concluding a meeting with Romano Prodi, Khristenko told the press that he believed the upcoming Paris summit would be ‘very fruitful’ and that it would ‘end the cold spell in the relations between Russia and the European Union’. The crisis had urged everyone to look more attentively at Europe’s main energy partners, according to Khristenko. He said that Russia was ready ‘to strengthen stability on the European energy market’, but that this would require real commitments by the EU, foremost of which were investments in the Russian fuel and energy complex.<sup>132</sup>

Further details about ‘Plan Prodi’ emerged in the Russian press in the weeks leading up to the Paris Summit: Russia and the EU planned to enter ‘a serious energy dialogue’. The EU was ready to double its gas imports from Russia over the next 20 years, in addition to increased imports of oil.<sup>133</sup> According to the Russian interpretation of the Prodi Plan, large-scale construction of oil and gas pipelines would be preceded by massive foreign investment. Foreign investors were most welcome, at least in theory. The total Russian investment lag was around 670 billion dollars, with Gazprom alone in need of 2.5 billion dollars of investment annually.<sup>134</sup> To be sure, no Russian energy company possessed this kind of money. The Russians needed foreign capital.

This in turn would require revision of domestic legislation providing for so-called Production Sharing Agreements (PSA), which Putin, as recently as September, had described as a ‘key part of our investment policy’.<sup>135</sup> Basically, a PSA was an agreement between an extraction company and a

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<sup>132</sup>RIA Novosti, “Victor Khristenko Believes That the Forthcoming Russia-EU Summit Due to Be Held in Paris Will Be Very Fruitful,” *RIA Novosti*, 28 September 2000.

<sup>133</sup>Khodorovskii and Bushueva, “Plan Prodi.”

<sup>134</sup>Between 1992 and 2002, total foreign direct investment in Russia amounted to a mere 23 billion dollars. Conversely, a staggering 245 billion dollars left the country, see: European Commission, “Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission—the EU-Russia Energy Dialogue,” 3; “Communication from the Commission to the Council and to the European Parliament—Our Relations with Russia,” (Brussels: European Commission, 2004).

<sup>135</sup>Vladimir Putin, “Excerpts from an Address to the International Conference PSA-2000,” (Yuzhno-Sakhalinsk: President of the Russian Federation, 2000); Interfax, “EC Member States Russia Could Play Key Role in European Energy,” *Interfax*, 9 October 2000.

government (in this case Russia), where the former would recuperate its investments either completely or 70–80 per cent, before the latter would benefit from the developed oil or gas field. These arrangements were supposed to make up for the uncertain investment climate in Russia.<sup>136</sup>

But whereas PSAs had traditionally benefited private companies, cooperation with private European companies under the revised Russian framework would be limited to state owned companies. In the gas sector this meant Gazprom. In the oil sector, only one company was 100 per cent state owned, and that was Rosneft. ‘When it is unclear who is doing what, everything should be concentrated in one pair of hands,’ one Rosneft source told the Russian press during a meeting with European investors in October.<sup>137</sup> Rosneft surely did not have the money to go through with such extensive projects alone. Nonetheless, a ‘source in the government’ told a major Russian newspaper that it was ‘unlikely’ that Rosneft would have funding problems. Khristenko had met with Commission President Prodi again, in October, and he had promised great things. The government official’s understanding of ‘Plan Prodi’ was as simple as it was gullible: ‘Rosneft will receive money from the Europeans and will invest it in production-sharing agreement projects, and in exchange it will supply raw materials to Europe’.<sup>138</sup>

This was the Russian official narrative of the Energy Dialogue in the beginning.<sup>139</sup> ‘We basically thought that the EU would act as a government and direct investment to us,’ as one Russian official would later tell me.<sup>140</sup> Reality, however, was not that simple.

## Initial Problems

‘Plan Prodi’ became a buzzword in the Russian media. Here was the panacea to all of Russia’s economic woes. But all were not equally enthralled. Sources within the Russian business community said that the logistics of

<sup>136</sup> Author’s interview with Russian Official A.

<sup>137</sup> *Kommersant*, “Herman Gref poliubil “Rosneft”,” *Kommersant*, 10 October 2000.

<sup>138</sup> *Ibid.*

<sup>139</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 285.

<sup>140</sup> Author’s interview with Stanislav Zhiznin.

such an energy partnership would be difficult if not impossible to hammer out. Others voiced concerns over the independent oil and gas producers, many of whom were beyond the Kremlin's instruction. The biggest actor here was Yukos, and its belligerent CEO Mikhail Khodorkovsky. Khodorkovsky was a fierce opponent of the PSA regime, which he felt disadvantaged Russian private companies.<sup>141</sup> Still others said that Russia probably did not have enough available oil or gas to meet the envisaged export increases—'We do not have enough oil for our internal markets,' one official from Lukoil lamented. Gazprom could not double its European exports 'even if it wanted to', another analyst said.<sup>142</sup>

Make no mistake, the potential rewards were enormous. 'Plan Prodi' could mean as much as 25 new PSAs in the oil sector, as well as the construction of a new gas pipeline bypassing Ukraine, a senior Russian energy ministry official noted in an op-ed. According to him, the Russian narrative of 'Plan Prodi' was: 'Russian oil and gas to Europe in exchange for investments from Europe into Russian oil and gas'. But so far this was only speculation, he wrote, adding that 'the real concept of "the Prodi Plan" does not exist'.<sup>143</sup> The official was coauthoring the new PSA law, and work was proceeding slowly. It was far from certain that the law would be finished in time.<sup>144</sup> As if that was not enough, the EU Commission's sources of finance were weak. This left the European Investment Bank (EIB), whose mandate to invest in Russia was severely circumscribed by the member states.<sup>145</sup> Instead of showering the Russians with money, the EU party was planning to make its mark through its support for institutional reform, which in turn would facilitate private investment. This would later be confirmed in the Commission's revised country strategy paper for Russia, which said that: 'public assistance from the EU should concentrate on building the legal, institutional and administrative framework, rather than supporting individual companies

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<sup>141</sup> Author's interview with Russian Official A.

<sup>142</sup> Elizabeth LeBras, "EU Looks to Russia To Solve Fuel Woes," *The Moscow Times*, 10 October 2000.

<sup>143</sup> Andrei Konoplyanik, "Tsena 'plana Prodi'," *Vedomosti*, 27 October 2000.

<sup>144</sup> Author's interview with Russian Official A.

<sup>145</sup> European Investment Bank, "External Lending Mandate 2000–2007," (Brussels: European Investment Bank, 2000).

and interests'.<sup>146</sup> This, as stated above, meant 'EUropean', not Russian, models and standards. The problem was that this was not what Russia was asking for. It wanted financial capital, and lots of it. What Russia did not need was to be lectured about legal reform.<sup>147</sup> There was therefore a narrative gap from the very beginning of the dialogue.

## The Dual State Narrative

Equally obvious was the narrative gap within Russia. Putin wanted to reimpose state authority over the Russian energy sector. Investment from the EU would be made by way of state-owned enterprises, under the supervision of Putin's 'vertical of power'. But state control in Russia was never absolute, neither under the tsars, nor under Communism. Vladimir Lenin was particularly concerned with the corruption (*razvrashchenie*) of the proletariat by the self-interested bourgeoisie.<sup>148</sup> That said, Lenin's last public letter was devoted to what he considered the corruption and inefficiency of the Soviet state apparatus itself.<sup>149</sup>

In 2000 the rule of law in Russia was weak, and so were its government institutions. Belligerent regional administrators, and not just the warlords in Chechnya, would regularly make life difficult for the powers in Moscow. While these did not take up arms, they nonetheless resisted the gravitational pull emanating from Moscow. In addition to this were the renegade oligarchs, who had made astronomic fortunes during the 'shock privatisation' of the Yeltsin years. Finally, pervasive corruption would remain a problem throughout the course of the Energy Dialogue, and this would make it difficult for Western companies to operate in Russia.<sup>150</sup>

<sup>146</sup> European Commission, "Country Strategy Paper 2002–2006, National Indicative Programme 2002–2003, Russian Federation," 16.

<sup>147</sup> Author's interview with Stanislav Zhiznin.

<sup>148</sup> Vladimir Lenin, "Liberal'noe razvrashchenie rabochikh," *Put' Pravdy*, 13 February 1914; "Razvrashchenie rabochikh utonchennym natsionalizmom," *Put' Pravdy*, 10 March 1914.

<sup>149</sup> "Luchshe men'she, da luchshe," *Pravda*, 4 March 1923.

<sup>150</sup> In 2000, the year the Energy Dialogue was initiated, Russia was ranked as number 82 on Transparency International's Corruption Perceptions Index (CPI), whereas in 2011 it was ranked as number 143—four places up from the 2008 post-Soviet low of 147—placing it on equal footing

## The 'Shadow Structures' of Power

The roots of Russia's dual state were deep and manifold. It displayed features of Tsarist Russia's peculiar system of feudal hierarchy known as *mestnichestvo*, which roughly translates as 'seniority' or 'order of preference'.<sup>151</sup> The principle of *mestnichestvo* was that the nobleman, or boyar, who had closest ties with the tsar, would have the highest rank. Consequently, interpersonal relationships and loyalty became more important than formal rank or competencies. Hence, conflicts became all pervasive, and the tsar always had to balance the interests of the boyars. Failing to do so could be disastrous, as during the interregnum between the Rurik and Romanov Dynasties at the turn of the seventeenth century, also known as the 'Time of Troubles'.

In Russian history, the system of *mestnichestvo* has played itself out in different ways. During Soviet times, the tsar and boyars were replaced with the General Secretary and Politburo. And the Yeltsin era brought the oligarchs and regional chieftains. In his July 2000 State of the Nation speech, Putin made no less than three references to the 'shadow' structures of the country. These structures undermined the rule of law, he said. They led to widespread corruption, which in the climate of severe bureaucratic incoherence and overlap led to 'state functions being seized by private corporations and clans'. As Putin then said, the primary impediments to economic growth in Russia, besides high taxes, were corruption among officials and extensive crime. Making a comparison with the EU, Putin remarked that: 'In Europe, many nations agreed in Rome in 1957 on free movement of goods, people and services. This all works well, but we cannot achieve this within a single country'.<sup>152</sup>

The irony, of course, was that Putin himself was a product of this system. He was chosen as President by Yeltsin, as a virtual unknown entity in Russian political life, through a profoundly opaque selection process.<sup>153</sup>

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with countries such as Belarus, Azerbaijan, Nigeria and Uganda; see Transparency International, *Corruption Perceptions Index* (Berlin: Transparency International, 2012).

<sup>151</sup> Iurii Moiseevich Eskin, *Mestnichestvo v Rossii XVI-XVII vv. khronologicheskii reestr* (Moscow: Arkheograficheskii tsentr, 1994).

<sup>152</sup> Putin, "Poslanie Federal'nomu Sobraniuu Rossiiskoi Federatsii."

<sup>153</sup> Lilia Shevtsova, *Putin's Russia* (Washington, DC: Carnegie Endowment for International Peace, 2005).

And during his tenure, Putin would staff government agencies, and indeed energy companies like Gazprom and Rosneft, with hand-picked officials, usually drawn from his circle of acquaintances from his time working for the St. Petersburg City Administration in the 1990s. In 2000, Putin's 'order of preference' had not yet been established. But even when it was, Putin would always have to balance various interests groups, or 'factions', so as to avoid another 'Time of Troubles'.<sup>154</sup>

## Lack of Strategic Thinking

A direct consequence of this informality was that formal institutions remained weak. At the inception of the Energy Dialogue, the Russian government's ability to act strategically and form a common narrative for its energy relations with the EU was deficient.<sup>155</sup> For instance, the Russian Energy Strategy for 2020 was drafted several times before being confirmed by the Russian Duma in the end of 2003. One reason for this was the conflicted state of the Ministry of Energy, which by 2000 had enrolled nine Energy Ministers within the past five years alone. The ministry was nominally in charge of drafting and implementing the strategy, which was intended to be the basic narrative for Russia's position in the Energy Dialogue. But rather than represent a coherent narrative, the strategies covered up deep contradictions. As Vladimir Milov, the advisor to the Energy Minister from 2001 and Deputy Minister of Energy in 2002, once noted: '[t]hese "energy strategies" were drafted by proponents of a planned economy'. But under the veneer of coherency, 'Russia's energy policy [remained] fragmentary and contradictory'. Just like the Five-Year Plans of the Soviet Union, so were Russian energy strategies inconsistent, if not highly unrealistic.<sup>156</sup> As recognised by another Russian official, the 2020 strategy hardly contained a coherent strategy for external energy policy.<sup>157</sup>

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<sup>154</sup> Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*.

<sup>155</sup> Author's interview with Vladimir Milov.

<sup>156</sup> Vladimir Milov, Leonard L. Coburn, and Igor Danchenko, "Russia's Energy Policy, 1992–2005," *Eurasian Geography and Economics* 47, no. 3 (2006): 287.

<sup>157</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 33.

This was not only limited to energy. It was characteristic of political planning as such. According to one scholar, the strategies were simply a ‘compromise of sharply conflicting views and interests’. Rather than a blueprint for concrete policy action, they were a form of public diplomacy, intended to ‘paint the situation as better than it is’.<sup>158</sup> The strategies were themselves narratives (although the same could certainly be said about the Commission’s Green Paper or its Common Strategy on Russia). There are those who claim that Russian *derzhavnost*, or ‘great powerness’, was itself a narrative, consciously invoked by Putin’s circle to cover up the deep contradictions at heart in Russian politics.<sup>159</sup> That may well be. It was nevertheless clear that Putin’s ‘power vertical’ would remain part reality, part ideal. In 2001, Putin confessed that Russia had:

[C]reated separate “islands” of power, but have not built reliable bridges between them. We have yet to build effective cooperation between different levels of power [...] The power vacuum has led to state functions being seized by private corporations and clans. They have acquired their own shadowy groups, groups of influence, dubious security services which use illegal means to receive information.<sup>160</sup>

As a result, Russia was not simply missing a shared narrative *vis-à-vis* the EU, but internally as well.

## Conclusions

In this chapter I have presented the various ‘baseline narratives’ of Russia and the EU, expressed through my six narrative clusters. I did this in order to show how historical experiences both constituted and constrained behaviour in ‘the present’, around the time of the launch of the

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<sup>158</sup> Bobo Lo, *Russian Foreign Policy in the Post-Soviet Era, Reality, Illusion and Mythmaking* (Basingstoke: Palgrave, 2002), 66, 68.

<sup>159</sup> Stefanie Ortman, “The Russian Network State as a Great Power,” in *Russia as a Network State: What Works in Russia When State Institutions Do Not?*, ed. Vadim Kononenko and Arkady Moshes (London: Palgrave Macmillan, 2011).

<sup>160</sup> Putin, “Poslanie Federal’nomu Sobraniuu Rossiiskoi Federatsii.”

Energy Dialogue in 2000, and how this in turn shaped expectations of the future. I have previously said that Bakhtin was at once a structuralist and a constructivist—or a ‘constructuralist’. His interest was the configuration of relations, and hence the configuration of narratives. As a literary theorist, Bakhtin was associated with Russian formalism. Formalists such as Propp and Shklovsky separated between *fabula*, or the ‘raw material’ of a story, and *syuzhet*, or the order in which a particular story was organised.<sup>161</sup> While much of the raw material was common among the participants of the Energy Dialogue, the configurations of their respective narratives were often quite different.

The turn of the millennium was a time of both challenge and considerable opportunity. Russia had just exited the troubled Yeltsin era, and the EU was facing its biggest expansion ever. Faced with rising oil prices, both parties acknowledged the need to cooperate. At the same time, it was already apparent that they held deeply conflicting narratives for the Energy Dialogue, with roots spanning years, decades or even centuries. A narrative is the representation of an event or series of events. It was clear that the so-called Prodi Plan represented something very different to the officials of DG TREN than ‘*Plan Prodi*’ did to the Russian government. Whereas the EU Commission was looking for an institutionalised political partnership akin to the European Coal and Steel Community of 1952, Russia was foremost interested in securing investment to an energy sector in need of over 670 billion dollars in capital. At the heart of this mismatch, however, was a more fundamental gap in Russia and the EU’s respective visions of European integration, with the former conceiving itself as a great European power. Moscow was therefore reluctant to subject itself to the narrative dictate of Brussels.

At first, this narrative conflict was not too apparent, and the parties remained cautiously optimistic. Russia also remained severely weakened after the difficult 1990s. In the next chapter I will show how Russian and EU narratives came head to head during the first years of the Energy Dialogue. Lamoureux and Khristenko, the two main interlocutors of the Energy Dialogue, did not only have to battle one another. Each was

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<sup>161</sup> Paul Cobley, “Narratology,” in *The Johns Hopkins Guide to Literary Theory and Criticism* (Baltimore, MD: Johns Hopkins University Press, 2005).



faced with dissent within their own ranks—Lamoureux from Eurosceptic member states, but also a belligerent Commission, whereas Khristenko had to tackle oligarchs, ministers and bureaucrats, all of which had their different bases of power, and particular narratives for the Energy Dialogue. I will address this heterologue as I shift my attention now to the political dialogue.

# 3

## The Political Dialogue (2001–2005)

This chapter explores the politics of the EU–Russia Energy Dialogue during its first years, as conflicting narratives came head to head. By politics I mean the ‘competition between competing interest groups or individuals for power and leadership’.<sup>1</sup> Although Bakhtin is best known for his literary criticism, he was nonetheless a profoundly political thinker. His work reflected an inherent opposition towards positivism and political dogma—a fact that made him intolerable for the Communist authorities of the Soviet Union, which suppressed much of his work, and later sent him into exile. Reality, as per Bakhtin, was not unifying truth, but negotiated perception between bodies occupying simultaneous but different space. This could be physical bodies, political bodies or body of ideas in general, such as ideologies.<sup>2</sup> For Bakhtin, the world was a collection of contesting meanings, ‘a heteroglossia so varied that no single term capable of unifying its diversifying energies is possible’.<sup>3</sup> Politics, therefore, is essentially the competition and governance of subjectivities, through

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<sup>1</sup> Merriam-Webster Dictionary, “Politics,” in *Merriam-Webster Dictionary* (2012).

<sup>2</sup> Holquist, *Dialogism: Bakhtin and His World*, 22.

<sup>3</sup> *Ibid.*, 24.

varying degrees of heterologue (democracy) and monologue (oligarchy and autocracy), by way of centrifugal and centripetal forces.<sup>4</sup>

As stated in Chap. 1, narratives interact dialogically, yet do not coexist peacefully, but are rather waged in continuous battle. Hence, my definition of politics could just as well be rephrased as the ‘completion between competing narratives for power and leadership’. My definition of politics includes, but is not limited to, national and intergovernmental politics. On the EU side, it also includes the politics within and between the EU’s institutions, more specifically the Commission and the Council, and to a lesser extent the European Parliament. Likewise, it includes interagency and interpersonal conflicts on the Russian side.

The chapter deals with the first five years of the EU–Russia Energy Dialogue. The dialogue started out as a high-level initiative, with the personal blessings of Romano Prodi and Vladimir Putin, who would even nominate his Deputy Prime Minister to represent Russia. However, by 2005 the Energy Dialogue was hardly even news, and the prospects of an energy partnership were fading. The Energy Dialogue commenced in February 2001, several months after the Paris Summit. The reason for the delay was that the Commission had to convince the EU’s member states (the EU15 narratives), many of which were negative towards the Commission’s attempt to take charge of energy relations with Russia. It was not only the member states that needed convincing, but the Commission itself, within which there was much infighting between the various branches vying for ownership over relations with Russia (the European narrative).

Likewise, there were divisions between those who wanted Russia to pursue integration with the EU and those who preferred to remain at arm’s length (the Euro-Asian narratives). Divisions were not simply interministerial, but factional. Moving to the Dual State narrative, I will show how informal factional disputes permeated the Russian Ministry of Energy itself, something that severely weakened the formal chain of command on the Russian side of the Energy Dialogue. Meanwhile, Russia’s Euro-optimism was replaced by Euro-pessimism. It was apparent that the initial hope that the Energy Dialogue would channel large investment

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<sup>4</sup>Ibid., 34.

into Russia was premature, leaving both liberals and Eurosceptics disappointed. But times were changing. Putin, buoyed by high energy prices, was reasserting his Statist narrative (Fig. 3.1). No longer as dependent on investment, Putin eventually degraded the Energy Dialogue, by demoting Russia’s main interlocutor, Viktor Khristenko. Likewise, the EU’s interlocutor, François Lamoureux, was removed from the Commission, whereas the Energy Dialogue was put under the administration of the EU Council. Both of these moves came at the initiative of the UK, which, like France, Germany, Italy, the Netherlands and others, had already set up its own bilateral energy dialogue with Russia.



**Fig. 3.1** Average world oil prices, January 2001–October 2005 (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

## The Energy Dialogue Begins

The Energy Dialogue was the first purely Commission-led effort to engage with a third-party supplier of energy, and the EU's first sectoral dialogue with Russia.<sup>5</sup> In the previous chapter, I explained how Prodi and Lamoureux's vision to launch a dialogue with Russia was met with tacit approval by France and Germany. At the Paris Summit, a High-Level Working Group was confirmed. François Lamoureux, the Director-General of the DG TREN, was nominated as the EU's sole interlocutor, whereas Russia's Vice Prime Minister, Viktor Khristenko, was nominated as the Russian equivalent. The two men were named 'sole' interlocutors so that they could work without excessive external interference.<sup>6</sup> In the beginning 'the Energy Dialogue *was* Khristenko and Lamoureux', according to a former Commission official.<sup>7</sup> The constellation of an EU bureaucrat and a senior Russian politician was indeed unconventional. The nomination of Russia's Vice Premier reflected the high importance of the initiative on the Russian side.<sup>8</sup> Ivan Ivanov, Russia's Deputy Minister of Foreign Affairs responsible for EU affairs, described the Paris Summit as a 'turning point' in Russo-EU relations.<sup>9</sup> Within the Commission, however, the atmosphere was lukewarm. The fact that a Director-General, and not a Commissioner, was taking the lead for the EU did not go down well within the College of Commissioners, as I will show below.<sup>10</sup>

On 29 November 2000, Lamoureux and Khristenko convened for a preliminary meeting in Moscow. There, it was confirmed that the dialogue would be operating within the framework of the PCA. The dialogue would cover oil, gas, electricity, nuclear energy, coal and renewables. The conceptual basis of negotiations would be the EU's Green Paper, written at the initiative of Lamoureux, and confirmed earlier that month.

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<sup>5</sup> EU-Russia Energy Dialogue, "The First Ten Years: 2000–2010," (Brussels/Moscow: EU-Russia Energy Dialogue, 2010), 3.

<sup>6</sup> Author's interview with Christian Cleutin.

<sup>7</sup> Author's interview with Christian Cleutin.

<sup>8</sup> Author's interview with Stanislav Zhiznin.

<sup>9</sup> Ivan Ivanov, "Retour sur une pétition L'Europe doit nous redécouvrir," *Le Figaro*, 1 November 2000.

<sup>10</sup> Author's interview with Christian Cleutin.

For the Russians the corresponding document would be the unfinished 2020-strategy, a preliminary draft of which had also been presented in November.<sup>11</sup> At the meeting, Khristenko ‘stressed the importance to be given to investment in the Russian energy sector’. Business participation in the Energy Dialogue was crucial, he said. Khristenko also expressed his desire to construct a ‘European investment guarantee mechanism’, with the participation of the EIB in the financing of projects in Russia. Some financing could come forward through the TACIS framework. But since funds there were limited, and with many strings attached, both parties agreed that legal reform was necessary, in order to attract further investment. As for the time required to land their partnership, both interlocutors agreed on a timeframe ‘within the next two to three years’. To ensure progress the interlocutors would meet two to three times per year. As for the controversial ECT, it was not mentioned in the interlocutors’ report.<sup>12</sup>

To flesh out the details of this agenda, the two sole interlocutors agreed to set up four thematic groups. The first group was devoted to energy strategies and balances, which would compare Russia and the EU’s respective energy strategies with a look towards the long term. The second group was on infrastructure development and technology transfer. The third group would focus on investments, and the fourth group would focus on energy efficiency and the environment. The groups would room no more than ten participants each, including national experts and industry representatives. However, the selection for these groups took some time, to the frustration of the Russians, who accused the EU side of lagging.<sup>13</sup> The reason for this delay was the member states, who, besides France and Germany, had not been informed prior to the Paris Summit.

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<sup>11</sup> European Commission, “Green Paper, towards a European Strategy for the Security of Energy Supply”; Ministry of Energy of the Russian Federation, “Osnovnye polozheniia Energeticheskoi strategii Rossii na period do 2020 goda (Protokol № 39 ot 23 noiabria 2000 g.)”

<sup>12</sup> EU-Russia Energy Dialogue, “Summary of the Preliminary Meeting on the EU-Russia Energy Dialogue between MM Khristenko and Lamoureux,” (Brussels: EU-Russia Energy Dialogue, 2000).

<sup>13</sup> *Vedomosti*, “Energodialog Rossii i ES ubila Evrokomiissia,” *Vedomosti*, 27 September 2001.

## The EU15 Narratives

Between November 2000 and February 2001 officials from DG TREN were frequent visitors to the EU15's national embassies in Brussels, whose delegates were not unequivocally pleased by Lamoureux's initiative.<sup>14</sup> In November, Lamoureux was brought in for questioning by the heads of the EU's 15 missions in the Council's Committee of Permanent Representatives (Coreper). At the forefront of the opposition were the Dutch and British. The Dutch, still very much beholden to the Dutch-initiated ECT, were questioning the need for yet another instrument to address Russia, when Moscow had yet to ratify the charter. The British were largely of the same view, questioning the reason to replace an extant legally binding treaty with a new partnership nobody really knew what it would look like. But Lamoureux dismissed their criticism as unfounded. Lamoureux was supported by the French, who were still holding the Presidency of the Council, and said that the Commission would be allowed to continue on the condition that they would regularly report back to the Council about the activities of the Dialogue.

By January 2001, both the UK and the Netherlands had relented and given their support to the Dialogue, partly due to the recognition that the Russians would not ratify the ECT anytime soon. But the support of London and the Hague came with the demand to promote the principles of the ECT towards Russia, and above all address the need to improve the access to Russia for Western companies. This in turn would require that the Energy Dialogue address the legal framework for investment in Russia.<sup>15</sup> To be sure, neither the Dutch nor the British were particularly dependent on Russian oil and gas. And both were energy producers in their own right. Still, they were already involved in Russia through Royal Dutch Shell, an Anglo-Dutch conglomerate, which had entered a PSA

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<sup>14</sup> Author's interviews with Christian Cleutinx; EU Official A.

<sup>15</sup> The Coreper minutes of November and December 2000 and January 2001 were cited during the author's interview with EU National Official A.

to develop gas in the Russian far eastern field of Sakhalin. Shell was not the only actor trying to break the Russian market. The British had tried, but failed, to breach the Russian market through BP in the late 1990s, despite the personal blessings of Tony Blair himself.<sup>16</sup> I will return to these issues in the next chapter on business.

Despite a few initial hiccups, eventually each member state agreed to nominate a representative for the groups. And in February the four groups finally convened (Fig. 3.2). The member state nominees comprised representatives of business organisations, ministry officials and independent consultants working on behalf of a government. Each member state had one representative in one of the groups, whereas Germany and France, perhaps for historical reasons, were allowed two representatives each.

### **‘Take Part, Report Back’**

The member states were aboard. Still, member state participation was not necessarily granted so as to support the dialogue. Many of the member states agreed to join the thematic groups for the reason that it would allow them to monitor the Energy Dialogue.<sup>17</sup> As a Dutch industry official acknowledged, ‘The Dutch government preferred to maintain their bilateral ties with Russia, but they still wanted to know what was going on’.<sup>18</sup> Beyond this, most of the national representatives did not attend carrying clear instructions from their superiors at home. French officials recounted that there was no formal briefing from the government, and that nobody was entertaining the thought of a legally binding energy partnership.<sup>19</sup> The same was true for another national official, who said that his assignment was merely ‘to keep things going’.<sup>20</sup> Similarly,

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<sup>16</sup>John Browne and Philippa Anderson, *Beyond Business* (London: Phoenix, 2011).

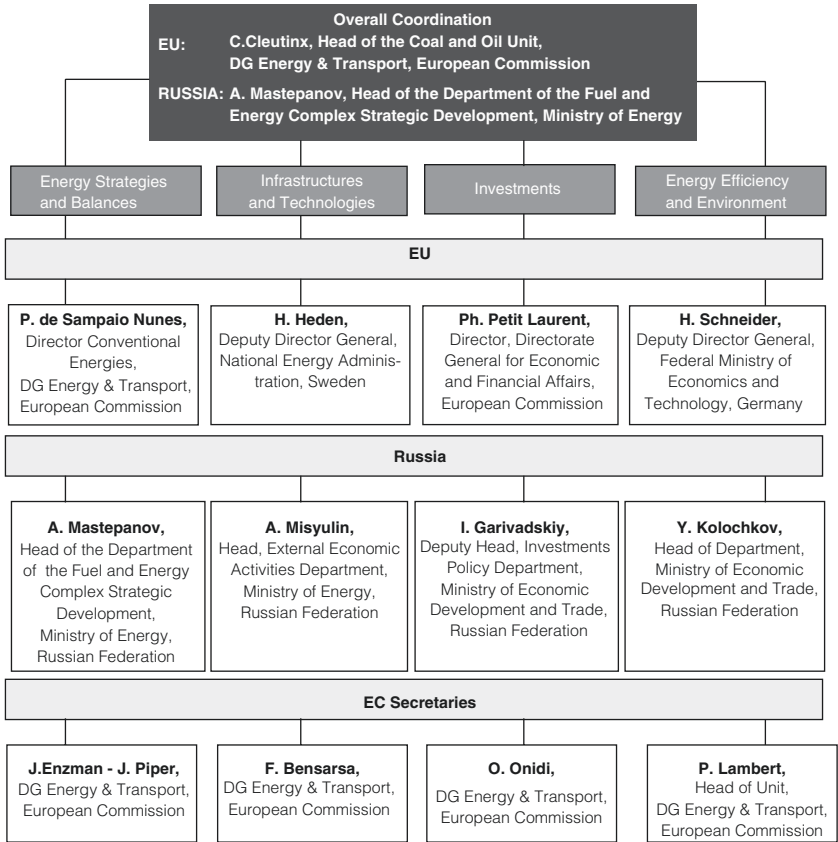
<sup>17</sup>Author’s interview with Christian Cleutin.

<sup>18</sup>Author’s interview with Dutch Industry Official.

<sup>19</sup>Author’s interviews with French Official A; French Official B.

<sup>20</sup>Author’s interview with EU National Official B [E-mail, 15.11.13].





**Fig. 3.2** The EU–Russia Energy Dialogue in 2001 (EU–Russia Energy Dialogue, “The First Ten Years: 2000–2010,” 16)

Germany was ‘not interested’ in a binding energy partnership, according to one of the two German officials, who said he was simply told to ‘take part, report back, but make sure that the Commission does not interfere with our existing contracts’. The Energy Dialogue could still prove a convenient channel, he said, but as a forum where national officials could forge relations with their Russian counterparts. According to him, ‘Germany preferred to manage relations with Russia on a bilateral level’. The energy mix of each country was still an individual member state

issue. Hence, the multilateral Energy Dialogue would become a cover for national, bilateral dialogues as well.<sup>21</sup>

One of the main reasons why a binding energy partnership was off the table, were the EU treaties. So far the member states had proven unwilling to yield decision-making powers on energy to Brussels. The constitutional debate of 2000 had culminated in the Nice Treaty, signed in February 2001. But as before, all ‘measures significantly affecting a member state’s choice between different energy sources and the general structure of its energy supply’ remained subject to unanimity in the Council, meaning the member states retained their effective vetoes.<sup>22</sup> While every EU member state eventually joined the Energy Dialogue, big players such as France, Italy and the UK did not award it high priority.<sup>23</sup> Overall, the member states’ agreement to join these thematic groups was on the condition that the groups, and the Energy Dialogue, would be disbanded within six months, before the second biannual EU–Russia Summit in October.<sup>24</sup> In the collective eyes of the EU15, and particularly the larger states, the Energy Dialogue was a temporary, short-term initiative.

## The European Narrative

In Chap. 1, I noted that the European narrative of the Commission was far from unitary, but was characterised by heterologue. DG TREN was not only facing opposition from the member states. It also had to tackle the Commission itself, whose narrative towards Russia was anything but coherent. This may seem like an institutional conflict, but the way it played out was pure politics, with self-interested Directors-General (DG) and Commissioners pushing their respective agendas. On 15 May 2001, two days before the first biannual EU–Russia Summit,

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<sup>21</sup> Author’s interview with Klaus Kleinekorte.

<sup>22</sup> European Union, “Treaty of Nice,” (Nice: Official Journal of the European Communities, 2001), see Article 175(2).

<sup>23</sup> Author’s interviews with Klaus Kleinekorte; French Official A; French Official B.

<sup>24</sup> Author’s interview with Christian Cleutinx.

Prodi, together with Loyola de Palacio, the Spanish Vice President of the Commission, and Chris Patten, the British Commissioner for External Relations, presented a joint report on the Energy Dialogue. In it they summarised the interim results of the four thematic groups to the College of Commissioners. They confirmed the need to produce an energy partnership under the auspices of the PCA, thus making the agreement a 'higher value as national law'.<sup>25</sup> During the presentation of the report, de Palacio declared that the Energy Dialogue enjoyed 'the highest political backing'.<sup>26</sup> But the College of Commissioners was far from convinced. In its reply to the report, the College noted that:

The Dialogue should, in no way, be seen as a method of discriminating in favour of Russia as against other important geopolitical priorities of the EU in Central Asia, the Caspian region and the Ukraine. It should also not be considered, in any way, as a substitute for Russia's ratification of the Energy Charter Treaty, which remains a priority objective.<sup>27</sup>

The rest of the Commission had apparently not been informed before the launch of the Energy Dialogue in October 2000. Both Patten and de Palacio had been kept out of the loop before the Paris Summit.<sup>28</sup> De Palacio's exclusion was particularly striking, given that she was both Vice President and the Commissioner for Transport and Energy. The Energy Dialogue was conceived by Lamoureux and his staff. But the Energy Dialogue had been formally launched by Prodi, who as President of the Commission enjoyed the right of initiation without consulting the College of Commissioners first. Allegedly, Patten had been particularly displeased with this, as he was in charge of the Commission's external relations.<sup>29</sup> However, I have not had the opportunity to confirm this with Patten himself.

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<sup>25</sup> European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission – the EU-Russia Energy Dialogue," 1–2.

<sup>26</sup> "EU/Russian Federation Energy Dialogue on Track," (Brussels: European Commission, 2001).

<sup>27</sup> *Ibid.*, 2.

<sup>28</sup> Author's interview with EU Official A.

<sup>29</sup> Author's interview with Christian Cleutin.

There were indeed many sectorial interests within the Commission. The foreign affairs portfolio was handled by DG RELEX, together with Commissioner Patten, who covered the human rights portfolio towards Russia, including the highly sensitive issue of Chechnya. Moreover, DG Trade was in charge of the wider trade portfolio. The powerful Commissioner for Trade, Pascal Lamy, was insistent that the Energy Dialogue should be connected to the completion of Russian talks to acquire EU support to join the World Trade Organization (WTO), which were directed by Lamy, and in turn were premised on broader market reforms in Russia.<sup>30</sup> There were parts of the Commission which were more interested to discuss legal matters on gas than practical investment in oil. For instance, DG Comp was responsible for the internal market legislation of the EU, including the directives on gas and electricity.<sup>31</sup>

This struggle for influence would prove decisive for the Energy Dialogue already within its first few months. Lamoureux and his team wanted a bottom-up approach to the Energy Dialogue, which meant to identify discrete areas of cooperation and build from there.<sup>32</sup> However, at the 17 May EU–Russia Summit, this plan received a shot across the bow, when it is was agreed to launch yet another high-level working group, whose objective was to define and create a ‘Common European Economic Space’ (CEES) in the framework of the PCA.<sup>33</sup> The working group would be led by Khristenko and Commissioner Patten, who had reasserted his position after being bypassed at the Paris Summit. While this could be indeed interpreted as being in line with Lamoureux’s narrative of a new ECSC, where an energy partnership would lead to a wider partnership, it ran directly against his bottom-up approach. Submerging the Energy Dialogue into the CEES meant that the dialogue would be conflated with the ongoing WTO talks between the Commission and Russia, as well as the wider EU–Russia trade portfolio, including telecommunications, aviation, customs regulation, financial services and a wealth of other initiatives, all at once. The explicit link between the Energy Dialogue and

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<sup>30</sup>Pascal Lamy, “Ne ugroza, a perspektiva,” *Vremia novosti*, 31 August 2001.

<sup>31</sup>Author’s interview with Dutch Industry Official.

<sup>32</sup>Author’s interviews with EU Official A; Christian Cleutinx.

<sup>33</sup>EU–Russia Summit, “Joint Statement,” (Moscow: EU–Russia Summit, 2001).

the CEES was made at the October 2001 EU–Russia Summit.<sup>34</sup> But the concept of the CEES would nevertheless have to be developed, so the Energy Dialogue retained its official independence, for the time being.

## The First Synthesis Report

The thematic groups submitted their reports in September, a few weeks shy of the Brussels Summit. The member states had expected the Energy Dialogue to be dissolved after the Energy Dialogue. But it was already clear that the sole interlocutors of the Energy Dialogue had a longer-term agenda. The Synthesis Report included ‘issues leading to rapid results’, including ensuring the legal security for long-term gas contracts, new infrastructure projects of common interest, as well as a revised PSA framework. The Russian government had already taken it upon itself to establish a ‘one stop shop’ for investment, which aimed to facilitate the stream of European capital into the Russian energy sector. Another measure included the implementation of so-called pilot energy savings projects in two Russian regions.

But these measures were just a first element, according to the report: ‘As the Partnership is a symbol of closer political ties, it calls for measures of a broader scope and longer time horizon’, the interlocutors noted.<sup>35</sup> Longer-term initiatives included an investment support scheme, with the EIB playing ‘a significant role’. Other measures included Russian ratification of the Kyoto Protocol, which were linked with Russia’s WTO accession talks, as well as improved corporate governance, trade in electricity and improved energy efficiency. Also mentioned was the possibility of setting up a joint ‘Technology Centre’ in Russia so as to facilitate exchange of best practices.<sup>36</sup> To some of the member-state representatives, this extended agenda came rather unexpected. Lamoureux and Khristenko had kept ‘coming up with new initiatives’, according to the German official I spoke to. In his view, the original plan was to ‘produce a

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<sup>34</sup> “Joint Statement,” (Brussels: EU-Russia Summit, 2001).

<sup>35</sup> EU-Russia Energy Dialogue, “Synthesis Report,” 4.

<sup>36</sup> *Ibid.*

report, provide some interesting new information, and say thank you and goodbye'.<sup>37</sup> But the sole interlocutors refused to adhere to this.

## Early Defections

Rather than dissolve, the Energy Dialogue moved from its 'analytical phase' into its 'official phase' of implementation.<sup>38</sup> The thematic groups would continue to meet on a biannual basis, allowing the member states to continue their monitoring of the dialogue. But already there had been a few defections. One of the French officials stopped attending after the October Summit, noting that the Energy Dialogue had remained of 'marginal' importance.<sup>39</sup> Others were not as patient. After only a couple of meetings, the British representative had quit his consultancy for the British government. According to him there was:

[A] fundamental and insurmountable clash of national interests and mutual understanding between the EU and Russian parties, primarily caused by the EU making absolutely no attempt to understand the Russian position (that I felt was entirely legitimate). Equally, having come from the private oil sector, I was totally baffled by the Brussels bureaucratic process, that I totally failed to understand.<sup>40</sup>

There was indeed a clash between business and politics, which I will address in the next chapter. Meanwhile, Russia remained a controversial topic in Britain, because of the war in Chechnya. Neither were relations with the EU without their difficulties. There was certainly no love lost between conservative British politicians and Brussels. David Howell, who was Secretary of State for Energy under Thatcher, and later member of the House of Lords, had recently remarked that the European Commission was 'losing its pivotal role'. This, he said, was 'inevitable and even welcome', adding that:

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<sup>37</sup> Author's interview with Klaus Kleinekorte.

<sup>38</sup> EU-Russia Summit, "Joint Statement."

<sup>39</sup> Author's interview with French Official A.

<sup>40</sup> Author's interview with Terry Adams.

The so-called Commission was meant to be—and this was believed by some governments of the European Union—to be a service to the Community. But [it] is not performing its role. It is not a service but a circus and some would cruelly say that President Prodi is its chief clown [...] As regards European foreign policy, there, too, I am afraid my heart sinks even when I hear the phrase [...] It chills me.<sup>41</sup>

Domestic politics mattered. Many, indeed most, of the goals specified in the Synthesis Report needed the consent of the member states. Already differences over gas supply contracts were apparent, with the French and Germans pushing for long-term gas contracts and the British pushing for short-term liberalisation.<sup>42</sup> Getting the EIB involved would require a positive, unanimous vote in the Council, which itself was highly unlikely. Business participation remained limited, whereas the new PSA framework had ground to a halt, for reasons I will return to later. Nevertheless, the Energy Dialogue pressed on, largely at the initiative of the Russians. And to understand why, it is necessary to switch to the Russian narratives.

## Russia's Euro-Asian Narratives

Despite the slow start of the Energy Dialogue, President Vladimir Putin maintained his firm conviction to cooperate with the EU. In March 2001, Putin even participated during the European Council meeting in Stockholm, where he confirmed the importance of the dialogue and Russia's readiness to supply the EU with oil and gas. A few weeks later, in his annual address to the Federal Assembly in April, Putin underlined that 'Integration with Europe is one of the key areas of our foreign policy'. In June, Putin even praised Energy Dialogue as 'a new dimension' to the relationship between Russia and the EU.<sup>43,44,45</sup> The

<sup>41</sup> House of Lords, "Lords Hansard Text for 28 Jun 2001," (London: Parliament of the United Kingdom, 2001).

<sup>42</sup> Author's interviews with Klaus Kleinekorte; French Official A; Terry Adams, "EU-Russian Energy Relationships, Presentation to the Department of Trade and Industry (DTI)," (London: DTI, 2001).

<sup>43</sup> Vladimir Putin, "Annual Address to the Federal Assembly of the Russian Federation," (Moscow: President of Russia Official Web Portal, 2001).

<sup>44</sup> "Vystuplenie V. V. Putina na otkrytii plenarnogo zasedaniia vstrechi," (Moscow: Diplomaticeskii vestnik, 2001).

<sup>45</sup> Ibid.

Russians were indeed expecting great things. After the publication of the first Synthesis Report, Ivan Ivanov, Russia's Deputy Minister of Foreign Affairs, noted that the EU planned to increase its dependency on Russian energy imports to '70 per cent' (from 30 per cent in 2001).<sup>46</sup> The Russian State Duma had given its blessings, too. Forming a strategic partnership with the EU was one of Russia's 'most important' foreign policy tasks, according to the Duma.<sup>47</sup> To further underline the importance of the dialogue, Putin personally nominated his Vice Prime Minister to take charge of the Energy Dialogue. An enthusiastic Khristenko had affirmed that Russia wanted the EU to remain its main trading partner 'forever', noting that the Energy Dialogue 'should be planned for at least 20 years ahead'.<sup>48</sup> As opposed to the short-term perspective of the EU's member states, the Energy Dialogue was truly a long-term initiative in the eyes of Moscow.

The Russians were eager to get to work. For this reason, Moscow was somewhat annoyed with the EU's lagging in its nominations for the thematic groups.<sup>49</sup> But there were similar difficulties on the Russian side. Whereas the EU effort largely revolved around Lamoureux and his staff at DG TREN, the Russian government had launched an interministerial committee. It was indeed an eclectic group of people, consisting of the full gamut of former KGB officials, Soviet-era technocrats and economic liberals. Consequently, it remained unclear what the Energy Dialogue was going to be about, and who was going to take responsibility for it, besides Khristenko. 'It was a very chaotic situation', said Vladimir Milov, who in 2001 worked as an advisor at the Ministry of Energy. 'Basically we were rotating', he said. Different ministries would meet with the EU delegates, sometimes taking different positions, and 'sometimes different positions from the same ministry'.<sup>50</sup> Meetings would take place both inside and outside the confines of the Energy Dialogue, making it difficult to set a clear agenda, or to know which agenda was being discussed at a given time. It was heterologue in its

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<sup>46</sup> Ekaterina Labetskaia, "Zhdem vazhnykh dogovorennosti," *Vremia Novosti*, 3 October 2001.

<sup>47</sup> State Duma of the Russian Federation, "Parlamentskie slushaniia v Gosudarstvennoi Dume," (Moscow: Parlamentskie slushaniia v Gosdume, 2001).

<sup>48</sup> ITAR-TASS, "Khristenko Calls for Broader Russia-EU Cooperation," *ITAR-TASS*, 23 April 2001.

<sup>49</sup> Interfax, "Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow," *Interfax*, 26 September 2001.

<sup>50</sup> Author's interviews with Vladimir Milov; Russian Official A.



most chaotic form. It was clear that Russia wanted investment, but apart from this it lacked a unified narrative for the Energy Dialogue. This political confusion enabled the Commission to dominate the agenda of the Energy Dialogue in its first year.<sup>51</sup>

## Liberals Versus Statists

Because institutional checks and balances were so weak in Russia, politics took centre stage even at the administrative level. As in the past the debate raged over how it ought to engage with the West: Integration or independence? There were two main narratives on the Russian side in the Energy Dialogue: liberals and statist. The latter were Eurosceptic, and mostly situated within the Ministry of Foreign Affairs (MFA), whose representation in the Energy Dialogue was headed by Ivanov, the Deputy Minister. The liberal camp were relatively pro-European, and centred on the Ministry of Economic Development and Trade (MEDT), led by its powerful Minister, Herman Gref, a former colleague of Vladimir Putin from the St. Petersburg City Administration. This was not simply an institutional conflict, but an ideological dispute. The liberal Milov said that ‘the MFA still believed that this is a sort of geopolitical game taking place, with governments strongly standing behind what companies do’. Milov recalled that it was very difficult to promote liberal policies in this environment.<sup>52</sup> The conflict was personal—‘[Gref and Ivanov] just did not like each other’, according to a Russian MFA official.<sup>53</sup> Ivanov, who had administered the PCA cooperation council with the EU, had a thoroughly statist outlook and vocabulary, describing the world in cold war terms of polarity. He lauded Russia–EU cooperation, but dismissed any notion of Russia joining or attaching itself to the EU outside current trade relations, having noted that ‘the world’s great powers [...] very rarely

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<sup>51</sup> Romanova, “The Russian Perspective on the Energy Dialogue.”

<sup>52</sup> Author’s interview with Vladimir Milov.

<sup>53</sup> Author’s interview with Stanislav Zhiznin.

attach to foreign unions, they create their own'. Ivanov repeatedly stressed that it would be impossible for Russia to focus only on the EU, due to 'the unique position of Eurasian Russia'.<sup>54</sup> To him, it would be 'unreasonable' to expect a Russian accession to the EU, 'or any binding association with it affecting our sovereignty and statehood'.<sup>55</sup> This narrative was reprised to me by other MFA officials, including one who confirmed that Russia was 'absolutely not' looking for a new ECSC with the EU.<sup>56</sup>

Nor was the Ministry of Energy, the institution nominally responsible for the Russian energy sector, a bastion of liberal thought.<sup>57</sup> The Ministry was in charge of formulating the Russia Energy Strategy to 2020, which stated how the 'mentality' of the Russian population 'needs a strong state power'.<sup>58</sup> The strategies were coauthored by former employees of the Soviet State Planning Committee, Gosplan. Strategic work was directed by Alexei Mastepanov, a former Gosplan employee, who would become Khristenko's delegated coordinator in the thematic groups in 2001, and later adviser to Gazprom CEO Alexei Miller. As Mastepanov recalled to me: 'the liberals actually had no exact idea of the economy part because they just don't know anything about it. The only thing they know is that something must be liberal but who knows what'. The liberals were like the European Commission, he said.<sup>59</sup> Conversely, the almost hyperactive Gref would involve himself in anything that involved Russo-EU cooperation.<sup>60</sup> As neither the Minister of Energy nor the Minister of Foreign Affairs was represented in the interministerial committee on the Energy Dialogue, Gref was second in line to Khristenko. It was Gref

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<sup>54</sup> Ivanov, "Raschishchat' puti k zrelomu partnerstvu Rossii i Evrosoiuza."

<sup>55</sup> Ivan Ivanov, "Ne poddavaites' na ulovki Briusselia," *Nezavisimaya Gazeta*, 6 October 2002.

<sup>56</sup> Author's interview with Stanislav Zhiznin.

<sup>57</sup> Author's interview with Vladimir Milov.

<sup>58</sup> Ministry of Energy of the Russian Federation, "Osnovnye polozheniia Energeticheskoi strategii Rossii na period do 2020 goda (Protokol № 39 ot 23 noiabria 2000 g.)," 10.

<sup>59</sup> Author's interview with Alexei Mastepanov, former Head of the Department of the Fuel and Energy Complex Strategic Development, Russian Ministry of Energy, and former Russian coordinator of the EU-Russia Energy Dialogue [Moscow, 09.12.12].

<sup>60</sup> Author's interview with Vladimir Milov.

who would set up the ‘one stop shop’ for investment, mentioned in the 2001 Synthesis Report. In late 2000, Gref had assumed the responsibility for the new PSA regime, so central to the Energy Dialogue’s investment discussions. In April 2001, Gref also took charge of Russia’s WTO negotiations. The former was a snub to the Ministry of Energy, and the latter a rebuke of the MFA.<sup>61</sup> Moreover, it was Gref who nominated the young Milov for his position at the Ministry, with the mandate to ‘reform the ministry from the inside’, in Milov’s own words.<sup>62</sup> All in all, Gref’s apparent momentum, and the choice of ‘liberals’ over ‘statists’ in shaping policy towards the EU, seemingly reflected a more liberal, pro-EU narrative emanating from the government and President Putin.<sup>63</sup> In fact, by 2001, Putin had put liberals in charge of all key aspects of economic policy in his government.<sup>64</sup> However, there were also highly pragmatic reasons for this division of labour. To understand this, it is important to properly discuss the profound uncertainty and diversity, or indeed heterologue, of Russian politics during the first year of the Energy Dialogue.

## The Dual State Narrative

Russia was not only recovering economically, it was recovering politically, too. This went far beyond institutional skirmishes between liberals and statistes centred on the MFA and the MEDT. In Russia, a ‘shadow economy’ and a ‘shadow justice’ were existing side by side, as Putin said in 2001.<sup>65</sup> Political conflicts in Russia under Putin reflected a deeply rooted network of patron–client relationships. Putin himself referred to ‘clan politics’, but the term factions is perhaps more accurate, as clans are more permanent, whereas Russian political factions were more fluid. There are indeed many ways one could delineate these factions. And bonds of

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<sup>61</sup> Alexander Tutushkin and Yulia Bushueva, “Energy Ministry Losing Important Responsibility,” *The Moscow Times*, 12 August 2000; Zoia Kaika, “Bystroe dvizhenie k neizvestnomu,” *Vedomosti*, 27 April 2001.

<sup>62</sup> Author’s interview with Vladimir Milov.

<sup>63</sup> Thane Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia* (Cambridge, Mass.: London: Belknap, 2012), 260, 265.

<sup>64</sup> Author’s interview with Vladimir Milov.

<sup>65</sup> Putin, “Poslanie Federal’nomu Sobraniuu Rossiiskoi Federatsii.”

loyalty—like narratives—often traversed one another in different ways, in the same way as Bakhtin’s ‘speech genres’, which I discussed in the theory chapter. It is nonetheless possible to identify six main factions in Russian politics at the time of the launch of the Energy Dialogue.<sup>66</sup> However, please bear in mind that these, too, are ideal types and not absolute definitions.

### ‘Family’, *Siloviki*, Oligarchs and Others

First was the so-called family, who were former members of ex-President Boris Yeltsin’s inner circle.<sup>67</sup> After Putin came to power, ‘family members’ were gradually replaced by Putin appointees. But some remained, including Mikhail Kasyanov, who served as Russia’s Prime Minister from 2000 until 2004, and was Viktor Khristenko’s first in line to Putin. The liberal Kasyanov was brought over into the Putin presidency, so as to ensure continuity and support of the former Yeltsin entourage, who were still operating behind the scenes.<sup>68</sup> Second were the *siloviki* (from *silovye struktury* or ‘power agencies’), who were officials with backgrounds in the security services, KGB and later the FSB.<sup>69</sup> The most well-known *silovik* was Yevgeny Primakov, Yeltsin’s former Prime Minister. Primakov fell out with the President for refusing to dismiss several parliamentarians, when Yeltsin was threatened with impeachment during the end of his reign. In the end, Primakov was fired, only to turn on the Yeltsin camp by launching his own bid for the presidency—ultimately dropping out before Yeltsin’s anointed heir, Vladimir Putin.<sup>70</sup> The *siloviki* were never a unitary group of people. Rivalries and power struggles were abound. Nevertheless, *silovik* ‘ideology’ was based on a strong state, a legally immune leadership and a firm state control over the economy.<sup>71</sup> This entailed a general scepticism towards privatisation and Western-style,

<sup>66</sup> Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*.

<sup>67</sup> Shevtsova, *Russia Lost in Transition*, see Chapter One.

<sup>68</sup> Richard Sakwa, *Putin: Russia’s choice* (London: Routledge, 2008), 74–75; Shevtsova, *Putin’s Russia*, 87.

<sup>69</sup> Andrei Illarionov, “The Siloviki in Charge,” *Journal of Democracy* 20, no. 2 (2009).

<sup>70</sup> Shevtsova, *Putin’s Russia*, 22–25.

<sup>71</sup> Ol’ga Kryshatanovskaya and Stephen White, “Inside the Putin Court, a Research Note,” *Europe-Asia Studies* 57, no. 7 (2005): 1073.

liberal economic governance. During and after Primakov, parts of the *siloviki* would entertain an especially close relationship with the oil sector, and above all Rosneft, the state-owned oil company.<sup>72</sup>

The third faction was the democratic statist.<sup>73</sup> This group was similar in outlook to the *siloviki*, in that they were sceptical towards blindly emulating the West, and instead advocated that Russia remain sovereign and strong. According to the statist, the government should remain in control over the Russian economy and natural resources. This group included the many government bureaucrats left over from the Soviet era, including several of the said officials in the MFA and the Ministry of Energy. It is possible to include Viktor Khristenko in the statist category, as he, like Putin, remained firmly in favour of state ownership of the gas and oil sector.<sup>74</sup> However, Khristenko himself would later say that he was and ‘always will be non-party’ (albeit making reference to political parties, not factions as such).<sup>75</sup> Khristenko would nevertheless become closely tied to the *siloviki* and Rosneft, through his daughter Yulia’s marriage to the son of Sergey Bogdanchikov, who was the CEO of Rosneft and a close confidant of Primakov. Family relations were indeed a common feature of Russian politics.<sup>76</sup>

Factional affiliations were never clear. Some would place Khristenko between the statist and the fourth faction, the economic liberals and technocrats (also known as the *siviliki*, due to their backgrounds in the civil sector, and *zakoniki*, denoting the people with backgrounds as legal professionals).<sup>77</sup> This group included Herman Gref (a lawyer), Milov (an engineer) and Dmitri Medvedev (a law professor). Other well-known liberals were Alexei Kudrin, an economist, who between 2000 and 2011 served as Russia’s Minister of Finance, and Anatoly Chubais, an economist and former Deputy Prime Minister under Yeltsin, and from 1998 the CEO

<sup>72</sup> Daniel Treisman, “Putin’s Silovarchs,” *Orbis-a Journal of World Affairs*, no. Winter (2007).

<sup>73</sup> Shevtsova, *Putin’s Russia*, 325; Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*, 124–25.

<sup>74</sup> Ignatova, “Viktor Khristenko: Poka my samoedskaia derzhava.”

<sup>75</sup> Nadezhda Ivanitskaia and Kira Latukhina, “Pravitel’stvo partii,” *Vedomosti*, 16 April 2008.

<sup>76</sup> Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*, 89.

<sup>77</sup> Author’s interview with Dutch Industry Official; Alena Ledeneva, “From Russia with Blat: Can Informal Networks Help Modernize Russia?,” *Social Research* 76, no. 1 (2009); Shevtsova, *Putin’s Russia*, 86, 298, 325.

of RAO UES, the Russian state electricity monopoly. The liberals were comparatively business-friendly, and largely committed to Western values, albeit with a very Russian predisposition towards state intervention.<sup>78</sup>

The fifth faction was the regional administrators. This group enjoyed considerable autonomy during the de-centralised Yeltsin presidency, but had their prerogatives sharply curtailed after Putin came to power.<sup>79</sup> The regional administrators nurtured close ties to Russian business groups, which is the sixth and final faction. Here we find powerful oligarchs such as Vagit Alekperov, the CEO of Lukoil, Russia's then largest oil company, and Mikhail Khodorkovsky, the CEO and owner of Yukos, Russia's second-largest oil company.<sup>80</sup> Khodorkovsky in particular would prove a major challenge to Putin's 'vertical of power', as I will further discuss in the next chapter on business.

As for Putin himself, he was more of a faction manager,<sup>81</sup> with connections and sympathies spanning technocrats, statist, *siloviki* and regional administrators—the latter from his time as deputy mayor of St. Petersburg.<sup>82</sup> In this sense, Putin's chameleon-like qualities allowed him to transcend factionalism: to balance the factions when necessary, and reinvent himself when convenient.<sup>83</sup>

## Factionalism and the Energy Dialogue

The EU–Russia Energy Dialogue was a high-level initiative to the Russians. Khristenko, whose portfolio included energy, was officially responsible for the Ministry of Energy. Still there was a very pragmatic

<sup>78</sup> Kryshatanovskaya and White, "Inside the Putin Court, a Research Note," 1073.

<sup>79</sup> Cameron Ross, *Regional Politics in Russia* (Manchester: Manchester University Press, 2009).

<sup>80</sup> Shamil Yenikeeff, "Oil and the Corporate Re-Integration of Russia: The Role of Federal Oil Companies in Russia's Center-Periphery Relations," in *Problems Confronting Contemporary Democracies: Essays in Honor of Alfred Stepan*, ed. Scott Mainwaring and Douglas Chalmers (Notre Dame, IN: University of Notre Dame Press, 2012).

<sup>81</sup> Oxana Gaman-Golutvina, "Changes in Elite Patterns," *Europe-Asia Studies* 60, no. 6 (2008): 1039; Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*, 132.

<sup>82</sup> Author's interview with Dutch Industry Official.

<sup>83</sup> Fiona Hill and Clifford G. Gaddy, *Mr. Putin, Operative in the Kremlin* (Washington, D.C.: Brookings Institution, 2013).

reason for this set up. The situation in the Ministry of Energy was highly unstable. Between 1995 and 2000, the Ministry had nine different Ministers. And on 15 February 2001, the incumbent Minister, Alexander Gavrin, was fired after only ten months in his post. His departure came only two days after the launch of the Energy Dialogue's four thematic groups. Practically this made little difference, as Gavrin had never been involved in the talks with either Prodi or Lamoureux.<sup>84</sup> But the Ministry of Energy was nonetheless present in all four thematic groups, including overall coordination. The Ministry was also in charge of the ongoing work on the new 2020 energy strategy, Russia's main concept paper for the Energy Dialogue. And the lack of leadership did not make for a consistent working environment.<sup>85</sup> The unstable situation in the Ministry was partly the result of state capture by warring business factions, a point which I will return to in the next chapter.

For over four months, the Ministry did not even have its own Minister, and questions were raised as to whether the Ministry should not simply be dismantled. But in June, Khristenko rushed to the Ministry's defence, saying that it had 'every right to exist as a ministry, since the energy sector today is our country's mainstay'.<sup>86</sup> The rationale was simple: Russia was a major energy producer, and therefore needed an energy ministry, even though it was unclear for many what its formal powers were.<sup>87</sup> So on 18 June 2001, Putin appointed Igor Yusufov as the new Minister of Energy. Yusufov was a Dagestani official and businessman, and former Deputy Minister of Industry under Yeltsin. Through his appointment the energy ministry again had nominal leadership. However, Yusufov's appointment did not really improve the situation in the Ministry. In many ways the situation deteriorated, at least as far as the Energy Dialogue was concerned. The relationship between Yusufov and Khristenko was notoriously bad, as Milov, who was Yusufov's advisor and later Deputy Minister, recalled. The two men were hardly on speaking terms: 'Yusufov systemically ignored Khristenko invitations for official meetings. He only wanted to talk to the Prime Minister and the President'. One reason for this, according to

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<sup>84</sup> Author's interview with Christian Cleutin.

<sup>85</sup> Author's interviews with Yuri Baron, Deputy Director, Department of State Energy Policy, Russian Ministry of Energy [Moscow, 28.02.12]; Russian Official C.

<sup>86</sup> Ignatova, "Viktor Khristenko: Poka my samoedskaja derzhava."

<sup>87</sup> Author's interview with Vladimir Milov.

Milov, was that Yusufov and Khristenko represented the different political and business factions.<sup>88</sup> Yusufov had risen to power under the Yeltsin ‘family’, under the protection of Alexander Mamut, a billionaire and former Yeltsin adviser with strong links to the current Prime Minister, Mikhail Kasyanov.<sup>89</sup> The family had strong ties to the Moscow establishment, whereas Khristenko was an outsider drawn in from St. Petersburg. Moreover, Khristenko had close links to anti-Yeltsin (Primakov) camp centred on the *siloviki*.<sup>90</sup> ‘It was all clan politics,’ as Milov recalled.<sup>91</sup>

The rivalry between Yusufov and Khristenko nearly severed the latter’s link to the Ministry of Energy—a ministry he was nominally responsible for. Where Yusufov had an entire ministry under his command as Minister of Energy, Khristenko had a personal staff of hardly a dozen people. Coordinating the Energy Dialogue-related activities between the Ministry and Khristenko became exceedingly difficult. Nonetheless, Khristenko enjoyed strong support from Putin, his former colleague from St. Petersburg. Hence, Yusufov—who would serve as Minister from 2001 until 2004—was simply excluded from the Energy Dialogue. ‘During all of these years, I never saw Yusufov once,’ one EU Energy Dialogue official told me.<sup>92</sup> But faction politics, between Khristenko and Yusufov, between Gref and Ivanov, and others, would continuously blur the lines of communication between the Russian sole interlocutor in the Energy Dialogue and the Russian participants in the thematic groups. This weakened the Russian narrative for the Energy Dialogue, and conversely strengthened the Commission’s ability to dominate it.

## Russia’s Euro-Asian Narratives (Redux)

While the Energy Dialogue was struggling to get going, Russia’s economy remained in dire straits. In the beginning of 2002, oil prices again dropped below \$20 per barrel (Fig. 3.1). In January 2002, during a visit to Paris,

<sup>88</sup> Author’s interview with Vladimir Milov.

<sup>89</sup> Sakwa, *Putin: Russia’s choice*, 72.

<sup>90</sup> Mikhail Kroutikhin, “Energy Policy Making in Russia: from Putin to Medvedev,” *NBR Analysis* 19, no. 2 (2008): 28.

<sup>91</sup> Author’s interview with Vladimir Milov.

<sup>92</sup> Author’s interview with EU Official B [Brussels, 11.09.12].



Putin said he ‘would very much like to see our bilateral relations built into the system of Russia’s relations with the European Union [...] For instance the energy dialogue’.<sup>93</sup> In reality, Putin was calling for less legal dialogue and more business dialogue. Wanting investment, the Russians were increasingly concerned over what they felt was the Commission’s legal encroachment on its gas contracts. Instead of providing real investment, the EU was ‘trying to tailor Russia in its own image [...] towards its norms and rules’, according to Ivanov at the MFA.<sup>94</sup> In this respect he was right, as the Commission was not intending to bring large sums to the table.

## Bureaucratic Dialogue

Moscow meant business. In Putin’s annual address to the Russian Federal Assembly in April 2002, the President restated his desire for integration with Europe,<sup>95</sup> and called for the formation of a ‘single economic space’. The official Russian delegations to the Energy Dialogue’s thematic groups were accompanied by a sizeable representation from Russian companies (although most of which were state-controlled).<sup>96</sup> Russian officials were therefore somewhat bemused by what they considered an overrepresentation of bureaucrats and corresponding underrepresentation of business from the EU side in the thematic groups.<sup>97</sup> Assisted by state companies RAO UES and Gazprom, the Russian government had listed a wealth of concrete investment projects.<sup>98</sup> But DG TREN was struggling to come up with investment for the Russians. It remained insistent that

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<sup>93</sup> Vladimir Putin, “Vystuplenie V. V. Putina na press-konferentsii Parizh, 15 ianvaria,” (Moscow: *Diplomaticheskii vestnik*, 2002).

<sup>94</sup> Interfax, “Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow.”

<sup>95</sup> Putin, Vladimir. 2002c. Annual Address to the Federal Assembly of the Russian Federation. Moscow: President of Russia. <http://en.kremlin.ru/events/president/transcripts/21567>.

<sup>96</sup> EU-Russia Energy Dialogue, “Working Group on ‘Infrastructure and Technology’, Joint Minutes on the Meeting,” (Moscow: EU-Russia Energy Dialogue, 2001), see Annex 2.

<sup>97</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 286–7.

<sup>98</sup> EU-Russia Energy Dialogue, “Joint Minutes of the Second Meeting of the Thematic Expert Group ‘Energy Strategies and Balances’,” (Moscow: EU-Russia Energy Dialogue, 2001), 5–6.

the only way to attract European companies was through legal reform.<sup>99</sup> This was also the official attitude of major member states like Germany and the UK. The Energy Dialogue should focus on institution building inside Russia, leaving investment decisions to the companies themselves, not member states, as Gerhard Schröder had remarked in 2001.<sup>100</sup> The original Russian idea that the Commission would act as a ‘world bank’, directing the EIB into Russia, had proven misinformed, if not severely misguided.

Moscow was anxious to get going with more concrete investment projects, and was complaining over what they felt was a lack of common understanding between the two parties.<sup>101</sup> Consequently, the Russians were not pleased with Patten’s plans to dissolve the Energy Dialogue into CEES, which to them simply meant more *acquis* and less cash. Deputy Foreign Minister Ivanov said he considered the CEES as yet another attempt ‘to get Russia to be guided in its foreign policy, especially in Europe, its rules and regulations’.<sup>102</sup> Khristenko himself, whom after the 2001 October summit had a dual mandate as chief interlocutor of the Energy Dialogue and CEES, did not approve of conflating the Energy Dialogue with the CEES. He would later say that he ‘thought and still thinks the idea was destructive’.<sup>103</sup> The CEES represented a widening of the Energy Dialogue. The truth was that the Russians did not really want a wide-ranging, comprehensive agreement, where energy would be conflated with other areas of trade, or indeed other areas of the EU’s policies. What they wanted was an investment guarantee and ensured future demand, full stop.<sup>104</sup> But investment remained elusive.

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<sup>99</sup> Ibid.

<sup>100</sup> Gerhard Schröder, “Deutsche Russlandpolitik – europäische Ostpolitik,” *Die Zeit*, 5 April 2001; Jack Straw, “EU-Russia Relations, 3rd Report, 17 December 2002, HL Paper 29,” (London: House of Lords, 2002).

<sup>101</sup> EU-Russia Energy Dialogue, “Group ‘Energy Efficiency and Environment’, Minutes of the 2nd Meeting,” (Brussels: EU-Russia Energy Dialogue, 2001), 1.

<sup>102</sup> Vedomosti, «Energodialog Rossii i ES ubila Evrokomissia.»

<sup>103</sup> Viktor Khristenko, “Kruglogo stola promyshlennikov Rossii i ES,” *PravoTEK*, no. 10 November (2004).

<sup>104</sup> Author’s interview with Stanislav Zhiznin.

## Progress Without Progress

The Energy Dialogue's Second Progress Report was presented at the May 2002 Summit. The report noted progress on both the short- and long-term objectives specified in the Synthesis Report of 2001, stating that this 'clearly demonstrates that the Dialogue has effectively moved into its concrete, implementation phase'.<sup>105</sup> Besides this, however, the report largely reiterated the objectives of the first report.<sup>106</sup> To be sure, a few tangible achievements were made at the summit. The EU finally granted Russia market economy status, thereby reducing penalty tariffs and limitations on Russian exports.<sup>107</sup> Market economy status was a prerequisite for Russia to accede to the WTO, which in turn was an important step in bringing Russia closer to the Western economic sphere. As one liberal Duma representative noted, the May Summit represented 'not only the EU's eastward enlargement, Kaliningrad or the Energy Dialogue, etc., but [...] the rapid increase the importance of the European direction of Russian foreign policy'.<sup>108</sup> To him, the summit represented a broader rapprochement between Russia and the West. Yet to more hawkish Russians, like Ivan Ivanov, who in the meantime had resigned as Deputy Foreign Minister, but had continued working in the Energy Dialogue, this was not enough. He was calling for more tangible results:

The stage of the dialogue at expert level was completed in September, now both parties must agree formally on the fact that Russia is Europe's safest and nearest energy source, and thus not introduce any limitation on imports and consumption of Russian energy.<sup>109</sup>

Ivanov noted that the Energy Dialogue had to broaden its scope to include investment, and a move from oil, gas and coal, to electricity and oil products. Many of the proposed projects were moving too slowly, said

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<sup>105</sup> EU-Russia Energy Dialogue, "Second Progress Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2002), 1.

<sup>106</sup> Ibid.

<sup>107</sup> EU-Russia Summit, "Joint Statement," (Moscow: EU-Russia Summit, 2002).

<sup>108</sup> Vladimir Ryzhkov, "Aktseuty Vladimira Putina," *Vedomosti*, 23 May 2002.

<sup>109</sup> Ivan Ivanov, "La Russie et l'Europe : des actes," *Les Echos*, 27 May 2002.

Ivanov. He suspected geopolitics was at play, and that ‘Brussels wants from the beginning to agree at first with NATO, and only then with third countries, including Russia’<sup>110</sup> (To an extent, he was right, as I will show in Chap. 5 on geoeconomics). Russia was certainly not looking to join the EU, Ivanov said, emphasising that Russia ‘is a Eurasian country which develops an active foreign policy in all directions’. Still, even a multipolar foreign policy depended on the will of partners. But the EU’s will had proven lacking.<sup>111</sup> After leaving his position as Deputy Foreign Minister, Ivanov assumed a job at the Russian Chamber of Industry and Commerce, whose President was none other than former Foreign Minister Yevgeny Primakov, the *silovik* and Yeltsin’s former rival. The Chamber emerged as a stern voice warning against the dangers of globalisation, including the ‘folly’ of Russian WTO membership.<sup>112</sup> They were not alone. Even the liberals were becoming disillusioned with the EU and the Energy Dialogue.<sup>113</sup> The Russians felt they had to compromise, without getting anything in return. As one commentator lamented:

We assumed that we would get major investment from the West, which will be used for the development of oil fields and the development of transport infrastructure. It seems that the initiative has only realised strong statements about the need to cooperate, but not to specific projects.<sup>114</sup>

Igor Yurgens, the liberal Vice President of the Russian Union of Industrialists and Entrepreneurs, who would later become economic adviser to President Dmitri Medvedev, pointed to the Commission Green Paper and its stated need for more imported energy from Russia. For some reason the Commission was moving in the opposite direction, only providing projects of marginal significance:

Claiming to increase purchases of Russian gas, the Commission nevertheless challenges the number of long-term gas contracts, the provisions of

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<sup>110</sup> Ibid.

<sup>111</sup> Ibid.

<sup>112</sup> Zoia Kaika, “TPP vybrala zhertvy,” *Vedomosti*, 5 February 2002.

<sup>113</sup> Author’s interview with Vladimir Milov.

<sup>114</sup> Alexander Becker, “Ot slov k delu,” *Vremia MN*, 29 May 2002.

Gazprom [...] the immediate objectives of the official energy dialogue today are only calling for energy efficiency projects in Arkhangelsk and Astrakhan regions, as well as a joint EU-Russia Technology Centre in Moscow or St. Petersburg. This is not the scale that was expected by Russian producers.<sup>115</sup>

The Russians were becoming fed up with what they perceived as Brussels' 'tricks'.<sup>116</sup> Yet, even in light of this, Russian popular sentiment towards the EU remained positive (86 per cent of respondents, according to one poll, with 35 per cent favouring full EU membership, 30 per cent in favour of an 'equal partnership' and 20 per cent listing energy as the most promising area of cooperation).<sup>117</sup> The Russian leadership had not given up either, including the man at the helm. In late 2002, Prodi claimed that Putin had even approached him about the possibility of Russia one day joining the EU. This followed a similar probe by Putin towards NATO's Secretary General about future Russian membership of the alliance.<sup>118</sup> Prodi's answer, which he recounted in an interview, was '[w]ell, yes, you are European, even if you are looking eastwards, but you are too big for the EU'.<sup>119</sup> Instead, Russia could receive a partnership agreement with the EU. But outside legal approximation, full membership of the European community was out of the question. For Russia, there were indeed limits to Europe.

## The EU15 Narratives (Redux)

The Russians did not only feel antagonised by the Commission in the Energy Dialogue. They felt resistance from certain member states, too. As Ivanov noted in December 2002, 'our energy dialogue has been delayed for two years just because some countries—EU members—have stated

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<sup>115</sup> Igor Yurgens, "Most istoricheskogo znacheniiia," *Vedomosti*, 11 November 2002.

<sup>116</sup> Ivanov, "Ne poddavaites' na ulovki Briusselia."

<sup>117</sup> VTsIOM, "Rossiiane ob otnosheniiakh s evropoi," ed. VTsIOM (2003).

<sup>118</sup> Zygare, Mikhail. 2016. *All the Kremlin's Men: Inside the Court of Vladimir Putin*. New York, NY: PublicAffairs, p. 110.

<sup>119</sup> Pierre Collignon, "Prodi: EU skal have en grænse," *Jyllands-Posten*, 26 November 2002.

that it is not needed'.<sup>120</sup> Officially, the intergovernmental bodies of the EU remained unequivocal in their support of the dialogue. The Council Presidency, together with Putin, Solana and Prodi, noted 'with satisfaction' that the Energy Dialogue 'had preserved its dynamism and its pragmatic approach'.<sup>121</sup> The European Parliament followed suit, describing the Energy Dialogue as 'a cornerstone' in EU–Russia relations.<sup>122</sup>

The problem was that several member states remained lukewarm towards the Energy Dialogue, and many were beginning to lose their patience. To them the Energy Dialogue was mostly a short-term experiment, a temporary deviation before things would get back to normal. At the European Council in Seville in June 2002, EU state leaders noted that a 'final, joint report' for the dialogue should be submitted by the end of the year.<sup>123</sup> The Energy Dialogue had confirmed the suspicions of those who considered it an unnecessary bureaucratic layer to what was, in their view, a well-functioning bilateral energy trade. The dialogue 'did not have a clear agenda', as one German official said, adding that 'nothing was happening'.<sup>124</sup> At the November 2002 energy Council, the member-state Energy Ministers stressed that the Energy Dialogue 'should [...] be seen as complementary to member states' bilateral relations with Russia in the energy field'. Yet again, the Council underlined the moribund ECT progress, stressing the latter's 'complementarity' with the Energy Dialogue. The Council demanded 'further coherence between these two processes, in providing for adequate consultation with member states and, where appropriate, with the Energy Charter Secretariat, thereby avoiding duplication of work'.<sup>125</sup> Similar signals were emanating from the domestic level. In his report on EU–Russia relations of December 2002, Jack Straw, the British Secretary of State for Foreign and Commonwealth Affairs, said that the Commission lacked coherence

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<sup>120</sup> Ivan Ivanov, "Khromaia sila," *Nezavisimaia gazeta*, 16 December 2002.

<sup>121</sup> EU–Russia Summit, "Joint Statement."

<sup>122</sup> European Parliament, "European Parliament Resolution on the EU–Russia Summit," ed. European Parliament (2002).

<sup>123</sup> European Council, "Relations with Russia," (Sevilla: European Council, 2002), 3.

<sup>124</sup> Author's interview with Klaus Kleinekorte.

<sup>125</sup> Council of the European Union, "2465th Council Meeting – Transport, Telecommunications and Energy," (Brussels: Council of the European Union, 2002), 14–16.

in its Russian policymaking. Straw encouraged the EU 'to use the Energy Dialogue to better effect, including by involving member states more in guiding the Dialogue'.<sup>126</sup>

## The Rearguard

Although many EU member states were lukewarm towards the Energy Dialogue itself, they remained very interested in dealing with Russia directly. This bilateralism was prevalent even during sessions of the Energy Dialogue. Side talks often took place during coffee breaks, where participants would engage in private conversation with the Russians.<sup>127</sup> In want of real investment through the multilateral Energy Dialogue, Putin had stepped up his efforts to consolidate new bilateral energy dialogues. At the centre of these efforts was Germany. The Russo-German dialogue, set up by Gerhard Schröder and Putin in September 2000, was growing steadily closer, to the point where the two leaders considered one another friends. Schröder and his wife would even adopt a Russian orphan girl.<sup>128</sup> To be sure, Germany was not the only special leadership cultivated by Putin within the EU. Putin forged similar ties with the Italians. During the launch of the Russo-Italian energy dialogue in November 2003, Putin described Italy as Russia's 'second partner after Germany'.<sup>129</sup> To the Russian leadership, personal relations were arguably more important than official ones. Italy's Prime Minister Silvio Berlusconi was a long-standing friend of Putin and Russia. In 2002, Berlusconi even advocated Russia's accession to the EU.<sup>130</sup> France, and later Britain, would also launch their own energy dialogues with Russia.

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<sup>126</sup> Straw, "EU-Russia Relations, 3rd Report, 17 December 2002, HL Paper 29."

<sup>127</sup> Author's interviews with Klaus Kleinekorte; EU National Official C [Phone, 24.09.12].

<sup>128</sup> Der Spiegel, "Moscow Mon Amour: Gerhard Schroeder's Dangerous Liaison," *Der Spiegel*, 1 December 2004.

<sup>129</sup> President of Russia, "Russian President Vladimir Putin and British Prime Minister Tony Blair Opened a Russian-British Energy Conference," (London: President of Russia, 2003).

<sup>130</sup> Agence France Presse, "EU Membership Is Next Step for Russia After NATO: Berlusconi," *Agence France Presse*, 26 May 2002.

## The Statist Narrative

But the Kremlin's relationship with the Russian energy sector was about to take a dramatic turn. Present at the unveiling of the UK–Russia Energy Dialogue in 2003 were several high-ranking Russian and British business officials, including Yukos boss Mikhail Khodorkovsky.<sup>131</sup> This could have suggested a greater participation by Russian private business in formats such as the Energy Dialogue, which itself was a major objective for the EU countries and the Commission. However, by 2004 Khodorkovsky had been jailed, Yukos abolished and its assets largely absorbed by Rosneft, the state-owned oil company. Shortly thereafter, the Russian government regained its majority stake in Gazprom. The liquidation of Yukos and the takeover of Gazprom was important for energy politics, as it marked the consolidation of the state's power over the Russian energy sector.

The Yukos case coincided with the onset of Putin's second term in power. This is when Putin really reasserted his 'vertical of power'. Meanwhile, Russia had grown tired of the Energy Dialogue, which had not delivered on its promises.<sup>132</sup> As a senior Russian MFA official commented in late 2004, 'the euphoria of the Russian side', and 'the hope that our country would be flooded with long-awaited investment', had proven 'somewhat premature':

After finishing the expert-analytical phase of the energy dialogue, things got harder and slower. In fact, in the last two years the dialogue got recalled just before the next EU-Russia summit. They prepared some reports, but then stopped working again. Moreover, the organisation of the dialogue, its powers and responsibilities, were not well delineated. There was not enough activity, and business representation was eventually eliminated from the energy dialogue, leaving it at the mercy of bureaucrats.<sup>133</sup>

The Russians were weary after countless meetings with politically important Commission officials, instead of landing business deals, which is what

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<sup>131</sup> President of Russia, "Russian President Vladimir Putin and British Prime Minister Tony Blair Opened a Russian-British Energy Conference."

<sup>132</sup> Author's interview with Stanislav Zhiznin.

<sup>133</sup> Nikolai Mironov, "Rossiia-ES: edinstvo i bor'ba," *Nef' Rossii*, 8 August 2004.



they originally wanted. Resentment was growing. As the first Russian coordinator of the Energy Dialogue, Alexei Mastepanov, later recalled:

[The Russian officials] had a feeling that the European Commission was an organ where they imported people who were not successful anywhere else. People who could not succeed anywhere else, that was the European Commission.<sup>134</sup>

Perhaps the most obvious illustration of the reduced importance of the Energy Dialogue in Russian eyes was Viktor Khristenko himself, who in the 2004 report was listed as Minister of Industry and Energy. He had been demoted, and the Energy Dialogue with him.<sup>135</sup> The reshuffling came right before the 2004 presidential elections, which Putin won by a controlled landslide. The most powerful remnant of the Yeltsin ‘family’, Prime Minister Mikhail Kasyanov, was fired. Khristenko briefly served as his interim, but was soon replaced by the *silovik* Mikhail Fradkov, who since 2003 had served as Russia’s Ambassador to the EU (Fradkov would later become the head of Russia’s foreign intelligence agency, the SVR). Upon assuming the presidency in 2000, Putin had pledged not to interfere with government activity, instead issuing his instructions via Kasyanov.<sup>136</sup> But from 2004 onwards Putin’s approach would become more hands on. This was exemplified by renewed state authority over the energy sector, epitomised by the Yukos trial, but also comprehensive political reforms, including the abolishment of gubernatorial elections, which were henceforth to be made by appointment by the President. Putin was closing ranks. Throughout his first presidency, he had replaced officials with his own people, many of which were drawn from his former colleagues in St. Petersburg. Putin also greatly increased the share of former security service officials, or *siloviki*, in both government and business.<sup>137</sup>

And Putin’s state-directed modernisation was seemingly paying off—albeit with the firm help of rising oil prices, which by the end of 2004

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<sup>134</sup> Author’s interview with Alexei Mastepanov.

<sup>135</sup> Author’s interviews with Stanislav Zhiznin; Christian Cleutinx.

<sup>136</sup> Author’s interview with Vladimir Milov.

<sup>137</sup> Illarionov, “The Siloviki in Charge.”

were approaching 50 dollars per barrel (Fig. 3.1). The Russian economy was booming. Real GDP growth had averaged by 6 per cent per year since 1998.<sup>138</sup> In Russian eyes state-led modernisation had proven equal to, if not better than, privatisation and multilateral partnerships. This also included energy security, which should remain a prerogative of the state.<sup>139</sup> Conversely, the Russians were regularly deriding the ‘weak’ Prodi Commission, which could not even muster a working consensus from its constituent member states. Ivan Ivanov, the former Deputy Foreign Minister involved in the Energy Dialogue since the beginning, had long since lost interest in the dialogue. He had grown tired of what he considered the EU’s ‘unreasonable demands’ towards Russia.<sup>140</sup> Ivanov was joined by other long-standing Russian participants in the dialogue, who had begun skipping meetings.<sup>141</sup> Consequently, setting up Energy Dialogue meetings with the Russians was becoming more difficult for the Commission.<sup>142</sup>

The transition from 2003 to 2004 marked an overall turning point for the Energy Dialogue, as was indeed acknowledged by interlocutors on both sides.<sup>143</sup> In the November 2003 report the interlocutors struck an optimistic note, stating that ‘[t]he time has come to reflect upon the establishment of an institutionalised relationship between Russia and the EU in the field of energy, which would pave the way for the creation of a real Energy Community’.<sup>144</sup> Shortly before this Lamoureux had said that the goal of the Energy Dialogue was to create a ‘unified Europe’.<sup>145</sup> But it was a ‘swan song’, as one Commission official would later admit.<sup>146</sup>

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<sup>138</sup> OECD, *Russian Federation, Progress and Reform Challenges* (Paris: OECD, 2004), 11.

<sup>139</sup> Nikolai Mironov, *Mezhdunarodnaia energeticheskaia bezopasnost’* (Moscow: Russian Ministry of Foreign Affairs, 2003), 11.

<sup>140</sup> Ivan D. Ivanov, “E dnyi vnutrennii rynok es: svet, teni, istoricheskaia perspektiva,” *Sovremennaia Evropa*, no. 2 (2004): 27.

<sup>141</sup> Author’s interview with Stanislav Zhiznin.

<sup>142</sup> Author’s interview with Christian Cleutin.

<sup>143</sup> Author’s interviews with Stanislav Zhiznin; EU Official A.

<sup>144</sup> EU-Russia Energy Dialogue, “Fourth Progress Report,” (Moscow/Brussels: EU-Russia Energy Dialogue, 2003), 6.

<sup>145</sup> RIA Novosti, “Russian-EU Energy Dialogue to Aim at Creating United Europe.”

<sup>146</sup> Author’s interview with Christian Cleutin.

In the November 2004 report the tone was more sombre, with no mention of such an ‘Energy Community’.<sup>147</sup>

## The EU25 Narratives

The Khodorkovsky case was highly controversial, for reasons I will return to in the next chapter. Putin’s Italian *consigliere*, Silvio Berlusconi, defended the President and Russia’s actions in the Khodorkovsky trial against what he claimed were ‘myths and distortions’ among Western commentators.<sup>148</sup> Gerhard Schröder followed suit, describing Putin as a ‘flawless democrat’.<sup>149</sup> Such praise was hardly surprising coming from either Berlusconi or Schröder. Meanwhile, there was growing skepticism towards Russia and the Putin regime within the EU. The main reason for this was of course the EU’s expansion to 25 member states, most of which were former Communist countries.

There were also changing attitudes towards the Energy Dialogue. Among the ‘old’ members, both the Netherlands and the UK changed their tactics. These were the two countries that had voiced the strongest opposition to the dialogue upon its launch in October 2000. Yet in 2003–2005 a crucial thing happened in both the Netherlands and the UK, as both countries were realising that they would soon become net importers of energy. Dutch gas production was declining, and it was not long before the Dutch would need to look outside its borders to cover their demand for energy. In addition to this, Laurens Jan Brinkhorst, a former MEP and professor of European law, was named Dutch Minister of Economy (he was promoted to Deputy Prime Minister in 2005). Brinkhorst was a firm believer in—and expert on—the labyrinthine rules of the internal market. To him, the future energy security of the Netherlands would be best ensured through the EU, not outside it as before. Upon assuming office, Brinkhorst began the full implementa-

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<sup>147</sup> EU-Russia Energy Dialogue, “Fifth Progress Report,” (Moscow/Brussels: EU-Russia Energy Dialogue, 2004).

<sup>148</sup> BBC, “Berlusconi Breaks EU Ranks on Russia,” *BBC*, 6 November 2003.

<sup>149</sup> Der Spiegel, “Moscow Mon Amour: Gerhard Schroeder’s Dangerous Liaison.”

tion of the second set of gas and electricity directives, which were introduced in 2003. He was indeed moving ahead of the pack. The final deadline for implementation was 2007, and many member states had not even begun to transpose the directives into national law. Suddenly the Netherlands had moved from the rearguard to the avant-garde of implementation of the directives—to the consternation of the Russians, who were wary of any attempts at furthering the consolidation of the EU's internal energy market. Meanwhile, questions were raised inside the Netherlands of why it had to go further than the rest of the EU, in a way that was perceived as detrimental to Dutch energy companies.<sup>150</sup> During the Dutch Presidency of the Council in the second half of 2004, the government, spearheaded by Brinkhorst, declared its intention to intensify the Energy Dialogue with Russia (but, of course, also intensifying its bilateral dialogue with Moscow).<sup>151</sup> Hence, the Energy Dialogue was restructured. More on this later.

### Britain's 'U-Turn' and the Departure of Lamoureux

The Energy Dialogue was by 2004 an empty shell, without a clear direction, narrative or sense of leadership.<sup>152</sup> The UK had been one of the firmest opponents of the Energy Dialogue, and cultivated its own bilateral channels to Russia. But in 2005, Downing Street would perform a dramatic about-face. Just like the Netherlands, the UK had come to the recognition that its domestic hydrocarbon reserves were running out, and that Britain would soon become a net importer of energy. And just like the Dutch, the British were increasingly looking to the EU for solutions to their energy woes.

In mid-2005, the UK took over the presidency of the Council. Prime Minister Tony Blair had commissioned an expert paper to be presented at the informal European Council at Hampton Court on 27 October. The

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<sup>150</sup> Author's interviews with EU National Official A; Dutch Industry Official.

<sup>151</sup> Laurens Jan Brinkhorst, "Brief van der minister van economische zaken," (Den Haag: Tweede Kamer der Staten-Generaal, 2004), 9.

<sup>152</sup> Author's interviews with Christian Cleutinix; Klaus Kleinekorte; Stanislav Zhiznin; Dutch Industry Official; EU Official A.

conclusion of the paper, adopted by Blair, was that there were some areas where Europe was doing too much, whereas there were other areas where Europe was not doing enough, like energy.<sup>153</sup> Blair stated that it was ‘important too that energy policy is something that we work on together as a European Union, given the fact that according to the European Commission, over the next few years we will start to import round about 90 per cent of our oil and gas needs in Europe’.<sup>154</sup> This was indeed a remarkable statement from a British state leader. In one sense this was an easy statement to make, as the UK had already liberalised its gas and electricity markets. What Blair was suggesting was that Brussels follow London’s lead and do what the UK had in fact been doing for decades.

In another sense, however, Blair’s statement reflected a dawning recognition that the EU needed to pull together—to speak with one voice, as it were—in order to ensure its energy security. For Blair, the best way to do so would be to steer the EU’s energy policy more towards British practices. And in making this case the UK enjoyed support from the Dutch, and increasingly the Spanish, Belgians and Danes. The initiative at Hampton Court, together with the Ukraine crisis of 2006, would also pave the way for the EU’s new Green Paper on energy security, as I will show in Chap. 6.

By the time of the Hampton Court meeting, the British ‘U-turn’ had already had direct consequences for the EU–Russia Energy Dialogue. Malcolm Wicks, the British Secretary of State for Trade and Industry, had made clear the UK’s desire to ‘reinvigorate the EU–Russia Energy Dialogue’ and the ECT.<sup>155</sup> On 4 October at the EU–Russia Summit in London, the parties agreed to establish a new specialised Permanent Partnership Council (PPC) for energy under the PCA.<sup>156</sup> The first PPC meeting was held already at the eve of the summit. With the introduction

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<sup>153</sup>Dieter Helm, “European Energy Policy: Securing Supplies and Meeting the Challenge of Climate Change,” 25 October (2005).

<sup>154</sup>Tony Blair, “EU Informal Summit: UK Prime Minister Tony Blair Emphasises the Need for a Common European Energy Grid,” (Hampton Court: European Council, 2005).

<sup>155</sup>Malcolm Wicks, “House of Commons Hansard Written Answers for 13 Jun 2005 (pt 21),” (London: House of Commons, 2005).

<sup>156</sup>EU–Russia Summit, “16th EU–Russia Summit,” (London: Council of the European Union, 2005).

of the PPC on energy, the EU–Russia Energy Dialogue was effectively put under the administration of the Council.<sup>157</sup> The PPC included the new Energy Commissioner, the Latvian Andris Piebalgs, and Khristenko, in addition to the Energy Ministers from the two EU nations holding the current and upcoming presidency of the Council.

## Exit Lamoureux

But one person was missing: François Lamoureux, whose rank as DG was too low to be included in the PPC. Lamoureux was now on his way out of the Commission. Romano Prodi had stepped down as President of the Commission in 2004. He was replaced by José Manuel Barroso, the former Prime Minister of Portugal, whose ties to the Brits, and Tony Blair, were well known and publicly stated.<sup>158</sup> Blair had publicly supported Barroso, instead of the opposition candidate, Guy Verhofstadt, the Dutch Premier, to the chagrin of Gerhard Schröder and Jacques Chirac.<sup>159</sup> Barroso allegedly disliked Lamoureux, who was considered a relic of the Franco-dominated Delors and Santer commissions.<sup>160</sup> I have not had the chance to confirm this with Barroso himself. However, his platform for the Commission presidency was based on simplifying the Byzantine *acquis*.<sup>161</sup> His ‘bonfire of the directives’ policy was starkly at odds with that of Lamoureux, who seemingly cherished his and DG TREN’s ability to produce legal paperwork.<sup>162</sup>

Lamoureux’ departure did not come as a shock. Rumours of his exit had surfaced already in August: Lamoureux departure would be ‘a coup for London’, one UK official told the Financial Times (FT) at the time, with another official saying that the UK’s ‘top priority’ in the EU

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<sup>157</sup> Author’s interview with EU Official A.

<sup>158</sup> Peter Mandelson, *The Third Man* (London: Harper Press, 2011), 393.

<sup>159</sup> Blair, *A Journey*, 537.

<sup>160</sup> Author’s interview with EU Official B.

<sup>161</sup> The Economist, “Charlemagne: Whipping the Commission into Shape,” *The Economist*, 17 November 2005.

<sup>162</sup> Directorate General of Energy and Transport, “Repertoire of the Acquis Communautaire,” (Brussels: European Commission, 2004).

was to ‘screw Lamoureux’.<sup>163</sup> In November Barroso’s new Commission was confirmed—sans Lamoureux. The British were pleased. The new Commission line-up was ‘a British dream’, according to the FT, who quoted British officials who described Lamoureux as ‘among the most dangerous people in Brussels’.<sup>164</sup> Part of the reason for his notoriety was ‘Penelope’, Prodi’s unofficial draft for a new EU constitution, written by Lamoureux. After Barroso’s new Commission was announced, Britain’s Daily Telegraph happily noted that ‘Thatcherites’ were gaining ground in Brussels, and that ‘[r]eformers are to take charge of energy, transport and trade, while ageing symbols of the old *dirigiste* era have been shunted aside’.<sup>165</sup> Conversely, the conservative French Newspaper *Le Figaro* stated that ‘this vast reshuffle shows how far France has lost influence in Brussels, and how far the Anglo-Saxons and liberals have gained in power’.<sup>166</sup> While Lamoureux’ departure from the Commission was expected by some, Lamoureux himself was befuddled by his sudden departure, according to Pascal Lamy, the French former Commissioner of Trade, who had since left the Commission to assume the position as the DG of the WTO.<sup>167</sup> Lamy’s replacement was the British Labour politician Peter Mandelsohn (fittingly, the UK had also assumed the leadership of the reformed thematic group on trade, to be covered in the next chapter).

Lamoureux would never return to the Commission. Barely a year after his departure, Lamoureux died of cancer. In his eulogy Lamy described Lamoureux as ‘one of the builders of the European Union’. He had attempted to establish ‘a true European energy policy’. But he had ‘sought in vain to convince the Commission and the member states’. Thus, ‘With François Lamoureux, the European Union has lost one of its most determined builders’, wrote the newly coined WTO boss.<sup>168</sup> Lamoureux was not well known to the outside world, but was familiar, even infamous,

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<sup>163</sup> Financial Times, “Brussels Shuffles the Eurocrat Pack,” *Financial Times*, 11 August 2005.

<sup>164</sup> George Parker, “Inside Brussels: Right Turn Ahead,” *ibid.*, 10 November.

<sup>165</sup> Daily Telegraph, “Thatcherites Gaining Ground in Brussels Ageing Francophiles Are Being Purged as the EU Tries to Get Back to Basics,” *Daily Telegraph*, 10 November 2005.

<sup>166</sup> *Le Figaro*, “Les Français perdent des postes clés à Bruxelles,” *Le Figaro*, 9 November 2005.

<sup>167</sup> Lamy, “Homme aux convictions profondes il fut l’un des bâtisseurs de l’Union européenne.”

<sup>168</sup> *Ibid.*

inside Brussels. As Jean Quatremer, the Brussels correspondent for *Libération*, noted in his obituary to Lamoureux, ‘you do not know, but a page in the history of the European Union has turned’.<sup>169</sup> And a page had turned, if nothing but for the Energy Dialogue, which from January 2006 would be led by Andris Piebalgs. Piebalgs was an experienced civil servant and was fluent in Russian. However, awarding the coleadership of the Energy Dialogue to a Latvian was a risky move *vis-à-vis* the resurgent Russian juggernaut.<sup>170</sup> The departure of Lamoureux and the entry of Piebalgs mark the transition from neofunctionalist, federal idealism to hard geopolitics in an expanded EU. It also consolidated the changed agenda of the Energy Dialogue from oil to natural gas, as I will show in the chapter on geoeconomics, when Russia’s Post-Imperial narrative came head to head with the EU’s European narrative. On the EU side, ‘Lamoureux was the Energy Dialogue’, as one EU official told me.<sup>171</sup> The Energy Dialogue would continue, albeit with a new leadership, a different agenda, and in a completely different political climate.

## Conclusions

In May 2002, Loyola del Palacio described the Energy Dialogue as ‘a symbol of EU-Russia cooperation’.<sup>172</sup> And the Energy Dialogue did indeed reflect the changing nature of EU’s relationship with Russia, although perhaps not for the reasons del Palacio was suggesting. In this chapter I have applied my ideal typical framework of narratives, drawing on Bakhtin’s concept of dialogue, in order to explain the political problems which faced the Energy Dialogue in its first years. During this time, the dialogue slowly slipped under the radar, inside both Russia and the EU. On the EU side, neither the member states nor the Commission could agree on what the Energy Dialogue was supposed to become, or who was going

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<sup>169</sup> Jean Quatremer, “Mort d’un Européen,” *Coulisses de Bruxelles*, 27 August 2006.

<sup>170</sup> Author’s interviews with EU Industry Official A; EU Official A.

<sup>171</sup> Author’s interview with EU Official B.

<sup>172</sup> Loyola de Palacio del Valle-Lersundi, “Shaping Russian-European Integration in the 21st Century, Speech to the European Business Club conference,” (Brussels: European Commission, 2002), 2.



to take charge. In the previous chapter I discussed Bakhtin's distinction between externally authoritative and internally persuasive narratives. The EU had neither, at least not in energy diplomacy. By the end of 2005, therefore, bilateralism had trumped multilateralism, as the founder of the Energy Dialogue was fired and the dialogue was put under administration by the intergovernmental Council. The EU was far from unified in its approach to the Energy Dialogue. In the words of Bakhtin, it was rather a myriad of competing subjectivities within the space of an imagined political community.<sup>173</sup>

Russia, meanwhile, continued to struggle to form a coherent narrative for its participation in the Energy Dialogue. At first, the only thing the Russians could really agree upon was the need for investment. Factional and interministerial conflict meant that it was not always clear who was in charge of the Energy Dialogue. Vladimir Putin himself remained committed to closer integration with the EU, and put liberals in charge of economic policy. But as oil prices continued to rise, the need for investment became less acute. Putin's second term political reforms would slowly reassert the central authority of the Kremlin. By the time the government had restored control over the Russian energy sector, it was no longer interested in the Energy Dialogue, which to Russian officials had devolved into a bureaucratic sideshow. One reason for this was the limited presence of business, which is the subject of the next chapter. Although Moscow would continue to struggle with its internal heterologue, Russia was nonetheless a unitary state, whose central political narrative was externally authoritative—albeit increasingly authoritarian—compared with the pluralistic EU.

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<sup>173</sup> Benedict Anderson, *Imagined Communities: Reflections on the Origin and Spread of Nationalism* (London: Verso, 2006).

# 4

## The Business Dialogue (2003–2006)

Bakhtin's ideal was polyphonic, which basically means narratives 'with equal rights and each with its own world'.<sup>1</sup> In 2006, the co-chairs of the Energy Dialogue's thematic group on investments declared that the '[t]he prospective model of the Russia-EU energy partnership should be based on a wider participation of European capital and companies in the development and the modernization of Russia's energy sector'.<sup>2</sup> But it was a statement of intent rather than an affirmation of actual reality. In fact, private business participation was severely limited in the Energy Dialogue, on both sides of the table. In Bakhtinian terms, business was denied true authorship of the dialogue's envisaged energy partnership. In the introduction to the previous chapter I described politics as the governance of subjectivities. Indeed, authorship and authority are closely related. To Bakhtin, authorship was a form of power, which when used well resulted in art, but when used badly resulted in totalitarianism, or monologue.<sup>3</sup> To be sure, neither the EU nor Russia was totalitarian in any way. Bakhtin also denied that real

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<sup>1</sup> Bakhtin, *Problems of Dostoevsky's Poetics*, 6.

<sup>2</sup> EU-Russia Energy Dialogue, "Thematic Group on Investments," (Moscow/Brussels: EU-Russia Energy Dialogue, 2006), 12–3.

<sup>3</sup> Holquist, *Dialogism: Bakhtin and His World*, 33–5.

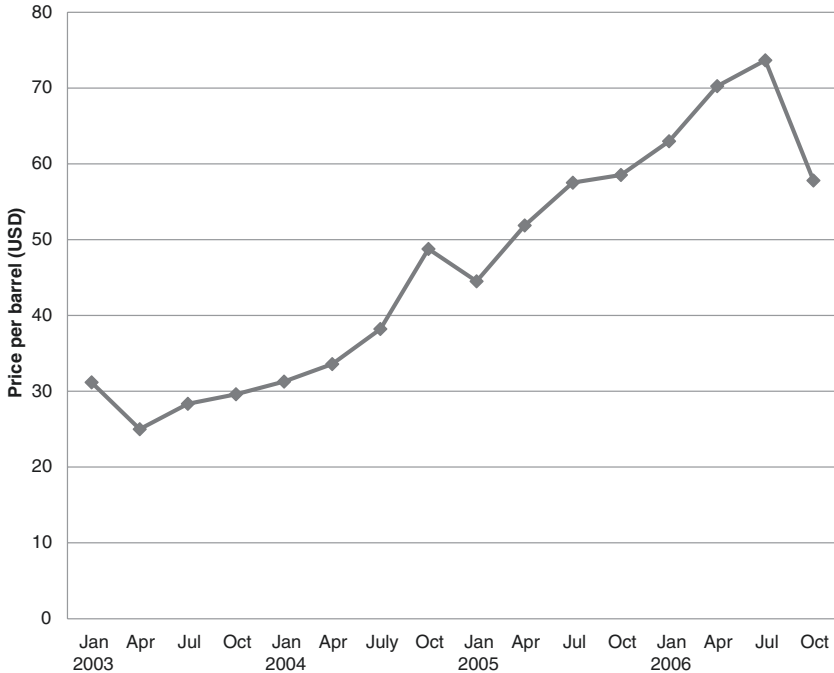
monologue was possible, given the fact that narrative discourse is by definition dialogic (one cannot remove context). Similarly, complete polyphony is equally impossible to achieve. For Bakhtin polyphony was an ideal, rather than a reality. But just as it is possible to impose pluralism through centrifugal (untying) processes, it is equally conceivable to move centripetal (tying) forces to the point where the narratives of certain interest groups are severely curtailed.<sup>4</sup> This is what happened to the voices of EU and Russian business in the Energy Dialogue, albeit for very different reasons.

In this chapter, which covers the intermediary years of the Energy Dialogue, I will deal with the voice of business—or rather the lack thereof. The chapter will begin with the European narrative, and the Commission's decision to restrict business participation in the Energy Dialogue, and hence its inability to provide Russia with any meaningful investment. Second, I turn to the Euro-Asian narratives and Russia's early efforts to attract business from the EU states, including work on a revised PSA act. Oligarchs were undermining Putin's efforts to pass the new PSA regime, which many felt was biased against Russian business interests. Therefore, third, I will return to Russia's Dual State narrative, and the Byzantine complexities of Russian state–business relations.

Meanwhile, the Kremlin was growing increasingly impatient with the Energy Dialogue, which the Russians felt had succumbed to bureaucratic procrastination. This sentiment was shared by much of the EU's energy industry, which were demanding more access to the Energy Dialogue (the EU25 narratives). But even after the Energy Dialogue was restructured in 2004, industry was still limited to mere participation through industry associations. And after the arrest of Mikhail Khodorkovsky and the breakup of Yukos, foreign investors in Russia faced a completely different business climate. Putin's Statist narrative had prevailed, and the Kremlin reasserted its control over the Russian oil and gas sectors. But besides political ambition, there was a certain rationale behind Putin's drive for state control, leading me back to Russia's Post-Imperial narrative, where I will show how the imperatives of the command economy remained physically present in the very structure of the Russian energy sector, and in relations with its near abroad.

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<sup>4</sup> Matt Tomlinson, *Ritual Textuality: Pattern and Motion in Performance* (Oxford: Oxford University Press, 2014), 93.



**Fig. 4.1** Average World Oil Prices, January 2003–October 2006 (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

## EUropean Narrative

One of the main objectives of the Energy Dialogue was to facilitate investments and technology transfer.<sup>5</sup> Already in their first meeting, Lamoureux and Khristenko underlined the importance of industrial participation in the dialogue. The EU was looking for ‘equal access to European companies’ in Russia, which in return would receive non-discriminatory access to the EU market.<sup>6</sup> But to the Commission, equal access also extended to who should be allowed to participate in the Energy Dialogue itself.

<sup>5</sup>European Commission, “Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission—the EU-Russia Energy Dialogue,” 2.

<sup>6</sup>EU-Russia Energy Dialogue, “Summary of the Preliminary Meeting on the EU-Russia Energy Dialogue between MM Khristenko and Lamoureux,” 2.

The sheer number of companies operating within the EU made selecting which company to invite difficult. Thus, during the first four years of the Energy Dialogue, industry was not invited to join. The companies that were present were there only by invitation from the member states, who were allotted one seat each in the original four thematic groups. For many of the EU member governments, including the UK and the Netherlands, it was convenient to send hired consultants rather than ministry officials. Rather than independent negotiators, the industry representatives were sent as delegates of their host governments. As the EU coordinator of the dialogue remarked, ‘they were official representatives, but not necessarily civil servants’.<sup>7</sup> Industry was not provided an independent voice in the Energy Dialogue, meaning that the EU’s narrative for the Energy Dialogue would become predominantly political. This might have been a good move, had the Commission’s business narrative been more authoritative. But the EU’s major energy companies were strong, autonomous players. It was the Commission’s narrative that was weak.

## Limited Funds

The exclusion of business from the Energy Dialogue was strange, given the dialogue’s limited ability to provide investment. According to the Commission’s estimates, which in turn were based on the Russian Ministry of Energy’s own calculations, the Russian energy sector alone needed 670 billion dollars, or 530 billion euro, in investment. This investment would have to come from industry, as the Commission’s own funds were almost non-existent.<sup>8</sup> The entire EU budget amounted to little more than 100 billion euro. DG TREN’s funds were scarcely enough to cover the modest operating costs of the Energy Dialogue itself. Outside of the DG TREN’s own internal budget—which was already tied up in other activities—the DG had no exclusive funds for the Energy Dialogue. Staff and resources had to be drawn from DG TREN’s other assignments. This was made possible due to François Lamoureux’ considerable influence, autonomy

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<sup>7</sup> Author’s interview with Christian Cleutinx.

<sup>8</sup> Author’s interview with Christian Cleutinx.

and personal interest in the Energy Dialogue, and his staff's firm dedication to the venture. 'The Energy Dialogue never had one penny,' as one official in Lamoureux' staff recalled: 'Basically, we were meeting in our free time, during the evening and in weekends'.<sup>9</sup> In practice, the DG TREN officials were moonlighting as Energy Dialogue administrators. This in itself was quite stunning, given that the Commission's counterpart was the Russian Deputy Prime Minister and four Russian ministries.

There were some Community funds up for grabs, the main of which was the TACIS programme, although here, too, the money was limited. Between 1991 and 2006 a total of 7.3 billion euro were allocated to TACIS.<sup>10</sup> Again, this was wide off the mark of the 530 billion euro Russia said it needed. And TACIS was not confined to Russia, nor was it limited to energy. TACIS was focused on achieving political results, so as 'to promote the transition to a market economy and to reinforce democracy and the rule of law' in the receiving states.<sup>11</sup> This could include energy, to the extent that the relevant projects fulfilled these general objectives. But the results of the extant TACIS projects were mixed. There were incidents of alleged embezzlement of TACIS funds in the late 1990s, including a nuclear safety project in the former Soviet Union. The man in charge of the project was none other than Lamoureux, who at that time was working at DG Enlargement. Lamoureux was responsible for another project in Central and Eastern Europe under the so-called Phare (Poland and Hungary: Assistance for Restructuring their Economies) programme, which was directed towards pre-accession countries to the EU. The project was criticised by the European Court of Auditors for its excessive use of external consultants.<sup>12</sup> I am not in the position to make an assessment of this case, and no charges were brought against Lamoureux himself, but the issue contributed to the collective resignation of the Commission of

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<sup>9</sup> Author's interview with Christian Cleutinx.

<sup>10</sup> European Union, "Council Regulation (EC, Euratom) No 99/2000 of 29 December 1999," 2.

<sup>11</sup> *Ibid.*

<sup>12</sup> Frankfurter Allgemeine Zeitung, "Korruptionsaffären der Kommission"; Simon J. Nuttall, *European Foreign Policy* (New York: Oxford University Press, 2000), 81–2; Roger Levy, *Implementing European Union Policy* (Cheltenham: Edward Elgar, 2000), 155–60.

President Jacques Santer.<sup>13</sup> Despite good intentions, the results of TACIS were limited. The project remained mired in low implementation, management problems and lack of transparency.<sup>14</sup>

The Energy Dialogue did secure some minor funds from TACIS. These projects included a joint evaluation of the rehabilitation of energy transport networks (10 million euro).<sup>15</sup> The total cost of the report ‘Gas and Oil Transport Network observation system and modernisation plans’ was 3 million euro, and was published in 2004.<sup>16</sup> In addition to this was a project for the rehabilitation of small-scale hydro power plans, as well as three pilot projects for energy efficiency in the Russian regions of Arkhangelsk, Astrakhan and Kaliningrad. The pilot projects were not actual implementations of measures ensuring more efficient use of energy, but rather assessments of energy savings potential.<sup>17</sup> By 2007, TACIS had been phased out and was replaced by the European Neighbourhood and Partnership Instrument (ENPI). For 2007–2013, the total budget of the ENPI was 11.3 billion euro. However, the main focus of the ENPI was to implement the EU’s European Neighbourhood Policy—a programme spanning from Morocco to Palestine to Kazakhstan—of which Russia was not a part. And like TACIS, ENPI was focused on institutional and political reforms, including the promotion of democracy human rights.<sup>18</sup> Khristenko himself was firmly against the European Neighbourhood Policy, which to him was another example of the EU’s legal expansionism.<sup>19</sup> Unlike TACIS, neither Russia nor the Energy Dialogue would draw funds from ENPI.

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<sup>13</sup> European Parliament, “Budgetary Control: 1996 Discharge Raises Issue of Confidence in the Commission,” (Brussels: European Parliament, 1999).

<sup>14</sup> Képa Sodupe and Eduardo Benito, “The Evolution of the European Union’s TACIS Programme, 1991–96,” *Journal of Communist Studies and Transition Politics* 14, no. 4 (1998). SORGEM, “Assessment of the Efficiency of PHARE and TACIS Nuclear Safety Activities – ref. 951556,” (Brussels: European Commission, 2000); European Commission, “TACIS Interim Evaluation, Synthesis Report,” (Brussels: European Commission, 1997).

<sup>15</sup> EU-Russia Energy Dialogue, “Third Progress Report,” (Brussels/Moscow: EU-Russia Energy Dialogue, 2002), 3.

<sup>16</sup> “Fifth Progress Report,” 6.

<sup>17</sup> Author’s interview with Christian Cleutin.

<sup>18</sup> European Parliament and European Council, “Regulation (EC) No 1638/2006 of the European Parliament and of the Council of 24 October 2006,” in *Official Journal of the European Union* (2006).

<sup>19</sup> Author’s interview with EU Official B.

## Facilitating Investment

For this reason, the Commission's self-appointed role in the Energy Dialogue would be limited to legal reform and providing a venue for the hand-picked business actors to convene with their Russian counterparts. As Prodi, de Palacio and Patten made clear in 2001:

The Commission mainly acts as a facilitator to improve investment opportunities in Russia's energy sector [...] [The Energy Dialogue] is not designed, as some Russian or European actors originally sought, to contract energy supplies to the Community under long term agreements at attractive prices.<sup>20</sup>

The Commission would promote institutional changes, assuming that investment would follow. For this it listed two prerequisites: First, completion of the regulatory framework for PSAs, with the intention to make investing in Russia a more attractive prospect for EU energy companies (more on PSAs below). Secondly, Russia had to ensure third-party access to reliable infrastructure. This included Russian ratification of the ECT—a not too easy prospect, as I will show below and in Chap. 6 on the 'Legal Dialogue'. Further measures included setting up a 'one stop shop' for investors looking to invest in the Russian energy sector.<sup>21</sup> Once again, the order of preference was institutions first, then investment. The problem was that for the Russians, the order of preference went the other way around.

## Russia's Euro-Asian Narratives

In the early years of the 2000s, Russia was open for business.<sup>22</sup> The official Russian narrative remained set on integration with the West, albeit with a focus on investment rather than legal approximation. To facilitate investment, the Russians set up direct channels for the Europeans into the highest echelons of decision-making power. From 2001, Khristenko

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<sup>20</sup> European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission – the EU-Russia Energy Dialogue," 4.

<sup>21</sup> Ibid.

<sup>22</sup> EU-Russia Summit, "Joint Statement."



held monthly meetings with European business representatives. As the then chairman of the European Business Club in Russia recalled: ‘It was very exceptional. I don’t think any European foreign association had any kind of possibility like this. Not because we were so clever, but because this was top priority for the Russians’.<sup>23</sup> The chairman was also member of the Energy Dialogue’s first thematic group on investments, representing Finland. Europe was the only market for Gazprom, ‘so naturally it was a priority’, he recalled.<sup>24</sup>

## Production Sharing Agreements

For the Russians, the litmus test for a successful energy dialogue and energy partnership was increased business investment. But the European companies were hesitant. Russia was considered an unsafe prospect by many of the EU business participants in the dialogue.<sup>25</sup> ‘To be quite honest, everybody knew around the table from the sector analysis from the middle of the 90s that it would be too risky to go for investments in Russia’, according to a senior German business official.<sup>26</sup> Investors were apprehensive about getting involved in Russia, and were looking for better legal conditions. At the time, the Kremlin repeatedly acknowledged the difficulties of doing business in Russia. And they were willing to take several steps to address the concerns of EU business actors. The main immediate concession was to revise and improve the framework for PSAs, which were common in many non-OECD countries, where legal institutions were still underdeveloped. As the EU Commission had commented, ‘this type of contract can protect investors—throughout the lifetime of a project—against changes in the fiscal and legislative environment’.<sup>27</sup> The Commission made clear that ‘without PSAs, certain

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<sup>23</sup> Author’s interview with Seppo Remes, former co-chair of the European Business Club, and former Finnish delegate to the Thematic Group on Investments [Phone, 11.10.12].

<sup>24</sup> Author’s interview with Seppo Remes.

<sup>25</sup> Author’s interviews with Klaus Kleinekorte; Seppo Remes.

<sup>26</sup> Author’s interview with Klaus Kleinekorte.

<sup>27</sup> European Commission, “The Question of PSAs in Russia: Background Memo,” (Brussels: European Commission, 2001).

projects will not happen'.<sup>28</sup> The basic idea of PSAs was based on sharing of production between the host state and the production company. These types of agreements usually ran in two stages. First, production profits were channelled back to the investing company as so-called cost oil, based on a pre-determined level of cost recovery. This was to make sure that the investor would recover some or all of the initial costs of the project. Second, once investment costs were recuperated, revenues were distributed from 'profit oil', which was split between the investor and the owner of the field, again according to a pre-determined percentage.<sup>29</sup>

The terms of these PSAs normally reflected the relative bargaining power of the parties. Given the political and financial weakness of the Russian government during the 1990s, the existing PSAs in Russia had been negotiated predominantly to the advantage of the Western companies. Because of this, PSAs were deeply controversial in Russian business circles. And after the original PSA regime was launched in 1993 by Yeltsin under presidential decree, Russia only signed three such agreements: With French Total to develop the Kharyaga field (later to be joined by Norwegian Statoil), with American ExxonMobil to develop Sakhalin-1 and finally with the Anglo-Dutch conglomerate Royal Dutch Shell, which teamed up with Japanese companies Mitsumi and Mitsubishi to develop Sakhalin-2. The latter agreement was supposedly concluded on the 'best PSA terms that you will ever get in Russia', according to the CEO of the Sakhalin Investment Company, which directed the project.<sup>30</sup> Together, these projects were the biggest foreign investment projects in modern Russian history.

Before the launch of the Energy Dialogue, the Kremlin was prepared to enter as many as 25 new PSAs with foreign companies. In 1999, the Russian PSA act underwent comprehensive revision. First, the act was given legal precedence over other conflicting legal doctrines. Second, current export restrictions imposed on investors were prohibited.<sup>31</sup> The PSA revision was widely reported in the Energy Dialogue's early progress reports.

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<sup>28</sup> "Energy Dialogue with Russia—Update on Progress," 7.

<sup>29</sup> "The Question of PSAs in Russia: Background Memo."

<sup>30</sup> Timothy Fenton Krysiek, "Agreements from Another Era: Production Sharing Agreements in Putin's Russia, 2000–2007," *Geopolitics of Energy* 29, no. 7 (2007): 1.

<sup>31</sup> European Commission, "The Question of PSAs in Russia: Background Memo."

For the Commission it was a prerequisite for investment. However, several Energy Dialogue officials I spoke to claimed that PSAs were simply put on the agenda for cosmetic purposes, and it was a political initiative intended to keep discussion running, rather than a potential channel of business.<sup>32</sup> As noted by a senior Eurogas and RWE official, ‘nobody around the table were eager to go for these kind of projects, at least not the industry’.<sup>33</sup> In this view, PSAs reflected the comparative dominance of bureaucrats over business in the deliberations of the Energy Dialogue.

## The Dual State Narrative

Nonetheless, the PSA framework remained on both Putin and the Energy Dialogue’s agendas. After becoming President, Putin repeatedly stated his determination to resolve the revision of the PSA regime. In September 2000, Putin personally attended the PSA conference in Yuzhno-Sakhalinsk, where he hailed PSAs as a ‘key part of our investment policy’.<sup>34</sup> Originally, it was the Ministry of Energy which was responsible for the PSA act. But progress was hampered due to the deeply unstable situation in the ministry, which was afflicted by warring private interests. Needless to say, this did not make for a stable working environment for the many energy ministry officials who were involved in the Energy Dialogue.<sup>35</sup>

The Prime Minister themselves were mostly anodyne bureaucrats with limited influence.<sup>36</sup> At the same time they were useful observers of the inner workings of the Russian bureaucracy. This rendered the post of Minister a coveted prize for competing business groups. Alexander Gavrin, who was the Minister of Energy when the Energy Dialogue was

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<sup>32</sup> Author’s interviews with Klaus Kleinekorte; Seppo Remes; Russian Official C; Dutch Industry Official.

<sup>33</sup> Author’s interview with Klaus Kleinekorte.

<sup>34</sup> Putin, “Excerpts from an Address to the International Conference PSA-2000.”; Interfax, “EC Member States Russia Could Play Key Role in European Energy.”

<sup>35</sup> Author’s interviews with Alexei Mastepanov; Russian Official A; Russian Official C.

<sup>36</sup> Author’s interviews with Vladimir Milov; Russian Official D [Moscow and e-mail, 15.02.12 & 13.04.14]; Russian Official E [Moscow, 15.02.12].

launched in 2000, was thought to have close ties to the private oil company Lukoil and its CEO Vagit Alekperov—himself a former Minister of Oil—from Gavrin’s time as mayor of Kogalym.<sup>37</sup> ‘Gavrin’s a Lukoil man in a big way’, as one industry insider told the press at the time.<sup>38</sup> Meanwhile, Gavrin’s predecessor, Viktor Kalyuzhny, was known for his supposed ties to oil companies Sibneft and Tyumen Oil Company (TNK), which in 2003 would join BP and form TNK-BP as part of the ‘Russia–UK Energy Dialogue’, to be discussed below.<sup>39</sup> Kalyuzhny also nurtured close ties with the Yeltsin ‘Family’, and his removal was by many seen in connection with Putin’s shake-up of the elites.<sup>40</sup> Others speculate that Khodorkovsky placed Kalyuzhny in the Ministry of Energy, and had him removed when the latter lost Khodorkovsky’s favour.<sup>41</sup> When Gavrin was announced as Minister of Energy, Khodorkovsky noted that the best thing Gavrin could do was ‘to prepare the ministry for liquidation’.<sup>42</sup>

Nevertheless, both Kalyuzhny and his successor Gavrin were highly sceptical towards PSAs—as were TNK and Lukoil, and indeed Khodorkovsky and Yukos.<sup>43</sup> Khristenko had said that PSAs would be reserved for state owned companies like Rosneft and Gazprom. Private companies like Lukoil and Yukos were excluded from the auctions. This caused great resentment among the oligarchs, who felt doubly discriminated against, by the state and by the PSA framework as such. Putin, meanwhile, was determined to pass the new PSA act. To curb the influence of business on the government, including the amended PSA act, Putin implemented several measures to limit the influence of business groups on the Ministry of Energy.<sup>44</sup> But even in the wake of Putin’s intervention, the ministry remained a dysfunctional institution. As one business official noted at the

<sup>37</sup>The ‘Luk’ in Lukoil is an acronym for Langeepas, Urai and Kogalym.

<sup>38</sup>Gregory Feifer, “Putin Taps Unknown for Energy Job,” *The Moscow Times*, 21 May 2000.

<sup>39</sup>Petroleum Economist, “Lukoil Officials Win Key Government Posts,” *Petroleum Economist*, 1 July 2000.

<sup>40</sup>Feifer, “Putin Taps Unknown for Energy Job,”; The Jamestown Foundation, “Viktor Kaluzhny Removed as Fuel and Prime Minister,” *Monitor* 6, no. 100 (2000).

<sup>41</sup>Richard Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair* (Oxford: Oxford University Press, 2009), 61.

<sup>42</sup>Tutushkin and Bushueva, “Energy Ministry Losing Important Responsibility.”

<sup>43</sup>Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 114.

<sup>44</sup>Author’s interview with Vladimir Milov.

time, ‘the Energy Ministry is of no use to anyone in its present form’.<sup>45</sup> Thus, to push faster ahead with the revision of the PSA act, Putin concentrated work on the PSAs by relegating it to Herman Gref and the MEDT, again reflecting the relatively business friendly streak of Putin in his early years as President.<sup>46</sup> The liberal Gref was widely considered to be more influential than the inefficient Gavrin.<sup>47</sup> With Gref in charge, the revised PSA act was seemingly ensured a smooth confirmation. But there were serious problems ahead, including fierce resistance from both political and business circles.<sup>48</sup>

## Khodorkovsky and the PSA Act

‘The battle over production sharing turned into the longest running saga in Russian legislative politics in the 1990s,’ as one observer later noted. Rival political clans, ministries and regional administrators would battle it out over this highly contentious issue.<sup>49</sup> While the Russian business lobbies failed to formulate a coherent position on production sharing, the most powerful lobbyist was Khodorkovsky, and he was fiercely opposed to it. Hence, a massive lobbying effort ensued.<sup>50</sup> Khodorkovsky dismissed the PSA regime because he felt it favoured foreign investors. Instead of production sharing, Khodorkovsky wanted to force foreigners to invest in Russian companies, and preferably Yukos, as this would maximise shareholder value.<sup>51</sup> Khodorkovsky was no nobody. He was Russia’s richest man, having gathered his wealth during the lawless transition from Communist rule. Because of this, there were claims that Khodorkovsky

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<sup>45</sup>Tutushkin and Bushueva, “Energy Ministry Losing Important Responsibility.”

<sup>46</sup>Peter Ekman, “Gref Can Use PSAs to Shape Economic Lift,” *ibid.*, 8 September.

<sup>47</sup>Alexander Tutushkin and Yulia Bushueva, “Energy Ministry Losing Important Responsibility,” *ibid.*, 12 August.

<sup>48</sup>Paul Chaisty, “The Influence of Sectoral and Regional Economic Interests on Russian Legislative Behavior: The Case of State Duma Voting on Production Sharing Agreements Legislation,” *Post-Soviet Affairs* 23, no. 4 (2007).

<sup>49</sup>Thane Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia* (Cambridge, Mass.; London: Belknap, 2012), 179.

<sup>50</sup>Chaisty, “The Influence of Sectoral and Regional Economic Interests on Russian Legislative Behavior: The Case of State Duma Voting on Production Sharing Agreements Legislation.”

<sup>51</sup>Author’s interviews with Russian Official C; EU Official A.

had gathered many politicians on his payroll.<sup>52</sup> John Browne, BP's CEO, recalled from his discussions with Khodorkovsky that the Yukos boss had bragged about his ability to influence the Duma:

[Khodorkovsky] began to talk about getting people elected to the Duma, about how he could make sure oil companies did not pay much tax, and about how he had many influential people under his control. For me, he seemed too powerful [...] there was something untoward about his approach.<sup>53</sup>

Nobody knew how many were on Khodorkovsky's alleged payroll. Speculations were legion, with one estimate that 226 deputies in the Third Duma of 1999 to 2003, Russia's parliament, owed allegiance to Yukos.<sup>54</sup> More prudent estimates put this number at around 100 representatives. As one scholar noted about the Third Duma, '[t]his was a Duma in which the word "lobbying" barely describes the ability of interested parties to shape preferences, with activists running about with packets of money on the eve of important votes'.<sup>55</sup> The Duma had 'practically turned into a structural sub-unit of Yukos', as one Russian commentator put it.<sup>56</sup> According to another informed source, Khodorkovsky was applying his full lobbying force against the new PSA framework.<sup>57</sup> He was unrelenting in pursuit of his goals, and supposedly threatened to have Gref fired when the latter tried to raise export taxes on oil.<sup>58</sup> According to a former Putin advisor on energy, similar threats were made towards Prime Minister Kasyanov.<sup>59</sup> It is of course impossible to verify these incidents, and Khodorkovsky himself has defended his actions at the time as normal lobbying.<sup>60</sup> What is undeniable, however, is that

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<sup>52</sup> Author's interview with Nodari Simonia, Deputy Director, IMEMO, Moscow [Moscow, 04.04.12].

<sup>53</sup> Browne and Anderson, *Beyond Business*, 145.

<sup>54</sup> Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 114.

<sup>55</sup> Ibid.

<sup>56</sup> Natal'ia Arkhangel'skaia, "Dumskaia monopol'ka," *Ekspert* 3, no. 26 January (2004).

<sup>57</sup> Author's interview with Russian Official C.

<sup>58</sup> Bernard Gwertzman, "Goldman: Khodorkovsky Trial Worries Investors, Slows Economic Growth," *Council on Foreign Relations*, 2 June 2005.

<sup>59</sup> Author's interview with Nodari Simonia.

<sup>60</sup> Roxburgh, Angus. 2013. *The Strongman: Vladimir Putin and the Struggle for Russia*. London: I.B.Tauris, p. 77.

Mikhail Khodorkovsky had powerful tools at his disposal, and was not afraid to use them. And this was really beginning to frustrate Putin, who was pushing for a quick passage of the revised PSA framework. It was also upsetting the agenda of the Energy Dialogue.

## Igor Sechin and the Yukos Case

But then events took a quick turn. In late 2003, Khodorkovsky was arrested, and by 2004 Yukos had been dismantled. The official reason was tax evasion and fraud. But many criticised the case against Khodorkovsky for being politically motivated.<sup>61</sup> What followed his arrest were two Kafkaesque trials, where Khodorkovsky was sentenced to 9 years in prison, a sentence which was extended to 12 years in 2010.<sup>62</sup> Just as questionable was the expropriation and dissolution of Yukos itself. At the frontlines were the liberals versus the *siloviki*. As mentioned, the *siloviki* traditionally enjoyed closer ties to the oil sector in general, and Rosneft in particular. Conversely, the liberals became more affiliated with the gas sector and Gazprom, after Dmitri Medvedev was named chairman in 2001. In early 2004, Igor Sechin became Chairman of Rosneft. Sechin was yet another of Putin's former colleagues from the St. Petersburg City Administration. He was later made Deputy Head of the Presidential Administration. Like Putin, he was a former KGB agent. After Primakov's fall from power, Sechin would eventually become a leading figure within the *siloviki* faction.<sup>63</sup> Incidentally, the case against Khodorkovsky was brought by the Russian Prosecutor General, the *silovik* Vladimir Ustinov, whose son happened to be married to Sechin's daughter.

The Yukos story narrates both the rise of Rosneft and Sechin's voyage from an invisible *éminence grise* to becoming Russia's self-appointed energy czar. Sechin had no work experience from the oil industry prior to this. It was indeed a surprising turn of events. Upon assuming the presidency, Putin had great plans for Gazprom. Rosneft, on the other

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<sup>61</sup> Vladimir Milov, "The Use of Energy as a Political Tool," *The EU-Russia Review*, no. 1 (2006).

<sup>62</sup> Khodorkovsky was finally pardoned in December 2013, and has since been living in exile abroad.

<sup>63</sup> Irina Reznik and Irina Mokrousova, "Pervyi vozle Putina," *Vedomosti*, 19 March 2012.

hand, was mostly ignored. Despite Putin's professed statist sympathies, the early 2000s was a time of apparent liberalisation. This also included his plans for Gazprom. Putin had declared the cancellation of the 'ring fence' on Gazprom, which limited foreign ownership of the company to 11 per cent. The cancellation of the ring fence would only be done on the condition that the Russian state raise its ownership of the company from 38 to 51 per cent. Medvedev, with Putin's support, wanted Gazprom to expand into the oil sector. To achieve this, he had set three objectives. First, he wanted to reassert the state's majority ownership stake in Gazprom. To ensure this Medvedev sought to acquire Rosneft's 13 per cent share in the gas giant. His second objective was to acquire Yukos assets. This could be achieved through Medvedev's third and final objective, which was to merge Gazprom and Rosneft.<sup>64</sup>

In order to prepare for the merger with Rosneft, Gazprom established Gazpromneft in September 2004. Yet Medvedev's oil ambitions did not stop with Rosneft. The Gazprom chairman was also considering a bid for Yuganskneftegaz, Yukos' biggest asset, which was announced for auction in November that year. But only two weeks before the auction an unknown, recently established company named Baikalfinansgrup (BFG) entered the race. BFG's capital was a mere 10,000 roubles. Despite this, BFG successfully managed to secure a loan of 1.7 billion dollars by the state owned Sberbank. On 19 December, BFG won the auction. The winning bid was 261 billion roubles—9.3 billion dollars—which was apparently 37–49 per cent of Yuganskneftegaz' current market value, according to independent estimates.<sup>65</sup> A few days later, BFG was acquired by Rosneft, which immediately elevated to become Russia's biggest oil company.<sup>66</sup> This was quite a turnaround for a company once described as a 'temporary parking lot' for the unwanted assets divested from the Soviet Ministry of Oil.<sup>67</sup>

Although the people behind BFG remained shrouded in mystery, arrows were pointing at Sechin, Rosneft's chairman. The motives were

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<sup>64</sup> Kryshatanovskaya and White, "Inside the Putin Court, a Research Note," 1072.

<sup>65</sup> NBC News, "Russia to Hold Yukos Auction Despite U.S. Ruling," *NBC News*, 17 December 2004.

<sup>66</sup> Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 327.

<sup>67</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 76.



not purely business, according to Hanson, who noted that ‘[t]he simplest and most plausible explanation for this action – the devising of which is generally ascribed to Sechin – is rivalry between Sechin and Medvedev’.<sup>68</sup> If so, Sechin was successful. The auction of Yuganskneftegaz was a huge blow for Medvedev and his liberal cadre. Meanwhile, Medvedev’s merger plans were in force as late as March 2005. But by May, they, too, had been scrapped, much due to fierce resistance from Sechin and Sergey Bogdanchikov, the CEO of Rosneft. Sechin’s power was growing. Yet he was not running a one-man show. Despite his unquenchable ambition, Sechin was nonetheless ‘unconditionally devoted to Putin’, according to people close to him.<sup>69</sup> It is also questionable that the Yukos affair would have been allowed to proceed without the blessing of Putin, whose real motives were anybody’s guess. What was clear was that Putin had long wanted to get back at Yukos and Khodorkovsky.

## Khodorkovsky’s Solo Energy Dialogue

There are likely four main reasons why Khodorkovsky was targeted. First, Khodorkovsky’s filibustering in the Duma over the PSA law and other measures rendered the government virtually impotent in the legislative process. This clearly angered the Kremlin.<sup>70</sup> Second, with rising oil prices, Khodorkovsky’s power was growing every week. In 2003, Yukos was finalising a merger with Gazprom’s former oil arm, Sibneft. Merging Russia’s second and third largest oil companies would create the world’s fifth biggest oil company, and further consolidate Yukos’ and Khodorkovsky’s grip on the Russian and international oil markets.<sup>71</sup> The third reason for Putin’s crackdown was probably the Kremlin’s desire to keep control of Russia’s oil wealth in Russian hands. From 2003, Khodorkovsky was sponsoring his own US–Russia Energy Dialogue (more on this in

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<sup>68</sup> Philip Hanson, “Networks, Cronies and Business Plans: Business-State Relations in Russia,” in *Russia as a Network State – What Works in Russia When State Institutions Do Not?*, ed. Vadim Kononenko and Arkady Moshes (Basingstoke: Palgrave Macmillan, 2011), 120.

<sup>69</sup> Reznik and Mokrousova, “Pervyi vozle Putina.”

<sup>70</sup> Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 114.

<sup>71</sup> *Ibid.*, 95.

Chap. 5). Exxon executives were openly informing Putin of their plans to acquire a majority stake in Yukos. This troubled Putin.<sup>72</sup> Oil prices were rising for the fifth consecutive year. An Exxon merger would mean that one of Russia's largest tax payers risked being taken off Russian hands forever. Moreover, as one acquaintance of Sechin remarked: 'A company with an American shareholder could not be allowed to hold a majority of votes in the Duma'.<sup>73</sup>

But Khodorkovsky did not just want to lobby politicians. He had political ambitions of his own. Fourth and most fatefully, therefore, was Khodorkovsky's open opposition against Putin. In February 2003, during a televised meeting between Putin and the Russia's top oil and gas executives, Khodorkovsky publicly accused the circle around Putin of corruption. A visibly enraged Putin retorted that Khodorkovsky had built his fortune on stolen assets amassed during the Yeltsin years.<sup>74</sup> As Browne at BP recounted from a private conversation with the Russian President later that year, Putin had told him that 'I have eaten more dirt than I need to from that man'.<sup>75</sup> In other words, Khodorkovsky had overstepped his bounds.

## Russia's Euro-Asian Narratives (Redux)

There were three aspects of the Yukos case which had direct implications for the Energy Dialogue. First, it sparked off the reassertion of state control over the Russian energy sector. Second, it confirmed the impression of Russia as a dangerous place for private investors to get involved. Third, and related to the first two points, it marked the end of the PSA experiment—both the revised legal framework and the three extant PSA agreements, as I will show when I turn to the Statist narrative below.

Moreover, it epitomised Russia's changing relationship with the EU. The Yukos case coincided with the onset of the second Putin presidency. Putin's second term also began at the time of the EU's eastern

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<sup>72</sup> Goldman, *Petrostate: Putin, Power, and the New Russia*, 112–3.

<sup>73</sup> Reznik and Mokrousova, "Pervyi vozle Putina."

<sup>74</sup> Pravdambk, "2003 god, nachalo dela IUKOSa," (YouTube, 2011).

<sup>75</sup> Browne and Anderson, *Beyond Business*, 145.

expansion. Both events would herald a dramatic change in Russia's relationship with the West. In the wake of the Khodorkovsky case, several liberals in Putin's staff either resigned or were removed. One of these was Putin's former economic adviser, Andrei Illarionov, who later said that the Yukos affair had made Russia a 'different country'.<sup>76</sup> Indeed, Russia had changed its path, away from broad patterned integration with the West—and certainly EU membership—towards a more independent vector. The Russian state had reasserted control over its energy sector. And buffeted by the continuous rise in world energy prices, Russia could afford to pursue an increasingly independent foreign policy.

The EU remained Russia's most important market. But the Russians remained frustrated by what they felt was insufficient business participation in the EU–Russia Energy Dialogue. Moreover, the EU companies that were taking part in the Energy Dialogue were hesitant to invest in Russia. So discussions soon ground to a halt, and by 2003, Khristenko had gradually phased out his monthly meetings with EU business executives: 'In the beginning it was every month, then very second month, and then every fourth month, and then they stopped', according to an EU participant to the talks, who claimed the Russians were not happy with the results:

The Energy Dialogue, in the beginning, in the minds of the Russians, it was really to attract investments into Russia [...] And they were ready to make certain compromises to get this done and so on. That was the issue. And that was clearly not the issue for the EU side, even most of the companies.<sup>77</sup>

According to a senior Russian official, '[The Energy Dialogue] was not active enough, and business representatives were eventually eliminated from the energy dialogue, leaving it at the mercy of officials'.<sup>78</sup> The Russians blamed the EU side for the inadequate business presence. As the first Russian coordinator of the Energy Dialogue and later Gazprom official said, 'business was not allowed to take real part in the Energy Dialogue.

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<sup>76</sup> Andrei Illarionov, "Press Conference with Presidential Economic Adviser Andrei Illarionov, Alexander House," (Moscow: Official Kremlin International Broadcast, 2004).

<sup>77</sup> Author's interview with Seppo Remes.

<sup>78</sup> Mironov, "Rossiia-ES: edinstvo i bor'ba."

It was kept behind by the European Commission'.<sup>79</sup> Meanwhile, the Energy Dialogue was contained by even more bureaucracy, after it was brought in under the umbrella of the Common Economic Space.

## The EU25 Narratives

This is not to say that the Russian approach to the Energy Dialogue was entirely consistent. The Russians were disillusioned with the Energy Dialogue, but were at the same time calling for the 'launch of full-scale business dialogue'.<sup>80</sup> In this respect they were supported by the EU member states, who were also calling for a new format for the dialogue. The EU's member states had remained insistent that the Energy Dialogue keep the member states informed about all of its activities.<sup>81</sup> They were frustrated by the 'opaqueness' of the Energy Dialogue, and were demanding more hands-on involvement.<sup>82</sup> These demands turned more vocal in the wake of the Khodorkovsky and Yukos affairs, which were regarded with great alarm within the EU (although there were those, like German Chancellor Gerhard Schröder, who considered it a purely domestic affair).<sup>83</sup> Hence, the new thematic groups were formed in the second half of 2004. The new groups were launched in November, during a meeting of the Industrialists' Round Table (IRT) in the Hague.<sup>84</sup> Four new thematic groups were formed—on investments, infrastructure, energy efficiency and trade (Fig. 4.2).

The new groups formally introduced the new member states to the Energy Dialogue, a point to which I will return in Chap. 5 on geoeconomics. Just as important, was the stated need to ensure more industry participation.

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<sup>79</sup> Author's interview with Alexei Mastepanov.

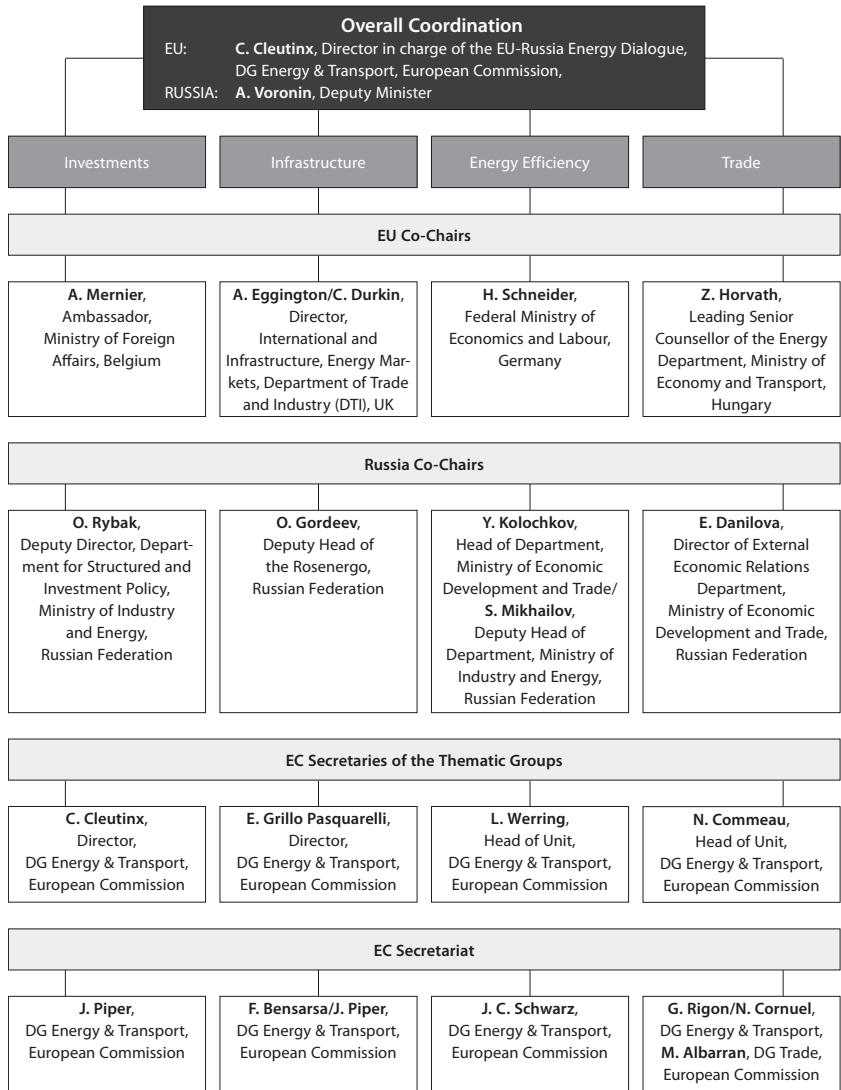
<sup>80</sup> European Union and Russian Federation, "Road Map for the Common Economic Space – Building Blocks for Sustained Economic Growth," (Brussels/Moscow: European Union Russian Federation, 2004), 17.

<sup>81</sup> Council of the European Union, "2507th Council Meeting – Transport, Telecommunications and Energy," (Brussels: Council of the European Union, 2003), 9.

<sup>82</sup> Author's interview with Christian Cleutin.

<sup>83</sup> Walter Von Mayr, "Oligarchen im Staatsdienst," *Der Spiegel* 2004.

<sup>84</sup> EU-Russia Industrialists Round Table, "Sixth General Meeting in The-Hague (November 10, 2004), Joint Conclusions," (The Hague: The EU-Russia Industrialists Round Table, 2004).



**Fig. 4.2** The EU–Russia Energy Dialogue in 2005 (EU–Russia Energy Dialogue, “The First Ten Years: 2000–2010,” 17)

Again, however, the Commission failed to deliver. Its concerns about representativeness remained. To avoid coming off as biased towards specific companies, the Commission instead limited industry representation to industry associations. These included bodies such as Eurelectric (electricity), Eurogas (gas), Europia (oil) and OGP (oil & gas), all of which were formally invited to join the dialogue in early 2005.<sup>85</sup> In addition were umbrella organisations such as the European Business Congress in Berlin and the Association of European Business (AEB, formerly the European Business Club) in Moscow, to name a couple.

To the industry actors wanting to get in on the Energy Dialogue, this was a suboptimal arrangement. Given their wide membership of multiple competing companies, industry associations had a difficult time coming up with a unitary narrative. They were, rather, mini energy dialogues in their own right. Moreover, a single company could be a member of several business associations at once.<sup>86</sup> The industry associations were ‘absolute professional talking shops’, as one senior executive at Dutch Gasunie, and long-standing participant in the Energy Dialogue, confided to me:

I don't think that we do represent really a common voice on the issues that matter to us, apart from the most global issues you can think of, like lobbying for more legal certainty in Russia, for example.<sup>87</sup>

The members of the associations that did participate in meetings would lament their limited influence on the agenda of the EU Commission.<sup>88</sup> According to a Russia-based EU industry official, the industrial representatives were not really consulted by the Commission. Industry was only confronted with agreed statements: ‘We were only asked when the decision-making process was already ongoing’, the official said.<sup>89</sup> So despite the restructuring of the Energy Dialogue, and the affirmation

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<sup>85</sup> Eurogas, *Eurogas Newsletter* (Brussels: Eurogas, 2005), 4.

<sup>86</sup> Author's interview with Vladimir Drebentsov, Chief Economist, BP Russia [Moscow, 12.04.12].

<sup>87</sup> Author's interview with Wim Groenendijk, Vice President International & Regulatory Affairs at Gasunie [Phone, 10.04.12].

<sup>88</sup> Author's interviews with Wim Groenendijk; EU Industry Official C [Brussels, 02.10.12]; Terry Adams; Dutch Industry Official; EU Industry Official D [Moscow, 12.04.12].

<sup>89</sup> Author's interview with EU Industry Official A.

of business as an independent presence in the dialogue, industry consistently felt neglected. On top of this came the challenges of finding a viable *modus operandi* with the Russian business interlocutors. Several European industry officials I spoke to described the challenges of dealing with Russian state companies. Meetings often ‘became more of a political show’, driven by the Russians, according to a Eurogas representative, who described meetings as unproductive and inconsequential.<sup>90</sup> As one BP representative recalled: ‘there would be some speeches on the Russian side, and some speeches on the EU side, and then everybody would go away’.<sup>91</sup> Overall, EU business officials considered the Russian approach to be fundamentally different to what they were used to. Russian representatives were more concerned with politics than business, they claimed. Simply restructuring the thematic groups would not solve this.<sup>92</sup>

## State–Business Relations in the EU

State–business relations in Russia were indeed close. However, this is not to say there were not close ties between state and business on the EU side also. Whether antagonistic or positive, there was a symbiotic relationship between the EU’s major energy companies and their host governments. In France, the relationship between Electricité de France and Gaz de France and the government in the Elysée was exceptionally close. Likewise, in Germany, energy companies played a considerable role in German federal politics.<sup>93</sup>

Yet state–business relations were not wholly harmonious. One example was the relationship between Gasunie and the Dutch government. Gasunie was established in 1963 as a partnership between the Dutch government, Royal Dutch Shell and ExxonMobil, in order to market natural gas from the newly discovered Groningen field outside of the northern coast of the Netherlands. In 2005, Gasunie was split into a transportation

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<sup>90</sup> Author’s interview with Ralf Pastleitner, Director of the EU Representation Office at Oesterreichs Energie and Eurogas delegate [Phone, 31.10.12].

<sup>91</sup> Author’s interview with Vladimir Drebentsov.

<sup>92</sup> Author’s interview with Ralf Pastleitner.

<sup>93</sup> Laumanns, “Determinanten der Energiepolitik.”

company (Gasunie) and a gas trading company (Gasterra). In the process, the Dutch government bought out ExxonMobil and Shell's shares in the transportation division of Gasunie. As a result, Gasunie post-2005 was wholly state owned, and Gasterra partly privatised. But the process leading up to this division was not without difficulties, as the story of the Dutch implementation of the Second Energy Package would testify to.

The Second Energy Package was put into force in 2003. It was implemented in spite of a massive lobbying campaign directed against it by major energy companies, including Gasunie, GDF, EDF, EON, Wintershall, RWE and others.<sup>94</sup> Compared with the first set of energy directives the Second Energy Package put stronger demands for liberalisation and 'unbundling' of vertically integrated energy companies which controlled the upstream, midstream and downstream segments of the energy chain. The argument for unbundling was that it improved competition and access for third parties, which would ultimately benefit consumers. The argument against unbundling was that losing control over the supply chain was not conducive for future investment in new production capacities.<sup>95</sup> The reason for this was the enormous associated sunk costs of such projects, which required billions of euro of investment and often took decades to fully develop.

Whereas French and German companies enjoyed the support of their governments, Dutch politicians took an opposite approach. Rather than resist the new set of directives, they decided to make their country a pioneer in implementing the provisions of the Second Energy Package into Dutch law. 'The Dutch government decided to go spearheading', a senior Dutch business official recalled. He said that the goal of the Dutch government was to impose a 'UK-system'.<sup>96</sup> This pioneering was partly the result of the efforts of one man, Laurens Jan Brinkhorst, the Dutch Minister for Economic Affairs between 2003 and 2006, and a tenured professor of European law. Brinkhorst pushed for a swift implementation of the Second Energy Package. He wanted to go further than the new directives called for, demanding immediate unbundling by Gasunie,

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<sup>94</sup> Author's interviews with Klaus Kleinekorte; EU Industry Official A; EU Industry Official B.

<sup>95</sup> Author's interview with Klaus Kleinekorte.

<sup>96</sup> Author's interview with Dutch Industry Official.



instead of a gradual implementation, which was what most other member states were planning for. The CEO of Gasunie, George Verberg, said he felt ‘emotional pain’ over the government’s decision to split the company.<sup>97</sup> In the end, Brinkhorst prevailed, although his relationship with Verberg never recovered.<sup>98</sup> Verberg would frequently level strong criticism of Brinkhorst for deliberately hurting Dutch business interests:

Brinkhorst is purposely creating an unequal playing field. Other European countries specifically allow vertical integration by energy companies. I have never come across an economic affairs minister that purposely puts Dutch companies at a disadvantage in relation to their foreign competitors. The chance is that there will be nothing of them left.<sup>99</sup>

There was indeed no love lost between these two men. Similarly, there was a fundamental divide between the narratives of many of the energy companies and politicians, both at the levels of member states and the Commission.<sup>100</sup> This gap would only continue to widen as the legal-institutional footprint of the EUropean narrative gathered in strength.

## The UK–Russia Energy Dialogue

While Gasunie’s relationship with the Dutch government was lukewarm at best, BP’s relationship with the British government was quite another thing. There were several reasons for this. First of all, BP was an oil company and thus not dependent on vertical integration for pipeline access. Secondly, the British energy sector had already been liberalised in the 1990s (in fact, the Thatcherite energy reforms served as the blueprint for the EU’s energy packages).<sup>101</sup> In November 1997, BP made its first leap into Russia, when it signed an agreement with Sidanko to acquire a 10 per cent ownership stake in the company. British Prime Minister Tony

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<sup>97</sup> Trouw, “Gasunie springt gat in de lucht,” *Trouw*, 17 October 2003.

<sup>98</sup> Author’s interviews with EU National Official A; Dutch Industry Official.

<sup>99</sup> Abi Daruvalla, “Gasunie Chief Criticises Splitting Grids,” *Europower*, 7 April 2004.

<sup>100</sup> Author’s interview with Dutch Industry Official.

<sup>101</sup> Helm, *Energy, the State, and the Market, British Energy Policy Since 1979*.

Blair was personally present at the signing ceremony.<sup>102</sup> The relationship between the Blair government and BP has been described as particularly close, to the extent that some even coined the pejorative moniker ‘Blair Petroleum’.<sup>103</sup>

Despite the high-profile blessings of BP’s acquisition of Sidanko, however, the deal started coming apart already in 1999. Sidanko’s assets were slowly stripped through machinations initiated by the shareholders of the TNK.<sup>104</sup> As mentioned, the Russian Minister of Fuel and Energy in 1999, Viktor Kalyuzhny, had close links with TNK. His complicity in the asset strip was widely suspected, with one Russian analyst saying that ‘Kalyuzhny seems to be little more than a puppet in the hands of whoever pays him’ (to be sure, Khodorkovsky was waged in a similar battle with Yukos’ Western minority shareholders, leading one investment banker to remark that ‘nothing in Russia is secure if you have a really powerful enemy’).<sup>105</sup> The leadership at BP was stunned, and decided to use their government channels to apply pressure on the Russians. Blair and US Vice President Al Gore were called to ‘campaign’ on behalf of BP against TNK.<sup>106</sup> In a personal letter to Putin, Blair said he was monitoring the case with ‘close personal interest’ and that the outcome of the case would be ‘critical to future inflows of foreign direct investment, so vital to Russian economic revival’.<sup>107</sup> If there was ever a need for proof of Blair’s commitment to BP, this was it.

The end result of the conflict was somewhat unexpected: BP and TNK decided to join forces through a new company, TNK-BP. This was a joint venture, not a PSA. The agreement was signed in London in June 2003. The signing ceremony was framed into a wider energy conference, featuring Blair and Putin, as well as other Russian and British energy

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<sup>102</sup> Browne and Anderson, *Beyond Business*, 138.

<sup>103</sup> Terry Macalister, “Prime Minister Argues Case for ‘Blair Petroleum’,” *The Guardian*, 13 February 2002.

<sup>104</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 420–2.

<sup>105</sup> Ben Aris, “Kalyuzhny’s Connections and the Chernogorneft Sale,” *Alexander’s Gas and Oil Connections*, 7 December 1999; Petr Sapozhnikov and Nikolai Poluektov, “TNK zabiraet podrazdeleniia,” *Kommersant*, 4 June 1999.

<sup>106</sup> Browne and Anderson, *Beyond Business*, 141.

<sup>107</sup> Macalister, “Prime Minister Argues Case for ‘Blair Petroleum’.”

companies.<sup>108</sup> Hence, the ‘UK–Russia Energy Dialogue’ was born. The TNK–BP agreement was an even split between the two shareholders—50 per cent to BP and 50 per cent to TNK. At the signing ceremony, Blair described the agreement as a ‘milestone’. Putin, however, was more laconic, warning that a 50–50 split ‘never works’.<sup>109</sup> In the end he would be proven right.

## The Statist Narrative

Despite Putin and Medvedev’s failure to merge Gazprom with Rosneft, the Russian state managed to reclaim its majority stake in Gazprom. It did so by selling 50 per cent (instead of 100 per cent) of Rosneft in exchange for the 10.74 per cent stake in Gazprom.<sup>110</sup> The breakup of Yukos epitomised Putin’s push for state control and Russia’s full embrace of state capitalism.<sup>111</sup> This ran directly against Moscow’s early signals to the Commission, to which liberalisation was a prerequisite for investment. All of Russia’s major energy companies were offshoots of defunct Soviet ministries. Yet at the beginning of the Energy Dialogue, only Gazprom and Rosneft were state controlled. The rest had been privatised. On the one hand, Putin had long sought to reverse this, as confirmed in his PhD thesis and his millennium speech, discussed previously. At the same time, however, there were firm signs that the government was planning on further reducing its involvement in the Russian energy sector. Putin had placed liberals in key economic positions of government and was seemingly bent on reform. There were good reasons for this. Despite Putin’s statist rhetoric, energy prices in 2000 were low, and Russia was still recovering from its default in 1998. Before assuming the presidency, Putin had publicly embraced the notion of breaking up or restructuring the state-controlled natural monopolies, including Gazprom.<sup>112</sup> In early

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<sup>108</sup> Browne and Anderson, *Beyond Business*, 147.

<sup>109</sup> Ibid.

<sup>110</sup> Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*.

<sup>111</sup> Philip Hanson, “The Resistible Rise of State Control in the Russian Oil Industry,” *Eurasian Geography and Economics* 50, no. 1 (2009).

<sup>112</sup> Author’s interview with Vladimir Milov.

2002, Economy Minister Herman Gref tasked the young Deputy Prime Minister Vladimir Milov with writing a concept specifying the terms of the restructuring of Gazprom.<sup>113</sup> The initiative was part of a wider government effort to make the Russian economy more flexible and competitive. Gref's was endorsed by Prime Minister Kasyanov, who most probably enjoyed Putin's approval. 'This was seen as a green light', Milov later told me.<sup>114</sup>

But then something changed. In late 2002, Milov's concept was presented by Gref to Putin, who quickly rejected it. Apparently, there had been considerable lobbying activity in the background. Not only were reactionary forces within the ministries resisting the concept. So was Gazprom, which enjoyed direct access to Putin through his hand-picked CEO Alexei Miller, who had taken over as CEO of Gazprom in May 2001. On Christmas Eve 2002, Miller sent a letter to Putin, warning that unbundling Gazprom was 'premature', and that the concept would effectively 'destroy' Gazprom *and* Russia.<sup>115</sup> The day after, on 25 December, Putin's resolution was made public. To Gref's surprise, the President stated that he 'mostly agreed' with Miller.<sup>116</sup> All of a sudden the concept was scrapped, and Gref was instructed to incorporate Miller's views into a new gas strategy.<sup>117</sup> The death knell for Milov's concept was sounded on 18 February 2003, at Gazprom's tenth-anniversary celebration. There Putin made clear that Gazprom was 'too powerful' to be considered for a breakup. Gazprom, according to Putin, was 'a powerful political and economic lever of influence over the rest of the world'. Therefore, 'Gazprom [...] should be kept, and has been kept, as a single organism'.<sup>118</sup> With that, liberalisation of Gazprom was put off the agenda indefinitely, dealing a huge blow to the Russian liberals and the nascent Energy Dialogue.

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<sup>113</sup> Herman Gref and Vladimir Milov, "Toplivno-energeticheskii kompleks mira," (Moscow: Russian Ministry of Economic Development and Trade, 2002).

<sup>114</sup> Author's interview with Vladimir Milov.

<sup>115</sup> Author's interview with Vladimir Milov; Yana Viktorova et al., "Reforma, kotoruiu poteriali," *Vremia Novostei*, 2 March 2004.

<sup>116</sup> Aleksei Grivach and Andrei Denisov, "Prezident reshaet vse," *Vremia novostei*, 15 January 2003.

<sup>117</sup> Author's interview with Vladimir Milov.

<sup>118</sup> Vladimir Putin, "Vystuplenie na torzhestvennom sobranii, posviashchennom 10-letiiu OAO 'Gazprom,'" (Moscow: President of Russia, 2003).

In retrospect, Putin's u-turn on Gazprom was perhaps not as surprising after all. Putin always displayed a special interest in Gazprom, according to Milov.<sup>119</sup> Kasyanov later described Putin's relationship with his government: 'In 90 per cent of cases he didn't interfere. The other 10 per cent concerned Gazprom and almost everything connected with it'.<sup>120</sup>

## The PSA U-Turn

Then came another setback for the Energy Dialogue. After much wrangling, the vaunted PSA revision failed in the Duma. The reason was not Khodorkovsky, who by 2004 was in prison, but Putin, who had changed his position from support to fierce opposition. 'Putin had essentially co-opted Khodorkovsky's position,' as one Russian official noted.<sup>121</sup> It did not end there. Shortly afterwards, the Kremlin began its quest to change the conditions of the already existing PSAs. In 2006, Royal Dutch Shell was forced to cede its majority stake in the Sakhalin-2 PSA to Gazprom. The official reasons were alleged environmental violations and cost overruns. Whereas the latter was plausible, the former reason was more questionable. On the one hand, Shell had announced that the costs of developing Sakhalin-2 had doubled, from \$15 billion to \$28 billion.<sup>122</sup> Given the terms of the PSA, this meant it would take twice as long for Russia to make money from the project, or move from so-called cost oil to profit oil. As for Shell's alleged environmental transgressions, however, it was certainly peculiar that Russian environmental legislation, which had been lying dormant for over 20 years, would suddenly be invoked in this particular business conflict where the state had obvious interests. It is said that it is impossible to do business in Russia without breaking one rule or another. So charging someone with breaking a regulation was an efficient way to apply pressure, even when done for vicarious reasons.<sup>123</sup>

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<sup>119</sup> Author's interview with Vladimir Milov.

<sup>120</sup> Roxburgh, Angus. 2013. *The Strongman: Vladimir Putin and the Struggle for Russia*. London: I.B.Tauris, p. 52–53.

<sup>121</sup> Author's interview with Russian Official C.

<sup>122</sup> Nick Mathiason and Heather Connon, "Shell's Costs on Sakhalin Spiralling," *The Guardian*, 22 October 2006.

<sup>123</sup> Goldman, *Petrostate: Putin, Power, and the New Russia*, 135.

In the end, all of the Western holders of the PSAs were subjected to various degrees of pressure from the Kremlin, with similar charges of environmental and budgetary transgressions.<sup>124</sup> Regardless of the reasons, the Kremlin's crackdown on Russia's PSAs, and especially Sakhalin-2, confirmed in many eyes that Russia was not a safe place to do business. This impression was further confirmed by the increased wrangling between TNK–BP and Gazprom over the giant Kovykta gas field. The quarrel began in 2006 and culminated in 2011, when Gazprom bought out TNK–BP's share in the field.

## The Breakup of TNK–BP

In late 2006, the EU–Russia Energy Dialogue was restructured yet again (Fig. 4.3). The UK retained the co-chair of the Market Developments group. An investments subgroup was formed under the market developments group. The Russian co-chair was drawn from TNK–BP, reflecting their continued importance in the EU–Russia energy relationship. The EU co-chair was from Shell, which itself was interesting as this was after the Sakhalin-2 incident. TNK–BP's participation would be short lived. Relations between BP and their Russian partners in Alfa Access Renova (AAR), which controlled TNK, were tense. AAR was unhappy with what it considered the condescension of BP, which it felt was deliberately curbing AAR and its ambition to make TNK–BP a global player.<sup>125</sup>

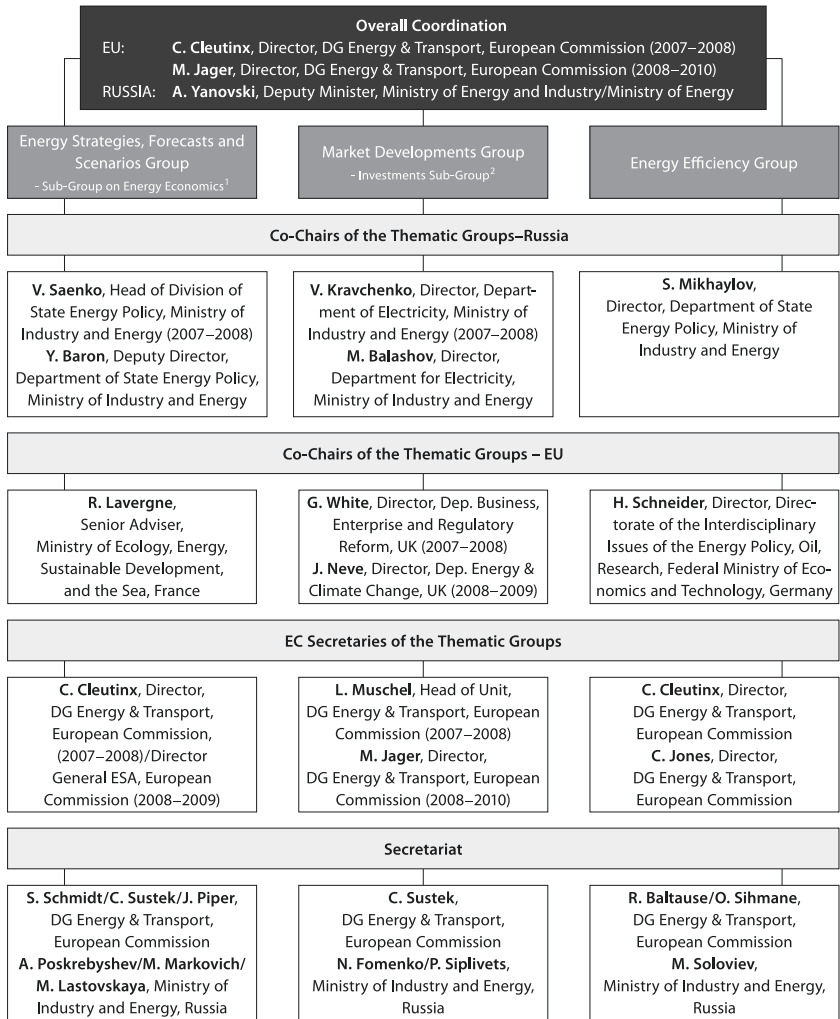
By 2008, relations between AAR and BP had deteriorated to the point that one of the executives of AAR allegedly schemed to have the visas of BP's employees in Russia revoked, including that of TNK–BP's American CEO. After several years of wrangling, BP decided that it wanted out of the deal with AAR. However, when BP tried to enter a joint venture with Rosneft in 2011, AAR blocked it, pointing to a clause in the TNK–BP shareholder's agreement, saying that any further ventures in Russia by BP could only be entered through TNK–BP.<sup>126</sup> In the end AAR sold its

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<sup>124</sup> For more on PSAs in Russia, see Sander Goes, "Foreigners in the Russian Petroleum Sector, the Cases of Sakhalin-II and TNK-BP" (University of Tromsø, 2013).

<sup>125</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 426.

<sup>126</sup> Tim Webb, "BP's Russian Deal with Rosneft Blocked by Court," *The Guardian*, 24 March 2011.



<sup>1</sup> EU-Co-Chair: R. Lavergne  
 Russian Co-Chair: Y. Baron  
 EC: C. Cleutinx

<sup>2</sup> EU Co-Chair: CH. Finlayson (Shell)/Ch. Watson (Shell)  
 Russian Co-Chair: Sh. Mc Cormick (TNK-BP)/O. Karimov (TNK/BP)

**Fig. 4.3** The EU–Russia Energy Dialogue in 2007 (EU–Russia Energy Dialogue, “The First Ten Years: 2000–2010,” 18)

share of TNK–BP to Rosneft in 2012, whose new CEO was Igor Sechin, who had returned to the company after serving in Prime Minister Putin’s cabinet between 2008 and 2012. Likewise, BP sold its share in TNK–BP to Rosneft, in return for a 20 per cent stake in Rosneft.<sup>127</sup> By 2012, the former ‘parking lot’ Rosneft was the world’s largest publicly traded oil company. As Putin was preparing for his third presidency, the Kremlin had reaffirmed its undisputed control over the Russian oil and gas sectors—but also the Western narrative of Russia as a tenuous investment prospect.

## The Post-Imperial Narrative

But I am getting ahead of myself. The unfolding time–space of Russo-EU business relations in the 2000s was indeed important to the development of the Energy Dialogue. However, narratives were also constrained by past events. This was especially true about the Russian energy sector, which had retained much of its Soviet-era characteristics. All of the Russian oil and gas companies were descendants of the defunct energy ministries of the Soviet Union. And in several respects they maintained the structure and practices of their predecessors.<sup>128</sup> The transition from ministry to company was never organic. From the remains of the Soviet energy monopoly emerged both oligarchs and ‘intermediaries’—the clandestine contractors who would supply everything from pipes to simply collecting bribes.<sup>129</sup> The truth was that the Russians were not used to doing business in the way their EU counterparts were. There was thus a clash of cultures between Russian and EU energy companies, as I have mentioned before in this chapter. Russian industry officials had limited experience with the market economy. The thinking of former Soviet planners was very different from the neoliberal narrative of Western business people:

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<sup>127</sup> BP, “Rosneft and BP Complete TNK-BP Sale and Purchase Transaction,” (BP, 2013).

<sup>128</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 11.

<sup>129</sup> Boris Nemtsov and Vladimir Milov, Putin and Gazprom, an Independent Expert Report, (Moscow 2008), [www.docstoc.com/docs/1603180/Nemtsov-White-Paper-Part-IIDOUBLEHYPHEN-Gazprom](http://www.docstoc.com/docs/1603180/Nemtsov-White-Paper-Part-IIDOUBLEHYPHEN-Gazprom).



The Soviet oilmen were almost exclusively petroleum engineers or geologists, but the global oil business appeared to be run not only by engineers and geoscientists, but also by lawyers, financial analysts, traders, and image makers.<sup>130</sup>

Moreover, the physical footprint of the command economy placed considerable constraints on subsequent Russian decision-makers. As such, Putin's push for state control was motivated by several factors, and not just his PhD thesis. One crucial reason was found in the structure of the energy system itself. This was especially true for gas. Russia inherited 46,000 km of oil pipelines and roughly 152,000 kilometres of gas pipelines from the Soviet Union, making it the world's largest national network.<sup>131</sup> Besides being the world's largest gas producer, Russia was also the second biggest gas consumer, falling only behind the USA. One-third of Gazprom's gas was exported to the EU and elsewhere, providing two-thirds of its income. Conversely, two-thirds of Gazprom's gas was sold on the domestic market for one-third of its income.<sup>132</sup> The reason for this was that domestic gas prices were determined by a state body, the Federal Tariff Service, which would set fixed wholesale prices, at which Gazprom was forced to sell its gas. Household tariffs were much lower than for industrial consumers, which in turn were much lower than export prices. The disequilibrium between domestic and foreign consumption and prices distorted the Russian energy market. For this reason, achieving parity between domestic and market prices became another one of the Commission's main objectives for the Energy Dialogue. As the Commission remarked in a 2004 communiqué to the Council and the Parliament:

These subsidies keep inefficient enterprises alive, are often provided on a discriminatory basis, lock up scarce human, financial and physical resources in low productivity sectors and harm the environment by encouraging waste of natural resources.<sup>133</sup>

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<sup>130</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 11.

<sup>131</sup> Stanislav Tkachenko, "Actors in Russia's Energy Policy towards the EU," in *The EU-Russia Energy Dialogue, Europe's Future Energy Security*, ed. Pami Aalto (Aldershot: Ashgate, 2008), 3.

<sup>132</sup> Ian Jeffries, *Economic Developments in Contemporary Russia* (Abingdon: Routledge, 2011), 138.

<sup>133</sup> European Commission, "Communication from the Commission to the Council and to the European Parliament – Our Relations with Russia."

There were two main reasons why price parity was considered so important by the EU. First, Gazprom's production levels were in decline, due to pervasive underinvestment, and the lack of technical expertise required to develop new fields. Its major fields had predominantly been developed in the Soviet era. This caused great concern in the West: 'Gazprom has not invested enough in developing new fields or enhancing recovering of existing fields to offset the decrease in its three major gas fields', Claude Mandil, Executive Director of the IEA, said in an interview in July 2006.<sup>134</sup> Gas covered half of Russian energy demand, and demand was growing. This combined with the decreasing overall levels of gas output added to the Commission's fears of whether this might impinge on Russia's future export commitments.<sup>135</sup>

Second, the Commission's support for increased domestic prices was partly to curb the extremely wasteful Russian domestic energy consumption, which was roughly three times the European average.<sup>136</sup> This is one of the reasons why the Commission was so interested in promoting energy efficiency. According to the thematic group on energy savings, Russian energy efficiency could be improved by 26–27 per cent by 2010 and 45–55 per cent by 2020. While much of this waste was caused by old Soviet infrastructure and industrial plants, low domestic prices were nonetheless regarded as the main culprit.<sup>137</sup>

However, raising domestic gas prices was easier said than done. On the one hand, a price increase would mean increased revenue for Gazprom and the Russian state. On the other hand, the projected social costs of a rapid switch to market prices could have potentially disastrous socio-economic consequences. This was partly due to the fact that both the Soviet and Russian social security systems were closely connected to regional enterprises, which were heavily dependent on cheap gas in order

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<sup>134</sup> Judy Dempsey, "Energy Agency Criticizes Gazprom," *International Herald Tribune*, 6 July 2006.

<sup>135</sup> Laura Solanko and Pekka Sutela, "Too Much or Too Little Russian Gas to Europe?," *Eurasian Geography and Economics* 50, no. 1 (2009): 65.

<sup>136</sup> Rudiger Ahrend and William Tompson, "Russia's Gas Sector: the Endless Wait for Reform?," *OECD Economic Department Working Paper*, no. 402 (2004): 12.

<sup>137</sup> EU-Russia Energy Dialogue, "Final Report of the Thematic Group on Energy Efficiency of the EU-Russia Energy Dialogue," (Brussels/Moscow: EU-Russia Energy Dialogue Thematic Group on Energy Efficiency, 2006), 3–4.

to survive.<sup>138</sup> Putin had said that ‘Gazprom is more than just a joint stock company’. In his view, the entire Russian economy was based on energy, and gas in particular.<sup>139</sup> While natural gas was less profitable than crude oil, gas had at once an economic, political and social significance which oil did not have. For these reasons, subsidised gas garnered cross-party political support in Russia. The Commission’s demands for price parity were therefore perceived as unacceptable to the Russians, including to liberals such as Gref and Milov, both of whom were sensitive to the adverse effects that this might have on Russian society.<sup>140</sup>

To counter this, the Commission highlighted that increased prices would better stimulate investment in energy savings technology, which would produce economic and environmental benefits for all parties.<sup>141</sup> But given the delicate nature of the Russian pricing system, politicians were careful, pursuing a ‘two steps forward, one step back’ policy.<sup>142</sup> That did not mean the Russians were not looking to raise prices at their own pace. In 2004, as part of a bilateral agreement over support for Russian WTO membership, Russia and the EU agreed to gradually increase gas prices to industrial users by 2010.<sup>143</sup> In October 2006 the Russian government passed a plan noting that domestic prices were to be gradually increased to European export netback prices (i.e. minus transit fees and export tax) by 2011. However, change was slow, and by the end of 2007, domestic prices would still have to be raised threefold in order to reach the netback level. Moreover, after the financial crisis struck Russia in 2009, the price increase initiative was temporarily put on hold.<sup>144</sup>

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<sup>138</sup> Spanjer, “Russian Gas Price Reform and the EU-Russia Gas Relationship,” 9.

<sup>139</sup> President of Russia, “Vstupitel’noe slovo na vstreche s predsedatelem pravleniia kompanii ‘Gazprom’ Alekseem Millerom,” (Moscow: President of Russia, 2001).

<sup>140</sup> Author’s interview with Vladimir Milov.

<sup>141</sup> Russian Federation and European Union, “European Union-Russia Deal Brings Russia a Step Closer to WTO Membership,” (Brussels: Russian Federation/European Union, 2004), 1.

<sup>142</sup> Indra Overland and Hilde Kutschera, “Pricing Pain: Social Discontent and Political Willpower in Russia’s Gas Sector,” *Europe-Asia Studies* 63, no. 2 (2011).

<sup>143</sup> Russian Federation and European Union, “European Union-Russia Deal Brings Russia a Step Closer to WTO Membership.”

<sup>144</sup> Lars-Christian Talseth, “A Dialogue of the Deaf: The EU-Russia Energy Dialogue 2000–2009,” *RUSSCASP Working Paper*, no. April (2011): 22.

## Dependent Versus ‘Independent’ Gas Producers

Gazprom was not the only gas producer in Russia, but it was the only company that was allowed to export. In 2006, Putin even put Gazprom’s export monopoly into law. As long as there was a disparity between domestic and foreign prices, there was really no incentive for Russian authorities not to control exports. Otherwise, everybody would export until domestic prices reached parity. Gazprom defended this arrangement on the basis of its social commitments—if others wanted to export, they would also have to bear the domestic costs, which included financing costly infrastructure.<sup>145</sup> But while the export market remained off limits, there were potential benefits for granting increased access to non-Gazprom producers at home, given the fact that Gazprom’s own output was in decline. There were large potential upsides to this, given that the market share of non-Gazprom producers remained stubbornly low. By 2010, independent producers controlled roughly one-third of Russian gas reserves, but only 12–15 per cent of domestic consumption.<sup>146</sup> Because of this the government planned to raise the share of independent gas producers to 27 per cent in 2030.<sup>147</sup> However, independents were complaining that Gazprom was deliberately keeping them out of the Russian pipeline system.<sup>148</sup> Gazprom was a powerful regulatory authority: Every year, the Russian government and Gazprom decided the overall ‘gas balance’ for the coming year, deciding who got how much gas, when and for how much.<sup>149</sup> As a result, much of the independently produced gas was flared, which besides being a waste of perfectly useable gas was in itself a major environmental hazard.<sup>150</sup> Hence, curbing gas flaring became yet another objective of the Energy Dialogue.<sup>151</sup>

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<sup>145</sup> Author’s interview with Alexei Mastepanov.

<sup>146</sup> David G. Tarr, “Export Restraints On Russian Natural Gas And Raw Timber,” *OECD Working Paper*, no. February (2010).

<sup>147</sup> Talseth, “A Dialogue of the Deaf: The EU-Russia Energy Dialogue 2000–2009,” 20.

<sup>148</sup> Ahrend and Tompson, “Russia’s Gas Sector: the Endless Wait for Reform?,” 9.

<sup>149</sup> *Ibid.*, 7–8.

<sup>150</sup> Andreas Heinrich, “Under the Kremlin’s Thumb,” *Europe-Asia Studies* 60, no. 9 (2008): 1545.

<sup>151</sup> EU-Russia Energy Dialogue, “Sixth Progress Report,” (Moscow/Brussels: EU-Russia Energy Dialogue, 2005), 4; “Final Report of the Thematic Group on Energy Efficiency of the EU-Russia Energy Dialogue,” 2.

Meanwhile, the Commission continued its push for third-party access to pipelines, so as to enable independent producers to bring their hydrocarbons to market, both domestically and internationally.<sup>152</sup> Whereas the Russian government argued on the basis of state interests, the Commission based itself on the interests of consumers. However, such a move threatened to unravel Gazprom's hegemony. Refusal to allow third-party access was the main reason why the Russians had refused to ratify the ECT and its Transit Protocol. But as Gazprom's production levels continued to drop throughout my period, the Kremlin would see no other way than to allow independent producers a greater part in the domestic market, and, possibly, the lucrative EU market, as reflected when Novatek was allowed to join the Energy Dialogue. I will further discuss these issues in Chap 6.

## The Far Versus Near Abroad

Russia did not just want foreign investment in Russia. Putin and Gazprom wanted a better foothold in the EU market. And by this it meant a *physical* foothold. At the 2007 EU–Russia Summit in Mafra, Putin made it clear that EU investment inside Russia was ten times that of Russia's investment inside the EU.<sup>153</sup> Instead of 'just' cash, Moscow pushed for increased asset ownership on the EU market. The Energy Dialogue's 2006 Progress Report called for 'reciprocal participation of European and Russian companies *in the whole energy chain*, including through asset swaps'.<sup>154</sup> Awarding stakes in the Russian upstream would have to be met by corresponding stakes in the European downstream. Asset ownership of pipelines and retail outlets would ensure Gazprom a direct link with end consumers (until then Gazprom had only dropped off gas at the EU border).

However, this proved difficult in a market where the Commission was looking to break up monopolies, not build them. One possible explanation

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<sup>152</sup> "Synthesis Report," 2.

<sup>153</sup> Vladimir Putin, "Vstupitel'noe slovo na dvadtsatom sammite Rossiia – Evropeiskii soiuz," (Mafra: The President of Russia, 2007).

<sup>154</sup> EU-Russia Energy Dialogue, "Seventh Progress Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2006), 3.

for Russian companies' failure to breach the EU market was that they had limited experience with participating in open tenders: 'Previously, everything was settled through intergovernmental agreements', as one senior Czech energy diplomat noted.<sup>155</sup> The Commission's consolidation of the internal market and the push for ownership unbundling posed a challenge to Gazprom's business model. Furthermore, events had made EU industry more wary of doing business with Russia. The Sakhalin-2 and Kovykta incidents were important in this regard, although even more crucial was the Ukraine crisis, to be discussed in the next chapter. With energy prices through the roof, Russia and Gazprom were increasingly perceived as a threat to the EU's energy security.<sup>156</sup>

Gazprom's physical presence in the EU market would remain negligible. But in the former Soviet space, it was a different matter. The Baltics represented one of Gazprom's most important target regions.<sup>157</sup> When the Baltic states became independent in 1989, there were over 1.7 million ethnic Russians still living there. The significant Russian presence impacted all aspects of life in the Baltics, and energy was no exception. As one observer commented, 'ethnic Russians business interests played a disproportionately important role in the Baltic energy sector and sought to influence energy policies towards Russia'.<sup>158</sup> After the fall of the Soviet Union, Gazprom quickly moved to reconsolidate its assets in the Baltics. During the 1990s, Gazprom acquired large stakes in major companies such as Eesti Gaas and the Latvian gas monopolist Latvijas Gāze. In March 2004, a mere two months before Lithuania's accession to the EU, Gazprom bought 37.1 per cent of Lietuvos Dujos, Lithuania's main natural gas company, together with E.ON Ruhrgas and the Lithuanian State Property Fund.<sup>159</sup>

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<sup>155</sup> Author's interview with Vaclav Bartuska, Amassador-at-Large for Energy Security at the Czech Ministry of Foreign Affairs [Phone, 28.05.12].

<sup>156</sup> Goldman, *Petrostate : Putin, Power, and the New Russia*.

<sup>157</sup> Agnia Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia* (Farnham: Lund Humphries Publishers, 2013), 104.

<sup>158</sup> Ibid.

<sup>159</sup> Ibid., 115.

## Mazeikiu Nafta

Still, the fight for control over the Baltic energy system was not always painless. There were frequent confrontations. When Russian investors failed to acquire the companies Ventspils Nafta (in 2003) and Mazeikiu Nafta (in 2006), Russian oil supplies were cut permanently closed, for dubious reasons. Mazeikiu Nafta was owned by Yukos, which had been forced to sell off its assets to pay the fines imposed by the Russian government in the wake of Khodorkovsky's arrest. Both Rosneft and TNK–BP had lost out to Polish PKN Orlen in the bid for the refinery. Lithuanian officials had described the shutoff as 'political'. According to the officials, the decision to cut supplies off had been taken at a 'very high level' so as to force Orlen to drop its bid for the refinery. According to these officials, Igor Sechin had personally masterminded the shutoff, and had put strong pressure on both Lukoil and TNK–BP to not sign any further oil contracts with the refinery. However, the Russians had backed down when the Lithuanians began hinting of the possibility of 'problems' with the rail link to the Russian exclave Kaliningrad.<sup>160</sup>

The new Latvian Energy Commissioner and main interlocutor for the Energy Dialogue, Andris Piebalgs, took personal interest in the incident. In a letter beginning with 'Dear Minister', but with 'Dear Viktor' added in handwriting, Piebalgs expressed his concerns:

As I am sure that we are both aware, in order to ensure that companies are willing to invest in multi-billion Euro energy projects, a secure and predictable investment climate is necessary. Without this, investment in new energy projects will be highly problematic, providing uncertainties for the world's future energy supply. This is one of the important issues that the EU-Russia Energy Dialogue enables us to consider to our mutual advantage.

In many ways, the letter summarised the considerable challenges of facilitating investment between the EU and Russia. Piebalgs drew a line between Mazeikiu and other similar incidents, and 'specifically in relation

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<sup>160</sup> Rebecca Dunham et al., "Lithuania Receives Letters of Support on Energy from European Commission," no. 06VILNIUS982 (2006).

to the developments such as Sakhalin-2'. The Commissioner concluded that the Energy Partnership envisaged by the Energy Dialogue was contingent upon the resolution of these issues, and the guarantee of a stable business environment:

The successful EU-Russia Energy Partnership is based on the mutual respect of transparency, predictability, and non-discrimination. The investments of EU companies in Russia need to be examined in this light. Indeed this principle must apply as much to the ability of Russian companies to invest and sell gas and oil freely at both upstream and downstream levels in the EU as much as the ability of EU companies to invest in Russia.<sup>161</sup>

I mentioned that EU-based companies were hesitant to get invested in Russia, given the uncertain business climate in the country. The Mazeikiu Nafta incident was widely considered as another dubious example of the machinations of Russia's dual state, and of Moscow using energy as a political tool. This tendency was especially apparent in the former Eastern Bloc. There were over 50 known incidents where Russian energy exports had been cut off, most of which occurred inside Eastern Europe and the CIS.<sup>162</sup> Before 2004, Moscow could deal with these countries with impunity. But after the EU expansion into Eastern Europe, countries such as the Baltic states would increasingly raise their concerns at the EU level. However, the most important country, Ukraine, remained on the outside of the EU and the Energy Dialogue, the consequences of which I will discuss when I turn to the geoeconomic dialogue, next.

## Epilogue: Results?

The Energy Dialogue promised a torrent of investment, but ultimately had few achievements to its name. Nevertheless, three very minor milestones stand out. The first was a feasibility study for electricity interconnection. I have written little about electricity in this book, even though

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<sup>161</sup> Ibid.

<sup>162</sup> Agnia Grigas, "Can EU Face Russia Down over Energy Policy?," *Open Democracy*, 18 March 2013.



electricity was part of the formal agenda of the Energy Dialogue ever since 2000. Given the technical differences between the EU and post-communist electricity grids, Russia and the EU did not trade in electricity, including nuclear energy. The only exceptions were the Baltic states and Finland, which were connected to the Russian grid. The feasibility study was one of the few projects to which the Russians actually channelled funds, much due to the initiative of Anatoly Chubais, the powerful chairman of the Russian electricity monopoly RAO UES. The feasibility study lasted from 2003 to 2008. The final report concluded that interconnection was indeed possible, but that it would require surmounting considerable institutional, political and commercial obstacles.<sup>163</sup>

What was not communicated in the report was that there was limited commercial interest in such a venture, on both sides of the table, and that this had been well known since before the launch of the study.<sup>164</sup> According to one of the participants of the study, the Commission was well aware that electricity trade was futile, but that the study was needed 'for political reasons', and hence would be fully funded for the duration of the project.<sup>165</sup> With the study the Energy Dialogue had an achievement to its name. Other achievements included the three so-called pilot projects for energy saving in the Russian towns of Arkhangelsk, Astrakhan and Kaliningrad. This was one of the few projects of the Energy Dialogue that was financed through TACIS. But it was limited to analysis, not actual implementation,<sup>166</sup> meaning the actual effects of these pilot projects were opaque. No money had come from the Russians, who on average had remained highly disinterested in everything that had to do with energy savings.<sup>167</sup> Therefore, once the analysis phase was over, the projects petered out, never to be mentioned again.

A final early project initiated by the EU–Russia Energy Dialogue was to build a European Technology Centre in Russia. The goal of the centre

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<sup>163</sup> UCTE IPS/UPS Study, "Feasibility Study: Synchronous Interconnection of the IPS/UPS with the UCTE, Summary of Conclusions," (Brussels: Union for the Co-ordination of Transmission of Electricity, 2008).

<sup>164</sup> Author's interviews with Klaus Kleinkorte; Seppo Remes; Christian Cleutin.

<sup>165</sup> Author's interview with Klaus Kleinkorte.

<sup>166</sup> Author's interview with Christian Cleutin.

<sup>167</sup> Author's interview with Luc Werring, former Head of Unit, DG TREN [Moscow, 11.03.12].

was to ‘enhance co-operation between the EU and Russia on new energy technologies and facilitate the attraction of investment for technology projects of common interest’.<sup>168</sup> Again, the funding came from the EU side. This time the money was not from TACIS, but from a special envelope designated for energy efficiency projects. It was all rather random, as the EU coordinator recalled:

We found that there was some money left (laughs), so we launched this Tech Centre. The Russians were supposed to put at disposal premises and logistical arrangements. I think that we had about three million euro.<sup>169</sup>

In November 2002, the ETC was opened in Moscow. But for reasons unknown, the Russians were not really interested. Even Khristenko himself was against it, according to one official.<sup>170</sup> One reason for this may have been the centre’s stated environmental focus.<sup>171</sup> For the Russians, technology meant expertise in offshore drilling, liquefied natural gas (LNG) facilitation and the like, not energy-efficient light bulbs. There was no enthusiasm. The ETC applied for TACIS funds to continue its work, but in the end it did not receive anything.<sup>172</sup> And when the Russians refused to provide any money for the centre, the ETC was shut down.

All in all, the results of the dialogue proved disappointing to the Russians, who were originally expecting torrents of capital to pour in. As the Russian coordinator of the Energy Dialogue during its first years admitted: ‘This was a kind of absolute minimum of their hopes, but nobody was expecting that the minimum would be the end’.<sup>173</sup> One big reason for this was that the voice of business in the Energy Dialogue remained muted.

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<sup>168</sup> Viktor Khristenko and François Lamoureux, “Inauguration of the Center by V Khristenko and F. Lamoureux,” in *Inauguration of the EU-Russia Energy Dialogue Technology Center* (2002).

<sup>169</sup> Author’s interview with Christian Cleutin.

<sup>170</sup> Author’s interview with EU Official B.

<sup>171</sup> EU-Russia Energy Dialogue, “Seventh Progress Report,” 6.

<sup>172</sup> “Sixth Progress Report,” 5–6.

<sup>173</sup> Author’s interview with Alexey Mastepanov.

## Conclusions

‘Monologism, at its extreme, denies the existence outside itself of another consciousness with equal rights and equal responsibilities.’<sup>174</sup> Again, monologism, as per Bakhtin, was more a theoretical construct than actual reality. The Energy Dialogue was by no means monological in its relations with the energy industry, although it should be clear from this chapter that the voice of business was weak relative to that of the bureaucrats. As such, industry was denied true authorship of the narrative of the envisaged EU–Russia energy partnership. This was apparent on both sides of the table: in the EU, where the Commission deprived industry of meaningful participation, and in Russia, where private enterprise was increasingly seen as a threat against state power, and something that had to be controlled. The problem of proper business representation would continue to plague the Energy Dialogue throughout its existence. But the lack of representation was not constrained to industry. At the end of the chapter, I briefly discussed the clash over the Mazeikiu Nafta refinery in Lithuania. As I now turn to the next chapter and the geoeconomic dialogue, I will discuss the politics of space. There I will show the dramatic impact of countries which remained wholly on the outside of the Energy Dialogue, like Georgia and Ukraine, and countries that were once on the outside but were later let in, like the new EU member states.

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<sup>174</sup> Bakhtin, *Problems of Dostoevsky's Poetics*, 293–3.

# 5

## The Geoeconomic Dialogue (2006–2009)

This chapter aims to show how space influenced the Energy Dialogue, and its failure to define common narrative for a binding energy partnership. Energy is a commodity that is dependent on physical transportation across vast distances. Geopolitics, or in this case geoeconomics, was crucial to the EU–Russia Energy Dialogue. The ultimate objective of the Energy Dialogue was a ‘Unified’ (Lamoureux) or ‘Greater’ (Putin) Europe. Similarly, space was also central to Bakhtin’s concept of dialogue. For Bakhtin, space, like time, was at once part of the *a priori* basis of cognition, but also a highly contested concept. A recent example of this is the status of the Ukrainian peninsula of Crimea, which Moscow today claims is part of Russia, after annexing it in March 2014. This makes dialogue similar to what in recent years has become known as critical geopolitics, the basic concept of which is that we construct narratives about space, which in turn influence how we perceive politics, people and places.<sup>1</sup> Europe looked very different from Moscow than from Brussels—or from Kiev, Tallinn or Warsaw, for that matter.

The chapter begins with Russia’s Euro-Asian narratives. Great power Russia wanted closer ties with the EU, but also to pursue what Viktor

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<sup>1</sup>Ian Klinke, “Chronopolitics A Conceptual Matrix,” *Progress in Human Geography* (2013).

Khristenko called ‘multi-vector diplomacy’. Beyond the EU–Russia Energy Dialogue, this led Russia to set up a US–Russia Energy Dialogue and a Sino–Russian Energy Dialogue. The most important vector in Russian foreign energy policy was nonetheless the Commonwealth of Independent States (CIS), leading me again to the Post-Imperial narrative. Despite Russian designs, intra-CIS relations were tenuous, exemplified by the 2004 ‘Orange Revolution’ in Ukraine, where large parts of Ukrainian civil society preferred closer ties with the West rather than with Russia. The Orange Revolution paved the way for the first Ukrainian gas crisis of 2006. Russia by now considered itself an ‘energy superpower’, but the crisis severely damaged Russia’s reputation as a reliable energy supplier to the EU.

For the EU Commission, the Ukraine crisis was a ‘godsend’. It bolstered the European narrative, by delivering a much needed excuse for further energy market integration, both internally and *vis-à-vis* Kiev, where Russian and EU narratives were now coming head-to-head. Still, much remained before the EU could speak with a common voice. The EU25 narratives had grown increasingly diverse after the expansion of 2004, and the new member states were not particularly interested in the Energy Dialogue. But then Russia’s Post-Imperial narrative resurfaced yet again, first with the Georgian War of August 2008 and then with the second Ukrainian crisis a few months later, in January 2009. After the 2009 crisis, the Commission’s *idée fixe* became diversifying away from rather than integrating with Russia—which responded in kind by launching its own diversification policy. To be sure, Russia and the EU remained tethered to one another, with both dependent on the other. But whereas Moscow and Brussels remained economically interdependent, politically they were drifting apart (Fig. 5.1).

## Russia’s Euro-Asian Narratives

Russia was looking for closer cooperation with the EU, as Putin had made clear after the launch of the Energy Dialogue.<sup>2</sup> Yet despite this Eurocentric foreign policy, Russia never let go of its plans for what Victor Khristenko

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<sup>2</sup> Agence France Presse, “Putin in Paris to Boost Russian Relations with EU.”



**Fig. 5.1** The goeconomic context of the EU–Russia Energy Dialogue (© European Union/INOATE 2012. Licence: <http://www.inogate.org/pages/disclaimer-n-copyright-notice?lang=en>)

described as ‘multidirectional integration’.<sup>3</sup> In February 2004, Khristenko published an op-ed describing Russia’s ambitions in the world. Russia was a crucial partner of any international organisation, Khristenko argued. However, Russia had no intention of joining the EU. Nor did it want to join any other organisation. The solution for Russia, according to Khristenko, was not excessively rapid liberalisation of the type promoted by Western institutions. Instead, Russia should create a ‘uniform space’ towards both East and West, and most importantly with Russia’s immediate neighbours in Belarus and Kazakhstan. ‘If our economic space expands outside the Russian borders, foreign investors would become domestic investors,’ Khristenko argued, seemingly oblivious to the neo-imperial overtones of his statement. In his view ‘[a] space similar in its functions must be formed with the anticipation of united Europe not

<sup>3</sup> Viktor Khristenko, “Making Headway to Integration,” *Russia in Global Affairs*, no. 17 February (2004): 1.

only in the East (Common Economic Space, CES), but also in the West (Common European Economic Space, CEES).<sup>4</sup> Khristenko's ultimate goal was a 'trans-European space', which in turn would invoke centripetal forces, attracting surrounding countries around the Russian core:

This will result in a new quality of economic interaction within the vast space of Eurasia. This interaction could be the source of growth that Russia needs in order to re-join the ranks of the rich, developed, strong and respected nations once again.<sup>5</sup>

But Putin was losing his patience. In February 2004, only a few days after publishing his op-ed, Khristenko was demoted from the rank of Deputy Prime Minister to Minister of Industry and Energy. He was replaced by the anodyne *silovik* Mikhail Fradkov (who in 2007 would go on to head Russia's foreign intelligence service, the SVR). The Energy Dialogue remained under Khristenko's stewardship, which meant that the dialogue was demoted with him. Putin wanted to pursue other vectors, most importantly the CIS, which I will return to below. Nonetheless, there were secondary 'vectors' to Russia's foreign policy, foremost of which were China and the USA.

## The Russia–US Energy Dialogue

During the Cold War, the Soviet Union and the USA represented the two 'poles' of the bipolar world order. The antagonism between Moscow and Washington drove the geopolitics of the era. Even after the breakup of the Soviet Union, Russia remained deeply suspicious of the USA. It was also a common perception, especially among the older generation of Russian officials, that the American government controlled Brussels.<sup>6</sup> At the same time the early 2000s was a period of relatively good Russo-US relations. The terrorist attack against the World Trade Center in September 2001, and Washington's subsequent 'war on terror', was a window of

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<sup>4</sup> Ibid., 2.

<sup>5</sup> Ibid., 7.

<sup>6</sup> Author's interview with Nodari Simonia; Ivanov, "La Russie et l'Europe : des actes."

opportunity for the Kremlin, which remained deeply concerned about its own terrorist insurgency in Chechnya.

This rapprochement facilitated cooperation in other spheres, like energy. In 2002, Vladimir Putin and US President George W. Bush launched the Russia–US Energy Dialogue. The USA was the world's single biggest consumer of petroleum. By 2002, imports accounted for over 60 per cent of US demand.<sup>7</sup> The Russia–US Energy Dialogue was a convenient venue for bilateral talks between Russian and US companies. Like its EU counterpart, the Russia–US dialogue sought to ensure political collaboration between the two parties. It was part of an attempt to create a wider group of stakeholders to promote the relationship between Moscow and Washington.<sup>8</sup> On the Russian side, the US dialogue was conducted by many of the same people involved in the EU–Russia Energy Dialogue, and the Russian participants of the two dialogues would draw on each other's experiences.<sup>9</sup> Still, many were dismissive, with one US commentator calling it a mere 'photo-op' without any real content.<sup>10</sup>

The US dialogue did have a few advantages to the EU dialogue, however. As opposed to the EU dialogue, which had no real private-sector support, the Russia–US Energy Dialogue was personally sponsored by Mikhail Khodorkovsky, among others.<sup>11</sup> In September 2003, during the 300th anniversary of St. Petersburg, over 250 American government officials, including the US Secretary of Commerce Don Evans and the Secretary of Energy Spencer Abraham, visited Putin's hometown for a high-level energy summit. It was a follow-up to a similar summit arranged in George W. Bush's home state of Texas. The Russian delegation included Khristenko and Herman Gref. Evans and Abraham even met with Putin himself. Although the US–Russia relationship had again soured after Washington expanded its 'War on Terror' to Iraq, and despite the fact

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<sup>7</sup>Alexandar Todorov, "Energy Dialogue between Russia and the US," *Geopolitika*, no. 12 July (2010).

<sup>8</sup>Angela Stent, *The Limits of Partnership: U.S.-Russian Relations in the Twenty-First Century*. Princeton, NJ: Princeton University Press, p. 81.

<sup>9</sup>Author's interview with Mikhail Soloviev, Ministry of Industry and Energy, Russia [Moscow, 06.03.12].

<sup>10</sup>Chow Edward Chow, "US-Russia Energy Dialogue: Policy, Projects, or Photo Op," *Foreign Service Journal* 80 (2003).

<sup>11</sup>Author's interview with EU Official A.



that NATO was about to expand into Eastern Europe, the summit was nonetheless described as a 'high-water mark in the U.S.-Russia energy dialogue'.<sup>12</sup>

In the end, the Russia–US dialogue was short-lived. Only one month after the summit, Khodorkovsky was arrested. In a tick, the dialogue had lost its main benefactor.<sup>13</sup> The Yukos case put off both major investors and key politicians, including President George W. Bush, who no longer considered Russia a safe prospect.<sup>14</sup> Shortly thereafter, the Russia–US Energy Dialogue was disbanded. It later resurfaced in 2009 as part of the US–Russia Bilateral Presidential Commission, but without yielding much in terms of tangible results.

## The Sino-Russian Energy Dialogue

Yet another vector of Russian foreign energy policy was China. With its 1.3 billion inhabitants, and a booming economy exceeding 10 per cent growth per year, the Chinese market represented a potential Klondyke for Russian energy exports. China's growth had generated an oil glut that near single-handedly contributed to the rising oil price of the 2000s. In 2008 Russia and China launched their own energy dialogue, led by Deputy Prime Minister Igor Sechin himself. The appointment of Sechin mirrored the early significance of the EU–Russia Energy Dialogue, when Khristenko was Deputy Prime Minister. Putting the 'energy czar' himself in charge of the initiative was a strong signal of just how important China was for Russia. The same year Khristenko was relieved from his post as Minister of Industry and Energy. He was replaced by Sergei Shmatko, an anodyne bureaucrat who became Minister of Energy (Khristenko remained Minister of Industry, but lost the energy portfolio, and hence the responsibility for the Energy Dialogue). Shmatko himself confessed to being 'extremely interested' in developing ties with China.<sup>15</sup>

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<sup>12</sup> Chow, "US-Russia Energy Dialogue: Policy, Projects, or Photo Op," 31.

<sup>13</sup> Ibid.

<sup>14</sup> Walter Von Mayr, "Oligarchen im Staatsdienst," *Der Spiegel*, 27 December 2004.

<sup>15</sup> Sergei Shmatko, "Minenergo maksimal'no zainteresovano v uglublenii i razvitii energeticheskogo dialoga mezhdu RF i KNR," *Nefi' Rossi*, 5 September 2011.

But as with the EU dialogue, high-level appointments and solemn rhetoric did not eliminate what were in fact deep-rooted differences. The first crucial obstacle was gas prices. Beijing wanted to keep prices low, whereas Moscow was pushing high. The issue remained deadlocked for years. While Russian oil exports slowly picked up pace in the 2000s, gas remained a non-issue. Even if Moscow and Beijing had succeeded in negotiating a price through the Sino-Russian Energy Dialogue, the lack of gas-related infrastructure in Eastern Siberia would render this difficult in the foreseeable future. Russian gas infrastructure was primarily located in the country's western regions, and its pipelines remained tethered to the European market. In this respect, the Sino-Russian Energy Dialogue was much more limited than the one Russia had with the EU, as one Russian official later confessed.<sup>16</sup>

Secondly, China was pursuing its own multidirectional policy of cooperation. And Russia was not a privileged vector in this context. In many respects Beijing and Moscow were competitors. In 2009, China broke Russia's monopsony over Turkmenistan, discussed in Chap. 2, when the Central Asia-China gas pipeline was inaugurated. More such projects would follow. During visits, Putin shifted his Eurocentric narrative to a more Sino-centric narrative, lauding the historic kinship between the two neighbours, who were 'just like people living next door'.<sup>17</sup> But it was just diplomatic courtesy. In actuality, the relationship between Moscow and Beijing was characterised by differing priorities, mistrust and geopolitical bickering. Instead of a 'strategic partnership', as oft invoked by both Chinese and Russian politicians during summits, the relationship was more akin to an 'axis of convenience'—a tenuous, sometimes useful, but never exclusive relationship, to be invoked when the parties needed someone to stand together with on unpopular issues in the face of international opposition.<sup>18</sup> According to one leading specialist on Sino-Russian energy relations, the elusiveness of deep cooperation had less to do with specific

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<sup>16</sup>Igor Tomberg, "Public Component of Russia-China Energy Dialogue," *RIA Novosti*, 10 June 2013.

<sup>17</sup>Government of the Russian Federation, "Prime Minister Vladimir Putin's Interview to the Chinese Media," (Moscow: Government of the Russian Federation, 2009).

<sup>18</sup>Bobo Lo, *Axis of Convenience, Moscow, Beijing, and the New Geopolitics* (Washington, D.C.: Brookings Institution Press, 2008).

issues than with the overall mentality of the two countries: ‘Russia is still a long way off to be an integral part of Asia,’ he said. ‘To this day, Russia fails to understand Asian way of thinking and it will take it a long time to be accepted as genuine part of Asia.’<sup>19</sup> This brings to mind the famous Dostoyevsky quote, where the seminal author lamented Russia’s maladjustment in the world: ‘In Europe we were Tatars, while in Asia we are Europeans too’.<sup>20</sup> Facing West, Russia was kept out of an ever-expanding EU, whereas facing East, it was excluded by a rising China. The Russia–China Energy Dialogue suffered much the same fate as the US–Russia Energy Dialogue, and indeed the EU–Russia Energy Dialogue—much talk but little output.<sup>21</sup>

To be sure, Russia also collaborated with China through the Central-Asian security initiative the Shanghai Cooperation Organisation (SCO), and through the Asia-Pacific Economic Cooperation (APEC). But none of these initiatives delivered much substance in terms of energy cooperation. Energy relations remained deadlocked until 2013, when Russia and China signed a \$270 billion oil deal. In May 2014, after the annexation of Crimea, Russia and China followed up with an agreement for gas supply valued at \$400 billion. Nonetheless, progress was slow, and for the time being the relationship remains far removed from a strategic partnership.

## The Post-Imperial Narrative

Despite efforts at diversifying into the USA and China, Putin still considered the CIS as the main vector in Russian foreign and energy policy. Putin had long wanted to forge closer ties with the former Soviet states. On 12 July 2004, two months after the EU’s expansion into Eastern Europe, Putin underlined the need for closer cooperation with the CIS states, including The Eurasian Economic Community (EurAsEC) and

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<sup>19</sup> Yasmina Sahraoui, “Keun-Wook Paik: Moving East Or Moving West: What Happens Next In The Gas World?,” *Natural Gas Europe*, 29 November 2012.

<sup>20</sup> Fyodor Dostoyevsky, *A Writer’s Diary* (Evanston, Ill.: Northwestern University Press, 1993), 1374.

<sup>21</sup> Tomberg, “Public Component of Russia-China Energy Dialogue.”

the CIS Common Economic Space. Putin wanted to reaffirm Russia's geopolitical position in the face of an expanding West:

The latest wave of EU and NATO expansion has created a new geopolitical situation on the continent, and the task now is not so much to adapt ourselves to it as, first, to minimize the potential risks and damage to Russia's economic security interests and, second, to find here advantages for ourselves and turn them to good account.<sup>22</sup>

For Russia, energy and geopolitics were always intertwined. The 2003 version of the official Russian energy strategy, which served as the official Russian policy narrative for the Energy Dialogue, began by stating that energy was 'a tool of internal and foreign policy' for a country, which 'largely determines its geopolitical influence'.<sup>23</sup> Nowhere was this truer than in the Soviet space, whose complex pipeline system spanned across every nook and cranny. After the breakup of the Soviet Union, this system disintegrated. The dissolution of the Comecon—the 'Communist EU'—and the Warsaw Pact—the 'Communist NATO'—introduced the transit element to the Russo-European gas trade.<sup>24</sup> This created considerable difficulties for Moscow, for whom many of these states remained part of what official Russian documents classified as Russia's 'near abroad' (*blizhnee zarubezhe*).

The EU expansion would further complicate things for Moscow. The extension of the internal market into the post-Soviet space posed a severe threat against Russian commercial and political interests, as seen from the Kremlin. Since the launch of the Energy Dialogue, there were several incidents where Russia and a former Soviet state came to blows over energy. On over 50 occasions Russia had cut off its energy exports, most of which were to the CIS and Eastern Europe.<sup>25</sup> Despite this, some Russian liberals looked favourably upon the expansion of the EU, including the liberal

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<sup>22</sup> Vladimir Putin, "Vystuplenie na plenarnom zasedanii soveshchaniia poslov i postoiannykh predstavitelei Rossii," (Moscow: President of Russia, 2004).

<sup>23</sup> Government of the Russian Federation, "Energeticheskoi strategii Rossii na period do 2020 goda," (Moscow: Government of the Russian Federation, 2003).

<sup>24</sup> Katja Yafimava, *The Transit Dimension of EU Energy Security* (Oxford: Oxford University Press, 2011), 5.

<sup>25</sup> Grigas, "Can EU Face Russia Down over Energy Policy?."

Andrei Illarionov, Putin's former economic adviser, who described it 'one of the most important events in global history'. In Illarionov's view, Europe had reunited west of the Curzon line, the historical demarcation line between Poland and Bolshevik Russia. As if that was not enough, the expansion had also bridged 'the old boundary between Catholics and the Orthodox Church', according to Illarionov.<sup>26</sup> Others were much more dismissive. Especially caustic was Ivan Ivanov, the hawkish former Deputy Foreign Minister, who had been a senior official in the Energy Dialogue on the Russian side during the first years. Ivanov harshly criticised the EU for wanting to 'revise the "Potsdam" model', referring to the post-World War II division of Europe between the Soviet Union, the United Kingdom and the USA. Ivanov advised against the inclusion of Poland and the Baltic states into the EU, which he claimed would draw new dividing lines on the European map.<sup>27</sup> Ivanov was also concerned about the effects of the expansion on the Energy Dialogue's ability to act as an efficient decision-making body:

What the European Union agrees to at talks with Russia is the threshold acceptable for all of its 15 members [...] I cannot imagine how we will manage to make compromises when the number of EU members reaches 30.<sup>28</sup>

As for Russia integrating with the EU, Ivanov was equally dismissive. To him 'empires [like Russia] rarely attach themselves to others, but build their own'.<sup>29</sup> This was well enough. By 2004, neither party was looking to integrate with the other. The problem after the EU expansion was that the two parties' gazes were fixed on the same construction site, namely Russia's near abroad.

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<sup>26</sup> Illarionov, "Press Conference with Presidential Economic Adviser Andrei Illarionov, Alexander House."

<sup>27</sup> Ivanov, "E dinyi vnutrennii rynok es: svet, teni, istoricheskaja perspektiva," 32.

<sup>28</sup> Interfax, "Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow."

<sup>29</sup> Ivanov, "Raschishchat' puti k zrelomu partnerstvu Rossii i Evrosoiuza."



Fig. 5.2 The Commonwealth of Independent States includes Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan and Uzbekistan, with Turkmenistan and Ukraine as observers. Georgia withdrew from the CIS after the Russo-Georgian war in 2008 (© OECD/IEA 2012, IEA Publishing. Licence: [www.iea.com/t&c](http://www.iea.com/t&c))

## The Commonwealth of Independent States

Khristenko, with Putin's explicit support, wanted to build relations with the CIS as a counterweight to the expanding EU. The 'profound systemic crisis' caused by the breakup of the Soviet Union had yet to be overcome, as Khristenko had admitted. In this context, both the CIS and EurAsEC had 'prevented centrifugal forces from pulling us irreparably apart'. The fear of centrifugal forces undermining the narrative integrity of the post-Soviet space is exactly out of Bakhtin's playbook. Still, further integration was needed before integration within the CIS would be strong enough to withstand outside pressure. With the upcoming expansion of the EU and concomitant expansion of the PCA, the Energy Dialogue would expand its geographical scope. But so would the political reach of the EU also grow. Khristenko acknowledged that some CIS countries were seeking to

join the EU. This was something Russia did *not* wish, as Russia's goal was 'instituting economic *spaces*', one west and another east, 'while retaining its sovereignty' (Fig. 5.2).<sup>30</sup>

Khristenko promised that Russia's designs for its near abroad should not be confused with neoimperialism. He assured that 'Russia cannot and will not impose its plans on anyone; it has no intention of expanding into foreign lands'.<sup>31</sup> But if hard (force) power was off the tables—at least for the time being—Russia nonetheless relied on its soft (attractive and persuasive) power.<sup>32</sup> According to Khristenko, there was a 'complex combination of political, economic, legal, historical, cultural and civilizational factors, which is unique for each country'. Within the CIS countries, these narrative factors converged more than anywhere else, Khristenko argued. To him the CIS space was a sphere of Russian strategic interests. The CIS represented one quarter of Russian trade. The confluence of strategic interests and common traditions was a potent mix that opened for prosperous cooperation.<sup>33</sup> But this was easier said than done. The country ostensibly closest to Russia—Ukraine—would pose the biggest challenge.

## Ukraine, the Orange Revolution and the 2006 Gas Crisis

Ukraine means 'borderland' in Russian, and after the EU expansion it would really live up to its name. Ukraine was truly a country divided between east and west. Of a total population of 50 million, roughly 20 million were Russian speaking, whereas the rest spoke Ukrainian. The Russians and Ukrainians were very close. Indeed, the two countries were close to the point that they had a hard time conceiving of themselves as different countries, as one influential Russian energy economist pointed out to me.<sup>34</sup> For many years after the breakup of the Soviet Union, the

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<sup>30</sup> Khristenko, "Making Headway to Integration," 4–5, my emphasis.

<sup>31</sup> Khristenko, "Making Headway to Integration," 4.

<sup>32</sup> Joseph S. Nye, *The Paradox of American Power* (Oxford: Oxford University Press, 2002).

<sup>33</sup> Khristenko, "Making Headway to Integration," 4.

<sup>34</sup> Author's interview with Russian Industry Official [Moscow, 14.03.12].



relationship between Russia and Ukraine remained cordial, and energy transit through Ukraine—which throughout most of the 2000s accounted for 80 per cent of Russia’s gas exports to the EU—continued at pace.

The gas pipeline traversing Ukraine was called *Bratstvo*, which is Russian for ‘brotherhood’. Ukraine received discounted gas from Russia, and payments were often made in barter. But even under these lenient conditions the Ukrainians failed to meet all deadlines, and so they amassed large arrears. As long as Brotherhood was Gazprom’s main export pipeline, it would remain vulnerable to the vagaries of Ukrainian politics. Because of this, there were plans to create a pipeline to bypass Ukraine even before the Energy Dialogue was launched.<sup>35</sup> Nevertheless, the Russians remained amenable, defending their generous discounts on ‘brotherly’ grounds, as then Prime Minister Mikhail Kasyanov described it in 2001.<sup>36</sup>

The big turning point came in 2004, a mere few months after the EU’s expansion into Eastern Europe. In November, Ukraine carried out presidential elections. The pro-Russian Viktor Yanukovich was declared the winner, and was swiftly congratulated by Putin. But the supporters of his opponent, the pro-Western Viktor Yushchenko, cried foul, claiming that the election had been rigged. When the authorities refused to yield, protesters took to the streets, launching a several week-long protest movement. The protesters’ official colour, orange, gave name to the movement—‘the Orange Revolution’. After weeks of protest, the circle around Yanukovich finally yielded. Another run off was held at the end of December, with Yushchenko emerging victorious with 52 per cent of the vote. Hence, Yanukovich was forced to step down.

The Orange Revolution made a momentous impact on Russo-Ukrainian energy relations. Russia no longer wanted to subsidise Ukraine, whose new government had assumed power on what Moscow considered to be a virulently anti-Russian platform. So, the Kremlin stepped up its push towards market pricing for gas to Ukraine. Negotiations continued throughout 2005, until they finally collapsed on 1 January 2006. Gazprom did not linger. It swiftly reduced the pressure of the gas pipelines through Ukraine. The shutoff caused sensation. The international

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<sup>35</sup> Moscow Times, “New Gas Pipeline to Skip Ukraine,” *The Moscow Times*, 1 July 2000.

<sup>36</sup> Raff, “Analysts: Ukraine Got Best of Gas Deal.”



community accused Russia of bullying its smaller neighbour. Russia was applying pressure on Ukrainian politicians for the latter's overtures towards both NATO and the EU. Russia, meanwhile, refused to admit guilt, and instead accused Ukraine of illegally siphoning gas from its pipelines.<sup>37</sup> The crisis was short-lived, and normal gas volumes resumed on 5 January. The parties concluded a five-year contract, including a provision to revise prices every six months. But Russia's reputation was irreparably damaged. In the eyes of much of the West, Moscow was painted as the aggressor, with some drawing comparisons with the Soviet Union, and Gazprom as the new Red Army.<sup>38</sup>

## The G8 Summit

The first Ukraine crisis triggered a number of responses. On the Russian side, the main response came during the 2006 Russian presidency of the G8. Energy security was by now the new buzzword in Europe. At the G8 summit in St. Petersburg, the Russians distinguished between 'security of supply', which was the main concern of importers such as the EU, and that which Moscow called 'security of demand', which included transit.<sup>39</sup> It was not just the EU that needed energy security. Russia, as a supplier, was also dependent on secure markets and transit—the latter a clear reference to the Ukraine incident a few months earlier. The G8 summit was the test case for the Kremlin's new energy strategy, titled 'energy superpower'. The strategy was coined by senior Putin aide Igor Shuvalov, according to whom Russia should convert oil and gas into political influence. Basically, Russia would supply Europe with energy in return for friendship and loyalty.<sup>40</sup> A few months later, Putin tried to distance him-

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<sup>37</sup> Stern, *The Russian-Ukrainian Gas Crisis of January 2006*.

<sup>38</sup> Fiona Hill, "Moscow Discovers Soft Power," *Current History* 105, no. 693 (2006): 341.

<sup>39</sup> G8 presidency of the Russian Federation in 2006, "Global Energy Security," (St. Petersburg: The G8 presidency of the Russian Federation in 2006, 2006).

<sup>40</sup> Zygar, Mikhail. 2016. *All the Kremlin's Men: Inside the Court of Vladimir Putin*. New York, NY: PublicAffairs, pp. 218–219.

self from the concept, claiming that ‘superpower’ was a Cold War term, invoked by opponents of Russia, in order to put it in a bad light.<sup>41</sup>

The Ukraine crisis was on everybody’s lips, at least the people who were working on European energy policy. It was somewhat striking, therefore, that the Ukraine crisis was not reflected in the Energy Dialogue’s reports. The interlocutors did supplement its annual progress report with an extraordinary ‘interim report’, ahead of the Russia–EU Summit in May 2006. In it the parties stressed the need for secure energy supplies. However, the report also underlined that ‘Russia has been and remains a reliable gas and other fossil fuels supplier to the EU’.<sup>42</sup> Ukraine was never mentioned. Nor was it named in the annual progress report, published in November.<sup>43</sup> The reason for this absence was obvious. The parties had failed to find a common narrative for the events, and instead opted to paper over it with general statements, as former Russian Prime Minister Mikhail Kasyanov lamented a few months after the Ukraine crisis:

Regularly published ‘progress reports’ on energy dialogue refer now to quite a narrow circle of specific activities, like TACIS-sponsored energy efficiency projects in certain Russian cities. These ‘tactical’ projects are indeed important, but much less productive in absence of mutual understanding of political strategy of the *bigger* dialogue [...] which is simply not discussed today.<sup>44</sup>

There were indeed major unresolved questions remaining, as the annexation of Crimea of 2014 would later testify to. But whereas the EU–Russia energy trade was becoming geopolitical, the EU–Russia Energy Dialogue had become exceedingly technical.

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<sup>41</sup> Putin, Vladimir. 2006. Transcript of Meeting with Participants in the Third Meeting of the Valdai Discussion Club. Moscow: President of Russia. <http://en.kremlin.ru/events/president/transcripts/23789>

<sup>42</sup> EU–Russia Energy Dialogue, “Interim Report—to Be Presented at the Russia–EU Summit, 25 May 2006 by the Parties of the EU–Russia Energy Dialogue,” (Sochi: EU–Russia Energy Dialogue, 2006), 1.

<sup>43</sup> “Seventh Progress Report,” 2.

<sup>44</sup> Mikhail Kasyanov, “Energy Security and Russia–EU Cooperation,” in *Speech delivered at the European Enterprise Institute* (Brussels 2006), my emphasis.

## The European Narrative

Meanwhile, things were starting to happen on the EU side. In March 2006, only two months after Ukraine, the EU published a new Green Paper. The paper established ‘energy security’ as *the* key term of the EU’s new energy policy. In the face of external threats to security of supply (i.e. Ukraine), the EU had to overcome its differences and ‘speak with a common voice’.<sup>45</sup> A common narrative was therefore made a prerequisite for energy security. Energy security had been on the Commission agenda ever since the launch of the Energy Dialogue in 2000. Yet, there was one crucial difference: In 2000 it was the Middle East which threatened the EU’s energy security, whereas in 2006 it was Russia. Of course, this was never made explicit, but there was no question as to who the Commission was referring to.<sup>46</sup>

### Ukraine a ‘Godsend’

The 2006 Green Paper was hastily assembled. Still, time was of the essence, as one senior Commission official stated: ‘We were reacting to [Ukraine] in a rush. We wanted to use the event’.<sup>47</sup> This also meant that the Green Paper contained a number of contradictions, as I will discuss later on. Several Commission officials I have spoken with admitted to the beneficial effects of the Ukraine incident with respect to the consolidation of the internal energy market. ‘Europe makes progress through crises’, is a well-known trope in Brussels. And for the EU, Ukraine represented the biggest shakeup since the oil crises of the 1970s.<sup>48</sup> The January crisis made the Commission’s narrative of unity more internally persuasive, as the EU member states felt the physical extent of their dependency on Russia. At last the EU member states had realised the dangers of bilateralism. ‘It was a godsend’, said another Commission official.<sup>49</sup> Now, the Commission had to move fast

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<sup>45</sup> European Commission, “Green Paper, a European Strategy for Sustainable, Competitive and Secure Energy,” (Brussels: European Commission, 2006), 5.

<sup>46</sup> Author’s interview with EU Official C [Phone, 29.10.12].

<sup>47</sup> Author’s interview with EU Official C.

<sup>48</sup> Author’s interview with EU Official C.

<sup>49</sup> Author’s interview with EU Official B.

to make its narrative authoritative. Hence, the 2006 Green Paper sparked a torrent of policy documents, including the Commission's 2007 paper titled 'An Energy Policy for Europe', which repeated the Green Paper's calls for joint action.<sup>50</sup> This in turn paved the way for the fateful Third Energy Package, to which I will return in the next chapter on legal institutions.

To be sure, the Commission's push to develop its external energy agenda was well under way, even before Ukraine. However, things had been moving slowly. After the 2004 expansion, the Commission launched its European Neighbourhood Policy (ENP). The ENP aimed to tie countries to the east and south of the EU, including Ukraine, closer to the union. Still, implementation was lagging behind, and practical results of the ENP were limited.<sup>51</sup> The Commission also signed a Memorandum of Understanding (MoU) on energy cooperation with Ukraine in December 2005. The Ukraine-MoU was conceived and executed by the same Commission officials who had contributed to the Energy Dialogue since 2000. Similar to the EU–Russia Dialogue, the intention of the MoU was to bring the energy markets of the EU and Ukraine closer together. The MoU was part of the wider 'EU–Ukraine Association Agenda', whose purpose was to pave the way for a planned 'Association Agreement' generating a 'Deep and Comprehensive Free Trade Area' between Brussels and Kiev.<sup>52</sup> Like with Russia, there was no mention of Ukraine joining the EU, so ambitions were limited in this regard. Ukraine nevertheless expressed its desire to become an observer to the Energy Community Treaty, which aimed to expand the energy *acquis* to contingent states of the EU, with or without the prospect of future accession to the Union. In energy terms, Ukraine would become subject to the internal market, on par with the EU's member states. Just like the MoU, the Energy Community Treaty (Fig. 5.3) was conceived by officials close to the Energy Dialogue, many of which had served in

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<sup>50</sup> European Commission, "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," (Brussels: European Commission, 2007), 4.

<sup>51</sup> Judith Kelley, "New Wine in Old Wineskins: Promoting Political Reforms through the New European Neighbourhood Policy," *Journal of Common Market Studies* 44, no. 1 (2006).

<sup>52</sup> European Union and Government of Ukraine, "Memorandum of Understanding on Co-Operation in the Field of Energy between the European Union and Ukraine," (Brussels/Kiev: European Commission, 2005); EU-Ukraine Energy Cooperation, "Seventh Joint EU-Ukraine Report," (Brussels: EU-Ukraine Energy Cooperation, 2013), 1.



**Fig. 5.3** The Energy Community. Please note that this map is current before Croatia's accession to the EU (© Energy Community Secretariat 2013. Licence: [https://www.energy-community.org/portal/page/portal/ENC\\_HOME/SECRETARIAT/Press#facts](https://www.energy-community.org/portal/page/portal/ENC_HOME/SECRETARIAT/Press#facts))

Lamoureux' cabinet.<sup>53</sup> The Energy Community Treaty was signed on 1 October 2005, before the Ukraine crisis, and came into force after, on 1 July 2006. For various reasons, Ukraine did not join in until 2010, together with Moldova and Turkey.<sup>54</sup> Through the Energy Community, the EU was increasing the geographical scope of the energy *acquis*, while barring full EU membership. As with the ENP, implementation was poor, and the practical success of the initiative was limited.<sup>55</sup>

<sup>53</sup> Author's interview with Vaclav Bartuska.

<sup>54</sup> European Commission, "An EU Energy Security and Solidarity Action Plan," (Brussels: European Commission, 2008), 8.

<sup>55</sup> Author's interviews with Vaclav Bartuska; EU Official D [Brussels, 19.10.12]; Energy Community Secretariat, "Annual Report," (Vienna: Energy Community Secretariat, 2012).

Nonetheless, the Ukraine crisis acted as a catalyst for a number of other external initiatives, each of which moved the EU's energy market further into the former Soviet mandate area. In November 2006, the Commission signed yet another MoU with Azerbaijan.<sup>56</sup> It was succeeded by an MoU between the EU and Kazakhstan, on 4 December 2006.<sup>57</sup> After Ukraine, the centripetal force of the EU's energy narrative expanded dramatically, upsetting Putin's plans for a political and economic community spanning the whole of Eurasia. Moreover, the Commission was setting the stage for its future diversification policy.

## The EU25 Narratives

With the 2006 Green Paper, the Commission coupled EU unity and solidarity—or 'speaking with a common voice'—with energy security. But achieving solidarity was easier said than done. For instance, the Commission failed to secure a joint Council statement on the Green Paper.<sup>58</sup> Even in the wake of the Ukraine crisis, the member states could not agree on a common approach. Ivanov's prediction had seemingly come true: concerted action had become even more difficult after the EU's expansion to 25 member states in 2004. After the expansion, Bakhtin's chronotope of time and space would really come into play. Nine of the new member states were former Communist countries, with the three Baltic Republics being former subjects of the Soviet Union itself. Despite having a turbulent political relationship with Moscow, many of the new member states remained highly dependent on Russian energy, with the Baltic states and Slovakia relying on Russia to provide 100 per cent of their need for natural gas. Their accession was indeed a litmus test for the EU, and the Energy Dialogue.

Upon joining the EU in May 2004, the new member states were immediately invited to sit in on the Energy Dialogue's meetings. Andris Piebalgs, the former Latvian Minister of Education, was named Commissioner for

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<sup>56</sup>European Union and The Republic of Kazakhstan, "Memorandum of Understanding on Co-operation in the Field of Energy between the European Union and the Republic of Kazakhstan," (Brussels: European Union/Republic of Kazakhstan, 2006), 2.

<sup>57</sup>Ibid.

<sup>58</sup>Author's interview with EU Official C.

Energy in November that year. Piebalgs thus took over the leadership of the Energy Dialogue from Lamoureux, who would continue working in the background, until his deposal by Barroso in 2005.<sup>59</sup> The change from DG to Commissioner could indicate that the Energy Dialogue's status had been elevated. But it was rather a reflection of Lamoureux' wilfulness and personal influence within the Commission. 'Piebalgs was a return to normalcy', as one official later remarked.<sup>60</sup> More significant was the fact that the EU had appointed an Eastern European. Piebalgs was a well-respected bureaucrat, known for his fairness, as well as his knowledge of languages. In addition to his native Latvian, Piebalgs was fluent in Russian, German, French and English, as well as a working knowledge of Estonian. This heteroglossia (many-voicedness) allowed Piebalgs often to respond to interpellations in the European Parliament in the native language of the MEP posing the question.<sup>61</sup> Piebalgs' upbringing in the Soviet Union, and the large Russian minority in Latvia, had given him an intimate knowledge of Russia and Russians. Interestingly, Mikhail Bakhtin had also spent much of his early upbringing in the Baltics, and in Odessa in today's Ukraine, where he was exposed to the considerable linguistic and cultural variety of the Soviet Union. This undoubtedly made a large impact on his subsequent thinking.

Some claimed that Piebalgs' biggest asset was also his biggest liability. During my numerous interviews it was frequently pointed out how the Russians resented the EU's decision to place a Baltic politician at the helm of the Energy Dialogue.<sup>62</sup> 'Piebalgs had a difficult time getting along with his Russian counterpart', said one senior EU energy official based in Russia.<sup>63</sup> That said, other Russian officials said that Piebalgs was well respected, and that his knowledge of Russian made interacting with him easier than with Lamoureux, who did not know the language.<sup>64</sup> Thus, opinions of him varied.

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<sup>59</sup> Author's interview with Christian Cleutinx.

<sup>60</sup> Author's interview with EU Official B.

<sup>61</sup> Author's interviews with EU Official B; European Commission, "Andris Piebalgs, Member of the European Commission," *European Commission*, 17 March 2014.

<sup>62</sup> Author's interview with EU National Official D [Phone, 30.10.12].

<sup>63</sup> Author's interview with EU Industry Official A.

<sup>64</sup> Author's interview with Stanislav Zhiznin.

## Inactivity

Regardless of this, it was well established that Russia preferred to interact with major European powers such as Germany, Italy, France and the UK, or the ‘West European Big Four’, as they were called.<sup>65</sup> Smaller states, and especially former subjects like the Baltics, were regarded as inferior. As a French Energy Dialogue official remarked, ‘it is no secret that Germany and Italy have a better relationship with Russia than Lithuania and Poland. If you are a western based company, you get a fairer hearing in Russia than an eastern based company’.<sup>66</sup> The sentiment was shared by representatives of the new member states. Russia ‘clearly acts differently’ towards Estonia than towards the bigger states, one Estonian official said.<sup>67</sup>

This divide was also reflected in the Energy Dialogue, where the Commission would place major countries like France, Germany and the United Kingdom in charge of the thematic groups. ‘Putting big countries in charge of the dialogue was a way to enhance its value’, as the French official argued.<sup>68</sup> The opaque selection process for the co-chairs of the dialogue caused resentment among some of the smaller member states.<sup>69</sup> That said, Hungary, which also joined the EU in 2004, was given the co-chair of the fourth thematic group, after the Energy Dialogue was restructured in 2005. Thus, with Piebalgs as Commissioner, the new member states were ensured a prominent seat at the negotiating table.

As for the overall participation of the new member states, however, the track record was more mixed. Only two countries, Hungary and Estonia, would become consistent participants of the thematic groups. The reason is not entirely clear. Explanations varied between the interlocutors I interviewed. One explanation was limited bureaucratic capacity. With a combined population of 6–7 million people in the Baltic states, there was simply not enough institutional manpower.<sup>70</sup> The countries were just

<sup>65</sup> Zhiznin, *Energy Diplomacy: Russia and the World*, 275.

<sup>66</sup> Author’s interview with Quentin Perret, Chargé de mission international, Ministry of Ecology, Sustainable Development and Energy, France [Brussels, 23.10.12].

<sup>67</sup> Author’s interview Mati Murd, Ministry of Foreign Affairs of Estonia [Phone, 31.10.12].

<sup>68</sup> Author’s interview with Quentin Perret.

<sup>69</sup> Author’s interview with EU National Official D.

<sup>70</sup> Author’s interview with EU National Official D.



too small. Another explanation was that energy was supposedly not considered a 'hot' topic for many of the new member states. According to a Latvian official, the energy trade with Russia was proceeding without major difficulties, and was therefore not considered a priority compared with, say, the more contentious issue of ethnic Russians in the Baltic states, or the Kaliningrad question. Despite everything, Russo-Baltic energy relations remained pragmatic, so resources were concentrated on other matters.<sup>71</sup> Another explanation suggested that the reason for the absence were the long-standing connections between Baltic officials and the Russo-Baltic energy trade. The ties between politics and energy in the Baltics were well established, especially in Latvia and Lithuania.<sup>72</sup> According to one official, the Latvian and Lithuanian counterparts chose not to partake in the Energy Dialogue out of fear of ending face-to-face with the same people they were negotiating with at the bilateral level.<sup>73</sup> This is indeed a plausible explanation, but difficult to verify.

Arguably the main reason for the inactivity of the new member states in the Energy Dialogue was that they, just like their 'older' counterparts among the EU15, did not consider the Energy Dialogue a very useful forum. By 2004, many of the older member states had scaled back their participation in the Energy Dialogue to a minimum. A similar tendency thus manifested itself among the other new member states. As one Estonian ministry official, who *did* participate, remarked:

My feeling when I was part of the dialogue was that the format of the dialogue became less attractive for the member states. It is hard to say why, but definitely there was a tendency that fewer and fewer member states participated at thematic group meetings, and that there was a clear decrease in interest for this dialogue.<sup>74</sup>

For many, the first impression of the Energy Dialogue was poor. For instance, one Central European official said that he could not understand how the

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<sup>71</sup> Author's interview with Dins Merirands, Deputy State Secretary, Ministry of Transport of the Republic of Latvia [Brussels, 29.10.12]; Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia*, 37.

<sup>72</sup> Ibid.

<sup>73</sup> Author's interview with EU National Official D.

<sup>74</sup> Author's interview with Mati Murd.

dialogue could be useful in protecting national energy interests, and thus decided to end his participation.<sup>75</sup> Another senior official from the new member states described the Energy Dialogue as ‘an illusion’.<sup>76</sup> Likewise, a Polish energy official characterised the dialogue as ‘empty and extremely boring’.<sup>77</sup> Meetings were vacuous and downright tedious, and there was seemingly no clear agenda. ‘Nobody seemed to be thrilled to have to go there’, a senior Czech energy diplomat remarked. He therefore decided to halt his participation in the Dialogue: ‘There was no point’, he said.<sup>78</sup>

## Different Views

This is not to say that there were no tensions between the new member states and Russia post-accession, nor that there was no need to coordinate energy policy in the face of an increasingly assertive Russia. Undeniably there was. ‘Any policy towards Russia in either politics, economics, or culture is strongly influenced by our historical background,’ an Eastern European national official told me.<sup>79</sup> Relations with the Baltics remained particularly tense: ‘It is no secret that the Russians see energy as a foreign policy tool,’ another official noted.<sup>80</sup> During an exchange in 2010, the former Foreign Minister of Estonia opined that Putin was trying to build an ‘energy empire’ through Gazprom. Gazprom was merely a proxy for the Kremlin’s neoimperial ambitions, she said.<sup>81</sup> Nevertheless, just like the ‘old’ member states, the new member states’ criticism of Russia was not unequivocal. The Czechs, Hungarians and Slovaks often viewed their northern neighbours, the Baltic states, but also Poland, as being overly provocative in their dealings with Moscow. Despite a considerable dependency on Russian energy exports and infrastructure, neither the Czechs,

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<sup>75</sup> Author’s interview with EU National Official B.

<sup>76</sup> Author’s interview with EU National Official A [Moscow, 13.04.12].

<sup>77</sup> Author’s interview with EU National Official E [Brussels, 29.10.12].

<sup>78</sup> Author’s interviews with Vaclav Bartuska; EU National Official B.

<sup>79</sup> Author’s interview with EU National Official E.

<sup>80</sup> Author’s interview with Dins Merirands.

<sup>81</sup> Author’s interview with Kristiina Ojuland, former Foreign Minister of Estonia (2002–2005), Member of the European Parliament (2009–2014) [E-mail, 11.02.10].

Hungarians or Slovaks experienced much in terms of threat with respect to energy.<sup>82</sup>

In sum, the Energy Dialogue never assumed a prominent position in the EU–Russia energy relationships, even after expansion. There was a gap between rhetoric and action, even among the Russia sceptics. During the first few years, EU membership had a negligible effect on the official policy narrative of the Baltic states towards Russia in the energy sphere.<sup>83</sup> Poland was more openly supportive of an EU-wide energy policy upon accession. But here, too, pragmatism regularly trumped political rhetoric, and Poland maintained its cordial energy relations with the Russians throughout most of my period.<sup>84</sup> Two incidents moderated this context, however: The launch of the Nord Stream pipeline, and the 2006 gas crisis with Ukraine.

## Germany and Nord Stream

In the 2006 Green Paper, the Commission was calling for the ‘solidarity’ of its member states. But as so many times before, several member states, and especially the larger ones, preferred to maintain their bilateral ties with Russia. At the forefront was Germany. However, in 2005, Germany was preparing for elections. The question of Germany’s ties with Russia became a hot issue. Incumbent Chancellor Gerhard Schröder’s main opponent was the Christian Democrat Angela Merkel, a Russian-speaking former physics professor who had grown up in Communist East Germany. Merkel was determined to distance Germany from its special relationship with Russia, and instead forge closer ties with post-communist states like Poland. At a public meeting in Warsaw, Merkel sharply criticised Schröder’s Russia policy. She rejected the idea of an ‘axis’ between Germany and Russia, and underlined that ‘no decisions should be made over the heads of people in Poland’. Merkel’s statements

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<sup>82</sup> Robert Anderson et al., “Moscow’s Past Satellites Take Keen Interest in Energy Talks,” *Financial Times*, 12 July 2006.

<sup>83</sup> Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia*.

<sup>84</sup> Joanna A. Gorska, *Dealing with a Juggernaut, Analyzing Poland’s Policy towards Russia, 1989–2009* (Lanham: Rowman & Littlefield Publishers, 2010), 130–2.

prompted Donald Tusk, a Polish parliamentarian who would later become Prime Minister (and from 2014, EU Commission President), to say that ‘airplanes carrying German politicians to Russia will be landing in Warsaw so that they can have talks about common policies and common aims’.<sup>85</sup> In the end, Merkel defeated Schröder, leading many to believe that the ‘Schröderization’ of Germany’s Russia policy had come to an end.<sup>86</sup> But it took more than promises to curb the appetite of German business interests in Russia, as Merkel would soon find out. One reason for this was Nord Stream.

Nord Stream was the biggest and most prestigious project of Russo-German cooperation. The gas pipeline was to stretch from Vyborg in Russia to Greifswald in Germany, across the Baltic seabed (Fig. 5.4). Nord Stream was completed in 2012. Merkel who was present at the unveiling ceremony, described Nord Stream as a ‘milestone in energy co-operation’ and the ‘basis of a reliable partnership’.<sup>87</sup> It was hailed by the interlocutors of the Energy Dialogue as evidence of its success. Still, the common ‘European’ interest narrative of Nord Stream was never shared by all EU member states. Ever since its inception in 2005, Nord Stream was mired in controversy. To the end of my period scepticism towards Nord Stream remained high among several EU member states, including Sweden and Finland. Most belligerent were again the Baltic states and Poland, whose Foreign Minister Radoslaw Sikorski compared it with the Molotov–Ribbentrop treaty between the Soviet Union and Nazi Germany of 1939, which sanctioned the division of Poland and set the stage for World War II.<sup>88</sup>

The pipeline had been on the drawing board since 1997. Nord Stream, in its various incarnations, had been discussed ever since the first year of the Energy Dialogue. Although the pipeline was labelled a ‘Project of Common Interest’, it was never an Energy Dialogue-led project. The Commission remained sceptical, albeit off the record.<sup>89</sup> On 8 September 2005, only ten days before the German federal elections, Gazprom,

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<sup>85</sup> Hugh Williamson and Jan Cienski, “Merkel Promises Closer German Ties with Poland,” *Financial Times*, 17 August 2005.

<sup>86</sup> Shevtsova, “Germany: When Will the Ostpolitik Finally End?”

<sup>87</sup> BBC, “Nord Stream Gas Pipeline Opened by Merkel and Medvedev,” *BBC*, 8 November 2011.

<sup>88</sup> Hans Michael Kloth, “Polish Minister Attacks Schröder and Merkel,” *Der Spiegel*, 1 May 2006.

<sup>89</sup> Author’s interview with EU Official C.



**Fig. 5.4** Nord Stream (© Samuel Bailey 2009, "Nordstream.png", Wikimedia Commons. Licence: <https://creativecommons.org/licenses/by/3.0/deed.en>)

together with Germany's Wintershall and E.ON, signed an agreement to build a North European Gas Pipeline. On 13 October, Gazprom Export signed an agreement with the German company Wingas, a joint venture between Gazprom and Wintershall, to supply 9 billion cubic metres of natural gas per year until 2025. On 24 October 2005, after Merkel's victory, but just a few weeks shy of Schröder's departure from the chancellorship, the German government guaranteed that it would cover 1 billion euro of the construction of the pipeline, in the case of a possible default by Gazprom. On 30 November, the North European Gas Pipeline Company was established. Schröder would later become its chairman. In 2015, Germany would again spark controversy, after it entered consultations with Russia to add two new legs to the Nord Stream pipeline, also known as 'Nord Stream 2'. The issue was particularly contentious, given that Russia had annexed Crimea from Ukraine one year before.

## Ukraine

The Ukraine crisis of 2006 sparked near-unison criticism from the EU. Germany, meanwhile, remained mostly silent, as it later also did during the 2008 Georgian war. The response was more severe among the

new member states. The Estonian government said that political motives were likely behind Russia's actions in the crisis, and that the EU needed to stand together to withstand Russian pressure.<sup>90</sup> The Poles were equally outraged by the crisis in Ukraine, its neighbour and ally. After the 2006 crisis, the Polish President, Lech Kaczynski, called for NATO to put energy security under its Article Five provisions for collective defence. The President also expressed his support for Ukrainian and Turkish accession to the EU.<sup>91</sup> It was indeed striking to see the former Warsaw Pact member Poland calling for NATO to ensure its energy security against Moscow. Spatially, this was a clear illustration of how the transatlantic vector, centred on Washington and not Brussels, would sometimes supplant the EU. The EU was soft power, whereas NATO was hard power. The narrative of hard power was one that Moscow understood, and the new member states knew this better than most.

Likewise, the USA was harshly critical of Russia's behaviour towards Ukraine. At the Vilnius Conference in May 2006, US Vice President Dick Cheney stated that 'no legitimate interest is served when oil and gas become tools of intimidation or blackmail'.<sup>92</sup> According to US Secretary of State Condoleezza Rice, it was clear that 'Russia was using oil and gas as a weapon' towards its neighbours.<sup>93</sup> President Bush was of the same view,<sup>94</sup> together with Spencer Abraham, the US secretary of energy, who feared that Europe's extreme dependency on Russia could ultimately threaten peace in the world.<sup>95</sup> To counteract this, Washington actively took it upon itself to promote a common energy policy with Europe. This included the strategic use of diplomatic postings, according to Rice:

It was fiendishly difficult but needed: the geopolitics of oil and gas would increasingly warp diplomacy, revealing the timidity of the Europeans—particularly the Germans—toward Moscow. The Kremlin had fired a

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<sup>90</sup> Estonian Foreign Policy Institute, "Energy Security of Estonia in the Context of the Energy Policy of the European Union," (Tallin: Riigikogu/Parliament of Estonia, 2006).

<sup>91</sup> Der Spiegel, "Spiegel Interview with Poland's Kaczynski," *Der Spiegel*, 6 March 2006.

<sup>92</sup> Steven Lee Myers, "Cheney Rebukes Russia on Rights," *The New York Times*, 5 May 2006.

<sup>93</sup> Condoleezza Rice, *No Higher Honour, a Memoir of My Years in Washington* (London: Simon & Schuster, 2011), 412.

<sup>94</sup> George W. Bush, *Decision Points*, 1st ed. (New York: Crown Publishers, 2010), 432.

<sup>95</sup> Spencer Abraham and William Tucker, *Lights Out! : Ten Myths About (and Real Solutions to) America's Energy Crisis*, 1st ed. (New York: St. Martin's Press, 2010), 56.

warning shot that the color revolutions were vulnerable to pressure by playing the “energy card.” And we didn’t really have a good response.<sup>96</sup>

Rice considered the Eastern Europeans to be ‘completely hostage’ to Russian pressure. These countries were ‘dependent on Russian pipelines for their supplies, [but] didn’t carry a loud enough voice within the European Union’. Moreover, ‘there were jurisdictional issues between the European Commission, which handled trade policy, and the individual states, which held the reins on economic and energy issues’.<sup>97</sup> More on these juridical issues in the next chapter.

## The Post-Imperial Narrative (Redux)

If the Europeans were hostage to the Russians, many Russian officials considered the EU to be completely under the dictate of Washington.<sup>98</sup> While a gross exaggeration, there is perhaps a small grain of truth to this. I frequently encountered officials who remarked that there was fierce American lobbyism against the Energy Dialogue ever since the beginning. However, these were off-the-record remarks, and as such not verifiable.

Russia was suspecting the USA of attempting to impose its policy narratives in Russia’s backyard. The so-called colour revolutions were criticised by the Kremlin as being the result of meddling by US-backed NGOs and interests.<sup>99</sup> The ‘Orange Revolution’ in Ukraine had echoed a similar occurrence in another former Soviet republic, Georgia, only a year before. During this ‘Rose Revolution’—allegedly named after the protesters who were carrying roses so as to communicate their peaceful intentions—the incumbent President, Eduard Shevardnadze, was ousted in similar fashion as Yanukovych, after the results of recent parliamentary elections were called into question. The new President, Mikheil Saakashvili, was a young, pro-Western, US-educated lawyer, who wanted

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<sup>96</sup> Rice, *No Higher Honour, a Memoir of My Years in Washington*, 412.

<sup>97</sup> Ibid.

<sup>98</sup> Author’s interview with Nodari Simonia.

<sup>99</sup> Lucan Way, “The Real Causes of the Color Revolutions,” *Journal of Democracy* 19, no. 3 (2008).

Georgia to join the ranks of both the EU and NATO. Indeed, relations with Russia were strained even before the 2003 events. Georgia was an important, non-Russian link between the oil- and gas-rich Caspian region and Europe. Georgia had signed up to join the Baku-Tbilisi-Ceyhan oil pipeline, which would completely bypass Russia, making it yet another threat towards Moscow's post-imperial energy network.

Relations with Belarus were easier, although Moscow's relationship with its leader, Alexander Lukashenko, was not without its complications. The silver lining was that Belarus' relationship with the EU was much worse. Together with Ukraine, Russian-speaking Belarus was part of what Aleksandr Solzhenitsyn called 'Greater Russia'.<sup>100</sup> Minsk had similar arrangements as Kiev with Moscow over energy, including 'fraternal' discounts akin to what Ukraine had. However, this also created similar problems. In January 2007, Gazprom and Minsk failed to reach agreement over the price of gas. The conflict was elevated when Transneft, Russia's oil pipeline monopoly, ordered a halt to oil shipments through the *Druzhba* ('Friendship') pipeline running from Russia through Belarus. The pipeline supplied Germany with 20 per cent of its oil. The official reason was that Belarus was siphoning off supplies. But once again vicarious motives were suspected. The conflict ended when Belarus agreed to yield 50 per cent of ownership in its national gas pipeline operator, Beltransgaz. Apparently, control over assets was much more valuable to Gazprom than charging market prices—reflecting Putin's drive to attain greater physical presence for Gazprom in Europe, discussed in the previous chapter.<sup>101</sup>

Meanwhile, Georgia under Saakashvili remained a constant headache for the Kremlin. East–West relations were cooling down. In February 2007, Putin accused the USA of pursuing a 'unipolar' foreign policy, in a scathing speech performed at the Munich Conference on Security Policy.<sup>102</sup> In April 2007, the USA revealed its plans to establish a missile defence system in Poland and the Czech Republic. Although American officials insisted the shield was directed at Iran, the Kremlin was convinced

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<sup>100</sup> Joanne Levine, "Awaiting Solzhenitsyn, Moscow Merely Shrugs," *The Moscow Times*, 26 May 1992.

<sup>101</sup> Yafimava, *The Transit Dimension of EU Energy Security*.

<sup>102</sup> Vladimir Putin, "Speech and the Following Discussion at the Munich Conference on Security Policy," (Munich: President of Russia, 2007).



that Washington was looking to curb Russia's nuclear capabilities.<sup>103</sup> The period 2008–2009 was thus a particularly tense period in Russia's relations with the West. Pundits were beginning to talk about the emergence of a 'new cold war'.<sup>104</sup> In August 2008, the doomsayers were seemingly proven right, as Moscow and Tbilisi went to war over an opaque territorial dispute. The conflict lasted for nine days, until 16 August, and caused uproar in the international community, which largely sided with the weaker Georgians. But again, the EU and NATO failed to come up with a unified response, instead falling within the usual categories of Russia antagonists and *verstehers*, or 'understanders'.<sup>105</sup> The Americans, meanwhile, saw great power ambition and energy behind Moscow's every move. Russia was again exploiting its grip on the European market, according to former US Energy Secretary Abraham:

[T]he muted response from NATO was, in my view, influenced by the possibility that Russia could cut off Europe's gas. Both Georgia and Ukraine have applied to join NATO but have been rejected—even though Georgia has sent two of its best military brigades to serve in Iraq.<sup>106</sup>

These divisions had implications for the PCA talks, to which I will return to later on in the book.

## The 2009 Gas Crisis

The single most significant incident as regards the Energy Dialogue happened a few months after the Georgian war, in January 2009, when Gazprom shut off the gas to Ukraine for the second time. The January 2009 crisis was more profound than the 2006 one, both in duration and

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<sup>103</sup> Rice, *No Higher Honour, a Memoir of My Years in Washington*, 576–80.

<sup>104</sup> Edward Lucas, *The New Cold War, How the Kremlin Menaces Both Russia and the West* (London: Bloomsbury, 2008).

<sup>105</sup> Ian Traynor, "Georgia: Divided EU Prepares to Review Stand on Russia at Emergency Summit," *The Guardian*, 1 September 2008.

<sup>106</sup> Abraham and Tucker, *Lights Out! : Ten Myths About (and Real Solutions to) America's Energy Crisis*, 55–6.

in implications.<sup>107</sup> Ukraine was pushing for NATO membership. It had voiced its support for Georgia during the August 2008 war, and Kiev had refused to renew Russia's lease of the naval base in Sevastopol, Crimea, which was due to expire in 2017. Making matters worse, Gazprom demanded that Ukraine pay its considerable 1.67 billion dollar gas debt, plus 450 million dollars in levies. After much wrangling back and forth, negotiations broke down and the gas was shut off on 31 December.<sup>108</sup>

## The EU27 Narratives

On 2 January, Hungary, Poland and Romania reported that pipeline pressure had dropped. A few countries reported significant drops, including Bulgaria, Moldova and Slovakia. Romania and Bulgaria had joined the EU in 2007, thereby further increasing the Union's energy dependency on Russia. The winter of 2008–2009 was particularly harsh, with double-digit freezing temperatures all across the continent. Suddenly the EU was faced with a potential humanitarian crisis on its south-eastern flank. After much dithering, the affected parties summoned an international gas conference in Moscow on 17 January. Present were the Czech Council Presidency, the Energy Commissioner Andris Piebalgs and Ukrainian Prime Minister Yulia Tymoshenko. The stakes were high. Or at least for some. Awarding the leadership of the talks to the Czechs showed that the big member states were largely unconcerned by the crisis, according to the Czech Ambassador-at-Large for Energy Security, Vaclav Bartuska, who took part in the negotiations with Moscow:

We were allowed to act on behalf of the EU, because this was an area where the major players had nothing at stake. Germany was not suffering, France was not suffering. We got permission from the big players. If this was a big

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<sup>107</sup> Yafimava, *The Transit Dimension of EU Energy Security*, 1.

<sup>108</sup> Derek Fraser, "What Was Really in Tymoshenko's 2009 Gas Agreement with Russia?," *Kyiv Post*, 12 October 2011; Simon Pirani, Jonathan P. Stern, and Katja Yafimava, *The Russo-Ukrainian Gas Dispute of January 2009, a Comprehensive Assessment* (Oxford: Oxford Institute for Energy Studies, 2009).

event affecting the big member states, I cannot imagine that [they] would allow the Czechs or anyone from Brussels to go to Moscow in their stead.<sup>109</sup>

Perhaps for this reason the conference failed. Still, only two days later the two CEOs of Gazprom and Ukrainian state gas utility Naftohaz, accompanied by Putin, Sechin and Tymoshenko, signed an agreement securing gas to Ukraine for the period 2009–2019. They had supposedly met at the behest of German Chancellor Angela Merkel. Once again, Moscow showed that it preferred to deal with the ‘big dogs’ of the EU.<sup>110</sup> One year later Ukraine and Russia signed another agreement, the so-called ‘Kharkiv Pact’, which granted Ukraine further discounts on natural gas. In exchange Russia received an extension of its lease of the naval facilities in Sevastopol, Crimea from 2017 until 2042. The agreement clearly illustrated how Russia often coupled energy and geopolitics. The agreement was later terminated after Russia’s outright annexation of Crimea in 2014.

## The European Narrative (Redux)

Gas flows were resumed, but in the eyes of Brussels, Russia’s status as a gas exporter was now firmly beyond repair.<sup>111</sup> During a hearing at the European Parliament, Commissioner Piebalgs remarked that ‘it is very clear that both parties [Ukraine and Russia] have lost their reputation as reliable energy partners of the European Union’. He was met by a resounding applause from the audience.<sup>112</sup> Even personal relations suffered. During the January 2009 crisis, Vladimir Putin and José Manuel Barroso, the commission President, had literally screamed at each other on the phone. According to one centrally placed EU Commission official present during the conversation, Putin had accused the EU for having ‘invented’ Ukraine.<sup>113</sup> For Putin, Ukraine was an appendage, not a sovereign state. By interfering, the EU was in fact meddling with Russia’s

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<sup>109</sup> Author’s interview with Vaclav Bartuska.

<sup>110</sup> Author’s interview with Vaclav Bartuska.

<sup>111</sup> Author’s interview with Quentin Perret.

<sup>112</sup> European Parliament, “Gas Supplies by Russia to Ukraine and the EU (Debate),” (Brussels: Official Journal of the European Union, 2009).

<sup>113</sup> Author’s interview with EU Official E [Phone, 23.04.10].

internal affairs. As Prime Minister Shmatko said a few months later, ‘it was a very amusing scene when serious people were discussing a lot of cooperation in gas delivery between Ukraine and European Commission and Russia was never mentioned. All this left us with a bitter feeling’.<sup>114</sup>

## Critical Infrastructure

In the years surrounding the second Ukraine gas crisis, the EU entered a slew of new MoUs and energy dialogues with countries ranging from Brazil in the west, to Norway in the north and Turkmenistan in the east. Moreover, the EU reinforced the eastern vector of its ENP through a new Eastern Partnership, launched in May 2009, although here, too, initial results were disappointing.<sup>115</sup> Nonetheless, the new keyword was diversification. Diversification had been on the Commission’s agenda for several years, but it was only now that it would gather momentum. Moscow was not an exclusive partner, according to Piebalgs,<sup>116</sup> who was seemingly keen to forge partnerships with everyone but Russia.

The EU’s tilt away from Russia was further illustrated through its pipeline politics. In 2008, the Commission published another Green Paper on energy network infrastructure. While Russia was never mentioned, the paper stated that the EU had inherited poor north–south and east–west connections, which made the union vulnerable to supply disruptions. There was thus a pressing need to establish better inter-connections between the new and old member states.<sup>117</sup> Moreover, the report connected the need for better infrastructure with the recent war in Georgia, noting that ‘the EU needs to intensify its efforts with regard to the security of energy supply’.<sup>118</sup> On 16 October 2008, the European Council had called on the Commission to ‘reinforce and complete critical

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<sup>114</sup> Kostis Geropolous, “Putin Snubs Sofia Summit over Nabucco, Ukraine,” *New Europe*, 20 April 2009.

<sup>115</sup> Jos Boonstra and Natalia Shapovalova, “The EU’s Eastern Partnership: One Year Backwards,” *Fride Working Paper* May, no. 99 (2010).

<sup>116</sup> Andris Piebalgs, “Energy for a Changing World: The New European Energy Policy,” in *Europe’s Energy Challenges* (Brussels: European Commission, 2007), 8.

<sup>117</sup> European Commission, “Green Paper, towards a Secure, Sustainable and Competitive European Energy Network,” (Brussels: European Commission, 2008), 6.

<sup>118</sup> *Ibid.*, 3.

infrastructures', and establish new import routes.<sup>119</sup> Again, Russia was the obvious culprit.

By this time, neither Russia nor the Commission was pretending anymore. In the 2008 Energy Dialogue progress report, the parties finally acknowledged each other's desire to diversify.<sup>120</sup> For the EU, the most important diversification project at the time was the Nabucco pipeline. The pipeline was set to transport natural gas from the Caspian Sea—initially Azerbaijan, but hopefully and eventually from Turkmenistan—to Central Europe and into the EU.<sup>121</sup> Planning for the pipeline began in 2002, and in July 2009, Turkey, Hungary, Bulgaria and Romania signed the first intergovernmental agreement in Ankara. Commissioner Piebalgs was personally pushing Nabucco. According to one senior Commission official, building Nabucco was a 'political decision' made by Piebalgs himself.<sup>122</sup> Supply and transport diversification was crucial, Piebalgs said in 2007, 'given that a number of member states are highly or completely reliant on a single gas supplier'.<sup>123</sup> Yet again, Russia was not named, but there was no doubt who the energy Commissioner was referring to.

In addition to this the Commission became determined to connect the electrically landlocked Baltic states to the EU grid. In June 2009, at the initiative of the Commission, the eight Baltic Sea EU member states signed an MoU, forming the Baltic Energy Market Interconnection Plan (BEMIP). The objective was to connect the Baltic states to the EU's energy networks.<sup>124</sup>

## Inconsistent Policies

Since 2006, the three main pillars of the new European narrative were competitiveness, energy security and sustainability, as per the EU Green

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<sup>119</sup> *Ibid.*, 6.

<sup>120</sup> EU-Russia Energy Dialogue, "Ninth Progress Report," (Paris: EU-Russia Energy Dialogue, 2008).

<sup>121</sup> European Commission, "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," 9.

<sup>122</sup> Author's interview with EU Official D.

<sup>123</sup> European Commission, "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," 10.

<sup>124</sup> European Commission et al, "Memorandum of Understanding on the Baltic Energy Market Interconnection Plan," (Brussels: European Commission, 2009).

Paper published shortly after the first Ukraine crisis.<sup>125</sup> The competitiveness agenda was in place ever since the passing of the Maastricht Treaty and first energy directives in the 1990s. After Ukraine 2009, the Commission stepped up its efforts to ensure energy security through diversification. At the same time, Brussels also sought to move away from hydrocarbons, in part to combat climate change, but also to diversify its energy mix.

The 2006 Green Paper was the basic document underpinning the Commission's new energy policy. But as mentioned, it was somewhat hastily assembled. For Piebalgs, energy security, competitiveness and sustainability were different aspects of the same challenge.<sup>126</sup> However, the components of Piebalgs' new 'energy trinity' were not necessarily complementary.<sup>127</sup> Energy security and secure contracts were not equivalent to free competition, given the large investments required to develop new energy sources. Similarly, free competition was not equivalent with sustainability, with energy sources such as coal being much cheaper than expensive renewable technology such as wind power (the price of coal was further depressed after the USA began its switch to shale gas, which I will return to shortly). For the same reason, embryonic renewable energy technology could not keep up in the face of growing demand. There were indeed numerous contradictions. But because of the EU's determination to go green, the policies remained in place. Hence, the market value of the EU's gas, coal and nuclear-fuelled utilities plummeted. The viability of nuclear energy took another hit after the 2011 nuclear meltdown in Fukushima, Japan, after which German Chancellor Angela Merkel announced Germany's determination to phase out nuclear energy entirely by 2022.<sup>128</sup> The cumulative effect of all of this was devastating for the industry. Between 2008 and 2013, EU utilities lost half a trillion dollars of their cumulative value, more than the EU's struggling banking sector had lost after the Eurozone crisis.<sup>129</sup> This in turn further threatened the EU's energy security. As the CEO of GDF Suez later remarked, the EU was

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<sup>125</sup> European Commission, "Green Paper, a European Strategy for Sustainable, Competitive and Secure Energy."

<sup>126</sup> Piebalgs, "Energy for a Changing World: The New European Energy Policy."

<sup>127</sup> Dieter R. Helm, "European Energy Policy," in *The Oxford Handbook of the European Union*, ed. Erik Jones, Anand Menon, and Stephen Weatherill (Oxford: Oxford University Press, 2012).

<sup>128</sup> David Gordon Smith, "Nuclear Phaseout Is an 'Historic Moment'," *Der Spiegel*, 30 May 2011.

<sup>129</sup> The Economist, "How to Lose Half a Trillion Euros," *The Economist*, 12 October 2013.

‘destroying its energy industry through a lack of consistency, coherence and wrong decisions by the European Commission and by individual governments’. As added by the CEO of E.ON, ‘there have been a lot of good intentions [...] But things are now getting out of control’.<sup>130</sup>

Despite Piebalgs’ calls for a common internal and external energy policy, based on a trinity of sustainability, energy security and competitiveness, there were gaping holes and glaring inconsistencies in the EU’s energy narrative that needed to be resolved. Until then, these contradictions ultimately served to undermine the EU’s diversification agenda, as the CEO of ENI, Italy’s largest company and biggest energy producer, later noted:

The emissions cut [...] programme? That means less coal and more gas. Do not like nuclear power? Even more gas. No gas grid interconnections between European countries? More long-term take or pay contracts. Not happy with domestic shale gas production? More gas from Russia. Do not like Russia? In that case, it is probably worth rethinking policies 1–4.<sup>131</sup>

## Russia’s Euro-Asian Narratives (Redux)

The EU remained dependent on Russia, which in turn remained dependent on the EU. Piebalgs’ trinity did not go unnoticed in Moscow, where it was perceived as a threat towards Russia’s security of demand. Putin largely dismissed the impact of global warming and the viability of renewable energy. Instead, Putin sarcastically ‘welcomed’ global warming, as it meant that Russians would have to buy fewer fur coats.<sup>132</sup> But it was bravado. Renewable energy posed a direct challenge towards Russian oil and gas, and especially in the longer term. In the next chapter, I will show how Moscow questioned the EU’s sustainability and competitiveness agendas, and the Commission’s efforts to further the internal energy market. As for the EU’s push to strengthen energy security through diversification, Moscow was even more worried. Already in the 2006 report of the thematic group on investment, it was noted that:

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<sup>130</sup> Guy Chazan, “Energy Costs Widen Gap in Competitiveness,” *Financial Times*, 14 October 2013.

<sup>131</sup> Paolo Scaroni, “Europe Must Speak with One Voice on Energy,” *ibid.*, 11 April 2014.

<sup>132</sup> Darya Korsunskaya, “Putin Ponders Climate Change in Arctic Russia,” *Reuters*, 23 August 2010.



**Fig. 5.5** South Stream and Nabucco (© Stanqo 2009, "2010Nabucco\_and\_South\_Stream.jpg", Wikimedia Commons. Licence: public domain)

Russia is concerned that the EU is trying to combine two approaches in its relations with Russia—increasing its supply of energy resources based on long-term partner relationships but at the same time decreasing its dependence on Russia by diversifying sources and supply routes. Russia believes that such a policy could put Russian companies in the position of being ‘suppliers of last resort’.<sup>133</sup>

Given Russia’s continued reliance on the European market, the Russians were looking for ways to circumvent Ukraine, the EU Commission and the Energy Dialogue. In April 2009, Putin snubbed an energy security forum in Sofia with the EU and the Balkan countries. The reason for the snub, according to one Russian newspaper, was Nabucco, which by this time had climbed onto the top of the Commission’s agenda. Instead of attending the summit, Putin chose to meet his Bulgarian counterpart in a bilateral meeting. The topic was South Stream, a planned gas pipeline which would transport gas from Russia’s Black Sea coast, through the Black Sea to Bulgaria, and then onwards to the rest of the EU (Fig. 5.5).<sup>134</sup>

It was obvious that South Stream and Nabucco were in direct competition. Still Russia, as an energy producer, felt that it had the upper hand. When confronted with the viability of two pipelines, Prime Minister

<sup>133</sup> EU-Russia Energy Dialogue, “Thematic Group on Investments,” 9.

<sup>134</sup> Geropolous, “Putin Snubs Sofia Summit over Nabucco, Ukraine.”



Shmatko, who went to the Sofia forum in Putin's place, told a reporter that 'South Stream is much further down the line in terms of preparation than Nabucco. Maybe some people do not like this fact, but I believe that the European consumer is the one to have the final word and do not want to engage in such political discussions'.<sup>135</sup> Russia's diversification efforts were geared away from Ukraine, and the Commission, but not the EU market, which remained crucially important for Russia. In 2009 as in 2000, Russian gas exports remained tethered to Europe, which in turn remained highly dependent on Russian gas.

## The 2009 Crash

For Moscow, the first Ukraine incident did not matter that much. Around 2006–2007, Russia felt invincible. The Russian economy was growing by 6–7 per cent per year, firmly supported by soaring oil prices. Russia considered itself an 'energy superpower', regardless of Putin's claims to the contrary.<sup>136</sup> Moscow was ready to reassert Russia's rightful place among the leading nations of the world. Nevertheless, Russia still remained vulnerable to the vagaries of the world economy. The Energy Dialogue had launched after a trebling in world oil prices. And to Putin's good fortune, oil prices continued to rise throughout most of the 2000s. At the same time, there remained a keen awareness that fortunes could rapidly change. In the 2006 summary report of the thematic group on investments, it was stated that a global financial emergency would have a grave impact on the bilateral energy relationship, and lead to a long-term deficiency of energy resources.<sup>137</sup>

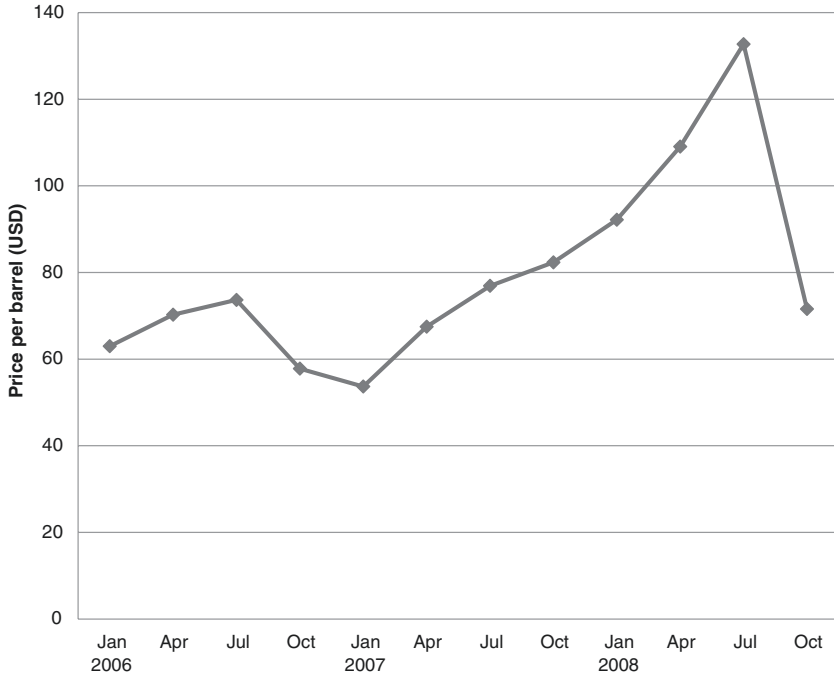
Only a couple of years later this prediction came to pass. The global financial crisis emerged after the US housing market collapsed, sparking a global economic meltdown. The meltdown turned into a maelstrom, dragging with it several of the world's biggest banks, and ultimately several sovereign states, many of which tethered on the brink of bankruptcy. Energy demand in the EU rapidly dropped by 7 per cent. On the one hand, Russia was much better prepared for the 2008 crisis compared with the 1998 crisis. Government debt had been repaid, and the Russian

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<sup>135</sup> Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine."

<sup>136</sup> Fiona Hill, "Russia: The 21st Century's Energy Superpower?," *Brookings Review* 20, no. 2 (2002).

<sup>137</sup> EU-Russia Energy Dialogue, "Thematic Group on Investments," 10.



**Fig. 5.6** Average world oil prices, January 2006–October 2008 (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

Central Bank had a ‘rainy day’ wealth fund of a staggering \$600 billion. On the other hand, despite claims of being ‘insulated’ from world turmoil (Russia was not really hit until the autumn of 2009), the crisis revealed the full extent of Russia’s dependency on oil and gas (Fig. 5.6).<sup>138</sup>

Mid-October 2008, the Russian stock market had fallen 70 per cent compared with the peak of May that year. The rouble depreciated by 14 per cent, and the wealth fund was reduced to (a still considerable) \$484 billion. More importantly, by the end of 2008, the Russian Ministry of Finance was facing a budget deficit, partly due to decreased energy exports to Europe. By 2009, Russia’s average 7 per cent growth had turned into a deficit.<sup>139</sup>

<sup>138</sup> Ickes and Gaddy, “Russia after the Global Financial Crisis.”

<sup>139</sup> Padma Desai, “Rethinking Russia: Russia’s Financial Crisis,” *Journal of International Affairs* 63, no. 2 (2010).

## The Shale Gas ‘Revolution’

Russia’s misfortunes were further compounded by another geoeconomic event: the American shale gas ‘revolution’. The revolution was enabled by a technique called hydraulic fracturing, or ‘fracking’, which allowed gas and oil to be extracted from sedimentary shale rock formations. Indeed, fracking had been done for decades, but it was only in the late 2000s that technological advances, combined with high energy prices, allowed for large-scale production. Suddenly, the energy-importing USA had an estimated 116 years of gas supplies, making it the potentially biggest gas producer in the world.<sup>140</sup> This bolstered potential EU supplies, while threatening to depress gas prices. The torrent of shale gas out-priced traditional energy sources, which were made expendable, meaning that the EU market was suddenly flooded with cheap coal from the USA. Neither of these developments were to the benefit of Gazprom, which postponed and ultimately mothballed major gas projects like the Shtokman field in the Barents Sea. Shtokman was set to export liquefied gas to the USA, and possibly to the EU through Nord Stream. The onset of shale gas contributed to the more recent sharp drop in oil prices, which the world, and Russia—at the time of writing this—has yet to emerge from. On top of this is the increased competition from LNG suppliers, including Qatar and Australia, which have gradually eroded the monopoly of pipeline gas in Europe and the world. Russia, as it had turned out, was not invulnerable after all.

## Epilogue: The Early Warning Mechanism

The second Ukraine crisis of 2009 reaffirmed the Commission’s determination to diversify away from Russia. However, somewhat ironically, it also generated one of the few ‘deliverables’ of the Energy Dialogue, the Early Warning Mechanism. As a French official noted, ‘[The Early

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<sup>140</sup>U.S. Department of Energy, “Modern Shale Gas Development in the United States: A Primer,” ed. Office of Fossil Energy National Energy Technology Laboratory (Washington, D.C.: U.S. Department of Energy, 2009), ES-1.

Warning Mechanism] was politically convenient. Here was a deliverable. It was useful, and allowed everyone to show something for the dialogue. Everybody was happy'.<sup>141</sup> As another dialogue official remarked, 'I think that both groups [on Strategies and Market Developments] as a whole have only really achieved one thing—the Early Warning Mechanism'.<sup>142</sup> The mechanism was basically information sharing, so as to avoid future gas supply crises. Originally launched in 2007, in the wake of the first Ukraine gas crisis of 2006, the first Early Warning Mechanism failed to avert the second crisis of 2009. As a result, it was revamped and relaunched later that year.

In my interviews and in numerous official statements, the mechanism was frequently painted as a success, and a good example of the mutual trust and fruitful cooperation between Russia and the EU.<sup>143</sup> However, the mechanism was more akin to detente than partnership. Rather than trust it communicated suspicion and uncertainty. In this sense, it resembled the 'red telephone' established after the Cuban Missile Crisis. Moreover, the mechanism was not conceived in the working groups of the Energy Dialogue. It was coined during regular proceedings between high-level Russian and EU officials, only to be affixed the convenient label of the Energy Dialogue *post hoc*. Finally, and most importantly, the mechanism did not conceal the fact that Russia and the Commission's respective energy policies were moving in different directions, politically and physically.

## Conclusions

In this chapter I have discussed how space factored into the narratives of the EU–Russia Energy Dialogue, again drawing on my six narrative clusters and Bakhtin's chronotope. Bakhtin's dialogue is reminiscent of the more famous concept of relativity, coined by Albert Einstein, which posits that

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<sup>141</sup> Author's interview with Quentin Perret.

<sup>142</sup> Author's interview with Vladimir Drebentsov.

<sup>143</sup> See for instance: EU-Russia Energy Dialogue, "Joint Report EU-Russia Energy Dialogue 2000–2010," (Brussels/Moscow: EU-Russia Energy Dialogue, 2010).

perceived reality is contingent upon the temporal *and* spatial situation of the observer.<sup>144</sup> Like Einstein, Bakhtin was inspired by Copernicus, and his rebuttal of classical geocentrism, which placed the earth at the centre of the known universe (as opposed to the sun). To Bakhtin, geocentrism helped explain the self-centredness of much Western thought, so clearly displayed by Hegel's invocation of Christianity and God as the 'absolute spirit', discussed in Chap. 1. Such 'monocentrism' was anathema to Bakhtin's concepts of dialogue and polyphony, in which there are always multiple centres, and hence multiple truths—again, depending on the temporal and spatial location of the observer.<sup>145</sup>

There were indeed multiple geographical centres to the Energy Dialogue, and key events such as Ukraine influenced the course of events as much as anything that happened during the consultations of the working groups. But whereas Ukraine was contested at the highest levels of EU–Russia diplomacy, it was hardly reflected in the proceedings of the Energy Dialogue proper. For this reason, former Russian Prime Minister Mikhail Kasyanov asked for a 'bigger dialogue', in order to resolve such or even prevent similar issues in future. But the question remains whether it was institutionally possible to design a dialogue that would encompass and reconcile the contingencies of the Russo-European energy trade. From China and the USA to Central Asia, from shale gas to climate change, the sheer size and interconnectedness of the energy sector made the logistics overwhelming. The EU–Russia Energy Dialogue, meanwhile, was a limited exercise, staffed by bureaucrats and mostly focused on technical affairs, a point reflected in the increasingly narrow progress reports. The EU and Russia remained dependent on one another, to be sure, but political relations were suffering, whereas the Energy Dialogue failed when it was needed the most.

Nevertheless, the dream of a mutual framework remained, at least on paper. At the January 2009 World Economic Forum in Davos, only a few weeks after the 2009 Ukraine crisis, Vladimir Putin acknowledged the need for a firm legal foundation for international energy:

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<sup>144</sup> Bakhtin, *The Dialogic Imagination, Four Essays*, 84.

<sup>145</sup> "Discourse in the Novel," 415.

I propose to work out a new international legal framework for energy security. If implemented, our initiative could have the same economic impact as the Treaty establishing the European Coal and Steel Community. That is, we will be able to unite consumers and producers in a common energy partnership that would be real and based on clear-cut international rules.<sup>146</sup>

By alluding to the Coal and Steel Community, it would seem that Putin was invoking François Lamoureux from beyond the grave. But Putin and the EU Commission had something entirely different in mind, as I will show as I now turn to my final chapter.

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<sup>146</sup>Vladimir Putin, “Putin’s speech at Davos World Economic Forum,” *Russia Today*, 28 January 2009.

# 6

## The Legal Dialogue (2010–2012)

In 2004, the EU's then outgoing Commission President, Romano Prodi, described the Russia–EU relationship as ‘anything but institutions’.<sup>1</sup> This was especially true about energy. As late as 2013, one of the few scholars on the Energy Dialogue noted that ‘energy constitutes one of the least legally detailed areas of Russia-EU cooperation, which only enhances the potential for politicization’.<sup>2</sup> But even though the relationship lacked mutual, legally binding institutions, legal institutions nevertheless mattered enormously.

The Bakhtinian dialogue, with its focus on plurality and heterologue, is in many ways diametrically opposed to the monological nature of the law. Where Bakhtin was focused on ambiguity, legal scholars are generally more concerned with authority.<sup>3</sup> It was exactly this

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<sup>1</sup>Romano Prodi, “A Wider Europe—A Proximity Policy As the Key to Stability,” ed. European Commission (Brussels: European Commission, 2002).

<sup>2</sup>Tatiana Romanova, “Russia-EU Energy Ties: Problems and Possibilities,” *Valdai Discussion Club*, 8 May 2013.

<sup>3</sup>This is of course a big simplification, as much legal scholarship is in fact very devoted to the art of judgement and interpretation, including Bakhtinian approaches, see: Desmond Manderson, “Mikhail Bakhtin and the Field of Law and Literature,” (2012): 9, 25.

type of authoritarian narrative that Bakhtin so vehemently rejected. ‘Monolingualism is always a fiction, and therefore state policy always a suspect’, as one key Bakhtin scholar remarked.<sup>4</sup> Of course, Bakhtin was not calling for ‘some anarchic free-for-all’. He was advocating ‘[a] cleansing of all alienated form in order that the essence underlying this form can be revealed’.<sup>5</sup> Rather than rejecting the law outright, Bakhtin sought critical reflection on the things we sometimes take as givens, such as legal code and ideology. Bakhtin stressed the moral importance of polyphony. At the same time, he admitted that not all narratives are equal or equally valid, due to being connected to linguistic, social and cultural—and indeed legal—phenomena, which one simply cannot ignore.<sup>6</sup> The challenge, therefore, was coming up with a shared legal narrative that could be both externally authoritative *and* internally persuasive to the parties concerned. And in this respect, the Energy Dialogue failed completely, as this final chapter will show.

The chapter will proceed in usual fashion. The European narrative explains the status of the PCA and the ECT, the two main legal documents of the Energy Dialogue. Both documents were signed during the 1990s, when Russia was still weak. Thus, Moscow set out to redress the ‘imbalances’ of the PCA during the 2000s, especially in light of the upcoming EU expansion. Turning to the Post-Imperial narrative, therefore, I will discuss the controversies surrounding the extension of the PCA to the new member states. I will also discuss the difficult task of getting Russia to ratify the controversial ECT. Moscow sternly refused access to its pipelines, which would allow the EU to tap the crucial CIS gas market. Liberalisation also threatened the state’s hold on the Russian energy sector. Moving to the Statist narrative, I will discuss the centrality of the rule of law in Putin’s ‘vertical of power’. Despite Putin’s efforts, the rule of law in Russia remained weak, and institutions such as the Ministry of

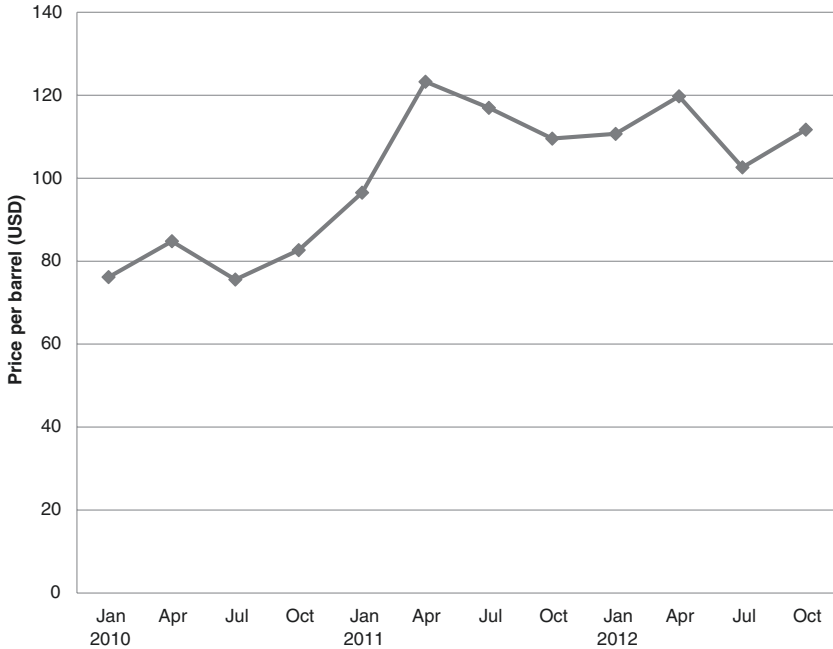
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<sup>4</sup>Michael Holquist, “The impossibility of being faithful: the metaphor of textual constancy and the illusion of linguistic monism,” *Neohelicon* 40, no. 1 (2013).

<sup>5</sup>Caryl Emerson, “Bakhtin After the Boom: Pro and Contra,” *Journal of European Studies* 32, no. 124 (2002): 18.

<sup>6</sup>Michael Gardiner, *The Dialogics of Critique: M.M. Bakhtin and the Theory of Ideology* (London: Routledge, 1992), 136.





**Fig. 6.1** Average world oil prices, January 2010–October 2012 (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

Energy remained fiefdoms of competing elite interests, leading me back to the Dual State narrative.

The EU, meanwhile, was slowly strengthening the institutional underpinnings of its energy policy. Returning to the European narrative, I will explore the evolution of the Third Energy Package (TEP). The TEP endowed the Commission with far-reaching legal powers, enabling it not to simply promote, but to enforce its liberal energy narrative. Finally, therefore, moving to Russia's Euro-Asian narratives, I will explain how the talks on a new PCA turned from integration to conflict, largely due to Russia's opposition towards the TEP. Hence, the PCA, and thus the Energy Dialogue's goal of a legally binding energy partnership, remained on hold<sup>7</sup>.

<sup>7</sup>U.S. Energy Information Administration, "Spot Prices".

## The Energy Dialogue Celebrates Ten Years

On 22 November 2010, the EU–Russia Energy Dialogue celebrated its tenth anniversary at the Hotel Metropole in Brussels. The event was hosted by the Belgian presidency of the Council. In his welcome address, Belgian Minister of Energy, Paul Magnette, hailed the Energy Dialogue as ‘[o]ne of the most important components in EU–Russia relations’. Magnette thus hoped that a ‘legally enforceable [...] New Agreement’ with Russia be concluded soon.<sup>8</sup> Sergei Shmatko, the Russian Minister of Energy, also praised the Energy Dialogue for its ‘groundbreaking’ achievements. He nonetheless expressed concerns about the evolution of the EU’s internal energy market. The Russian Prime Minister was particularly concerned about the EU’s TEP, which he said was ‘in direct conflict’ with the EU’s pre-existing international obligations.<sup>9</sup>

It was clear that there were many obstacles ahead. Before the conference, the Russian Ministry of Energy had raised legal aspects as the most pressing topic of the talks. According to Valery Yazev, deputy speaker of the State Duma and President of the Russian Gas Society, the EU’s TEP would ‘reduce the incentives of investors’ like Gazprom to invest in energy infrastructure. Russia’s strategy, therefore, was to work hard to ‘insure’ against unwanted consequences of the TEP, by trying to affect the implementation of the directives.<sup>10</sup> Gazprom was indeed concerned. As noted by Alexander Medvedev, the chairman of Gazprom Export: ‘We can support the goal of removing barriers to energy trade between EU countries, but from our viewpoint the approach being taken runs the risk of eroding the EU’s energy security in the longer term’. Quoting the founder of the ECSC, Robert Schuman, Medvedev said that ‘The European spirit signifies being conscious of belonging to a cultural family and to have willingness to serve that community in the spirit of total mutuality’. According to Medvedev, it was this spirit of mutuality that

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<sup>8</sup> Paul Magnette, “Welcome Address Belgian Minister for Energy, P. Magnette,” in *10th Anniversary of the EU–Russia Energy Dialogue* (Brussels 2010).

<sup>9</sup> Sergei Shmatko, “Vstupitel’noe slovo Ministra energetiki Rossiiskoi Federatsii Sergeia Ivanovicha Shmatko,” *ibid.*

<sup>10</sup> ITAR-TASS, “Rossii i ES sleduet aktivizirovat’ sotrudnichestvo v kontekste monopolii Kitaia na rynke redkozemel’nykh materialov—Iazev,” *ITAR-TASS*, 22 November 2010.

Gazprom sought in a partnership with Europe, but which the EU was now undermining.<sup>11</sup>

Meanwhile, the EU's new Commissioner for Energy, Günther Oettinger, praised the institutionalisation of the internal energy market, noting that: 'The entry into force of the Lisbon Treaty one year ago has given energy with a self-standing article a solid legal foundation'. He then called for a stronger and more comprehensive energy chapter in the new PCA with Russia, beyond the provisions of the old agreement.<sup>12</sup> However, judging from the speakers, it was plainly obvious that there were considerable obstacles before a new agreement could be concluded—one of which being that the legal status of the Energy Dialogue itself was tenuous.

## The European Narrative

This tenuous legal status had been a problem since the beginning. Throughout 2001, the Energy Dialogue was discussed in the other institutions of the EU. In an interpellation in the European Parliament, one MEP questioned the legal basis of the Energy Dialogue: 'What mandate has the Council given to the European Commission on this dialogue? Is there any formal text of a mandate? On which Treaty basis is this dialogue being conducted?'<sup>13</sup> The question was apt. The Energy Dialogue did not really have a legal mandate, but was rather arranged within the quasi-legal framework of the PCA. It was under a new, revised PCA that the envisaged energy partnership would be codified. According to Khristenko and Lamoureux, the 'agreed set of mutual commitments' taken under the new PCA would thus 'become legally binding for both parties'.<sup>14</sup> But this was misleading language. Contrary to the legalese often used to describe it, the PCA was not legally binding. What is more, the PCA contained its

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<sup>11</sup> Alexander Medvedev, "Gazprom and the European Union: Reshaping Our Partnership," in *10th Anniversary of the EU-Russia Energy Dialogue* (Brussels 2010).

<sup>12</sup> Günther Oettinger, "Keynote Speech," *ibid.*

<sup>13</sup> European Parliament, "Subject: Russia-EU Energy Dialogue," (Strasbourg: European Parliament, 2001).

<sup>14</sup> EU-Russia Energy Dialogue, "Synthesis Report," 2.

own suicide clause, Article 99, which plainly stated that: ‘Nothing in this Agreement shall prevent a Party from taking any measures [...] which it considers necessary for the protection of its essential security interests [or] which it considers necessary to respect its international obligations and commitments’.<sup>15</sup> In other words, the signatories of the PCA could choose to bypass it at their own discretion. The PCA was signed during the 1990s, a time of Russian weakness. As a result, the PCA was dominated by the agenda of the EU member states and the Commission. The aim of the PCA was to form a partnership which would facilitate a ‘gradual integration between Russia and a wider area of cooperation in Europe’.<sup>16</sup> Russia was to be brought within the centripetal field of the EU’s energy narrative. In the original PCA, Russia had agreed to implement comprehensive political and economic reforms. The PCA came into force on 1 December 1997, and was originally planned for a duration of ten years. After this it would be automatically renewed on a yearly basis, under the consent of the signatories. But either way, the PCA was not legally binding.

Therefore, in response to the MEP’s question, a Commission official noted that the mandate came from the 2000 Paris EU–Russia Summit, and that it was subsequently confirmed at the Stockholm Summit of the European Council.<sup>17</sup> So there was a tacit mandate for cooperation, although the legal ambiguity of the PCA would continue to plague the Energy Dialogue in future, as I will discuss below.

## Lamoureux and the Law

The law was part and parcel of the liberal European narrative. François Lamoureux, the founder of the Energy Dialogue, was typical in this regard. By his critics, including the British, he was considered a typical career Eurocrat, whose sole ambition was to eat away state prerogatives. Indeed, success to Lamoureux was partly measured in the number of legal measures DG TREN had taken under his tenure. In 2004, a year before his forced departure from the Commission, Lamoureux had reported that:

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<sup>15</sup> European Union and Russian Federation, “Agreement on Partnership and Cooperation.”

<sup>16</sup> Ibid.

<sup>17</sup> European Parliament, “Subject: Russia-EU Energy Dialogue.”

In the case of DG TREN one can note that on the eve of its creation, on 31 December 1999, the overall energy acquis counted 886 pages and that of transport 2896 pages. On 31 December 2004, the equivalent figures were 1902 pages for energy and 7780 pages for transport, i.e. in only five years the quantity of pages of legislative acts in the fields of energy and transport more than doubled [...] One can therefore, rightly, note that since its creation in 2000, DG TREN has become one of the most productive Directorates-General as regards legislative proposals.<sup>18</sup>

By the Eurosceptic British press, this was pejoratively described as ‘Lamoureux’ 6000-page legacy’.<sup>19</sup> The Brits had not forgotten about ‘Penelope’, Lamoureux’ failed draft constitution, briefly described in Chap. 2. On energy, Lamoureux and his group of coauthors had pointed out the lack of a renewed energy chapter in the revised EU treaty, and called for the development of a liberalised ‘trans-European’ energy network. More significant, however, was the suggestion to remove the veto powers of member states, moving from the use of unanimity towards exclusive use of qualified majority voting, except in the case of the accession of new member states. This would also cover internal and external energy policy. The constitution would enable a ‘European model of society’, an ‘intact cultural heritage’ and the resolve to:

[S]ubstitute for age-old rivalries the merging of their essential interests and to establish by this Constitution the foundations of an ever closer Union between the peoples of a continent that has been divided too long and to lay the foundations for institutions which will give direction to a destiny henceforward shared in a Europe whose vocation is to exercise the responsibilities of a world power.<sup>20</sup>

If implemented, ‘Penelope’ would certainly alleviate Lamoureux’ vision for the Energy Dialogue. In his presentation of ‘Penelope’, Prodi emphasised

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<sup>18</sup> Directorate General of Energy and Transport, “Repertoire of the Acquis Communautaire.”

<sup>19</sup> Financial Times, “Observer: Lamoureux’s 6,000-Page Legacy,” *Financial Times*, 11 November 2005.

<sup>20</sup> European Commission, “Contribution to a Preliminary Draft Constitution of the European Union, Working Document,” V, 8.

the need to make the EU the ‘first true supranational democracy’.<sup>21</sup> But Prodi’s constitution failed to convince his opponents, and the draft was ultimately scrapped in favour of the more lenient constitution drafted by Valéry Giscard d’Estaing. Lamoureux remained deeply critical towards the belief that a ‘vanguard of member states’ would be the way out of the current constitutional stalemate in the EU. This ‘panacea’ was false, claimed Lamoureux, as the vanguard was in fact a rearguard, ‘who do not want to participate in a new policy’. This faith in the foresight of the member states might just as well translate into a negative referendum of the constitution, Lamoureux said (a prophecy that would indeed come to pass, when d’Estaing’s constitution faced a double veto from both France and the Netherlands in 2005, which in turn removed the need for a likely negative British referendum).<sup>22</sup>

## The Energy Charter Treaty

Despite this setback, Lamoureux and the Commission were nevertheless using the Energy Dialogue to push for legal reform in Russia, citing ‘higher than “normal” risks there. According to the Commission, there was ‘a need for a more stable legislative and taxation regime’.<sup>23</sup> However, a stable legal regime did not mean mutual exchange. It meant unilaterally aligning Russian legislation with the EU’s energy *acquis*.<sup>24</sup> In 2000, the state of the energy *acquis* was still rudimentary. Thus, the energy provisions of the PCA were mostly covered by the intergovernmental ECT, as per the PCA’s Article 65, albeit ‘against a background of the progressive integration of the energy markets in Europe’.<sup>25</sup> As the internal energy

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<sup>21</sup>Romano Prodi, “Presenting the Commission Communication to the European Convention,” (Brussel: European Commission, 2002), 3.

<sup>22</sup>François Lamoureux, “Projet de Constitution: de la nécessité d’organiser une “arrière-garde”,” *Revue du droit de l’Union Européenne*, no. 4 (2003).

<sup>23</sup>European Commission, “Energy Dialogue with Russia—Progress Since the October 2001 EU-Russia Summit,” 5.

<sup>24</sup>“Country Strategy Paper 2007–2013, Russian Federation,” (Brussels: European Commission, 2007), 21.

<sup>25</sup>European Union and Russian Federation, “Agreement on Partnership and Cooperation,” Article 65.

market evolved, these two legal narratives would come into conflict. But until then, the ECT predominated.

As noted in Chap. 2, the purpose of the ECT was to build an all-European economic community with the Soviet Union, founded on energy. The ECT was launched in June 1990. As with the Energy Dialogue ten years later, the inspiration for the ECT came from the ECSC, which facilitated the integration between the two former nemeses France and Germany.<sup>26</sup> It was assumed that the same serendipity would befall the ECT.<sup>27</sup> The concept would later be followed by formal instruments, including a Basic Agreement, followed by several additional protocols.<sup>28</sup> The legally binding ECT was signed in Lisbon in December 1994. However, it only entered into force in April 1998, one year *after* the PCA. To this day, the ECT serves as the only major multilateral treaty in the energy sector. The basic elements of the ECT included investment protection, a rule-based legal framework for energy based on the principles of the World Trade Organization, freedom of energy transit, dispute settlement procedures and improved legal transparency.<sup>29</sup> But above all, the ECT, like the Energy Dialogue after it, promised investment in Russia. In 2000, the ECT had been signed by 51 countries and ratified by 46. However, there was one crucial signatory missing—Russia, which had signed but not ratified the ECT.

## The Post-Imperial Narrative

The Russians had soon lost interest in the ECT, after it failed to deliver on its promise to generate large-scale investment. Instead, it had become a talking shop for legal issues. Another objection to the ECT concerned its provisions for third-party access to Russia's monopolised pipeline network.<sup>30</sup> Gazprom relied on its pipeline monopoly, so as to ensure cheap gas exports from landlocked Turkmenistan to gas-hungry Ukraine

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<sup>26</sup> Konoplyanik and Halem, "The Energy Charter Treaty: A Russian Perspective."

<sup>27</sup> Author's interview with Russian Official C.

<sup>28</sup> Angus Charles Johnston and Guy Block, *EU Energy Law* (Oxford: Oxford University Press, 2012), 11.01.

<sup>29</sup> *Ibid.*, 11.02.

<sup>30</sup> Author's interviews with Russian Official A; Russian Official B; Russian Official C.

and Belarus. Allowing third-party access would enable the government in Ashgabat to use Gazprom's pipelines to export gas to Ukraine and Western Europe independently of the Russians. Of course, this point was moot after China broke into Turkmenistan's gas market in 2009, as mentioned in the previous chapter.

Renewed efforts to get Russia aboard the ECT came in 1999, when discussions over a new Transit Protocol began. The Transit Protocol aimed to flesh out the provisions regarding third-party access, while ensuring Russia's interests. This included secure transit, the effective use of transit infrastructure and measures to facilitate the construction of new infrastructure.<sup>31</sup> But from the onset, the talks were plagued by numerous disagreements. Negotiations broke down yet again in 2001, when the EU Commission invoked the so-called Regional Economic Integration Organisation (REIO) clause (Article 20) of the Transit Protocol, which provided the right for an organisation such as the EU to be treated as a single legal entity under the Charter. Inside the borders of a single entity, there would be no such thing as transit. Thus, the entire point of the Transit Protocol, and indeed much of the ECT, was rendered void inside the EU. What remained for Russia with respect to the EU were the rules of the internal market. When the ECT was first signed in the 1990s, the internal market was in its early stages. But throughout the 2000s, the energy *acquis* would become progressively elaborate and demanding. The EU Commission's energy narrative became more authoritative after the introduction of the second and especially third energy packages.

The Russians were not pleased. The REIO clause was invoked 'totally, suddenly', as one Russian official said: 'They did not consult with us'.<sup>32</sup> By 2003, discussions were completely broken down, as confirmed by Khristenko.<sup>33</sup> Still, leaving the ECT process outright would be a diplomatic *faux pas*, and talks continued, however empty.<sup>34</sup> But neither Putin nor the Duma, the Russian parliament, would ever warm to the ECT.<sup>35</sup>

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<sup>31</sup> Energy Charter Secretariat, "The Energy Charter Treaty and Related Documents."

<sup>32</sup> Author's interview with Russian Official A.

<sup>33</sup> ITAR-TASS, "Russia Not Ready to Sign Protocol to Energy Charter—Khristenko," *ITAR-TASS*, 24 June 2003.

<sup>34</sup> Author's interview with Russian Official C.

<sup>35</sup> Amelia Hadfield and Adnan Amkhan-Bayno, "From Russia with Cold Feet: EU-Russia Energy Relations, and the Energy Charter Treaty," *International Journal of Energy Security and Environmental*



## Legal Encroachment

Despite these setbacks, Putin noted that the Energy Dialogue was ‘developing very positively’, and that it was still necessary to develop common rules for the European market. But these rules would have to make room for Russia’s existing commitments, Putin said, and especially Gazprom’s long-term contracts within the EU.<sup>36</sup> The timing was not coincidental. Gazprom was under pressure. In early 2002, Gazprom had received a letter from DG Comp demanding that it remove its so-called destination clauses from its gas contracts with the EU member states. These clauses prohibited the recipients of Russian gas from re-exporting this gas, thus allowing Gazprom better control over regional price levels. Destination clauses were especially prominent in Gazprom’s Eastern European contracts.

The letter did not go down well with the Russians, and especially Gazprom, which felt that such legal dictate was not in the original spirit of the dialogue.<sup>37</sup> However, the Commission got its way, and shortly thereafter most of Gazprom’s destination clauses had been removed, according to a Gazprom official.<sup>38</sup> But the Commission did not stop there. DG Trade had already stepped up its attacks on Russian domestic gas prices, as noted in Chap. 4. Then the Commission’s attention shifted to Gazprom’s long-term contracts. In the Second Progress Report, published in early 2002, the Commission had described long-term, take-or-pay contracts as ‘indispensable’ to ensure investment into new, costly infrastructure projects in the gas sector.<sup>39</sup> However, in the Third Progress Report, published only six months later, the European Commission was underlining ‘that all long-term contracts need to be in conformity with Community law’.<sup>40</sup> Several years later, Gazprom’s gas contracts would

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*Research 1:* 5.

<sup>36</sup>EU-Russia Summit, “Joint Statement.”

<sup>37</sup>Author’s interviews with Klaus Kleinekorte; Dutch Industry Official.

<sup>38</sup>Author’s interview with Sergei Komlev, Head of Pricing and Contract Formation at Gazprom Export [Moscow, 04.04.12]. The source would like to stress that he was expressing himself in a personal capacity and not on behalf of Gazprom Export.

<sup>39</sup>EU-Russia Energy Dialogue, “Second Progress Report,” 2.

<sup>40</sup>“Third Progress Report,” 2.

become the topic of a Commission-led probe, initiated to investigate Gazprom's compliance with the *acquis*. More on this below.

In sum, the Russians were displeased with the EU's increased legal encroachment. As the Russian ambassador to the EU, Vasily Likhachev, noted in 2002, the Commission was speaking with two voices, through DG TREN—'our partners'—and through DG Comp, which was promoting a 'consistent and rigid' implementation of the EU's energy directives.<sup>41</sup> Yet the distinction between the two directorates was not as clear-cut as Likhachev would have it, as I will come onto shortly.

## Extending the PCA

The biggest challenge was nonetheless yet to come. In 2004, the EU was set to expand into Eastern Europe. The Commission had stated that the PCA had to be extended before 1 May, when the new member states were set to formally join the EU. But Vladimir Chizhov, Deputy Foreign Minister and Russian ambassador to the EU after Likhachev, underlined that the extension of the PCA was no mere 'technical procedure'. The EU needed to address Russian concerns, to avoid creating a 'legal vacuum' for EU–Russia relations (and hence the Energy Dialogue).<sup>42</sup> Khristenko warned that 'a legal vacuum may bring about serious problems in our commercial and civil relations with candidate member countries'.<sup>43</sup> Thus, in February, the Russian government published 14 points addressing their immediate concerns over expansion. First of all, the EU needed to safeguard Gazprom's long-term contracts, many of which extended up to 20 years in duration. Another concern was import restrictions. According to the Russians, the EU could impose tariffs and import restrictions on nuclear and fossil fuels down to 25–30 per cent per supplier. Such a limitation would be hurtful for Russia in Eastern Europe, where Russia supplied 75 per cent of energy products.<sup>44</sup> This issue had been raised already

<sup>41</sup> Aleksandr Mineev, "Klienty 'Gazproma' liberalizuiut rynek," *Vremia Novostei*, 18 March 2002.

<sup>42</sup> Vladimir Chizhov, "O vstreche zamestitelia Ministra inostrannykh del Rossii V.A.Chizhova s poslami stran Evrosoiuza," (Moscow: Ministry of Foreign Affairs of Russia, 2004).

<sup>43</sup> Mark Smith, "Russia & the EU under Putin," *Russian Series* 4, no. 20 (2004): 6.

<sup>44</sup> National Investment Council and Ministry of Foreign Affairs of Russia, *The Effect of the EU Enlargement on Russia's Economy* (Moscow: National Investment Council, 2004), 44–45.

in 2002 by Putin himself.<sup>45</sup> The Russians had pointed to an article in the First Gas Directive, according to which ‘Member States may impose on natural gas undertakings [...] public-service obligations which may relate to security, including security of supply’.<sup>46</sup> But the Commission claimed that this was based on a misunderstanding. The Commission admitted that there had been discussions during the Cold War on avoiding ‘undue dependence’ on non-OECD energy sources.<sup>47</sup> However, only Spain had implemented such limitations, and it did not receive Russian gas anyway. This clarification was confirmed already in the third progress report of December 2002.<sup>48</sup> But despite this, and in spite of the Commission’s assurances to the contrary, Moscow remained adamant that it would not tolerate any limitations.

The Russians demanded written guarantees of non-discrimination towards Russian energy interests in Eastern Europe before the PCA could be expanded.<sup>49</sup> In the end of February, the EU’s Foreign Ministers’ forum, the Council on External Relations, issued its statement addressing Russia’s objections. The Council announced that it was open to discuss any of Russia’s concerns over enlargement, but that this would have to remain ‘entirely separate’ from the extension of the PCA, which would be applied to the EU25, ‘without precondition’.<sup>50</sup> And so the PCA was extended. Although most of the Russian concerns were honoured, this was a pyrrhic victory. As time progressed, the consequences of expansion would become increasingly visible, as I will show when I turn to the European narrative and the changing *acquis*.

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<sup>45</sup>Vladimir Putin, “Concluding Speech by Russian President Vladimir Putin at Meeting of Petersburg Dialogue Forum,” (Weimar: Russian Ministry of Foreign Affairs, 2002).

<sup>46</sup>European Council and European Parliament, “Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998.”

<sup>47</sup>European Commission, “Energy Dialogue with Russia—Update on Progress,” 11–12.

<sup>48</sup>EU-Russia Energy Dialogue, “Third Progress Report,” 2.

<sup>49</sup>National Investment Council and Ministry of Foreign Affairs of Russia, *The Effect of the EU Enlargement on Russia’s Economy*, 49.

<sup>50</sup>Council of the European Union, “2563rd Council meeting—External Relations,” (Brussels: Council of the European Union, 2004).

## Russia Leaves the ECT

With the expansion of the PCA to the new member states, so, too, was the ECT expanded. Despite the Commission's decision to invoke the REIO clause, discussions over the ECT and the Transit Protocol continued. As Viktor Khristenko remarked in 2006, '[i]f we don't manage to complete talks on the transit protocol, we can't talk about ratification of the Energy Charter'.<sup>51</sup> But expectations were muted, as Russia's former Prime Minister Kasyanov remarked that same year: '[T]he Energy Charter is now a source of endless wrangling between the countries and is basically void'.<sup>52</sup> It did not improve. In 2009, Valery Yazev stated that 'the Charter has been in the State Duma for 7 or 8 years and we are not going to ratify it'.<sup>53</sup> The final blow for the ECT did not come until 2009, after the second Ukrainian gas crisis. The EU was blaming both Ukraine and Russia. Russia, in turn, was pointing at Ukraine, the EU and the ECT secretariat—Ukraine for siphoning gas, and the Commission and the ECT secretariat for acting biased and not ensuring free transit.<sup>54</sup> Russia, which had consistently refused to ratify the ECT, was accusing Ukraine, which had, of non-compliance. Minister of Energy Shmatko said that 'The European Union still has to make it clear to Ukraine that it, and not we, violated the Energy Charter'.<sup>55</sup> But the Commission refused to abide. Consequently, in August 2009, Russia—that is, Putin—decided to withdraw its signature from the ECT.<sup>56</sup>

Still, the Ukraine incident was not the only reason for Russia's withdrawal. Arrows were also pointing towards the ECT's dispute settlement procedures. The Khodorkovsky trial was still being contested in international courts outside Russia, and Russia's signature and provisional application of the ECT made it liable for compensation, if proven

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<sup>51</sup> Reuters, "Khristenko Rebuffs Hopes for Gas Reform," *Reuters*, 15 March 2006.

<sup>52</sup> Kasyanov, "Energy Security and Russia-EU Cooperation."

<sup>53</sup> Russia Energy, "Valery Yazev," *Russia Energy*, 4 March 2009.

<sup>54</sup> For a detailed account, see Pirani, Stern, and Yafimava, *The Russo-Ukrainian Gas Dispute of January 2009, a Comprehensive Assessment*.

<sup>55</sup> Jan Puhl, Christian Schwärgerl, and Christopher Sultan, "Spiegel Interview with Russia's Energy Minister," *Der Spiegel*, 11 February 2009.

<sup>56</sup> Author's interview with Russian Official A.

guilty—a not unthinkable prospect, given the controversies surrounding the Yukos case.<sup>57</sup>

## The Statist Narrative

In April 2009, a few months before Russia's withdrawal from the ECT, President Medvedev revealed his own alternative to the ECT, titled 'Conceptual Approach to the New Legal Framework for Energy Cooperation'. The proposal stressed the need for reciprocity in investment, the mutual responsibility of suppliers and consumers, as well as '[u]nconditional state sovereignty over national energy resources'.<sup>58</sup> Medvedev was described as a liberal. But his difference from Putin was partly cosmetic. Medvedev was a Putin protégé from their time in St. Petersburg, and it was under Medvedev's tenure as chairman that Gazprom was put under state control. In 2011, at a meeting of the political party United Russia, Medvedev affirmed his statist sympathies, stating that: 'I have never been a liberal. I am a man of conservative values'.<sup>59</sup> As for the PCA with the EU, Medvedev wanted an agreement that was 'short, without too many details'.<sup>60</sup> The Russians were looking for a 'simplier format [sic] for the new PCA', as one senior Russian official in the Energy Dialogue said. Hence, Medvedev's charter was presented as a 'universal legal framework', and as such agreeable to everyone.<sup>61</sup>

However, the EU had flat out rejected the proposal, with both Piebalgs and Barroso stating that the EU would not under any conditions abandon

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<sup>57</sup>Maxi Scherer and Alan Riley, "The Effect of the Yukos Case and Proceedings on the EU-Russia Energy Relationship," in *The EU-Russia Energy Relationship: The Effect of the Yukos Case & Proceedings* (London: ESCP Europe, 2013).

<sup>58</sup>Russian Federation, "Conceptual Approach to the New Legal Framework for Energy Cooperation (Goals and Principles)," (Moscow: President of Russia, 2009).

<sup>59</sup>ITAR-TASS, "Russian Prime Minister Becomes Member of United Russia Party," *ITAR-TASS*, 22 May 2012.

<sup>60</sup>Euractiv, "EU-Russia Welcome 'New Page' in Relationship," *Euractiv*, 30 June 2008.

<sup>61</sup>Vladimir I. Feygin, "Basic Principles of Possible New International Legal Framework in Energy," in *Izmeneniya v energeticheskom zakonodatel'stve ES: Prakticheskie stsennarii po ukrepleniyu energeticheskogo partnerstva Rossii i ES* (Moscow: IMEMO, 2010).

the Energy Charter.<sup>62</sup> What is less known is that there was very little enthusiasm for Medvedev's charter also on the Russian side. This even extended to the authors of the concept, who were reluctant to write a charter that was seemingly dead from the outset. But since the order came directly from the president's office, the authors had no choice but to abide.<sup>63</sup> Medvedev's concept was widely considered 'a bad reprint of the ECT', as one Russian official remarked.<sup>64</sup> In the end, Medvedev's concept was shelved indefinitely, after Medvedev himself was demoted to Prime Minister.

## Centripetal Versus Centrifugal Policy

The Commission sought to protect the rights of the consumer as opposed to the state.<sup>65</sup> Conversely, the state enjoyed a privileged position in the Russian narrative—or the rights of the state as opposed to the consumer, as it were. Russian Orthodox Christianity emphasises the individual's responsibility towards the collective, meaning the state.<sup>66</sup> Putin has actively exploited the Orthodox sensitivities of the Russian population throughout his presidency, and especially in the later years. Putin affirmed his statist (*gosudarstvennik*) credentials already in his 'Millennium Speech', delivered a mere few days before he was assigned to the presidency.<sup>67</sup> A trained lawyer, Putin wanted to reassert the power of the state through what he termed 'the dictatorship of the law'. His narrative was that of the *pravovoe gosudarstvo*, or 'law-governed state'.<sup>68</sup> The law was a guarantor against chaos, Putin said. The fear of *raspad* (collapse), or *razval* (disintegration)—together with *raskol* (schism)—was the

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<sup>62</sup> Eberhard Sandschneider, "Crisis in Russia-EU Energy Relationship," *DGAP Aktuell*, no. 4 (2009); Lucian Kim, "Medvedev's Initiative Won't Replace Energy Charter, EU Says," *Bloomberg*, 30 April 2009.

<sup>63</sup> Author's interviews with Stanislav Zhiznin; Russian Official A.

<sup>64</sup> Author's interview with Russian Official D.

<sup>65</sup> Pinar Akman and Hussein Kassim, "Myths and Myth-Making in the European Union: The Institutionalization and Interpretation of EU Competition Policy," *Journal of Common Market Studies* 48, no. 1 (2010): 119.

<sup>66</sup> Evert van der Zweerde, "'Civil Society' and 'Orthodox Christianity' in Russia: a Double Test-Case," *Religion, State & Society* 27, no. 1 (1999).

<sup>67</sup> Putin, "Russia at the Turn of the Millennium."

<sup>68</sup> Hill and Gaddy, *Mr. Putin, Operative in the Kremlin*, 50.

leitmotif of several of Putin's speeches.<sup>69</sup> The main culprit in the 1990s was liberalism. Removing the state had proven harmful; thus the state had to be brought back in.

Putin's 'legal state' was heavily reliant on energy rents. By 2012, the Russian state budget was dependent on an energy price of 120 dollars per barrel just to break even. This was a lot considering that the world market price for oil hovered around 20 dollars per barrel in 2000, and had dropped from 130 to 40 dollars per barrel as recently as 2009.<sup>70</sup> In July 2006, Gazprom's *de facto* export monopoly was made *de jure*, after the law 'On Gas Exports' was pushed through the Duma, the Russian legislature.<sup>71</sup> To be sure, there were forces within the Russian government who would continue to push for liberalisation, even after Putin began his implementation of the 'power vertical'. Herman Gref, who stayed on as Minister for Economic Development and Trade from 2000 until 2008, would persist in his drive to unbundle Gazprom. But for Putin and Khristenko, unbundling was off the agenda. Khristenko lauded the Gazprom monopoly, which he described as 'good for the state'.<sup>72</sup> He also denied any notion of third-party access, saying that 'when something already belongs to somebody, there can't be any free access to it'.<sup>73</sup> Likewise, Shmatko said that 'Gazprom is a sacred cow for us. We will not abandon the export monopoly for energy'.<sup>74</sup> Shmatko, like Khristenko, was a guarantor of Putin's narrative of *pravovoe gosudarstvo*. In Russia, the state trumped the market. In a 2009 interview with the German magazine *Der Spiegel*, Shmatko noted that:

Instead of a conspiracy among gas and oil producers, we need a new pricing mechanism—one that is not based solely on supply and demand, but also on long-term investment needs. We would like to negotiate with

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<sup>69</sup>Ibid., 54.

<sup>70</sup>Catherine Belton, "Ousted Kudrin Hits out at Russian Budget," *Financial Times*, 27 September 2011.

<sup>71</sup>Milov, "The EU-Russia Energy Dialogue: Competition Versus Monopolies," 12.

<sup>72</sup>Interfax, "Legal Basis for Gazprom's Gas Export Monopoly Is Good for State—Khristenko," *Interfax*, 16 July 2006.

<sup>73</sup>Reuters, "Khristenko Rebuffs Hopes for Gas Reform."

<sup>74</sup>Puhl, Schwärgerl, and Sultan, "Spiegel Interview with Russia's Energy Minister."

Europe on this issue soon. Together, we should make ourselves more independent of irrational fluctuations in the markets.<sup>75</sup>

The unplanned market was ‘irrational’ *vis-à-vis* the rationality of the planned state. Legally, the EU narrative ensured liberalisation, whereas the Russian narrative ensured continued state control. But control was an objective rather than a reality, as I have shown in previous chapters. Progress was slow, and by the end of the period of this book, incomplete.

## Novatek Enters the Energy Dialogue

Meanwhile, Gazprom’s notorious inefficiency became impossible to ignore, even for the Kremlin. Between 1999 and 2007, Russian domestic demand for gas increased with 2 per cent per year. Moreover, oil prices, which were linked to gas prices, continued to rise. And with Gazprom’s production for both imports and exports declining year on year, the authorities saw no other way than to allow independent producers further stakes in the domestic market. By 2013, the independents’ share of the Russian domestic market had increased to 27 per cent.<sup>76</sup> At the end of the decade, the biggest independent, Novatek, would also push for access to export pipelines. This was with the opaque backing of the Kremlin, as witnessed in 2011, when Novatek was allowed to join the Energy Dialogue, as the first non-Gazprom Russian gas company. Officially, Novatek was acting only as an observer. Unofficially, however, the company would repeatedly express its desire to become an exporter in the future.<sup>77</sup> In 2013, at the World Economic Forum in Davos, Medvedev, now Prime Minister, told reporters that Gazprom might lose its export monopoly in the future. A similar statement was made by Putin, who confirmed that Gazprom at least risked losing its monopoly to independent producers, but without

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<sup>75</sup> Ibid.

<sup>76</sup> Katya Golubkova and Melissa Akin, “Rosneft to Take over Russian Gas Firm Itera for \$3 billion,” *Reuters*, 28 May 2013.

<sup>77</sup> Author’s interview with Vladimir Drebentsov.



providing a timetable for this.<sup>78</sup> (In December 2013, Gazprom's legal monopoly was finally breached by Novatek and Rosneft—which also wanted in on the gas export market—although only in terms of LNG exports. Gazprom's monopoly over pipeline exports remained intact.<sup>79</sup>) However, Novatek was largely owned by Putin loyalists, leading many observers to question exactly how 'independent' it really was.

## The Dual State Narrative

The EU was a mishmash of institutional checks and balances. This made decision-making a slow and arduous process. But Russia had institutional challenges of its own. Putin had called for 'clearly delimited powers and effective mechanisms for cooperation between the different levels of power'.<sup>80</sup> Given the turbulence of transition, the shift from Soviet to Russian bureaucracy was never organic. The end result was a slew of hastily added regulatory bodies, superimposed on the old. By 2010, the bureaucracy numbered over 1.7 million officials.<sup>81</sup> On the one hand, former administrative bodies such as the Ministry of Natural Gas and the Ministry of Oil had been restructured into companies—Gazprom and Rosneft, respectively. On the other hand, new ministries were set up, many of which duplicated other ministries, both old and new. Under Putin, no less than 12 ministries were involved in the energy sector.<sup>82</sup> The excessive bureaucratisation of Russian energy politics made for a rather inconsistent policy- and decision-making environment. Each of these agencies was jealous of the others, while remaining fiercely protective of their own prerogatives.

A telling example with direct relevance to the Energy Dialogue was the troubled relationship between the Ministry of Natural Resources (Minprirody) and the Ministry of Energy (Minenergo). The ministries

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<sup>78</sup>RIA Novosti, "Law Ending Gazprom's Gas Export Monopoly Enters Into Force," *RIA Novosti*, 2 December 2013.

<sup>79</sup>Kahtrin Hille, "Russia Paves Way for Limited Liberalisation of LNG Exports," *Financial Times*, 22 November 2013.

<sup>80</sup>Putin, "Poslanie Federal'nomu Sobraniuu Rossiiskoi Federatsii."

<sup>81</sup>Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 391.

<sup>82</sup>Tkachenko, "Actors in Russia's Energy Policy towards the EU."

were both involved in the energy sector, but their responsibilities covered different areas. Minprirody was officially in charge of the Russian upstream, including handing out licences to investors. Conversely, it was Minenergo which was responsible for energy diplomacy, including the Energy Dialogue. However, this responsibility was shared with the Ministry of Foreign Affairs, which also participated in the Energy Dialogue.<sup>83</sup> Meanwhile, Minprirody was barely represented in the Energy Dialogue. This absence was not limited to Minprirody. Gazprom retained the main responsibility of the Russian gas sector, including the regulation of access to the vast pipeline network. So, too, did Transneft regulate the oil pipeline grid, whereas Rosneft would steadily assume greater control over the Russian oil sector. Their presence in the Energy Dialogue was negligible.

## Clan Warfare

As a result of this institutional bickering, the only consistent trend in energy policy during Putin was the relentless drive for state control. Important measures such as energy saving, investment policy, legal framework and so on were put on the backburner.<sup>84</sup> This was further codified in 2008, when the Duma passed a new ‘Strategic Sectors Law’. It severely limited foreign ownership in whatever industries Russian authorities deemed strategic, such as energy. The law became a controversial topic in the Energy Dialogue, with the EU fearing a decrease in investment as a result.<sup>85</sup> It would seem that state control was becoming absolute, but laws governing natural resource extraction were often passed only after intense institutional bickering between competing ministries, regional authorities and other agencies.<sup>86</sup> The fact was that the so-called vertical of power was in fact a ‘heterologue of power’. In 2009, Igor Sechin concluded a review of 150 initiatives on energy policy ascribed to the bureaucracy.

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<sup>83</sup> Author’s interview with Vladimir Milov.

<sup>84</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 393.

<sup>85</sup> EU-Russia Energy Dialogue, “Joint Report EU-Russia Energy Dialogue 2000–2010,” 7; “Ninth Progress Report,” 5.

<sup>86</sup> Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 395.

According to the results, only four had been completed.<sup>87</sup> Russian ministries had devolved into institutionalised battlegrounds for competing elite interests. As one expert noted:

This maintenance of checks and balances among the competing elites, and the allocation of rents and power among them, extending deep into the internal structure of each ministry, has increasingly become the hallmark of the Russian state system in the later Putin years. If in 2000–2004 the main objective of the elites that came to power under Putin was to gain control of the regions and its oligarchs, by Putin's second term the emphasis shifted to maintaining a balance of power within the bureaucracy and an equal division of state positions among the clans. In the case of Minprirody, the result is a politically "safe" but weak ministry.<sup>88</sup>

This ministerial weakness was a by-product of the Russian political leadership's policy of divide and balance.<sup>89</sup> In Chap. 3, I discussed how clan warfare in the Ministry of Energy impaired its ability to act coherently during the early years of the Energy Dialogue. But this weakness was visible all the way to the top. A president was only as powerful as his personal influence. Medvedev was a *pro forma* president, with Putin as the unquestionable leader. It did not matter that Putin had been 'demoted' to Prime Minister in 2008; he was still number one. The same applied to the Minister of Energy, Sergei Shmatko, who became Prime Minister during the Medvedev presidency. Shmatko was widely regarded as inefficient and weak. Given Shmatko's background in the nuclear sector, his informal connections in the gas and oil sectors were poor. But it did not matter, as Putin did not want free thinkers, but someone he could control. Ultimately, all decisions were made at Putin's desk.<sup>90</sup>

Another consequence of this personalisation of power was pervasive cronyism. Many of Putin's personal entourage from his time in St. Petersburg, KGB and his dacha collective 'Ozero' (lake) emerged from

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<sup>87</sup> Irina Markov et al., "Chetyre iz 150 i eshche 46," *Vedomosti*, 22 January 2009; Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 401.

<sup>88</sup> *Wheel of Fortune, the Battle for Oil and Power in Russia*, 400.

<sup>89</sup> *Ibid.*, 399.

<sup>90</sup> Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine.," author's interview with Mikhail Kroutikhin, partner at RusEnergy [E-mail and phone, 27.04 & 02.05.11, 21.01.11].

nothing to become the new oil and gas barons of Russia.<sup>91</sup> Besides Igor Sechin, these included Boris and Arkady Rotenberg—the latter Putin’s former judo partner, who became among Gazprom’s main suppliers and thus one of Russia’s wealthiest men. Others were Gennady Timchenko, the founder of the judo club at which Rotenberg and Putin sparred, who was the owner of Gunvor, Russia’s biggest oil and gas trader, and who would later acquire controlling stakes in Novatek, mentioned above.<sup>92</sup> The list goes on. Meanwhile, there have been numerous speculations that Putin personally controls a large share of Russia’s oil and gas companies, making him the richest man on earth, although these claims have never been verified.<sup>93</sup>

## Legal Nihilism

One of the Commission’s main objectives was to enhance the rule of law in Russia. Whereas the EU legal discourse presupposed firm, robust legal institutions, in Russia the case was often the opposite. One argument for the EU’s failure to ‘reform’ Russia was that it was attempting to implement a number of advanced ‘second-generation reforms’ focused on its domestic energy market, when Russia still had not finished its ‘first-generation reforms’—the primary of which was establishing a sound legal institutional framework, which could ensure the inviolability of contract and property rights.<sup>94</sup> Investors were indeed wary of this fact. Among the most frequently cited examples of this were the Yukos and Sakhalin-2 incidents, discussed previously.

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<sup>91</sup> Hill and Gaddy, *Mr. Putin, Operative in the Kremlin*, 113–4.

<sup>92</sup> Nemtsov and Milov, *Putin and Gazprom, an Independent Expert Report*. 43–44; Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 559; Talseth, “A Dialogue of the Deaf: The EU-Russia Energy Dialogue 2000–2009.”

<sup>93</sup> Leonid Bershidsky, “Vladimir Putin, the Richest Man on Earth,” *Bloomberg View*, 17 September 2013; Luke Harding, “Revealed: The \$2bn Offshore Trail That Leads to Vladimir Putin,” *The Guardian*, 3 April 2016.

<sup>94</sup> Rudiger Ahrend and William Tompson, “Fifteen Years of Economic Reform in Russia: What has been Achieved? What Remains to be Done,” *OECD Economic Department Working Paper* (2005): 17.

Although the Kremlin saw these events differently than did many in the EU, they nevertheless acknowledged the considerable challenges of doing business in Russia. Upon assuming the presidency in 2008, Medvedev named tackling Russia's 'legal nihilism' as one of his main objectives.<sup>95</sup> Corruption was rife in Russia, and despite Putin's vaunted 'power vertical', it was getting worse. In 2000, the year the Energy Dialogue was initiated, Russia was ranked as number 82 on Transparency International's Corruption Perceptions Index (CPI), whereas in 2011 it was ranked as number 133—that is 14 places up from the 2008 post-Soviet low of 147, but still worse than Uganda, and on equal footing with countries such as Kazakhstan, Iran and Honduras.<sup>96</sup> Hardly a 'dictatorship of law'.

## The European Narrative (Redux)

The institutional basis for EU energy policy was weak in 2000, at the launch of the Energy Dialogue. But by the end of the Energy Dialogue's first decade, something of a revolution had occurred. The process began in the early 1990s, in the wake of the Maastricht Treaty. Most important was the first set of directives for the electricity (1996) and gas (1998) sectors. Both directives contained numerous provisions for liberalisation and non-discriminatory access to markets and infrastructure. However, the provisions were not strong, but rather 'general principles [...] the detailed implementation of which should be left to member states'.<sup>97</sup> The directives were criticised for containing too many loopholes.<sup>98</sup> But in the 1990s, these loopholes were necessary in order to get the member states on board, most importantly France and Germany, whose voices carried great weight in the predominantly intergovernmental EU.<sup>99</sup>

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<sup>95</sup>Dmitri Medvedev, "Speech at Inauguration Ceremony as President of Russia," (Moscow: President of Russia, 2008).

<sup>96</sup>Transparency International, *Corruption Perceptions Index*.

<sup>97</sup>European Council and European Parliament, "Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998," see Article 9.

<sup>98</sup>Stephen Thomas, *The European Union Gas and Electricity Directives* (London: Public Services International Research Institute, University of Greenwich, 2005), 10.

<sup>99</sup>Per Ove Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?," *Journal of Common Market Studies* 49, no.

Likewise, a massive lobbying effort was directed against each set of energy directives, by virtually all of the major energy companies.<sup>100</sup>

After the first energy directives, Commission inquiries revealed that many member states were seriously lagging behind with respect to implementation of the first directives. Liberalisation had failed, and vertically integrated energy companies were still the norm.<sup>101</sup> Thus, the pro-marketeters reconvened. The groundwork for the Second Energy Package was laid at the 2002 Barcelona Summit, and the new directives were launched one year later. The second directives went further than the first in a number of ways, including awarding consumers the right to choose suppliers. Most important for the Energy Dialogue, however, was the demand for managerial, organisational and, crucially, *legal* separation of the activities of energy companies (In the first directives such ‘unbundling’ was limited to the optional separation of accounts.<sup>102</sup>). The second batch suffered from many of the same weaknesses as the first directives. A new Commission inquiry revealed that the Second Energy Package was also plagued by an overall lack of implementation. The inquiry added that ‘[t]he persistent nature of infringements demonstrates to a certain extent also the insufficiencies and shortcomings of the current EC legal framework arising from the directives’.<sup>103</sup> There were pioneers, including the Dutch, but these were exceptions rather than the rule.

## The Third Energy Package

Reform was moving slowly. Yet the political tide was shifting in favour of further integration. Two key events brought this about. First was the Hampton Court Summit of October 2005, where Prime Minister Tony Blair made the call for a common European energy policy. Second and

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2 (2011): 250.

<sup>100</sup> Author’s interview with Klaus Kleinekorte.

<sup>101</sup> Eikeland, “The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?,” 250.

<sup>102</sup> European Council and European Parliament, “Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998,” Articles 9 & 13.

<sup>103</sup> European Commission, “Impact Assessment,” (Brussels: European Commission, 2007), 3.

most importantly was the Ukraine crisis of January 2006 and the subsequent March 2006 Green Paper, which tipped the scales in favour of additional directives.<sup>104</sup> These were welcome developments for Commission President Barroso, who had long wanted to resume the Lisbon Process of 2000, which I briefly discussed in Chap. 2. Energy would be the focal point of Barroso's new reform agenda.<sup>105</sup>

In 2007, negotiations began for a TEP. The TEP, launched in 2009, was a landmark, and especially for the Energy Dialogue. It introduced a third set of electricity and gas directives. The TEP succeeded in introducing Mandatory Ownership Unbundling (MU). In order to appease the opponents of MU, of which there were still many, the result was a three-tiered menu of options. First was full ownership unbundling, requiring the mother company to completely divest itself of its transmission assets. This was the option favoured by the Commission and the European Parliament, but also by countries such as the UK and the Netherlands. The second option was an Independent System Operator (ISO), which allowed the companies to retain ownership of the transmission assets, but transferring the operations to an independent third party. Third was the Independent Transmission Operator (ITO). This option allowed the energy company to retain ownership of transmission networks, but as a legally independent stock company operating under a separate brand name.<sup>106</sup> This option was presented in January 2008, after fierce lobbying by Austria, Bulgaria, France, Germany, Greece, Luxembourg, Latvia and the Slovak Republic.<sup>107</sup>

## DG Comp Takes Charge

As for external relations, things were proceeding more slowly. The inter-governmental mode of decision-making which prevailed from Maastricht

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<sup>104</sup> Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?."

<sup>105</sup> Jose Manuel Barroso and Günter Verheugen, "Working Together for Growth and Jobs, a New Start for the Lisbon Strategy," (Brussels: European Commission, 2005).

<sup>106</sup> European Parliament, "3rd Energy Package Gets Final Approval from MEPs," (Brussels: European Parliament, 2009).

<sup>107</sup> Euractiv, "Eight EU States Oppose Unbundling, Table 'Third Way'," *Euractiv*, 1 February 2008.

through the Amsterdam Treaties was preserved in the Lisbon Treaty, which came into effect in 2009, albeit with the inclusion of ‘solidarity’ as a guiding principle.<sup>108</sup> Substantive foreign policy remained a member state prerogative. The European External Action Service, established in 2010, would gradually assume many of the external responsibilities of the Commission. The two institutions would compete for influence in the energy sphere. Making matters more complicated was the fact that Commission decision-making was split between a minimum of five Commissioners—energy, competition, industry, environment and foreign policy. But even though the Commission was losing influence over foreign affairs, it could still, indirectly, make an impact through export of the narrative of the internal energy market. Many of these efforts were directed at Russia’s near abroad. I have already mentioned the numerous MoUs signed between Brussels and third countries, as well as the Energy Community Treaty. Additional external measures included the Interstate Oil and Gas Transportation to Europe (INOGATE) initiative, which sought to ‘promote European investment in Caspian Sea and Central Asia states in return for their energy cooperation with the EU member states’.<sup>109</sup>

The Commission, as the guarantor of the treaties, could also act by enforcing the internal energy market on third parties operating within the EU. The competition-focused TEP marked the entrance of DG Comp as a core actor in EU energy policy.<sup>110</sup> Although the TEP was not conceived by DG Comp (it ‘was really the footprint of Piebalgs’, as one EU official in the Energy Dialogue noted<sup>111</sup>), it strengthened DG Comp’s prerogatives in the energy sphere. Moreover, DG Comp had increased its energy footprint through staff rotations. The new DG for Energy, Philip Lowe, who would later join the Energy Dialogue, was brought in from his post as head of DG Comp. DG Comp’s presence was also reflected in its fervent investigation activity against major energy companies. For instance,

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<sup>108</sup> European Union, “Treaty of Lisbon,” (Lisbon: Official Journal of the European Communities, 2007), 87.

<sup>109</sup> Republic of Azerbaijan, “INOGATE,” (Baku: State Agency on Alternative and Renewable Resources, 2014).

<sup>110</sup> Eikeland, “The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?,” 50.

<sup>111</sup> Author’s interview with Klaus Kleinekorte.



EDF, Suez-Electrabel, Distrigaz and E.ON were all charged with abusing their dominant market position through long-term contracts.<sup>112</sup>

In late 2011, DG Comp set its sights on Gazprom's, whose offices were raided as part of a comprehensive EU-led antitrust investigation. In 2012, the EU Commission launched an official probe into Gazprom's contracts to see whether Gazprom used its dominant position in the EU gas market to thwart competitors and push up prices in Central and Eastern Europe. The narratives for why the probe was conducted could not be more different. On the EU side the probe was defended as business as usual, in that Gazprom and Russia needed to abide by the rules of the internal market like everybody else. On the Russian side, however, the probe was considered as yet another attempt at keeping Gazprom out of the European market, as I will show when I turn to Russia's Euro-Asian narratives below.<sup>113</sup>

## Curbing Bilateralism

The Commission also aimed to curb the pervasive bilateralism between member states and third countries such as Russia. In 2011, the Commission produced a communication on international cooperation which proposed creating an information mechanism with respect to intergovernmental energy agreements between member states and third countries, 'which are likely to have an impact on the operation or the functioning of the internal market for energy or on the security of energy supply in the Union'.<sup>114</sup> The initiative caused heated debate in the Council. On the one hand were countries like Poland and the Baltic states, who wanted the Commission to become more involved in contract setting.<sup>115</sup> On the other hand were the usual suspects, including

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<sup>112</sup>Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?," 253.

<sup>113</sup>Alan Riley, "Commission v. Gazprom: The Antitrust Clash of the Decade?," *CEPS Policy Brief* 285, no. 31 October (2012).

<sup>114</sup>European Parliament and Council of the European Union, "Information Exchange Mechanism with Regard to Intergovernmental Agreements between Member States and Third Countries in the Field of Energy," (Brussels: European Commission, 2011), 1.

<sup>115</sup>Author's interviews with Mati Murd; Dins Merirands; EU National Official E.

France and Germany, who preferred to retain their sovereign rights to conclude agreements. The latter group prevailed, and the end result was a voluntary information exchange mechanism.

As before, power remained in the hands of the governments.<sup>116</sup> The heterologue between the EU27 and EUropean narratives prevailed. As the CEO of ENI later noted: ‘[T]he head of the commission lacks the power to knock heads together and synthesise a coherent policy. Meanwhile, the different objectives pursued by individual member states add yet another level of complexity’.<sup>117</sup> Still, the Commission was growing increasingly confident. It was incrementally building a common narrative for the EU’s energy policy—with the legal and institutional means to enforce it.

## The EU27 Narratives

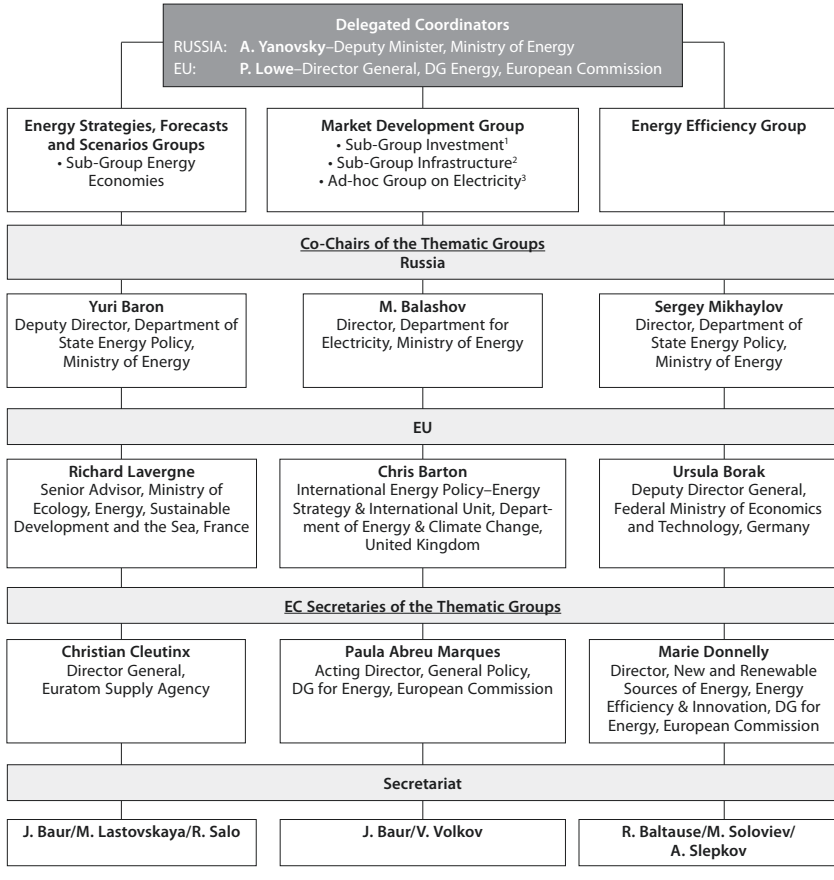
The member states—27 in total, after the 2007 accession of Romania and Bulgaria—remained ever suspicious of the Commission, and demanded to continue monitoring the Energy Dialogue. In 2010, the Energy Dialogue was restructured yet again (Fig. 6.2). The UK, Germany and France retained their co-chairs. The only change was that the investment subgroup was supplemented with two additional groups, one on infrastructure and one on electricity. Meanwhile, the German politician Günther Oettinger had taken over for Andris Piebalgs as Commissioner for Energy and as coordinator (no longer ‘sole interlocutor’) of the Energy Dialogue. In one sense, the nomination of Oettinger as Commissioner was a smart move, as the Russians preferred large over small states. But Oettinger’s position standing inside Germany was tenuous. His rise to power was riddled with controversy,<sup>118</sup> and his relationship with Angela

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<sup>116</sup>European Parliament and Council of the European Union, “Decision No 994/2012/EU,” (Official Journal of the European Union, 2012).

<sup>117</sup>Scaroni, “Europe Must Speak with One Voice on Energy.”

<sup>118</sup>Der Spiegel, “Revising History: Politician Under Fire for Praising Former Nazi Judge,” *Der Spiegel*, 16 April 2007.



<sup>1</sup>Industry-led

<sup>2</sup>EU Co-Chair: J. Vinois, Head of Unit Security of Supply, DG Energy/Co-Chair of Russian Federation: M. Barkov, Vice-President Transneft

<sup>3</sup>EU Co-Chair: D. Ristori, Deputy Director General, DG Energy/Co-Chair of Russian Federation: V. Nikonov, Director of Electricity Development Department, Minenergo

**Fig. 6.2** The EU–Russia Energy Dialogue in 2010 (EU–Russia Energy Dialogue, “The First Ten Years: 2000–2010,” 19)

Merkel, the German Chancellor, was downright bad.<sup>119</sup> Oettinger was not even Merkel’s first choice for the Commissioner post, and when Merkel

<sup>119</sup>Florian Gathmann and Hans-Jürgen Schlamp, “Günther Who? EU Perplexed by Germany’s Choice of Oettinger as Commissioner,” *ibid.*, 27 October 2009; Greg Delawie, “Lame Duck German Governor Kicked Upstairs as New Energy Commissioner in Brussels,” no. 09BERLIN1636\_a (2009).

presented Commission President José Manuel Barroso with Oettinger's name, Barroso was reportedly 'surprised'.<sup>120</sup> Indeed, the reactions among senior German politicians were equally befuddled, with one senior politician calling it 'political madness'.<sup>121,122</sup>

Moreover, the energy portfolio was not considered to be as prestigious as, say, competition. The reason for this was that energy remained a national prerogative. That a major power like Germany would settle for this post puzzled many.<sup>123</sup> But the fact of the matter may have been that Berlin did not care all that much. For the authorities in Berlin, Brussels had been a convenient 'dumping group' for bothersome or burnt-out politicians. Merkel was reportedly more concerned with the Council than the Commission, and was trying to strengthen the former at the expense of the latter.<sup>124</sup>

## Inconsistent Implementation

Nonetheless, Oettinger became a staunch defender of the internal energy market, accusing EU countries of pursuing an energy policy reminiscent of '19th century principalities'.<sup>125</sup> For example, the implementation of the TEP was highly inconsistent among the member states. By January 2013, only 11 of 27 member states had notified the Commission about the progress of their implementation of the directives. The Baltic states had received temporary derogations from the TEP's unbundling requirements, due to their energy dependency on and close ownership ties with Gazprom. Germany and France had not received derogations,

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<sup>120</sup> Gathmann and Schlamp, "Günther Who? EU Perplexed by Germany's Choice of Oettinger as Commissioner."

<sup>121</sup> Ibid.; Rebecca Harms, "Harms: Oettinger schadet dem Ansehen der EU-Klimapolitik," (Brussels: The Greens/European Free Alliance, 2010).

<sup>122</sup> EU-Russia Energy Dialogue, "The First Ten Years: 2000–2010," 19.

<sup>123</sup> Author's interview with Vaclav Bartuska.

<sup>124</sup> Gathmann and Schlamp, "Günther Who? EU Perplexed by Germany's Choice of Oettinger as Commissioner."; Delawie, "Lame Duck German Governor Kicked Upstairs as New Energy Commissioner in Brussels".

<sup>125</sup> Barbara Lewis, "Cold Crisis Shows Need to End Energy Fiefdoms-Oettinger," *Reuters*, 14 February 2012.

but were nevertheless lagging in their implementation.<sup>126</sup> For France, which had actively lobbied against the Commission's unbundling efforts, energy sovereignty remained a key concern.<sup>127</sup> On the other side of the legal divide were countries such as Poland, which emphasised that there should be 'no derogation of any kind' from the TEP.<sup>128</sup> For many Central and Eastern European countries, implementing the TEP was as much about safeguarding against Gazprom, as it was about domestic energy policy. As the Czech Ambassador-at-Large for energy security noted: 'It is a civilizational choice. I'm not against Russian companies playing by EU law. But I definitely don't want Moscow rules on the streets of Prague, or Oslo or Paris for that matter'.<sup>129</sup> A problem with the TEP, however—as was the problem with its predecessors—was that it was quite general in its specifications, and lacked detail in terms of actual implementation. This would cause difficulties not just inside the EU, but *vis-à-vis* Russia as well.<sup>130</sup>

Interestingly, the Commission was complicit in the erratic implementation of unbundling of its energy directives. Throughout the 2000s, the Commission oversaw the mergers and acquisitions of E.ON Ruhrgas, EDF and others. This was in direct conflict with the push for unbundling and liberalisation. The Commission had in fact been undermining its own energy policy.<sup>131</sup> Meanwhile, major projects of common EU—or at least Commission—interest, like the Nabucco pipeline, were partially exempt from the TEP's provisions for third-party access. The rationale was based on the premise that major investors saw no point in investing large amounts of money into a project which would necessarily be opened to up to competitors.<sup>132</sup> However, when Russia attempted to do the same for South Stream, the Commission refused, as I will show below.

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<sup>126</sup> Siobhan Hall, "EU's Energy Market Reforms Making a Difference," *Platts*, 23 January 2013.

<sup>127</sup> Author's interview with Quentin Perret.

<sup>128</sup> Author's interview with EU National Official E.

<sup>129</sup> Author's interview with Vaclav Bartuska.

<sup>130</sup> Author's interview with Jonathan Stern.

<sup>131</sup> Helm, *Energy, the State, and the Market, British Energy Policy Since 1979*, 382–84.

<sup>132</sup> Radu Dudău and Teodora Simoniel, *The Politics of the Third Energy Package* (Bucharest: Romania Energy Center, 2011), 4–5.

## The PCA Talks

The member states also differed widely with respect to the PCA itself, which expired in 2007. Negotiations over the successor agreement were slow to get under way. After Moscow imposed a ban on Polish meat imports in 2006, Poland retaliated by vetoing a resumption of the new PCA talks, which were due to begin that year.<sup>133</sup> Meanwhile, Lithuania exacerbated the situation by refusing a new mandate after the 2006 oil cut to Mazeikiu Nafta. Making matters worse, Lithuania also demanded that Russia's frozen conflicts with Georgia and Moldova be resolved before talks could proceed. After incessant lobbying, in part by Germany, PCA talks temporarily resumed in May 2008,<sup>134</sup> before the Georgian War in August 2008 led to yet another postponement.

The Georgian conflict divided the EU member states. According to American diplomatic cables, the EU split into 'Russia-friendly' and 'Russia-hostile' clubs. Germany was allegedly 'parroting' Russian diplomats, whereas Lithuania was calling for NATO to intervene in Georgia.<sup>135</sup> In the end, the EU declared that talks on the PCA would only resume if Russia went along with the six-point ceasefire plan negotiated by French President Nicholas Sarkozy—a request to which Russia refused. However, already in October sectorial consultations resumed. Lithuania wanted to postpone talks indefinitely, but was overruled. Interestingly, most Central Eastern European states supported the resumption of PCA talks, as the alternative would be Russia seeking closer bilateral ties with Germany, Italy and France. Thus, talks resumed already in November of 2008. But the talks lasted only a couple of hours, and were superficial.<sup>136</sup> And so it continued. In 2010, Oettinger said that Russia's accession to the WTO would be a first step towards a new agreement.<sup>137</sup> In 2012, after 18 years of talks, Russia finally acceded, albeit without many specifics on energy.

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<sup>133</sup> Euractiv, "Russia Lifts Embargo on Polish Meat," *Euractiv*, 21 December 2007.

<sup>134</sup> Walter S. Reid III et al., "Nato Allies Lack Cohesion During First Meeting On Georgia Crisis," no. 08USNATO281 (2008).

<sup>135</sup> *Ibid.*

<sup>136</sup> Katinka Barysch, "PCA? The EU Needs a Real Russia Debate," *Centre for European Reform*, 24 November 2008.

<sup>137</sup> Euractiv, "EU, Russia Seek 'Common Language' on Energy," *Euractiv*, 23 November 2010.

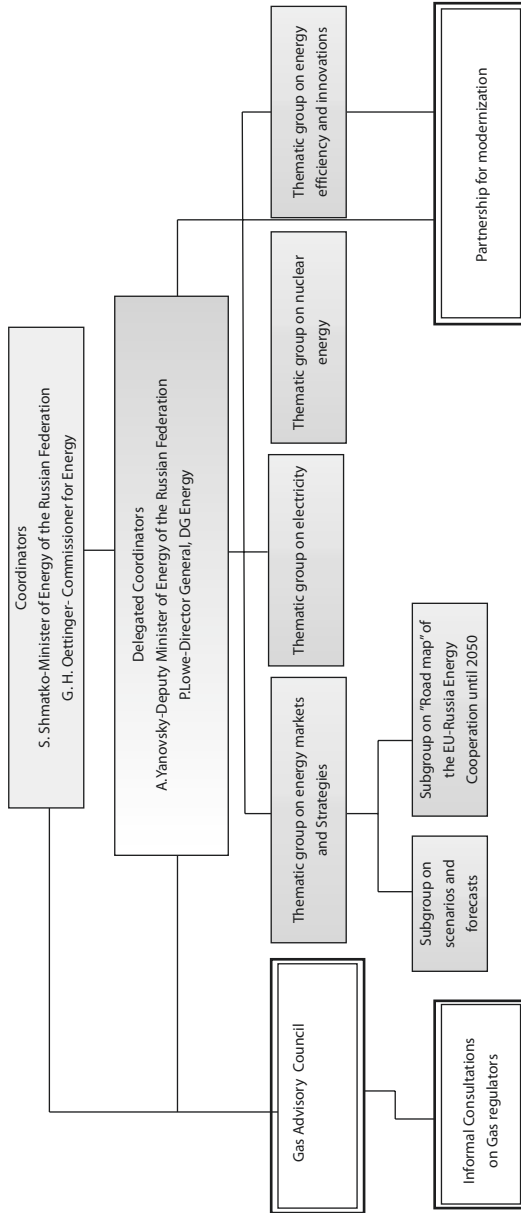


Fig. 6.3 The EU–Russia Energy Dialogue in 2012 (EU-Russia Energy Dialogue, “12th Progress Report,” 7)

But the accession did not help. No new agreement was concluded, given Russia's unyielding opposition towards the TEP.

## Russia's Euro-Asian Narratives

In 2012, the Energy Dialogue was restructured for the fifth time (Fig. 6.3).<sup>138</sup> Strategies was made a subgroup, complemented by another subgroup on the 'Road Map' of EU-Russia energy cooperation until 2050. Moreover, two special-purpose vehicles were established, a new Gas Advisory Council and a special group for the Partnership for Modernisation. I will explain the purpose and genesis of these bodies below.<sup>139</sup>

### The Partnership for Modernisation

I have previously mentioned how the Energy Dialogue became enmeshed in parallel structures such as the Four Common Spaces (2003), which was later supplemented by a set of roadmaps (2005) intended to facilitate negotiations. Viktor Khristenko remained firmly opposed to conflating the Energy Dialogue with the Common European Economic Space and the Four Common Spaces.<sup>140</sup> He had suggested establishing a fifth, separate common space on energy, albeit without success.<sup>141</sup> Whereas the Energy Dialogue temporarily retained its institutional independence, the Commission's goal was to integrate the Energy Dialogue into the CEES 'in due course', in order to secure a joint agreement on all spaces under a new PCA.<sup>142</sup> In June 2010, the Partnership for Modernisation (P4M) was launched at the EU–Russia Summit at Rostov-on-Don. Its

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<sup>138</sup> EU-Russia Energy Dialogue, "12th Progress Report," (Moscow: EU-Russia Energy Dialogue, 2011), 7.

<sup>139</sup> The grey lines show total imports as a percentage of total consumption, whereas the black lines show Russian imports as a share of total imports. Data compiled from: *ibid.*

<sup>140</sup> Khristenko, "Making Headway to Integration."

<sup>141</sup> Author's interview with Dutch Industry Official.

<sup>142</sup> Günther Verheugen and Viktor Khristenko, "The Common European Economic Space (CEES), Concept Paper," (Brussels/Moscow: High-Level Group of the Common European Economic Space, 2004), see Article 17.



purpose was to revitalise the by now stagnant Four Common Spaces.<sup>143</sup> The Energy Dialogue was included as one of the *sixteen* sectoral dialogues of the P4M. The P4M would be coordinated through a newly established P4M Facility, which would provide limited funding for selected projects. However, just like the Energy Dialogue, only a handful of mostly technical projects were undertaken. ‘There is little appetite in the EU for joint venture projects with Russia at this stage,’ as one EU official told the press in 2010.<sup>144</sup>

## The EU–Russia Energy Roadmap 2050

The Energy Dialogue was slowly becoming an institutional hydra. In 2011, the dialogue was anchored in yet another initiative, the ‘EU–Russia Roadmap 2050’, whose purpose was to make contingency plans for energy for the next 37 years. Meanwhile, the EU had developed its own internal 2050 roadmap, which was a subset of the EU’s broader ‘Roadmap 2050’, whose stated objective was to clear the path towards a low-carbon economy in Europe.<sup>145</sup> The two roadmaps were in conflict. Whereas the EU–Russia roadmap envisaged continued cooperation between Russia and the EU, the EU’s energy roadmap affirmed the EU’s determination to reduce its greenhouse gas emissions by 80–95 per cent by 2050 while ‘at the same time ensuring security of energy supply and competitiveness’.<sup>146</sup> As one Russian official warned, ‘after 2035, gas will have to fade away from the EU market’.<sup>147</sup> Perhaps it was not so strange that some Russian officials saw the EU’s climate agenda as a cover for Brussels’ desire to push Gazprom out of Europe.<sup>148</sup> The EU completed its 2050 roadmap in late 2011, whereas the initial deadline of the EU–

<sup>143</sup> European Union and Russian Federation, “Joint Statement on the Partnership for Modernisation,” (Rostov-on-Don: Council of the European Union, 2010).

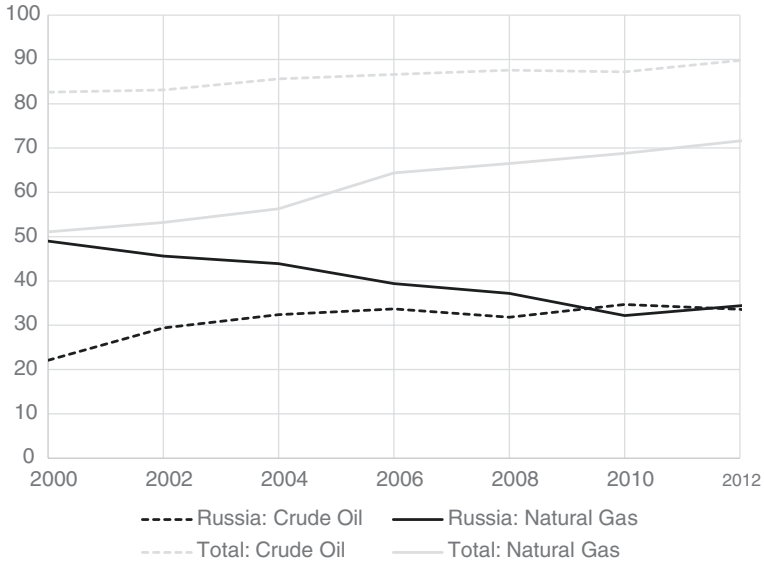
<sup>144</sup> Joanna Sopinska, “Partnership for Modernisation: Unpromising start,” *Europolitics*, 2 December 2010.

<sup>145</sup> European Commission, “Impact Assessment,” (Brussels: European Commission, 2011).

<sup>146</sup> “Energy Roadmap 2050,” (Brussels: European Commission, 2011), 2.

<sup>147</sup> Author’s interview with Maxim Buyakevich, former First Secretary, Permanent Mission of the Russian Federation to the EU [Phone, 06.11.12].

<sup>148</sup> Author’s interview with Mati Murd.



**Fig. 6.4** EU27 + Croatia gas and oil import dependency, 2000–2012 (in %). The grey lines show total imports as a percentage of total consumption, whereas the black lines show Russian imports as a share of total imports (Data compiled from U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

Russia roadmap was for summer 2012. The deadline was repeatedly postponed. Russia wanted fixed future import numbers, to which the EU refused.<sup>149</sup> Russian officials I spoke to complained that their arguments were not taken into account by the EU.<sup>150</sup> For this reason, many Russians considered the EU’s roadmap to be—and I quote—‘bullshit’.<sup>151</sup>

In the short to medium term, however, the Russians had little to fear (Fig. 6.4). The EU—which would soon become 28 member states, with the forthcoming accession of Croatia in 2013—remained heavily dependent on Russian oil and gas imports. Although oil consumption was falling, oil imports remained relatively stable. Russian gas imports, while

<sup>149</sup> Author’s interview Russian Official B; Yasmina Sahraoui, “Interview with Dr. Vladimir Feygin,” *Natural Gas Europe*, 24 January 2013.

<sup>150</sup> Author’s interviews with Russian Official B; Russian Official D.

<sup>151</sup> Author’s interview with Jonathan Stern.

stable in absolute terms, had nevertheless dropped as a share of the EU's total imports. This is striking, considering that the 'Prodi Plan' initially sought to *double* gas imports. The drop was partly an aftereffect of the 2008–2009 financial crisis. It would partially correct itself by 2014, albeit slightly, and only for natural gas.<sup>152</sup> But the decline was also an effect of increased competition from other suppliers like Norway and Qatar. If the EU were to further reduce its dependence on gas and oil, it could spell disaster for Russia. Nevertheless, given the still embryonic state of wind and solar power, it was not certain how the EU would achieve its goal of 80–95 per cent emissions reduction, without increasing its reliance on either gas or nuclear energy. Germany, which relied on Russia for 30 per cent of its gas imports, was determined to phase out nuclear energy. Thus, natural gas remained the most viable option for the EU's most powerful state, and Russia remained the most likely supplier. That is, as long as the USA remained hesitant to export its shale gas, renewable energy remained embryonic, and relations with Russia remained cordial. All of this could—and would—change, of course.

## Gazprom, 'the Outside Enemy'

The divergences over the Roadmap made the Russians feel they were slowly being pushed out of the EU market. This impression was seemingly confirmed with the Commission's 2011 probe into Gazprom, discussed above. According to a Russian energy official, the probe was just another example of the Commission wanting to strip governments of their decision-making authorities.<sup>153</sup> Vladimir Feygin, a senior Russian Energy Dialogue official, said that 'the European Commission has long fought to monopolize domestic European energy markets'. In order to achieve this, 'Gazprom has been assigned the role of "an outside enemy"',

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<sup>152</sup> By 2014, Russia's share of total natural gas imports was 36.7 per cent, nearly on par with pre-crisis levels, whereas its share of total crude imports fell to 30 per cent; see European Commission, "Eurostat".

<sup>153</sup> Tatiana Mitrova, "Chto na samom dele khochet Briussel' ot "Gazproma?," *Forbes.ru*, 7 September 2012.

he noted.<sup>154</sup> In the eyes of Moscow, Russia was again defined as Europe's 'Other', as discussed in Chap. 1. Similarly, Putin repeatedly attacked the TEP, which he said was aimed at 'squeezing out integrated Russian companies', and was 'frankly not conducive to stronger relations between Russia and the EU'. Russia, Putin said, was 'an inalienable and organic part of Greater Europe and European civilization'. But Russia was strong, and would follow its own interests, 'rather than decisions dictated by someone else'—a clear rebuke of the Commission, and the *acquis*.<sup>155</sup>

This was indeed a marked shift in narrative from the first half of the 2000s. As late as 2004, Viktor Khristenko said that the PCA 'determined Russia's intention of gradually bringing its economic legislation closer to that of the European Union'.<sup>156</sup> To be sure, his statement covered up many disagreements. Moscow was determined to rectify what it considered to be the asymmetries of the PCA. In 2000, Ivan Ivanov, the former Deputy Foreign Minister in charge of EU relations and the Russian delegation in the Energy Dialogue, described the PCA as 'out of date' and imbalanced in favour of the EU. Ivanov said that 'it would be quite unreasonable to expect a Russian accession to the EU or a binding association with it affecting our sovereignty and statehood'.<sup>157</sup> He later criticised the Commission's recourse to the market as a 'panacea for all ills', and remarked that Russians had a certain tradition of disregarding international treaties, including the PCA, when making decisions in the sphere of foreign trade.<sup>158</sup>

This was easy enough to say as long as the Russian economy was growing 7 per cent year on year. But as time progressed, simply ignoring the EU would become increasingly hard, as Russia's fortunes shifted, and the Commission's legal narrative became more authoritative within both the EU and Russia's near abroad. The TEP was proposed in 2007, the same year that the PCA expired. The TEP would have been of no

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<sup>154</sup>BBC, "Russian Media Concerned at EU's "Unexpected" Gazprom Antitrust Raids," *BBC Monitoring*, 30 September 2011.

<sup>155</sup>Vladimir Putin, "Russia and the Changing World," (Moscow: Government of the Russian Federation, 2012).

<sup>156</sup>Khristenko, "Making Headway to Integration."

<sup>157</sup>Ivanov, "Ne poddavaites' na ulovki Briusselia."

<sup>158</sup>Ivanov, "E dinyi vnutrennii rynok es: svet, teni, istoricheskaja perspektiva."

concern to Russia, had the Commission not intended to enforce these rules *vis-à-vis* third countries as well. This included its provisions on both ownership unbundling and third-party access. Remember that Russia's main objection to the ECT, which it left in 2009, was exactly focused on third-party access. Whereas the EU considered third-party access to be 'the cornerstone of the liberalization of the electricity and energy market in Europe',<sup>159</sup> Russians dubbed the demand for reciprocity in the TEP the 'Gazprom clause', as it would make it illegal for vertically integrated companies such as Gazprom to operate inside the EU. For Putin, this was tantamount to a 'confiscation' of Russian investment within the EU. In a heated exchange between Barroso and Putin at the December 2012 EU–Russia Summit, the Commission President noted that:

Your companies are most welcome in the EU market. But they have to respect fully our rules and this is important to understand. We have the rule of law and today part of this is the third energy package.

To which Putin quickly countered:

My good old friend Mr Barroso outlined his position in such great detail, so emotionally, because he knows he is wrong [...] Please look at our agreement, article 34. Read it.<sup>160</sup>

The Russians accused the EU Commission of violating Article 34 of the PCA, which stated that the parties should avoid taking measures that were stricter than those in place at the time of the agreement.<sup>161</sup>

## The Gas Advisory Council

However, the EU Commission was determined to impose the provisions of the TEP. As a workaround, Russia proposed setting up a dedicated Gas

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<sup>159</sup> Johnston and Block, *EU Energy Law*, 4.23.

<sup>160</sup> Andrew Rettman, "Energy Quarrel, Topless Protest Mark EU-Russia Summit," *EU Observer*, 21 December 2012.

<sup>161</sup> European Union and Russian Federation, "Agreement on Partnership and Cooperation."

Advisory Council (GAC) to address the various regulatory issues that arose with the TEP. The GAC was formed already in autumn 2009, after the implementation of the TEP, and shortly after Russia's withdrawal from the ECT. At first the Russians sought to use the GAC to steer the TEP in a direction more amenable to Gazprom. But the lack of detail of the TEP made negotiations difficult, as the EU's co-chair admitted:

Many elements on internal market reforms on gas are still at a conceptual level only, not at a detailed level. So when the Russians raise their concerns, very often there is no answer. The answer is 'well, we haven't got to that yet.' Or several answers, depending on the view of the various people around the table. This of course irritates the Russians, because they have the means to come up with joint positions, and they expect the EU to do the same.<sup>162</sup>

After realising that the Commission would not, or indeed could not, oblige, Russia's focus for the GAC changed from legal revision to damage limitation. In 2010, Prime Minister Shmatko stated that there was a need for the parties to learn to listen to each other and to speak the same language (he said, speaking in Russian).<sup>163</sup> And in 2011–2012 the GAC sat down to work out an actual dictionary, so as to resolve any conceptual misunderstanding over the interpretation of the TEP. This was truly easier said than done. Among the words defined in the dictionary were 'Market integration', which according to the EU:

[S]hould be served by efficient use and development of infrastructures, allowing market players to freely ship gas between market areas and respond to price signals in order to help gas flowing to where it is valued most.<sup>164</sup>

For Russia, however, 'Market integration' was:

[A] single system of infrastructure within the Union which allows market players to freely (within given contractual limitations and under conditions

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<sup>162</sup> Author's interview with Jonathan Stern.

<sup>163</sup> Euractiv, "EU, Russia Seek 'Common Language' on Energy."

<sup>164</sup> EU–Russia Internal Market Work Stream, "Glossary of Gas Market Terms," (Gas Advisory Council, 2012), 2–3.

chosen by the market participants) ship gas between market areas and respond to price or other signals to help gas flow to where it is valued most (taking into consideration their contractual specifics) if so desired by market participants.<sup>165</sup>

Despite several rounds of discussions, the parties struggled to reach a joint set of definitions. For Russia and the EU it simply confirmed the obvious, namely, that they did not have a shared narrative—not for the TEP, nor for the Energy Dialogue.

### Russia's Proposal for a New PCA

The PCA discussions dragged on, and were by 2012 nowhere near resolution. In 2012, Russia finally acceded to the WTO. This, it was hoped, would facilitate discussions over the new PCA framework. But to no avail. In the EU–Russia Common Spaces progress report for 2012, it was stated that negotiations over a new PCA were experiencing ‘serious delays’ due to ‘differences’ over provisions pertaining to trade and investment. Again, the main obstacle was energy.<sup>166</sup> The Commission and the Council had long and fruitlessly called for Moscow to share its formal comments for the new PCA. When the Russian government finally submitted its classified comments for the new ‘*Non-Binding Agreement*’ (NBA, emphasis added), the Russian government affirmed its view of the TEP as *the* main obstacle against a new PCA:

The ‘Third Energy Package’ is Russia’s major concern in terms of bilateral and economic relations with the EU. We believe that the NBA should include provisions on non-application of ‘The Third Energy Package’ to Russian individuals and capital investments, including through granting respective waivers provided for in the EU ‘Third Energy Package’.<sup>167</sup>

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<sup>165</sup> Ibid.

<sup>166</sup> Russian Federation and European Commission, “EU-Russia Common Spaces Progress Report,” (Brussels/Moscow: Russian Federation/European Commission, 2012), 1.

<sup>167</sup> Russian Federation, “Main Elements of Russia’s Proposals on the NBA Trade and Investment Section Subject to Solution of Problems of MA for Russian Goods in the WTO Framework,” (Moscow: Government of the Russian Federation, 2012), 2.

The Russians were ‘obsessed’ with the TEP, according to a senior EU businessman in Russia.<sup>168</sup> Moreover, Moscow demanded to have the new Customs Union included as party to the new agreement.<sup>169</sup> The Customs Union was the precursor to Russia’s Eurasian Union, which became one of Putin’s main foreign policy objectives for his third presidential term. The chairmanship was awarded to none other than Viktor Khristenko, who had left his post as Minister of Industry earlier that year. This was Putin’s ‘Greater Europe’—Russia’s Post-Imperial narrative—not Lamoureux’ ‘Unified Europe’. But Moscow’s demands fell on deaf ears. Dropping the TEP was out of the question for the Commission.<sup>170</sup> And including the Customs Union with Kazakhstan and Belarus—the latter country formally boycotted by the EU—made agreement difficult. Thus, by the end of 2012, the PCA and the Energy Dialogue were at a standstill, politically and legally. According to one senior Russian Energy Dialogue official, ‘Russia is not prepared to cede a single per cent of its sovereignty, of this I am 100 per cent sure’.<sup>171</sup> The primacy of sovereignty was a ‘permanent feature’ of Russian energy politics, according to a senior French Energy Dialogue official, hence the slow progress of the PCA:

The new agreement is not moving forward. The Commission wants a legally binding framework, including many commitments, whereas the Russians just want a political declaration, which in turn will lead to sectorial agreements. It is an almost philosophical division. It is not going to change.<sup>172</sup>

This pessimism was shared by another Eastern European national official I spoke to. He did not see progress anywhere:

There are a few topics we are strongly supporting, such as the ECT, which won’t happen. We also want Russia to sign a globally binding agreement on

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<sup>168</sup> Author’s interview with Vladimir Drebentsov.

<sup>169</sup> Russian Federation, “Main Elements of Russia’s Proposals on the NBA Trade and Investment Section Subject to Solution of Problems of MA for Russian Goods in the WTO Framework,” 2.

<sup>170</sup> Author’s interview with Ismo Koskinen, Energy Councillor, EU Delegation to the Russian Federation [Moscow, 15.02.12]

<sup>171</sup> Author’s interview with Russian Official E.

<sup>172</sup> Author’s interview with Quentin Perret.



climate change, which won't happen. We want Russia to reform its energy markets towards the EU, which won't happen. We want Russia to use gas only to serve economic interests and not others, but it won't happen. There are interests, but it can't be done.<sup>173</sup>

Gloom was pervasive on both sides of the negotiating table. As Sergei Shmatko bemoaned in February 2012: 'There is a clash of ideologies instead of negotiations'. Shmatko then restated Russia's determination to diversify east, projecting ingenuous confidence in Russia's ability to replace its main export market in the short term. However, in a moment of reflection, the Russian Prime Minister lamented how the parties had lost a fundamental opportunity with the EU–Russia Energy Dialogue:

We could have found a long-term advantageous way of the joint provision of energy security. Alas, we are facing a confrontation of energy security ideological concepts. I am confident that the negotiations with the European Union will go on, but from the position of defense of our interests and positions.<sup>174</sup>

Only a few months later, in May 2012, Shmatko was allegedly forced to retire. The reason was supposedly his limited achievements, which were largely ascribed to his weak connections in the gas and oil sector.<sup>175</sup> Shmatko was replaced by an even more anodyne bureaucrat, Alexander Novak. Novak was a former Deputy Minister of Finance, with an otherwise unremarkable career. He thus assumed the, by then, mostly symbolic helm as coordinator of the Energy Dialogue (after 2008, the original, omnipotent title of 'sole interlocutor' was downgraded to 'coordinator', whereas what was previously known as 'coordinator' was downgraded into 'administrator', reflecting their reduced importance). In December 2012, Novak met Oettinger at the PPC for energy. Here Novak reiterated

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<sup>173</sup> Author's interview with EU National Official E.

<sup>174</sup> Russian-American Business, "Russia-E.U. Talks on Third Energy Package Come to Impasse Shmatko," *Russian-American Business*, 21 February 2012.

<sup>175</sup> Lenta.ru, "Prezidentu "Rosnefti" prochat dolzhnost' ministra energetiki," *Lenta.ru*, 26 August 2010.

the Kremlin's request that Russia should receive exemptions from the TEP, for both Nord Stream and South Stream.<sup>176</sup> Nord Stream, which was completed in 2012, had indeed been granted a partial exemption to its land-based connector pipeline. But this time Oettinger refused.<sup>177</sup> South Stream was 'not a priority'. Although the Nabucco pipeline was put on hold, Oettinger was determined to conclude talks with Azerbaijan and Turkmenistan about building a new Trans-Caspian pipeline.<sup>178</sup> Neither of these countries was beacons of democracy. However, they were not Russian, which to Brussels was seemingly more important in questions of energy security.

Usually by this time, the two interlocutors would have signed the annual progress report of the Energy Dialogue. But there would be no report, for the first time since the launch of the Energy Dialogue 12 years earlier. Perhaps just as well. 'The reports are not worth the paper they are written on', as a Commission official confided to me. 'I don't even think the Minister of Energy reads it', a Russian official said, grinning.<sup>179</sup> Regardless of the actual significance of the progress report, the symbolic value of excluding it was impossible to misunderstand: the EU–Russia Energy Dialogue had ground to a halt.

## Conclusions

Bakhtin favoured ambiguity over authority. But as mentioned in the introduction to this chapter, Bakhtin, as a Soviet citizen, was also keenly aware of the boundaries of narratives. These boundaries could be legal and cultural, spatial or even temporal, in that narratives are shaped by past and present experiences, as well as our expectations of the future. The fact that such boundaries are perhaps not given, at least not in an

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<sup>176</sup> Howard Amos, "Minister Seeks Exemption from EU Energy Package for South Stream," *The Moscow Times*, 17 December 2012.

<sup>177</sup> Kostis Geropoulos, "Oettinger Raises South Stream Issue with Russia," *New Europe*, 13 December 2012.

<sup>178</sup> Russian–American Business, "Russia-E.U. Talks on Third Energy Package Come to Impasse Shmatko."

<sup>179</sup> Author's interview with Russian Official A.

ontological sense, do not mean that they are irrelevant for the choices we make. I have previously described Bakhtin as a ‘structuralist’, and that his primary interest was in the relative configuration of narratives. We can infer from this that narratives are both constituted and constrained by other narratives, including legal narratives, and that plurality of meaning is a challenge, in so far as it hinders collective action. This was obvious in Moscow and Brussels’ failure to define and create a legal narrative for the Energy Dialogue, and especially with regard to the deeply controversial TEP.

The TEP epitomised the European narrative for energy. But by 2012, it had emerged as arguably the single biggest obstacle against a new PCA between Russia and the EU. It was diametrically opposed to Putin’s Statist narrative, which favoured state control. It ran against Russia’s Post-Imperial narrative, in that the provisions of the TEP were exported to Russia’s ‘near abroad’ through the Energy Community and other initiatives. It also countered the Dual State narrative, which favoured patronage and not transparency, and it spurred the eastern vector of Russia’s Euro-Asian narratives, by further convincing the Kremlin of the need to diversify eastwards. The need to diversify was further confirmed by the EU’s decarbonisation roadmap up to 2050, which, in combination with the TEP, was threatening to cause serious problems for the Russians.

The EU–Russia Energy Dialogue failed to come up with a common narrative which was either externally authoritative or internally persuasive. Instead, the Energy Dialogue became an institutional hydra, a heterologue devoid of meaningful exchange beyond producing dictionaries and distant roadmaps. By 2013, the ‘Prodi Plan’ was dead. Lamoureux’ vision of a legally binding energy partnership as the first step towards a new ‘European Coal and Steel Community’ seemed nothing but a pipe dream. The dialogue was not cancelled, however. Instead it merely dragged on, without aim or clear purpose—much to the consternation of many of the dozens of officials I have spoken to while researching this book. But then in 2014 came the annexation of Crimea and subsequent war in eastern Ukraine, after which the Energy Dialogue was finally suspended.

# 7

## Conclusions: The Politics of Power

In March 2014, Russia annexed the Ukrainian peninsula of Crimea. It was a momentous event in the history of post-war Europe. It was the first time borders in Europe had been forcibly changed since World War II. Russia considered Ukraine as part of its near abroad, and hence its privileged sphere of interests. The 2004 Orange Revolution was a serious blow to Russian influence over Ukraine. So when the Ukrainian people once again took to the streets in protest against President Viktor Yanukovich in December 2013, Russia felt it had to act. It could not tolerate yet another ‘colour revolution’ on its borders. Nor could the Kremlin stand the thought of losing its naval facilities in Sevastopol, due to a possible regime change in Kiev. Thus, in late February Russian troops moved into Crimea. The occupation was followed by a dubious referendum, held under the auspices of Russian soldiers, after which Crimea was joined with Russia. What followed is history, including a protracted civil war in eastern Ukraine, with Russia as the sponsor of the rebel forces.

While this book is not about Ukraine, Ukraine was and is of tremendous importance for the Russo-European energy trade. The protests in Ukraine were triggered by the about-face of President Yanukovich, who in late November 2013 announced his decision to suspend Kiev’s

signature of an Association Agreement and a Deep and a Comprehensive Free Trade Agreement with the EU, which was scheduled for the Eastern Partnership Summit in Vilnius, Lithuania. Instead, Yanukovich declared his intention to pursue further integration with Russia through Putin's Eurasian Union. The EU's association agenda *vis-à-vis* Ukraine was limited in both scope and ambition. Nevertheless, in the increasingly conspiratorial mindset of the Kremlin, the EU's association framework and the subsequent protests around the Maidan Nezalezhnosti in Kiev were part of an American-led agenda intended to separate Ukraine from Russia. Washington's goal, according to this narrative, was to promote regime change in Russia's near abroad, and ultimately within Russia itself, with the purpose to break up Russia and steal its natural resources.<sup>1</sup> By 2015, Russia's Statist, Dual State, Geoeconomic, Euro-Asian and Post-Imperial narratives had been conflated into a zero-sum, Manichean narrative of good versus evil, propagated by the Kremlin through its state-controlled media. But despite the vitriol, there was still a genuine sense of disappointment. During Putin's speech to the Duma, where Crimea was formally proclaimed as a part of the Russian Federation, the President reminisced about his time in power. An unusually heartfelt Putin recounted his journey from being a liberal President bent on cooperation with Europe, only to feel embittered and betrayed by his Western allies: 'Russia strived to engage in dialogue with our colleagues with the West. We are constantly proposing cooperation on all key issues. But we saw no reciprocal steps', Putin said.<sup>2</sup> To be sure, Putin did not make any explicit reference to the Energy Dialogue, which had remained of marginal significance for several years.

Space and time affect narratives, and Ukraine was literally in between Russia and the EU, and a former part of the Soviet Union and Russian Empire. Whereas around 80 per cent of Russia's gas exports to Europe traversed Ukraine in 2000, in 2015 the number fell below 40 per cent.

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<sup>1</sup> Elena Chernenko, "Za destabilizatsiei Ukrainy skryvaetsia popytka radikalnogo oslableniia Rossii," *Kommersant*, 22 June 2015.

<sup>2</sup> Vladimir Putin, "Address by President of the Russian Federation," (Moscow: President of Russia Official Web Portal, 2014); Mikhail Zygar. 2016. *All the Kremlin's Men: Inside the Court of Vladimir Putin* New York, NY: PublicAffairs, p. 340. <http://en.kremlin.ru/events/president/news/20603>.

The rest was now diverted through Nord Stream. The gas crises of 2006 and 2009—both of which drew on the dynamics of the 2004 Orange Revolution—were major blows to the relationship between Moscow and Brussels. But neither crisis led to the suspension of the Energy Dialogue. After Crimea, however, the Energy Dialogue was put on hold indefinitely. Resumption of the Energy Dialogue became explicitly tied with the fulfilment of the so-called Minsk declaration of 12 February 2015, between the leaders of Russia, Ukraine, France and Germany, which was intended to resolve the situation in Ukraine.<sup>3</sup>

This is not to say that Crimea and the subsequent war in the Donbass was the turning point of the Energy Dialogue. True, Crimea was a watershed moment in the geopolitics of the post-Cold War era. But in terms of content and ambition, the dialogue had been at a standstill for many years, as discussed throughout this book. By 2014, before the annexation of Crimea, the legal stalemate was nowhere near resolution. As one Eastern European national official said about the dialogue back in 2012:

Its role is continuously diminishing. The diminishing role comes from the fact that we cannot reach an agreement on anything important. And until we reach an agreement, we can't go forward. It is challenging to see the point of discussion, when you don't see any progress.<sup>4</sup>

In this book, I have explained why and how the EU–Russia Energy Dialogue failed to define and create a legally binding energy partnership between Russia and the EU. In this conclusion I will, first, answer my research questions and review the main findings of the book. Second, I will show how Bakhtin and dialogue have application beyond the Energy Dialogue, by addressing the classic dichotomy of understanding and explanation in the social sciences, and show how they can be joined through narratives.

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<sup>3</sup>Maroš Šefčovič, “The State of Play of EU-Russia Energy Relations,” (Brussels: European Commission, 2015).

<sup>4</sup>Author's interview with EU National Official E.

## Summary of Main Findings

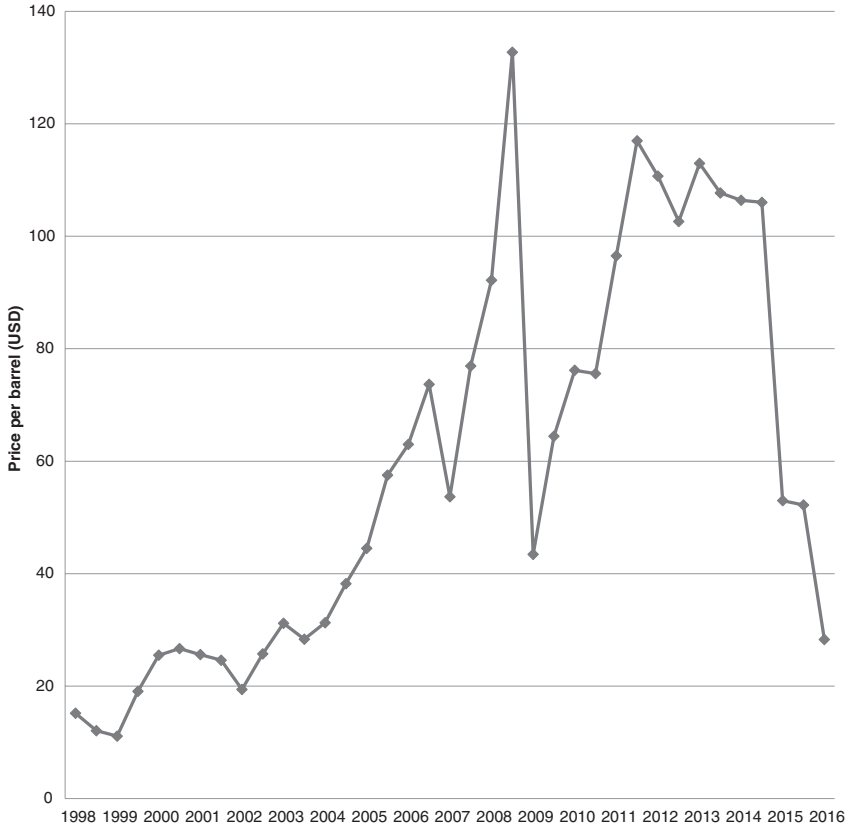
The questions of this book are *how and why did the EU–Russia Energy Dialogue fail to define and create a legally binding energy partnership?* As for the how question, the dialogue failed to deliver a common narrative for the EU–Russia energy trade. Both parties sought a binding agreement under a new PCA. However, the dialogue lacked a proper conceptual vision from the outset.<sup>5</sup> As one senior EU interlocutor told me, ‘I always felt that there was a complete misunderstanding on both sides of what the other wanted, and that is why it didn’t succeed’.<sup>6</sup> On the one hand, the EU wanted an export guarantee, based on the ever-expanding rules of the internal energy market. Russia, meanwhile, wanted investment, with limited legal concessions. Thus, the parties’ initial narratives of what the Energy Dialogue was supposed to become were not congruent.

On the other hand, the failure of the Energy Dialogue was never pre-determined. The exact scope of this narrative incongruence did not emerge until a few years later. As opposed to later years, which have been characterised by doom and gloom, there was initially a great deal of optimism and goodwill with respect to the Energy Dialogue, and EU–Russia relations more broadly. Rather than being given before the fact, the narrative mismatch present in 2000 was exacerbated by other pre-existing narrative divergences, but also subsequent political, economic, geo-economic and legal developments. Into this picture, we need to factor the dual expansions of the EU and NATO, Georgia, the three Ukraine crises, the rise and fall of the oil price (27 dollars per barrel in January 2016, see Fig. 7.1)—and, not to mention, the deep and consistent miscommunication within the Energy Dialogue itself. The failure of the Energy Dialogue was not caused by a singular factor *a priori*. It was shaped in the unfolding time–space of Russo-European relations. This is the answer to the why question.

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<sup>5</sup> Author’s interviews with Jonathan Stern; Klaus Kleinekorte; Vladimir Milov; Alexei Mastepanov.

<sup>6</sup> Author’s interview with Jonathan Stern.



**Fig. 7.1** Average world oil prices, January 1998–January 2016 (U.S. Energy Information Administration, [http://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_m.htm](http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm))

## The European Union

I will now attempt to summarise the emergence of the narrative failure of the EU–Russia Energy Dialogue from 2000 until the present. I will do so by assessing the development of my six narrative clusters, presented in Chap. 1 and applied throughout this book. First, the *EUropean narrative* moved from weakness towards authority, both *vis-à-vis* Russia and the EU’s now 28 member states. In 2000, the



EUropean narrative was all about tying closer bonds with Russia, which was considered a safe alternative to the volatile Middle East. Faced with rising world oil prices, the Commission was looking to increase the EU's Russian oil imports and double gas imports. This would become a political partnership, and there was even talk about the Energy Dialogue as a new Coal and Steel Community. However, this idea was dropped within the first couple of years. The share of Russian gas imports dropped throughout the decade, and by 2012 the focus had shifted from integration with to diversification away from Russia.

Throughout all of this, the Commission had to wrestle with its member states. The *EU15 Narratives* in 2000 varied from tacit compliance to fierce opposition. Generally, the EU member states were against the Commission assuming too much control over energy policy. Similarly, the big, vertically integrated energy companies preferred to conduct business through their own bilateral channels with Russia. This indifference changed slightly after the EU's expansion in 2004, when the EU expanded to 25 member states, and the EU15 narratives shifted to the *EU25 Narratives*. Originally, the new member states were not too interested in the Energy Dialogue. But with an increasingly assertive Russia on their eastern border, it was not long before the Baltic states and Poland called for the EU Commission, but also NATO, to take a more active role in shaping energy relations with Russia. The Ukraine crises of 2006 and 2009 helped bring closer the EU25 and EUropean narratives with respect to Russia. This did not mean that the Energy Dialogue assumed any further prominence. But it did provide the Commission with much needed political support, enabling it to move ahead with its plans for the internal energy market. This in turn strengthened the Commission's bargaining position within the Energy Dialogue proper, despite two further expansions (hence the *EU27* and, from 2013, *EU28 Narratives*). Ultimately, the EU could not, and would not, break ties with Russia, given its continued dependence on Russian oil and gas. Moreover, the bilateral relationships of the member states' narratives continued to undermine the unity of the EUropean narrative. That said, if not a 'common voice', the EU was nonetheless beginning to speak up against Russia.

## Russia

Russia's *Euro-Asian Narratives* were bifurcated between East and West. In 2000, Russia's gaze was fixed on the EU and the objective of successfully completing an energy partnership. However, by 2012, Moscow had also shifted its focus from integration to diversification. Russia had originally wanted an investment guarantee and, secondly, technological exchange. But apart from this there was no clear narrative as to what the Energy Dialogue was supposed to do, who was to take charge of it or how close Russia should become with the EU. Initially, the 'EU vector' of the Euro-Asian narratives predominated. The Russian government pushed forward with various measures intended to facilitate an energy partnership. But the efforts either failed or were rejected. Eventually, more Eurosceptic vectors of the Euro-Asian narratives took over, and multi-vector integration took precedence—at least in rhetoric.

Moreover, Russia was becoming increasingly worried about the EU's designs for what official Russian documents termed Russia's 'near abroad'. The chronotope, or time-space, of the *Post-Imperial Narrative* was prevalent throughout the entire period of the Energy Dialogue. The centripetal (tying) forces of Moscow were challenged by the centrifugal (untying) force of Brussels' European narrative. The EU's 2004 expansion nearly toppled the PCA, the main quasi-legal document undergirding the Energy Dialogue. Moreover, Russian fears over EU expansionism were exacerbated by the Commission's designs for the strategically important CIS countries. The CIS states were never part of the actual Energy Dialogue, but their impact on the Energy Dialogue was undeniable, a fact made clear after the 2006 gas crisis in Ukraine. Although intra-CIS relations ebbed and flowed throughout the 2000s, Putin never let go of his ambition to integrate the CIS around Russia, exemplified by the formal launch of his Eurasian Economic Union in 2015.

Meanwhile, the prospects of a binding agreement were further complicated by Russia's weak rule of law. The *Dual State Narrative* meant that official Russian narratives were always in question, or at least complemented by informal practices. The Ministry of Energy, which represented Russia in the Energy Dialogue, was permeated by factional conflict. This factionalism pervaded much of Russia's bureaucracy, which was

ingrained by the country's 'shadow' structures. Moreover, business relations were often regulated through clandestine, informal relations, rather than through transparent tenders. While one would think that Putin's consolidation of power would end this situation, his *Statist Narrative* was not the opposite of the Dual State narrative, but rather its dialogical complement. Putin's drive to establish a 'vertical of power' both curbed and bolstered the dual state, and throughout the period of the Energy Dialogue, Russia continuously fell on global corruption indices. At the same time, corruption and mismanagement also meant that it was difficult for Russian authorities to act efficiently in the energy sphere, a point acknowledged by the erstwhile 'grey cardinal' himself, Igor Sechin, who conceded that only a tiny fraction of initiatives for energy policy were actually implemented.<sup>7</sup>

Nevertheless, throughout Putin's first period as President, the Russian state emerged as a much stronger actor than when he took over from his predecessor, Boris Yeltsin. This included the successful drive for control over the Russian oil and gas sector, epitomised by the takeover of oil company Yukos. This 'statism' was diametrically opposed to Brussels' European narrative, which called for a liberalisation of the energy sector. In this respect, both the Statist and the European narratives sought authority. The Statist and Post-Imperial narratives on the one hand, and the European narrative on the other, were by nature expansionistic (centripetal), thus creating a zero-sum environment between them. During the timeframe of this book, both Russia and the EU emerged as more unitary actors with respect to energy. But while their respective policy narratives were consolidated, they were becoming increasingly incongruent. This narrative conflict was firmly illustrated in the negotiations over the new PCA, and particularly the dispute over ownership unbundling of Russia's state owned, vertically integrated energy companies, spurred by the introduction of the TEP. The Kremlin refused to sign an agreement which it felt would 'weaken the state', in the words of one Russian Energy Dialogue official.<sup>8</sup> In the end, Russia refused to accept the TEP, or any other legal commitment for that matter.

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<sup>7</sup>Irina Markov et al, "Chetyre iz 150 i eshche 46,"; Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 401.

<sup>8</sup> Author's interview with Russian Official D.

Moreover, Putin insisted that his Eurasian Economic Union be included as a party to a new PCA, not just Russia, something that was unacceptable to the EU. Thus, the new PCA remained on hold, and the Energy Dialogue in limbo.

## The Energy Heterologue

What remained by the end of 2012, and Chap. 6 of this book, was not one but multiple competing narratives. The figure above (Fig. 7.2) builds on the figure in Chap. 1 (Fig. 1.1). It is more elaborate than the one presented previously. Again, the figure is an ideal type. It is not exhaustive, and should not be taken as a precise representation of reality. It is merely an attempt to illustrate the extreme complexity of what I have called the 'EU–Russia Energy Heterologue'. The Energy Dialogue was not successful

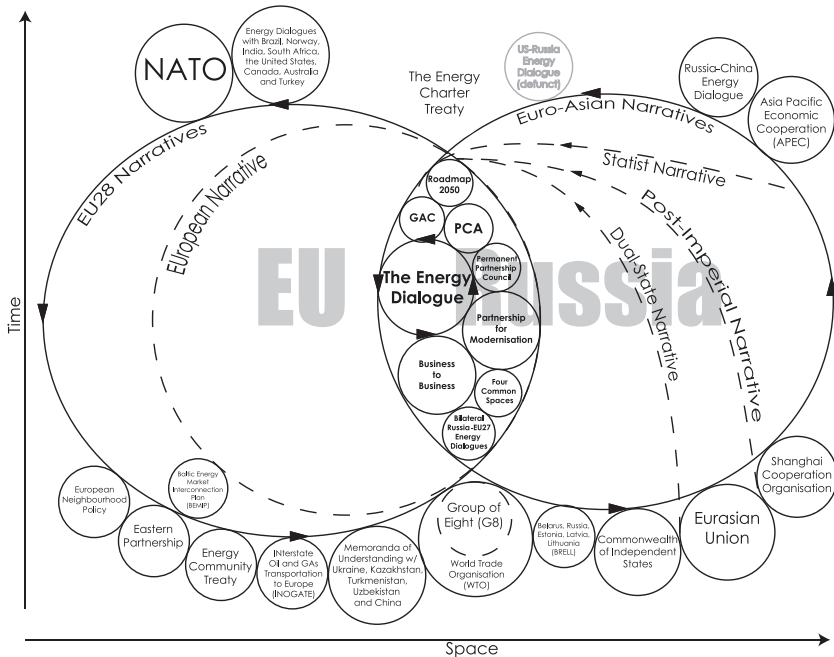


Fig. 7.2 'The EU-Russia Energy Heterologue' by 2013

in resolving the narrative differences between Russia and the EU. Instead, it became enmeshed in a myriad of different institutional structures, such as the PPC, the Four Common Spaces, the GAC, the Partnership for Modernisation and several others. The new structures merely highlighted the growing incongruence between Russia and the EU. Each of these institutions is represented below through separate ‘cogwheels’, exerting both centripetal and centrifugal effects on my six narrative clusters.

I have also included the plethora of external, non-Energy Dialogue structures, such as the Eurasian Economic Union, the Baltic Energy Market Interconnection Plan, APEC and the Shanghai Cooperation Organisation (which I have not really discussed, but which remains a potentially important multilateral platform for Russia in Central Asia and Asia). The Russia–US Energy Dialogue is highlighted in grey, as it is discontinued, whereas the half-moon shape of the ECT is because of Russia’s withdrawal in 2009. The figure does not presage more recent initiatives such as the EU’s new ‘Energy Union’, which is inspired by nothing less than the European Coal and Steel Community.<sup>9</sup> Nor does it factor in the still unknown effects of the UK’s decision to leave the EU, or ‘Brexit’. These are topics for future research, as are the implications of new suppliers and sources of energy to the European energy market, whose long-term effects will undoubtedly be profound. The point right now is merely to underline the narrative, political, economic, geoeconomic and legal chaos of the EU–Russia Energy Dialogue, *before* the crisis in Ukraine erupted in 2014, and the Energy Dialogue was finally suspended.

## Understanding Versus Explaining

Russia in 2000 was not the Russia of 2012 and 2014, and certainly not the Russia of 2016. Likewise, the EU in 2000 was very different from the EU of the present. We cannot explain this change by applying static, *a priori* variables, regardless of whether we actually apply the term variable or not (many do not, but in practice they are). We need a dynamic

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<sup>9</sup>European Commission, “Energy Union Package,” (Brussels: European Commission, 2015).

approach. The challenge, of course, is that excessive dynamism means all explanation risks becoming *sui generis*. If all social science is unique, then there is not much to distinguish it from historical writing. In this final section, I will attempt to challenge this assumption, and show how dialogue and narratives provide a systematic way of analysing social life, which can help to inform social scientific research more broadly. I will do so by discussing the classic distinction between explaining and understanding. According to this distinction, which is associated with the seminal work of Hollis and Smith, we are *explaining* events in terms of their objective causes, and *understanding* them by way of the actors' subjective reasons.<sup>10</sup>

A similar division to explaining and understanding is between nomothetic and idiographic knowledge. According to Windelband, nomothetic knowledge is that which relates to, involves or deals with abstract, general or universal statements or laws. Conversely, idiographic knowledge relates to or deals with that which is concrete, individual or unique.<sup>11</sup> One could say that explanation should be nomothetic, whereas understanding is idiographic. For instance, Hempel defined explanation as 'a statement (or set of statements) that demonstrate that the outcome of a particular event is merely an example of an established pattern'.<sup>12</sup> Mere description, or simple understanding, is not enough. Hollis and Smith did not actively use the concepts of nomothetic and idiographic knowledge in their analysis. They nonetheless asserted that International Relations, unlike International History, had to avoid 'collapsing into a fragmented Diplomatic History which lacks all rhyme and reason'.<sup>13</sup> The former deals with patterns, whereas the latter deals with historical events in their specificity.

While Hollis and Smith stressed the necessity of both explanation and understanding, they claimed that they were incommensurable and

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<sup>10</sup> Martin Hollis and Steve Smith, *Explaining and Understanding International Relations* (Oxford: Clarendon, 1990), 1–7.

<sup>11</sup> Wilhelm Windelband, *Geschichte und Naturwissenschaft. Rede zum Antritt des Rektorats der Kaiser-Wilhelms-Universität* (Strasbourg 1904).

<sup>12</sup> Carl G. Hempel, *Aspects of Scientific Explanation, and Other Essays in the Philosophy of Science* (pp. ix. 505. Free Press: New York; Collier-Macmillan: London, 1965).

<sup>13</sup> Hollis and Smith, *Explaining and Understanding International Relations*, 194.

should be kept analytically and ontologically distinct.<sup>14</sup> Put in philosophical terms, this is a dualist argument, in the classic tradition of René Descartes. Descartes distinguished between the (ideational) mind and (material) world. According to dualists, the task of science and scientists is to bridge the gap between the mind-dependent and mind-independent worlds, albeit still recognising their distinction.<sup>15</sup> This is similar to Kant's concept of the phenomenal (mind-dependent) and noumenal (mind-independent) worlds. Cartesian 'dualism' was later challenged by the 'monists', who questioned the possibility of transcending the ideational, mind-dependent world at all. These 'monists', the most famous of which are Hume and Spinoza, but also Hegel and Bakhtin, argued that we should not seek outside of the immediate, present experience to find an underlying truth, as this is nevertheless outside our grasp. We are always constrained by our minds and senses, even when these are augmented by external means, such as microscopes and computers. As Wittgenstein, another opponent of mind-independent metaphysics, said, 'we cannot think what we cannot think'.<sup>16</sup> Hence, the search for outside perspectives, causes and universal rules as a means to explain reality is futile. This does not mean that we should give up systematic social analysis altogether, or stop questioning our beliefs. Nothing of the sort. We should merely acknowledge the inherent limitations of our nature. In this monist view, what we are left with is our understanding, and thus understanding *as* explanation. Since understanding is mind-dependent, it is also spatio-temporal, and therefore process. This is basically the principle of Einstein's theory of relativity, which posits that the measurements of various quantities are relative to the velocities of observers. More specifically, space contracts and time dilates. Although quantum physics seems to tell us that reality exists far beyond human perception and intuition, it does not matter, as our rational mind and common sense(s) are just not capable of understanding this supposed 'true' nature of reality.

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<sup>14</sup> Ibid., 7.

<sup>15</sup> Jackson, *The Conduct of Inquiry in International Relations: Philosophy of Science and Its Implications for the Study of World Politics*, 44–59.

<sup>16</sup> Ludwig Wittgenstein, *Tractatus logico-philosophicus* (Madrid: Revista de Occidente, 1957), 5.61.

## How, Why and What

The questions posed in this book are ‘*how* and *why* did the Energy Dialogue fail to define and create a legally binding energy partnership between the EU and Russia?’ Broadly conceived, one could say that my *how* question relates to Hollis and Smith’s notion of understanding, whereas the *why* question relates to explanation. As Cross noted, ‘it has long been common wisdom that a scientific explanation is at least an answer to the question of *why* something is the case’.<sup>17</sup> Furthermore, Van Fraassen claimed that a theory of explanation ought to take the shape of a theory of *why* questions.<sup>18</sup> But distinguishing between the two types of questions is not straightforward. As Charles Tilly famously said, ‘the *how* is the *why*’.<sup>19</sup> *How* and *why* questions are both causal, and both contain elements of understanding and explaining. For example, the laws of physics are often based on explanatory *how* questions, which in turn are answered through observation.<sup>20</sup> This is ultimately a question of perspective, which is contingent upon time and space, in the true Einsteinian sense. If one presumes that we are in fact observing, and not just inferring, the mechanisms, causes or rules we are seeking to uncover, then explanation becomes descriptive. What is more, if we assume that we cannot see more than what we can see, and that there is not necessarily an invisible, objective force behind every subjectively perceived act, then the distinction between *how* as understanding and *why* as explaining becomes meaningless.

Indeed, the same applies to a third category of questions, namely, constitutive (what) questions. Weber argued that ‘constitutive claims concern how social kinds are put together rather than the relation between independent and dependent variables’.<sup>21</sup> According to Wendt, ‘causal questions of the form “*why?*” and, in some cases, “*how?*”’, and constitutive questions ‘account for the properties of things by reference to

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<sup>17</sup> Charles B. Cross, “Explanation and Theory of Questions,” *Erkenntnis* 34, no. 2 (1991): 237, emphasis added.

<sup>18</sup> Bas C. Van Fraassen, *The Scientific Image* (Oxford: Clarendon, 1980).

<sup>19</sup> Charles Tilly, *Identities, Boundaries, and Social Ties* (Boulder, CO: Paradigm, 2005), 6.

<sup>20</sup> Cross, “Explanation and Theory of Questions,” 244.

<sup>21</sup> Wendt, *Social Theory of International Politics*, 87.



the structures in virtue of which they exist'.<sup>22</sup> This leads me back to the attribute ontology, discussed at length in Chap. 1. For instance, a constitutive question would be concerned with how certain features of the EU, Russia and the Energy Dialogue are constructed. It is of course possible to describe the EU as a number of member states, and set of key institutions. Likewise, Russia has a geographical size and location, and a President named Putin. The trouble emerges when we try to bridge these 'givens' with foreign policy outcomes, or move from constitutive to causal questions. It is even more difficult when we try to link ideas and narratives to such outcomes. This goes back to my discussion about constructivism and attributes. Wendt claimed that ideas are discrete attributes with causal effects to be scientifically evaluated. Indeed, he even claimed that '[i]deas and social structures can have causal effects, and as such the relevance of causal theorizing is not limited to natural science'.<sup>23</sup> I emphatically disagree with Wendt that it is possible to empirically verify or prove our constitutive theories.<sup>24</sup> Beyond simple categorisation of physical attributes, we cannot scientifically prove what things are made of, especially not when discussing living polities such as the EU and Russia. As such, constitutive theories remain just that—theories. The boundaries between causal and constitutive questions are not clear, as Wendt himself admitted to.<sup>25</sup> This is because we are constituted through process, which unfolds in time and space. 'Being' and 'things' are contingent upon the perspective of the observer (and the observed). Again, we sense Einstein lurking in the background. To invoke Rescher once more: There are 'no justifiably attributable properties save those that represent responses elicited from its interaction with others'.<sup>26</sup> For instance, both the EU and Russia are continuously constituted and reconstituted, tied and untied, through dialogue. So, too, is understanding and explanation. Both the EU and Russia mean different things to different actors at different times.

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<sup>22</sup> "On Constitution and Causation in International Relations," *Review of International Studies* 24, no. 5 (1998): 104–6.

<sup>23</sup> *Social Theory of International Politics*, 65.

<sup>24</sup> *Ibid.*, 85.

<sup>25</sup> *Ibid.*

<sup>26</sup> Rescher, *Process Metaphysics, an Introduction to Process Philosophy*, 48–9.

We are thus better served by looking at social reality as a process, set in time and space.

## From Understanding and Explaining to Narratives

The reason for dividing my questions into how and why is not to distinguish ideographic from nomothetic knowledge, or the unique from the universal. It is rather to discern between proximate (how) and ultimate (why) causes. The how question refers to the narratives of the Energy Dialogue, whereas the why question refers to the spatio-temporal context into which these narratives exist. Cause and effect are contingent upon time and space, making the former pair epiphenomenal to the latter. This relates to Hume's 'Requirement of Contiguity', or requirement of proximity, which established that cause and effect are always mediated through space and time.<sup>27</sup> Instead of the linear causation of dependent and independent 'variables', I suggest narratives. As stated in Chap. 1, a narrative is a representation of an event or sequence of events.<sup>28</sup> My proximate cause is narratives, whereas my ultimate causes are time and space—expressed as narratives, legal institutions, politics, business interests and geoeconomics. Narratives, therefore, are both my proximate cause and part of my ultimate cause, as antecedent narratives do cause subsequent narratives. This renders my account susceptible of charges of endogeneity, or a causal loop between my 'independent' and 'dependent' 'variables'. However, this is only a problem in so far as one is dealing with an ontology focused on fixed attributes in a linear causality of independent and dependent variables, rather than a multicausal process unfolding in time–space. Time is not a given quantity. Past, present and future all interact. As Giddens said, time–space constitutes all social action, absence coexists with presence, and synchronicity coexists with diachrony.<sup>29</sup> It does not make sense to consider discrete narratives, when the boundaries of the

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<sup>27</sup> David Hume and Peter Millican, *An Enquiry Concerning Human Understanding* (Oxford: Oxford University Press, 2007).

<sup>28</sup> Genette, *Figures of Literary Discourse*, 120.

<sup>29</sup> Giddens, *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis*.

variables themselves are contingent upon the time and physical point of observation. It is the process, not the attributes, that is of interest.

This leads me back to the alleged incommensurability between understanding and explaining, claimed by Hollis and Smith. They argue that ‘[a]lthough it is appealing to believe that bits of the two stories can be added together [...] combinations do not solve the problem’.<sup>30</sup> However, it is not clear what the ‘problem’ is, as they never define it. I would assume that they mean the conflation of mind and matter, the specific with the general, the idiographic with the nomothetic. But, as Suganami alludes to, why should we distinguish reasons from causes or history from theory, if they both help us answer our research questions?<sup>31</sup> This is indeed a valid point. Interestingly, Hollis and Smith describe understanding and explanation as two different *stories*.<sup>32</sup> They’re different and incommensurable, indeed, but nevertheless stories. A similar claim was made by Singer, who himself was no less a subscriber to nomothetic explanation. He once said that ‘an adequate explanation is one that *tells the story*, step by step, of how a given event or condition sets in motion a sequence that regularly culminates in a given outcome’.<sup>33</sup> Again, we are left with understanding *as* explanation—and vice versa. Stories, according to Ricoeur, are an act of ‘com-prehension’, which literally means ‘taking together’.<sup>34</sup> If one rejects the ontological distinction between explanation and understanding, then Hollis and Smit’s professed problem disappears altogether. The reason for this is that both understanding and explaining are instances of storytelling. And as stories they are inherently social activities—they are dialogical, and thus related. For this reason, I have told the story of the Energy Dialogue, step by step, using narratives, to show how and why time and space determined its failure to define and create a legally binding energy partnership.

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<sup>30</sup> Hollis and Smith, *Explaining and Understanding International Relations*, 7.

<sup>31</sup> Hidemi Suganami, “Narrative Explanation and International relations, Back to Basics,” *Millennium* 37, no. 327 (2008).

<sup>32</sup> Hollis and Smith, *Explaining and Understanding International Relations*, 7.

<sup>33</sup> James David Singer, “System Structure, Decision Processes, and Incidence of International War,” in *Handbook of War Studies*, ed. M. Midlarsky (Boston, MA: Unwin Hyman, 1989), 1–21, 13.

<sup>34</sup> Suganami, “Narrative Explanation and International relations, Back to Basics,” 344; Paul Ricoeur, *Time and Narrative* (Chicago: University of Chicago Press, 1984), 76.

## Appendix: List of Interviews

1. **Adams, Terry.** Former consultant for the Department of Energy & Climate Change, UK, in the Thematic Group on Investments under the EU-Russia Energy Dialogue. *25.09.12: E-mail; 26.09.12: Phone [recorded]*
2. **Baron, Yuri.** Deputy Director, Department of State Energy Policy, Russian Ministry of Energy. Co-chair of Energy Strategies, Forecasts and Scenarios Group under the EU-Russia Energy Dialogue. *28.02.12: Meeting, Moscow [recorded].*
3. **Bartuska, Vaclav.** Ambassador-at-Large for Energy Security, Czech Foreign Ministry. *28.05.12: Phone.*
4. **Buyakevich, Maxim.** Russian Ministry of Foreign Affairs. Former First Secretary, Energy, Russian Embassy to the EU. Former participant of the Thematic Group on Strategies, Forecasts and Scenarios under the EU-Russia Energy Dialogue. *06.11.12: Phone [recorded].*
5. **Cleutinx, Christian.** EU-Coordinator of the EU-Russia Energy Dialogue, 2000–2010. Former Head of Coal and Oil, DG TREN. Former Director-General, Euratom. *11.09.12: Meeting, Brussels [recorded].*

6. **Drebentsov, Vladimir.** Chief Economist for Russia and the CIS, BP. Participant of the Thematic Group on Market Developments, the Thematic Group on Energy Markets and Strategies and the Thematic Group on Energy strategies, Forecasts and Scenarios under the EU-Russia Energy Dialogue. *12.04.12: Meeting, Moscow [recorded]*
7. **Dutch Industry Official.** *21.09.12: Phone [recorded].*
8. **EU Industry Official A.** *18.04.12: Phone [recorded].*
9. **EU Industry Official B.** *16.04.12: Meeting, Moscow [recorded].*
10. **EU Industry Official C.** *02.10.12: Meeting, Brussels [recorded].*
11. **EU Industry Official D.** *12.04.12: Meeting, Moscow [recorded].*
12. **EU National Official A.** *09.10.12: Phone [recorded].*
13. **EU National Official B.** *15.11.13: E-mail.*
14. **EU National Official C.** *24.09.12: Phone [recorded].*
15. **EU National Official D.** *30.10.12: Phone [recorded].*
16. **EU National Official E.** *29.10.12. Meeting, Brussels [recorded].*
17. **EU Official A.** *22.05.12: Meeting, Brussels [recorded].*
18. **EU Official B.** *11.09.12: Meeting, Brussels [recorded].*
19. **EU Official C.** *29.10.12: Phone [recorded].*
20. **EU Official D.** *19.10.12: Meeting, Brussels [recorded].*
21. **EU Official E.** *23.04.10: Phone.*
22. **French Official A.** [Phone, 27.09.12].
23. **French Official B.** [Phone, 26.09.12].
24. **Groenendijk, Wim.** Vice President International & Regulatory Affairs at Gasunie. Former participant of the Thematic Group on Energy Markets and Strategies under the EU-Russia Energy Dialogue. *10.04.12: Phone [recorded].*
25. **Kleinekorte, Klaus.** Managing Director, Technical, Amprion. Former Eurelectric & RWE official and consultant for the Federal Ministry of Economics and Technology, Germany in the Thematic Group on Energy Strategies and Balances under the EU-Russia Energy Dialogue. *24.09.12: Meeting, Brussels [recorded].*
26. **Komlev, Sergei.** Head of pricing and contract formation at OAO Gazprom Export. Member of the Gas Advisory Council under the EU-Russia Energy Dialogue (the interviewee would like to stress that

- he was speaking in a personal capacity and not on the behalf of Gazprom Export). 04.04.12: *Meeting, Moscow [recorded]*.
27. **Koskinen, Ismo.** Energy Counsellor, EU Delegation to the Russian Federation, Moscow. 15.02.12: *Meeting, Moscow*.
  28. **Krouthikin, Mikhail.** Analyst, RusEnergy. Editor-in-Chief, Russian Energy. 29.03.10: *Phone*; 27.04.10: *E-mail*; 02.05.10: *E-mail*; 27.01.11: *E-mail*.
  29. **Mastepanov, Alexei.** Former Head of the Department of the Fuel and Energy Complex Strategic Development, Russian Ministry of Energy. Former Russian coordinator of the EU-Russia Energy Dialogue. Former Russian co-chair of the Thematic Group on Energy Strategies and Balances under the EU-Russia Energy Dialogue. Former adviser to the Deputy Chairman, Gazprom. 09.12.12: *Meeting, Moscow [recorded]*.
  30. **Merirands, Dins.** Ministry of Transport of the Republic of Latvia. Former participant of the Thematic Group on Energy Markets and Strategies and the Thematic Group on Energy Strategy, Forecasts and Scenarios under the EU-Russia Energy Dialogue. 29.10.12: *Meeting, Brussels [recorded]*.
  31. **Milov, Vladimir.** Former Deputy Minister of Energy of Russia. President of the Institute of Energy Policy, Moscow. 11.03.12: *Meeting, Moscow [recorded]*.
  32. **Mukhin, Andrei.** Former Senior Economic Advisor, Statoil Russia. Former participant of the Thematic Group on Energy Strategies, Forecasts and Scenarios and the Subgroup on Investments under the EU-Russia Energy Dialogue. 06.04.12: *Meeting, Moscow*; 25.04.12: *E-mail*.
  33. **Murd, Mati.** Deputy Head of Mission, Embassy of Estonia to Ukraine. Former Director of Energy and Environment Division, Ministry of Foreign Affairs of Estonia. Former participant of the Thematic Group on Energy Strategies, Forecasts and Scenarios and the Thematic Group on Thematic Group on Energy Market Developments under the EU-Russia Energy Dialogue (the interviewee would like to specify that he was speaking in a personal capacity, not on behalf of the Estonian government). 30.10.12: *Phone [recorded]*.

34. **Ojuland, Kristiina.** Former Foreign Minister of Estonia (2002–2005). Member of the European Parliament (2009–2014). *11.02.10: E-mail.*
35. **Pastleitner, Ralf.** Director of the EU Representation Office at Oesterreichs Energie. Eurogas delegate to the Thematic Group on Energy Market Developments and the Subgroup on Investments under the EU-Russia Energy Dialogue. *31.10.12: Phone [recorded].*
36. **Perret, Quentin.** Chargé de mission international, Ministry of Ecology, Sustainable Development and Energy. Participant of the Thematic Group on Energy Strategies, Forecasts and Scenarios under the EU-Russia Energy Dialogue. *23.10.12: Meeting, Brussels [recorded].*
37. **Remes, Seppo.** Former co-chair of the European Business Club. Former board member of RAO UES. Co-founder of EOS Russia. Former Finnish delegate to the Thematic Group on Investments under the EU-Russia Energy Dialogue. *11.10.12: Phone [recorded].*
38. **Russian Industry Official** *14.03.12: Meeting, Moscow [recorded].*
39. **Russian Official A.** *22.03.12: Meeting, Moscow [recorded].*
40. **Russian Official B.** *16.02.12: Meeting, Moscow [recorded]; 30.03.12: Phone [recorded].*
41. **Russian Official C.** *04.03.12: Phone [recorded]; 09.04.12: Phone [recorded]; 22.04.12: Phone [recorded].*
42. **Russian Official D.** *15.02.12: Meeting, Moscow; 13.04.14: E-mail*
43. **Russian Official E.** *15.02.12: Meeting, Moscow [recorded].*
44. **Simonia, Nodari.** Deputy Director, IMEMO, Moscow. *04.04.12: Meeting, Moscow [recorded].*
45. **Soloviev, Mikhail.** Former Head of Section, Russian Ministry of Industry and Energy and the Russian Ministry of Energy. Former secretariat of the Thematic Group on Energy Efficiency under the EU-Russia Energy Dialogue. *06.03.12: Meeting, Moscow [recorded, interview translated by Mr Andrew Riedy].*
46. **Stern, Jonathan.** Chairman, Natural Gas Research Programme and Senior Research Fellow, Oxford Institute for Energy Studies. EU co-speaker at the Gas Advisory Council under the EU Russia Energy Dialogue. *06.07.12: Phone [recorded].*

47. **Werring, Luc.** Former Head of Unit, DG TREN. Former secretariat of the Thematic Group on Energy Efficiency under the EU-Russia Energy Dialogue. *10.05.12: Phone [recorded]*.
48. **Zhiznin, Stanislav.** Chief Counsellor, Russian Ministry of Foreign Affairs. President of the Center of Energy Diplomacy and Geopolitics, Moscow. Former participant in the Thematic Group on Energy Strategies, Forecasts and Scenarios. *11.03.12: Meeting, Moscow.*



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