

The Energy Heterologue: The EU-Russia Energy Dialogue 2000-2012

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Abstract

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The EU-Russia Energy Dialogue was launched in October 2000. Its goal was a binding energy agreement between Russia and the European Union, and possibly a wider political partnership. Today, however, the Energy Dialogue seems all but forgotten. How and why did the EU-Russia Energy Dialogue fail to define and create a legally binding energy partnership?

There is scant literature about the Energy Dialogue. To the limited extent that the literature addresses the failure, it identifies either ideational, political, economic, geo-economic or institutional variables. But this separation is artificial. To bridge this divide I have developed a novel analytical framework using narratives and Bakhtin's theory of dialogue. In this respect, the thesis is ideational or constructivist. However, unlike conventional constructivist accounts, which tend to downplay politics, this account emphasises power and conflict: Not dialogue as dual meaning, but many meanings, or 'heterologue'. Narratives, as opposed to variables, are always in flux.

To answer the how question: The dialogue failed because it could not forge a common narrative for the EU-Russia energy trade. Russia sought investment, whereas the EU wanted legal reform. Yet, the Energy Dialogue was a heterologue of conflicting narratives, both between and within Russia and the EU. I have coined six narrative clusters, used as Weberian ideal types: The 'EUropean', 'EU15/25/27', 'Euro-Asian', 'Dual State', 'Statist' and 'Post-Imperial' narratives.

To answer the why question: Narratives unfold in time-space, and the initial misgivings were exacerbated by pre-existing narrative divergences (chapter 1), but also by subsequent political (chapter 2), business (chapter 3), geo-economic (chapter 4) and legal developments (chapter 5) – all influenced by the ebbs and flows of world oil prices. Thus, the failure of the Energy Dialogue was never pre-determined, or caused by a singular factor or event. It was shaped in the multidimensional, unfolding time-space of Russo-European relations.

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Note on Transliteration:

I have used conventional transliteration for Russian names in the thesis. Everything else has been transliterated according to the Library of Congress standard, except for Russian and Ukrainian names in English-language references, which have not been altered.

List of Abbreviations

AEB:	Association of European Businesses
BFG:	Baikalfinansgrup
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 Energy:	Directorate-General for Energy
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 & Energy
EBRD:	European Bank for Reconstruction and Development
ECSC:	European Coal and Steel Community
ECT:	Energy Charter Treaty
EIB:	European Investment Bank
EU:	European Union
EurAsEC:	Eurasian Economic Community
GAC:	Gas Advisory Council
INOGATE:	Interstate Oil and Gas Transportation to Europe

IRT:	European Round Table of Industrialists
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
PCA:	Partnership and Cooperation Agreement
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

Introduction

The EU-Russia Energy Dialogue was launched in Paris at the EU-Russia Summit on October 30th 2000. Present at the ceremony were Russia's recently elected president Vladimir Putin, France's president Jacques Chirac, 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.'¹ 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 legally codified and established within the framework of the Partnership and Cooperation Agreement (PCA) between Russia and the EU.² Such an agreement, which according to the Commission would be legally binding by national law,³ would include provisions for collaboration in oil, gas, coal, electricity and nuclear energy, but also measures concerning energy efficiency and investment. But ambitions went much further. The Commission officials behind the Energy Dialogue wanted to build a new European

¹ EU-Russia Summit, "EU/Russia Summit Joint Declaration IP/00/1239," (Paris: EU-Russia Summit, 2000).

² EU-Russia Energy Dialogue, "Synthesis Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2001), 2.

³ 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.

Coal and Steel Community (ECSC), the progenitor of today's European Union.⁴ The Energy Dialogue was supposed to move from oil and gas to a more 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 then serve as a model for other sectors.'⁵ The Energy Dialogue was thus a stepping stone towards a wider partnership between the eastern and western halves of the European continent.

Two 'sole interlocutors' were nominated, Francois 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 by other parts of their respective bureaucracies.⁶ The interlocutors convened shortly after the Paris summit, and work got swiftly 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 2001.⁷ But practical results were limited. The dialogue moved slowly, and by the end of 2004 it had stalled altogether. By this time, both Russia and the EU had undergone profound changes – the EU near doubling in size, from 15 to 25 (and later to 27) member states, making it more heterogeneous; whereas Russia became consolidated and homogeneous, after Putin implemented his 'power vertical', through comprehensive politico-economic reforms. All of this was

⁴ 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].

⁵ European Commission, "Energy Dialogue with Russia - Update on Progress " (Brussels: European Commission, 2002), 2.

⁶ Author's interview with Christian Cleutinx.

⁷ EU-Russia Energy Dialogue, "Synthesis Report."

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, due to pricing disagreements, shut off its gas deliveries to Ukraine in 2006 and again in 2009, thus effectively cutting off 80 per cent of Gazprom's exports to Europe. Integration was replaced by confrontation, and discussions ground to a halt. Despite ebbs and flows, by 2012 the once vaunted Energy Dialogue had devolved into an energy diatribe. The PCA had expired, and no legally binding energy partnership was in sight. The Commission's ultimate vision of a new ECSC had long since been removed from the agenda. 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.⁸ 'If not energy, then where?' one EU official close to the Energy Dialogue told me.⁹ Energy was, and indeed still is, crucial for EU-Russia relations. Events in the energy sphere had repercussions into the wider relationship. In this respect, the EU-Russia Energy Dialogue was 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 thesis seeks to answer.

Before proceeding, it is important again to emphasise that I am explaining the political failure of the official EU-Russia Energy Dialogue, not the economic success of the Russo-EU energy trade. As per end-2011, energy goods represented 74 per cent of total EU imports from Russia. Conversely, Russia provided the EU with 34 per cent of its net gas imports, and 33 per cent of crude oil imports.¹⁰ But these numbers reflect the bilateral trading relationships between Russia and the myriad of actors among

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

⁹ Author's interview with EU Official A.

¹⁰ EU-Russia Energy Dialogue, "12th Progress Report," (Moscow: EU-Russia Energy Dialogue, 2011), 1.

the EU's member states, not the joint achievements of the multilateral Energy Dialogue. In fact, the 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, noting that concrete achievements were realised 'beyond the framework of the Energy Dialogue.'¹¹ 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 on the Russo-EU27 energy trade. Moreover, where there was once no line of communication, dialogue emerged after 2000. And the Energy Dialogue, now in its thirteenth year, is still operational. 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.

Literature Review and Argument

Understanding the Energy Dialogue is important, as it is in many respects a microcosm of Russo-EU relations after 2000. It is a premise of this dissertation 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. 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

¹¹ Author's interview with Stanislav Zhiznin.

and a handful of articles, the core of which were written by the same author.¹² The rest remains a tapestry of differing foci, including but not limited to the Energy Dialogue. To the extent these accounts attempt to make any systemic assessment of the dialogue, they are near unequivocally negative, although their reasons for this are more diverse. Some have pinpointed **conflicting political interests** as the main reason for the failure of the EU-Russia Energy Dialogue.¹³ The EU member states remained jealous protectors of their sovereign prerogatives, and were sceptical of any attempts by the Commission to infringe on these rights. Hence, Germany, Italy and France pursued their bilateral energy agendas towards Russia, without regard for Brussels or the multilateral Energy Dialogue. The situation was exacerbated after the 2004 expansion, when the number of member states jumped from 15 to 25 countries. In result, the EU became even more fragmented, just as Russia had become more consolidated. In 2000, Russia was politically and economically weak, and hence relatively easy to dictate. However, the imposition of Putin's 'power vertical', coupled

¹² There is really only one monograph devoted to the EU-Russia Energy Dialogue, and even that only contains 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). 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).

¹³ 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 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 Natonski 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).

with rising oil prices, made Russia a much more demanding counterpart. Within a few years, Moscow could seemingly afford to ignore Brussels, and the Energy Dialogue.

Other accounts have pointed to **geo-economics** as the main culprit.¹⁴ One reason for the failure was the omission of crucial transit states like Ukraine. The first and second gas crises with Ukraine, through which 80 percent of Russia's gas to the EU traversed, was a huge blow for the fragile trust between the two parties. Subsequently, Russia was accused of energy imperialism, and for using energy as a 'weapon' against its smaller neighbour. Conversely, Ukraine led the EU Commission to become obsessed with energy security, but security *from* not *with* Russia. Geo-economic accounts also discuss the significance of the new member states, many of which were former subjects of the Soviet Union. The Baltic States were geographically contingent to Russia, and heavily dependent on Russian infrastructure and energy imports.

Competing pipeline projects as manifestations of diverging geo-economic and geo-political interests is a core narrative of this literature. When Gazprom announced its plans to build a Russo-German gas pipeline bypassing Eastern Europe, the Polish

¹⁴ 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).

foreign minister compared it with the Nazi-Soviet pact of 1939,¹⁵ which set the stage for the Second World War. Hence, many Eastern European EU states used the Commission and the Energy Dialogue to confront Russia, rather than to cooperate.

Still others have pointed to **economics and business interests**, arguing that the over-bureaucratized Energy Dialogue was the wrong forum for addressing elementary issues of supply and demand of the energy trade, which in large part was conducted by companies, not governments.¹⁶ On the Russian side, Gazprom was considered an 'extended arm of the state', hence state and company interests were considered largely the same. On the EU side, however, there was more pluralism. Energy companies pursued their own agendas, which were not always in tune with the political agendas of their respective governments or the Commission. This plurality made finding a common position on Russia even more challenging.

Others within this category argue from the vantage point of economic logic. Gazprom, as an energy exporter, was driven by profit. Likewise, the energy exporting Russia had different interests than the energy importing EU. Russia wanted security of demand, whereas the EU wanted security of supply. Russia wanted to keep prices

¹⁵ Hans Michael Kloth, "Polish Minister Attacks Schröder and Merkel," *Der Spiegel*, 1 May 2006.

¹⁶ 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 Ćwiek-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 and Centre for European Reform., *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).

high, the EU wanted low prices. Russia wanted long-term contracts, the EU short-term, and so on. All in all, these economic fault lines made compromise difficult.

Some have pointed towards the **conflicting legal and institutional frameworks** regulating the Russo-EU energy trade as the cause of failure, such as the intergovernmental Energy Charter Treaty (ECT) and the EU's legal code, the *acquis communautaire*.¹⁷ Russia had signed but not ratified the ECT, whereas the Commission pushed further with its increasingly elaborate and demanding internal energy legislation. ECT talks broke down in the mid-2000s. After this, the main point of contestation was the Commission's Third Energy Package, passed in 2007. It demanded that vertically integrated companies such as Gazprom break up if they were to operate within the EU-market. Meanwhile, Russia passed domestic legislation, which went in the opposite direction of its EU-partners. Measures included Gazprom's legal export monopoly, passed in 2006, and the 2008 strategic sectors law. The latter severely constricted foreign ownership of Russian energy assets, and was strongly criticised by the Commission as veiled protectionism.

This literature also addresses the rule of law in itself. The EU Commission was constitutionally circumscribed by its member states, and could not really act without their consent. Russia, meanwhile, was a unitary state, but one plagued by weak institutions and endemic corruption. Therefore, neither the Kremlin nor the EU

¹⁷ 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 and Centre for European Reform., *Russia, Realism and EU Unity*, Essays (London: Centre for European Reform., 2007).

Commission were really masters of their own house, making the prospect of a legally binding agreement a questionable prospect.

Others scholars have pointed to **ideas and conflicting worldviews** as the main obstacle.¹⁸ The liberal-integrationist vision of the EU clashed with Russia's imperial, great power (*derzhavnost*) discourse. Hence, the internal energy market was merely a modern execution of the Kantian/Hegelian streak inherent to European intellectual thought.¹⁹ Similarly, Putin's takeover of the Russian energy sector was a reiteration of the tsarist/orthodox primacy of the state. More on these concepts and this literature in the theoretical chapter, next.

Finally, some who thought they were addressing the Energy Dialogue, were **not really doing so**, but instead confused or conflated it with other EU led forums such as the Four Common Spaces, or non-EU initiatives such as the Energy Charter.²⁰ Thus, a comprehensive, up to date account of the EU-Russia Energy Dialogue is sorely missing. Common to all the aforementioned accounts are 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 consider it epiphenomenal to

¹⁸ 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); Andrei Belyi, "New Dimensions of Energy Security of the Enlarging EU and Their Impact on Relations with Russia," *European Integration*, 25, no. 4 (2003); 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).

¹⁹ Kerry E. Howell, *Europeanization, European Integration and Financial Services* (Houndmills: Palgrave Macmillan, 2004).

²⁰ Yann Richard, "Territorial Impact of Globalization for Europe and Its Regions," *The ESPON 2013 Programme Working paper*, no. 18 (2012); Margarita Balmaceda, *EU Energy Policy and Future European Energy Markets: Consequences for the Central and East European States* (Mannheim: Forschungsschwerpunkt Konflikt- und Kooperationsstrukturen in Osteuropa (FKKS) Universität Mannheim, 2002); Evert F. Van der Meulen, "Gas Supply and EU-Russia Relations," *Europe-Asia Studies* 61, no. 5 (2009); Evgeny Vinokurov, "The Making of the Concept of the EU-Russia Common Economic Space," *Chair Interbrew – Baillet Latour Working Papers*, no. 22 (2007); Urpo Kivikari, "The Northern Dimension—One Pillar of the Bridge Between Russia and the EU," *Russian economic trends* 11, no. 3 (2002); Alexander Gusev, *Energy Relations between the European Union and Russia: Content, Problems, Prospects* (Nice: Centre Internationale de Formation Européenne, 2008).

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.

Five Hypotheses

This thesis aims to explain the failure of the once vaunted EU-Russia Energy Dialogue in defining and creating a legally binding energy partnership. The existing literature on the Energy Dialogue, discussed above, provides me with five hypotheses. Respectively, these hypotheses argue that the dialogue's failure to define and create a legally binding energy partnership came as 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? And what comes first – ideas, politics, economics, geo-economics or legal institutions? And 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, 2000-2012. During this time, Russia and the EU, the Energy Dialogue, and the context within 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 question 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.²¹ In other words, it lacked a narrative. A narrative, as defined by Genette, denotes 'the representation of an event or a sequence of events.'²² Similar definitions are provided by Scholes, who defined narratives as 'the symbolic presentation of a sequence of events',²³ 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',²⁴ and Onega and Landa, who explained narratives as 'the semiotic representation of a series of events.'²⁵

Another definition with more practical connotations is Michel de Certeau's, who described narratives as stories that "go in a procession" ahead of social practices

²¹ 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].

²² Gerard Genette, *Figures of Literary Discourse* (Oxford: Blackwell, 1982), 120.

²³ Robert Scholes, "Language, Narrative and Anti-Narrative," in *On Narrative*, ed. W.J.T. Mitchell (Chicago, IL: University of Chicago Press, 1981), 205.

²⁴ Gerald Prince, "Revisiting Narrativity," in *Transcending Boundaries: Narratology in Context*, ed. Walter Grünzweig and Andreas Solbach (Tübingen: Gunter Narr Verlag, 1999), 43.

²⁵ Susana Onega and Jose Angel Garcia Landa, *Narratology, an Introduction* (London: Longman, 1996), 6.

in order to open a field for them.²⁶ In other words, narratives are needed for common social practices, such as the 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.²⁷ Both interlocutors, the Commission and Russia, 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.²⁸ 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.²⁹ As a result, it became difficult to discern what the Energy Dialogue was supposed to do. Indeed, this lack of purpose was a problem both between and within Russia and the EU. Russian officials were confused as to what the Energy Dialogue was really about, and who was going to take the lead.³⁰ Within the EU, the Commission – or more specifically DG TREN – did

²⁶ Michel de Certeau, *The Practice of Everyday Life* (Berkeley, CA: University of California Press, 1984).

²⁷ 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.

²⁸ Author's interview with Stanislav Zhiznin.

²⁹ EU-Russia Energy Dialogue, "Synthesis Report."

³⁰ Author's interview with Vladimir Milov.

not really communicate its plans for a dialogue with Russia to the rest of the EU member states, or indeed the rest of the Commission, until later. When made aware of the Energy Dialogue, several states, such as the UK and the Netherlands, were furious. They could not believe that the Commission was attempting to take the lead on energy relations, and towards their biggest energy supplier at that.³¹ And even the countries who had been informed, such as France and Germany, preferred to manage relations with Russia on a bilateral level.³² Nevertheless, despite these initial disagreements, the EU-Russia Energy Dialogue was allowed to continue on a wait and see basis.

But 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. 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 thesis will argue.

Why: Narratives, Politics, Economics, Geo-Economics and Institutions

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.

³¹ Author's interviews with Christian Cleutinx; Henne Schuwer, Dutch Ambassador to the European Union [Phone, 09.10.12]; EU Official A.

³² Author's interviews with Terry Adams; Klaus Kleinekorte; Dutch Industry Official.

By focusing on the lack of a common narrative as the explanation for the lack of legal agreement, this thesis places itself within the ideational spectrum of the academic literature on the EU-Russia Energy Dialogue, described above. But the discerning reader might well object to the claim of narratives as the reason of the failure: If narratives are the cause, what, then, is the cause of the cause (*causa causans*)? 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 question. 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, geo-economics and legal institutions, and rather reveal their mutual interaction.

There were 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 assist me in this task, I will invoke the concepts of the Soviet philosopher Mikhail Bakhtin (1895-1975).

Structure of the Thesis

In the next theoretical chapter, I will explain Bakhtin's theories more in depth, and relate this to the wider ideational – or constructivist – literature. More importantly, I will relate Bakhtin's concepts to the Energy Dialogue, my research question, this thesis and its methods. Based on my literature review above, and the upcoming theoretical discussion, I have devised five core chapters, on narratives,

politics, business, geo-economics and legal institutions. After this, I have included a conclusion where I summarise my findings, and suggest avenues for further research. However, the exact structure of these chapters and their relationship with Bakhtinian dialogue will make more sense after have explained my theoretical assumptions more in depth, up next.

Theory & Methods

There are three main concepts which I will introduce in this chapter: Dialogue, narratives and ideal-types. My theoretical framework is based on narratives, and more particularly Mikahil Bakhtin's concept of dialogue. Theoretically, my analysis is a constructivist one. But constructivism, according to Onuf, who first coined the term in the late 1980s, is not a fully developed theory.³³ 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.³⁴

Beyond this very general description, however, there is no real consensus as to what constitutes constructivist 'theory'. This is unlike established theories such as neorealism and neoliberalism, both of which have clearly identifiable hallmarks. Nevertheless, attempts have been made at distinguishing between different types of constructivists. Hopf differentiated between critical and conventional constructivists.³⁵ Price and Reus-Smit contrasted modern and post-modern constructivists.³⁶ Adler

³³ Nicholas Onuf, *World of Our Making* (Columbia, S.C.: University of South Carolina Press, 1989).

³⁴ Nicholas Onuf, "Constructivism, a User's Manual," in *International Relations in a Constructed World*, ed. Vendulka Kubáľková, Nicholas Onuf, and Paul Kowert (Armonk, N.Y.: M.E. Sharpe, Inc., 1998), 58-59.

³⁵ Ted Hopf, "The Promise of Constructivism in International Relations Theory," *International Security* 23, no. 1 (1998).

³⁶ Richard Price and Christian Reus-Smit, "Dangerous liaisons? Critical International Theory and Constructivism," *European Journal of International Relations* 4, no. 3.

described legal, narrative and genealogical constructivism.³⁷ The jury is still out. Nevertheless, 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 so as to argue that attribute ontology and dialectics have 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 favours institutional explanations.³⁸

After I have anchored Bakhtin's dialogue in the constructivist literature, and introduced his concepts, I will go onto operationalizing six narrative clusters – 'the European Narrative', the 'EU15/25/27 Narratives', 'Russia's Euro-Asian Narratives', 'the Statist Narrative', the 'Dual State Narratives' and the 'Post-Imperial Narrative'. These clusters are ideal types, meaning they are useful analytical constructs, not ontological images of the world. Finally, I will provide a word on methodology and narrative analysis, where I will further discuss the concept of ideal types.

³⁷ Emanuel Adler, "Seizing the Middle Ground: Constructivism in World Politics," *ibid.* 3(1997).

³⁸ 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).

Attributes and Processes

Attributes

In 1999 the constructivist Alexander Wendt famously stated that 'states are people too'.³⁹ This was not a metaphor. No, Wendt claimed that states *were people*, with distinguishable features and abilities. Wendt is a proponent of attribute ontology, albeit somewhat extreme. Attribute focused research (sometimes described as 'substantialism') treats the objects under study as a collection of properties bound together by a substantive core. These attributes are treated as analytical variables, which may or may not display co-variation across multiple cases.⁴⁰

Attribute ontology is a common feature of comparative politics. For instance, a lot of the comparative literature on Russian politics has been concentrated on determining whether or not it is a 'semi-presidentialist'⁴¹ or 'super-presidentialist'⁴² regime. This has been done by reference to the assumed attributes of these systems, and in comparisons with similar or dissimilar regimes. Similarly, many have attempted to define the EU, or the 'Unidentified Political Object', as Jacques Delors once put it.⁴³ The EU has been compared with the United States on the one hand to the United Nations on the other. But either as a 'civilian power'⁴⁴, as a 'post-Westphalian state'⁴⁵ or as a 'neo-medieval

³⁹ 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), 215.

⁴⁰ 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, N.J. ; Chichester: Princeton University Press, 1994).

⁴¹ Oleh Protsyk, "Intra-Executive Competition between President and Prime-Minister," *Political Studies* 54, no. 2 (2006).

⁴² Timothy J. Colton, "Superpresidentialism and Russia's Backward State," *Post-Soviet Affairs* 11, no. 2 (1995); Michael Steven Fish, "Putin's Path," *Journal of Democracy* 12, no. 4 (2001).

⁴³ Jacques Delors, "Where is the European Union Heading?," (2001).

⁴⁴ Ian Manners, "Normative Power Europe: A Contradiction in Terms?," *Journal of Common Market Studies* 40, no. 2 (2002).

⁴⁵ Andrew Linklater, "Citizenship and Sovereignty in the Post-Westphalian State," *European Journal of International Relations* 2, no. 1 (1996); Barry Buzan and Thomas Diez, "The European Union and Turkey," *Survival* 41, no. 1 (1999).

empire',⁴⁶ scholars have yet to reach a consensus as to what defines the EU. The main aspect of research these scholars seem to agree upon is the focus on attributes. Our objects of inquiry are things, which in turn are defined by their properties – authoritarian, democratic, large or small, and so on.

Although the label substantialism would seem to imply a commitment to materialism, this is not necessarily so. As is the case with Wendt, attribute logic also applies to constructivists. Wendt treats ideas as discrete variables that can be causally tested.⁴⁷ Similarly, Goldstein and Keohane explored 'the substantive content of ideas', asserting the 'causal connection [...] between ideas and policy outcomes.'⁴⁸ Following suit, 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.'⁴⁹ These 'VIPS' are in turn treated as causal variables determining the EU's foreign policy towards its neighbours, including Russia. Likewise, Kuzemko argued that 'ideas have been shown to be important explanatory variables in revealing aspects of EU–Russia energy relations.'⁵⁰

Perhaps the most (in)famous example of attribute ontological thinking pertaining to ideas is Huntington's 'Clash of Civilizations', with its reification of cultural identities as geopolitical fault lines. It was along these fault lines that future conflicts would take place, therein the 'Western' (including the EU) and 'Orthodox' (including Russia) civilizations.⁵¹ The EU is often classified as a 'normative'⁵² or 'humanitarian'⁵³ power,

⁴⁶ Jan Zielonka, *Europe as Empire, the Nature of the Enlarged European Union* (Oxford: Oxford University Press, 2007).

⁴⁷ Wendt, *Social Theory of International Politics*, 65.

⁴⁸ Judith Goldstein and Robert O. Keohane, *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca, N.Y.: Cornell University Press, 1993), 11.

⁴⁹ Sonia Lucarelli and Ian Manners, *Values and Principles in European Union Foreign Policy* (London: Routledge, 2006), 1.

⁵⁰ Caroline Kuzemko, "Ideas, Power and Change, Explaining EU–Russia Energy Relations," *Journal of European Public Policy* 21, no. 1 (2014).

⁵¹ Samuel Huntington, *The Clash of Civilizations?* (Washington, D.C.: American Enterprise Institute, 1992).

whereas Russian foreign policy is described as 'neo-imperial'⁵⁴, 'post-imperial',⁵⁵ 'trans-imperial'⁵⁶ or 'expansionist'.⁵⁷ Conflict between Russia and the EU is explained by reference to the incommensurability of these *a priori* attributes, by way of their deployment in the context of multilateral fora such as the Energy Dialogue. For instance, Haukkala explained the challenges of EU-Russia relations by way of 'underlying worldviews'.⁵⁸

If this thesis was an attribute ontological account, the *how* and *why* of my research question would have to be preceded by *what*.⁵⁹ Hence, cooperation between Russia and the EU fails because of what they *are*, not what they *do*. The target of analysis is *being* rather than *doing*, which is a poor starting point for my purposes, as it tends towards determinism instead of dynamism. To be sure, all research relies on some form of categorisation. But while categorisation is necessary, it frequently leads to reification. What is more, it often it degenerates into a fight over classification by way of static, most often institutional, variables.

Processes

This brings me to the alternative of attribute ontology, namely process ontology (also known as 'relationalism').⁶⁰ A researcher following process ontology does not consider objects as a mere collection of stable properties. Instead he analytically embeds

⁵² Manners, "Normative Power Europe: A Contradiction in Terms?."

⁵³ Helene Sjursen, "What Kind of Power?," *Journal of European Public Policy* 13, no. 2 (2006).

⁵⁴ David Kerr, "The New Eurasianism: The Rise of Geopolitics in Russia's Foreign Policy," *Europe-Asia Studies* 47, no. 6 (1995).

⁵⁵ Dmitri Trenin, "Russia Redefines Itself and Its Relations with the West," *Washington Quarterly* 30, no. 2 (2007).

⁵⁶ Celeste A Wallander, "Russian Transimperialism and Its Implications," *ibid.*

⁵⁷ Richard Pipes, "Is Russia Still an Enemy?," *Foreign Affairs*, no. 5 (1997).

⁵⁸ Hiski Haukkala, *The EU-Russia Strategic Partnership, the Limits of Post-Sovereignty in International Relations* (London: Routledge, 2010), 1.

⁵⁹ Wendt, *Social Theory of International Politics*.

⁶⁰ 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).

the existence of objects into an unfolding set of transactional relations and mechanisms. These transactions effectively reproduce the object from moment to moment.⁶¹ This does not mean that there is nothing beyond interaction, only that our knowledge of these 'things' is limited to that which we can infer through process. 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.⁶²

Process ontology moves the *emphasis* 'from solid objects with discernible and stable qualities to constellations and arrangements of fluctuating practices and historical patterns.'⁶³ We can still assume a degree of regularity, but regularity made manifest through process. Process thus provides us with a more dynamic way of grasping the social world.

Taking a process approach raises a number of methodological challenges. First, it requires a special theoretical effort. The reason for this, according to Seibt, is because 'the standard theoretical tools of Western metaphysics are geared to the static view of reality.'⁶⁴ As Hegel said, 'the history of [Western] metaphysics is the tendency towards substance'.⁶⁵ We need only look at our very language to see this. For instance, Elias cited the words 'river' and 'wind', which are only constituted as such through process. A river does not cause the water to flow, just like a wind does not cause a wind to blow, yet we

⁶¹ Patrick T. Jackson, "How to Think about Civilizations," in *Civilizations in World Politics*, ed. Peter Katzenstein (Abingdon: Routledge, 2010), 183.

⁶² Nicholas Rescher, *Process Metaphysics, an Introduction to Process Philosophy* (Albany, N.Y.: State University of New York Press, 1996), 48-9.

⁶³ Jackson, "How to Think about Civilizations," 184.

⁶⁴ Johanna Seibt, "Process Philosophy," in *The Stanford Encyclopedia of Philosophy* (Winter 2012 Edition), ed. Edward N. Zalta (2012).

⁶⁵ Ibid.

say that the river is running and the wind is blowing.⁶⁶ In the same way we address the EU and Russia as fixed, acting entities with given variables, even though it is quite possible, indeed probable, to conceive of the EU and Russia as unfolding processes, reproducing themselves and each other from moment to moment.

Elias' thinking contained clear traces of the thoughts of yet another German, Friedrich Nietzsche, who had argued for a switch from *being* to *doing*, claiming that 'there is no "being" behind doing [...] "the doer" is merely a fiction added to the deed.'⁶⁷ How and why thus precedes and supplants what, which is eliminated as an ontological concept, although epistemologically 'it' remains useful as an analytical concept or ideal type, which I will return to below.

Dialectics

This brings me to my second distinction: dialectics and dialogue. In a sense this is a subdivision of process ontology, as both dialectics and dialogue are focused on processes. Whereas Bakhtin is the main proponent of dialogue, Hegel is the progenitor of dialectics. Both based their thoughts on Kant's postulate of the impossibility of knowing the noumenal world, or 'things in themselves'. We can only know things as they appear to us, which Kant called the phenomenal world. Whereas the former is static, the latter is inherently dynamic, as perception is necessarily contingent upon time and space. Hegel, like Bakhtin after him, argued that knowledge formation emerges in the dyad Self/Other. According to Neumann, Hegel 'refines the idea that by knowing the

⁶⁶ Norbert Elias, Stephen Mennell, and Grace Morrissey, *What is Sociology?* ([S.l.]: Hutchinson, 1978), 111-2.

⁶⁷ Friedrich Wilhelm Nietzsche, *On the Genealogy of Morality, a Polemic* (Hackett Publishing Company Incorporated, 1998), 25.

other, the self has the power to give or withhold recognition, so as to be considered as self at the same time.’⁶⁸

However, Hegel’s view of time itself was nevertheless substantialist. Hegel put great emphasis on the *a priori* attribute of reason, which to him informed what he considered the trajectory of history. This teleological streak was also derived from Kant, who predicted an ultimate historical state of peace between democracies. Both Kant and Hegel were highly devout. To Kant, God represented the ultimate truth. Similarly, Hegel described history as an ‘Absolute Spirit’ moving towards the truth, which he called ‘The Spirit’. Hegel’s dialectical triplicity – thesis, antithesis, synthesis – described this goal-oriented process, with thesis as an incomplete historical moment. 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.⁶⁹ This negation of difference and faith in progress is the essence of dialectics.

Dialectics are found across the entire political spectrum, from Marxism to Nazism to liberalism. Dialectics also form the basis of modernisation theory. The intellectual midwife of modernisation theory was Durkheim. Durkheim’s functionalism held that social structures work together as an organism, steering society forward. These structures also included ‘the collective unconscious’ of norms, institutions and culture. Like Kant, Durkheim envisaged an increasing integration between societies.⁷⁰ Durkheimian functionalism and modernisation inspired the original theoretical school

⁶⁸ Iver B. Neumann, *Uses of the Other: "The East" in European Identity Formation* (Minneapolis, MN: University of Minnesota Press, 1999), 3.

⁶⁹ Georg Wilhelm Friedrich Hegel, *The Science of Logic* (Cambridge University Press, 2010).

⁷⁰ 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).

of European integration, neo-functionalism. Neo-functionalists argued that European integration in one sphere would gain momentum and 'spill over' into other sectors.⁷¹ This was the rationale behind the ECSC, which inspired the Energy Dialogue. Neo-functionalism also focused on ideas. According to Haas, integration was impossible without giving up national identities in favour of a common European, supranational identity.⁷² More recently, prominent constructivists like Wendt have made the case for the inevitability of a 'world state' emerging through a process of convergence between so-called macro- and micro-level mechanisms.⁷³

Europeanisation, Modernisation and Transition

The tenets of dialectics and modernisation theory also resurfaced through globalisation,⁷⁴ and later the transitional and Europeanisation literatures.⁷⁵ Europeanisation, as defined by Börzel, is the 'process by which domestic policy areas become increasingly subject to European policy making.'⁷⁶ This also included ideas. According to Olsen, the process of Europeanisation leads to 'changes in structures of meaning and peoples' minds [sic].'⁷⁷ Much of the Europeanization literature is focused on the emergence of pan-European identities as a both a prerequisite for and corollary of integration.⁷⁸ The interaction between Europeanisation and domestic institutional

⁷¹ Ernst B Haas, *The Uniting of Europe* (University of Notre Dame Press Notre Dame, IN, 1958).

⁷² Ibid., 16.

⁷³ Alexander Wendt, "Why a World State is Inevitable," *European Journal of International Relations* 9, no. 4 (2003); Iver B. Neumann, "Beware of Organicism, the Narrative Self of the State," *Review of International Studies* 30, no. 02 (2004).

⁷⁴ Jan Nederveen Pieterse, "Globalisation as Hybridisation," *International Sociology* 9, no. 2 (1994).

⁷⁵ 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).

⁷⁶ Tanja Börzel, "Towards Convergence in Europe? Institutional Adaptation to Europeanization in Germany and Spain," *Journal of Common Market Studies* 37, no. 4 (2002): 574.

⁷⁷ Johan P Olsen, "The Many Faces of Europeanization," *ibid.* 40, no. 5: 6.

⁷⁸ Thomas Risse-Kappen, *A Community of Europeans? Transnational Identities and Public Spheres* (Ithaca, N.Y.: Cornell University Press, 2010); Jeffrey T. Checkel, *International Institutions and Socialization in Europe* (Cambridge: Cambridge University Press, 2007).

change is inherently dialectic, according to Radaelli.⁷⁹ According to Marshall, Europeanisation invariably 'uploads' from the national and 'downloads' from the supranational.⁸⁰ Even those who are sceptical of Europeanisation acknowledge this 'two-level game' between the national and supranational 'levels'.⁸¹ 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.⁸² Recently, energy governance has come into fashion, with Goldthau and others explaining the 'ever growing role of transnational actors, such as national energy companies, as well as global externalities and spill-overs.'⁸³

From the mid-2000s, the Europeanisation literature began focusing on the external effects of the EU's Europeanisation towards neighbouring countries.⁸⁴ In Russia's case, however, the focus was on Moscow's alleged 'failure' to become Europeanised.⁸⁵ This part of the Europeanisation literature relates to the transition literature, which deals with the development of democratic institutions and practices in former authoritarian regimes. Just like the Hegelian triplicity, democratisation/Europeanisation/transition was often assumed to happen in stages, with Carothers distinguishing between the 'opening', the 'breakthrough' and then the

⁷⁹ Claudio M Radaelli, "The Europeanization of Public Policy," in *The Politics of Europeanization*, ed. Kevin Featherstone and Claudio M. Radaelli (Oxford: Oxford University Press, 2003), 45.

⁸⁰ Adam Marshall, "Europeanization at the Urban Level," *Journal of European Public Policy* 12, no. 4 (2005): 671.

⁸¹ Robert D. Putnam, "Diplomacy and Domestic Politics, the Logic of Two-Level Games," *International Organization* 42, no. 3 (1988); Andrew Moravcsik, "Preferences and Power in the European Community," *Journal of Common Market Studies* 31, no. 4 (1993): 474.

⁸² James N. Rosenau and Ernst-Otto Czempiel, *Governance without Government, Order and Change in World Politics* (Cambridge: Cambridge University Press, 1992); James N Rosenau, "Distant Proximities, the Dynamics and Dialectics of Globalization," *International Political Economy: Understanding Global Disorder* (1995).

⁸³ Andreas Goldthau and Jan Martin Witte, *Global Energy Governance, the New Rules of the Game* (Berlin: Global Public Policy Institute, 2010).

⁸⁴ Frank Schimmelfennig and Ulrich Sedelmeier, *The Europeanization of Central and Eastern Europe* (Ithaca, N.Y.: Cornell University Press).

⁸⁵ 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).

‘consolidation’ of transition.⁸⁶ When this transition failed in Russia, scholars shifted their attention to the explanation of why – but often by asking ‘what?’. Some resorted to Russia’s historical legacy and political culture to explain its failed Europeanisation.⁸⁷ As for the Energy Dialogue, Morozov invoked modernisation theory. Like this thesis, he focused on narratives. However, Morozov concluded that failure of the Energy Dialogue was ‘directly related to *the very nature* of both the EU and Russia as political projects.’ Whereas the EU was a ‘peace project’, Russia remained ‘locked in the Westphalian understanding of Europe’, and was thus ‘unable to grasp’ the ‘fundamental transformation of the European political landscape.’⁸⁸ The failure of the Energy Dialogue, therefore, was not due to politics or contingencies, but Russia’s *a priori* inability to sublate to historical currents.

If attribute ontology is epitomised by Huntington’s ‘Clash of Civilizations’, then dialectical literature is typified by Fukuyama’s ‘End of History’, in which he argued that the arrival of western liberal democracy signalled the end of humankind’s social, political and cultural evolution.⁸⁹ Both in politics and in academia Russia is repeatedly being temporally ‘othered’ as belonging to the past, whereas the EU and the West represent the present and future.⁹⁰ Russia is often described as ‘Westphalian’, ‘modern’ or even ‘pre-modern’. Russia remains backwards, it is ‘lost in transition’;⁹¹ Moscow is

⁸⁶ Thomas Carothers, "The End of the Transition Paradigm," *Journal of Democracy* 13, no. 1 (2002): 7.

⁸⁷ Hans-Dieter Klingemann, Dieter Fuchs, and Jan Zielonka, *Democracy and Political Culture in Eastern Europe* (London: Routledge, 2006), 1114; Lukyanov, "Russia-EU: The Partnership that Went Astray."

⁸⁸ Morozov, "Energy Dialogue and the Future of Russia," 43-4, 60.

⁸⁹ Francis Fukuyama, *The End of History and the Last Man* (London: Hamilton, 1992).

⁹⁰ Thomas Diez, "Europe’s Others and the Return of Geopolitics," *Cambridge Review of International Affairs* 17, no. 2 (2004).

⁹¹ Lilia Shevtsova, *Russia Lost in Transition* (Washington, DC: Carnegie Endowment for International Peace, 2007).

stuck in a 'semi-authoritarian' or 'semi-democratic' limbo.⁹² The EU, meanwhile, is frequently depicted as 'post-westphalian', 'post-national' or 'post-modern'.⁹³

The gist of the argument is that Russia is somehow 'stuck in the nineteenth century',⁹⁴ whereas 'global politics has moved on irreversibly towards greater interdependence'.⁹⁵ As Neumann noted: '[Russia] decided to maintain an *ancién regime* while other European powers went for modernization'.⁹⁶ Few of these contributions belong to the transition literature itself. Nevertheless, this 'lag theory' is typical of the transition literature.⁹⁷

Habermas, the English School and Security Communities

The Europeanisation and transition literatures are indebted to Habermas, who further developed Durkheim's concept of the 'collective consciousness'.⁹⁸ Habermas has remained a firm believer in European integration. The prerequisite for building such a collective was what Habermas called an 'ideal speech situation', where interlocutors' words would not be distorted by social status, ideological prejudice or misinformation.⁹⁹ The obstacle is thus cognitive more than ideational, as if all Russia needs is to aggregate its efforts better on the institutional level so as to better understand and adapt to liberal

⁹² Steven Levitsky and Lucan Way, "The Rise of Competitive Authoritarianism," *Journal of Democracy* 13, no. 2 (2002).

⁹³ 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).

⁹⁴ Ivan Krastev, "Russia and the Georgian War, the Great-Power Trap," *Open Democracy*, 31 August 2008.

⁹⁵ Derek Averre, "Competing Rationalities: Russia, the EU and the 'Shared Neighbourhood'," *Europe-Asia Studies* 61, no. 10 (2009): 1709.

⁹⁶ 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): 147.

⁹⁷ Shevtsova, *Russia Lost in Transition*; Pierre Hassner, "Russia's Transition to Autocracy," *Journal of Democracy* 19, no. 2 (2008); Timothy J Colton, *Transitional Citizens: Voters and What Influences Them in the New Russia*, vol. 3 (Harvard University Press, 2000); Martin E Malia, *Russia under Western Eyes* (Cambridge, MA: Harvard University Press, 1999).

⁹⁸ Sergei Prozorov, *Understanding Conflict between Russia and the EU : the Limits of Integration* (Basingstoke: Palgrave Macmillan, 2006), 17.

⁹⁹ Jürgen Habermas, *The Philosophical Discourse of Modernity, Twelve Lectures* (Cambridge: Polity in association with Basil Blackwell, 1987).

EU policies.¹⁰⁰ This is further complicated by Europe's political and institutional heterogeneity. Hence, Russia prefers to keep relations at the bilateral level. But again, institutional dialectics de-politicises explanation.

Dialectics underpin many established constructivist theories. One such theory is the English School, whose adherents envisage the evolution from 'international system' to an 'international society', and finally to a 'world society', premised on the development of a shared global identity.¹⁰¹ Similar is the literature on security communities, which are formed between actors with shared identities, values and meanings.¹⁰² It is indeed possible to conceive of the Energy Dialogue as an attempted security community. I argue that the failure of the Energy Dialogue is caused by a failure to find a common narrative. But security communities, too, are frequently painted as dialectic. 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.'¹⁰³ Like the English School, a security community is assumed to develop in stages, from nascent to ascendant to mature.¹⁰⁴ To be sure, some adherents of the English School see world society, international society and international system more as a swinging pendulum.¹⁰⁵ Nevertheless, it is Hegel's thesis-antithesis-synthesis triplicity all over again, with bottom-up, political processes downplayed in favour of top-down, structural forces and imperatives.

¹⁰⁰ Prozorov, *Understanding Conflict between Russia and the EU : the Limits of Integration*.

¹⁰¹ 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, 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).

¹⁰² Emanuel Adler and Michael N. Barnett, *Security Communities* (Cambridge: Cambridge University Press, 1998); Karl Wolfgang Deutsch, *Political Community and the North Atlantic Area* (Princeton, N.J.: Princeton University Press, 1957).

¹⁰³ Wendt, *Social Theory of International Politics*, 229; Vincent Pouliot, *International Security in Practice, the Politics of NATO-Russia Diplomacy* (Cambridge: Cambridge University Press, 2010), 51.

¹⁰⁴ Adler and Barnett, *Security Communities*.

¹⁰⁵ Adam Watson, *The Evolution of International Society, a Comparative Historical Analysis* (London: Routledge, 2009).

Methodologically, dialectic processes are often analysed in terms of path dependence. Path dependency stresses the importance of positive feedback of already taken decisions, corresponding with increasing returns.¹⁰⁶ In sum, this makes deviation from an established 'path' difficult. According to Adler and Barnett path dependent processes such as security communities 'exhibit an evolutionary pattern that follows the direction of "the *arrow of time*" (birth, growth, maturity, etc).'¹⁰⁷ Quoting Krasner, another scholar who has flirted with constructivism, they agree that '[p]ath dependent patterns are characterised by self-reinforcing positive feedback. Initial choices, often small and random, *determine future historical trajectories*.'¹⁰⁸ However, to me, alluding to 'historical forces', 'arrows of time' or 'absolute spirits' is a red herring, and is not a good way to address the political failure of the EU-Russia Energy Dialogue, as it absolves politicians of their agency, and thus their responsibility.

Other Approaches

There are of course numerous variations and refinements within the theme of security communities and the English School, and a brief overview will necessarily imply both simplifications and omissions. Recent incarnations of the English School have focused not so much on the inevitability of progress, but rather the conditions which make progress possible.¹⁰⁹ Meanwhile, other adherents of the English School have argued for more pluralist forms of global society, with more room for independence and

¹⁰⁶ Paul Pierson, *Politics in Time, History, Institutions, and Social Analysis* (Princeton, N.J.: Princeton University Press, 2004).

¹⁰⁷ Adler and Barnett, *Security Communities*, 49., my emphasis

¹⁰⁸ Stephen Krasner, "Sovereignty: An Institutional Perspective," *Comparative Political Studies* 21, no. 1 (1988): 83., my emphasis

¹⁰⁹ 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).

diversity.¹¹⁰ Likewise, Pouliot has revised security communities by introducing practice as a way to understand the troubled relationship between Russia and NATO.¹¹¹ 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.'¹¹² 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', moving the causal arrow from being to doing.¹¹³ Neumann and Pouliot have applied Pierre Bourdieu's concept of habitus ('a repertoire of bodily practices accumulated through history') in the field of diplomacy, in order to explain the *hysteresis* ('lack of fit') between Russian and Western diplomatic practices.¹¹⁴ Finally, Neumann and Sending have invoked Foucault's concepts of practice and governmentality, which is a portmanteau of government and mentality, to explain the historic antagonism between Russia and the Western world.¹¹⁵

The aforementioned works deserve credit for moving beyond the standard neoliberalist/neorealist impasse, which still characterises much of International Relationship scholarship. Neorealism explains state relations through the distribution of capabilities under conditions of international anarchy,¹¹⁶ while neoliberalism describes cooperation under anarchy through the evolution of shared norms, institutions and

¹¹⁰ Robert Jackson, *The Global Covenant: Human Conduct in a World of States* (Oxford: Oxford University Press, 2001).

¹¹¹ Pouliot, *International Security in Practice, the Politics of NATO-Russia Diplomacy*.

¹¹² Emanuel Adler and Vincent Pouliot, *International practices* (Cambridge: Cambridge University Press, 2011), 6.

¹¹³ Pouliot, *International Security in Practice, the Politics of NATO-Russia Diplomacy*, 5-6.

¹¹⁴ Iver B. Neumann and Victor Pouliot, "Untimely Russia: Hysteresis in Russian-Western Relations Over the Past Millennium," *Security Studies* 20, no. 1 (2011).

¹¹⁵ Iver B. Neumann and Ole Jacob Sending, *Governing the Global Polity* (Ann Arbor: University of Michigan Press, 2010).

¹¹⁶ Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979).

regimes.¹¹⁷ However, neorealism is structuralist at its core, with state politics confined to the proverbial black box, whereas neoliberalism, although sensitive to non-state actors, shares many of the characteristics of dialectics.

The works cited above also break with the teleology of the much of the other work discussed in this section. But as far as the attribute versus process distinction is concerned, the works cited nonetheless end up on the attribute side, if inadvertently so. Adler and Pouliot acknowledge that practices 'possibly reify' the 'patterns of action' which these practices describe, but fail to acknowledge the authors' own contribution to this reification process. Indeed, if one reads Bourdieu literally, habitus entails the 'unconscious *determinations* that are *inscribed in [the actor's] mind* or in the social conditions within which he produces.'¹¹⁸ In the same way, Pouliot and Neumann described the Russian habitus as 'a *repertoire of bodily practices* accumulated through history.'¹¹⁹ In other words: attributes.

The same criticism can be levelled against the use of Foucauldian governmentality, which have been criticised for being 'static'.¹²⁰ One reason for this might be that Foucault, in his work, was working as a historian, analysing the genealogy of past governmentalities. The focus was order, once established, rather than disorder. While Foucault was very preoccupied with the concept of power, he was not sufficiently sensitive towards the concept of *energy*, or motion.¹²¹ If we move to current affairs, this becomes more apparent: What happens when order is not yet established or contested,

¹¹⁷ Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984).

¹¹⁸ Pierre Bourdieu, *Science of Science and Reflexivity* (Cambridge: Polity, 2004), 86., my emphasis.

¹¹⁹ Neumann and Pouliot, "Untimely Russia: Hysteresis in Russian-Western Relations Over the Past Millennium," abstract.

¹²⁰ William Walters, *Governmentality, Critical Encounters* (Abingdon: Routledge, 2012).

¹²¹ Nigel J. Thrift, *Non-Representational Theory, Space, Politics, Affect* (London: Routledge, 2007), 55.

as in Russia before Putin, or in the EU more or less throughout its existence? Here Foucault comes up short.

Analytically, therefore, Bourdieusian and Foucauldian approaches, when used to understand unfolding events, quickly end up replacing one reification (state) with another (habitus/field/governmentality). Although both Bourdieu and Foucault invoked Nietzsche's concept of 'doing', practices do not necessarily imply process. Therefore, *a* practice (as a noun) can 'be' as much as it can 'do' (practice 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

Bakhtinian dialogism is the opposite of Hegelian dialectics. Bakhtin, who was militantly anti-Hegelian and anti-Marxian, considered dialectics as a form of monologism in that it presupposed the sublation (negation) of difference.¹²² Thus, Bakhtin sought to do away with what Kristeva described as the totalising progress of dialectics.¹²³ Like Hegel, Bakhtin was inspired by Kant. But unlike them Bakhtin was averse to metaphysics. Bakhtin himself was preoccupied with the relationship between mind and matter. Like Kant, he accepted the claim that it is impossible to bridge the gap between mind and world. But unlike Kant (although similar to Hegel) Bakhtin did not accept Kant's argument of the 'thing in itself'.¹²⁴ Unlike Hegel, however, Bakhtin rejected the ultimate faith in reason. He also dismissed the notion of the unitary 'I', and instead reintroduced and reasserted the 'You' of the 'Other', or the other as subject, not object.¹²⁵

¹²² Michael Holquist, *Dialogism: Bakhtin and His World* (London: Routledge, 2002), 16.

¹²³ Julia Kristeva, "Word, Dialogue and Novel," in *The Kristeva Reader*, ed. Toril Moi (Oxford: Blackwell, 1966 [1986]).

¹²⁴ Holquist, *Dialogism: Bakhtin and His World*, 17-18.

¹²⁵ Neumann, *Uses of the Other: "The East" in European Identity Formation*.

Bakhtin has been described as a 'broken thinker [with] the pieces of his thought [...] strewn in virtually every direction.'¹²⁶ Bakhtin's main work was on literature, but his theories have equal applicability to social science. His theories have been used to study everything from nationalism,¹²⁷ feminism¹²⁸ to children's education.¹²⁹ However, only rarely has Bakhtin been applied to international politics and relations.¹³⁰ To the extent that Bakhtin has been applied to international politics and relations, he has mostly been referenced in passing, for instance to assist in explaining the discourse of war,¹³¹ to criticise the monological features of historical writing,¹³² to discuss federalism and governance,¹³³ or to help understand Self-Other relations in international relations more broadly.¹³⁴

Böröcz used Bakhtin to analyse the diplomatic exchange between Hungary and the EU prior to the former's accession to the latter in 2004.¹³⁵ That said, 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, whilst largely ignoring the non-communicative, contested and ever-unfolding features of political practices, of which Bakhtin had a great deal to say. Guillaume employed Bakhtin to understand Japanese

¹²⁶ Anthony Wall, "A Broken Thinker (M.M. Bakhtin's Thought)," *South Atlantic Quarterly* 97, no. 3-4 (1998).

¹²⁷ Ana Maria Alonso, "The Politics of Space, Time and Substance: State Formation, Nationalism and Ethnicity," *Annual Review of Anthropology* 23(1994).

¹²⁸ Dale M. Bauer and Susan Jaret McKinstry, *Feminism, Bakhtin, and the Dialogic* (Albany, N.Y.: State University of New York Press, 1991).

¹²⁹ Marcia Moraes, *Bilingual Education, a Dialogue with the Bakhtin Circle* (Albany: State University of New York Press, 1996).

¹³⁰ Iver B. Neumann, "International Relations as Emergent Bakhtinian Dialogue," *International Studies Review*, no. 5 (2003).

¹³¹ Michael J Shapiro, "Representing World Politics, the Sport/War Intertext," in *International/Intertextual Relations: Postmodern Readings of World Politics*, ed. James Der Derian and Michael J. Shapiro (New York, N.Y.: Lexington, 1989).

¹³² Richard K Ashley, "Living on Border Lines: Man, Poststructuralism, and War," *ibid.*

¹³³ Robert A. Schapiro, *Polyphonic Federalism, toward the Protection of Fundamental Rights* (Chicago, IL: University of Chicago Press, 2009).

¹³⁴ Iver B. Neumann, "Self and Other in International Relations," *European Journal of International Relations* 2, no. 2 (1996).

¹³⁵ 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).

identity formation before the Second World War. His account draws on a broader range of sources than Böröcz. However, it, too, is limited, by relying on the conventional national versus international dichotomy, bypassing domestic, transnational and transgovernmental politics altogether.¹³⁶

Before I proceed, it is important to note that Bakhtin is not the only dialogic philosopher. Others include the named Kristeva, who, together with Todorov, introduced Bakhtin to Western audiences.¹³⁷ Although distinguished thinkers in their own right, they both represent a continuation rather than a contradiction of Bakhtin.¹³⁸ Another thinker similar to Bakhtin was Levinas, whose famous quote 'ethics precedes ontology', revealed a profoundly normative view of dialogue.¹³⁹ Both Levinas and Bakhtin insisted on the 'unfinalisability' of meaning and the Self's inextricable engagement with the Other. There were indeed considerable normative elements to Bakhtin's thought, similar to Levinas.¹⁴⁰ However, in order to avoid prescription, I have chosen to downplay the ethical aspects of dialogue in this account. Thus, Levinas is of less relevance for my purposes. Yet another thinker preoccupied with dialogue was Mukarovsky.¹⁴¹ His ideas are closely related to Bakhtin's. However, unlike Bakhtin, Mukarovsky considered *monologue* as being of equal value as dialogue. For Bakhtin

¹³⁶ Xavier Guillaume, "Foreign Policy and the Politics of Alterity, a Dialogical Understanding of International Relations," *Millennium* 31, no. 1 (2002).

¹³⁷ Kristeva, "Word, Dialogue and Novel."; Tzvetan Todorov, *Mikhail Bakhtin, the Dialogical Principle* (Manchester: Manchester University Press, 1984).

¹³⁸ Sue Vice, *Introducing Bakhtin* (Manchester: Manchester University Press, 1997), 163; Daphna Erdinast-Vulcan, "'Things Pregnant with Words': What Todorov Learned from Bakhtin," *Canadian Review of Comparative Literature*, no. June (2004).

¹³⁹ Emmanuel Levinas, *Totality and Infinity: An Essay on Exteriority* (Pittsburgh, P.A.: Duquesne University Press, 1969).

¹⁴⁰ Jeffrey T. Nealon, "The Ethics of Dialogue: Bakhtin and Levinas," *College English* 59, no. 2 (1997).

¹⁴¹ Jan Mukarovsky, "Monologue and Dialogue," in *The World in Verbal Art*, ed. John Burbank and Peter Steiner (New Haven, C.T.: Yale University Press, 1977).

dialogue was everything, whereas monologue – like dialectics – was an illusion, which could be dangerous if taken for granted.¹⁴²

Dialogue as Heterologue

To Bakhtin, dialogue denoted the ongoing social process of meaning making between the Self and the Other.¹⁴³ Dialogue was between several voices, not just two. Bakhtin thus used the concept of heterology (*raznoreche*), or heterologue, which literally means ‘diversity of meanings’.¹⁴⁴ Multiple voices manifest both between and within individual interlocutors. This multitude of discursive types, Bakhtin called ‘speech genres’.¹⁴⁵ Multiple speech genres are found within a single social community. Actors express themselves differently, at different times, depending on context. 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. Like states, individuals display multiple speech genres, depending on context: for instance as man, child, husband, son, father, brother or employee. President Vladimir Putin has been compared with Mr Benn, the British children’s book character, whose adventures always start by him donning a new costume at the local costume shop, before exiting through the shop’s magic door. Just like the inconspicuous Mr Benn, the former KGB-agent Putin is a ‘man without a name’, although he cultivates multiple ‘costumes’ or identities: ‘the

¹⁴² Mikhail M. Bakhtin, *Marxism and the Philosophy of Language* (Cambridge, MA: Harvard University Press, 1986), 72.

¹⁴³ Holquist, *Dialogism: Bakhtin and His World*.

¹⁴⁴ Vice, *Introducing Bakhtin*, 49; Mikhail M. Bakhtin, *The Dialogic Imagination, Four Essays* (University of Texas Press, 1981), 272.

¹⁴⁵ *Speech Genres and Other Late Essays* (Austin, TX: University of Texas Press, 1986).

Statist', 'the History Man', 'the Outsider', 'the Survivalist', 'the Free Marketeer' and 'the Case Officer'.¹⁴⁶

Narratives do not necessarily coexist peacefully. They are often waged in on-going battle.¹⁴⁷ As opposed to dialectics, contradictions are not automatically sublated, although they can be reconciled or silenced by force, as I will show below. In dialogue, what emerges is not one but a multitude of narratives, each fighting it out with the other – a 'heterologue', in Bakhtin's terms. However, the term heterologue is in fact a misnomer. Dialogue is not a binary, and does not mean 'dual meaning'. Contrasting *dia* as 'two' versus *hetero* as 'many' is intuitively appealing, but etymologically incorrect. *Dia* stems from the Greek word for 'across' or 'between'. Thus, Bakhtin's more pluralistic understanding of dialogue as 'heterologue' is already found within the word dialogue itself. I have nonetheless chosen to use Bakhtin's neologism of heterologue in this particular account, as this was the term Bakhtin himself used, and is the label which denotes his particular set of ideas. However, for sake of accuracy, I will seek to redress this in future accounts.

A Socio-Genesis of Knowledge

Bakhtin argued that it is through dialogue that we continuously shape our understanding of the world and ourselves. This is a socio-genesis of knowledge; the ongoing social process of meaning making between the self and the other. To give one example: In order to know the centre of something, you need to know the non-centre or periphery. The relationship between the Self (centre) and the Other (non-centre) is thus inherently dialogical. A dialogical relationship does not necessarily mean two or more

¹⁴⁶ Fiona Hill and Clifford G. Gaddy, *Mr. Putin, Operative in the Kremlin* (Washington, D.C.: Brookings Institution, 2013).

¹⁴⁷ Mikhail M. Bakhtin, "Discourse in the Novel," in *The Dialogic Imagination*, ed. Michael Holquist (Austin, TX: University of Texas Press, 1981), 272-73.

voices talking.¹⁴⁸ To be sure, it can mean this also. But put more broadly, a dialogical relationship denotes the ongoing dialogue between ourselves and the world around us. What makes this relationship dialogical is that you interpret it by means of language. It is through dialogue you receive your language, by means of which you conceive or 'author' narratives about yourselves and the world around you.

A dialogical relationship is not always between two or more physical voices. Similarly, narratives can be expressed tacitly through practice, with speech being but one mode of expression. 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. But narratives are not always conscious, nor are they necessarily deliberately or strategically deployed.¹⁴⁹ Moreover, narratives are never permanent, but continuously shaped and reshaped through an ongoing dialogue between ourselves and the world. Changing material circumstances, such as the rise and fall of world oil prices, bolstered Russia's narrative of itself as a great, independent power, and hence its attitude towards the Energy Dialogue.

The Oil Price(s)

This might make the perceptive reader stop and question: Why not just skip narratives and focus on changing oil prices? There is indeed a rich and interesting literature on the econometrics of oil prices in international energy politics, although few who argue its monocausal impact.¹⁵⁰ Mankoff argues that high energy prices were a key

¹⁴⁸ Julia Kristeva, *Desire in Language: A Semiotic Approach to Literature and Art* (Oxford: Basil Blackwell, 1980), 67; Mikhail M. Bakhtin, *Problems of Dostoevsky's Poetics* (Minneapolis: University of Minnesota Press, 1984), 151-52.

¹⁴⁹ Pierre Bourdieu, *Outline of a Theory of Practice* (Cambridge: Cambridge University Press, 1977).

¹⁵⁰ See for instance: Michael Kennedy, "An Economic Model of the World Oil Market," *The Bell Journal of Economics and Management Science* 5, no. 2 (1974); Ronald A. Ratti and Joaquin L. Vespignani, "Crude Oil Prices and Liquidity, the BRIC and G3 Countries," *Energy Economics* 39, no. September (2013); Iikka

determinant of Russian foreign policy during Putin, but mediated in the peculiar context of Russian politics, geopolitics and business during the tumultuous post-Soviet years.¹⁵¹ Likewise, Youngs examined the increased salience of energy security in Europe as a response to rising oil prices, but also geo-economic events, which in turn preconditioned this rise.¹⁵²

There are some who have claimed that high oil prices, *ipso facto*, have made a partnership between Russia and the west impossible. Thomas Friedman dubbed this the 'First Law of Petropolitics' ('the price of oil and the pace of freedom always move in opposite directions').¹⁵³ Or, as journalist and historian Anne Applebaum once put it, 'as the oil price rises, so does Russian belligerence.'¹⁵⁴ But rejecting narratives for oil prices is nonetheless misleading as far as the Energy Dialogue is concerned. There are two main reasons for this. First of all, the causal effect of the oil price on the Energy Dialogue remains oblique. For instance, in 2000, when the Energy Dialogue launched, oil prices had trebled in short time. Still Russia chose to enter a multilateral Energy Dialogue with the EU. Why? There were still fears in the Russian government that a price drop was imminent.¹⁵⁵ The Russian economy remained in a fragile state. This economic and political insecurity remained throughout the first few years of the Energy Dialogue, despite continuously rising oil prices, showing that perceptions matter as much as 'objective' material factors. Between summer 2008 and winter 2009 the price of oil *did* drop, from 140 to 40 dollars per barrel.¹⁵⁶ Yet the inertia of the Energy Dialogue

Korkhonen and Svetlana Ledyeva, "Trade Linkages and Macroeconomic Effects of the Price of Oil," *ibid.* 32, no. 4 (2010).

¹⁵¹ Jeffrey Mankoff, *Russian foreign policy : the return of great power politics*, 2nd ed. (Lanham, Md.: Rowman & Littlefield Publishers, 2011).

¹⁵² Richard Youngs, *Energy Security: Europe's New Foreign Policy Challenge* (London: Routledge, 2009).

¹⁵³ Thomas L. Friedman, "The First Law of Petropolitics," *Foreign Policy* May/June, no. 156 (2006).

¹⁵⁴ Anne Applebaum, "A Crude Theory," *Slate*, 3 January 2011.

¹⁵⁵ Author's interview with Vladimir Milov.

¹⁵⁶ Barry W. Ickes and Clifford G. Gaddy, "Russia after the Global Financial Crisis," *Journal of Eurasian Geography and Economics* 51, no. 3 (2010).

remained intact. In fact, during this brief time 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. Sharply falling oil prices did not abate Russia’s geo-economic and post-imperial interests.

The price of oil is important, to be sure, but not in and of itself. It has to be understood in context. There is really no clear correlation between the ebbs and flows of the oil price and the failure of the Energy Dialogue, *pace* narrative, geo-economic, political, business and legal explanations. 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 dialogic battle of supply and demand. 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 thus reproduced through narratives. Moreover, oil prices are as much the effect as the cause of narratives – e.g. Russia’s decision to crank up production to 10 million barrels of oil per day by 2010 – again showing their dialogical nature.

In light of these two caveats – the opaque causal effect of the oil price and oil price(s) as narratives – I have decided to employ the oil price not as a discrete analytical variable, but as part of my five thematic chapters on narratives, politics, business, geo-economics and legal institutions, and my six narrative clusters, to be further explained below.

For Bakhtin, '[t]he dialogue of dialogues is the relation of fixity to flux, of same to different'.¹⁵⁷ Narratives, like oil prices, are dynamic. 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 a narrative should never be regarded as a solid attribute. For Bakhtin, narratives operated along to two axes, space and time. He encompassed this interrelationship in his concept of 'chronotope', which literally means 'time-space'.¹⁵⁸ In this sense, Bakhtin's dialogue is similar to the principles of modern physics coined in Einstein's theory of relativity. How something is perceived is contingent upon the spatiotemporal context of the perceiver and that which is perceived. We are continuously engaged in a dialogic relationship with the past, present and presumed future. We are always authoring and re-authoring ourselves into the world in which we figure. Likewise, we are being authored and re-authored by others. 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, and this imagination influences the way we see ourselves.¹⁵⁹

By means of chronotope and dialogue Bakhtin intended to build a conceptual bridge between ideas and the material world. The chronotope and the centre versus non-centre example provided above have practical relevance for the EU-Russia Energy Dialogue. Several accounts have dealt with the story of Russia as Europe's 'Other'. In the eyes of the West, it was the centre, or "Self", whereas Russia represented the non-centre,

¹⁵⁷ Holquist, *Dialogism: Bakhtin and His World*.

¹⁵⁸ 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).

¹⁵⁹ Vice, *Introducing Bakhtin*, 93.

or the 'Other'.¹⁶⁰ 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 backwards. This heterologue was reflected in the EU's Common Strategy on Russia of 1999. In it, the EU stated its responsibility to 'help Russia retain its European identity.'¹⁶¹ The postmodern 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.¹⁶² Therefore, 'othering' is not simply spatial, it is also temporal, in the same ways that dialogue and narratives are.¹⁶³

But Russia had a long history as a centre of its own. For hundreds of years, Russia was an empire. When Russia was weak, its narrative changed, and it was drawn towards the European centre. But when energy prices rose and Russia regained its strength, so did it gravitate back towards its own centre. Russia was the centre to other peripheries, and above all Ukraine, through which 80 per cent of Russian gas supplies to EU traversed. But after the Orange Revolution of 2004, Ukraine, which in Russian means 'borderland', sought to shed its Russian bonds and integrate with the EU centre. By January 2006, Russia was tired of subsidising gas supplies to the increasingly belligerent Ukrainians, who owed billions of roubles in arrears. Thus Russia shut off the tap, to the great detriment of the Energy Dialogue. In January 2009, disaster struck again, when the gas tap to Ukraine was shut off for a second time. The message was clear: Russia, as a

¹⁶⁰ 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."

¹⁶¹ European Council, "Common Strategy of the European Union on Russia," (Brussels: European Council, 1999).

¹⁶² Iver B. Neumann, "Russia's Standing as a Great Power," in *Russia's European Choice*, ed. Ted Hopf (Basingstoke: Pallgrave Macmillan, 2008).

¹⁶³ Diez, "Europe's Others and the Return of Geopolitics."

reformed 'energy superpower,' would not be toyed with. The relationship between Russia and Ukraine, and Bakhtin's concept of chronotope, or space-time, invokes both the economic and the geo-economic aspects of my account.

The Politics of Narratives

One of the main reasons why dialogue is useful in this thesis is that it denaturalises EU-Russia energy relations as something between two inherently different actors, or as part of a historical process of convergence. Instead it *re-politicises* it as an ongoing process, a dialogue, between competing interests. Instead of a dialectics of nature, Bakhtin suggests what Todorov called a dialogics of culture.¹⁶⁴ The narrative of Russia as the periphery of Europe, versus Russia as the centre of Eurasia, shows how multiple narratives can exist at once. Indeed, where you stand is where you sit. The concepts of multiple meanings, languages and voices, of multiple narratives waged in battle over representation and meaning, thus invokes the politics of dialogue, and indeed the politics of the EU-Russia Energy Dialogue.

But are narratives simply individually subjective, then? Indeed they are not. Narratives, like language, are inter-subjective, in the sense that they emerge dialogically. Whereas Hegel spoke of the sublation of the antithesis, Bakhtin spoke of centrifugal versus centripetal forces influencing narratives. Centripetal forces 'serve to unify and centralise the verbal-ideological world', whereas centrifugal forces provide opposition and resistance towards this centralisation.¹⁶⁵ A narrative can be both centrifugal and centripetal. Whether something is centrifugal or centripetal depends on where one stands with respect to something else – a centre of gravity, or gravitational pole, as it

¹⁶⁴ Todorov, *Mikhail Bakhtin, the Dialogical Principle*, 104.

¹⁶⁵ Bakhtin, *The Dialogic Imagination, Four Essays*, 270.

were – hence Bakhtin’s focus on time *and* space. For example, the 2004 expansion of the EU into Eastern Europe was centripetal towards Brussels’ narrative of the internal market, whereas it was centrifugal with respect to Russian traditional politico-economic influence in this region. Bakhtin considered narratives as a spectrum, from the time-specific narrative of the individual to the near reified narrative of the state or deity.¹⁶⁶ This must not be confused with reductionism, however, in the sense that collective narratives are necessarily constructed by their individual parts. The concept of the individual is also a form of narrative, whose importance often depends on social context. For instance, in the liberal-democratic tradition of the Western European states, the individual has traditionally enjoyed a higher standing than in the authoritarian Russian Orthodox tradition.¹⁶⁷ Individual identity is a dialogically generated narrative between self and other, in the same way that political and economic interests are.¹⁶⁸ Narratives, either individual or collective, are highly stratified, and their boundaries are overlapping, shifting and often hard to distinguish.

Applying the centrifugal and centripetal concepts presented above, one can talk about a spectrum from ‘internally persuasive’ to ‘externally authoritative’ narratives.¹⁶⁹ This is similar to Krebs and Jackson’s politics of rhetorical persuasion and coercion.¹⁷⁰ This explains Bakhtin’s interest in Marxism, which to him represented an extreme example of such an externally authoritative narrative.¹⁷¹ There are certainly different views as to where one should draw the line between persuasive and authoritative narratives. There are those, like Michel Foucault or Ludwig Wittgenstein, who

¹⁶⁶ Holquist, *Dialogism: Bakhtin and His World*.

¹⁶⁷ Evert van der Zweerde, "'Civil Society' and 'Orthodox Christianity' in Russia: a Double Test-Case," *Religion, State & Society* 27, no. 1 (1999).

¹⁶⁸ Fredric Jameson, *The Political Unconscious: Narrative as a Socially Symbolic Act* (London: Routledge, 2002).

¹⁶⁹ Bakhtin, *The Dialogic Imagination, Four Essays*, 163, 342.

¹⁷⁰ Ronald R. Krebs and Patrick Thaddeus Jackson, "Twisting Tongues and Twisting Arms, the Power of Political Rhetoric," *European Journal of International Relations* 31, no. 1 (2007).

¹⁷¹ Bakhtin, *Marxism and the Philosophy of Language*.

considered language itself as a source of authority, which both constitutes and constrains us.¹⁷² The concept of 'internal persuasion' vis-à-vis 'external authority' is highly relevant when discussing the EU's and Russia's different narratives in the Energy Dialogue. Indeed, the EU's narrative for the Energy Dialogue was not really internally persuasive for the Russians. Both wanted a legal agreement on energy, but the EU Commission sought to build a new ECSC, whereas Russia wanted to attract investment. However, the Commission's narrative for the Energy Dialogue was not internally persuasive within the EU either. The challenge of forging a common narrative was exacerbated when the EU near doubled in size, from 15 to 25 to 27 member states. I will return to these political tensions in chapter two, the competing business interests in chapter three, and the geo-economics of the new member states in chapter four.

The Institutions of Narratives

Finally, narratives can also be codified through law, which is the topic of chapter five.¹⁷³ A legally binding agreement was the ultimate objective of the Energy Dialogue. A legal agreement would make the narrative of the Energy Dialogue's envisaged 'Energy Partnership' authoritative. But to do so, it would have to reconcile existing legal frameworks, which was not an altogether easy task. One example is the ECT, which was signed by both the EU and Russia in the 1990s, but was never ratified by the latter. It was thus authoritative in the EU, but not in Russia. As time progressed, the ECT became increasingly at odds with the EU's own set of directives, codified in the *acquis communautaire*, which to the EU Commission was more in the spirit of the internal

¹⁷² Michel Foucault, *The Will to Knowledge: The History of Sexuality, Volume One* (London: Penguin, 1979); Ludwig Wittgenstein, *Tractatus logico-philosophicus* (Madrid: Revista de Occidente, 1957), §5.6.

¹⁷³ John M. Conley and William M. O'Barr, *Rules versus Relationships, the Ethnography of Legal Discourse* (Chicago ; London: University of Chicago Press, 1990).

market than the intergovernmental ECT.¹⁷⁴ In 2009, Russia withdrew its signature from the ECT altogether. But instead new tensions would emerge over the EU's new directives in the Third Energy Package, which the Russians considered as outright protectionism. Legally, the Third Energy Package would become the single biggest obstacle against the envisaged energy partnership. Thus, the authority or persuasiveness of a narrative – even when this narrative is codified by law – depends on the heterologue of narratives of the dialogical relations into which it figures.

The Energy Heterologue

Figure 0.1 below is a brief illustration of the dialogical framework which informs this thesis. The two main axes, **time** (vertical, 'y') and **space** (horizontal, 'x'), together represent Bakhtin's **chronotope**, which forms the main precondition 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.'¹⁷⁵ Therefore, the figure below is an attempt to visualise this continuous tying and untying of narratives.

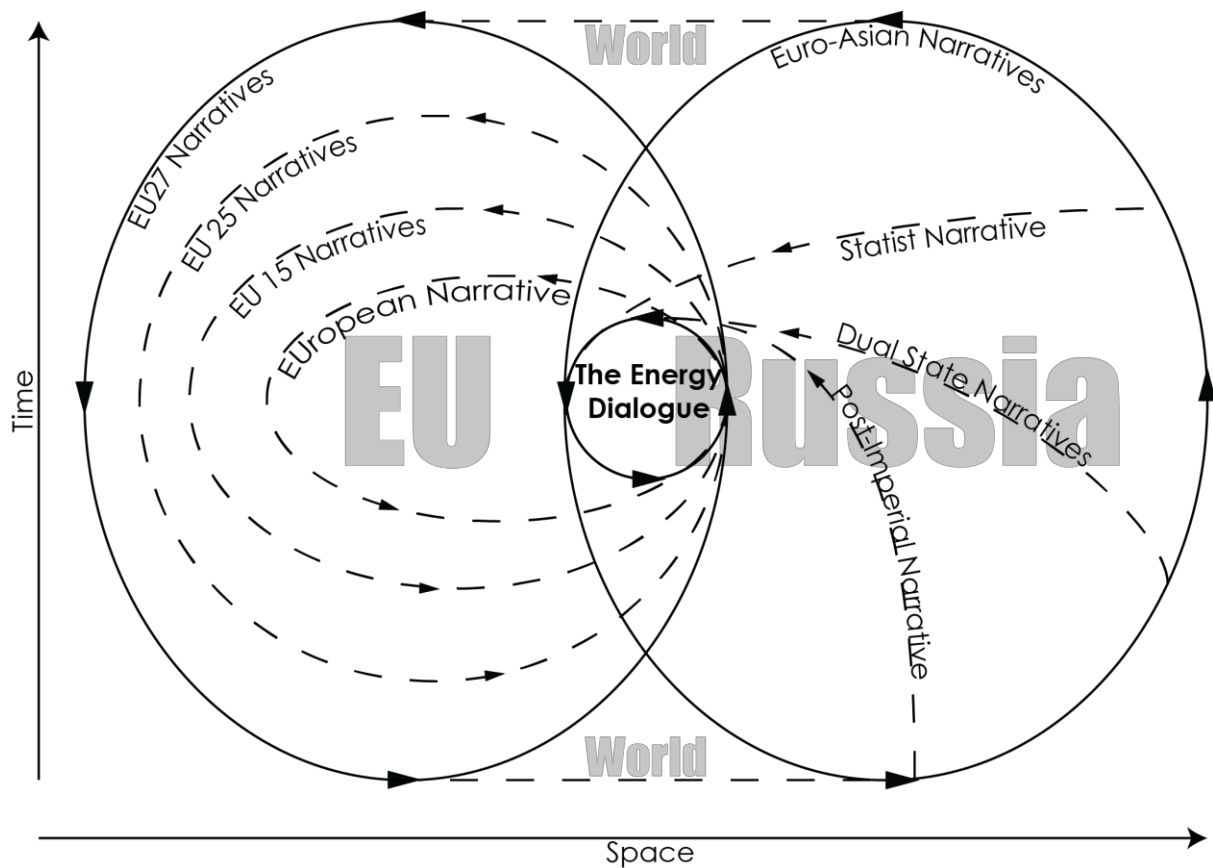
Together the time and space axes drive the three main narrative 'cogwheels', which represent Russia, the EU and the Energy Dialogue, in a continuous feedback loop of **centripetal** (tying) and **centrifugal** (untying) processes. Keeping in line with my understanding of dialogue as heterologue, I have further divided each both wheels into six subcategories, or narrative clusters: The '**EU15**' (later '**EU25**' & '**EU27**') and '**European**' narratives, and the '**Euro-Asian**', '**Statist**', '**Dual State**' and '**Post-Imperial**'

¹⁷⁴ Author's interview with Ismo Koskinen, Energy Counsellor at the EU Delegation to Russia, Moscow [Moscow, 15.02.12].

¹⁷⁵ Bakhtin, *The Dialogic Imagination, Four Essays*, 250.

narratives. I will introduce each of these clusters below. 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.

Figure 0.1 – The EU-Russia Energy Heterologue



Before I do so, however, it must be noted that the figure must 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 typical. Ideal types, as defined by Max Weber, are:

[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.¹⁷⁶

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.’¹⁷⁷ The ideal type is a practical tool, not an ontological image. Ideal types are intended to help us navigate the ‘infinite causal web’ of social reality.¹⁷⁸ In this respect, ideal types – as a way to represent an event or sequence of events – are themselves a form of narrative.¹⁷⁹ And narratives, by definition, are moving targets. Therefore, 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.¹⁸⁰ Hence, the causality I am invoking is located within my ideal typification, illustrated in Figure 0.1 above.

I will now introduce my six narrative clusters. Narratives are moving targets, and stratification of narratives is not an exact science. These narrative clusters are not exhaustive, nor are they without overlap – for instance the Euro-Asian and Statist narratives. For this reason, I have stippled the boundaries between the six clusters. I have done this in order to show their inherent fluidity. The point is to imagine their mutual boundaries as moving, and their relative ‘size’ changing under the influence of time and space.

¹⁷⁶ Max Weber, *Wissenschaft als Beruf*, 1917/1919 ; *Politik als Beruf*, 1919, Gesamtausgabe. Abteilung I, Schriften und Reden / Max Weber (Tübingen: J.C.B. Mohr (Paul Siebeck), 1992), 191.

¹⁷⁷ Ibid., 192-3.

¹⁷⁸ *Methodology of Social Sciences* (Somerset, N.J.: Transaction, 2011), XXX.

¹⁷⁹ 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).

¹⁸⁰ Patrick Thaddeus Jackson, *The Conduct of Inquiry in International Relations: Philosophy of Science and Its Implications for the Study of World Politics* (London: Routledge, 2011).

The EUropean Narrative

The first cluster is 'The EUropean Narrative'. The capitalisation of the letters 'EU' is intentional, as this is the narrative of the EU bureaucracy, and in particular the Commission. The 'EUropean Narrative' is the supranational, solidarist, pan-European narrative of an 'ever closer union' built on a shared European identity and common institutions. The roots of European integration extend back to the Roman era, through the Enlightenment and into the post-war years. Energy has always been central to the common EU narrative. The European Union sprung out of the ECSC of 1952, through which the former enemies France and Germany became allies. In subsequent years integration spilled over from energy to agriculture, to politics and eventually a monetary union. Likewise, the ECSC narrative was used for the Energy Dialogue, as I will show in chapter one. But when the ECSC analogy did not deliver, as I will show in chapters two and three, the focus turned away from integrating with Russia, to integrating against it by 'speaking with a common voice' towards Moscow.

The 'EUropean Narrative' cluster mainly describes the narratives of the actors within the European Commission – the EU's main executive – and its Directorates-General. Of particular importance is DG TREN, from which the idea for the Energy Dialogue and the 'Energy Partnership' first emerged (Directors-General, like Lamoureux, are administrative leaders, and report to commissioners, who are politically responsible). I have also included pan-European business organisations, such as Eurelectric, Eurogas, Europa and others. The European Court of Justice and the European Parliament only played indirect parts in my story, as part of the EU's judiciary and legislature, respectively. However, their importance would increase as the legal basis of the internal energy market evolved.

Keywords: Supranationalism, solidarism, liberalisation, integration, spill-overs, European Commission, top-down, Eurocrats.

The EU15 Narratives (later EU25 and EU27)

Complementing the 'EUropean Narrative' were the pluralist narratives of the EU's member states and energy companies. The member states had vastly different institutions and energy mixes. Among the original EU15, countries such as Germany and Italy would frequently bypass Brussels when deemed convenient. Rather than adhering to the official multilateral dialogue, these countries cultivated their own separate, bilateral energy dialogues with Russia. The mosaic became more intricate after the first expansion of the EU in 2004, when nine former members of the defunct eastern Communist bloc, including Poland and the Baltic states, joined the union (EU25 Narratives), and later in 2007 when Romania and Bulgaria acceded (EU27 Narratives).

Institutionally, this cluster is centred on the Council of Ministers (the Council, featuring the ministers of the member states' governments), and its highest body the European Council (featuring heads of state). Together they form both a legislative and executive body (the other part of the legislature is the European Parliament, with the Commission as the main executive, and the European Court of Justice and the European Court of Auditors as the judiciary).¹⁸¹ However, equally important were the activities at the national government level. In addition to this were the private boardrooms of the major European energy companies, many of which had close ties to their respective governments. To be sure, the Russo-European energy trade was not only, or even primarily, conducted by governments. Therefore, the 'EU15/25/27 Narratives' reveal

¹⁸¹ For more, see: Simon Hix and Bjørn Høyland, *The Political System of the European Union* (Basingstoke: Palgrave Macmillan, 2011), 8-9.

the true heterologue of the European Union, and the inherent difficulty of finding a 'common voice' for the Energy Dialogue.

Keywords: Pluralism, Council, sovereignty, bilateralism, intergovernmentalism, business to business, core versus periphery, big versus small, private versus public interest, bottom-up.

Russia's Euro-Asian Narratives

'Russia is before anything else a European country', said President Vladimir Putin at the launch of the Energy Dialogue in October 2000.¹⁸² Politically, economically, demographically and culturally this was very much true. Geographically, however, two-thirds of Russia is situated in Asia, hence Russia's European character has always been fraught with tension.¹⁸³ The official Russian coat of arms shows an eagle with one head facing west and the other facing east. It illustrates Russia's dual narrative as both a European and an Asian state – or a 'Eurasian' empire. However, instead of 'Eurasian Narratives' I have chosen 'Euro-Asian', as the former is a very specific political and intellectual tradition with clear nationalistic and xenophobic overtones.¹⁸⁴ Eurasianism is as such only an aspect of the Euro-Asian Narratives.

Nevertheless, there were competing views between among those in the Russian elite who wanted to pursue closer integration with the West and EU, and those who wanted Russia to seek cooperation with Russia's Asian neighbours, or to pursue the *via media* of Eurasia, built on strong integration with the ex-Soviet states of the Commonwealth of Independent States (CIS). To begin with, Putin was officially supportive of the pro EU camp. But as time progressed, energy prices rose and the

¹⁸² Agence France Presse, "Putin in Paris to Boost Russian Relations with EU," *Agence France Presse*, 31 October 2000.

¹⁸³ Iver B. Neumann, *Russia and the Idea of Europe* (London: Routledge, 1996).

¹⁸⁴ Aleksandr Dugin, *Misterii Evrazii* (Moscow: Arktogei, 1996).

promised results of the Energy Dialogue failed to materialise, Putin slowly tilted towards a more Eurosceptic view. But tensions between westernisers and Eurosceptics remained, and this narrative cluster denotes the heterologue in Russian energy politics, and Russian politics at large. It shows how time *and* space constitute narratives, which are never permanent, but always in flux.

Keywords: Westernisers, Eurosceptics, Eurasianists, Europe, Asia, identity, integration versus autonomy.

Russia's Statist Narrative

Next is the centripetal statist narrative. The primacy of the state in Russia traverses the east-west divide, and is a hallmark of liberals and so-called 'statists' alike, albeit to varying degrees. Russia has a thousand year history of authoritarianism, and the state would remain a strong actor after the fall of the one party Soviet Union. The state had lost its omnipotence under Yeltsin. But the youthful Vladimir Putin was determined to reverse this trend: 'For the Russians a strong state is not something is not an anomaly which should be got rid of. Quite the contrary, they see it as a source and guarantor of order and the initiator and main driving force of any change', Putin said shortly before assuming the presidency in 2000.¹⁸⁵

Russia is a semi-presidential state, which means it has both a president, which is head of state, and a prime minister, which is head of government (the legislature, the Federal Assembly, is bicameral and consists of the State Duma and the Federal Council, the lower and the upper houses, respectively). However, as mentioned earlier, Russia has been described as 'super presidential', given the considerable personal power of the

¹⁸⁵ Vladimir Putin, "Russia at the Turn of the Millennium," (Moscow 1999).

president.¹⁸⁶ Under Putin the Russian state would reassert its pivotal role over both Russian society and the Russian energy sector. Liberalisation in the EU was complemented by statism in Russia. Politically, the top heavy, hypercentralised Russian state would prove a tough match for the decentralised, horizontal EU bureaucracy. In the EU, decisions were made by consensus; in Russia they were made by fiat. However, there were limits to state control, and both actors had to tackle their inherent heterologue.

Keywords: Sovereignty, power vertical, paternalism, authority, control, loyalty, state control of the economy.

Russia's Dual State Narratives

Centrifugal to the statist narrative was the dual state narrative. In Russia it was difficult to discern where the official ended and the unofficial began. Russia may have been 'super-presidential'. But in Putin's Russia, personal power was as important as institutional power, if not more so. Even as prime minister after 2008, Putin was still considered to be the most powerful man in Russia. Everything below him was opaque for the outsider (and indeed for many of the insiders, too). 'Who calls the shots? We don't really know', as one EU interlocutor in the Energy Dialogue told me.¹⁸⁷ Russia's state-owned energy companies were part-controlled by personal 'shadow networks' of power. These networks extended into the very heart of government, a fact noticed by Putin himself.¹⁸⁸

¹⁸⁶ Michael Steven Fish, *Democracy Derailed in Russia, the Failure of Open Politics* (Cambridge: Cambridge University Press, 2005), 224.

¹⁸⁷ Author's interview with EU National Official B [Phone, 18.10.12].

¹⁸⁸ Vladimir Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii," (Moscow: President of the Russian Federation, 2000).

One scholar has termed this patron-client elite politics *sistema*, defined as: ‘the workings of power networks and methods of informal governance applied by political elites, intertwined with the existing formal institutional structures.’¹⁸⁹ Others have used the term ‘network state’ or the ‘Network Directorate’, to denote the personal bonds traversing the formal institutional boundaries.¹⁹⁰ Yet another scholar has described this as the ‘Dual State’.¹⁹¹ On the one hand was the formal constitutional state, whereas on the other hand was the opaque “bureaucratic regime’, where informal networks and practices ruled supreme. The dual state is also the term I will use.

One could question to what extent the dual-state narrative is in fact a narrative on par with the others I have mentioned, rather than a condition or precondition. The short answer is that it *is* a narrative, and that narratives condition and precondition other narratives in the dialogical time-space. To explain: The dual state denotes the ‘unwritten rules’ of Russian politics and energy politics.¹⁹² These informal narratives existed alongside the formal or ‘official’ narratives – sometimes affirming these, yet often undermining them – dialogically. Despite Putin’s power vertical, there were often multiple, conflicting narratives emanating from Moscow, both inside and outside the Energy Dialogue. The dual state narratives were as such both centrifugal and centripetal to other narratives, just like the other narratives were centrifugal and centripetal to the dual-state narratives. Narratives can be manifested tacitly through practice. They may also be performed in secret. While it is indeed difficult to verify informal narratives, as they are ‘unwritten’, and hence ‘invisible’, I will nonetheless attempt a representation of

¹⁸⁹ Alena Ledeneva, *Can Russia Modernise? Sistema, Power Networks and Informal Governance* (Cambridge: Cambridge University Press, 2013).

¹⁹⁰ Vadim Kononenko and Arkadii Moshes, *Russia As a Network State, What Works in Russia When State Institutions Do Not?* (Basingstoke: Palgrave Macmillan, 2011).

¹⁹¹ Richard Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession* (Cambridge: Cambridge University Press, 2011).

¹⁹² Alena Ledeneva, *Unwritten rules: How Russia Really Works* (Centre for European Reform, 2001).

these as they relate to the history of the Energy Dialogue, through state companies and weak administrative bodies, permeated by warring political and oligarchal factions.

Keywords: Informality, networks, factionalism, dual state, constitutional state, bureaucratic regime, 'sistema', corruption, patronage.

Russia's Post-Imperial Narrative

Finally, as Vladimir Putin said in 2000, Russia 'was and will remain a great power.'¹⁹³ Russia's historical narrative of itself as a great Eurasian power is so ingrained in the collective psyche that there is even a word for it in Russian, *derzhavnost*, which loosely translates into 'great powerness' (another translation is 'stateness', which goes to show how interrelated great power and state power are in Russia). Russia was not just the 'Other' to the European 'Self', or the periphery of the European centre. Russia was a centripetal pole of its own. It was an empire, and during Soviet times energy was part and parcel of its imperial narrative. The vast oil and gas pipeline grid stretching across Russia, the former Soviet Union and eastern bloc, was a physical manifestation of the command economy pursued under the Soviet era. This included important transit states such as Ukraine and Belarus, but also former Soviet and Communist countries like Poland and the Baltic States, which joined the EU and the Energy Dialogue in 2004. To the Russians the world was multipolar, and Russia's great power ambition, but also the weight of empire, would both condition and constrain on Russian external energy policy, including the Energy Dialogue.

Keywords: Post-Imperialism, sphere of influence, multipolarity, control, infrastructure & pipelines, Soviet legacy & economic and political ties.

¹⁹³ Putin, "Russia at the Turn of the Millennium."

Methodology, Methods and Sources

This dissertation relies on narrative analysis. Narrative analysis in social science means reading social processes *as* text, without making the ontological claim that everything *is* text.¹⁹⁴ In my section on Bakhtin, I showed how narratives related to politics, economics, geo-economics and legal institutions. Indeed, in discourse analysis, 'both text and context need systematic analysis.'¹⁹⁵ I will therefore address both. Narrative analysis can be done in three steps: delineation, representation and stratification.¹⁹⁶

Delineation

As for delineation, this is of course difficult, as the delineation of a narratives is in fact part of narrative practice.¹⁹⁷ Choosing one delineation means challenging another. For example, 'Europe' has a myriad of different meanings to different groups of people.¹⁹⁸ Europe looks very different from Moscow than from Brussels. Likewise, the Commission's vision of a 'Unified Europe' was very different from the 'Greater Europe' envisaged by many Russians, as I will show in the next chapter. It is nevertheless possible to approximate the multiple narratives of the Energy Dialogue, even though identifying fixed or isolated narratives is more tricky. Thus, rather than name individual narratives, I have identified narrative *clusters*.

¹⁹⁴ Iver B. Neumann, *Mening, materialitet, makt, en innføring i diskursanalyse* (Bergen: Fagbokforlaget, 2001), 51.

¹⁹⁵ Thomas van Dijk, "Discourse and Society: A New Journal for a New Research Focus," *Discourse and Society* 1, no. 1 (1990): 8, 14.

¹⁹⁶ Neumann, *Mening, materialitet, makt, en innføring i diskursanalyse*, 50-79. Narratives, discourse and narrative discourse are often used interchangeably, see: Gerald Genette, *Narrative Discourse* (Oxford: Blackwell, 1980).

¹⁹⁷ Neumann, *Mening, materialitet, makt, en innføring i diskursanalyse*, 56.

¹⁹⁸ For a thorough discussion of the myriad ways to define and represent Europe, see pp. 1-46 in Norman Davies, *Europe a History* (London: Pimlico, 1997).

A second concern regards which narratives to include and which to leave out. On the one hand, the Energy Dialogue can be perceived as a crucial case of Russo-EU energy relations, or indeed of Russo-EU relations as such, given the importance of energy for the wider relationship.¹⁹⁹ On the other hand, the Energy Dialogue is itself a self-contained exercise. In this respect, it is not a case *of* something. Although it is a stated premise of this dissertation that in order to understand the Energy Dialogue, one has to understand and explain the wider Russo-EU relationship, and vice-versa, my focus remains fixed on the Energy Dialogue. It is of course also possible to focus on crucial actors such as Germany, the UK and the Baltic states, and their respective relationships with Russia. But the aim of this thesis is to understand explain why and how the Energy Dialogue failed. Therefore, rather than identify the specific 'crucial case' narrative, I want to reveal the full gamut of these narratives in their sheer diversity, plasticity and incompatibility. However, this still requires me to reveal or 'operationalise' these narratives in some way, which leads me to the representation of narratives.²⁰⁰

Representation

I have defined narratives as the representation of an event or sequence of events. But how can these narratives be represented in the context of the Energy Dialogue? Textual sources are important when attempting to represent narratives. This dissertation is heavily reliant on primary sources, such as official documents, but also textual accounts produced by Russian and EU officials. In addition to this are op-eds, speeches and interviews with officials, found in books, magazines and online. All of this will help me to recreate the multiple narratives of the EU-Russia Energy Dialogue. The

¹⁹⁹ Robert K. Yin, *Case Study Research : Design and Methods* (London: SAGE, 2009).

²⁰⁰ Jonathan Potter and Margaret Wetherell, "Social Representations, Discourse Analysis, and Racism," in *The Psychology of the Social*, ed. Uwe Flick (Cambridge: Cambridge University Press, 1998).

problem, however, is that the material on the Energy Dialogue itself is limited. And the material that does exist often covers up disagreements, rather than revealing them. The main official sources on the Energy Dialogue are the annual progress reports. But these are written in an anodyne diplomatic jargon, and are often as interesting for what they leave out than what they include. Certainly, with this knowledge in hand, official reports can still prove useful. The fact that the January 2006 Ukraine crisis was not mentioned in the 2006-report reveals the contentious nature of this pivotal incident.²⁰¹ No shared representation, or indeed narrative, of this incident was possible.

I have also assembled complete attendance lists, which show who were present in the dialogue, and in which groups. This account also draws on minutes from meetings in the Energy Dialogue, although they are quite limited, both in availability and in content. To make up for this, so as to balance the representations my narrative clusters, I need additional information. The main source here is interviews. The interviewees have been selected non-randomly, with the intention to balance the number of EU and Russian interlocutors. The interviews were conducted in Oslo, London, Oxford, Berlin, Brussels and Moscow, and included officials from politics and business, on both sides, each with a connection to the Energy Dialogue. The interviews have chiefly been done in person, and most of them have been recorded, albeit with a handful of exceptions, specified in the list of interviews at the end of this account. The interviews ranged from 15 minutes to several hours. They were semi-structured, meaning they were based on a standard questionnaire with a few set questions, but leaving considerable room for improvisation. Due to the contentious nature of the Energy Dialogue, and the fact that it is still ongoing, many of the interviews have been anonymised, at the personal request of the interviewee.

²⁰¹ EU-Russia Energy Dialogue, "Seventh Progress Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2006).

Interviews are a good source because most case studies are about ‘human affairs or behavioural events.’²⁰² Perceptions matter, and the Energy Dialogue is no exception. A key benefit of using interviews here is that they reveal the unarticulated narratives of the Energy Dialogue. These narratives are not reflected in the official progress reports, which several officials have described as lowest common denominators.²⁰³ For example, it was through interviews that I was told about DG TREN’s ambition to build a new Coal and Steel Community with Russia. The ECSC comparison has never been public, but was well known among the early participants in the Energy Dialogue. This is a clear advantage of the use of interviews as an additional data source. Moreover, interviews provide further detail to already established facts.

Of course, there are also weaknesses with interviews. Key challenges when using interview data are response bias, meaning the respondent anticipated the way the interviewer ‘wants’ he or she to answer and responds accordingly. Moreover, respondents may suffer from poor recall, meaning they do not remember or they filter their memory through events that occurred *ex post facto*, or after the fact.²⁰⁴ The number of interviews is intended to weigh up for this. And at several times did I ask the interviewees to comment on each other, so as to corroborate my findings. Also, in the same way that I have used interviews as a corrective to my written source material, so did I use my written sources as a corrective to my interviews.

Yet another weakness of doing interviews arises from poorly articulated questions.²⁰⁵ However, I do have several years of practical interview experience from my time working as a journalist. This has enabled me a good ‘feel’ for the interview

²⁰² Yin, *Case Study Research : Design and Methods*, 108.

²⁰³ Author’s interviews with Stanislav Zhiznin; EU Official A; EU Official B [Brussels, 11.09.12]; Russian Official A.

²⁰⁴ Yin, *Case Study Research : Design and Methods*, 102, 08-09.

²⁰⁵ Ibid.

situation, and a sense of how to pose effective questions, with minimal misunderstanding. However, a degree of miscomprehension is perhaps inevitable, again underlining the importance of corroboration. Finally, another challenge of doing interviews is availability and resources. Interviews are time consuming, both to conduct and to transcribe. Many past and present officials of the Energy Dialogue were unavailable, and even if they were, it would mean that I would have to do hundreds of interviews. This in itself would be a task of Stakhanovite dimensions. I therefore need additional (secondary) sources. This leads me to the third and final step of my analysis, which is the stratification of narratives.

Stratification

Narrative stratification is an ongoing process, because narratives are always in flux. This does not mean that narratives do not change at different paces, and that some are more 'fixed' than others. Moreover, narratives are not disconnected from materiality, even though they constitute our understanding of that materiality. As Foucault underlined, narratives operate in a 'field of exteriority'.²⁰⁶ Into this field of exteriority he listed institutions, economic and social processes, among other things. Likewise, in the section on Bakhtin above I showed how changing economic, institutional, geo-economic and political processes have dialogically influenced the narratives of Energy Dialogue. Narratives analysis, as already mentioned, must thus not confine itself to textual analysis. It needs to address context. I have said that narratives are often enacted through practice, by doing, which requires me to investigate the actions of the EU and Russia, not just texts produced or speeches made. Since narratives are temporal, this requires me to trace their roots through historical accounts, but also the near history of

²⁰⁶ Michel Foucault, *The Archaeology of Knowledge* (London: Tavistock Publications, 1972).

2000 through 2012. This calls for a triangulation of primary sources, such as official documents and interviews, but also secondary sources, including existing academic work. With respect to the secondary sources, this account is heavily reliant on newspaper clippings, which are useful to recreate events, and the unfolding of narratives, on both the EU and Russians sides.

In sum, narrative analysis bears many similarities with process tracing, which includes data triangulation through in-depth interviews, primary and secondary source material. However, I have refrained from labelling my approach as process tracing, as I am not making claims to strict 'causality' or the identification of underlying 'mechanisms', as oft invoked by proponents of this approach.²⁰⁷ Moreover, as one prominent adherent of process tracing, Jeffrey Checkel, admitted, '[p]rocess tracing is strong on questions of how and interactions; it is much weaker at establishing structural context.'²⁰⁸ It is to assist in identifying this context, so as to help me answer the *why* question and not just the *how* question, that I have invoked Bakhtin's concept of dialogue. This allows me to connect the multiple narratives of the Energy Dialogue to its myriad dialogical relationships or 'dialogues', including the political dialogue, the economic dialogue, the geo-economic dialogue and the legal dialogue. But rather than disclosing underlying ontological mechanisms, I am identifying ideal typical mechanisms.²⁰⁹ Therefore, the causality I am invoking is located within my ideal typification of narrative clusters, to be further defined in the next chapter. It is thus possible to invoke 'structural context' within the framework of my ideal types, *at the*

²⁰⁷ Jeffrey Checkel, "It's the Process, Stupid! Process Tracing in the Study of European and International Politics," *ARENA Working Paper* 26(2005): 6; Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences* (Cambridge, MA: MIT Press, 2005).

²⁰⁸ Checkel, "It's the Process, Stupid! Process Tracing in the Study of European and International Politics," 6.

²⁰⁹ For a good account of such ideal typical mechanisms, see Charles Tilly, "How Empires End," in *After Empire: Multiethnic Societies and Nation-Building*, ed. Karen Barkey and Mark von Hagen (Boulder, CO: Westview, 1997).

same time as I open up for contingencies, innovations – thus allowing agency – including contingent narratives. This is possible because ideal types, by definition, are practical concepts, and not a “presuppositionless” copy of “objective” facts.’²¹⁰ But then again, neither are narratives.

The Structure of the Thesis – Expanded

I have now explained Bakhtin’s dialogue, narratives and ideal types. The next step is to apply my framework on the Energy Dialogue. The literature review revealed five different approaches to explain its failure – ideational, political, economic, geo-economic and legal. This thesis points to a lack of a common narrative to explain *how* the EU-Russia Energy Dialogue failed to define and create a legally binding Energy Partnership. However, in order to answer *why* the dialogue failed, I need to display the interrelationship between all of these approaches. Therefore, the individual chapters will cover narratives, political interests, economic and business interests and events, geo-economics and legal institutions, respectively. In each of these chapters, I will apply my ideal-typical narrative clusters.

To reflect the dialogical relationship between the clusters and the chapters, chapter one is named ‘The Narrative Dialogue’. This chapter will cover historical background of the Energy Dialogue, in part to establish the ‘baseline narratives’ of the dialogue when it began in 2000, but also to elaborate on the narrative clusters introduced above. Chapter two 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 three will cover ‘The Business Dialogue’, including its

²¹⁰ Weber, *Wissenschaft als Beruf*, 1917/1919 ; *Politik als Beruf*, 1919, 192-3.

various economic actors and interest, but also the economic imperatives of the Russo-EU energy trade. Chapter four will discuss ‘The Geo-Economic Dialogue’, including the new dynamics of the EU post-expansion and the pivotal role of third-countries such as Ukraine. Finally, chapter five denotes ‘The Legal Dialogue’, where I shall discuss the institutional mismatch of the Energy Dialogue, and the latters’ failure to secure a legally binding energy partnership.

In order to underline the spatio-temporality of my dialogical framework, the chapters will focus on slightly different periods of the dialogue. Besides elaborating a bit further on my theoretical approach, including said narrative clusters, chapter one will deal primarily with historical background. Chapter two will deal with the first years of the Energy Dialogue, chapters three and four with the intermediary years, and chapter five the years up until 2012.

There are four reasons why I have chosen this particular structure, both with respect to the ordering of thematic chapters, and the overarching chronology (rather than separate chronologies within each thematic chapter). The first reason is to emphasise the primacy of narratives, embodied by my six narrative clusters. Narratives are this accounts’ analytical point of departure, and the nexus through which my argument flows, for reasons I have explained in this chapter and the introduction. The second reason is events. In this author’s view, politics were more significant in the beginning, due to a weaker regulatory environment in both the EU and Russia. The major business disputes and geo-economic issues largely occurred in the intermediary years (e.g. the the Yukos-trial, the EU-expansion and the Ukraine crises), while legal issues became more prominent in the end, post 2009, after the passing of the Lisbon Treaty and Third Energy Package in the EU. The third reason is simply to avoid unnecessary repetition, and thus allow greater detail in each individual chapter. While

detail may sometimes obfuscate the bigger picture, often the devil is in the details. For me the bigger picture is nevertheless found in the narratives, and more specifically my six narrative clusters, as these interact dialogically with politics, business interests, geo-economics and legal institutions.

The fourth and final reason is methodological. The thesis, like its argument, begins with narratives and ends with legal frameworks, by way of politics, economics and geo-economics. However, just as it is possible to argue that politics cause legal institutions, so is it certainly possible to argue that legal institutions cause politics. It is a chicken-and-egg-conundrum, and thus impossible to resolve completely. In this respect, it becomes a question of emphasis and judgement. Otherwise one would soon find oneself tangled up in the 'infinite causal web' of social reality, as explained in the section on ideal types above. Ideal types are created on the basis of the assumed characteristics of a phenomenon, although they never account for every single feature of each particular case. Nor are they intended to. In this sense, the thematic chapters of this thesis, and their ordering, are also ideal typical. However, in order to mitigate possible confusion, the narrative chapter (chapter one) doubles as a historical chapter, thus providing a comprehensive backdrop on all political, business, geo-economic *and* legal issues – the 'baseline' narratives, as it were. Therefore, just as the legal chapter is never de-politicised, so is the politics chapter never completely de-legalised. All present and future narratives contain past narratives, including chapters, and this account is no exception. I am *not* saying that there were no narratives in the end, or that there were not any legal institutions in the beginning. Nor are the individual chapters wholly confined to their designated time periods. Nonetheless, the structure of the thesis is made thus, for the four aforementioned reasons, so as to effectively narrate the

unfolding story of the EU-Russia Energy Dialogue, its failure to define a common narrative, and hence its failure to create and define a legally binding energy partnership.

Chapter One: The Narrative Dialogue

(1237-2000)

In the previous chapter I introduced my six narrative clusters – the ‘EUropean Narrative’, the ‘EU15/25/27 Narratives’, Russia’s ‘Euro-Asian Narrative’, the ‘Statist Narrative’, the ‘Dual State Narrative’ and the ‘Post-Imperial Narrative’. This thesis is chronological, as narratives are contingent upon time and space, the chronotope. Therefore, this chapter will deal with the baseline narratives, covering the historical context of the Energy Dialogue, and the immediate period surrounding its launch in 2000.

This 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. But the ultimate – albeit unofficial – objective of the plan was to form a new ECSC with Russia, with energy cooperation leading to a wider political partnership. However, to do so, the Commission had to overcome the fact 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 fifteen 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.

Nevertheless, Prodi secretly coalesced with France and Germany, who agreed to move forward with the Energy Dialogue, on the condition that it include the controversial ECT as part of the negotiations.

Third, shifting focus to Russia and its 'Euro-Asian Narrative', I shall briefly trace the roots of Russia's complex relationship with Europe, from Mongol rule in 1237 until 2000. 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 European Union, as envisaged by the Commission officials behind the Energy Dialogue, Putin was calling for a 'greater' Europe between two equal partners. This fundamental narrative gap would continue to plague the Energy Dialogue in future. 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. In the turbulent transition from Communism, the Kremlin had lost control over much of the Russian energy sector. However, 'fraternal' gas and oil pipelines remained scattered throughout the former Soviet Union and Eastern Bloc. Both of these factors would prove a challenge for Moscow as the Energy Dialogue moved ahead.

Meanwhile, Russia's 'Statist Narrative' placed a far greater emphasis on the role of the state than the liberal Commission. In Russia 'Plan Prodi', as it was called, would be reserved for state owned companies such as Gazprom and Rosneft. But in Russia the state was split in two. Finally, therefore, I will conclude with the 'Dual State Narratives', 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. Thus, beyond state directed investment, Russia did not really have a narrative for the Energy Dialogue. The writing of the official Russian energy strategy

was mired in bureaucratic and political turmoil. 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 'internally persuasive' and 'externally authoritative' narratives. 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 internally persuasive and authoritative. When the idea of the EU-Russia Energy Dialogue first launched, parallels were drawn with the ECSC.²¹¹ 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.²¹² The plan was to make future conflict between France and Germany 'not merely unthinkable, but materially impossible', according to the Schuman Declaration of May 1950. The declaration was co-authored by the diplomat Jean Monnet, and delivered by French foreign minister Robert Schuman, and led to the creation of the ECSC.²¹³ European unification was not simply an economic venture. It marked the

²¹¹ Author's interviews with Christian Cleutinx; EU Official A

²¹² Paul Reuter et al., "The Schuman Declaration - 9 May 1950," (Brussels: European Union, 2012).

²¹³ Ibid.

reconstitution and reintegration of the former Nazi Germany as part of the Western world.²¹⁴

The Energy Dialogue would be no different, according to Francois Lamoureux, the Director-General for Transport and Energy 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 European Union.²¹⁵ The ECSC analogy was never uttered in public, but was well known among the early participants of the Energy Dialogue.²¹⁶ 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.'²¹⁷ 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.²¹⁸ Lamoureux was a respected mandarin and staunch federalist, who had served under former Commission President Jacques Delors.²¹⁹ He had co-authored the Single European Act and later the Maastricht Treaty, which established the European Union. During the 1990s he was a core part of DG Enlargement, which paved the way for the 2004 expansion of the European Union into Eastern Europe. And in 2000, he had set his eyes on Russia. The Energy Dialogue 'aims at creating a united Europe', Lamoureux would later say.²²⁰ As with the ECSC, it would be a united Europe built on energy.

²¹⁴ Patrick Thaddeus Jackson, *Civilizing the Enemy : German Reconstruction and the Invention of the West* (Ann Arbor, MI: University of Michigan Press, 2006).

²¹⁵ Author's interview with Christian Cleutinx.

²¹⁶ Author's interviews with Stanislav Zhiznin; Christian Cleutinx.

²¹⁷ European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission - the EU-Russia Energy Dialogue," 2.

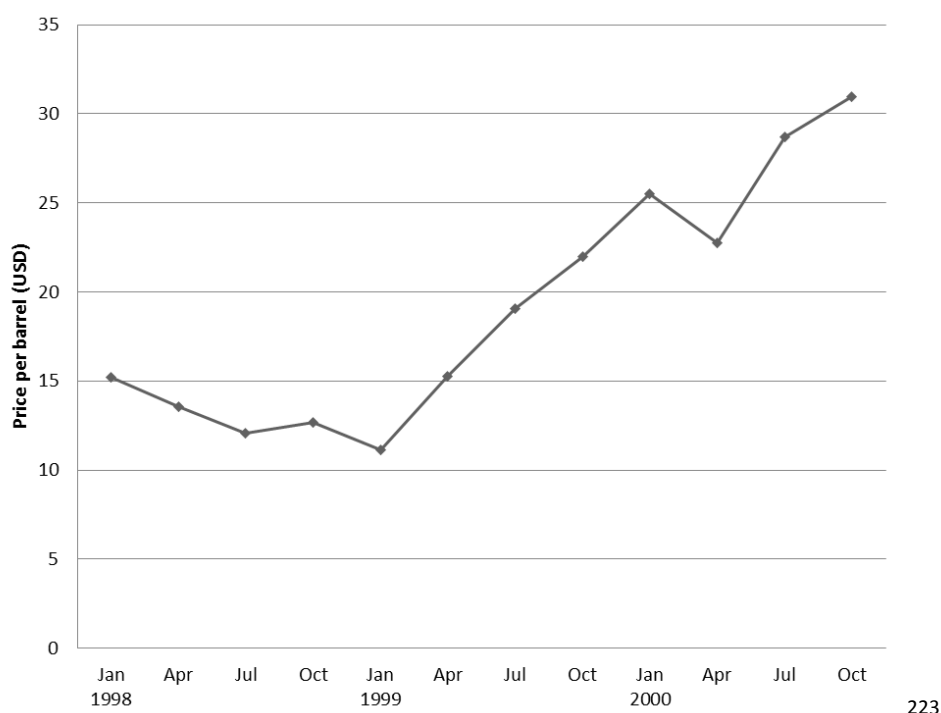
²¹⁸ Author's interviews with Christian Cleutinx; EU Official A

²¹⁹ Pascal Lamy, "Homme aux convictions profondes il fut l'un des bâtisseurs de l'Union européenne," *Le Monde*, 29 August 2006.

²²⁰ RIA Novosti, "Russian-EU Energy Dialogue to Aim at Creating United Europe," *RIA Novosti*, 17 October 2003.

Lamoureux was widely renowned for his brilliance, but also his arrogance.²²¹ He had recently been embroiled in a string of corruption charges, from his time working in the scandal-ridden Santer Commission (1995-1999). The projects concerned initiatives in Central and Eastern Europe, including a nuclear safety project in the former Soviet Union.²²² No direct charges were brought towards Lamoureux himself, but the issue contributed to the collective resignation of Jacques Santer and the entire College of Commissioners. Lamoureux would remain a controversial figure among the opponents of a European 'superstate', and above all the British, as I will show in the next chapter on the Political Dialogue.

Figure 1.1 – Average World Oil Prices, January 1998 – October 2000



²²¹ Author's interviews with Christian Cleutin; EU Official A

²²² Frankfurter Allgemeine Zeitung, "Korruptionsaffären der Kommission," *Frankfurter Allgemeine Zeitung*, 17 March 1999.

²²³ Compiled of data from U.S. Energy Information Administration, "Spot Prices," U.S. Energy Information Administration, http://www.eia.gov/dnav/pet/pet_pri_spt_s1_m.htm.

The 'Prodi Plan'

Lamoureux was a grey eminence who preferred to operate in the background. Hence, it would be Romano Prodi, not Lamoureux, who would be the figurehead of the initiative. Thus, in its early stages the Energy Dialogue would become known as the 'Prodi Plan'. The timing of the initiative was not coincidental. September 2000 marked a ten-year peak in world oil prices (Figure 1.1).

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.²²⁴ Brussels therefore needed to secure its supplies of hydrocarbons, and above all oil.

Figure 1.2 – The EU15 and EU25's Oil Consumption and Imports in 2000 (in Million Tonnes of Oil)

	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	544,2	232,9	76,9	14,1	13,1
EU25	633,0	585,0	233,5	109,2	17,25	17,3 ²²⁵

²²⁴ European Commission, "Green Paper, towards a European Strategy for the Security of Energy Supply," (Brussels: European Commission, 2000), 2.

²²⁵ Compiled of data from "Eurostat," European Commission, <http://epp.eurostat.ec.europa.eu/>.

In order to lessen the EU's dependency on the volatile Middle Eastern countries, Prodi and Lamoureux set their eyes on Russia, which was already one of the EU's biggest oil suppliers (Figure 1.2). Prodi announced that the EU was prepared to *double* its gas imports, and further increase its oil imports from Russia over the next 20 years.²²⁶ 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 noted.²²⁷ Soviet gas exports 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 the capitalist European Economic Community.

Energy, and particularly natural gas, created a form of 'hidden integration' between western European countries and the world beyond.²²⁸ 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, which becomes all the more apparent if one considers the EU's foundational documents for the Energy Dialogue. The PCA of 1994 would provide the mandate for negotiations between the EU

²²⁶ Anatolii Khodorovskii and Iuliia Bushueva, "Plan Prodi," *Vedomosti*, 3 October 2000.

²²⁷ European Commission, "Green Paper, towards a European Strategy for the Security of Energy Supply," 44.

²²⁸ Per Högselius, *Red Gas: Russia and the Origins of European Energy Dependence* (London: Palgrave MacMillan, 2013), 2.

and Russia.²²⁹ As per the PCA 'the full implementation of partnership presupposes the continuation and accomplishment of Russia's political and economic reforms', which included consolidation of democracy, respect for human rights and the transition into a market economy.²³⁰ Moreover, 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.²³¹

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 2000.²³² 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.'²³³ 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.'²³⁴ 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

²²⁹ European Union and Russian Federation, "Agreement on Partnership and Cooperation," (Brussels: Official Journal of the European Communities, 1994).

²³⁰ Ibid., 2-3.

²³¹ European Union, "Council Regulation (EC, Euratom) No 99/2000 of 29 December 1999," (Brussels: Official Journal of the European Communities, 1999), 2.

²³² 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).

²³³ "Common Strategy of the European Union of 4 June 1999 on Russia," 1.

²³⁴ Ibid., 3.

standards.'²³⁵ 'European', in this respect, meant EU models 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.²³⁶

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.²³⁷ From poets such as Victor Hugo to political leaders like Winston Churchill, political integration of Europe has been a long-standing leitmotif in European political discourse. But the course of European integration has been a source of dispute, even among its supporters within the EU institutions in Brussels and elsewhere.

Indeed, 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 Francois Lamoureux at DG TREN. But 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,

²³⁵ European Commission, "Country Strategy Paper 2002-2006, National Indicative Programme 2002-2003, Russian Federation," (Brussels: European Commission, 2001), 16., my emphasis

²³⁶ Author's interviews with Christian Cleutinx; EU Official A

²³⁷ Walter Scheidel, *Rome and China, Comparative Perspectives on Ancient World Empires* (Oxford: Oxford University Press, 2009).

something that would have profound consequences for the course of the Energy Dialogue, as I will show in later chapters.

The EU15 Narratives

But nowhere did the ‘EUropean Narrative’ – or narratives – meet more opposition than from the EU’s fifteen 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. At the forefront were major powers like Germany, Italy, the UK and France. The inclusion of France could seem strange, as the EU-Russia Energy Dialogue was declared at the EU-Russia Summit in Paris, by French president Jacques Chirac, who held the helm at the rotating presidency of the Council. Moreover, the man behind the Energy Dialogue, Francois Lamoureux, was himself a Frenchman.

But Lamoureux had been a ‘Eurocrat’ since the 70s. And he was not nominated by Chirac to the Energy Dialogue, but by Romano Prodi, on behalf of the EU Commission.²³⁸ 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. But 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 a term 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

²³⁸ Author’s interview with Christian Cleutinix.

manifesto, 'The Call of Cochin' (*L'appel de Cochin*).²³⁹ 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 importance for the course of the Energy Dialogue in its early stages. D'Estaing would later serve as an 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 European Union. However, Prodi and Lamoureux felt that d'Estaing's draft did too little. Thus 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.²⁴⁰

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, a point to which I will return in chapter five. 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 twelve countries, eight of which were from the former Soviet Bloc.²⁴¹ 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

²³⁹ Jacques Chirac, "L'appel de Cochin," (1978).

²⁴⁰ European Commission, "Contribution to a Preliminary Draft Constitution of the European Union, Working Document," (Brussels: European Commission, 2002).

²⁴¹ European Council, "Helsinki European Council 10 and 11 December Presidency Conclusions," (Brussels: European Council, 1999).

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.'²⁴² 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 Council in Nice, in December 2000. But as so often in the history of the European Union, 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.'²⁴³

The expansion-cum-constitutional debate began in January 2000, with an interview with Jacques Delors, the former Commission President and Lamoureux's old boss. But 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 European Union into a federation of nation states, led on by a vanguard of countries pushing the integrative agenda.²⁴⁴

Delors' calls were echoed up by a number of prominent European politicians and experts, including Chirac's personal adviser,²⁴⁵ and Joschka Fischer, Germany's Foreign Minister.²⁴⁶ In June, three days before assuming the presidency of the European Union,

²⁴² 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).

²⁴³ Valéry Giscard d'Estaing, "Introductory Speech by President V. Giscard d'Estaing to the Convention on the Future of Europe," (Brussels: European Convention, 2002).

²⁴⁴ Le Monde, "Jacques Delors critique la stratégie d'élargissement de l'Union," *Le Monde*, 19 January 2000.

²⁴⁵ 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.

²⁴⁶ Joschka Fischer, "Vom Staatenverbund zur Föderation - Gedanken über die Finalität der europäischen Integration," *Die Zeit*, 12 May 2000.

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,²⁴⁷ and received a standing ovation by the Bundestag.²⁴⁸ Chirac did not mention the Commission a single time. In September Gerhard Schröder, together with his Italian counterpart Prime Minister Giuliano Amato, joined the chorus. Integration required 'the leadership of a group', a group to which the founding members Italy and Germany, together with France, 'will always belong'.²⁴⁹ Integration would be driven by national interests, and in particular *their* interests.

The EU's Missing Energy Policy

Shortly after the launch of the IGC, in March 2000, the so-called 'Lisbon Process' was launched by the European Council. Its goal was no less than to make 'Europe, by 2010, the most competitive and the most dynamic knowledge-based economy in the world.'²⁵⁰ 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,²⁵¹ 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

²⁴⁷ Jacques Chirac, "Discours prononcé par Monsieur Jacques Chirac devant le Bundestag Allemand," (Berlin: Deutscher Bundestag, 2000).

²⁴⁸ BBC, "Chirac Pushes Two-Speed Europe," *BBC*, 27 June 2000.

²⁴⁹ Gerhard Schröder and Giuliano Amato, "La Porta stretta della Grande Europa," *La Repubblica*, 21 September 2000; "Weil es uns Ernst ist mit der Zukunft Europas," *Frankfurter Allgemeine Zeitung*, 21 September 2000.

²⁵⁰ European Council, "Lisbon European Council 23 and 24 March 2000, Presidency Conclusions," (Lisbon: European Council, 2000).

²⁵¹ European Commission, "Green Paper, towards a European Strategy for the Security of Energy Supply," 88.

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 quite 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, moreover, remained firmly in the hands of the member states, with decisions made on consensus, and the Commission limited to an associate role.²⁵² 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.²⁵³ 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.²⁵⁴

This does not mean that nothing was happening on energy. 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. But the provisions were weak, and 'no more than general principles providing for a framework, the detailed

²⁵² European Communities, "The Single European Act," (Luxembourg: The European Communities, 1986), see Articles 8a and 30.

²⁵³ "The Maastricht Treaty," (Maastricht: The European Communities, 1992), see Articles 130s, 228 and 38.

²⁵⁴ European Union, "Treaty of Amsterdam," (Amsterdam: The European Union, 1997), see Article 228.

implementation of which should be left to member states.'²⁵⁵ Moreover, the directives were focused on the internal market, not 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 ECT.²⁵⁶ However, it was at heart an intergovernmental agreement for cross-border transit between 51 states, including but not limited to the EU. It was not a proper framework for trade and investment. Moreover, Russia had signed but so far not ratified the ECT, for reasons I will return to below and in later chapters. 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.

Energy: Two Narratives

It was 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. Ironically, however, energy remained one of the most difficult policy areas to coordinate. The energy mix and structure of the energy sectors of the EU15 was indeed very diverse. On the one hand was the largely self-sufficient UK, with its vast oil and gas reserves in the North Sea, which became active in 1964. 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.

²⁵⁵ 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.

²⁵⁶ Energy Charter Secretariat, "The Energy Charter Treaty and Related Documents," (Brussels: Energy Charter Secretariat, 2004).

It is thus possible to speak of two main narratives of domestic energy policy: On the one hand was the liberal 'Anglo-Saxon' narrative of energy politics pursued by the British, and increasingly the Dutch and Spanish. On the other hand was the corporative 'Continental' narrative of France, Germany, Italy and others.²⁵⁷

The Continental Narrative

Germany has traditionally been described as a 'coordinated market economy', which relied on formal institutions to regulate the market and to coordinate long-term relations between firms, suppliers and consumers.²⁵⁸ From the 19th 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 First World War, the International Authority of the Ruhr after the Second World War, and later joint political administration with the launch of the ECSC. It is also in the Ruhr region where many of 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 most of continental Europe, including Germany, France, Italy and the Netherlands, even though the latter by 2000 was increasingly pushing for liberalisation

²⁵⁷ House of Lords, "Gas: Liberalised Markets and Security of Supply, Report with Evidence," (London: House of Lords European Union Committee, 2003), 16.

²⁵⁸ Peter A. Hall and David W. Soskice, *Varieties of Capitalism, the Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001).

or 'unbundling'.²⁵⁹ 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 20th century.²⁶⁰ 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, and 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.²⁶¹ This diversity, or heterologue, was recognised by Müller himself, who in 1999 launched a domestic, German *Energiedialog*. In the course of Europeanization 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

²⁵⁹ Author's interview with Dutch Industry Official.

²⁶⁰ Ulrich Laumanns, "Determinanten der Energiepolitik," in *Grundlagen der Energiepolitik*, ed. D. Reiche (Frankfurt aum Main: Peter Lang, 2005).

²⁶¹ Torsten Brandt, *Liberalisation, Privatisation and Regulation in the German Electricity Sector* (Düsseldorf: Wirtschafts- und Sozialwissenschaftliches Institut (WSI), 2006), 5.

voices will not be heard in Brussels.’ Still, Germany’s intentions were to secure its national self-interest, the minister said.²⁶²

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.²⁶³ Germany, France, Italy and others’ lobbying against the EU’s energy directives will be further discussed in chapter five 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.²⁶⁴ But Russian ties transcended party politics, as one commentator said, noting that the German Ministry of Foreign Affairs was a ‘bastion of Russia sympathizers’.²⁶⁵ Indeed, 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.²⁶⁶ 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 the customer would nonetheless have to pay for deliveries it did not need.

²⁶² Werner Müller, "Rede zur Abschlussveranstaltung des Energiedialogs 2000," in *Energiepolitik für die Zukunft Leitlinien zur Energiepolitik*, ed. Energiedialog 2000 (Berlin: Friedrich-Ebert-Stiftung, 2000).

²⁶³ Frankfurter Allgemeine Zeitung, "EU droht mit Verfahren wegen der Gasrichtlinie," *Frankfurter Allgemeine Zeitung*, 13 September 2000.

²⁶⁴ Lilia Shevtsova, "Germany: When Will the Ostpolitik Finally End?," *Eurasia Outlook*, no. 22 October (2013).

²⁶⁵ Daniel Brössler, "How Do You Solve a Problem Like Russia?," *The Guardian*, 17 October 2013.

²⁶⁶ Högselius, *Red Gas: Russia and the Origins of European Energy Dependence*.

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 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.²⁶⁷ 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.²⁶⁸ 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.'²⁶⁹ 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

²⁶⁷ Author's interviews with Klaus Kleinekorte; EU Industry Official A [Phone, 18.04.12]; EU Industry Official B [Moscow, 16.04.12].

²⁶⁸ 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).

²⁶⁹ CNN, "Schroeder Calls for European Unity in Tackling Fuel Crisis," *CNN*, 19 September 2000.

Wintershall.²⁷⁰ 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 same view.'²⁷¹ Hence, 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 rear-guard with respect to the EU's common energy policy. The UK was in the exact opposite position. First, the UK was different in the respect that it was one of the few actors within the EU which was largely self-sufficient with respect to energy. Moreover, the UK, again as opposed to Germany, was very much in favour of a liberalisation of the internal energy market.²⁷² 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 regulations.²⁷³ 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 Brits 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. As British Prime Minister Tony Blair's former energy adviser put it to me:

Britain pushed the idea of broadening out its energy model to Europe. We thought we had found something that represented liberal Anglo-Saxon capitalism. We pushed the Internal Energy

²⁷⁰ Interfax, "Gazprom, Wintershall to Have Equal Participation in Prirazlomnoye Project," *Interfax*, 27 September 2000.

²⁷¹ ITAR-TASS, "Putin Has Telephone Talks with Schroeder, Amato," *ITAR-TASS*, 30 September 2000.

²⁷² Author's interview with Terry Adams.

²⁷³ Hall and Soskice, *Varieties of Capitalism, the Institutional Foundations of Comparative Advantage*.

Market power harder than anybody, and in the process we were pursuing our own national interest.²⁷⁴

The Brits were therefore very much in favour of completing the internal market for energy, including the directives on gas and electricity. It became ‘almost ideological’, as Blair’s former adviser said.²⁷⁵ What the Brits did take issue with, however, was ceding political sovereignty over energy policy – or indeed any other matter considered to be of national importance – to Brussels. 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.²⁷⁶ 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.²⁷⁷

Since joining the European Community in 1973 London had remained lukewarm towards forming a common energy policy with the EU, including a common external energy policy.²⁷⁸ Liberalisation of the UK’s already unbundled energy market was very different from ceding decision-making authority to the Commission or indeed the rest of the Council. In 2000, Tony Blair warned against premature institutional reform, before properly addressing ‘what sort of Europe’ the EU was aiming for. Intergovernmental

²⁷⁴ Author’s interview with Dieter Helm [Brussels, 04.10.12].

²⁷⁵ Author’s interview with Dieter Helm.

²⁷⁶ Tony Blair and Göran Persson, “Reaching Out to All of Europe,” *Financial Times*, 21 September 2000.

²⁷⁷ Tony Blair, *A Journey* (London: Arrow Books, 2011), 501 & 30.

²⁷⁸ Dieter Helm, *Energy, the State, and the Market, British Energy Policy Since 1979* (Oxford: Oxford University Press, 2004).

cooperation and the EU institutions were not oppositions, Blair said.²⁷⁹ 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.²⁸⁰ 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 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. But Blair defended Putin, whom the UK government had described as a 'westerniser'. Blair even offered to provide support against the 'terrorist attacks' in Russia, which were compared with the UK's challenges in Northern Ireland.²⁸¹ Later, the UK, like Germany, would 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

²⁷⁹ Tony Blair, "Speech to Polish Stock Exchange [6/10/2000]," (London: The Official Site of the Prime Minister's Office, 2000).

²⁸⁰ Ibid.

²⁸¹ Ian Traynor and Michael White, "Blair Courts Outrage with Putin Visit," *The Guardian*, 11 March 2000.

talking shop'.²⁸² So to circumvent the likely opposition from the Council, Prodi would 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.²⁸³ 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, as mentioned above. Moreover, it is clear that the two leaders were somewhat sceptical. Questions were raised as to why Prodi was doing this, when a legally binding framework for energy already existed in the intergovernmental ECT, which Russia had not yet ratified.²⁸⁴

The parallels between the Energy Dialogue and the ECT are indeed striking. 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 found a new 'Unified Energy System' between Western Europe and the Soviet Union, on the same mould as the ECSC.²⁸⁵ The legally binding ECT was signed in Lisbon in December 1994. The treaty covered all aspects of the energy trade, including investment.²⁸⁶ 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

²⁸² Romano Prodi, "President of the European Commission Plenary Session of the European Parliament Strasbourg," (Strasbourg: European Parliament, 2000).

²⁸³ Author's interview with EU Official A.

²⁸⁴ Author's interview with EU Official A.

²⁸⁵ 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).

²⁸⁶ Energy Charter Secretariat, "The Energy Charter Treaty and Related Documents."

its large pipeline network, which was under state monopoly.²⁸⁷ Efforts to get Russia aboard resumed in 1999, when a new Transit Protocol was launched. But progress was slow, and was by 2000 far from concluded. In 2000, the ECT remained a low priority for the Russian government.²⁸⁸ Despite initial promises, the ECT had not led to large-scale investment in the Russian energy sector. Instead, it had become a talking shop over legal issues. Moreover, Russia's economy had not prospered, but plummeted.

The ECT was indeed an inspiration for Lamoureux and his staff when they first conceived of the Energy Dialogue in 2000. But the Russians did not like it, so it was not considered a good platform for negotiations.²⁸⁹ Moreover, since its conception in 1994, the ECT had grown into a continental framework, stretching from Iceland in the west to Tajikistan in the east. Hence, the ECT 'had lost its European identity', as one former DG TREN official remarked.²⁹⁰ So 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.²⁹¹ Nevertheless, future ratification of the ECT was established in the PCA between Russia and the EU, hence Chirac and Schröder's insistence on its inclusion. Therefore, to ensure the Energy Dialogue a negotiating mandate under the PCA, the ECT was put on the agenda.²⁹²

The Energy Dialogue was allowed to proceed. But the Paris Summit was only the first step. Schröder and Chirac had given their lukewarm approval. Now Lamoureux and

²⁸⁷ 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].

²⁸⁸ Author's interview with Russian Official A.

²⁸⁹ Author's interview with Christian Cleutinx.

²⁹⁰ Author's interview with Christian Cleutinx.

²⁹¹ Author's interviews with Christian Cleutinx; EU Official A.

²⁹² Author's interview with EU Official A.

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. And Moscow was seemingly happy to oblige: 'We intend to expand our relations with the EU in all areas', Putin said after the Energy Dialogue was proclaimed 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.'²⁹³ Russia, albeit still weak, was not intent on joining the EU. Indeed, Russia's unwillingness to apply for membership to the EU had already 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:

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

²⁹³ Agence France Presse, "Putin in Paris to Boost Russian Relations with EU."

the largest country of the CIS; independence of its position and activities at international organizations.²⁹⁴

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 hegemonism of any kind', Putin said upon the launch of the Energy Dialogue.²⁹⁵ Already here problems were brewing. Instead of a 'Unified Europe' built around the juridical pole of European Union, 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 the theory chapter, 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. From 1237, Russia was ruled by the Mongols, until Tsar Ivan the Great rid Russia of the Tatar yoke around 1480. In 1703, Tsar Peter the Great built the city of St. Petersburg as a 'Window on Europe,'²⁹⁶ and in 1767 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 recognised, but also institutionalised as one of the great continental powers.²⁹⁷

²⁹⁴ Government of the Russian Federation, "Strategiia razvitiia otnoshenii Rossiiskoi Federatsii s Evropeiskim Soiuзом na srednesrochnuiu perspektivu (2000-2010 gody)," (Moscow: Government of the Russian Federation, 1999), 1.

²⁹⁵ Associated Press, "Putin and EU Leaders Seek to Work Out Strategic Partnership," *The Associated Press*, 30 October 2000.

²⁹⁶ Roy Allison, Margot Light, and Stephen White, *Putin's Russia and the Enlarged Europe* (Oxford: Blackwell, 2006), 1.

²⁹⁷ Neumann, "Russia's Standing as a Great Power," 138.

But the Euro-Asian heterologue remained. The 19th 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.²⁹⁸ 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'.²⁹⁹ 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.³⁰⁰ 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.³⁰¹

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

²⁹⁸ Allison, Light, and White, *Putin's Russia and the Enlarged Europe*, 1.

²⁹⁹ Neil Malcolm, "The 'Common European Home' and Soviet Foreign Policy," *International Affairs* 65, no. 4 (1989).

³⁰⁰ Shevtsova, *Russia Lost in Transition*.

³⁰¹ Neil Malcolm et al., *Internal Factors in Russian Foreign Policy* (Oxford: Oxford University Press, 1996).

those who preferred to keep 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. But throughout all of this, the great power 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. But 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.³⁰²

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.'³⁰³ 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.³⁰⁴ But in order to assume this natural position of leadership, Russia needed to get its economy in shape.

³⁰² Putin, "Russia at the Turn of the Millennium."

³⁰³ Neumann, "Russia's Standing as a Great Power," 128-29.

³⁰⁴ Putin, "Russia at the Turn of the Millennium."

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,³⁰⁵ 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.³⁰⁶ 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. But as time progressed, and the Soviet economy grew, so did it become increasingly power hungry. Russia had been producing oil since the imperial age. But from the 1940s subsidised natural gas, together with coal, emerged as the main source of heating in Soviet households, but also energy for industry. Energy became indirectly tied to the Soviet welfare system, which was predominantly provided by these enterprises.³⁰⁷ Hence, 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

³⁰⁵ Ibid.

³⁰⁶ Vladimir Lenin, "Nashe vneshnee i vnutrennee polozhenie i zadachi partii," in *Moskovskaia gubernskaia konferentsiia RKP (b)* (Moscow 1920).

³⁰⁷ Spanjer, "Russian Gas Price Reform and the EU-Russia Gas Relationship," 9.

vouchers, and the state's ownership in Gazprom would eventually sink from 100 to 38 per cent.³⁰⁸ 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 the newly established company RAO UES, which would also remain on state hands.

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 Rosneft 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.³⁰⁹ Yukos was established in 1993 by state resolution, but was 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, but 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.

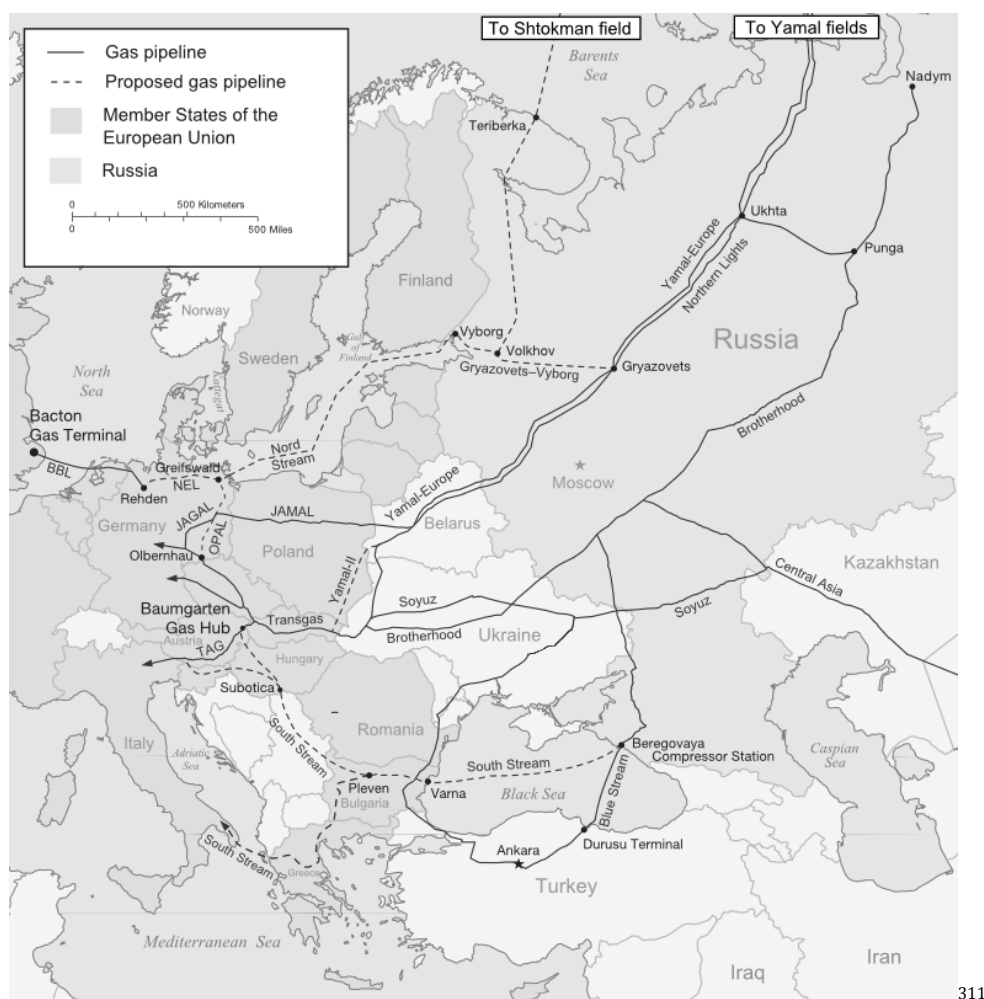
Still, oil remained Russia's biggest source of revenue. In 2000 Russian crude oil and oil products generated \$36 billion in export revenues, compared to \$16 billion for natural gas.³¹⁰ Thus one of Putin's primary objectives upon assuming the presidency, and after launching the Energy Dialogue, was to regain the state's share of the oil wealth, as I will discuss in chapter three.

³⁰⁸ Valery Panyushkin, Irina Reznik, and Mikhail Zygar, *Gazprom. Novoe russkoe oruzhie* (Moscow: Zakharov, 2008).

³⁰⁹ Marshall I. Goldman, *Petrostate : Putin, Power, and the New Russia* (Oxford: Oxford University Press, 2008), 61-65.

³¹⁰ Bank Rossii, "Platzhnyi balans Rossiiskoi Federatsii za 2000 god," (Moscow: Bank Rossii, 2008).

Figure 1.3 – Main Russian Gas Pipelines to Europe



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Post-Imperial Pipelines

Oil was also the main driver in the beginning of the Energy Dialogue, at least for the Commission.³¹² 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 2000-context of the 'Prodi Plan', the political importance of Gazprom remained unquestionable. Energy links were the backbone of the Comecon. In the former Soviet Union, subsidised gas – like

³¹¹ Samuel Bailey, "Map of the Major Existing and Proposed Russian Natural Gas Transportation Pipelines to Europe," (Wikimedia Commons, 2009).

³¹² Author's interview with Christian Cleutinix.

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.³¹³ Likewise, the Soviet energy network was built for the long-term. These were not economic 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 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.³¹⁴

But already in 1968 they became transit states, when Austria, then later Italy, Germany and other 'imperialist' countries, were connected to the Soviet network. However, the real blow came with the Soviet collapse in 1991, an event that Putin would later describe as 'the greatest geopolitical disaster of the century.'³¹⁵ 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

³¹³ Zhiznin, *Energy Diplomacy: Russia and the World*, 30.

³¹⁴ Stanislav Zhiznin, "Geo-Economic Aspects of Gas Transmission from Russia," *Nezavisimaya Gazeta*, 11 March 2008.

³¹⁵ 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).

concerned. Many of these countries were dependent on Russia to supply 100 per cent of their gas demand (Figure 1.4). A shut-off would spell real disaster.

And political relations between Moscow and its former subjects were not unequivocally positive. Indeed, in some instances, as with the Baltics, they 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 regarded the gas deliveries to the Baltic States in the face of EU expansion.³¹⁶ Hence, after the expansion, gas would enter the agenda of the Energy Dialogue with full force, as I will show in chapter four on geo-economics.

Figure 1.4 – The EU15 and EU25's Gas Consumption and Imports in 2000 (in Petajoule)

	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	159	159	0	159	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	0,0	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	15807	9498	2411	2997	31,6	19,0
EU25	17553	10979	2426	4286	39,0	24,4 ³¹⁷

³¹⁶ Ministry of Fuel and Energy of the Russian Federation, "Osnovnye kontseptual'nye polozeniia razvitiia neftegazovogo kompleksa Rossii," *Neftegazovaia Vertikal'*, no. 1 (2000): section 5.

³¹⁷ Compiled of data from European Commission, "Eurostat".

The Ukraine Factor

However, 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 nation with close historic links to Russia, as well as oil and gas pipelines – Putin noted that to 'kindred peoples' such as Ukraine, Russia and Belarus, there could be not obstacles against cooperation.³¹⁸ This would change in 2004, with the Orange Revolution, and in 2006, after the first Ukrainian gas crisis, also to be discussed in chapter four. Still, relations were not optimal, 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.³¹⁹ But a transit crisis was still not considered a significant threat, if judging by official statements. Indeed, 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. But 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.³²⁰

The subsidised Russian gas to Ukraine was in fact Central Asian gas. 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.³²¹ In 2000, Russian control over Central Asian gas supplies was so absolute, that they were considered a part of Russia's

³¹⁸ Vladimir Putin, "Vladimir Putin, Aleksandr Lukashenko i Leonid Kuchma priniiali uchastie v tseremonii otkrytiia pamiatnika voimam, pavshim na Prokhorovskom pole," (Moscow: President of Russia, 2000).

³¹⁹ Ministry of Fuel and Energy of the Russian Federation, "Osnovnye kontseptual'nye polozeniiia razvitiia neftegazovogo kompleksa Rossii," section 5.

³²⁰ Anna Raff, "Analysts: Ukraine Got Best of Gas Deal," *The St. Petersburg Times*, 9 October 2001.

³²¹ Stern, *The Future of Russian Gas and Gazprom*.

own domestic supplies.³²² 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.³²³

Russia's Quest for Multi-Polarity

Russia, despite its challenges, 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.³²⁴ This 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 European Union. On the other was a Commonwealth of Independent States (CIS), 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.³²⁵ But 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.³²⁶ This particularly concerned Russia's relationships

³²² Author's interview with Vladimir Milov.

³²³ 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.

³²⁴ Government of the Russian Federation, "Strategiia razvitiia otnoshenii Rossiiskoi Federatsii s Evropeiskim Soiuзом na srednesrochnuiu perspektivu (2000-2010 gody)," 1.

³²⁵ Ivan D. Ivanov, "Raschishchat' puti k zreloму partnerstvu Rossii i Evrosoiuza," *Sovremennaiia Evropa* 2, no. 42 (2000): 1.

³²⁶ *Ibid.*, 8.

with Germany, France, Italy and the UK, which in Russian official circles were known as 'The West European Big Four'.³²⁷

Meanwhile, Russia maintained its 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.'³²⁸ At the time, Russia was pursuing an economic and political union in the CIS, along the lines of the EU. But Putin was facing resistance. Indeed, already the 'centripetal forces' of the CIS were weakening, as Ivanov himself acknowledged.³²⁹ In 2000, Ukraine was already courting the EU. Meanwhile, 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 United States, and would completely bypass Russia, to Moscow's great consternation.³³⁰ Later the EU, too, would step up its efforts to breach the Central Asian market, in fierce competition with the new juggernaut of the world energy economy, China. During the 2000s, Russia's Central Asian monopoly came under siege. So, too, did Russia's grip on Ukraine's pipelines. In chapter four on geo-economics 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 'stateness'. For

³²⁷ Zhiznin, *Energy Diplomacy: Russia and the World*, 275.

³²⁸ Vladimir Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii," (Moscow: President of the Russian Federation, 2001).

³²⁹ Ivanov, "Raschishchat' puti k zreloму partnerstvu Rossii i Evrosoiuza," 1.

³³⁰ Andrei Konoplyanik and Anton Lobzhanidze, "Baku-Dzheikhan: stroit' ili ne stroit'?", *Neft' i Kapital* October, no. 10 (2000).

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.³³¹

In the Russian political and historical narrative, a strong state was a necessity. This also concerned energy. As Putin emphasised in his PhD in economics on resource management, the state had a privileged position:

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.³³²

Given that Putin was carrying several senior political positions in St Petersburg at the time the PhD was produced, the question remains how much of the dissertation he actually wrote himself.³³³ Nevertheless, the dissertation did provide clues as to the nature of Putin's economic instincts: The state should be the guarantor of economic development. 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

³³¹ Putin, "Russia at the Turn of the Millennium."

³³² "Mineral'no-syr'evye resursy v strategii razvitiia rossiiskoi ekonomiki," *Zapiski Gornogo Instituta*, no. 144 (1999).

³³³ 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 indeed been plagiarised, see: Clifford G. Gaddy, "The Mystery of Vladimir Putin's Dissertation," *The Brookings Institution*, no. 30 March (2006).

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.³³⁴

Given the importance of energy, and above all oil, for the Russian economy, it followed that the state wanted full control. Similarly, the Russian government’s 2020 energy strategy of November 2000 opened by stating that:

[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.³³⁵

In energy, and particularly gas, this concerned every aspect of the integrated energy supply chain – production (upstream), transit (midstream) and supply (downstream). As further underlined in the 2020 strategy:

Given the important role of pipeline transport of energy in the energy security of the society, the state will retain control over the activities in this field and the corresponding property in these systems.³³⁶

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.³³⁷ This is also why it was crucial for Gazprom to keep the Ukrainian transit pipelines under control. Deputy Prime Minister Viktor Khristenko, Russia’s first interlocutor in the Energy

³³⁴ Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii."

³³⁵ 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.

³³⁶ Ibid., 40.

³³⁷ Author’s interviews with Russian Official A; Russian Official C.

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.³³⁸

The same could be said about Gazprom's pipeline monopoly. There were indeed strategic reasons behind this thinking. Just as a strong state had been necessary to guard Russia against its enemies in the ancient world, globalization demanded state-led modernisation. In order for Russia 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:

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.³³⁹

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. However, during the privatisation campaign of Yeltsin, 'the state let strategic management of the natural resource complex slip from its hands', Putin wrote, adding that:

³³⁸ Maria Ignatova, "Viktor Khristenko: Poka my samoedaskaia derzhava," *Izvestiia*, 8 June 2001.

³³⁹ Putin, "Mineral'no-syr'evye resursy v strategii razvitiia rossiiskoi ekonomiki."

[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.³⁴⁰

Thus, a strong Russian state was always central to Putin's narrative for the Energy Dialogue, although the exact extent was still unclear to him in 2000.³⁴¹

'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.³⁴² Both interlocutors spoke of an 'energy partnership', a 'legal agreement' and the need for 'integration'. But in practice Russia and the Commission meant very different things. 'The Prodi Plan', or '*Plan 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, including Russia, Khristenko said, adding that Russia was ready 'to strengthen stability on the European energy market.' But to do so would require real commitments by the EU, said Khristenko, who pointed out that Russia was 'looking forward to European investments in the Russian fuel and energy complex.'³⁴³

Further details about the '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

³⁴⁰ Ibid.

³⁴¹ Author's interview with Vladimir Milov.

³⁴² Author's interview with Stanislav Zhiznin.

³⁴³ 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.

dialogue', according Khristenko. The EU was ready to double its gas imports from Russia over the next 20 years, in addition to increased imports of oil.³⁴⁴ The plan's implementation would require construction of oil and gas pipelines. This would necessitate massive foreign investment, with Gazprom alone in need of 2.5 billion dollars of investment annually.³⁴⁵ The total Russian investment lag was around 670 billion dollars.³⁴⁶ To be sure, neither Gazprom nor any other Russian energy company possessed this kind of money. The Russians needed foreign capital. This in turn would require revision of the Russian 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'.³⁴⁷ Basically, a PSA was an agreement between an extraction company and a 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.³⁴⁸

But cooperation with private European companies under the revised PSA framework would be limited to state-owned Russian companies, according to the government. 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.³⁴⁹ However, it was unclear whether Rosneft had the required capital to go through with such extensive

³⁴⁴ Khodorovskii and Bushueva, "Plan Prodi."

³⁴⁵ Ibid.

³⁴⁶ European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission - the EU-Russia Energy Dialogue," 3.

³⁴⁷ Vladimir Putin, "Excerpts from an Address to the International Conference PSA-2000," (Yuzhno-Sakhalinsk: President of Russia, 2000); Interfax, "EC Member States Russia Could Play Key Role in European Energy," *Interfax*, 9 October 2000.

³⁴⁸ Author's interview with Russian Official A.

³⁴⁹ Kommersant, "German Gref poliubil "Rosneft"," *Kommersant*, 10 October 2000.

projects. Nonetheless, a 'source in the government' told a major Russian newspaper that it was 'unlikely' that Rosneft would have funding problems. Khristenko had namely met with Commission president Prodi again, in October, and he had promised great things.

The government official's understanding of the 'Plan Prodi' was thus: '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.'³⁵⁰ This was the Russian official narrative of the Energy Dialogue in the beginning.³⁵¹ 'We basically thought that the EU would act as a government and direct investment to us', one Russian official would later say.³⁵²

Initial Problems

'Plan Prodi' became a buzzword in the Russian media. But there were also sceptics. Russian business expressed their concerns, saying that the logistics of 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 had been a fierce opponent of the PSA regime, which he felt disadvantaged Russian private companies.³⁵³ 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 complained. Gazprom could not double its European exports 'even if it wanted to', another analyst said.³⁵⁴

³⁵⁰ Ibid.

³⁵¹ Zhiznin, *Energy Diplomacy: Russia and the World*, 285.

³⁵² Author's interview with Stanislav Zhiznin.

³⁵³ Author's interview with Russian Official A.

³⁵⁴ Elizabeth LeBras, "EU Looks to Russia To Solve Fuel Woes," *The Moscow Times*, 10 October 2000.

‘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, according Andrei Konoplyanik, a senior energy ministry official. ‘But this is only speculation’, he wrote, adding that ‘the real concept of “the Prodi Plan” does not exist.’³⁵⁵ The ongoing revision of the new PSA law, which Konoplyanik himself was co-authoring, was proceeding slowly. And the EU Commission’s sources of finance were questionable.³⁵⁶ He was right on both counts. The PSA regime was progressing slowly, as I will show in chapter three on business. Moreover, the Commission’s financial muscles were weak. This left the European Investment Bank (EIB), whose mandate to invest in Russia was severely circumscribed by the member states.³⁵⁷ Besides the TACIS programme, whose objectives were as much about democracy building as on financial gains, the Energy Dialogue’s potential funds were virtually non-existing, as I will also show in the chapter on business.³⁵⁸

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 and interests.’³⁵⁹ 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.³⁶⁰ The Russian narrative of ‘Plan Prodi’, according

³⁵⁵ Andrei Konoplyanik, "Tsena 'plana Prodi'," *Vedomosti*, 27 October 2000.

³⁵⁶ Author’s interview with Russian Official A.

³⁵⁷ European Investment Bank, "External Lending Mandate 2000-2007," (Brussels: European Investment Bank, 2000).

³⁵⁸ Author’s interview with Christian Cleutin.

³⁵⁹ European Commission, "Country Strategy Paper 2002-2006, National Indicative Programme 2002-2003, Russian Federation," 16.

³⁶⁰ Author’s interview with Stanislav Zhiznin.

to Konoplyanik, was: 'Russian oil and gas to Europe in exchange for investments from Europe into Russian oil and gas.'³⁶¹ There was therefore a narrative gap from the very beginning of the dialogue.

The Dual State Narratives

However, there was a narrative gap also within Russia. Putin wanted to re-impose 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.³⁶² But Lenin's last public letter was devoted to what he considered the corruption and inefficiency of the Soviet state apparatus itself.³⁶³

In 2000 the rule of law in Russia was weak, and so were its government institutions. Corruption was pervasive.³⁶⁴ 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. In addition was the pervasive corruption among state officials, which would remain a

³⁶¹ Konoplyanik, "Tsena 'plana Prodi'."

³⁶² Vladimir Lenin, "Liberal'noe razvrashchenie rabochikh " *Put' Pravdy*, 13 February 1914; "Razvrashchenie rabochikh utonchennym natsionalizmom," *Put' Pravdy*, 10 March 1914.

³⁶³ "Luchshe men'she, da luchshe," *Pravda*, 4 March 1923.

³⁶⁴ 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 with countries such as Belarus, Azerbaijan, Nigeria and Uganda see: Transparency International, *Corruption Perceptions Index* (Berlin: Transparency International, 2012).

problem throughout the course of the Energy Dialogue, and would also make it difficult for Western companies to operate in Russia.

The 'Shadow Structures' of Power

The roots of Russia's dual state were deep and manifold. It displayed features of Tsarist Russia's peculiar feudal hierarchical system known as *mestnichestvo* ('seniority', 'parochialism' or 'order of preference').³⁶⁵ The principle of *mestnichestvo* was that the boyar (nobleman) 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 17th 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,

³⁶⁵ Iurii Moiseevich Eskin, *Mestnichestvo v Rossii XVI-XVII vv: khronologicheskii reestr* (Moscow: Arkheograficheskiy tsentr, 1994).

people and services. This all works well, but we cannot achieve this within a single country.'³⁶⁶

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.³⁶⁷ And during his tenure, Putin, too, would staff government agencies, and indeed energy companies like Gazprom and Rosneft, with handpicked 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'.³⁶⁸

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.³⁶⁹ 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 last 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

³⁶⁶ Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii."

³⁶⁷ Lilia Shevtsova, *Putin's Russia* (Washington, D.C.: Carnegie Endowment for International Peace, 2005).

³⁶⁸ Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*.

³⁶⁹ Author's interview with Vladimir Milov.

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.³⁷⁰ As recognised by another Russian official, the 2020 strategy hardly contained a coherent strategy for external energy policy.³⁷¹

Indeed, this was not only limited to energy, but political planning as such. According to one scholar, the strategies were simply a 'compromise of sharply conflicting views and interests'. Rather than 'a framework for concrete policy action', they were a form of public diplomacy, intended to 'paint the situation as better than it is.'³⁷² 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.³⁷³ In 2001, Putin said 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.³⁷⁴

³⁷⁰ Vladimir Milov, Leonard L. Coburn, and Igor Danchenko, "Russia's Energy Policy, 1992–2005," *Eurasian Geography and Economics* 47, no. 3 (2006): 287.

³⁷¹ Zhiznin, *Energy Diplomacy: Russia and the World*, 33.

³⁷² Bobo Lo, *Russian Foreign Policy in the Post-Soviet Era, Reality, Illusion and Mythmaking* (Basingstoke: Palgrave, 2002), 66, 68.

³⁷³ Stefanie Ortmann, "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).

³⁷⁴ Putin, "Poslanie Federal'nomu Sobraniuu Rossiiskoi Federatsii."

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 'baseline narratives' of Russia and the EU around the time when the Energy Dialogue was first launched on 30 October 2000. Russia had just exited the troubled 90s, and the EU was facing its biggest expansion ever. Faced with rising oil prices, both parties acknowledged the need to cooperate. However, it was already apparent that they held deeply conflicting narratives for the Energy Dialogue. A narrative is the representation of an event or series of events. And the 'Prodi Plan' represented something very different to officials of DG TREN than 'Plan Prodi' did to its counterparts in the Russian government. Whereas the former was more interested in an institutionalised energy partnership built on 'European' standards, the latter was foremost interested in securing investment to an energy sector in want of over 670 billion dollars in capital.

In the next chapter I will show how these two 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 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 'The Political Dialogue'.

Chapter Two: The Political Dialogue

(2001-2005)

In the theory chapter I discussed the politics inherent to dialogue and Bakhtin's concepts: Narratives interact dialogically, yet do not co-exist peacefully, but are rather waged in continuous battle. This chapter aims to understand the political reasons of the failure 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.'³⁷⁵ This definition includes, but is not limited to, national and inter-governmental 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 inter-agency conflicts on the Russian side.

The chapter deals with the first five years of the EU-Russia Energy Dialogue, 2001-2005. The dialogue started out as a high-level initiative, with the personal blessings of Romano Prodi and Vladimir Putin, who would nominate his deputy prime minister, Viktor Khristenko, to represent Russia. But by 2005 the Energy Dialogue was hardly even news, and the prospects of an energy partnership dim.

The chapter will begin with the 'EU15 Narratives': The Energy Dialogue commenced in February 2001, several months after the Paris Summit. The reason for

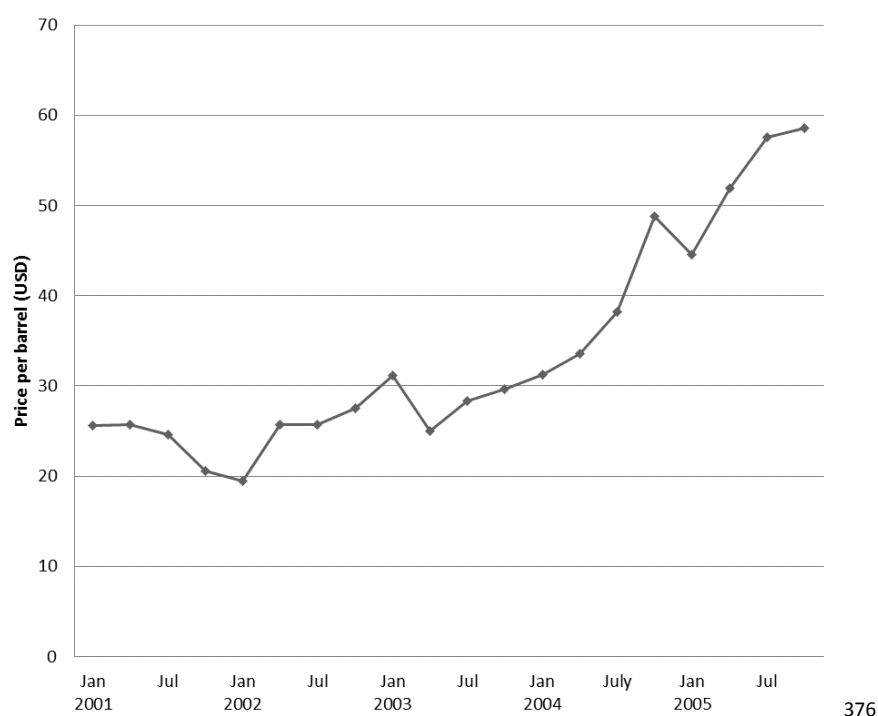
³⁷⁵ Merriam-Webster Dictionary, "Politics," in *Merriam-Webster Dictionary* (2012).

the slight delay was that the Commission had to convince the EU's 15 member states, who were not pleased by the Commission's efforts to assume control over energy relations with Russia. However, it was not only the member states that needed convincing, but the Commission itself. Moving to the 'EUropean Narrative', I will discuss the infighting among the different branches of the Commission, which even lead one Commissioner to launch a competing initiative to the Energy Dialogue, the Common European Economic Space. Third, I will shift my attention to Russia and the 'Euro-Asian Narrative', which in the first years of the Energy Dialogue remained fixed on EU-integration. But here, too, there were divisions between those who wanted Russia to pursue integration with the EU, and those who preferred to remain at arm's length. Divisions were not simply inter-ministerial, but factional. Fourth, moving to the 'Dual-State Narrative', I will show how factional disputes permeated the Russian Ministry of Energy itself, which severely weakened the chain of command on the Russian side of the Energy Dialogue.

Meanwhile, Russia's euro-optimism was replaced with pessimism. Returning to Russia's 'Euro-Asian Narrative', it was apparent that the initial hopes that the Energy Dialogue would channel large investment into Russia was premature, leaving both liberals and euro-sceptics disappointed. Russian disappointment corresponded with EU the impatience of member states, who demanded that the Energy Dialogue soon conclude its activities and things go back to normal (the 'EU15 Narrative'). Moreover, Putin, buoyed by high energy prices, had reasserted his 'Statist Narrative'. No longer as dependent on investment, Putin swiftly degraded the Energy Dialogue, by demoting Russia's main interlocutor, Viktor Khristenko. Likewise, Francois Lamoureux was removed from the Commission, whereas the Energy Dialogue was put under 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 bilateral energy dialogue with Russia (the 'EU25 Narratives').

Figure 2.1 – Average World Oil Prices, January 2001 – October 2005



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.³⁷⁷ 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. Francois Lamoureux, the Director-General

³⁷⁶ U.S. Energy Information Administration, "Spot Prices".

³⁷⁷ EU-Russia Energy Dialogue, "The First Ten Years: 2000-2010," (Brussels/Moscow: EU-Russia Energy Dialogue, 2010), 3.

for Transport and Energy, 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.³⁷⁸ In the beginning 'the Energy Dialogue was Khristenko and Lamoureux,' according to a former Commission official.³⁷⁹ 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.³⁸⁰ 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.³⁸¹ 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.³⁸²

On 29 November 2000 Lamoureux and Khristenko convened for a preliminary meeting in Moscow. 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. For the Russians the corresponding document would be the unfinished 2020-strategy, a preliminary draft of which had also been presented in November.³⁸³ 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

³⁷⁸ Author's interview with Christian Cleutinx.

³⁷⁹ Author's interview with Christian Cleutinx.

³⁸⁰ Author's interview with Stanislav Zhiznin.

³⁸¹ Ivan Ivanov, "Retour sur une pétition L'Europe doit nous redécouvrir " *Le Figaro*, 1 November 2000.

³⁸² Author's interview with Christian Cleutinx.

³⁸³ 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.)."

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. The controversial ECT was not mentioned in the interlocutors' report.³⁸⁴

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, whereas 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.³⁸⁵ The reason for this delay were the member states, who, besides France and Germany, had not been informed prior to the Paris Summit.

³⁸⁴ 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).

³⁸⁵ Vedomosti, "Energodialog Rossii i ES ubila Evrokomiissii," *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.³⁸⁶ In November Lamoureux was brought in for questioning by the heads of the EU's fifteen 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 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 on the condition that the Energy Dialogue include the principles of the ECT, 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.³⁸⁷

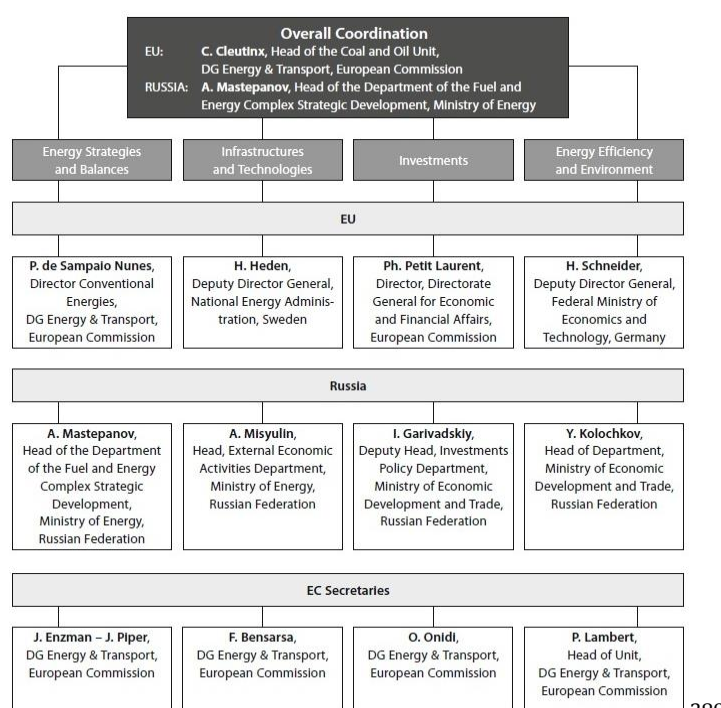
To be sure, neither the Dutch nor the British were particularly dependent on Russian oil and gas. And both were energy producers in their own right. Still, they were

³⁸⁶ Author's interviews with Christian Cleutinx; EU Official A.

³⁸⁷ The Coreper minutes of November and December 2000 and January 2001 were cited during the author's interview with Henne Schuwer.

already involved in Russia through Royal Dutch Shell, an Anglo-Dutch conglomerate, which had entered a PSA 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 90s, despite the personal blessings of Tony Blair himself.³⁸⁸ I will return to these issues in the next chapter on business.

Figure 2.2 – The EU-Russia Energy Dialogue in 2001



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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 (Figure 2.2). The member state nominees comprised representatives of business organisations, ministry officials and independent consultants working on behalf of a government. Each

³⁸⁸ John Browne and Philippa Anderson, *Beyond Business* (London: Phoenix, 2011).

³⁸⁹ EU-Russia Energy Dialogue, "The First Ten Years: 2000-2010," 16.

member state had one representative in one of the groups, whereas Germany and France were allowed two 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, as it would allow them to monitor the Energy Dialogue.³⁹⁰ 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.’³⁹¹ This did not mean that the national representatives had a clear agenda from their superiors at home. French officials recounted that there was no formal briefing from the government, and that nobody in Paris had mentioned a legally binding energy partnership.³⁹² The same was true for another national official, who said that his assignment was merely ‘to keep things going.’³⁹³

Similarly, Germany was ‘not interested’ in a binding energy partnership, according to one of the 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.³⁹⁴ According to the German official, ‘Germany preferred to manage relations with Russia on a bilateral level’. The energy mix of each country was still an individual member state

³⁹⁰ Author’s interview with Christian Cleutinx.

³⁹¹ Author’s interview with Dutch Industry Official.

³⁹² Author’s interviews with French Official A; French Official B.

³⁹³ Author’s interview with EU National Official C [E-mail, 15.11.13].

³⁹⁴ Author’s interview with Klaus Kleinekorte.

issue, he said. Hence the multilateral Energy Dialogue would become a cover for national, bilateral dialogues as well.³⁹⁵

Therefore, 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.³⁹⁶

To be sure, the Energy Dialogue could prove to be a forum where the member states, together with the Commission, could work out a common narrative towards Russia. But to many of the member state participants, it was not entirely clear what the Energy Dialogue was about.³⁹⁷ The national participants were kept out of the internal deliberations in the Commission.³⁹⁸ Indeed, some were not included in the domestic debates of the countries they were supposed to represent. These national 'officials' were mere emissaries between the national ministries and the dialogue. It was all 'fuzzy politics', said the British official, who noted that there was a lack of dialogue between governments and their representatives, between the representatives and the Commission, and between the thematic groups and the interlocutors.³⁹⁹

This exclusion also included the interaction between the 'sole' interlocutors, whose meetings were kept in private, away from the thematic groups. This was done so

³⁹⁵ Author's interview with Klaus Kleinekorte.

³⁹⁶ European Union, "Treaty of Nice," (Nice: Official Journal of the European Communities, 2001), see Article 175(2).

³⁹⁷ Author's interviews with Terry Adams; Dutch Industry Official; Klaus Kleinekorte; French Official A; French Official B.

³⁹⁸ Author's interview with Terry Adams.

³⁹⁹ Author's interview with Terry Adams.

as to ensure efficiency.⁴⁰⁰ The thematic groups were subject to the instruction of the sole interlocutors, whose suggestions they were to flesh out into practical projects. However, this would become frustrating to the participants in the thematic groups themselves.⁴⁰¹

Everybody was not so negative, however. A few smaller states supported the Energy Dialogue. On the one hand were states like Belgium, whose dependence on Russian hydrocarbons was negligible.⁴⁰² On the other hand was Finland, which was heavily reliant on Russian oil and gas imports, and in 2001 was Russia's only neighbour in the EU (this despite the fact that the Finns had a long-standing bilateral dialogue with the Russians, and the 'Finnish' representative had no official mandate from the government in Helsinki⁴⁰³). But for the big players, such as France, Italy and the UK, the Energy Dialogue was not a very high priority.⁴⁰⁴ As UK Prime Minister Tony Blair's former energy adviser later put it 'the Energy Dialogue has never been very important. When I started taking an interest in the dialogue, I could not find anyone in Britain that had even heard of it.'⁴⁰⁵

During 2001 the thematic groups would meet four times each, with preliminary findings to be presented to the interlocutors already in April and final results in September. 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.⁴⁰⁶ In the collective eyes of the EU15, and particularly the larger states, the Energy Dialogue was a temporary, short term initiative.

⁴⁰⁰ Author's interview with Christian Cleutin.

⁴⁰¹ Author's interviews with Klaus Kleinekorte; Terry Adams; French Official A; French Official B.

⁴⁰² Author's interview with EU National Official D [Brussels, 22.10.12].

⁴⁰³ Author's interview with Seppo Remes, former co-chair of the European Business Club, former board member of RAO UES, co-founder of EOS Russia [Phone, 11.10.12].

⁴⁰⁴ Author's interviews with Dieter Helm; Klaus Kleinekorte; French Official A; French Official B.

⁴⁰⁵ Author's interview with Dieter Helm.

⁴⁰⁶ Author's interview with Christian Cleutin.

The EUropean Narratives

In the introduction I noted that the 'EUropean Narrative' of the Commission was far from unitary, but 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 own agendas. On May 15 2001, two days before the first biannual EU-Russia Summit, 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.'⁴⁰⁷

During the presentation of the report, de Palacio declared that the Energy Dialogue enjoyed 'the highest political backing.'⁴⁰⁸ But the College of Commissioners was not 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.⁴⁰⁹

The rest of the Commission had not been informed before the launch of the Energy Dialogue in October 2000. Indeed, the truth was that both Patten and de Palacio – who was also Commissioner for Energy – had been kept out of the loop before the

⁴⁰⁷ European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission - the EU-Russia Energy Dialogue," 1-2.

⁴⁰⁸ "EU/Russian Federation Energy Dialogue on Track," (Brussels: European Commission, 2001).

⁴⁰⁹ Ibid., 2.

Paris Summit and the launch of the Energy Dialogue.⁴¹⁰ 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. Allegedly, Patten had been particularly displeased with this, as he was in charge of the Commission's external relations.⁴¹¹ However, I have not had the opportunity to confirm this with Patten himself.

There were many sectorial interests within the Commission. 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 join the World Trade Organisation (WTO), directed by Lamy, which in turn was premised on broader market reforms in Russia.⁴¹² There were parts of the Commission who were more interested to discuss legal matters on gas than practical investment in oil. DG Comp was responsible for the internal market legislation of the EU, including the directives on gas and electricity.⁴¹³ In addition were the foreign affairs people led by DG RELEX, and Commissioner Patten, who handled the human rights portfolio towards Russia, including the highly sensitive issue of Chechnya.

The Common European Economic Space

Each of these Directorates-General had their own agendas towards Russia. Conversely, 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.⁴¹⁴ However, already at the May 17 EU-Russia Summit it was agreed to launch yet another

⁴¹⁰ Author's interview with EU Official A.

⁴¹¹ Author's interview with Christian Cleutin.

⁴¹² Pascal Lamy, "Ne ugroza, a perspektiva," *Vremia novostei*, 31 August 2001.

⁴¹³ Author's interview with Dutch Industry Official.

⁴¹⁴ Author's interviews with EU Official A; Christian Cleutin.

high-level working group, whose objective was to define and create a 'Common European Economic Space' (CEES) in the framework of the PCA.⁴¹⁵ The working group would be led by Khristenko and Commissioner Patten. Patten had reasserted his position, after being bypassed at the Paris Summit.

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. But it ran directly against his bottom-up approach. It meant that the Energy Dialogue would be conflated with the ongoing WTO talks between the Commission and Russia, but also 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 the CEES was made at the October 2001 EU-Russia Summit.⁴¹⁶ 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. As mentioned, 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

⁴¹⁵ EU-Russia Summit, "Joint Statement," (Moscow: EU-Russia Summit, 2001).

⁴¹⁶ "Joint Statement," (Brussels: EU-Russia Summit, 2001).

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.⁴¹⁷ 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.⁴¹⁸

To some of the member state representatives, this extended agenda came rather unexpected. Lamoureux and Khristenko had kept 'coming up with new initiatives', according one of the German officials. In his view, the original plan was to 'produce a report, provide some interesting new information, and say thank you and goodbye.'⁴¹⁹ 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.⁴²⁰ 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 quit his position after the October Summit, noting that the Energy Dialogue had remained of

⁴¹⁷ EU-Russia Energy Dialogue, "Synthesis Report," 4.

⁴¹⁸ Ibid.

⁴¹⁹ Author's interview with Klaus Kleinekorte.

⁴²⁰ EU-Russia Summit, "Joint Statement."

'marginal' importance.⁴²¹ 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.⁴²²

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, partly due to the fighting in Chechnya. However, 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:

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.⁴²³

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.⁴²⁴ Getting the EIB

⁴²¹ Author's interview with French Official A.

⁴²² Author's interview with Terry Adams.

⁴²³ House of Lords, "Lords Hansard Text for 28 Jun 2001," (London: Parliament of the United Kingdom, 2001).

⁴²⁴ Author's interviews with Dieter Helm; Klaus Kleinekorte; French Official A; Terry Adams, "EU-Russian Energy Relationships, Presentation to the Department of Trade and Industry (DTI)," (London: DTI, 2001).

involved would require a positive, unanimous vote in the Council, which itself was highly unlikely. Meanwhile, business participation remained limited, and the new PSA framework had ground to a halt, for reasons I will return to in the next chapter. But still 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 in 2001

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.⁴²⁵ 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.'⁴²⁶ And in June Putin even praised Energy Dialogue as 'a new dimension' to the relationship between Russia and the EU.⁴²⁷ The 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).⁴²⁸ 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.⁴²⁹ Putin had personally nominated his Vice Prime Minister to take charge of the Energy Dialogue.

⁴²⁵ Vladimir Putin, "Press-konferentsiia po itogam uchastiia v sammite glav gosudarstv Evropeiskogo soiuz," (President of Russia, 2001).

⁴²⁶ "Annual Address to the Federal Assembly of the Russian Federation," (Moscow: President of Russia Official Web Portal, 2001).

⁴²⁷ "Vystuplenie V. V. Putina na otkrytii plenarnogo zasedaniia vstrechi," (Moscow: Diplomaticheskii vestnik, 2001).

⁴²⁸ Ekaterina Labetskaia, "Zhdem vazhnykh dogovorennosti," *Vremia Novosti*, 3 October 2001.

⁴²⁹ State Duma of the Russian Federation, "Parlamentskie slushaniia v Gosudarstvennoi Dume," (Moscow: Parlamentskie slushaniia v Gosdume, 2001).

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.'⁴³⁰ 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 somewhat annoyed with the EU's lagging in its nominations for the thematic groups.⁴³¹ 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 inter-ministerial committee. It was truly 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.'⁴³² And meetings would take place both inside and outside the confines of the Energy Dialogue. It was heterologous in its most chaotic form. It was clear that Russia wanted investment, but apart from this they 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.⁴³³

⁴³⁰ ITAR-TASS, "Khristenko Calls for Broader Russia-EU Cooperation.," *ITAR-TASS*, 23 April 2001.

⁴³¹ Interfax, "Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow," *Interfax*, 26 September 2001.

⁴³² Author's interviews with Vladimir Milov; Russian Official A.

⁴³³ Romanova, "The Russian Perspective on the Energy Dialogue."

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 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 centred on the Ministry of Economic Development and Trade (MEDT), led by its powerful minister, German 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 '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.⁴³⁴ Indeed, the conflict was personal – '[Gref and Ivanov] just did not like each other', according to a Russian MFA official.⁴³⁵ Ivanov, who had administered the PCA co-operation council with the EU, had a thoroughly statist outlook and vocabulary, describing the world in 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 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.'⁴³⁶ As Ivanov later said, it would be 'unreasonable' to expect a Russian accession to the EU, 'or

⁴³⁴ Author's interview with Vladimir Milov.

⁴³⁵ Author's interview with Stanislav Zhiznin.

⁴³⁶ Ivanov, "Raschishchat' puti k zreloму partnerstvu Rossii i Evrosoiuzu."

any binding association with it affecting our sovereignty and statehood.'⁴³⁷ This narrative was reprised by other MFA officials, including one who confirmed that Russia was 'absolutely not' looking for a new ECSC with the EU.⁴³⁸

Nor was the Ministry of Energy, the institution nominally responsible for the Russian energy sector, a bastion of liberal thought.⁴³⁹ 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.'⁴⁴⁰ The strategies were written 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 the chief adviser to the 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.⁴⁴¹ Conversely, the almost hyperactive Gref would involve himself in anything that involved Russo-EU cooperation.⁴⁴² As neither the Minister of Energy nor the Minister of Foreign Affairs were represented in the inter-ministerial committee on the Energy Dialogue, Gref was second in line to Khristenko. It was Gref 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

⁴³⁷ Ivan Ivanov, "Ne poddavaiates' na ulovki Briusselia," *Nezavisimaya Gazeta*, 6 October 2002.

⁴³⁸ Author's interview with Stanislav Zhiznin.

⁴³⁹ Author's interview with Vladimir Milov.

⁴⁴⁰ 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.

⁴⁴¹ 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].

⁴⁴² Author's interview with Vladimir Milov.

former was a snub to the Ministry of Energy, and the latter a rebuke of the MFA.⁴⁴³ 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.⁴⁴⁴ 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.⁴⁴⁵ But 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 2001.⁴⁴⁶ I have discussed the tensions between statistes and liberals within the Energy Dialogue, which in turn were related to different ministries. But the nature of the dispute was more complex than mere institutional rivalry. Nor was it wholly confined to the Energy Dialogue. 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

⁴⁴³ 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.

⁴⁴⁴ Author's interview with Vladimir Milov.

⁴⁴⁵ Author's interview with Vladimir Milov.

⁴⁴⁶ Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii."

indeed many ways one could delineate these factions. And bonds of 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. But it is nonetheless possible to identify six main factions in Russian politics at the time of the launch of the Energy Dialogue.⁴⁴⁷ But please bear in mind that these, too, are ideal types.

‘Family’, Siloviki, Oligarchs and Others

First was the so-called ‘family’, who were former members of ex-president Boris Yeltsin’s inner circle.⁴⁴⁸ 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.⁴⁴⁹ Second were the *siloviki* (from *silovye struktury* or ‘power agencies’), who were officials with backgrounds in the security services, KGB and later the FSB.⁴⁵⁰ The most well-known silovik was Yevgenii Primakov, Yeltsin’s former Prime Minister. Primakov later turned on Yeltsin and launched his own presidential bid, and had even threatened to have the president impeached for his reckless privatisation programme in the early 90s.⁴⁵¹ The silovik ‘ideology’ was based on a strong state, a legally immune leadership, and firm state control over the economy.⁴⁵² This entailed a general scepticism towards privatisation and Western-style, liberal economic

⁴⁴⁷ Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*.

⁴⁴⁸ Shevtsova, *Russia Lost in Transition*, see Chapter One.

⁴⁴⁹ Richard Sakwa, *Putin: Russia's choice* (London: Routledge, 2008), 74-75; Shevtsova, *Putin's Russia*, 87.

⁴⁵⁰ Andrei Illarionov, "The Siloviki in Charge," *Journal of Democracy* 20, no. 2 (2009).

⁴⁵¹ Shevtsova, *Putin's Russia*, 22-25.

⁴⁵² Ol'ga Kryshтанovskaya and Stephen White, "Inside the Putin Court, a Research Note," *Europe-Asia Studies* 57, no. 7 (2005): 1073.

governance. During and after Primakov, the siloviki would entertain an especially close relationship with the oil sector, and above all Rosneft, the state owned oil company.⁴⁵³

The third faction was the democratic statist.⁴⁵⁴ 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, and that the state 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 many of the said officials in the MFA and the Ministry of Energy. It is possible to include Viktor Khristenko to the statist category, as he, like Putin, remained firmly in favour of state ownership of the gas and oil sector.⁴⁵⁵ However, Khristenko himself would later say that he was and 'always will be non-party' (albeit making reference to political parties, not factions).⁴⁵⁶ Khristenko would also 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. One 2007 survey disclosed as much as thirty-five examples of family relations in Russian national and regional administration, including a high proportion in state controlled companies.⁴⁵⁷

Meanwhile, 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).⁴⁵⁸ This group included German Gref (a lawyer), Milov (an engineer)

⁴⁵³ Daniel Treisman, "Putin's Silovarchs," *Orbis-a Journal of World Affairs*, no. Winter (2007).

⁴⁵⁴ Shevtsova, *Putin's Russia*, 325; Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*, 124-25.

⁴⁵⁵ Ignatova, "Viktor Khristenko: Poka my samoedskaya derzhava."

⁴⁵⁶ Nadezhda Ivanitskaia and Kira Latukhina, "Pravitel'stvo partii," *Vedomosti*, 16 April 2008.

⁴⁵⁷ Sakwa, *The Crisis of Russian Democracy, the Dual State, Factionalism, and the Medvedev Succession*, 89.

⁴⁵⁸ 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.

as well as Dmitri Medvedev (a law professor, and later president of Russia). 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 of RAO UES, the Russian state electricity monopoly. The liberals were comparatively business-friendly, and largely committed to Western values.⁴⁵⁹

The fifth faction was represented by the regional administrators, who enjoyed considerable autonomy during the de-centralised Yeltsin-presidency, but had their prerogatives sharply curtailed after Putin came to power.⁴⁶⁰ The regional administrators nurtured close ties to the final faction of business interests, and above all-powerful oligarchs such as Vagit Alekperov, the CEO of Lukoil, Russia's largest oil company, and Mikhail Khodorkovsky, the CEO and owner of Yukos, Russia's second-largest oil company.⁴⁶¹ Especially Khodorkovsky 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,⁴⁶² with connections and sympathies spanning technocrats, statisticians, siloviki and regional administrators – the latter from his time as deputy mayor of St Petersburg.⁴⁶³ In this respect, he was 'truly' the Russian equivalent of Mr Benn, as mentioned in the theory chapter.

⁴⁵⁹ Kryshstanovskaya and White, "Inside the Putin Court, a Research Note," 1073.

⁴⁶⁰ Cameron Ross, *Regional Politics in Russia* (Manchester: Manchester University Press, 2009).

⁴⁶¹ 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).

⁴⁶² 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.

⁴⁶³ Author's interview with Dutch Industry Official.

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 reason for this set up. The situation in the energy ministry was highly unstable. Between 1995 and 2000, the ministry had nine different ministers. And on February 15, 2001, the incumbent minister, Alexander Gavrin, was fired after only ten months in his post. The volatile situation was partly due to state capture by warring business factions, which I will return to in the next chapter. Gavrin's departure came only two days after the launch of the Energy Dialogue's four thematic groups. Practically his departure made little difference, as Gavrin had never been involved in the talks with either Prodi or Lamoureux.⁴⁶⁴ But the Ministry of Energy was nonetheless present in all four thematic groups, including overall coordination. The Ministry also lead 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.⁴⁶⁵

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'.⁴⁶⁶ Russia was a major energy producer, thus it needed an energy ministry (even though it remained unclear what its formal powers were).⁴⁶⁷ Thus on 18 June Putin appointed

⁴⁶⁴ Author's interview with Christian Cleutin.

⁴⁶⁵ Author's interviews with Yurii Baron, Deputy Director, Department of State Energy Policy, Russian Ministry of Energy [Moscow, 28.02.12]; Russian Official C.

⁴⁶⁶ Ignatova, "Viktor Khristenko: Poka my samoedaskaia derzhava."

⁴⁶⁷ Author's interview with Vladimir Milov.

Igor Yusufov as the new minister of energy. Yusufov was a Dagestani official and businessman, and former deputy minister of industry under Yeltsin.

However, Yusufov's appointment did not really improve the situation. In many ways it became worse, 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 Milov, was that Yusufov and Khristenko represented the different political and business factions.⁴⁶⁸ 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.⁴⁶⁹ 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*.⁴⁷⁰ 'It was all clan politics', as Milov recalled.⁴⁷¹

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. Thus, 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

⁴⁶⁸ Author's interview with Vladimir Milov.

⁴⁶⁹ Sakwa, *Putin: Russia's choice*, 72.

⁴⁷⁰ Mikhail Kroutikhin, "Energy Policy Making in Russia: from Putin to Medvedev," *NBR Analysis* 19, no. 2 (2008): 28.

⁴⁷¹ Author's interview with Vladimir Milov.

simply excluded from the Energy Dialogue. 'During all of these years, I never saw Yusufov once', one EU Energy Dialogue official noted.⁴⁷² 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 in 2002

Meanwhile, the Russian economy remained in dire straits. In the beginning of 2002, oil prices again dropped below \$20 per barrel (Figure 2.1). In January 2002, during a visit to Paris, 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.'⁴⁷³ In reality, Putin was calling for less legal dialogue, and more business dialogue. In need of oil investment the Russians were increasingly concerned over what they felt was the Commission's legal encroachment on its gas contracts. Instead of bringing investment, the EU was 'trying to tailor Russia in its own image [...] towards its norms and rules', as Ivan Ivanov at the MFA had noted.⁴⁷⁴

⁴⁷² Author's interview with EU Official B.

⁴⁷³ Vladimir Putin, "Vystuplenie V. V. Putina na press-konferentsii Parizh, 15 ianvaria," (Moscow: Diplomaticheskii vestnik', 2002).

⁴⁷⁴ Interfax, "Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow."

Bureaucratic Dialogue

The official Russian delegations to the thematic groups were accompanied by a sizeable representation from Russian companies (although most of which were state-controlled).⁴⁷⁵ 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.⁴⁷⁶ Assisted by state companies RAO UES and Gazprom, the Russian government had listed a wealth of concrete investment projects.⁴⁷⁷ But DG TREN was struggling to come up with investment for the Russians, and remained insistent that the only way to attract European companies was through legal reform.⁴⁷⁸ Indeed, this was also the official attitude of major member states like Germany and the UK. As Gerhard Schröder had noted in 2001, the Energy Dialogue should focus on institution building inside Russia, leaving investment decisions to the companies themselves, not member states.⁴⁷⁹ 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 were complaining over what they felt was a lack of common understanding between the two parties.⁴⁸⁰ 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

⁴⁷⁵ EU-Russia Energy Dialogue, "Working Group on 'Infrastructure and Technology', Joint Minutes on the Meeting," (Moscow: EU-Russia Energy Dialogue, 2001), see Annex 2.

⁴⁷⁶ Zhiznin, *Energy Diplomacy: Russia and the World*, 286-7.

⁴⁷⁷ EU-Russia Energy Dialogue, "Working Group on 'Infrastructure and Technology', Joint Minutes of the Third Meeting," (Moscow: EU-Russia Energy Dialogue, 2001), 5-6.

⁴⁷⁸ "Joint Minutes of the Second Meeting of the Thematic Expert Group 'Energy Strategies and Balances'," (Moscow: EU-Russia Energy Dialogue, 2001).

⁴⁷⁹ 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).

⁴⁸⁰ EU-Russia Energy Dialogue, "Group 'Energy Efficiency and Environment', Minutes of the 2nd Meeting " (Brussels: EU-Russia Energy Dialogue, 2001), 1.

attempt 'to get Russia to be guided in its foreign policy, especially in Europe, its rules and regulations.'⁴⁸¹ Indeed, 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.'⁴⁸²

The truth was that the Russians did not really want a wide-ranging 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.⁴⁸³ The problem was that the investment was not forthcoming. I will return to the lack of business participation in the next chapter, and the legal disputes in chapter five.

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, stating that this 'clearly demonstrates that the Dialogue has effectively moved into its concrete, implementation phase.'⁴⁸⁴ Besides this, however, the report largely reiterated the objectives of the first synthesis report, including the initiation of 'pilot' energy savings projects in the regions of Astrakhan and Arkhangelsk, and a promised Technology Centre in either Moscow or St. Petersburg. I will return to these projects in the next chapter.⁴⁸⁵

⁴⁸¹ Vedomosti, "Energodialog Rossii i ES ubila Evrokomissiiia."

⁴⁸² Viktor Khristenko, "Kruglogo stola promyshlennikov Rossii i ES," *PravoTEK*, no. 10 November (2004).

⁴⁸³ Author's interview with Stanislav Zhiznin.

⁴⁸⁴ EU-Russia Energy Dialogue, "Second Progress Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2002), 1.

⁴⁸⁵ Ibid.

To be sure, a few tangible achievements were made at the summit, where the EU finally granted Russia market economy status, thereby reducing penalty tariffs and limitations on Russian exports.⁴⁸⁶ 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.'⁴⁸⁷ To him, the summit represented a broader rapprochement between Russia and the west. But to more hawkish Russians, like Ivan Ivanov, who 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.⁴⁸⁸

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. The 'pilot' projects were moving too slowly, said Ivanov, who suspected geopolitics were at play, claiming that 'Brussels wants from the beginning to agree at first with NATO, and only then with third countries, including Russia.'⁴⁸⁹ (To an extent, Ivanov was right, as I will show in chapter four on geo-economics). Russia was certainly not looking to join the EU, Ivanov said, again emphasising that Russia 'is a Eurasian country which develops an active foreign policy in all directions.' Still, even multipolar foreign policy depended on

⁴⁸⁶ EU-Russia Summit, "Joint Statement," (Moscow: EU-Russia Summit, 2002).

⁴⁸⁷ Vladimir Ryzhkov, "Aksenty Vladimira Putina," *Vedomosti*, 23 May 2002.

⁴⁸⁸ Ivan Ivanov, "La Russie et l'Europe : des actes " *Les Echos*, 27 May 2002.

⁴⁸⁹ Ibid.

the will of partners. This included the EU, he said, whose will was so far lacking.⁴⁹⁰ 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 Yevgenii Primakov, the silovik and Yeltsin's former arch-rival. The Chamber emerged as a stern voice warning against the dangers of globalisation, including the 'folly' of Russian WTO membership.⁴⁹¹

However, even the liberals were becoming disillusioned with the EU and the Energy Dialogue.⁴⁹² The Russians felt they had to compromise, without getting anything in return. As one commentator noted:

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.⁴⁹³

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's stated need for more imported energy, from 50 per cent to 70 per cent of consumption. This, he said, required the extension of trade in other energy products, such as electricity, petroleum products, petrochemicals and nuclear fuel. 'The success of the Energy Dialogue depends on the solution of disputes', Yurgens wrote. But the Commission was moving in the opposite direction:

Claiming to increase purchases of Russian gas, the Commission nevertheless challenges the number of long-term gas contracts, the provisions of Gazprom [...] the immediate objectives of the

⁴⁹⁰ Ibid.

⁴⁹¹ Zoia Kaika, "TPP vybrala zhertvy," *Vedomosti*, 5 February 2002.

⁴⁹² Author's interview with Vladimir Milov.

⁴⁹³ Alexander Becker, "Ot slov k delu," *Vremia MN*, 29 May 2002.

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.⁴⁹⁴

The Russians were becoming fed up with what they perceived as Brussels' 'tricks'.⁴⁹⁵ At the same time, 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).⁴⁹⁶ Late-2002 Prodi claimed that Putin had recently approached him about the possibility of Russia one day joining the EU, as Russia, too, was a European state. 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.'⁴⁹⁷ Instead Russia could receive a partnership agreement with the EU. However, 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

The Russians did not only feel antagonized 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 that it is not needed.'⁴⁹⁸ Indeed, several member states remained lukewarm towards the Energy Dialogue. Officially, the EU remained unequivocal in its support of the dialogue. The Council Presidency, together with Putin,

⁴⁹⁴ Igor Yurgens, "Most istoricheskogo znachenii," *Vedomosti*, 11 November 2002.

⁴⁹⁵ Ivanov, "Ne poddavaites' na ulovki Briusselia."

⁴⁹⁶ VTsIOM, "Rossiiane ob otnosheniakh s evropoi ", ed. VTsIOM (2003).

⁴⁹⁷ Pierre Collignon, "Prodi: EU skal have en grænse," *Jyllands-Posten*, 26 November 2002.

⁴⁹⁸ Ivan Ivanov, "Khromaia sila," *Nezavisimaia gazeta*, 16 December 2002.

Solana and Prodi, noted 'with satisfaction' that the Energy Dialogue 'had preserved its dynamism and its pragmatic approach', with particular note of the planned Energy Technology Centre to be built in Moscow and the ongoing evaluation of pilot projects for energy savings in Archangelsk and Astrakhan Oblasts.⁴⁹⁹ The European Parliament, meanwhile, had described the Energy Dialogue as 'a cornerstone' in EU-Russia relations.⁵⁰⁰

But the individual member states were beginning to lose their patience. At the European Council in Seville in June 2002, the state leaders noted that a 'final, joint report' for the dialogue should be submitted by the end of the year.⁵⁰¹ The Energy Dialogue 'did not have a clear agenda', as one German official said, adding that 'nothing was happening.'⁵⁰² 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 its 'complementarity' with the Energy Dialogue. The Council demanded:

[F]urther 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.⁵⁰³

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 in its Russian

⁴⁹⁹ EU-Russia Summit, "Joint Statement."

⁵⁰⁰ European Parliament, "European Parliament Resolution on the EU-Russia Summit," ed. European Parliament (2002).

⁵⁰¹ European Council, "Relations with Russia," (Sevilla: European Council, 2002), 3.

⁵⁰² Author's interview with Klaus Kleinekort.

⁵⁰³ Council of the European Union, "2465th Council Meeting - Transport, Telecommunications and Energy," (Brussels: Council of the European Union, 2002), 14-16.

policy-making. Straw encourage the EU 'to use the Energy Dialogue to better effect, including by involving member states more in guiding the Dialogue.'⁵⁰⁴

The Rear-Guard

In the previous chapter I mentioned how France and Germany called for a vanguard of states to lead the EU. However, with respect to the Energy Dialogue, the vanguard was indeed a rear-guard. In want of tangible results from the Energy Dialogue, Putin stepped up his efforts to consolidate new bilateral energy dialogues. Besides Putin and Schröder's Petersburg dialogue, many similar initiatives emerged around 2002-2003. France and Russia agreed to intensify their bilateral energy dialogue in 2002.⁵⁰⁵ A Russo-Italian energy dialogue was launched in 2003 by Putin and Silvio Berlusconi, Italy's new prime minister.⁵⁰⁶

Putin and Blair had also launched a Russia-UK energy dialogue. Present at the unveiling of the dialogue were several high-ranking Russian and British business officials, including Yukos-boss Mikhail Khodorkovsky.⁵⁰⁷ Khodorkovsky had himself supported the Energy Dialogue, once noting that Europe 'will remain our largest customer.'⁵⁰⁸ But Khodorkovsky was also a fierce opponent of the PSA regime, supported by the European dialogue as key to investment.⁵⁰⁹ And he was a strong opponent of Putin himself.

⁵⁰⁴ Straw, "EU-Russia Relations, 3rd Report, 17 December 2002, HL Paper 29."

⁵⁰⁵ President of Russia, "State Visit to France," (Paris: President of Russia, 2003).

⁵⁰⁶ "Press Statement and Answers to Questions," (Moscow: President of Russia, 2003).

⁵⁰⁷ "Russian President Vladimir Putin and British Prime Minister Tony Blair Opened a Russian-British Energy Conference," (London: President of Russia, 2003).

⁵⁰⁸ *Le Monde*, "Les ambitions de Mikhaïl Khodorkovsky, le roi du pétrole russe," *Le Monde*, 22 March 2002.

⁵⁰⁹ Author's interview with Russian Official A.

The Statist Narrative

However by 2004, Khodorkovsky had been jailed and Yukos had been abolished and 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 marked the onset of state capitalism in Russia, to which I will return in the next chapter.

At the beginning of the Energy Dialogue, Russia's political leadership was weak. I have already mentioned the dire situation in the Ministry of Energy, and how this impaired strategic planning, including work on the official Energy Strategy for 2020. The strategy was proposed and rejected several times before it was finally passed in 2003. In 2002, Sergey Shoygu, then-leader of United Russia and Minister of Emergency Situations, and later Minister of Defense, dismissed the 2020 strategy, noting that 'the only figures in this document are the number of pages, it is not a real strategy.'⁵¹⁰ As Vladimir Milov remarked, 'the strategy was terrible. The numbers set for 2020 were already exceeded by the end of the calendar year.'⁵¹¹ The 'dual state' and problems of strategic planning would continue to burden the Russian side of the dialogue.

However, there was nevertheless a marked shift in 2004, when Putin embarked on his second term in power. This is when Putin really reasserted his 'vertical of power'. In doing this, so, too, would Russia's attitude towards the Energy Dialogue change. Hence, the transition from 2003 to 2004 marked an overall turning point for the Energy Dialogue, as acknowledged by interlocutors on both sides.⁵¹² There was a tangible change in atmosphere. In the November 2003 report the interlocutors struck an optimistic note, stating that 'The time has come to reflect upon the establishment of an

⁵¹⁰ Author's interview with Alexei Mastepanov.

⁵¹¹ Author's interview with Vladimir Milov.

⁵¹² Author's interviews with Stanislav Zhiznin; EU Official A

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.⁵¹³ Shortly before this Lamoureux had said that the goal of the Energy Dialogue was to create a 'unified Europe'.⁵¹⁴ But it was a 'swan song', as one Commission official would later admit.⁵¹⁵ In the November 2004 report the tone was more sombre, with no mention of such an 'Energy Community'.⁵¹⁶

The Russians were beginning to lose interest in the Energy Dialogue, which had not delivered on its promises.⁵¹⁷ As Nikolai Mironov, a senior Russian MFA official in the Energy Dialogue, 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.⁵¹⁸

The Russians were tired of dealing with what they considered as politically impotent Commission officials. As the first Russian coordinator of the Energy Dialogue recalled:

⁵¹³ EU-Russia Energy Dialogue, "Fourth Progress Report," (Moscow/Brussels: EU-Russia Energy Dialogue, 2003), 6.

⁵¹⁴ RIA Novosti, "Russian-EU Energy Dialogue to Aim at Creating United Europe."

⁵¹⁵ Author's interview with Christian Cleutin.

⁵¹⁶ EU-Russia Energy Dialogue, "Fifth Progress Report," (Moscow/Brussels: EU-Russia Energy Dialogue, 2004).

⁵¹⁷ Author's interview with Stanislav Zhiznin.

⁵¹⁸ Nikolai Mironov, "Rossiia-ES: edinstvo i bor'ba," *Neft' Rossii*, 8 August 2004.

[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.⁵¹⁹

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.⁵²⁰ 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. Upon assuming the presidency in 2000, Putin had pledged not to interfere with government activity, instead issuing his instructions via Kasyanov.⁵²¹ 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.

State-Led Modernisation

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.⁵²² And Putin's state-directed modernisation

⁵¹⁹ Author's interview with Alexei Mastepanov.

⁵²⁰ Author's interviews with Stanislav Zhiznin; Christian Cleutin.

⁵²¹ Author's interview with Vladimir Milov.

⁵²² Illarionov, "The Siloviki in Charge."

was paying off, albeit with the help of rising oil prices, which by the end of 2004 were approaching 50 dollars per barrel (Figure 2.1). The Russian economy was booming. Real GDP growth had averaged by six per cent per year since 1998.⁵²³ 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, as the aforementioned Mironov had made clear in an article from 2003:

Security is identified with the balance of power [...] The collective security system is extremely unstable [...] [t]he main objects of security in modern society continues to be the attributes of the state structure of society: order, sovereignty, integrity.⁵²⁴

The state was the bedrock of modernisation and security. Conversely, the Russians were deriding the 'weak' Prodi Commission, as noted by Ivan Ivanov, who had long since lost interest in the dialogue. Ivanov had grown tired of what he considered the EU's 'unreasonable demands' towards Russia.⁵²⁵ He was joined by other long-standing Russian participants in the dialogue, who had begun skipping meetings.⁵²⁶ The liberals were on the retreat and the statist gaining ground. Consequently, setting up Energy Dialogue meetings with the Russians was becoming more difficult for the Commission.⁵²⁷

⁵²³ OECD, *Russian Federation, Progress and Reform Challenges* (Paris: OECD, 2004), 11.

⁵²⁴ Nikolai Mironov, *Mezhdunarodnaia energeticheskaia bezopasnost'* (Moscow: Russian Ministry of Foreign Affairs, 2003), 11.

⁵²⁵ Ivan D. Ivanov, "E dini vnutrennii rynok es: svet, teni, istoricheskaia perspektiva," *Sovremennaia Evropa*, no. 2 (2004): 27.

⁵²⁶ Author's interview with Stanislav Zhiznin.

⁵²⁷ Author's interview with Christian Cleutin.

The EU15 Narratives: Going on 25

Meanwhile, the major member states continued their own bilateral agendas. This bilateralism even took place during Energy Dialogue meetings. This interaction did not necessarily follow the official agenda, and often took place during coffee breaks, where participants, usually from the major member states, would engage in private conversation with the Russians.⁵²⁸ The biggest one, Germany, continued to cultivate its special relationship with Russia. In a French official report from 2003, it was remarked that German energy officials were 'in constant contact' with their Russian colleagues. The author of the report recommended that France should do the same.⁵²⁹ The Russo-German dialogue, set up by Gerhard Schröder and Putin in September 2000, became closer also in the official EU context after Khristenko became minister for Industry and Energy. His appointment was followed by the nomination of the German Günther Verheugen as Commissioner for Industry later that year. But the relationship between Putin and Chancellor Gerhard Schröder had by then developed into a personal friendship. Schröder and his wife would even adopt a Russian orphan girl.⁵³⁰ In November 2004, one year after the controversial Khodorkovsky's arrest, Schröder described Putin as a 'flawless democrat'.⁵³¹ But 2005 was an election year in Germany. And there were hopes that Schröder's challenger for the chancellorship, Angela Merkel, would take a different approach to Putin and the Russians. But Germany's narrative towards Russia would not change dramatically under Merkel, as I will show in chapter four.

⁵²⁸ Author's interviews with Klaus Kleinekorte; EU National Official E [Phone, 24.09.12].

⁵²⁹ Bernhard Laponche, "Dialogue sur l'énergie entre l'Union européenne et la Fédération de Russie," (Paris: Ministère des Affaires Étrangères, 2003), 25-26.

⁵³⁰ *Der Spiegel*, "Schröders Adoption: Maulkorb für Kinderhilfswerk," *Der Spiegel*, 16 September 2004.

⁵³¹ "Moscow Mon Amour: Gerhard Schroeder's Dangerous Liaison," *Der Spiegel*, 1 December 2004.

And Germany was not the only special leadership cultivated by Putin within the EU. Putin had forged similar ties with the Italians. Berlusconi was a long-standing friend of Putin and Russia, who in 2002 had even advocated Russia's accession to the EU.⁵³² During the launch of the Russo-Italian energy dialogue in November 2003, Putin had described Italy as Russia's 'second partner after Germany.'⁵³³ In return Berlusconi had defended Putin and Russia's actions in Chechnya and in the Khodorkovsky trial against what he claimed were 'myths and distortions' among Western commentators.⁵³⁴ Berlusconi's statements triggered a sharp rebuke by Commission officials, including Commissioner Patten, who called it 'unbelievable', but also Romano Prodi, who said that he hoped the Italian Prime Minister's understanding of Russia was 'better than his understanding of Italy.'⁵³⁵ There was indeed no love lost between the two Italians. Prodi and Berlusconi were bitter rivals representing different political factions. After leaving the Commission, Prodi would beat out Berlusconi as Prime Minister in 2006, before being replaced by the same Berlusconi in 2008. Domestic politics was indeed weighing in, even for Commission officials.

Brinkhorst and the Dutch Reassessment

But there were also significant changes among the member states, the biggest of which was of course the EU's expansion to 25 member states. But the new members did not really become involved in the Energy Dialogue until 2005-2006, so I will save this for chapter four on the 'Geo-Economic Dialogue'. Among the 'old' members, both the

⁵³² Agence France Presse, "EU Membership Is Next Step for Russia After NATO: Berlusconi," *Agence France Presse*, 26 May 2002.

⁵³³ President of Russia, "Press Statement and Answers to Questions."

⁵³⁴ BBC, "Berlusconi Breaks EU Ranks on Russia," *BBC*, 6 November 2003.

⁵³⁵ Richard Owen, "Berlusconi and Brussels Fall Out Over Chechnya," *The Times*, 10 November 2003.

Netherlands and the UK changed tactics. As mentioned, these were the two countries that had voiced the strongest opposition to the Energy Dialogue.

However, in 2003-2004 two things happened: First, the Dutch came to the realisation that it would eventually make the transition from a net exporter of natural gas to become a net importer. Second, 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. Upon assuming office, Brinkhorst began the full implementation of the second set of gas and electricity directives, launched in 2003. 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 rear-guard to the avant garde of implementation of the directives. Questions were raised inside the Netherlands why it suddenly had to move ahead of everybody else in the EU, to the chagrin of the state gas monopoly, Gasunie, which was forced to break up.⁵³⁶ During the Dutch Presidency of the Council in the second half of 2004, the Dutch government, spearheaded by Brinkhorst, declared its intention to intensify the Energy Dialogue with Russia, but also its bilateral dialogue.⁵³⁷ Hence, partly at Dutch initiative, the Energy Dialogue was restructured – a point to which I will return in the next chapter.

⁵³⁶ Author's interviews with Henne Schuwer; Dutch Industry Official.

⁵³⁷ Laurens Jan Brinkhorst, "Brief van der minister van economische zaken," (Den Haag: Tweede Kamer der Staten-Generaal, 2004), 9.

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

But the Energy Dialogue was by 2004 an empty shell, without a clear direction, narrative or proper leadership.⁵³⁸ Nevertheless, the Brits were preparing to take charge. The UK, too, cultivated its own bilateral Energy Dialogue with Russia, and Britain had been one of the firmest opponents of the Energy Dialogue. But in 2005 Downing Street would perform a dramatic about-face. Ostensibly, the reason was that the UK's oil and gas-reserves were starting to run out. Britain would soon become a net importer of energy.

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 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.⁵³⁹ 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.'⁵⁴⁰ 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. In another sense, however, it reflected a dawning recognition that the EU needed to pull together – to speak with one voice – 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

⁵³⁸ Author's interviews with Christian Cleutinx; Klaus Kleinekorte; Stanislav Zhiznin; Dutch Industry Official; EU Official A.

⁵³⁹ Dieter Helm, "European Energy Policy: Securing Supplies and Meeting the Challenge of Climate Change," 25 October(2005).

⁵⁴⁰ Tony Blair, "EU Informal Summit: UK Prime Minister Tony Blair Emphasises the Need for a Common European Energy Grid," (Hampton Court: European Council, 2005).

towards British practices.⁵⁴¹ And in making this case the UK enjoyed support by the Dutch, and increasingly the Spanish, Belgians and Danes, as I will show in chapter five.

But what few people realise is that the British about-face came by chance. The reason why EU energy policy came atop the agenda of the Hampton Court Summit was not because it had suddenly assumed any particular importance. It was mostly due to contingent events, and in particular the breakdown of the negotiations over the EU's upcoming long-term budget for 2007-2013 – where Blair and Chirac in particular had come at odds with one another over agricultural subsidies, of which the French benefited in particular.⁵⁴²

Nevertheless, 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.⁵⁴³ 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.⁵⁴⁴ The first PPC meeting had been held already at the eve of the summit. With the introduction of the PPC on energy, the EU-Russia Energy Dialogue was effectively put under the administration of the Council.⁵⁴⁵ The PPC included the new Energy Commissioner, the Estonian Andris Piebalgs, and Khristenko, in addition to the energy ministers from the two EU nations holding the current and upcoming presidency of the Council.

⁵⁴¹ Author's interview with Dieter Helm, who was Blair's chief energy adviser, and the author of the White Paper on energy which formed the basis for Blair's speech on energy at Hampton Court.

⁵⁴² Author's interview with Dieter Helm.

⁵⁴³ Malcolm Wicks, "House of Commons Hansard Written Answers for 13 Jun 2005 (pt 21)," (London: House of Commons, 2005).

⁵⁴⁴ EU-Russia Summit, "16th EU-Russia Summit," (London: Council of the European Union, 2005).

⁵⁴⁵ Author's interview with EU Official A.

Exit Lamoureux

But one person was missing: Francois Lamoureux, whose rank as DG was too low to be included in the PPC. However, 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.⁵⁴⁶ Blair had publicly supported Barroso instead of the other main candidate, Guy Verhofstadt, the Dutch Premier, to the chagrin of Gerhard Schröder and Jacques Chirac.⁵⁴⁷ Barroso allegedly disliked Lamoureux, who was considered a relic of the Franco-dominated Delors and Santer commissions.⁵⁴⁸ Barroso's platform was based on simplifying the Byzantine *acquis*.⁵⁴⁹ 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.⁵⁵⁰

Rumours of Lamoureux's departure had surfaced already in August. Lamoureux departure would be 'a coup for London', one UK official told the Financial Times (FT), with another official saying that the UK's 'top priority' in the European Union was to 'screw Lamoureux'.⁵⁵¹ And 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'.⁵⁵² (Of course, this depends on whom

⁵⁴⁶ Peter Mandelson, *The Third Man* (London: Harper Press, 2011), 393.

⁵⁴⁷ Blair, *A Journey*, 537.

⁵⁴⁸ Author's interview with EU Official B.

⁵⁴⁹ The Economist, "Charlemagne: Whipping the Commission into Shape," *The Economist*, 17 November 2005.

⁵⁵⁰ Directorate General of Energy and Transport, "Repertoire of the Acquis Communautaire," (Brussels: European Commission, 2004).

⁵⁵¹ Financial Times, "Brussels Shuffles the Eurocrat Pack," *Financial Times*, 11 August 2005.

⁵⁵² George Parker, "Inside Brussels: Right Turn Ahead," *ibid.*, 10 November.

you ask. Blair's former energy adviser insisted that 'I don't think you'll find a single UK politician who's even heard of him', although this was said seven years later, in 2012⁵⁵³).

Part of the reason for his notoriety was 'Penelope', Prodi's unofficial draft for a new EU constitution, written by Lamoureux, to which I will return in chapter five. After Barroso's new Commission was announced, Britain's the 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.'⁵⁵⁴ 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.'⁵⁵⁵ Lamoureux himself was befuddled by his sudden departure, according to Pascal Lamy, the French former Commissioner of Trade, who had left the Commission and had assumed the position as the DG of the WTO.⁵⁵⁶ Lamy's replacement was the British Labour politician Peter Mandelson (fittingly, the UK had also assumed the leadership of the reformed thematic group on trade, to be covered in the next chapter).

But barely a year after his departure from the Commission, Lamoureux died of cancer. In a 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 Francois Lamoureux, the European Union has lost one of its most determined builders', wrote the newly coined WTO boss.⁵⁵⁷ Lamoureux was not well known to the outside world, but was familiar, even infamous, inside Brussels. As the Brussels correspondent for

⁵⁵³ Author's interview with Dieter Helm.

⁵⁵⁴ 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.

⁵⁵⁵ Le Figaro, "Les Français perdent des postes clés à Bruxelles," *Le Figaro*, 9 November 2005.

⁵⁵⁶ Lamy, "Homme aux convictions profondes il fut l'un des bâtisseurs de l'Union européenne."

⁵⁵⁷ Ibid.

Libération noted in his obituary to Lamoureux, 'you do not know, but a page in the history of the European Union has turned'.⁵⁵⁸ And a page had turned, if nothing but for the Energy Dialogue, which from January 2006 would be led by Piebalgs.

Piebalgs was an experienced civil servant, and was fluent in Russian. But awarding the co-leadership of the Energy Dialogue to an Estonian did not go down well with the resurgent Russian juggernaut.⁵⁵⁹ The departure of Lamoureux and the entry of Piebalgs marks the transition from federalist idealism to hard geo-politics 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 geo-economics, 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', said one senior EU official.⁵⁶⁰ 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'.⁵⁶¹ And the Energy Dialogue did indeed reflect the changing nature of EU's relationship with Russia. 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, 2001-2005. During this time the dialogue slowly slipped under the radar both inside Russia and the

⁵⁵⁸ Jean Quatremer, "Mort d'un Européen," *Coulisses de Bruxelles*, 27 August 2006.

⁵⁵⁹ Author's interviews with EU Industry Official A; EU Official A.

⁵⁶⁰ Author's interview with EU Official B.

⁵⁶¹ 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.

EU. On the EU side, neither member states nor the Commission could agree on what the Energy Dialogue was supposed to become, or who was going to take charge. There was thus no authoritative narrative. By the end of 2005, therefore, bilateralism had trumped multilateralism, as the founder of the Energy Dialogue was fired and the Energy Dialogue was put under administration by the Council.

Meanwhile, there was really no authoritative narrative on the Russian side either. Factional and inter-ministerial conflict meant that it was not always clear who was in charge. The only thing the Russians could really agree upon was the need for investment. But as oil prices continued to rise, and Russia's economy improved, the need for investment became less acute. Thus, by the time Putin had restored authority in Russia, he was no longer interested in the Energy Dialogue, which to Russian officials had devolved into a bureaucratic side show.

In the next chapter I will seek to understand this lack of business participation, as I proceed to analyse the missing 'Business Dialogue' of the EU-Russia Energy Dialogue. Here I will show how the business narrative was deliberately kept out of the dialogue, on both sides of the table.

Chapter Three: The Business Dialogue

(2003-2006)

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 primary concern, but also the biggest challenge, of the Energy Dialogue was to facilitate investment. The core of the energy trade was not governments, but companies. 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.'⁵⁶² But it was a statement of intent, rather than an affirmation of actual reality. In fact, business participation had been severely lacking. In Bakhtinian terms, business had been denied authorship of the Energy Dialogue's envisaged energy partnership.

This chapter will begin with the 'EUropean Narrative', which presented the Commission with a predicament in providing Russia its vaunted investment, whilst ensuring proper representation among its member states. The Commission lacked financial means, but nevertheless opted to limit industry access to the Energy Dialogue. 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. Third, I will return to

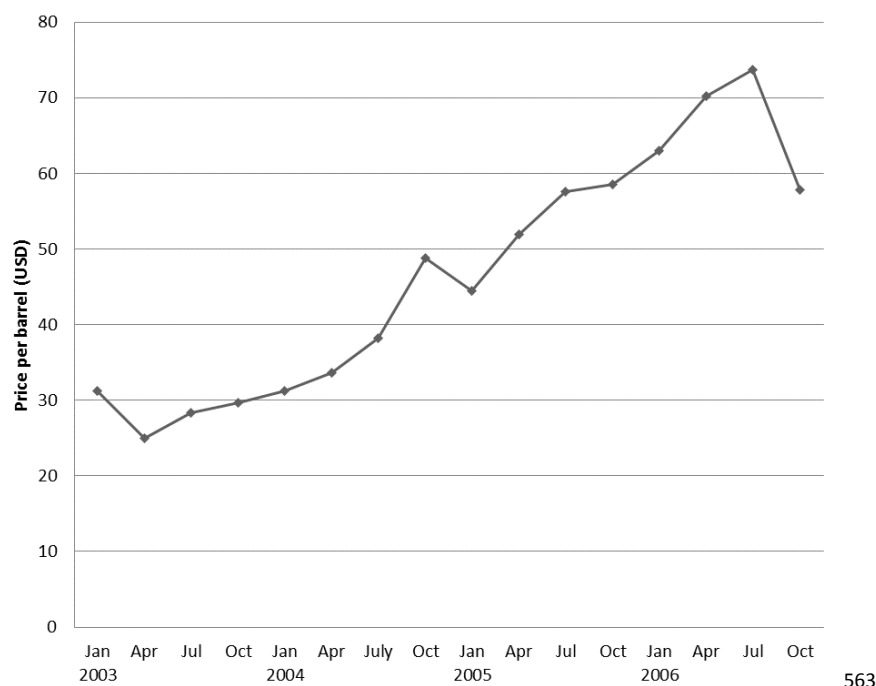
⁵⁶² EU-Russia Energy Dialogue, "Thematic Group on Investments," (Moscow/Brussels: EU-Russia Energy Dialogue, 2006), 12-3.

Russia's 'Dual State Narrative' and the complex relationship between the official bureaucracy and the administrative regime. Perhaps nowhere was this duality more apparent than in state-business relations. Oligarchs enjoyed considerable control in both government and the Russian legislature, and were undermining Putin's efforts to pass the new PSA regime. But the tables were turned when Mikhail Khodorkovsky, the CEO and owner of Yukos, was thrown in jail by courtesy of the clandestine machinations of the people around Putin.

Fourth, returning to the 'Euro-Asian Narrative', the Russians were growing increasingly impatient with the Energy Dialogue, which it felt had succumbed to bureaucratic procrastination. Hence, calls were made for increased business participation. Russia's calls were echoed by the EU's energy industry (the 'EU25 Narratives'), which demanded more access to the Energy Dialogue. Late-2004, the dialogue was finally restructured. But it was only a half-measure, with industry being limited to participate through industry associations. And the business representative who were present felt that their input was not really taken into account. Meanwhile, the relationships between the EU's major energy companies and their host states varied greatly, from positive to downright hostile.

However, foreign investors were now faced a completely different business climate than before. Putin's 'Statist Narrative' had prevailed, with the Kremlin's takeover of the Russian oil and gas sectors. Making matters worse was Putin's u-turn with respect to the PSA framework, from strong support to fierce opposition. Nonetheless, there was a rationale behind Putin's drive for state control. Finally, therefore, I return to Russia's 'Post-Imperial Narrative', to 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.

Figure 3.1 – Average World Oil Prices, January 2003 – October 2006



European Narrative

One of the main objectives of the Energy Dialogue was to facilitate investments and technology transfer.⁵⁶⁴ 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.⁵⁶⁵ But to the Commission equal access also extended to who should be allowed to participate in the Energy Dialogue itself. 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,

⁵⁶³ U.S. Energy Information Administration, "Spot Prices".

⁵⁶⁴ European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission - the EU-Russia Energy Dialogue," 2.

⁵⁶⁵ EU-Russia Energy Dialogue, "Summary of the Preliminary Meeting on the EU-Russia Energy Dialogue between MM Khristenko and Lamoureux," 2.

industry was not invited to join. The companies that were present were there only by invitation from the member states, who were allocated 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. Thus, 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.'⁵⁶⁶ Hence 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.

In Bakhtinian terms, industry was denied authorship of the narrative of the envisaged energy partnership. 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.⁵⁶⁷ 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. 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 euros, in investment. This investment would have to come from industry, as the Commission's own funds were almost non-existent.⁵⁶⁸ The entire EU budget amounted

⁵⁶⁶ Author's interview with Christian Cleutin.

⁵⁶⁷ Holquist, *Dialogism: Bakhtin and His World*, 33-5.

⁵⁶⁸ Author's interview with Christian Cleutin.

to little more than 100 billion euros. And 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 Francois Lamoureux' considerable influence, autonomy 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.'⁵⁶⁹ 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. But here, too, funds were limited. Between 1991 and 2006 a total of 7.3 billion euros were allocated to TACIS.⁵⁷⁰ Again, this was wide off the mark of the 530 billion euros 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.⁵⁷¹ 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 90s, 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

⁵⁶⁹ Author's interview with Christian Cleutin.

⁵⁷⁰ European Union, "Council Regulation (EC, Euratom) No 99/2000 of 29 December 1999," 2.

⁵⁷¹ Ibid.

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.⁵⁷² In the end no direct charges were brought towards Lamoureux himself, but the issue contributed to the collective resignation of the Commission of President Jacques Santer. Despite good intentions, the results of TACIS were limited. The project remained mired in low implementation, management problems and lack of transparency.⁵⁷³

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 euros).⁵⁷⁴ The total cost of the report 'Gas and Oil Transport Network observation system and modernisation plans' was 3 million euros, and was published in 2004.⁵⁷⁵ In addition were three pilot projects for energy saving, 'Energy Efficiency at a Regional Level (Archangelsk, Astrakhan and Kaliningrad)' and 'Renewable Policy and Rehabilitation of Small Scale Hydro Power Plant'. As for the latter projects, these were not actual implementations of measures ensuring energy saving, but rather assessments of energy savings potential.⁵⁷⁶ 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 euros. However, the main focus of the ENPI was

⁵⁷² Frankfurter Allgemeine Zeitung, "Korruptionsaffären der Kommission."

⁵⁷³ Kepa 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).

⁵⁷⁴ EU-Russia Energy Dialogue, "Third Progress Report," (Brussels/Moscow: EU-Russia Energy Dialogue, 2002), 3.

⁵⁷⁵ "Fifth Progress Report," 6.

⁵⁷⁶ Author's interview with Christian Cleutinx.

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 reform, including the promotion of democracy human rights.⁵⁷⁷ Khristenko himself was firmly against the European Neighbourhood Policy, according to one EU official.⁵⁷⁸ Unlike TACIS, neither Russia nor the Energy Dialogue would draw funds from ENPI.

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.⁵⁷⁹

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 chapter five on the 'Legal Dialogue'. Further measures included setting up a 'one stop shop' for investors looking

⁵⁷⁷ 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).

⁵⁷⁸ Author's interview with EU Official B.

⁵⁷⁹ European Commission, "Communication from President Prodi, Vice President de Palacio and Commissioner Patten to the Commission - the EU-Russia Energy Dialogue," 4.

to invest in the Russian energy sector.⁵⁸⁰ So 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 2001-2003

In the early years of the 2000s, Russia was open for business. In 2002, Prodi and Putin noted 'with satisfaction' that the Energy Dialogue 'had preserved its dynamism and its pragmatic approach', with particular note of the Energy Technology Centre to be built in Moscow, and the ongoing evaluation of pilot projects for energy savings in Archangelsk and Astrakhan Oblasts.⁵⁸¹ In Russia, the official 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 held monthly meetings with European business representatives. As the then-chairman of the European Business Club in Russia, Seppo Remes, 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.'⁵⁸² Remes 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.⁵⁸³

⁵⁸⁰ Ibid.

⁵⁸¹ EU-Russia Summit, "Joint Statement."

⁵⁸² Author's interview with Seppo Remes.

⁵⁸³ Author's interview with Seppo Remes..

Production-Sharing Agreements

For the Russians, the litmus test for a successful energy dialogue and energy partnership was business investment. But the European companies were hesitant. Russia was considered an unsafe prospect by many of the EU business participants in the dialogue.⁵⁸⁴ According to a senior German business official in the Energy Dialogue:

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.⁵⁸⁵

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. PSAs 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.'⁵⁸⁶ The Commission made clear that 'without PSAs, certain projects will not happen.'⁵⁸⁷ 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 predetermined 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

⁵⁸⁴ Author's interviews with Klaus Kleinekorte; Seppo Remes.

⁵⁸⁵ Author's interview with Klaus Kleinekorte.

⁵⁸⁶ European Commission, "The Question of PSAs in Russia: Background Memo," (Brussels: European Commission, 2001).

⁵⁸⁷ "Energy Dialogue with Russia - Update on Progress " 7.

recuperated, revenues were distributed from 'profit oil', which was split between the investor and the owner of the field, again according to a predetermined percentage.⁵⁸⁸

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 PSAs were negotiated predominantly to the advantage of the western companies. So from the beginning, PSAs were controversial in Russia. And after the 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 Steven McVeigh, the CEO of the Sakhalin Investment Company, which directed the project.⁵⁸⁹ Together these projects were the biggest foreign investment projects in Russian history.

That is, until the 2000s. Or so the Russians hoped. Before the launch of the Energy Dialogue, the Kremlin was prepared to enter as many as 25 new PSAs with foreign companies. The original PSA act was passed by the Russian Duma in 1995. But it was deemed unsatisfactory. In 1999, the PSA act underwent comprehensive revision. First, the PSA act was given legal precedence over other conflicting legal doctrines. Second, export restrictions imposed on investors were prohibited.⁵⁹⁰ The PSA revision was widely reported in the Energy Dialogue's early progress reports. However, several Energy Dialogue officials I spoke to claimed that PSAs were simply put on the agenda for

⁵⁸⁸ "The Question of PSAs in Russia: Background Memo."

⁵⁸⁹ Timothy Fenton Krysiak, "Agreements from Another Era: Production Sharing Agreements in Putin's Russia, 2000-2007," *Geopolitics of Energy* 29, no. 7 (2007): PAGE 1.

⁵⁹⁰ European Commission, "The Question of PSAs in Russia: Background Memo."

cosmetic purposes, and it was a political initiative, intended to keep discussion running, rather than a potential channel of business.⁵⁹¹ 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.'⁵⁹²

The Dual State Narrative

Nonetheless, the PSA framework remained on Putin and the Energy Dialogue's agendas. Putin, after becoming president, 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.'⁵⁹³ Originally it was the Ministry of Energy which had the responsibility for the PSA act. However, the situation in the Ministry of Energy was unstable. In 2000 Putin had yet to impose his authoritative narrative of the 'vertical of power'. Between 1992 and 2002, Foreign Direct Investment in Russia amounted to 23 billion dollars. Conversely, a staggering 245 billion dollars left the country.⁵⁹⁴ Corruption was pervasive, and government was no exception.

By the time of Putin's rise to power the Ministry of Energy was dominated by private interests. The energy ministers themselves were mostly anodyne bureaucrats with limited influence.⁵⁹⁵ But the ministers were nevertheless useful observers of the inner workings of the Russian bureaucracy, rendering them battle zones for competing

⁵⁹¹ Author's interviews with Klaus Kleinekorte; Seppo Remes; Russian Official C; Dutch Industry Official.

⁵⁹² Author's interview with Klaus Kleinekorte.

⁵⁹³ Putin, "Excerpts from an Address to the International Conference PSA-2000."; Interfax, "EC Member States Russia Could Play Key Role in European Energy."

⁵⁹⁴ Sergey Petrovsky, "Kto v dome khoziain?," *Nezavisimaia gazeta*, 25 March 2000; European Commission, "Communication from the Commission to the Council and to the European Parliament - Our Relations with Russia," (Brussels: European Commission, 2004).

⁵⁹⁵ Author's interviews with Vladimir Milov; Maria Belova, Senior Analyst at Skolkovo Energy Centre [Moscow and e-mail, 15.02.12 & 13.04.14]; Russian Official D [Moscow, 15.02.12].

business groups. This did not make for a stable working environment for the many energy ministry officials who were involved in the Energy Dialogue.⁵⁹⁶

Alexander Gavrin, who was the minister of energy when the Energy Dialogue was launched in 2000, enjoyed 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 (the 'Luk' in Lukoil is an acronym for Langeepas, Urai and Kogalym). 'Gavrin's a Lukoil man in a big way', as one industry insider told the press.⁵⁹⁷ Gavrin's predecessor, Viktor Kalyuzhny, was known for his ties to oil companies Sibneft and Tyumen Oil, which in 2003 would join BP and form TNK-BP as part of the 'Russia-UK Energy Dialogue', to be discussed below.⁵⁹⁸ Kalyuzhny also nurtured close ties with the Yeltsin 'Family', and his removal was by many seen in connection with Putin's shakeup of the elites.⁵⁹⁹ Both Kalyuzhny and Gavrin were strong opponents of PSAs, as were TNK and LUKoil, and indeed Khodorkovsky and Yukos.⁶⁰⁰ 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 passed a decree banning energy companies from having voting rights in the Ministry of Energy.⁶⁰¹ But the ministry was weak. As one business official noted at the time, 'the Energy Ministry is

⁵⁹⁶ Author's interviews with Alexei Mastepanov; Russian Official A; Russian Official C.

⁵⁹⁷ Gregory Feifer, "Putin Taps Unknown for Energy Job," *The Moscow Times*, 21 May 2000.

⁵⁹⁸ *Petroleum Economist*, "Lukoil Officials Win Key Government Posts," *Petroleum Economist*, 1 July 2000.

⁵⁹⁹ Feifer, "Putin Taps Unknown for Energy Job."

⁶⁰⁰ The Jamestown Foundation, "Viktor Kaluzhny Removed as Fuel and Energy Minister," *Monitor* 6, no. 100 (2000).

⁶⁰¹ Author's interview with Vladimir Milov.

of no use to anyone in its present form.'⁶⁰² Thus, to push faster ahead with the revision of the PSA act, Putin concentrated work on the PSAs and relegated it to German Gref and the MEDT.⁶⁰³ The liberal Gref was widely considered to be more influential than the inefficient Gavrin.⁶⁰⁴ 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.⁶⁰⁵

Khodorkovsky and the PSA Act

The business lobbies failed to formulate a coherent position towards the PSA.⁶⁰⁶ But the most powerful lobbyist was nevertheless Khodorkovsky, and he was fiercely against the new PSA framework. Hence a massive lobbying effort ensued.⁶⁰⁷ It is said that Khodorkovsky placed Kalyuzhny in the Ministry of Energy, and had him removed when the latter lost Khodorkovsky's favour.⁶⁰⁸ Either way, when Gavrin was pronounced as Minister of Energy, Khodorkovsky noted that the best thing Gavrin could do was 'to prepare the ministry for liquidation.'⁶⁰⁹ Likewise, Khodorkovsky dismissed the PSA regime, as they favoured foreign investors, whereas he wanted more equitable agreement which maximised the shareholder value of the Russian companies.⁶¹⁰

Khodorkovsky was no nobody. He was Russia's richest man, having gathered his wealth during the lawless transition from Communist rule. Khodorkovsky had many

⁶⁰² Tutushkin and Bushueva, "Energy Ministry Losing Important Responsibility."

⁶⁰³ Peter Ekman, "Gref Can Use PSAs to Shape Economic Lift," *ibid.*, 8 September.

⁶⁰⁴ Alexander Tutushkin and Yulia Bushueva, "Energy Ministry Losing Important Responsibility," *ibid.*, 12 August.

⁶⁰⁵ 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).

⁶⁰⁶ *Ibid.*

⁶⁰⁷ *Ibid.*

⁶⁰⁸ Richard Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair* (Oxford: Oxford University Press, 2009), 61.

⁶⁰⁹ Tutushkin and Bushueva, "Energy Ministry Losing Important Responsibility."

⁶¹⁰ Author's interviews with Russian Official C; EU Official A

politicians on his payroll.⁶¹¹ 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.⁶¹²

Nobody really knew how many were on Khodorkovsky's 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.⁶¹³ More prudent estimates put this number at around hundred representatives. Nevertheless, 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.'⁶¹⁴ The Duma had 'practically turned into a structural sub-unit of Yukos', as one Russian commentator put it.⁶¹⁵ Khodorkovsky was applying his full lobbying force against the new PSA framework.⁶¹⁶ He was unrelenting in pursuit of his goal, and even threatened to have Gref fired if he pushed the PSA act through, according to one informed source.⁶¹⁷ According to one of Putin's former advisors on energy, similar threats were made towards Prime Minister Kasyanov.⁶¹⁸

It is of course impossible to verify both these incidents. What is undeniable, however, is that 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

⁶¹¹ Author's interview with Nodari Simonia, Deputy Director, IMEMO, Moscow [Moscow, 04.04.12].

⁶¹² Browne and Anderson, *Beyond Business*, 145.

⁶¹³ Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 114.

⁶¹⁴ Ibid.

⁶¹⁵ Natal'ia Arkhangel'skaia, "Dumskai monopol'ka," *Ekspert* 3, no. 26 January (2004).

⁶¹⁶ Author's interview with Russian Official C.

⁶¹⁷ Bernard Gwertzman, "Goldman: Khodorkovsky Trial Worries Investors, Slows Economic Growth," *Council on Foreign Relations*, 2 June 2005.

⁶¹⁸ Author's interview with Nodari Simonia.

a quick passage of the revised PSA framework. It was also upsetting the agenda of the Energy Dialogue.

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 trial for being politically motivated.⁶¹⁹ What followed Khodorkovsky's arrest were two Kafkaesque trials, where Khodorkovsky was sentenced to nine years in prison, a sentence which was extended to twelve years in 2010. However, just as questionable was the expropriation and dissolution of Yukos itself. At the frontlines were the liberals versus the siloviki.

As mentioned, the siloviki have traditionally enjoyed closer ties to the oil sector, and especially state company Rosneft. 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, and 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 assume the unofficial leadership of the siloviki faction.⁶²⁰

The Yukos story narrates both the rise of Rosneft, and Sechin's voyage from an invisible *eminence grise* to becoming Russia's self-appointed energy czar. It was indeed a suprising turn of events. Upon assuming the presidency, Putin had great plans for Gazprom. Rosneft, on the other hand, was still mostly ignored. The early 2000s was a time of apparent liberalisation of the gas major. Putin had declared that the 'ring fence'

⁶¹⁹ Vladimir Milov, "The Use of Energy as a Political Tool," *The EU-Russia Review*, no. 1 (2006).

⁶²⁰ Irina Reznik and Irina Mokrousova, "Pervyi vozle Putina," *Vedomosti*, 19 March 2012.

on Gazprom, limiting foreign ownership of the company to 11 per cent, would be scrapped. But it 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 increase its scope, by expanding into the oil sector. To achieve this, he had set three objectives: First, to reassert the state's majority ownership stake in Gazprom. To ensure this Medvedev sought to acquire Rosneft's thirteen per cent share in the gas giant. The second objective was to acquire Yukos assets, and the third, to merge Gazprom and Rosneft.⁶²¹

In September 2004, Gazprom established Gazpromneft, in order to prepare for the merger with Rosneft. Medvedev 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 bank, Sberbank. On December 19 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.⁶²² A few days later, BFG was acquired by Rosneft, which immediately became Russia's biggest oil company.⁶²³ This was quite a turn-around for a company, which one analyst described as a 'temporary parking lot' for the unwanted assets divested from the Soviet Ministry of Oil.⁶²⁴

⁶²¹ Kryshstanovskaya and White, "Inside the Putin Court, a Research Note," 1072.

⁶²² NBC News, "Russia to Hold Yukos Auction Despite U.S. Ruling," *NBC News*, 17 December 2004.

⁶²³ Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 327.

⁶²⁴ Thane Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia* (Cambridge, Mass. ; London: Belknap, 2012), 76.

All arrows pointed at Sechin, Rosneft's Chairman. As noted by Hanson, '[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.'⁶²⁵ 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.⁶²⁶ It is also questionable that the Yukos affair would have been allowed to proceed without Putin's blessing. And it was clear that Putin had long wanted to get back at Yukos and Khodorkovsky.

Khodorkovsky's Solo Energy Dialogue

In my view, there were four main reasons why Khodorkovsky was targeted: First, Khodorkovsky' 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.⁶²⁷ Second, with rising oil prices, Khodorkovsky's power was growing every week. In 2003, Yukos were 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

⁶²⁵ 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.

⁶²⁶ Reznik and Mokrousova, "Pervyi vozle Putina."

⁶²⁷ Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*, 114.

Russian and international oil markets.⁶²⁸ The third reason for Putin's crackdown was the Kremlin's desire to keep control of Russia's oil wealth in Russian hands. From 2003 Khodorkovsky was funding his own US-Russia Energy Dialogue. Exxon executives were openly informing Putin of their plans to acquire a majority stake in Yukos. This troubled Putin.⁶²⁹ 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.'⁶³⁰

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.⁶³¹ 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.'⁶³² In other words: Khodorkovsky had overstepped his bounds.

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

⁶²⁸ Ibid., 95.

⁶²⁹ Goldman, *Petrostate : Putin, Power, and the New Russia*, 112-3.

⁶³⁰ Reznik and Mokrousova, "Pervyi vozle Putina."

⁶³¹ Pravdambk, "2003 god, nachalo dela IUKOSa," (YouTube, 2011).

⁶³² Browne and Anderson, *Beyond Business*, 145.

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.

Russia's Euro-Asian Narratives in 2004

The second Putin presidency began at the time of the EU's eastern expansion. It marked 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 Yukos-affair had made Russia a 'different country'.⁶³³ Indeed, Russia had changed its path, away from broad patterned integration with the West – and certainly EU membership – towards a more independent vector. Russia, as one observer put it, had 'left the orbit' of the western world.⁶³⁴ 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 a more independent foreign policy.

Nevertheless, the EU remained Russia's most important market. And 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', Remes recalled. The Russians were not

⁶³³ Andrei Illarionov, "Press Conference with Presidential Economic Adviser Andrei Illarionov, Alexander House," (Moscow: Official Kremlin International Broadcast, 2004).

⁶³⁴ Dmitri Trenin, "Russia Leaves the West," *Foreign Affairs* (2006).

happy with the results.⁶³⁵ The Energy Dialogue was part of this picture, according to Remes:

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.⁶³⁶

As one senior Russian official said about the Energy Dialogue in 2004, 'It was not active enough, and business representatives were eventually eliminated from the energy dialogue, leaving it at the mercy of officials.'⁶³⁷ The Russians blamed the EU side for the inadequate business presence, given their reluctance towards allowing companies to participate. 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. It was kept behind by the European Commission.'⁶³⁸ Meanwhile, the Energy Dialogue had become contained by even more bureaucracy, after it was brought in under the umbrella of the Common Economic Space. The Russians were increasingly disillusioned, but nevertheless called for the 'launch of full-scale business dialogue.'⁶³⁹ Hence, calls for a new format for the Energy Dialogue were stepped up.

The EU25 Narratives

The EU member states were also calling for a new format for the dialogue. The Yukos case was regarded with great alarm within the EU, although there were those, like

⁶³⁵ Author's interview with Seppo Remes.

⁶³⁶ Author's interview with Seppo Remes.

⁶³⁷ Mironov, "Rossiia-ES: edinstvo i bor'ba."

⁶³⁸ Author's interview with Alexei Mastepanov.

⁶³⁹ 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.

German Chancellor Gerhard Schröder, who considered it a domestic affair.⁶⁴⁰ Moreover, the EU's member states remained insistent that the Energy Dialogue, now in its fourth year, keep the member states informed about all of its activities.⁶⁴¹ In reality, the member states were frustrated by the 'opaqueness' of the Energy Dialogue, and were demanding more hands on involvement.⁶⁴²

Four New Thematic Groups

The new thematic groups were formed in the second half of 2004. The new groups were launched in November 2004, during a meeting of the Industrialists' Round Table (IRT) in the Hague.⁶⁴³ The IRT was established in 1997, after the launch of the PCA. The IRT was co-chaired by the liberal Anatoly Chubais, former Deputy Prime Minister of Russia and the CEO of RAO UES, Russia's electricity monopoly. From the EU side, the co-chair was held by the Finnish businessman Jukka Härmälä, who was CEO of the Swedish-Finnish forestry company Stora Enso. In 2003, the IRT launched its own 'energy steering group', under the leadership of Chubais.⁶⁴⁴ Still, 'energy was not on the official agenda of this Round Table', as Härmälä told me. He said the reason for this was that energy had a 'high political element', as opposed to transportation, customs clearance, construction, mobile standards and so on, which were prominent on the IRT's agenda. Business to business meetings on energy were kept largely separate and on a bilateral level – much similar to the Energy Dialogue itself.⁶⁴⁵ Nonetheless, the IRT set up

⁶⁴⁰ Walter Von Mayr, "Oligarchen im Staatsdienst," *Der Spiegel* 2004.

⁶⁴¹ Council of the European Union, "2507th Council Meeting - Transport, Telecommunications and Energy," (Brussels: Council of the European Union, 2003), 9.

⁶⁴² Author's interview with Christian Cleutin.

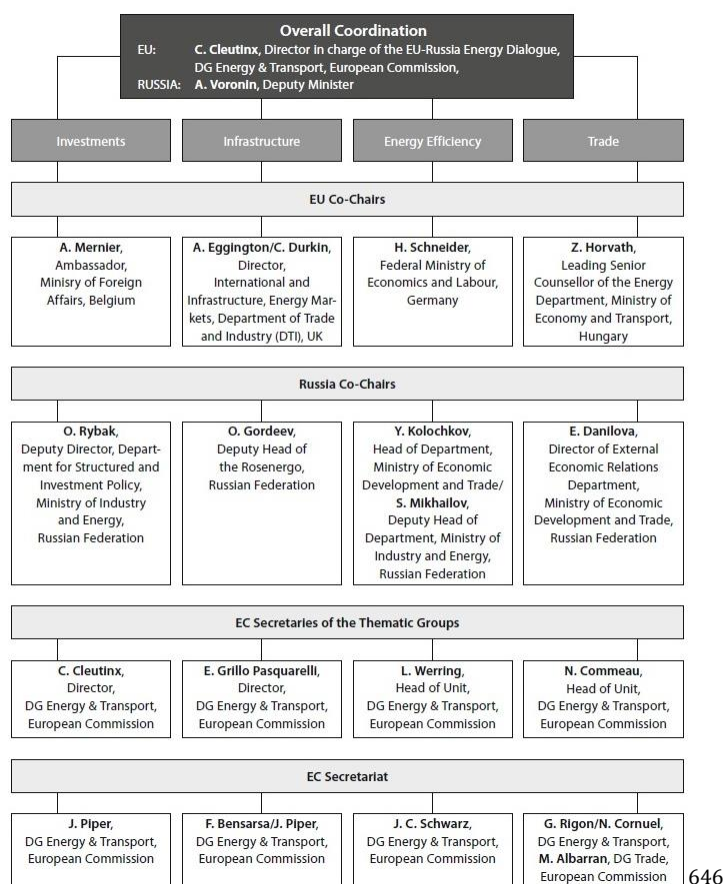
⁶⁴³ EU-Russia Industrialists Round Table, "Sixth General Meeting in The-Hague (November 10, 2004), Joint Conclusions," (The Hague: The EU-Russia Industrialists Round Table, 2004).

⁶⁴⁴ Author's interview with Jukka Härmälä, President and CEO of Stora Enso, former Co-Chair of the EU-Russia Industrialists' Round-Table [E-mail, 12.04.10].

⁶⁴⁵ Author's interview with Jukka Härmälä.

four new thematic groups on Investments, Infrastructure, Energy Efficiency and Trade, as shown below:

Figure 3.2 – The EU-Russia Energy Dialogue in 2005



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The new groups formally introduced the new member states to the Energy Dialogue, a point to which I will return in chapter four on geo-economics. Just as importantly, however, the new groups were meant to ensure more industry participation. But again the Commission was concerned about representativeness. Therefore, to avoid coming off as biased towards specific companies, the Commission limited industry representation to industry associations. These included bodies such as

⁶⁴⁶ EU-Russia Energy Dialogue, "The First Ten Years: 2000-2010," 17.

Eurelectric (electricity), Eurogas (gas), Europia (oil) and OGP (oil & gas), all of which were formally invited to join the dialogue in early 2005.⁶⁴⁷ 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, and others. Given their wide membership of multiple competing companies, these multi-voiced bodies often struggled with coining a unitary narrative. They were, rather, mini energy dialogues in their own right. They were ‘absolute professional talking shops’, as one senior executive at Dutch Gasunie, and long-standing participant in the Energy Dialogue, confided:

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.⁶⁴⁸

According to another Dutch industry official, the associations like Eurogas and AEB were supportive for selfish reasons, because it would allow them more influence in the EU-Russia policy making process:

I think Eurogas had a kind of feeling that they wanted to be represented. They wanted to be important, so let’s use the Energy Dialogue. At that time the Secretary-General had a vision he could be more important than before. Eurogas could meet with the Duma and Gazprom, and feel more important than ever before.⁶⁴⁹

One BP executive said that they were member of ‘dozens’ of such associations, and that the AEB wasn’t very influential in Russia.⁶⁵⁰ But this lack of influence was not limited to Russia alone. Industry were also concerned about the limited influence of

⁶⁴⁷ Eurogas, *Eurogas Newsletter* (Brussels: Eurogas, 2005), 4.

⁶⁴⁸ Author’s interview with Wim Groenendijk, Vice President International & Regulatory Affairs at Gasunie [Phone, 10.04.12].

⁶⁴⁹ Author’s interview with Dutch Industry Official.

⁶⁵⁰ Author’s interview with Vladimir Drebensov, Chief Economist, BP Russia [Moscow, 12.04.12].

these associations on the agenda of the EU Commission: 'You can relay what you want from the industry, but if the Commission has its own standpoint and is willing to executive over the line they have agreed, you can't do much.'⁶⁵¹ According to a Russia-based EU industry official, the industrial representatives were not 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.⁶⁵²

So despite the restructuring of the Energy Dialogue, and the affirmation of business as an independent presence in the dialogue, industry felt neglected. The Commission was pushing ahead with its liberalisation agenda, to the consternation of both Russian and EU industry representatives. As the Gasunie official said:

Traditionally it was only by exception you were able to get business input into the Dialogue [...] Because the Energy Dialogue as far as I am aware, has been a dialogue between governments and governmental bodies, and not so much with input from industry.⁶⁵³

This sentiment has been echoed by most of the business officials I have spoken with, including this anonymous representative of one of the major EU companies investing in Russia:

We were never part of the thinking, we were never consulted, in terms of what do you want out of it, how would this be more helpful to business. May have done with others, but not with us. In hindsight maybe it would not have been a bad idea for them to talk more to business on what we want to achieve.⁶⁵⁴

It was indeed difficult to find a common narrative between the Eurocrats and business officials. As a British official, who himself had worked for BP, said: '[H]aving come from the private oil sector, I was totally baffled by the Brussels bureaucratic

⁶⁵¹ Author's interview with Dutch Industry Official.

⁶⁵² Author's interview with EU Industry Official A.

⁶⁵³ Author's interview with Wim Groenendijk.

⁶⁵⁴ Author's interview with EU Industry Official C [Brussels, 02.10.12].

process, that I totally failed to understand.’⁶⁵⁵ Similarly, there were regular clashes between the interests of the delegated business consultants and the interests of their host governments.⁶⁵⁶ It was difficult for the bureaucrats and businessmen to find a common language for the Energy Dialogue, let alone a shared narrative. ‘It was quite a unique experience’, as an EU industry official recalled:

It was ministry-level people talking to EU bureaucrats. It was more of a tactic game of politics, and it never really came down to the practical issues. It improved. But in the beginning there was really some irritation.⁶⁵⁷

Dealing with Russia

Likewise, industry officials encountered difficulties when faced with Russian state companies. As one Eurogas representative noted:

Upon joining the Energy Dialogue, I was told by colleagues that some meetings were extremely dominated by the Russians, to the extent that it became more of a political show, whereas the EU was more focused on making progress.

The meetings were unproductive, he said. The Russians were holding long speeches, then there were speeches on the other side, and then a bit of discussion: ‘we certainly didn’t agree on anything’, as the Eurogas-official said.⁶⁵⁸ 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’.⁶⁵⁹ Overall, the Russian approach to the meetings was fundamentally different from the EU’s, as the Eurogas representative told me. Simply restructuring the thematic groups would not solve this:

⁶⁵⁵ Author’s interview with Terry Adams.

⁶⁵⁶ Author’s interviews with Terry Adams; Dutch Industry Official.

⁶⁵⁷ Author’s interview with EU Industry Official A.

⁶⁵⁸ Author’s interview with Ralf Pastleitner, Director of the EU Representation Office at Oesterreichs Energie and Eurogas delegate [Phone, 31.10.12].

⁶⁵⁹ Author’s interview with Vladimir Drebenstov.

You need to consider that these are two very different types of people [...] In the EU we have a more pragmatic approach, whereas the Russians also seem to have a political approach. These are two very different views of the Energy Dialogue, and you can't change the way people think simply by changing the format.⁶⁶⁰

State-Business Relations in the EU

However, state-business relations were close 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. There were intimate ties between the British government and the former state owned oil company BP. In France, the relationship between Electricité de France and Gas de France and the government in the Elysée was exceptionally close. In Germany, energy companies played a considerable role in German federal politics.⁶⁶¹ Despite this, however, major companies like Wintershall never became active participants in the Energy Dialogue, only indirectly through the AEB.⁶⁶²

Nevertheless, the state-business relationship was not wholly harmonious. One example was the relationship between Gasunie and the Dutch government. Since the beginning of the energy Dialogue Gasunie had participated in the thematic group on strategies and scenarios on behalf of the Hague. The company was established in 1963 as a partnership between the Hague, Royal Dutch Shell and ExxonMobil, in order 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 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. Hence Gasunie

⁶⁶⁰ Author's interview with Ralf Pastleitner.

⁶⁶¹ Laumanns, "Determinanten der Energiepolitik."

⁶⁶² Author's interview with Peter Westhof, Head of Energy Policy at Wintershall Group [E-mail, 08.04.12].

post-2005 was wholly state owned. But the process leading up to this division was not exactly smooth.

The Second Energy Package (2003) had put stronger demands for liberalisation and ‘unbundling’ of vertically integrated energy companies which controlled the production (upstream), transport (midstream) and retail (downstream) segments of the energy chain. This was to ensure improved competition and access for third-parties. The argument against unbundling, which was voiced by most of the industry, which largely resisted the energy directives, was that losing control over the entire production and supply chain, and opening for competition, was not inductive for future investment in new production capacities.⁶⁶³ The reason for this was because of the enormous associated sunk costs of such projects, which cost billions of euro, and could take decades to fully develop. Hence a massive lobbying effort was directed against the each set of energy directives, by all of the major energy companies, including Gasunie, GDF, EDF, EON, Wintershall, RWE and others.⁶⁶⁴ Generally these companies were supported by their host states, meaning that both France and Germany were fighting against the directives.

Not so in the Netherlands, whose politicians took it upon themselves to make the country a pioneer in implementing the provisions of the energy directives – many of which were still optional – into Dutch law. As a senior Dutch industry official and participant of the Energy Dialogue recalled: ‘the Dutch government decided to go spearheading. They wanted to have a UK-system, an Anglo-Saxon system, where unbundling was taking place.’⁶⁶⁵ This pioneering was partly the result of the efforts of one man, Laurens Jan Brinkhorst, the Dutch Minister for Economic Affairs between

⁶⁶³ Author’s interview with Klaus Kleinekorte.

⁶⁶⁴ Author’s interviews with Klaus Kleinekorte; Peter Westhof; EU Industry Official A; EU Industry Official B.

⁶⁶⁵ Author’s interview with Dutch Industry Official.

2003-2006, and a tenured professor of European law. Brinkhorst pushed for a swift implementation of the Second Energy Package. But he wanted to go further than the new directives called for, demanding immediate unbundling by Gasunie, instead of a gradual implementation. The CEO of Gasunie, George Verberg said he felt 'emotional pain' over the government's decision to split the company.⁶⁶⁶ Brinkhorst prevailed, but his relationship with Verberg never recovered.⁶⁶⁷ 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.⁶⁶⁸

At the core, there was a fundamental divide between the narratives of the energy companies and the politicians, both at the levels of member states and the Commission.⁶⁶⁹

The UK-Russia Energy Dialogue

BP's relationship with the British government was quite another thing. First of all, BP was an oil company, and 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).⁶⁷⁰ In November 1997 BP made its first leap into Russia, when it signed an agreement with Sidanko, to acquire a ten per cent ownership stake in the company. British Prime

⁶⁶⁶ Trouw, "Gasunie springt gat in de lucht," *Trouw*, 17 October 2003.

⁶⁶⁷ Author's interviews with Heine Schuwer; Dutch Industry Official.

⁶⁶⁸ Abi Daruvalla, "Gasunie Chief Criticises Splitting Grids," *Europower*, 7 April 2004.

⁶⁶⁹ Author's interview with Dutch Industry Official.

⁶⁷⁰ Helm, *Energy, the State, and the Market, British Energy Policy Since 1979*.

Minister Tony Blair was personally present at the signing ceremony.⁶⁷¹ 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' (a label Blair's former adviser dismissed as 'not right'⁶⁷²). In 1998 the CEO of BP, John Browne, was knighted for his 'services to industry'.⁶⁷³ In 2001 he was made a Lord by none other than Blair,⁶⁷⁴ in part for his assistance in tackling the fuel crisis of 2000, which contributed to the launch of the Energy Dialogue.

But despite the high-profile blessings of BP's acquisition of Sidanko, the deal started coming apart already in 1999. Sidanko's assets were slowly being stripped through machinations initiated by the shareholders of the Tyumen Oil Company (*Tyumen Neftekompanii*, or TNK). 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').⁶⁷⁵ BP were 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.⁶⁷⁶ 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

⁶⁷¹ Browne and Anderson, *Beyond Business*, 138.

⁶⁷² Author's interview with Dieter Helm.

⁶⁷³ BBC, "Profile: Lord Browne," *BBC*, 1 May 2007.

⁶⁷⁴ Alan Cowell, "BP Chief Resigns amid Battle with Tabloid" *The New York Times*, 1 May 2007.

⁶⁷⁵ Ben Aris, "Kalyuzhny's Connections and the Chernogorneft Sale," *Alexander's Gas and Oil Connections*, 7 December 1999.

⁶⁷⁶ Browne and Anderson, *Beyond Business*, 141.

economic revival.⁶⁷⁷ If there was ever a need for proof of Blair's commitment to BP, this was it.

The end result of the conflict was unexpected: BP and TNK decided to form a joint venture, TNK-BP. 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 companies.⁶⁷⁸ 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.'⁶⁷⁹ In the end he would be proven right, as I will show now as I return to the 'Statist Narrative'.

The Statist Narrative

Despite Putin and Medvedev's failure to merge Gazprom with Rosneft, the Russian state did manage 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.⁶⁸⁰ The breakup of Yukos epitomised Putin's push for state control, and the onset of what has been called state capitalism.⁶⁸¹ But the re-imposition of the monologic narrative of the state was already under way by the time of Khodorkovsky's arrest in 2003.

⁶⁷⁷ Terry Macalister, "Prime Minister Argues Case for 'Blair Petroleum'," *The Guardian*, 13 February 2002.

⁶⁷⁸ Browne and Anderson, *Beyond Business*, 147.

⁶⁷⁹ Ibid.

⁶⁸⁰ Sakwa, *The Quality of Freedom, Khodorkovsky, Putin, and the Yukos Affair*.

⁶⁸¹ Philip Hanson, "The Resistible Rise of State Control in the Russian Oil Industry," *Eurasian Geography and Economics* 50, no. 1 (2009).

The state takeovers were a departure from the Russian government's early signals to the Commission to pursue liberalisation and privatisation in the energy sector. For the Commission, liberalisation was a prerequisite for investment. But the Kremlin's statist narrative weighed in from the beginning. All of Russia's major energy companies were offshoots of defunct Soviet ministries. At the beginning of the Energy Dialogue, only Gazprom and Rosneft were state controlled. The rest had been privatised. It was Putin's intention to reverse this, as confirmed in his PhD-thesis and his millennium speech, discussed previously.

At the same time there were conflicting signs that the government was planning on reducing its involvement in the energy sector. 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.⁶⁸² In early 2002, Gref tasked the young deputy energy minister Vladimir Milov with writing a concept specifying the terms of the restructuring of Gazprom.⁶⁸³ Gref and Milov's reform was also endorsed by Prime Minister Kasyanov. 'This was seen as a green light', Milov later told me.⁶⁸⁴ In late 2002, the concept was presented by Gref to Putin. But the concept was quickly shot down. Not only were reactionary forces within the ministries resisting. Indeed 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

⁶⁸² Author's interview with Vladimir Milov.

⁶⁸³ German Gref and Vladimir Milov, "Toplivno-energeticheskii kompleks mira," (Moscow: Russian Ministry of Economic Development and Trade, 2002).

⁶⁸⁴ Author's interview with Vladimir Milov.

effectively 'destroy' Gazprom *and* Russia.⁶⁸⁵ The day after, on December 25th, Putin's resolution was made public. To Gref's surprise, the president stated that he 'mostly agreed' with Miller.⁶⁸⁶ Hence, the concept was scrapped, and Gref was instructed to incorporate Miller's views into a new gas strategy.⁶⁸⁷ The coup de grace for restructuring came on February 18th 2003, at Gazprom's 10th 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.'⁶⁸⁸ So liberalisation of Gazprom was put off the agenda indefinitely.

The PSA U-Turn

Then came another setback for the Energy Dialogue. After much wrangling, the vaunted PSA revision failed in the Duma. Instead, a more protectionist tax regime, originally sponsored by Khodorkovsky, was imposed. But the promoter of the new tax code was not Khodorkovsky, but Putin, who had changed his position from support to fierce opposition. 'Putin had essentially co-opted Khodorkovsky's position', as one of the authors of the revised PSA act noted.⁶⁸⁹

Shortly after this, 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 II PSA to Gazprom. The official reasons were Shell's alleged environmental violations, and inflated costs. Whereas the latter was plausible, the former reason was more questionable. In 2006, Shell had announced that the costs of developing Sakhalin II

⁶⁸⁵ Author's interview with Vladimir Milov.

⁶⁸⁶ Aleksei Grivach and Andrei Denisov, "Prezident reshaet vse," *Vremia novostei*, 15 January 2003.

⁶⁸⁷ Author's interview with Vladimir Milov.

⁶⁸⁸ Vladimir Putin, "Vystuplenie na torzhestvennom sobranii, posviashchenom 10-letiiu OAO "Gazprom'," (Moscow: President of Russia, 2003).

⁶⁸⁹ Author's interview with Russian Official C.

had doubled, from \$15 billion to \$28 billion.⁶⁹⁰ 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 twenty years, would suddenly be invoked in this particular business conflict where the state had obvious interests. But it is said that it is impossible to do business in Russia without breaking one rule or another. Thus, charging someone with breaking a regulation was an efficient way to apply pressure, even though this was clearly done for vicarious reasons.⁶⁹¹

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.⁶⁹² But in the end neither Total (Kharyaga) nor ExxonMobil (Sakhalin I) were forced to make any major concessions. Why such different results? For one, the quality of government-business relations varied between the companies. Antagonising ExxonMobil would risk invoking the wrath of Washington. Shell, on the other hand, did not enjoy strong relations with either the Dutch or British governments, and was thus an easier target. Secondly, unlike Shell, both ExxonMobil and Total had good environmental track records in Russia. And Total's threat of pulling Moscow before international arbitration made the Russians wary.⁶⁹³ Thirdly, the Russian government did not really have a well-developed energy strategy for the Russian Arctic, where the Kharyaga PSA was being developed, whereas Sakhalin served as an entry point for the geopolitically important South-East Asian region. Finally, commercial disputes played out differently

⁶⁹⁰ Nick Mathiason and Heather Connon, "Shell's Costs on Sakhalin Spiralling," *The Guardian*, 22 October 2006.

⁶⁹¹ Goldman, *Petrostate : Putin, Power, and the New Russia*, 135.

⁶⁹² The following paragraph draws extensively on Sander Goes, "Foreigners in the Russian Petroleum Sector, the Cases of Sakhalin-II and TNK-BP" (University of Tromsø, 2013).

⁶⁹³ Krysiak, "Agreements from Another Era: Production Sharing Agreements in Putin's Russia, 2000-2007."

vis-à-vis Shell as opposed to ExxonMobil and Total. Both Rosneft and Lukoil, the latter of which was also active in the Kharyaga area, were fighting over influence over the Russian north-west. This led to a stalemate which ultimately worked in Total's favour. And ExxonMobil collaborated with Rosneft on Sakhalin I. So in both the Sakhalin I and Kharyaga PSAs, there was a Russian partner. Sakhalin II, on the other hand, was entirely driven by foreign companies.⁶⁹⁴ Regardless of the reasons, the Kremlin's crackdown on these, and especially Sakhalin II, confirmed in many eyes that Russia was not a safe place to do business.

The Breakup of TNK-BP

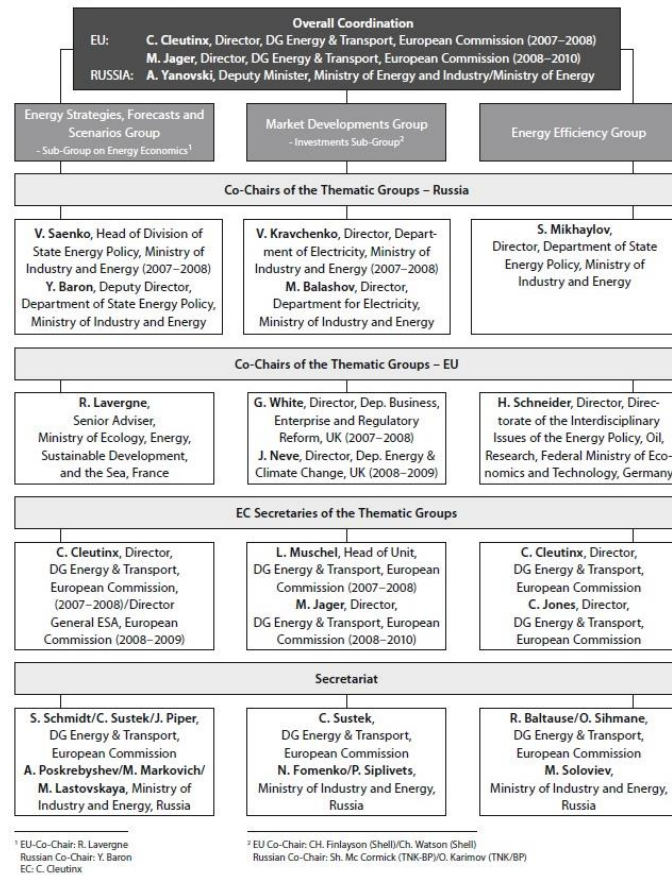
This impression was further confirmed by the increased wrangling between TNK-BP and Gazprom over the giant Kovykta gas field. The quarrel began in 2006 and culminated in 2011, when Gazprom bought out TNK-BP's share in the field. Meanwhile, in late-2006, the EU-Russia Energy Dialogue was restructured yet again (Figure 3.3). 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 (Russia), reflecting their continued importance in the EU-Russia energy relationship. The EU co-chair was from Shell, which was interesting as this was after the Sakhalin II-incident, described above.

However, TNK's participation was short-term. Relations between BP and their Russian partners in Alfa Access Renova (AAR), who controlled TNK, were tense. AAR were unhappy with what they considered the condescension of BP, who they felt deliberately curbed AAR's ambition to make TNK-BP a global player.⁶⁹⁵

⁶⁹⁴ Goes, "Foreigners in the Russian Petroleum Sector, the Cases of Sakhalin-II and TNK-BP."

⁶⁹⁵ Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 426.

Figure 3.3 – The EU-Russia Energy Dialogue in 2007



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By 2008 relations between TNK 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 Bob Dudley. Thus, TNK stopped sending a representative to the Energy Dialogue, and the relationship with BP remained frosty. But it did not end there. BP wanted out. 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 had to be entered through TNK-BP.⁶⁹⁷ In the end AAR sold its share of TNK-BP to Rosneft in 2012, whose new CEO was Igor Sechin, who had returned to the company after serving in Prime

⁶⁹⁶ EU-Russia Energy Dialogue, "The First Ten Years: 2000-2010," 18.

⁶⁹⁷ Tim Webb, "BP's Russian Deal with Rosneft Blocked by Court," *The Guardian*, 24 March 2011.

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.⁶⁹⁸ By 2012, the former 'parking lot' Rosneft was the world's largest publicly traded oil company. Putin embarked on his third presidency, and the Kremlin had reaffirmed its undisputed control over the Russian oil and gas sectors – but also the western narrative of Russia as a bad place to invest.

The Post-Imperial Narrative

Finally, I will address the post-imperial narrative. The narratives of the EU and Russia for the Energy Dialogue were of course conditioned by the origins of their respective energy sectors, which in Russia's case was built during the Soviet era. In this cluster of Russia's narratives, the chronotope of time (history) and space (proximity) matter tremendously. All of the Russian oil and gas companies were descendants of the defunct energy ministries of the Soviet Union. And in several respects they retained the structure and mentality of their predecessors.⁶⁹⁹ The transition from ministry to company was never organic. On top of this came the myriad of 'intermediaries', the clandestine contractors who would supply everything from pipes to simply collecting bribes.⁷⁰⁰ Overall, there was a clash of cultures between Russian and EU energy companies. Russia had limited experience with the market economy. The narratives of Soviet planners was very different from the neoliberal narrative of western businessmen and -women. As one analyst remarked:

⁶⁹⁸ BP, "Rosneft and BP Complete TNK-BP Sale and Purchase Transaction," (BP, 2013).

⁶⁹⁹ Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 11.

⁷⁰⁰ Boris Nemtsov and Vladimir Milov, *Putin and Gazprom, an Independent Expert Report*, (Moscow 2008), www.docstoc.com/docs/1603180/Nemtsov-White-Paper-Part-II----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.⁷⁰¹

Overall, the remnants of the command economy posed a considerable challenge for cooperation, for reasons I will explain below.

Domestic versus International Gas Prices

One reason for Putin's push to ensure state control over the Russian energy sector 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.⁷⁰² Besides being the world's largest gas producer, Russia was the second biggest gas consumer, behind the United States. Only one-third of Gazprom's gas was exported to the EU and elsewhere, but it provided the company with two-thirds of its income. Conversely, two-thirds of Gazprom's gas was sold on the domestic market, but only providing one-third of its income.⁷⁰³ The reason for this was that domestic gas prices were determined by a state body, the Federal Tariff Services, 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. Hence, achieving parity between domestic and market prices became another one of the Commission's main objectives for the Energy

⁷⁰¹ Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 11.

⁷⁰² 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.

⁷⁰³ Author's interview with Leonid Grigoriev, Professor Higher School of Economics, former Deputy Minister of Economy and Finance of Russia, former president of Institute for Energy and Finance [Phone, 09.11.12].

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.⁷⁰⁴

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 2006.⁷⁰⁵ 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 concerns of whether this might impinge on Russia's future export commitments.⁷⁰⁶

Energy Efficiency and Inefficiency

Secondly, 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.⁷⁰⁷ This is one of the reasons why the Commission was so interested in promoting energy efficiency. According to the thematic group on energy

⁷⁰⁴ European Commission, "Communication from the Commission to the Council and to the European Parliament - Our Relations with Russia."

⁷⁰⁵ Judy Dempsey, "Energy Agency Criticizes Gazprom," *International Herald Tribune*, 6 July 2006.

⁷⁰⁶ Laura Solanko and Pekka Sutela, "Too Much or Too Little Russian Gas to Europe?," *Eurasian Geography and Economics* 50, no. 1 (2009): 65.

⁷⁰⁷ Rudiger Ahrend and William Tompson, "Russia's Gas Sector: the Endless Wait for Reform?," *OECD Economic Department Working Paper*, no. 402 (2004): 12.

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.⁷⁰⁸

However, subsidised gas garnered cross-party political support in Russia. Upon instating Miller as CEO of Gazprom, Putin said that 'Gazprom is more than just a joint stock company', noting that 'the whole economy of the country is to a large extent based on the gas sector, on energy.'⁷⁰⁹ Hence, the Commission's demands for price parity were perceived as unacceptable to the Russians, including by liberals such as Gref and Milov.⁷¹⁰ On the one hand, a price increase would mean increased revenue for Gazprom, and therefore the Russian state. On the other hand, the projected social costs of a rapid switch to market prices could have disastrous socio-economic consequences. This was compounded by the fact that the Soviet, and later Russian, social security system was closely connected to regional enterprises, which were heavily dependent on cheap gas in order to survive.⁷¹¹

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.⁷¹² But given the delicate nature of the Russian pricing system, politicians were frugal, pursuing a 'two steps forward, one step back'-

⁷⁰⁸ 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.

⁷⁰⁹ President of Russia, "Vstupitel'noe slovo na vstreche s predsedatelem pravleniia kompanii "Gazprom" Alekseem Millerom," (Moscow: President of Russia, 2001).

⁷¹⁰ Author's interview with Vladimir Milov.

⁷¹¹ Spanjer, "Russian Gas Price Reform and the EU-Russia Gas Relationship," 9.

⁷¹² Russian Federation and European Union, "European Union-Russia Deal Brings Russia a Step Closer to WTO Membership," (Brussels: Russian Federation/European Union, 2004), 1.

policy.⁷¹³ That did not mean they were not looking to raise prices, but they were determined to do so 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 2010.⁷¹⁴ 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 end-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.⁷¹⁵

Dependent versus 'Independent' Gas Producers

While Gazprom enjoyed an export monopoly, there was controlled competition at home. 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 have to bear the costs at home also, and they would also have to finance costly infrastructure.⁷¹⁶

But there were also potential benefits for granting access to non-Gazprom producers, given that Gazprom's own output was in decline. By 2010, independent producers control roughly one third of Russian gas reserves, but only 12-15 per cent of

⁷¹³ Indra Øverland and Hilde Kutschera, "Pricing Pain: Social Discontent and Political Willpower in Russia's Gas Sector," *Europe-Asia Studies* 63, no. 2 (2011).

⁷¹⁴ Russian Federation and European Union, "European Union-Russia Deal Brings Russia a Step Closer to WTO Membership."

⁷¹⁵ Lars-Christian Talseth, "A Dialogue of the Deaf: The EU-Russia Energy Dialogue 2000-2009," *RUSSCASP Working Paper*, no. April (2011): 22.

⁷¹⁶ Author's interview with Alexei Mastepanov.

domestic consumption.⁷¹⁷ In the new Russian Energy strategy released in 2009, the government predicted the share of independent gas producers to grow to 27 per cent in 2030.⁷¹⁸ At the same time, independents were complaining that Gazprom was deliberately keeping them out of the Russian pipeline system.⁷¹⁹ 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.⁷²⁰ 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.⁷²¹ Hence curbing gas flaring became yet another objective of the Energy Dialogue.⁷²²

Moreover, 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.⁷²³ But this again 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. Thus, in 2006, Putin put Gazprom's export monopoly into law. But as Gazprom's production levels continued to drop, the Kremlin saw 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 chapter five on the 'Legal Dialogue'.

⁷¹⁷ David G. Tarr, "Export Restraints On Russian Natural Gas And Raw Timber," *OECD Working Paper*, no. February (2010).

⁷¹⁸ Talseth, "A Dialogue of the Deaf: The EU-Russia Energy Dialogue 2000-2009," 20.

⁷¹⁹ Ahrend and Tompson, "Russia's Gas Sector: the Endless Wait for Reform?," 9.

⁷²⁰ *Ibid.*, 7-8.

⁷²¹ Andreas Heinrich, "Under the Kremlin's Thumb," *Europe-Asia Studies* 60, no. 9 (2008): 1545.

⁷²² 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.

⁷²³ "Synthesis Report," 2.

The Far versus Near Abroad

Russia did not just want foreign investment in Russia. Putin and Gazprom wanted a better physical foothold in the EU market. At the 2007 EU-Russia Summit in Mafra, Putin made clear that EU investment inside Russia was ten times that of Russia's investment inside the EU.⁷²⁴ Instead of 'just' cash, Moscow push 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 their asset swaps.'⁷²⁵ 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 were looking to break up monopolies, not build them. One possible explanation 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.⁷²⁶ Moreover, events had made EU industry more wary of doing business with Russia. The Sakhalin II and Kovykta incidents were important in this regard. However, equally crucial was the Ukraine crisis, to be discussed in the next chapter. With energy prices through the roof, Russia and Gazprom was increasingly perceived as a threat.⁷²⁷ Likewise, the Commission's consolidation of the internal market, including the push for ownership unbundling, posed a challenge to Gazprom's business model, as I will return to in chapter five.

⁷²⁴ Vladimir Putin, "Vstupitel'noe slovo na dvadtsatom sammite Rossiia – Evropeiskii soiuz," (Mafra: The President of Russia, 2007).

⁷²⁵ EU-Russia Energy Dialogue, "Seventh Progress Report," 3.

⁷²⁶ Author's interview with Vaclav Bartuska, Ambassador-at-Large for Energy Security at the Czech Ministry of Foreign Affairs [Phone, 28.05.12].

⁷²⁷ Goldman, *Petrostate : Putin, Power, and the New Russia*.

Gazprom's physical presence in the EU market was thus negligible. But in the former Soviet space, it was a different matter. The Baltics represented one of Gazprom's most important target regions.⁷²⁸ Russian business presence there was considerable. One reason was that many ethnic Russians had remained behind after the breakup of the Soviet Union. This was the result of Stalinist repopulation policies. In 1989, at the time of independence, there were over 1.7 million ethnic Russians still living in the Baltic states. This also impacted the energy sector. 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.'⁷²⁹ After the fall of the Soviet Union, Gazprom quickly moved to reconsolidate its assets in the Baltics. In January 1993, Gazprom acquired 37 per cent of Estonia's largest gas operator, and the owner of the Estonian gas grid, Eesti Gas, together with E.ON. Ruhrgas, Fortum Oyj and Itera Latvija. Itera was a gas distribution company, and remained close to Gazprom during the 90s. It has been described as 'a tool for Gazprom to acquire more control.'⁷³⁰ In 1997 Gazprom acquired 34 per cent of the Latvian gas monopolist Latvijas Gaze, again together with E.ON. Ruhrgas and Itera Latvija. 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.⁷³¹

⁷²⁸ Agnia Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia* (Farnham: Lund Humphries Publishers, 2013), 104.

⁷²⁹ Ibid.

⁷³⁰ Ibid., 115.

⁷³¹ Ibid.

Mazeikiu Nafta

However, the fight for control over the Baltic energy system was not always painless, and frequently led to confrontation. When Russian investors failed to acquire Ventspils Nafta (in 2003) and Mazeikiu Nafta (in 2006), oil supplies were 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 shut 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.⁷³²

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 predicable 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.

⁷³² Rebecca Dunham et al., "Lithuania Receives Letters of Support on Energy from European Commission," no. 06VILNIUS982 (2006).

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, 'specifically in relation 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.⁷³³

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. In fact there were over 50 known incidents where Russian energy exports had been cut off, most of which occurred inside Eastern Europe and the CIS.⁷³⁴ Before 2004, Moscow could deal with these countries with impunity. But after the EU expansion into Eastern Europe, countries such as the Baltic States increasingly addressed 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 Geo-Economic Dialogue next.

⁷³³ Ibid.

⁷³⁴ Agnia Grigas, "Can EU Face Russia Down over Energy Policy?," *Open Democracy*, 18 March 2013.

Epilogue: Results?

The Energy Dialogue promised a torrent of investment. But the Energy Dialogue had few achievements to its name. However, three minor milestones stand out. The first was a feasibility study for electricity interconnection. I have written little about electricity in this thesis, although electricity was part of the formal agenda of the Energy Dialogue ever since 2000. But 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 RAO UES, Russia's state owned electricity monopoly. The feasibility study was launched in 2003, and was originally supposed to conclude 'by mid-2004'.⁷³⁵ But the study was not finished until 2008, concluding that interconnection was indeed possible, but that it would require surmounting considerable institutional, political and commercial difficulties.⁷³⁶

What was not communicated in the report, however, 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.⁷³⁷ According to one of the participants of the study, the Commission were well aware that electricity trade was futile, even at the launch of the feasibility study. But allegedly this person had been told to keep that to himself:

⁷³⁵ EU-Russia Energy Dialogue, "Fourth Progress Report," 3.

⁷³⁶ 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).

⁷³⁷ Author's interviews with Klaus Kleinkorte; Seppo Remes; Christian Cleutinx.

I was told that the interconnection study is necessary for political reasons and therefore would be fully funded for five years, knowing already in advance that physics will not allow a synchronous interconnection.⁷³⁸

Moreover, Chubais left RAO UES in 2008, after the report had been published, and after Chubais had overseen the breakup and privatisation of the company, of which he allegedly profited greatly.⁷³⁹ Nevertheless, 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 Energy Dialogue-initiated projects to become financed through TACIS. But it was limited to analysis, not actual implementation.⁷⁴⁰ Hence, the actual effects of these pilot-projects was opaque. No money had come from the Russians, who were disinterested. Overall, the prominence of energy savings as an end in itself was limited in Russia.⁷⁴¹ And 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 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.'⁷⁴² Again, the funding came from the EU-side. But this time the money was not from TACIS, but from a special envelope designated for energy efficiency projects. As the EU coordinator recalled:

⁷³⁸ Author's interview with Klaus Kleinekorte.

⁷³⁹ Author's interview with Vladimir Milov.

⁷⁴⁰ Author's interview with Christian Cleutin.

⁷⁴¹ Author's interview with Luc Werring, former Head of Unit, DG TREN [Moscow, 11.03.12].

⁷⁴² Viktor Khristenko and Francois Lamoureux, "Inauguration of the Center by V Khristenko and F. Lamoureux," in *Inauguration of the EU-Russia Energy Dialogue Technology Center* (2002).

We found that there were 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 euros.⁷⁴³

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.⁷⁴⁴ One reason for this may have to do with the environmental focus of the centre.⁷⁴⁵ When the Russians were talking about technology, what they arguably meant was expertise in offshore drilling, LNG facilitation and so on. The European Technology Centre also called for TACIS funds, but did not receive any.⁷⁴⁶ And when the Russians refused to provide any further funding for the ETC, the centre was shut down.

All in all, the results of the dialogue proved disappointing to the Russians, who were 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.'⁷⁴⁷ The reason for this was that the voice of business in the Energy Dialogue remained muted.

Conclusions

In this chapter I have discussed the missing narratives of business in the Energy Dialogue, which rendered it a bureaucratic monologue. The scant trust that existed in EU industry towards Russia, could have been improved by increased business to business interaction through the Energy Dialogue. However, as per Bakthin, industry was denied

⁷⁴³ Author's interview with Christian Cleutinx.

⁷⁴⁴ Author's interview with EU Official B.

⁷⁴⁵ EU-Russia Energy Dialogue, "Seventh Progress Report," 6.

⁷⁴⁶ "Sixth Progress Report," 5-6.

⁷⁴⁷ Author's interview with Alexey Mastepanov.

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 seen as a threat against state power, and something that had to be controlled.

This problem of proper business representation would continue to plague the Energy Dialogue throughout its existence.⁷⁴⁸ But the lack of representation did not just affect 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 Geo-Economic 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.

⁷⁴⁸ Author's interview with Vladimir Drebensov.

Chapter Four: The Geo-Economic Dialogue

(2006-2009)

Energy is a commodity that is dependent on physical transportation across vast distances. Geopolitics, or in this case geo-economics, was crucial to the EU-Russia Energy Dialogue. The ultimate objective of the Energy Dialogue was a 'Unified' (Lamoureux) or 'Greater' (Putin) Europe. This chapter aims to show how divergent spatial narratives influenced the Energy Dialogue, and its failure to define common narrative for a binding energy partnership.

Space was also central to Bakhtin's concept of dialogue. For Bakhtin, space was never a given quantity, but mediated together with time through narratives. Conversely, narratives connect with geo-economics through the chronotope, the dialogical relationship between time and space. Chronotopes are the spaces 'where the knots of narratives are tied and untied', and where '[t]ime becomes, in effect, palpable and visible.'⁷⁴⁹ 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.⁷⁵⁰

The chapter begins with Russia's 'Euro-Asian Narrative'. Russia wanted closer ties with the EU, but also to pursue what Khristenko called 'multi-vector diplomacy'. This included a US-Russia Energy Dialogue (2002), and a Sino-Russian Energy Dialogue

⁷⁴⁹ Bakhtin, *The Dialogic Imagination, Four Essays*, 250.

⁷⁵⁰ Ian Klinke, "Chronopolitics A Conceptual Matrix," *Progress in Human Geography* (2013).

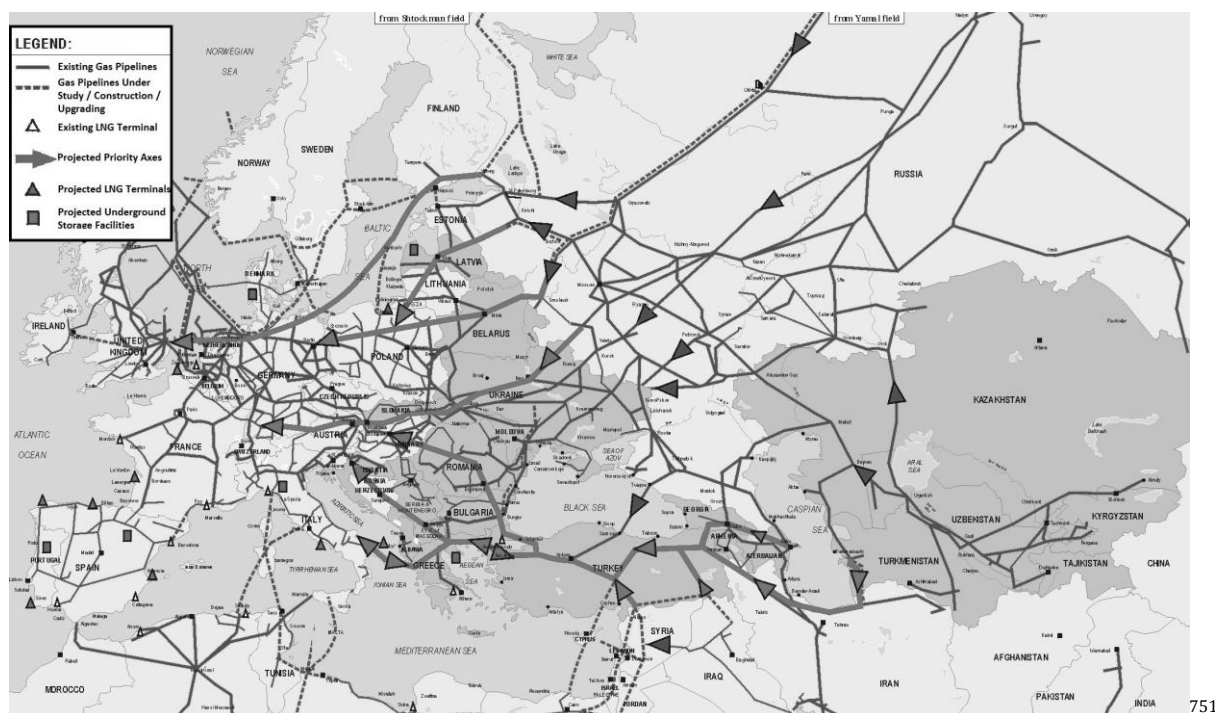
(2008). However, the most important vector in Russian foreign energy policy was the CIS. This moves me to the 'Post-Imperial Narrative', and countries such as Belarus, Georgia and Ukraine. Intra-CIS relations were tenuous, exemplified by the 2004 'Orange Revolution' in Ukraine, which paved the way for the first Ukrainian gas crisis of 2006. The crisis severely damaged Russo-Ukrainian relations, and Russia's reputation as a reliable energy supplier to the EU.

For the EU Commission, meanwhile, Ukraine was a 'godsend', bolstering the 'EUropean Narrative' by delivering a much needed excuse for further energy market integration. However, as the 'EU25 Narratives' shows, there was still much to be done before the EU could 'speak with a common voice'. Despite their dependence on Russian energy, the new member states never became active participants in the dialogue. The Ukraine incident caused great alarm, and calls for collective action. But rather than using the Energy Dialogue as a recourse, there were demands that NATO step in and take charge of European energy security. Meanwhile, major member states continued their bilateral dialogues with Russia, including Germany, epitomised by the controversial Nord Stream pipeline.

But then Russia's 'Post-Imperial Narrative' resurfaced yet again, this time with the 2008-Georgian War, followed by the second Ukrainian crisis a few months later. After the Ukraine 2009 crisis, the *idée fixe* of the 'EUropean Narrative' became diversifying away from, rather than integrating with, Russia, including new pipelines and energy sources. Russia, not to be outdone, followed suit with the South Stream pipeline. However, Russia and the EU remained tethered to one another. For Russia, this fact was made painfully clear after the global financial crisis struck, when European demand for natural gas dropped by seven percent (the 'Euro-Asian Narrative'). Rather than diversifying away from Europe, Russia was bypassing the Commission, and hence

the Energy Dialogue. Both parties remained dependent on one another, but politically they were drifting apart.

Figure 4.1 – The Geo-Economic Context of the EU-Russia Energy Dialogue



Russia's Euro-Asian Narratives 2004

Russia was looking for closer cooperation with the EU, as Putin had made clear after the launch of the Energy Dialogue.⁷⁵² But despite this euro-centric foreign policy, Russia never let go of its plans for what Victor Khristenko described as ‘multidirectional integration’.⁷⁵³ In February 2004, Khristenko published an op-ed describing Russia’s ambitions in the world. Russia was a crucial partner of any international organisation,

⁷⁵¹ Modified from INOGATE, "Map," (Brussels: Interstate Oil and Gas Transportation to Europe (INOGATE), 2012).. the map is current as of 2003. The countries in dark grey indicate INOGATE participating countries.

⁷⁵² Agence France Presse, "Putin in Paris to Boost Russian Relations with EU."

⁷⁵³ Viktor Khristenko, "Making Headway to Integration," *Russia in Global Affairs*, no. 17 February (2004): 1.

Khristenko argued. But 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. The solution, he claimed, was creating a 'uniform space' towards both east and west, and most importantly with Russia's immediate neighbours Belarus and Kazakhstan: 'If our economic space expands outside the Russian borders, foreign investors would become domestic investors', he argued, seemingly oblivious to the neo-imperial overtones of his statement. Khristenko promised that '[a] space similar in its functions must be formed with the anticipation of united Europe not only in the East (Common Economic Space, CES), but also in the West (Common European Economic Space, CEES).'⁷⁵⁴ He then added that 'Russia would benefit from the creation of a common economic space both in the East (China and the CIS) and the West (the EU).'⁷⁵⁵

For the Energy Dialogue, this had one clear implication: The EU was no longer considered the privileged partner. Rather, Khristenko predicted 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 rejoin the ranks of the rich, developed, strong and respected nations once again.⁷⁵⁶

But Putin had lost 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 silovik Mikhail Fradkov. The Energy Dialogue remained under Khristenko's stewardship, which means that the dialogue was

⁷⁵⁴ Ibid., 2.

⁷⁵⁵ Ibid., 6.

⁷⁵⁶ Ibid., 7.

demoted with him. Putin wanted to pursue other vectors, most importantly to the CIS, which I will return to later when I discuss the 'Post-Imperial Narrative' below. But there were other 'vectors' to Russia's foreign policy, including China and the United States.

The Russia-US Energy Dialogue

During the Cold War, the Soviet Union and the US represented the two 'poles' of the bipolar world order. Even after the breakup of the Soviet Union, Moscow remained deeply suspicious of Washington. It was also a common perception, especially among the older generation of Russian officials, that the American government controlled Brussels:

It seems to me that the EU Commission [...] they are following orders from Washington [...] The highest leadership of the EU is practically doing whatever Washington wants. Absolutely. They are not hiding this.⁷⁵⁷

This was of course a wild exaggeration. However, if not in control, Washington was nevertheless deeply concerned with the EU's designs towards Russia in the energy sphere, as I will show below. Still, the early 2000s were a time of relatively good Russo-US relations. The terrorist attacks against the World Trade Center in September 2001, and Washington's subsequent 'war on terror', was a window of opportunity for the Kremlin, which remained concerned about its own terrorist insurgency in Chechnya. In 2002, Vladimir Putin and U.S. President George W. Bush launched the Russia-US Energy Dialogue. At the time, the United States was the world's single biggest consumer of petroleum. By 2002, imports accounted for over 60 per cent of US demand.⁷⁵⁸ The Russia-US Energy Dialogue was a convenient venue for bilateral talks between Russian

⁷⁵⁷ Author's interview with Nodari Simonia.

⁷⁵⁸ Alexandar Todorov, "Energy Dialogue between Russia and the US," *Geopolitika*, no. 12 July (2010).

and US companies. Like the EU dialogue, the Russia-US dialogue sought to ensure collaboration between the two parties. 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.⁷⁵⁹ However, one US commentator dismissed it as a mere 'photo-op' without any real content.⁷⁶⁰

As opposed to the EU-dialogue, which had no real private sector support, the US-Russia Energy Dialogue was personally sponsored by Mikhail Khodorkovsky.⁷⁶¹ 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 German Gref. Evans and Abraham even met with Putin himself. Although the US-Russia relationship had soured after Washington had expanded its 'War on Terror' to Iraq, the summit was nonetheless described as a 'high-water mark in the U.S.-Russia energy dialogue.'⁷⁶²

However, the dialogue was short-lived. Only one month later Khodorkovsky was arrested. In a tick, the US-Russia Energy Dialogue had lost its main benefactor.⁷⁶³ The interlocutors had failed to secure an agreement between Putin, Yukos and the Americans over a possible asset swap (ironically, this was one of the reasons for Khodorkovsky's arrest, as I showed in the previous chapter). Hence, the Yukos case put off a number of major investors, including President George W. Bush, who no longer

⁷⁵⁹ Author's interview with Mikhail Soloviev, Ministry of Industry and Energy, Russia [Moscow, 06.03.12].

⁷⁶⁰ Chow Edward Chow, "US-Russia Energy Dialogue: Policy, Projects, or Photo Op," *Foreign Service Journal* 80(2003).

⁷⁶¹ Author's interview with EU Official A.

⁷⁶² Chow, "US-Russia Energy Dialogue: Policy, Projects, or Photo Op," 31.

⁷⁶³ Ibid.

considered Russia a safe prospect.⁷⁶⁴ Shortly thereafter, Russia-US Energy Dialogue collapsed and 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. Throughout the 2000s, China's growth had generated an oil glut that near singlehandedly contributed to the rising oil price, which sparked off the EU-Russia Dialogue in 2000.

In 2008, Russia and China launched a separate bilateral Russia-China 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. It was a strong signal of just how important China was for Russia. The same year the Sino-Russian Energy Dialogue was launched, Khristenko had been relieved from his post as Minister of Industry and Energy 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. One reason for this was that Russia was faced with stagnating European demand, in the wake of the global financial crisis and Eurozone crisis, to which I will return below.⁷⁶⁵

⁷⁶⁴ Walter Von Mayr, "Oligarchen im Staatsdienst," *Der Spiegel*, 27 December 2004.

⁷⁶⁵ Sergei Shmatko, "Minenergo maksimal'no zainteresovano v uglublenii i razvitiu energeticheskogo dialoga mezhdru RF i KNR," *Neft' Rossii*, 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. 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, the lack of gas related infrastructure in Eastern Siberia would render this impossible 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 confessed.⁷⁶⁶

Secondly, China was pursuing its own multidirectional policy of cooperation. And Russia was not a privileged vector in this context. During visits, Putin shifted his Euro-centric narrative to a more Sino-centric narrative, lauding the historic kinship between the two neighbours, who were 'just like people living next door.'⁷⁶⁷ 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 summoned when the parties needed someone to stand together with on unpopular issues in the face of international opposition.⁷⁶⁸

⁷⁶⁶ Igor Tomberg, "Public Component of Russia-China Energy Dialogue," *RIA Novosti*, 10 June 2013.

⁷⁶⁷ Government of the Russian Federation, "Prime Minister Vladimir Putin's Interview to the Chinese Media," (Moscow: Government of the Russian Federation, 2009).

⁷⁶⁸ Bobo Lo, *Axis of Convenience, Moscow, Beijing, and the New Geopolitics* (Washington, D.C.: Brookings Institution Press, 2008).

According to one leading specialist on Sino-Russian energy relations, the elusiveness of deep cooperation had less to do with specific issues, than with the overall mentality of the two countries: 'Russia is still a long way off to be an integral part of Asia. 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.'⁷⁶⁹ This brings to mind the famous Dostoyevsky quote, where the the author lamented Russia's maladjustment in the world: 'In Europe we were Tatars, while in Asia we are Europeans too.'⁷⁷⁰ 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.⁷⁷¹ Russia also collaborated with China through the Central-Asian security initiative the Shanghai Cooperation Organisation (SCO), and through the Asia-Pacific Economic Cooperation (APEC). However, none of these initiatives delivered much substance in terms of energy cooperation.

The Post-Imperial Narrative

Despite these hiccups, Putin nonetheless 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, Putin underlined the need for closer cooperation with the CIS states, including The Eurasian Economic Community (EurAsEC) and the CIS Common Economic Space. Putin wanted to reaffirm Russia's geopolitical position in the face of an expanding west:

⁷⁶⁹ Yasmina Sahraoui, "Keun-Wook Paik: Moving East Or Moving West: What Happens Next In The Gas World?," *Natural Gas Europe*, 29 November 2012.

⁷⁷⁰ Fyodor Dostoyevsky, *A Writer's Diary* (Evanston, Ill.: Northwestern University Press, 1993), 1374.

⁷⁷¹ Tomberg, "Public Component of Russia-China Energy Dialogue."

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.⁷⁷²

The intention of EurAsEC was to build a common energy market. But there were considerable challenges along the way before the objective of eastern energy integration could be achieved.

The Transit Dimension

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.'⁷⁷³ 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.⁷⁷⁴ Since the launch of the Energy Dialogue, there were several incidents where Russia and a former Soviet state came to blows over energy. Since 2000 Russia cut off energy exports on 50 occasions, most of which were to the CIS and Eastern Europe.⁷⁷⁵ For Moscow, many of these states remained part of what official Russian documents classified as Russia's 'near abroad' (*blizhnee zarubezh'e*).

⁷⁷² Vladimir Putin, "Vystuplenie na plenarnom zasedanii soveshchaniia poslov i postoiannykh predstavitelei Rossii," (Moscow: President of Russia, 2004).

⁷⁷³ Government of the Russian Federation, "Energeticheskoi strategii Rossii na period do 2020 goda," (Moscow: Government of the Russian Federation, 2003).

⁷⁷⁴ Katja Yafimava, *The Transit Dimension of EU Energy Security* (Oxford: Oxford University Press, 2011), 5.

⁷⁷⁵ Grigas, "Can EU Face Russia Down over Energy Policy?."

The expansion of the EU's internal market into this region posed a severe threat against Russian commercial and political interests. Some Russian liberals were positive, including the liberal Andrei Illarionov, Putin's former economic adviser, who described the expansion as 'one of the most important events in global history', stating that 'Europe has virtually reunited west of the so-called Curson line and the old boundary between Catholics and the Orthodox Church.'⁷⁷⁶ 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. He saw geopolitics behind the Commission's every move. In 2002, Ivanov had noted that 'Brussels wants from the beginning to agree at first with NATO, and only then with third countries, including Russia.'⁷⁷⁷ In 2004, whilst commenting on the expansion of the EU, 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 United States. Ivanov warned against the inclusion of Poland and the Baltic States into the EU, which he claimed would draw new dividing lines on the European map.⁷⁷⁸ Ivanov had long warned of the possible negative impact of the expansion on the Energy Dialogue:

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 30.⁷⁷⁹

As for Russia integrating with the EU, Ivanov noted that 'empires rarely attach themselves to others, but build their own.'⁷⁸⁰ This was well enough, as neither party

⁷⁷⁶ Illarionov, "Press Conference with Presidential Economic Adviser Andrei Illarionov, Alexander House."

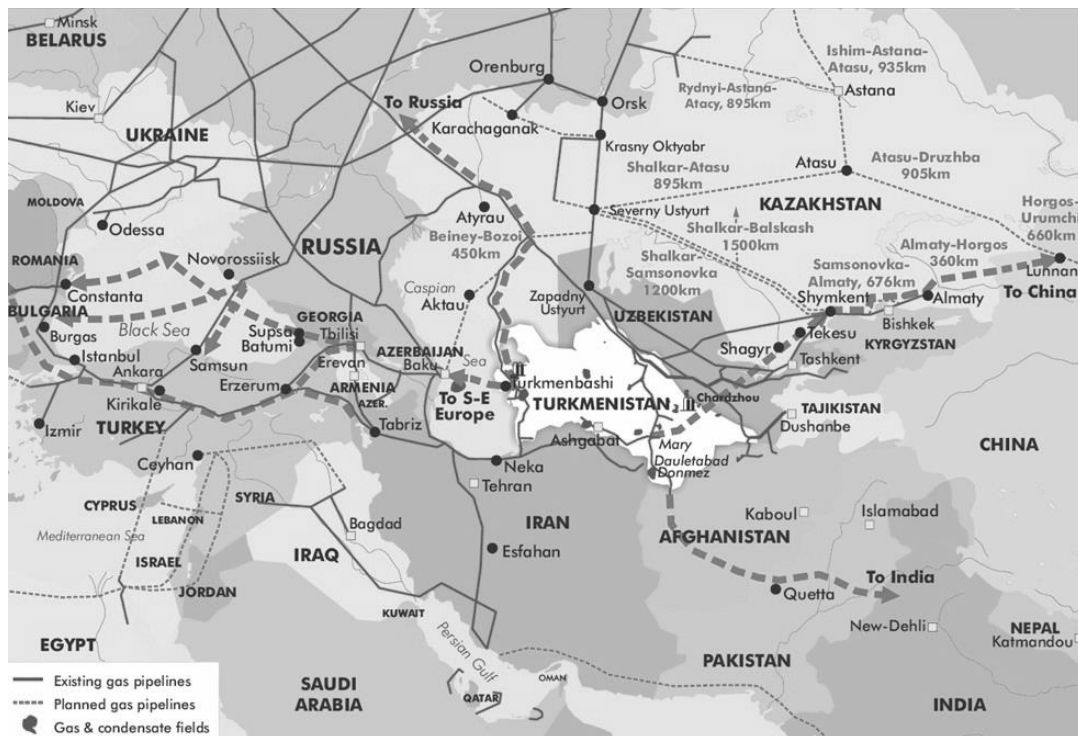
⁷⁷⁷ Ivanov, "La Russie et l'Europe : des actes".

⁷⁷⁸ Ivanov, "E dini vnutrennii rynok es: svet, teni, istoricheskaja perspektiva," 32.

⁷⁷⁹ Interfax, "Outgoing Russian Diplomat Reproaches European Commission for Impeding Dialogue with Moscow."

really wanted this. The problem after 2004 was that the two parties' gazes were fixed on the same 'construction site', namely Russia's 'near abroad'.

Figure 4.2 – The Commonwealth of Independent States



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The CIS

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.' But further integration was needed. With the upcoming expansion of the EU and concomitant expansion of the PCA, the Energy Dialogue would expand its

⁷⁸⁰ Ivanov, "Raschishchat' puti k zrelomu partnerstvu Rossii i Evrosoiuza."

⁷⁸¹ U.S. Energy Information Administration and IEA, "Natural Gas map.gif," (Washington, DC: U.S. Energy Information Administration, 2012).

geographical scope. Khristenko acknowledged that some CIS countries were seeking to join the EU. This was something Russia did *not* wish, according to him, as Russia's goal was 'instituting economic *spaces*', one west and another east, 'while retaining its sovereignty.'⁷⁸²

Khristenko promised that Russia's designs for its near abroad should not be confused with neo-imperialism, assuring that 'Russia cannot and will not impose its plans on anyone; it has no intention of expanding into foreign lands.'⁷⁸³ But if hard (force) power was off the tables, Russia nonetheless relied on its soft (attractive and persuasive) power.⁷⁸⁴ 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, adding that 'the CIS space is a sphere of Russia's strategic interests.' The CIS represented one quarter of Russian trade. Together these strategic interests and common traditions opened for prosperous cooperation.⁷⁸⁵ 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. The borderland of 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

⁷⁸² Khristenko, "Making Headway to Integration," 4-5., my emphasis

⁷⁸³ Ibid., 4.

⁷⁸⁴ Joseph S. Nye, *The Paradox of American Power* (Oxford: Oxford University Press, 2002).

⁷⁸⁵ Khristenko, "Making Headway to Integration," 4.

themselves different countries, as one influential Russian energy economist pointed out to me.⁷⁸⁶ For many years after the breakup of the Soviet Union, the relationship between Russia and Ukraine remained cordial, and energy transit through Ukraine – which accounted for 80 per cent of Russia's exports to the EU – continued at pace.

The gas pipeline 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. There were plans to create a pipeline to bypass Ukraine even before the Energy Dialogue was launched.⁷⁸⁷ Despite this, the Russians remained amenable, defending their generous discounts on 'brotherly' grounds, as then-Prime Minister Mikhail Kasyanov described it in 2001.⁷⁸⁸

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.

⁷⁸⁶ Author's interview with Russian Industry Official A.

⁷⁸⁷ Moscow Times, "New Gas Pipeline to Skip Ukraine," *The Moscow Times*, 1 July 2000.

⁷⁸⁸ Raff, "Analysts: Ukraine Got Best of Gas Deal."

The Orange Revolution made a momentous impact on Russo-Ukrainian energy relations. Russia no longer wanted to subsidise Ukraine, and throughout 2005, Gazprom stepped up its push towards market pricing for gas. But the Ukrainians resisted. On January 1 2006 the parties failed to agree on a price. Soon thereafter, Gazprom reduced the pressure of the gas pipelines through Ukraine. The shutoff caused sensation. The international community accused Russia of bullying its smaller neighbour. Russia refused to admit guilt, however, and instead accused Ukraine of illegally siphoning gas from its pipelines. But other theories pointed towards political motives, and that Russia was putting pressure on Ukrainian politicians for the latter's overtures towards both NATO and the EU.⁷⁸⁹ Either way, normal gas volumes resumed on January 5. The parties concluded a five-year contract, including a provision to revise prices every six months. But Russia's reputation was irreparably damaged. Moscow was painted as the aggressor, with some even drawing comparisons with the Soviet Union. As one commentator put it:

Indeed, the penetrating forces of Russian power in Ukraine, the Caucasus, and Central Asia are no longer the Red Army. They are Russian natural gas and the giant gas monopoly Gazprom.⁷⁹⁰

While this narrative was somewhat outrageous, it nonetheless contained a grain of truth: Russia still had considerable interests in the countries of the Former Soviet Union. Gas pipelines were a crucial part of this picture, and neither Gazprom nor the Kremlin would hesitate to protect the integrity of this system.

⁷⁸⁹ Stern, *The Russian-Ukrainian Gas Crisis of January 2006*.

⁷⁹⁰ Fiona Hill, "Moscow Discovers Soft Power," *Current History* 105, no. 693 (2006): 341.

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. At the 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.⁷⁹¹ Meanwhile, the Ukraine crisis was not reflected in the Energy Dialogue's reports. The interlocutors did supplement its annual progress report with an extra 'interim report', ahead of the Russia-EU Summit in May, where 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',⁷⁹² whereas Ukraine was never mentioned. Nor was it named in the 2006 Progress Report, published in November.⁷⁹³ The parties had failed to find a common narrative for the events, and instead opted to paper over it with general statements. The Energy Dialogue was becoming too technical, 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.⁷⁹⁴

⁷⁹¹ G8 presidency of the Russian Federation in 2006, "Global Energy Security," (St. Petersburg: The G8 presidency of the Russian Federation in 2006, 2006).

⁷⁹² 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.

⁷⁹³ "Seventh Progress Report," 2.

⁷⁹⁴ Mikhail Kasyanov, "Energy Security and Russia-EU Cooperation," in *Speech delivered at the European Enterprise Institute* (Brussels 2006).

The European Narrative

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', that is to find a common narrative.⁷⁹⁵ To be sure, energy security had been on the Commission agenda ever since the launch of the Energy Dialogue in 2000. However, 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 – although this was never made explicit.⁷⁹⁶ Moreover, together with energy security, the Green Paper established sustainability (renewable energy and energy efficiency) and competitiveness (market liberalisation) as the three main pillars of the EU's future energy policy. However, these three pillars were not entirely commensurable, as I will show below.

Ukraine a 'Godsend'

The 2006 Green Paper was hastily assembled. However, 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.'⁷⁹⁷ Indeed, 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. This was something that the Commission had wanted to do for decades. But thus far the member states had resisted the Commission's advances. In this respect, the Ukraine crisis provided a necessary push of public opinion. According to the Commission official above, 'Europe makes progress

⁷⁹⁵ European Commission, "Green Paper, a European Strategy for Sustainable, Competitive and Secure Energy," (Brussels: European Commission, 2006), 5.

⁷⁹⁶ Author's interview with EU Official C [Phone, 29.10.12].

⁷⁹⁷ Author's interview with EU Official C.

through crises.'⁷⁹⁸ And for the EU, Ukraine represented the biggest crisis since the oil crises of the 1970s.⁷⁹⁹ 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 experienced the dangers of bilateralism. 'It was a God-send', said another Commission official close to the EU-Russia Energy Dialogue. Now the Commission rushed to make its narrative authoritative.⁸⁰⁰

The 2006 Green Paper sparked a torrent of policy documents, including the Commission's 2007 paper titled 'An Energy Policy for Europe', which repeated calls for joint action.⁸⁰¹ This in turn paved the way for the fateful Third Energy Package, to which I will return in the next chapter on the Legal Dialogue. Ukraine also fuelled the Commission's external agenda. After the 2004 expansion, the Commission launched its European Neighbourhood Policy, which aimed to tie countries to the east and south of the EU closer to the union. This included Ukraine; however, practical results were limited.⁸⁰²

On 1 December 2005, the Commission signed a Memorandum of Understanding (MoU) about Energy Cooperation with Ukraine. Interestingly, 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 integral to the 'EU-Ukraine Association Agenda', which was to pave the way for a planned 'Association Agreement' generating a 'Deep and Comprehensive Free Trade

⁷⁹⁸ Author's interview with EU Official C.

⁷⁹⁹ Author's interview with EU Official C.

⁸⁰⁰ Author's interview with EU Official B.

⁸⁰¹ European Commission, "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," (Brussels: European Commission, 2007), 4.

⁸⁰² 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).

Area' between Ukraine and the EU.⁸⁰³ Like with Russia, there was no mention of Ukraine joining the EU. But Ukraine expressed its wish to become an observer to the Energy Community Treaty, which was a wider initiative, aiming to expand the energy *acquis* to contingent states of the EU, with or without the prospect of future accession to the Union. Just like the MoU, the Energy Community Treaty (Figure 4.3) was conceived by officials close to the Energy Dialogue, many of which had served in Lamoureux' cabinet. The Energy Community Treaty was signed on 1 October 2005, and came into force on 1 July 2006. As one senior energy diplomat remarked:

The original idea [behind the Energy Community Treaty] was to find a European perspective for the Western Balkans, which is codename for the former Yugoslavia minus Slovenia. And the only thing these countries want to discuss collectively is energy.⁸⁰⁴

However, the geographical scope was widened, and Ukraine and Moldova joined in 2010. Another candidate was Turkey.⁸⁰⁵ Through the Energy Community, the EU was increasing the geographical scope of the energy *acquis*, whilst barring full EU membership. However, implementation of the *acquis* was poor, and the practical success of the initiative was limited.⁸⁰⁶

The Ukraine crisis acted as a catalyst for a wide number of 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.⁸⁰⁷ It

⁸⁰³ 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.

⁸⁰⁴ Author's interview with Vaclav Bartuska.

⁸⁰⁵ European Commission, "An EU Energy Security and Solidarity Action Plan," (Brussels: European Commission, 2008), 8.

⁸⁰⁶ Author's interviews with Vaclav Bartuska; EU Official D; Energy Community Secretariat, "Annual Report," (Vienna: Energy Community Secretariat, 2012).

⁸⁰⁷ European Union and Republic of Azerbaijan, "Memorandum of Understanding on a Strategic Partnership between the European Union and the Republic of Azerbaijan in the Field of Energy," (Brussels: The European Union/The Republic of Azerbaijan, 2006), 2.

was succeeded by another MoU between the EU and Kazakhstan, on 4 December 2006.⁸⁰⁸ All of the MoUs further exported the energy *acquis* to the post-Soviet space. Hence, after Ukraine, the centripetal force of the EU's energy narrative expanded dramatically.

Figure 4.3 – The Energy Community



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⁸⁰⁸ 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).

⁸⁰⁹ Energy Community Secretariat, "Energy Community Map," (Vienna: Energy Community Secretariat, 2013)., please note that this map is current before Croatia's accession to the EU.

The EU25 Narrative

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 by the member states.⁸¹⁰ Ivanov’s prediction had come true: Concerted action had become even more difficult after the EU’s expansion to 25 member states in 2004. After this Bakhtin’s chronotope of time and space really came into play. Nine of the new member states were former Communist countries, of which the three Baltic Republics were former subjects of the Soviet Union. The Baltic States and Slovakia relied on Russia to provide 100 per cent of natural gas. In 1994, Carl Bildt, Sweden’s foreign minister, said that the Baltic States was the ‘litmus test’ which would reveal ‘Russia’s true colours’.⁸¹¹

The accession was a litmus test for the EU also, 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. Moreover, Andris Piebalgs, a former Latvian Minister of Education, was named Commissioner for Energy in November 2004. 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 2005.⁸¹² 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.⁸¹³

However, 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

⁸¹⁰ Author’s interview with EU Official C.

⁸¹¹ Carl Bildt, "The Baltic Litmus Test: Revealing Russia's True Colors," *Foreign Affairs* (1994).

⁸¹² Author’s interview with Christian Cleutinx.

⁸¹³ Author’s interview with EU Official B.

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.⁸¹⁴ Piebalgs' upbringing in the Soviet Union, and the large Russian minority in Latvia, had also given him an intimate knowledge of Russia and Russians.

But 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.⁸¹⁵ 'Piebalgs had a difficult time getting along with his Russian counterpart', said one senior EU energy official based in Russia.⁸¹⁶ 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.⁸¹⁷ Thus, opinions of him varied.

Inactivity

Nevertheless, it was well established that Russia preferred to interact with major European powers such as Germany, France and the UK.⁸¹⁸ 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.'⁸¹⁹ Likewise, an Estonian official said

⁸¹⁴ Author's interviews with EU Official B; European Commission, "Andris Piebalgs, Member of the European Commission," *European Commission*, 17 March 2014.

⁸¹⁵ Author's interview with EU National Official F [Phone, 30.10.12].

⁸¹⁶ Author's interview with EU Industry Official A.

⁸¹⁷ Author's interview with Stanislav Zhiznin.

⁸¹⁸ Zhiznin, *Energy Diplomacy: Russia and the World*, 275.

⁸¹⁹ Author's interview with Quentin Perret, Chargé de mission international, Ministry of Ecology, Sustainable Development and Energy, France [Brussels, 23.10.12].

Russia ‘clearly acts differently’ towards Estonia than towards the bigger states.⁸²⁰ Perhaps for this reason, the Commission placed France, Germany and the United Kingdom in charge of the Energy Dialogue’s thematic groups, in their various incarnations. ‘Putting big countries in charge of the dialogue was a way to enhance its value’, as the French official argued.⁸²¹

The opaque selection process for the co-chairs of the dialogue, caused resentment among some of the smaller member states, as one EU national official told me.⁸²² However, 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 general participation of the new member states, however, the track-record was more mixed. In fact, only two countries, Hungary and Estonia, would become consistent participants of the thematic groups. It is not entirely clear why this was. 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.⁸²³ Moreover, energy was really not considered a ‘hot’ topic, something that had to be dealt with immediately. 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

⁸²⁰ Author’s interview Mati Murd, Ministry of Foreign Affairs of Estonia [Phone, 31.10.12].

⁸²¹ Author’s interview with Quentin Perret.

⁸²² Author’s interview with EU National Official F.

⁸²³ Author’s interview with EU National Official F.

question. Thus, resources were concentrated on these matters.⁸²⁴ Despite (or perhaps because of) a considerable dependence on Russia, Russo-Baltic energy relations remained pragmatic.⁸²⁵

Another suggested reason for the absence were the long-standing connections between Baltic officials and the Russo-Baltic energy trade. Indeed, the ties between politics and energy in the Baltics were well established, especially in Latvia and Lithuania.⁸²⁶ Moreover, Baltic energy companies were largely state-controlled, hence bilateral energy contracts with Russian companies like Gazprom were intergovernmental. 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.⁸²⁷ This is indeed a plausible explanation. Nevertheless, it is difficult to verify.

Yet another – and 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.⁸²⁸

⁸²⁴ Author’s interview with Dins Merirands, Deputy State Secretary, Ministry of Transport of the Republic of Latvia [Brussels, 29.10.12].

⁸²⁵ Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia*, 37.

⁸²⁶ Ibid.

⁸²⁷ Author’s interview with EU National Official F.

⁸²⁸ Author’s interview with Mati Murd.

As one Central European official noted, his first impression of the Energy Dialogue was poor. The official could not understand how the dialogue could be useful in protecting national energy interests, so the official decided to end participation.⁸²⁹ A senior official from the new member states described the Energy Dialogue as ‘an illusion’.⁸³⁰ Likewise, a Polish energy official characterised the dialogue as ‘empty and extremely boring.’⁸³¹ A senior Czech energy diplomat remarked that ‘nobody seemed to be thrilled to have to go there.’ The Czech diplomat thus decided to halt his participation in the Dialogue: ‘There was no point’, he said.⁸³²

Different Views

Regardless of the Energy Dialogue, there was an undeniable tension between the new member states and Russia post-accession. ‘Any policy towards Russia in either politics, economics, or culture is strongly influenced by our historical background’, as a Polish Energy Dialogue official remarked.⁸³³ Likewise, relations with the Baltics remained tense. A Latvian official said ‘it is no secret that the Russians see energy as a foreign policy tool.’⁸³⁴ What is more, it was a general impression among several Estonian officials that Putin held a particular grudge against Estonia, who turned over his father to the Germans during the Second World War.⁸³⁵ ‘Putin has a personal gripe with Estonia’, for the Estonians’ betrayal of his father, according to Harri Tiido, the undersecretary of the Estonian Foreign Ministry.⁸³⁶ Putin even denied that there had

⁸²⁹ Author’s interview with EU National Official B.

⁸³⁰ Author’s interview with EU National Official A [Moscow, 13.04.12].

⁸³¹ Author’s interview with Mariusz Kawnik, Ministry of Economy of Poland [Brussels, 29.10.12].

⁸³² Author’s interviews with Vaclav Bartuska; EU National Official B.

⁸³³ Author’s interview with Mariusz Kawnik.

⁸³⁴ Author’s interview with Dins Merirands.

⁸³⁵ Vladimir Putin et al., *First person, an Astonishingly Frank Self-Portrait by Russia's President Vladimir Putin* (New York: Public Affairs, 2000), 6.

⁸³⁶ Michael Polt et al., "Estonia: Das Quanrud Discusses Afghanistan, Russia, The Economy," no. 09TALLINN371 (2009).

ever been an occupation by the Soviets, as Estonia was given back to the Soviet Union by Germany in 1939.⁸³⁷ In the Baltics, the impression was different. Estonia's former foreign minister told me that she was convinced that Putin was trying to build an 'energy empire' through Gazprom.⁸³⁸ There was thus an obvious narrative gap between Russia and the Baltic countries.

However, 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, Hungarians or Slovaks experienced much in terms of threat with respect to energy.⁸³⁹

In sum, the Energy Dialogue never assumed a prominent position in the EU-Russia energy relationships, even after expansion. Overall, EU membership had a negligible effect on the official policy narrative of the Baltic States towards Russia in the energy sphere.⁸⁴⁰ Poland, meanwhile, 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 my time-period.⁸⁴¹ However, two incidents moderated this context: The launch of the Nord Stream pipeline, and the 2006 gas crisis with Ukraine. I will address Nord Stream first.

⁸³⁷ Lynn Berry, "Behind Putin's Estonia Complex," *The Moscow Times*, 25 May 2007.

⁸³⁸ Author's interview with Kristiina Ojuland, former Foreign Minister of Estonia (2002-2005), Member of the European Parliament (2009-) [E-mail, 11.02.10].

⁸³⁹ Robert Anderson et al., "Moscow's Past Satellites Take Keen Interest in Energy Talks," *Financial Times*, 12 July 2006.

⁸⁴⁰ Grigas, *The Politics of Energy and Memory Between the Baltic States and Russia*.

⁸⁴¹ Joanna A. Gorska, *Dealing with a Juggernaut, Analyzing Poland's Policy towards Russia, 1989-2009* (Lanham: Rowman & Littlefield Publishers, 2010), 130-2.

Germany and Nord Stream

In the 2006 Green Paper, the Commission was calling for the 'solidarity' of its member states. However, 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. The Russo-German relationship had deep roots. However, in 2005, Germany prepared for elections, and the question of Germany's ties with Russia became a hot issue. 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. But Merkel was determined to distance Germany from its special relationship Russia, and 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 prompted Donald Tusk, a Polish parliamentarian who would later become Prime Minister, 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.'⁸⁴² In the end, Merkel defeated Schröder, and many expected the 'Schröderization' of Germany's Russia policy to end.⁸⁴³ However, it took more than promises to curb the appetite of German business interests in Russia, as Merkel would soon find out. One example of 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. Nord Stream was completed in 2012. Merkel who

⁸⁴² Hugh Williamson and Jan Cienski, "Merkel Promises Closer German Ties with Poland," *Financial Times*, 17 August 2005.

⁸⁴³ Shevtsova, "Germany: When Will the Ostpolitik Finally End?."

was present at the unveiling ceremony, described Nord Stream as a ‘milestone in energy co-operation’ and the ‘basis of a reliable partnership.’⁸⁴⁴ It was hailed by the interlocutors of the Energy Dialogue as evidence of its success. But 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, however, 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 the Second World War.⁸⁴⁵

Figure 4.4 – Nord Stream



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⁸⁴⁴ BBC, "Nord Stream Gas Pipeline Opened by Merkel and Medvedev," *BBC*, 8 November 2011.

⁸⁴⁵ Kloth, "Polish Minister Attacks Schröder and Merkel."

⁸⁴⁶ Sam Bailey, "Map of the Proposed Nord Stream and Connecting Pipelines," (Wikimedia Commons, 2009).

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.⁸⁴⁷ On 8 September 2005, only ten days before the German federal elections, Gazprom, 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 before Schröder stepped down as Chancellor, the German government guaranteed that it would cover 1 billion euros 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.

Ukraine

The Ukraine crisis sparked near-unison criticism from the EU. However, Germany remained mostly silent after the Ukraine crisis, 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.⁸⁴⁸ The Poles, too, were outraged by crisis in Ukraine, its neighbour and ally. After the 2006 crisis, the Polish president, Lech Kaczynski, called for NATO to put energy security under

⁸⁴⁷ Author's interview with EU Official C.

⁸⁴⁸ 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).

its Chapter Five provisions for collective defence. The president also expressed his support for Ukrainian and Turkish accession to the EU.⁸⁴⁹ 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 United States 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.'⁸⁵⁰ According to US Secretary of State Condoleezza Rice, it was clear that 'Russia was using oil and gas as a weapon' towards its neighbours.⁸⁵¹ Indeed, so thought President Bush,⁸⁵² as well as Spencer Abraham, the US secretary of energy, who feared that Europe's extreme dependency on Russia could ultimately threaten peace in the world.⁸⁵³

Indeed, Washington's concerns were not confined to Europe. The United States had great interest in the region around the Caspian Sea, and events in Europe threatened to undermine this. This issue linkage was reflected in diplomatic postings. For example, the United States Ambassador to the European Union between 1999 until 2001, Richard Morningstar, was former Special Advisor to the President Bill Clinton and Secretary of State on Assistance to the New Independent States of the Former Soviet Union, and later

⁸⁴⁹ Der Spiegel, "Spiegel Interview with Poland's Kaczynski," *Der Spiegel*, 6 March 2006.

⁸⁵⁰ Steven Lee Myers, "Cheney Rebukes Russia on Rights," *The New York Times*, 5 May 2006.

⁸⁵¹ Condoleezza Rice, *No Higher Honour, a Memoir of My Years in Washington* (London: Simon & Schuster, 2011), 412.

⁸⁵² George W. Bush, *Decision Points*, 1st ed. (New York: Crown Publishers, 2010), 432.

⁸⁵³ 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.

Special Advisor to Clinton and the Secretary of State for Caspian Basin Energy Diplomacy. Morningstar was crucial for the development of the Baku-Tiblisi-Ceyhan pipeline through Georgia. After leaving his post in Brussels, Morningstar became the US Special Envoy for Eurasian Energy, where he would champion the Nabucco pipeline, to which I will return below. As of July 2012, Morningstar became ambassador to oil-rich Azerbaijan. Morningstar's predecessor was also his successor. Clayland Boyden Gray became the United States' EU ambassador in 2006, and later the US Special Envoy for Eurasian Energy. Condoleezza Rice, secretary of state under George W. Bush, explained Gray's assignment thus:

I would appoint a senior official, Boyden Gray [...] to promote a common strategic energy policy with our allies. 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 warning shot that the color revolutions were vulnerable to pressure by playing the “energy card.” And we didn’t really have a good response.⁸⁵⁴

The Eastern Europeans were ‘completely hostage’, according to Rice. 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.’⁸⁵⁵ More on these juridical issues in the next chapter.

⁸⁵⁴ Rice, *No Higher Honour, a Memoir of My Years in Washington*, 412.

⁸⁵⁵ Ibid.

The Post-Imperial Narrative

If the Europeans were hostage to the Russians, many Russian officials considered the EU to be completely under the dictate of Washington.⁸⁵⁶ There is perhaps a 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. Nevertheless, the 'colour revolutions' in Ukraine and Georgia were criticised by the Kremlin as being the result of meddling by US-backed NGOs and interests.⁸⁵⁷

The 'Orange Revolution' 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, who was the Soviet Union's last foreign minister, was ousted in similar fashion as Yanukovich, 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 Georgia to join the ranks of both the EU and NATO. Georgia was an important, non-Russian link between the oil and gas rich Caspian region and Europe. Relations were difficult even before the 2003 events. During Shevardnadze's time, 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, also known as 'Europe's Last Dictator', was not without its complications. Nevertheless, Belarus' relationship with the EU was much worse. Russian-speaking Belarus was, together with Ukraine, part of what Alexandr

⁸⁵⁶ Author's interview with Nodari Simonia.

⁸⁵⁷ Lucan Way, "The Real Causes of the Color Revolutions," *Journal of Democracy* 19, no. 3 (2008).

Solzhenitsyn called 'Greater Russia'.⁸⁵⁸ Minsk had similar arrangements as Kiev with Moscow over energy prices. And in January 2007, Gazprom and Minsk also 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*, or 'Friendship', pipeline, running 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.⁸⁵⁹

Meanwhile, Georgia under Saakashvili remained a constant headache for the Kremlin. East-West relations were cooling down. In February 2007, Putin accused the United States of pursuing a 'unipolar' foreign policy, in a scathing speech performed at the Munich Conference on Security Policy.⁸⁶⁰ In April 2007, the United States 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 thought Washington was looking to curb Russia's nuclear capabilities.⁸⁶¹ 2008-2009 was a particularly tense period. Pundits were beginning to talk about a 'new cold war' between Russia and the West.⁸⁶² In August 2008, the doomsayers were seemingly proven right, as Moscow and Tbilisi went to war in an opaque territorial dispute. The conflict lasted for

⁸⁵⁸ Joanne Levine, "Awaiting Solzhenitsyn, Moscow Merely Shrugs," *The Moscow Times*, 26 May 1992.

⁸⁵⁹ Yafimava, *The Transit Dimension of EU Energy Security*.

⁸⁶⁰ Vladimir Putin, "Speech and the Following Discussion at the Munich Conference on Security Policy," (Munich: President of Russia, 2007).

⁸⁶¹ Rice, *No Higher Honour, a Memoir of My Years in Washington*, 576-80.

⁸⁶² Edward Lucas, *The New Cold War, How the Kremlin Menaces Both Russia and the West* (London: Bloomsbury, 2008).

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 was plagued by heterologue, and failed to come up with a unified response.⁸⁶³ The Americans, meanwhile, saw 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.⁸⁶⁴

These divisions had implications for the PCA talks, which I will return to later on.

The 2009 Gas Crisis

But 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 in implications.⁸⁶⁵ 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. Ukraine had already paid 1 billion dollars. But Gazprom wanted the rest, and threatened again to shut off supplies. On 30 December, Naftohaz yielded and paid up 1.5 billion dollars in debt. The crisis was seemingly averted. But then the two parties failed to agree on a

⁸⁶³ Ian Traynor, "Georgia: Divided EU Prepares to Review Stand on Russia at Emergency Summit," *The Guardian*, 1 September 2008.

⁸⁶⁴ Abraham and Tucker, *Lights Out! : Ten Myths About (and Real Solutions to) America's Energy Crisis*, 55-6.

⁸⁶⁵ Yafimava, *The Transit Dimension of EU Energy Security*, 1.

price for Russian gas exports, and on 31 December, negotiations broke down and the gas was shut off.⁸⁶⁶

The EU27 Narratives

On 2 January, Hungary, Bulgaria, Poland and Romania reported that pipeline pressure had dropped. Romania and Bulgaria had joined the EU in 2007, increasing the union's energy dependency on Russia. The winter of 2008-2009 was particularly harsh, and suddenly the EU was faced with a humanitarian crisis in South-Eastern Europe. A few countries reported significant drops, including Bulgaria, Moldova and Slovakia. The 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 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.⁸⁶⁷

But the conference failed. However, only two days later the two CEOs of Gazprom and Ukrainian state gas utility Naftohaz, accompanied by Putin, Sechin and Tymoshenko – supposedly at the behest of German Chancellor Angela Merkel – signed an agreement

⁸⁶⁶ 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).

⁸⁶⁷ Author's interview with Vaclav Bartuska.

securing gas to Ukraine for the period 2009-2019. Once again, Moscow preferred to deal with the 'big dogs' of the EU, as Bartuska had noted.⁸⁶⁸ However, as one French official commented, 'many people argued that we could no longer rely on Russia after this. And Russia understood this, and wanted to reaffirm their position as a trustworthy supplier.'⁸⁶⁹ Gas supplies resumed on 20 January, and regained full levels on 21 January. According to the agreement, Ukraine maintained a 20 percent discount, but agreed to a gradual increase in gas prices, according to a formula linked to diesel prices and transport costs. Russia, meanwhile, received a 20 per cent discount on transit.⁸⁷⁰

The European Narrative

Gas flows were resumed, but in the eyes of Brussels, Russia's status as a gas exporter was now beyond repair. 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', to a resounding applause from the audience.⁸⁷¹ Indeed, even personal relations suffered. According to one centrally placed EU Commission official, during the January 2009 crisis Vladimir Putin and José Manuel Barroso, the Commission president, literally screamed at each other on the phone, with Putin allegedly crying that the EU had 'invented' Ukraine.⁸⁷² Ukraine was an appendage, not a sovereign state. By interfering, the EU was in fact meddling with Russia's internal affairs. As Energy Minister Shmatko said, 'It was a very amusing scene when serious people were discussing a lot of cooperation in gas

⁸⁶⁸ Author's interview with Vaclav Bartuska.

⁸⁶⁹ Author's interview with Quentin Perret.

⁸⁷⁰ Fraser, "What Was Really in Tymoshenko's 2009 Gas Agreement with Russia?."

⁸⁷¹ European Parliament, "Gas Supplies by Russia to Ukraine and the EU (Debate)," (Brussels: Official Journal of the European Union, 2009).

⁸⁷² Author's interview with EU Official E.

delivery between Ukraine and European Commission and Russia was never mentioned. All this left us with a bitter feeling', he said.⁸⁷³

In April 2009, the Commission concluded an agreement with the government in Kiev to modernise the Ukrainian gas pipeline system. Piebalgs' spokesman defended the agreement, stating that it 'was on the application on Ukrainian territory of the rules of the game that apply in the European Union', and that '[i]t was a purely EU-Ukraine affair.' This was clearly not true, and the Russians were visibly upset. Putin dismissed the accord as 'not thought out and unprofessional.'⁸⁷⁴ Russia had also offered to modernise the Ukrainian pipeline network, but this was dismissed as 'imperial' and tantamount to a 'takeover' of Ukraine by Yulia Tymoshenko, who said that Gazprom's engineers would be accompanied by Russian military garrisons.⁸⁷⁵

The legacy of the 2009 events would continue to plague Russia and Ukraine. The gas agreement would be the basis of a questionable court process against Tymoshenko, supported by Yanukovich, who in 2010 returned as president, after a seemingly fair election. Yanukovich claimed that the agreement was illegal, whereas his critics accused him of simply wanting to get back at his nemesis. The Tymoshenko trial seriously hurt Ukraine's relationship with the West and the EU, whilst improving the relationship with Russia. Shortly after Yanukovich's return to power, Putin would suggest a merger between Gazprom and Naftohaz. But negotiations faltered,⁸⁷⁶ and Ukraine would continue playing off east and west all throughout my time period.

⁸⁷³ Kostis Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine," *New Europe*, 20 April 2009.

⁸⁷⁴ Lucian Kim, "Medvedev's Initiative Won't Replace Energy Charter, EU Says" *Bloomberg*, 30 April 2009.

⁸⁷⁵ Anatoly Medetsky, "Putin Floats Merger of Gazprom, Ukraine's Naftogaz," *The Moscow Times*, 4 May 2010.

⁸⁷⁶ RIA Novosti, "Ukraine Rules Out Naftogaz-Gazprom Merger for Lower Gas Price," no. 3 September (2011).

More MoUs

In 2008, the Commission published its Energy Security and Action Plan, including various measures intended to strengthen EU energy security (and thus weaken dependence on Russia). In addition to the Energy Community, 'a strategy on Belarus should be developed', according to the Action Plan, 'taking account of its importance as a neighbour and transit country.'⁸⁷⁷ Like the Energy Community, all partnerships would be based on the ECT and the energy *acquis*. In 2008, the EU signed an MoU with gas producer Turkmenistan, with the purpose to strengthen energy security and promote diversification for both parties (for landlocked Turkmenistan, this also meant Russia).⁸⁷⁸

This did not mean that the days of the EU-Russia Energy Dialogue were numbered. The 2008 Action Plan reiterated the need for a 'New Agreement' to replace the PCA, without providing too many specifics. As stated in the plan, 'Russia will remain the EU's main energy partner far into the future and more needs to be done to ensure that this relationship is based on trust.'⁸⁷⁹ Officially, the goal was still a legally binding partnership, although there were few now who considered this a realistic prospect.⁸⁸⁰ 'The EU-Russia Energy Dialogue should be continued', the paper stated, but not as an exclusive venture.⁸⁸¹ Hence, new bilateral energy dialogues emerged north, south, east and west. Yet another cooperation agreement was signed with Iraq in January 2010 (incidentally, Russia and Shmatko had launched an Iraq-Russia Energy Dialogue one year earlier). Another MoU with Uzbekistan came in January 2011, followed by one with China in 2012. In addition were new agreements with Brazil, Norway, India, South

⁸⁷⁷ European Commission, "An EU Energy Security and Solidarity Action Plan," 8.

⁸⁷⁸ European Union and Republic of Turkmenistan, "Memorandum of Understanding and Co-Operation in the Field of Energy between the European Union and Turkmenistan," (Ashgabat: European Union Republic of Turkmenistan, 2008).

⁸⁷⁹ European Commission, "An EU Energy Security and Solidarity Action Plan," 8.

⁸⁸⁰ Author's interviews with Christian Cleutinx; Alexei Mastepanov; Leonid Grigoriev.

⁸⁸¹ European Commission, "An EU Energy Security and Solidarity Action Plan."

Africa, the United States, Turkey and several others. All of these dialogues envisaged 'partnerships' based on binding, mutually obligatory guidelines. Moreover, the EU reinforced the eastern vector of its European Neighbourhood Policy through a new Eastern Partnership, launched in May 2009 – although here, too, initial results were disappointing.⁸⁸²

Diversification was the new keyword. Russia was not an exclusive partner, according to Piebalgs,⁸⁸³ who was seemingly keen to forge partnerships with everyone but Russia.

Critical Infrastructure

The EU's tilt away from Russia was further illustrated through its pipeline politics. This, of course, was controversial, and it was not until the 2008 report when the interlocutors of the Energy Dialogue acknowledged each other's desire to diversify.⁸⁸⁴ In parallel to the 2008 Action Plan, discussed above, the Commission published another Green Paper on energy network infrastructure. 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 also a pressing need to establish better interconnections between the new and old member states.⁸⁸⁵ Again, there was no explicit mention of Russia, but none of the projects suggested included the EU's main energy supplier. 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

⁸⁸² Jos Boonstra and Natalia Shapovalova, "The EU's Eastern Partnership: One Year Backwards," *Fride Working Paper* May, no. 99 (2010).

⁸⁸³ Andris Piebalgs, "Energy for a Changing World: The New European Energy Policy," in *Europe's Energy Challenges* (Brussels: European Commission, 2007), 8.

⁸⁸⁴ EU-Russia Energy Dialogue, "Ninth Progress Report," (Paris: EU-Russia Energy Dialogue, 2008).

⁸⁸⁵ European Commission, "Green Paper, towards a Secure, Sustainable and Competitive European Energy Network," (Brussels: European Commission, 2008), 6.

to the security of energy supply.’⁸⁸⁶ On 16 October 2008, the European Council had called on the Commission to ‘reinforce and complete critical infrastructures’, and establish new import routes.⁸⁸⁷ Again, Russia was the obvious culprit.

For a while, the most important pipeline project was Nabucco. 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.⁸⁸⁸ 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.⁸⁸⁹ 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.’⁸⁹⁰ Yet again, Russia was not named, but there was no doubt who the energy Commissioner was referring to.

It was not far-fetched to claim that the Energy Community Treaty, mentioned above, and Nabucco/the Southern Gas Corridor were linked, even though this was never officially confirmed.⁸⁹¹ Together they showed the clear relationship between geo-economics and legal institutions. 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

⁸⁸⁶ Ibid., 3.

⁸⁸⁷ Ibid., 6.

⁸⁸⁸ "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," 9.

⁸⁸⁹ Author's interview with EU Official D [Brussels, 19.10.12].

⁸⁹⁰ European Commission, "Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe," 10.

⁸⁹¹ Murray et al., "EU Strategy For The Southern Gas Corridor," no. 08BRUSSELS534 (2008).

connect the Baltic States to the EU's energy networks.⁸⁹² Back in 2001, Russia had launched its BRELL initiative (Belarus, Russia, Estonia, Latvia and Lithuania), aiming to strengthen ties between the countries. Hence, the two initiatives were in direct opposition. But post-accession, the Baltic States were no longer seeking closer cooperation with Russia, but with the EU.

Climate Change

I have said that after the 2006 Green Paper, the three main pillars of the European narrative were competitiveness, energy security and sustainability.⁸⁹³ 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. However, Brussels also sought to move away from hydrocarbons, in part to combat climate change, but also to diversify its energy mix. For Piebalgs energy security, competitiveness and sustainability were different aspects of the same challenge.⁸⁹⁴

In 2007, the Commission published its '202020' targets, which included a 20 per cent reduction in greenhouse gas emissions from 1990 levels, a 20 per cent raise in the share of EU energy consumption produce by renewable resources, and a 20 per cent improvement in the EU's energy efficiency – all by 2020.⁸⁹⁵ The targets were enacted in the 2009-climate and energy package, and further confirmed in the Commission's 2050 roadmap. Meanwhile, the Commission's competitiveness agenda was furthered with the

⁸⁹² European Commission et al, "Memorandum of Understanding on the Baltic Energy Market Interconnection Plan," (Brussels: European Commission, 2009).

⁸⁹³ European Commission, "Green Paper, a European Strategy for Sustainable, Competitive and Secure Energy."

⁸⁹⁴ Piebalgs, "Energy for a Changing World: The New European Energy Policy."

⁸⁹⁵ European Commission, "The EU Climate and Energy Package," European Commission, <http://ec.europa.eu/clima/policies/package/>.

implementation of the Third Energy Package in 2009. I will return to all of this in the next chapter on the Legal Dialogue.

However, the elements of competitiveness, sustainability and energy security were not necessarily complementary.⁸⁹⁶ Energy security and secure contracts were not equivalent with free competition, with large investment 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 US 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. But because of the EU's determination to go green, the policies remained in place, and hence the market value of the EU's gas, coal and nuclear-fuelled utilities plummeted (the reputation of nuclear energy took a particular hit after the 2011 nuclear meltdown in Fukushima, Japan, after which German Chancellor Angela Merkel announced Germany's determination to phase out nuclear energy by 2022⁸⁹⁷). The net result of all this was devastating for the industry: Since 2008, EU utilities lost half a trillion dollars of their cumulative value, more than the EU's struggling banking sector lost after the Eurozone crisis.⁸⁹⁸ This in turn threatened the EU's energy security. As the CEO of GEF Suez later remarked, the EU was 'destroying its energy industry through a lack of consistency, coherence and wrong decisions by the European Commission and by individual governments.' As E.ON's CEO added, 'there have been a lot of good intentions [...] But things are now getting out of control.'⁸⁹⁹

⁸⁹⁶ 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).

⁸⁹⁷ David Gordon Smith, "Nuclear Phaseout Is an 'Historic Moment'," *Der Spiegel*, 30 May 2011.

⁸⁹⁸ The Economist, "How to Lose Half a Trillion Euros," *The Economist*, 12 October 2013.

⁸⁹⁹ Guy Chazan, "Energy Costs Widen Gap in Competitiveness," *Financial Times*, 14 October 2013.

Despite Piebalgs' calls for a common internal and external energy policy, based on a trinity of sustainability, energy security and competitiveness, there were still gaping holes and contradictions in the EU's energy narrative. This was also obvious with respect to Russia, as the CEO of ENI, Italy's largest company and biggest energy producer, later noted:

The emissions cut targeted by the so-called 20-20-20 by 2020 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 1-4.⁹⁰⁰

Russia's Euro-Asian Narratives

The EU remained dependent on Russia, which in turn remained dependent on the EU. Hence, Piebalgs' trinity did not go unnoticed in Moscow, where it was partly perceived as a threat. 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.⁹⁰¹ However, renewable energy could challenge Russian oil and gas. 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 growing worried. In the 2006 report of the thematic group on investment, it was noted that:

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

⁹⁰⁰ Paolo Scaroni, "Europe Must Speak with One Voice on Energy," *ibid.*, 11 April 2014.

⁹⁰¹ Darya Korsunskaya, "Putin Ponders Climate Change in Arctic Russia," *Reuters*, 23 August 2010.

believes that such a policy could put Russian companies in the position of being 'suppliers of last resort'.⁹⁰²

At the same time, 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 paper, was Nabucco. Thus, instead of attending the summit, Putin chose to meet his Bulgarian counterpart to discuss 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.⁹⁰³

Figure 4.5 – South Stream & Nabucco



South Stream and Nabucco were in direct competition. When confronted with the viability of two pipelines, Shmatko, who went to the summit 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

⁹⁰² EU-Russia Energy Dialogue, "Thematic Group on Investments," 9.

⁹⁰³ Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine."

⁹⁰⁴ Stanqo, "Nabucco and South Stream," (Wikimedia Commons, 2010).

consumer is the one to have the final word and do not want to engage in such political discussions.⁹⁰⁵ Russia's diversification efforts were geared away from Ukraine, and the Commission, but not the EU market. In 2009 as in 2000, Russian gas exports remained tethered to Europe, which in turn remained dependent on Russian gas.

The 2009 Crash

For Moscow, the first Ukraine incident did not matter much. Around 2006-2007, Russia felt invincible. The Russian economy was growing by 6-7 per cent per year, buffeted by soaring oil prices. Russia was an 'energy superpower',⁹⁰⁶ and again ready to assume what it considered its rightful place among the leading nations of the world. However, both EU and Russia remained vulnerable to the vagaries of the world economy. The Energy Dialogue launched after a trebling in world oil prices. However, this could soon 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, stating that '[s]uch a crisis could seriously disrupt long-term investments and lay the basis for a future deficiency of energy resources.'⁹⁰⁷

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, dragging with it several of the world's biggest banks, and several sovereign states, including the EU members Greece, Portugal, Ireland, Spain, and nearly Italy. Energy demand in the EU dropped by seven percent. 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 Central Bank had a 'rainy day' wealth fund of a staggering

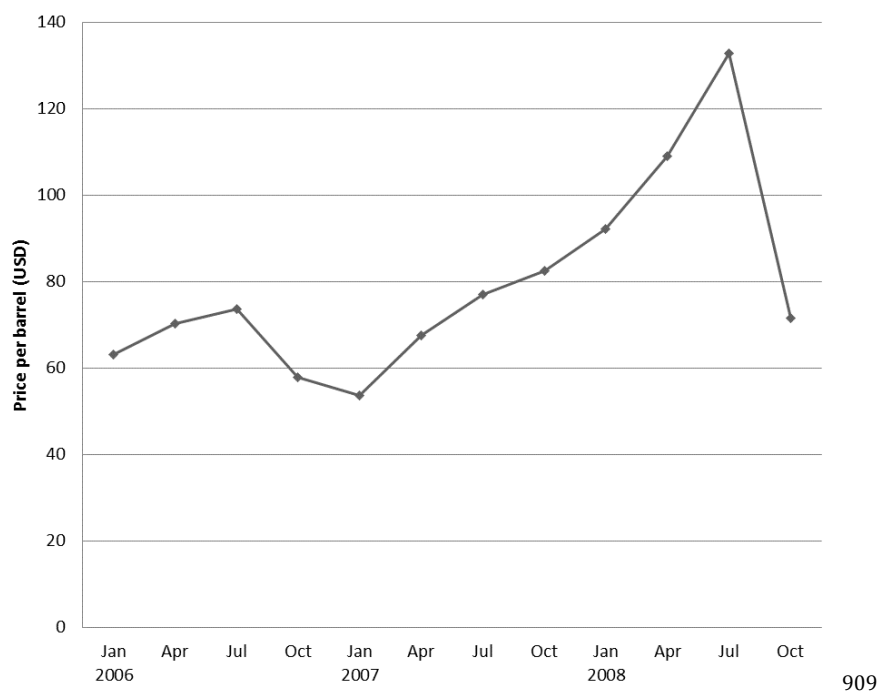
⁹⁰⁵ Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine."

⁹⁰⁶ Hill Fiona, "Russia: The 21st Century's Energy Superpower?," *Brookings Review* 20, no. 2 (2002).

⁹⁰⁷ EU-Russia Energy Dialogue, "Thematic Group on Investments," 10.

\$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.⁹⁰⁸

Figure 4.6 – Average World Oil Prices, January 2006 – October 2008



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 due to lower tax income from the decreased energy exports. By 2009, Russia’s seven per cent-growth had

⁹⁰⁸ Ickes and Gaddy, "Russia after the Global Financial Crisis."

⁹⁰⁹ U.S. Energy Information Administration, "Spot Prices".

turned into deficit (this growth slowdown was exacerbated by the Georgian war, discussed above).⁹¹⁰

The Shale Gas 'Revolution'

Russia's misfortunes were further compounded by another geo-economic 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 United States had an estimated 116 years of gas supplies, making it the potentially biggest gas producer in the world.⁹¹¹ This bolstered potential EU supplies, whilst 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 US. 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, which was set to export liquefied gas to the US, and possibly to the EU through Nord Stream.

The shale gas revolution could possibly have a dramatic effect on the Energy Dialogue, and Russo-EU energy relations more generally. To be sure, the world has arguably yet to appreciate the momentous impact the shift to shale-extracted hydrocarbons might have. Nevertheless, the Russians remained confident, if not in

⁹¹⁰ Padma Desai, "Rethinking Russia: Russia's Financial Crisis," *Journal of International Affairs* 63, no. 2 (2010).

⁹¹¹ 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.

denial. One senior Gazprom official in the Energy Dialogue dismissed shale gas as a ‘fad’, when I asked him about the possible impact it might have on Gazprom’s market position.⁹¹² However, Gazprom’s share has been steadily falling relative to other suppliers and sources.⁹¹³ Moreover, although the Russians generally dismissed the science of climate change, the EU’s climate agenda was seriously threatening Gazprom’s security of demand in the EU. 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 Warning Mechanism] was politically convenient. Here was a deliverable. It was useful, and allowed everyone to show something for the dialogue. Everybody was happy.⁹¹⁴ The mechanism was basically information sharing, so as to avoid future gas supply crises. As one energy 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.’⁹¹⁵ 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. Hence it was re-launched and revamped later that year.

⁹¹² Author’s interview with Sergei Komlev, head of pricing and contract formation at OAO Gazprom Export [Moscow, 04.04.12].

⁹¹³ From 47.7 percent in 2001, to 34.2 percent in 2009, see: European Commission, "Eurostat".

⁹¹⁴ Author’s interview with Quentin Perret.

⁹¹⁵ Author’s interview with Vladimir Drebenstov.

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 European Union.⁹¹⁶ 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 Hotline' 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 EU'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. On the one hand, the chapter covered space as both a constitutive and a constituted factor of the six narrative clusters of the EU-Russia Energy Dialogue. On the other hand, the chapter touched upon everything that was physically 'outside' of the dialogue, such as Ukraine, or that which was once outside and later came inside, such as the new member states (and, moreover, that which was once 'inside' the Soviet Union and later inside the EU, such as the Baltic States). In a sense, key events such as Ukraine influenced the prominence of the Energy Dialogue. As a French official noted:

⁹¹⁶ See for instance: EU-Russia Energy Dialogue, "Joint Report EU-Russia Energy Dialogue 2000-2010," (Brussels/Moscow: EU-Russia Energy Dialogue, 2010).

There have been times where they [the Russians] were very interested. After the crisis it was much easier to arrange meetings. Maybe they felt guilty. Also this was the time Medvedev was preparing to make the proposition of his conceptual approach. But clearly at other times, they couldn't give a damn about the Energy Dialogue.⁹¹⁷

The EU and Russia remained dependent on one another. However, political relations were suffering, whereas the Energy Dialogue failed when it was needed the most. Ukraine was contested at the highest levels, but was hardly reflected in the proceedings of the Energy Dialogue proper. Former Russian Prime Minister Mikhail Kasyanov asked for a 'bigger dialogue'. 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 US 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. Finding a common narrative for the Russo-European energy trade when so much was necessarily left on the outside of the dialogue, was indeed difficult, if not impossible. Rather than promote further integration, geo-economic events such as Georgia 2008 and Ukraine 2009 strengthened the Commission's mandate to reduce the EU's dependence on Russian energy. This, in turn, bolstered the Kremlin's resolve to bypass the Commission. Thus, with both parties seeking diversification, both through supply routes and sources, the prospects of a legally binding energy partnership were dim.

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

⁹¹⁷ Author's interview with Quentin Perret.

Ukraine crisis, Vladimir Putin acknowledged the need for a firm legal foundation for international energy:

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.⁹¹⁸

By alluding to the Coal and Steel Community, it would seem that Putin was invoking Francois 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 the final chapter on the 'Legal Dialogue'.

⁹¹⁸ Vladimir Putin, "Putin's speech at Davos World Economic Forum," *RussiaToday*, 28 January 2009.

Chapter Five: 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.'⁹¹⁹ 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.'⁹²⁰ 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.⁹²¹ It was exactly this type of authoritative narrative that Bakhtin so vehemently rejected. This was unlike the later Habermasians, who pointed to law and sovereignty as the foundation of power.⁹²² But, as Emerson reminded us, 'Bakhtinian carnival is not some anarchic free-for-all, as Western radicals would have it', it is rather '[a] cleansing of all

⁹¹⁹ Romano Prodi, "A Wider Europe - A Proximity Policy As the Key to Stability," ed. European Commission (Brussels: European Commission, 2002).

⁹²⁰ Tatiana Romanova, "Russia-EU Energy Ties: Problems and Possibilities," *Valdai Discussion Club*, 8 may 2013.

⁹²¹ Desmond Manderson, "Mikhail Bakhtin and the Field of Law and Literature," (2012): 9, 25.

⁹²² Bent Flyvbjerg, *Ideal Theory, Real Rationality: Habermas versus Foucault and Nietzsche* (Aalborg: Department of Development and Planning, Aalborg University, 2004).

alienated form in order that the essence underlying this form can be revealed.'⁹²³ Bakhtin's ideal was polyphonic, which basically means narratives 'with equal rights and each with its own world.'⁹²⁴ In reality, however, Bakhtin 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.⁹²⁵

This final chapter will proceed in usual fashion: 'The EUropean Narrative' explains the origins and legal status of the PCA and the ECT, the two main legal documents of the Energy Dialogue. These were EU-centred narratives for the Russo-European energy trade, and both documents were signed during the 1990s, when Russia was still weak. In the 2000s, Moscow sought to redress the 'imbalances' of the PCA. Turning to the 'Post-Imperial Narrative', I will discuss the controversies surrounding the extension of the PCA to the new member states. Here I will also discuss the difficult task of getting Russia to ratify the ECT. Moscow sternly refused access to its pipelines, which would allow the EU to tap the crucial CIS gas market. Liberalisation would also threaten the state's hold on the crucial Russian energy sector. Moving to the 'Statist Narrative', I will discuss the centrality of the rule of law in Putin's 'vertical of power'. However, this legal state was more of an ideal than a reality. At home Putin had to battle a mushroomed bureaucracy, weak institutional checks and balances, and pervasive corruption. For Putin this was a mixed blessing, which leads me next to the 'Dual State Narrative'. In Russia, legal narratives were not necessarily internally persuasive nor very authoritative. The rule of law was weak, and institutions such as the Ministry of

⁹²³ Caryl Emerson, "Bakhtin After the Boom: Pro and Contra," *Journal of European Studies* 32, no. 124 (2002): 18.

⁹²⁴ Bakhtin, *Problems of Dostoevsky's Poetics*, 6.

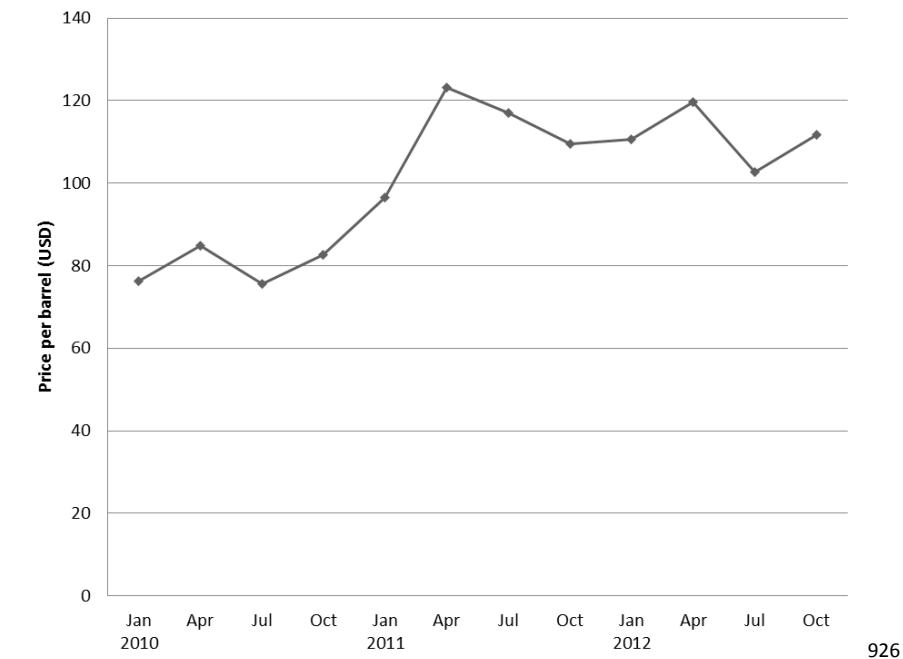
⁹²⁵ Michael Gardiner, *The Dialogics of Critique : M.M. Bakhtin and the Theory of Ideology* (London: Routledge, 1992), 136.

Energy were personal fiefdoms of competing elite interests. This institutional weakness plagued the EU as well, albeit for different reasons.

However, this was about to change. Moving back to the 'EUropean Narrative', I will explain the evolution of the internal energy market up to and including the so-called Third Energy Package (TEP). The political climate in the EU had slowly tilted towards further internal integration. The TEP endowed the Commission with far reaching legal powers, enabling it to not simply promote, but to enforce its liberal energy narrative, both internally and vis-à-vis Russia. Therefore, the TEP threatened Gazprom's foothold in the European market. Meanwhile, the PCA with Russia remained in limbo, until it expired in 2007. Member states such as the Baltic States and Poland were reluctant to engage in new discussions with Russia, and used every opportunity to veto new talks. Talks were ultimately resumed in 2008, but in a completely different political and legal climate.

Finally, moving to Russia's 'Euro-Asian Narrative', I will explain the PCA's shift from a beacon of integration to an arena of conflict. Russia refused to sign a new PCA as long as the TEP was part of it. This, in turn, was completely unacceptable to the EU Commission, to which the TEP represented the culmination of decades of building the internal energy market. Hence the PCA, and thus the Energy Dialogue's goal of a legally binding energy partnership, remained on hold.

Figure 5.1 – Average World Oil Prices, January 2010 – October 2012



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.⁹²⁷ Sergei Shmatko, the Russian Minister of Energy, also praised the Energy Dialogue for its 'groundbreaking' achievements. He nonetheless raised Russia's concerns about the evolution of the EU's internal energy market. The

⁹²⁶ U.S. Energy Information Administration, "Spot Prices".

⁹²⁷ Paul Magnette, "Welcome Address Belgian Minister for Energy, P. Magnette," in *10th Anniversary of the EU-Russia Energy Dialogue* (Brussels 2010).

Russian energy minister was particularly concerned about the EU's TEP, which he said was 'in direct conflict' with the EU's pre-existing international obligations.⁹²⁸

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.⁹²⁹ In his speech, Yazev said that Russia had gone far in harmonising its legislation with that of the EU, but that the Commission was facing 'overregulation' of the energy market, by threatening the integrity of Gazprom and its long-term contracts.⁹³⁰

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', he said. 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 Gazprom sought in a partnership with Europe, but which the EU was now undermining.⁹³¹

⁹²⁸ Sergei Shmatko, "Vstupitel'noe slovo Ministra energetiki Rossiiskoi Federatsii Sergeia Ivanovicha Shmatko," *ibid.* (Brussels).

⁹²⁹ ITAR-TASS, "Rossii i ES sleduet aktivizirovat' sotrudnichestvo v kontekste monopolii Kitaia na rynke redkozemel'nykh materialov - Iazev," *ITAR-TASS*, 22 November 2010.

⁹³⁰ Valery Yazev, "Novye izmereniia dlia rasshireniia energeticheskogo dialoga "Rossiia—Evrosoiuz"," in *10th Anniversary of the EU-Russia Energy Dialogue* (Brussels 2010).

⁹³¹ Alexander Medvedev, "Gazprom and the European Union: Reshaping Our Partnership," *ibid.*

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 elaborate energy chapter in the new PCA with Russia:

[T]his agreement does not meet any more the needs of our current level of energy cooperation. We should therefore include into the New Agreement which is currently negotiated between the Russian Federation and the EU a strong and comprehensive energy chapter which goes beyond the provisions of the current Agreement.⁹³²

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?⁹³³

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

⁹³² Günther Oettinger, "Keynote Speech," *ibid.*

⁹³³ European Parliament, "Subject: Russia-EU Energy Dialogue," (Strasbourg: European Parliament, 2001).

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.'⁹³⁴ 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 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.⁹³⁵

In other words, the signatories of the PCA could choose to bypass it at their own discretion, without prejudice. The PCA was signed during the 90s, a time of Russian weakness. Hence 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.'⁹³⁶ 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.⁹³⁷ So there was a tacit

⁹³⁴ EU-Russia Energy Dialogue, "Synthesis Report," 2.

⁹³⁵ European Union and Russian Federation, "Agreement on Partnership and Cooperation."

⁹³⁶ Ibid.

⁹³⁷ European Parliament, "Subject: Russia-EU Energy Dialogue."

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'. Francois 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:

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.⁹³⁸

By the Eurosceptic British press, this was pejoratively described as 'Lamoureux' 6000-page legacy'.⁹³⁹ The Brits had not forgotten about 'Penelope', Lamoureux' failed draft constitution, briefly described in chapter one. On energy, Lamoureux and his group of co-authors 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

⁹³⁸ Directorate General of Energy and Transport, "Repertoire of the Acquis Communautaire."

⁹³⁹ Financial Times, "Observer: Lamoureux's 6,000-Page Legacy," *Financial Times*, 11 November 2005.

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.⁹⁴⁰

If implemented, 'Penelope' would certainly alleviate Lamoureux's vision for the Energy Dialogue. In his presentation of 'Penelope', Prodi emphasised the need to make the EU the 'first true supranational democracy'.⁹⁴¹ 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 rear-guard, '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).⁹⁴²

⁹⁴⁰ European Commission, "Contribution to a Preliminary Draft Constitution of the European Union, Working Document," V, 8.

⁹⁴¹ Romano Prodi, "Presenting the Commission Communication to the European Convention," (Brussel: European Commission, 2002), 3.

⁹⁴² François Lamoureux, "Projet de Constitution: de la nécessité d'organiser une "arrière-garde", " *Revue du droit de l'Union Européenne*, no. 4 (2003).

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.'⁹⁴³ However, a stable legal regime did not mean mutual exchange. It meant unilaterally aligning Russian legislation with the EU's energy *acquis*.⁹⁴⁴ 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.'⁹⁴⁵ As the internal energy market evolved, these two legal narratives would come into conflict. But until then, the ECT predominated.

As noted in chapter one, 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.⁹⁴⁶ It was assumed that the same serendipity would befall the ECT.⁹⁴⁷ The concept would later be followed by formal instruments, including a Basic Agreement, followed by several additional protocols.⁹⁴⁸ 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.

⁹⁴³ European Commission, "Energy Dialogue with Russia - Progress Since the October 2001 EU-Russia Summit," 5.

⁹⁴⁴ "Country Strategy Paper 2007-2013, Russian Federation," (Brussels: European Commission, 2007), 21.

⁹⁴⁵ European Union and Russian Federation, "Agreement on Partnership and Cooperation," Article 65.

⁹⁴⁶ Konoplyanik and Halem, "The Energy Charter Treaty: A Russian Perspective."

⁹⁴⁷ Author's interview with Russian Official C.

⁹⁴⁸ Angus Charles Johnston and Guy Block, *EU Energy Law* (Oxford: Oxford University Press, 2012), 11.01.

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 Organisation, freedom of energy transit, dispute settlement procedures, and improved legal transparency.⁹⁴⁹ 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 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. Formally, however, Moscow's main objection with respect to the ECT concerned its provisions for third-party access to Russia's monopolised pipeline network.⁹⁵⁰ Gazprom relied on its pipeline monopoly, so as to ensure cheap gas exports from landlocked Turkmenistan to gas hungry Ukraine 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.

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, whilst ensuring Russia's interests. This included secure transit, the effective use of transit infrastructure, and measures to facilitate the construction of new infrastructure.⁹⁵¹ But from the onset the talks were plagued by

⁹⁴⁹ Ibid., 11.02.

⁹⁵⁰ Author's interviews with Russian Official A; Russian Official B; Russian Official C.

⁹⁵¹ Energy Charter Secretariat, "The Energy Charter Treaty and Related Documents."

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 ECT, 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. 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.'⁹⁵² By 2003 discussions were completely broken down, as confirmed by Khristenko.⁹⁵³ Still, leaving the ECT process outright would be a diplomatic faux pas, and talks continued, however empty.⁹⁵⁴ But neither Putin nor the Duma, the Russian parliament, would ever warm to the ECT.⁹⁵⁵

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

⁹⁵² Author's interview with Russian Official A.

⁹⁵³ ITAR-TASS, "Russia Not Ready to Sign Protocol to Energy Charter - Khristenko," *ITAR-TASS*, 24 June 2003.

⁹⁵⁴ Author's interview with Russian Official C.

⁹⁵⁵ 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 Research* 1: 5.

EU.⁹⁵⁶ 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, who felt that such legal dictate was not in the original spirit of the dialogue.⁹⁵⁷ However, the Commission got its way, and shortly thereafter most of Gazprom's destination clauses had been removed.⁹⁵⁸ Meanwhile, DG Trade had stepped up its attacks on Russian domestic gas prices, and eventually the Russians yielded, as noted in chapter three. But 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.⁹⁵⁹ 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.'⁹⁶⁰ Several years later, Gazprom's gas contracts would 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

⁹⁵⁶ EU-Russia Summit, "Joint Statement."

⁹⁵⁷ Author's interviews with Klaus Kleinekorte; Dutch Industry Official.

⁹⁵⁸ Author's interview with Sergei Komlev.

⁹⁵⁹ EU-Russia Energy Dialogue, "Second Progress Report," 2.

⁹⁶⁰ "Third Progress Report," 2.

through DG Comp, which was promoting a 'consistent and rigid' implementation of the EU's energy directives.⁹⁶¹ However, 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 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'. First the EU needed to address Russian concerns, to avoid creating a 'legal vacuum' for EU-Russia relations (and hence the Energy Dialogue).⁹⁶² Khristenko warned that 'a legal vacuum may bring about serious problems in our commercial and civil relations with candidate member countries.'⁹⁶³ 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.⁹⁶⁴ This issue had been raised already in 2002 by Putin.⁹⁶⁵ The Russians had pointed to an article in the First Gas

⁹⁶¹ Aleksandr Mineev, "Klienty 'Gazproma' liberalizuiut rynek," *Vremia Novostei*, 18 March 2002.

⁹⁶² Vladimir Chizhov, "O vstreche zamestitelia Ministra inostrannykh del Rossii V.A.Chizhova s poslami stran Evrosoiuza," (Moscow: Ministry of Foreign Affairs of Russia, 2004).

⁹⁶³ Mark Smith, "Russia & the EU under Putin," *Russian Series* 4, no. 20 (2004): 6.

⁹⁶⁴ 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.

⁹⁶⁵ Vladimir Putin, "Concluding Speech by Russian President Vladimir Putin at Meeting of Petersburg Dialogue Forum," (Weimar: Russian Ministry of Foreign Affairs, 2002).

Directive, according to which 'Member States may impose on natural gas undertakings [...] public-service obligations which may relate to security, including security of supply.'⁹⁶⁶ 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.⁹⁶⁷ 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 2002.⁹⁶⁸ 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.⁹⁶⁹ End-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'.⁹⁷⁰ And thus 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*.

⁹⁶⁶ European Council and European Parliament, "Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998."

⁹⁶⁷ European Commission, "Energy Dialogue with Russia - Update on Progress " 11-12.

⁹⁶⁸ EU-Russia Energy Dialogue, "Third Progress Report," 2.

⁹⁶⁹ National Investment Council and Ministry of Foreign Affairs of Russia, *The Effect of the EU Enlargement on Russia's Economy*, 49.

⁹⁷⁰ 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, 'If we don't manage to complete talks on the transit protocol, we can't talk about ratification of the Energy Charter.'⁹⁷¹ But as Russia's former Prime Minister Kasyanov reflected that same year, 'the Energy Charter is now a source of endless wrangling between the countries and is basically void.'⁹⁷² 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.'⁹⁷³

The final blow for the ECT came in 2009, after the second Ukrainian gas crisis. The EU were 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.⁹⁷⁴ This is how one Russian official put it to me:

Russia insisted on the usage of ECT's procedures (priority of transit flows, uninterrupted flows). But EU told that because Russia is not a full ECT member (but Ukraine was!), nobody would use the ECT rules.⁹⁷⁵

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

⁹⁷¹ Reuters, "Khristenko Rebuffs Hopes for Gas Reform," *Reuters*, 15 March 2006.

⁹⁷² Kasyanov, "Energy Security and Russia-EU Cooperation."

⁹⁷³ Russia Energy, "Valery Yazev," *Russia Energy*, 4 March 2009.

⁹⁷⁴ For a detailed account, see: Pirani, Stern, and Yafimava, *The Russo-Ukrainian Gas Dispute of January 2009, a Comprehensive Assessment*.

⁹⁷⁵ Author's interview with Maria Belova.

Charter.⁹⁷⁶ But the Commission refused to abide. Hence, in August 2009, Russia – that is, Putin – decided to withdraw its signature from the ECT. Apparently, no real forewarning was given. According to one informed source, Putin and Sechin had simply shown up to a meeting with Russian energy officials and declared their intention to withdraw. No discussion.⁹⁷⁷

But 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 guilty – a not unthinkable prospect, given the controversies surrounding the Yukos case.⁹⁷⁸

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.'⁹⁷⁹ Medvedev was described as a liberal. But his difference from Putin was mostly cosmetic. Medvedev was a Putin protégé from their time in St Petersburg, and it was under Medvedev's tenure as

⁹⁷⁶ Jan Puhl, Christian Schwärgerl, and Christopher Sultan, "Spiegel Interview with Russia's Energy Minister," *Der Spiegel*, 11 February 2009.

⁹⁷⁷ Author's interview with Russian Official A

⁹⁷⁸ 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).

⁹⁷⁹ Russian Federation, "Conceptual Approach to the New Legal Framework for Energy Cooperation (Goals and Principles)," (Moscow: President of Russia, 2009).

chairman that Gazprom was put under state control. In 2011, at a meeting of United Russia, Medvedev affirmed his statist sympathies, stating that: 'I have never been a liberal. I am a man of conservative values.'⁹⁸⁰ As for the PCA with the EU, Medvedev wanted an agreement that was 'short, without too many details.'⁹⁸¹ The Russians were looking for a 'simpler 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.⁹⁸²

However, the EU had flat out rejected the proposal, with both Piebalgs and Barroso stating that the EU would not under any conditions abandon the Energy Charter.⁹⁸³ 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.⁹⁸⁴ Still, Medvedev's concept was widely considered 'a bad reprint of the ECT', as one Russian official remarked.⁹⁸⁵ In the end, Medvedev's concept was shelved indefinitely, after Medvedev himself was demoted to Prime Minister.

⁹⁸⁰ ITAR-TASS, "Russian Prime Minister Becomes Member of United Russia Party," *ITAR-TASS*, 22 May 2012.

⁹⁸¹ Euractiv, "EU-Russia Welcome 'New Page' in Relationship," *Euractiv*, 30 June 2008.

⁹⁸² 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).

⁹⁸³ Eberhard Sandschneider, "Crisis in Russia-EU Energy Relationship," *DGAP Aktuell*, no. 4 (2009); Kim, "Medvedev's Initiative Won't Replace Energy Charter, EU Says".

⁹⁸⁴ Author's interviews with Stanislav Zhiznin; Russian Official A.

⁹⁸⁵ Author's interview with Maria Belova.

Centripetal versus Centrifugal Policy

The Commission sought to protect the rights of the consumer as opposed to the state.⁹⁸⁶ Conversely, the state enjoyed a privileged position in the Russian narrative. Russian Orthodox Christianity emphasises the individual's responsibility towards the collective, meaning the state. Putin, as a devout Christian, was himself an adherent of this belief.⁹⁸⁷ Putin affirmed his statist (*gosudarstvennik*) credentials already in his 'Millennium Speech', delivered a mere few days before he was assigned to the presidency.⁹⁸⁸ Putin, a trained lawyer, 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'.⁹⁸⁹ The law was a guarantor against chaos, Putin said. The fear of *raspad* (collapse), or *razval* (disintegration) – together with *raskol* (schism) – were central points in Putin's speeches.⁹⁹⁰ The main culprit in the 90s was liberalism. Removing the state had proven harmful, thus the state had to be brought back in.

Putin's 'legal state' relied on energy rents. By 2012, the Russian state budget was dependent on an energy price of 125 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 2009.⁹⁹¹ 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.⁹⁹² To be sure, there were forces within the Russian government who would continue to push for

⁹⁸⁶ 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.

⁹⁸⁷ Zweerde, "'Civil Society' and 'Orthodox Christianity' in Russia: a Double Test-Case."

⁹⁸⁸ Putin, "Russia at the Turn of the Millennium."

⁹⁸⁹ Hill and Gaddy, *Mr. Putin, Operative in the Kremlin*, 50.

⁹⁹⁰ *Ibid.*, 54.

⁹⁹¹ Catherine Belton, "Ousted Kudrin Hits out at Russian Budget," *Financial Times*, 27 September 2011.

⁹⁹² Milov, "The EU-Russia Energy Dialogue: Competition Versus Monopolies," 12.

liberalisation, even after Putin began his implementation of the 'power vertical'. German 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'.⁹⁹³ 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.'⁹⁹⁴ Likewise, Shmatko said that 'Gazprom is a sacred cow for us. We will not abandon the export monopoly for energy.'⁹⁹⁵ 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 Europe on this issue soon. Together, we should make ourselves more independent of irrational fluctuations in the markets.⁹⁹⁶

Legally, the EU narrative ensured liberalisation whereas the Russian narrative ensured continued state control. But control, as I have shown in previous chapters, was an objective rather than a reality. Progress was slow, and by the end of the time period of this thesis, 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 two per cent per year. Moreover, oil prices, which were linked to gas prices,

⁹⁹³ Interfax, "Legal Basis for Gazprom's Gas Export Monopoly Is Good for State - Khristenko," *Interfax*, 16 July 2006.

⁹⁹⁴ Reuters, "Khristenko Rebuffs Hopes for Gas Reform."

⁹⁹⁵ Puhl, Schwärgerl, and Sultan, "Spiegel Interview with Russia's Energy Minister."

⁹⁹⁶ Ibid.

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.⁹⁹⁷ 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 only acting as an observer. Unofficially, however, the company would repeatedly express its desire to become an exporter in the future.⁹⁹⁸ 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 providing a timetable for this.⁹⁹⁹ (In December 2013, Gazprom's legal monopoly was finally breached by Rosneft and Novatek, although only in terms of LNG exports. Its monopoly over pipeline exports remained intact¹⁰⁰⁰).

However, Novatek was largely owned by Putin loyalists, leading many observers to question exactly how 'independent' it really was. This leads me back to the 'Dual-State Narrative'.

⁹⁹⁷ Katya Golubkova and Melissa Akin, "Rosneft to Take over Russian Gas Firm Itera for \$3 billion," *Reuters*, 28 May 2013.

⁹⁹⁸ Author's interview with Vladimir Drebenstov.

⁹⁹⁹ RIA Novosti, "Law Ending Gazprom's Gas Export Monopoly Enters Into Force," *RIA Novosti*, 2 December 2013.

¹⁰⁰⁰ Kahtrin Hille, "Russia Paves Way for Limited Liberalisation of LNG Exports," *Financial Times*, 22 November 2013.

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.'¹⁰⁰¹ 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.¹⁰⁰² 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. No less than twelve ministries were involved in the energy sector.¹⁰⁰³ The excessive bureaucratisation of Russian energy politics made for a rather inconsistent policy- and decision-making environment. Each of these agencies were jealous of the others, whilst 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 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

¹⁰⁰¹ Putin, "Poslanie Federal'nomu Sobraniyu Rossiiskoi Federatsii."

¹⁰⁰² Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 387.

¹⁰⁰³ Tkachenko, "Actors in Russia's Energy Policy towards the EU."

participated in the Energy Dialogue.¹⁰⁰⁴ Meanwhile, Minprirody was barely represented in the Energy Dialogue.

Given the Energy Dialogue's stated objective to facilitate investment, Minprirody's absence was unfortunate. 'It was an incomplete conversation', as one representative of a major EU energy company noted: 'Russia's first of all an upstream country. The discussion was not about the upstream side of the relationship.'¹⁰⁰⁵ The body in charge of the Energy Dialogue was not really the body in charge of the Russian energy sector, at least not its subsoil side. This 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 assumed greater control over the Russian oil sector. And their presence in the Energy Dialogue was negligible.

Russian ministries and agencies were both collaborators and competitors. Minprirody was steadily assuming responsibilities from the beleaguered Minenergo, which in 2000-2001 ran through three different ministers.¹⁰⁰⁶ One area where this would have major consequences for the Energy Dialogue, was over the new Mineral Resources Law. Minprirody, and its minister Yurii Trutnev, originally sought to liberalise the old framework, which it felt put foreign investors at a disadvantage. Meanwhile, the Ministry of Finance had its own rival version of the law. A fierce debate ensued, and in the end Putin would drop his support for Trutnev's proposal. After four years of interagency conflict, including strong resistance from Gazprom and Rosneft, but also from regional administrators, Trutnev settled for a mere handful of amendments. However, it was a defeat. Instead of opening up to foreign investors, '[b]y the end

¹⁰⁰⁴ Author's interview with Vladimir Milov.

¹⁰⁰⁵ Author's interview with EU Industry Official A.

¹⁰⁰⁶ Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 395.

virtually every field of potential interest to a large oil company was effectively reserved to the two state champions.¹⁰⁰⁷ This was further codified in 2008, when the Duma passed a new 'Strategic Sectors Law', which severely limited foreign ownership in Russian industries deemed strategic, such as energy. Both laws became controversial topics in the Energy Dialogue,¹⁰⁰⁸ with the EU fearing a decrease in investment as a result.¹⁰⁰⁹

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.¹⁰¹⁰ But 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. According to the results, only four had been completed.¹⁰¹¹ 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.¹⁰¹²

¹⁰⁰⁷ Ibid., 403.

¹⁰⁰⁸ EU-Russia Energy Dialogue, "Ninth Progress Report," 5.

¹⁰⁰⁹ "Joint Report EU-Russia Energy Dialogue 2000-2010," 7.

¹⁰¹⁰ Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*, 393.

¹⁰¹¹ Irina Markov et al, "Chetyre iz 150 i eshche 46," *Vedomosti*, 22 January 2009, 401; Gustafson, *Wheel of Fortune, the Battle for Oil and Power in Russia*.

¹⁰¹² *Wheel of Fortune, the Battle for Oil and Power in Russia*, 400.

This ministerial weakness was a by-product of the Russian political leadership's policy of divide and balance.¹⁰¹³ In chapter two 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, he was still number one. The same applied to the minister of energy, Sergei Shmatko, who became energy 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. Shmatko, like Khristenko before him, was a 'watch dog', as one senior Russian commentator told me.¹⁰¹⁴ As another commentator remarked about Shmatko, 'when it comes to major energy decisions about pipelines and energy cooperation the bottom line is that these decisions are taken at Putin's desk.'¹⁰¹⁵

A direct 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 nothing to become the new oil and gas barons of Russia.¹⁰¹⁶ 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

¹⁰¹³ Ibid., 399.

¹⁰¹⁴ Author's interview with Mikhail Kroutikhin, partner at RusEnergy [E-mail & phone, 27.04 & 02.05.11, 21.01.11]

¹⁰¹⁵ Geropolous, "Putin Snubs Sofia Summit over Nabucco, Ukraine."

¹⁰¹⁶ Hill and Gaddy, *Mr. Putin, Operative in the Kremlin*, 113-4.

biggest oil and gas trader, and who would later acquire controlling stakes in Novatek, mentioned above.¹⁰¹⁷ 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.¹⁰¹⁸

Legal Nihilism

One of the Commission's main objectives was to enhance the rule of law in Russia. But 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, whereas Russia still has not finished its 'first-generation reforms' – the primary of which being establishing a sound legal institutional framework, which could ensure the inviolability of contract and property rights.¹⁰¹⁹ Investors were wary of this fact. Among the most frequently cited examples of this were the Yukos and Sakhalin II incidents, discussed previously.

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.¹⁰²⁰ Corruption was rife in Russia. And despite Putin's vaunted 'power vertical', it was getting worse. In 2000, the year the Energy

¹⁰¹⁷ 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."

¹⁰¹⁸ Leonid Bershidsky, "Vladimir Putin, the Richest Man on Earth," *Bloomberg View*, 17 September 2013.

¹⁰¹⁹ 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.

¹⁰²⁰ Dmitri Medvedev, "Speech at Inauguration Ceremony as President of Russia," (Moscow: President of Russia, 2008).

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 – fourteen 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.¹⁰²¹ Hardly a 'dictatorship of law'.

The European Narrative

Throughout the 2000s, the Energy Dialogue grew increasingly asymmetric. On the one hand was Putin's vertical of power (which remained strong, in spite of its numerous flaws). On the other hand was the heterogeneous EU Commission, which had to wrestle both member states and other EU institutions alike. As mentioned, 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 90s, 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.'¹⁰²² The directives were criticised for containing too many loopholes.¹⁰²³ But in the 1990s these loopholes were necessary in order to get the

¹⁰²¹ Transparency International, *Corruption Perceptions Index*.

¹⁰²² European Council and European Parliament, "Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998," see Article 9.

¹⁰²³ Stephen Thomas, *The European Union Gas and Electricity Directives* (London: Public Services International Research Institute, University of Greenwich, 2005), 10.

member states on board, most importantly France and Germany, whose voices carried great weight in the predominantly intergovernmental EU.¹⁰²⁴ Likewise, a massive lobbying effort was directed against each set of energy directives, by all of the major energy companies.¹⁰²⁵

Commission inquiries revealed that many member states were seriously lagging behind with respect to implementation of the first directives. Vertically integrated energy companies were still the norm.¹⁰²⁶ Thus, the pro-marketers 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 accounts¹⁰²⁷). However, the second batch suffered from many of the same weaknesses as the first directives. A new Commission inquiry revealed that the Second Energy Package, too, was plagued with 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.'¹⁰²⁸ There were pioneers, including the Dutch, but these were exceptions rather than the rule.

¹⁰²⁴ 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. 2 (2011): 250.

¹⁰²⁵ Author's interview with Klaus Kleinekorte.

¹⁰²⁶ Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?," 250.

¹⁰²⁷ European Council and European Parliament, "Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998," Articles 9 & 13.

¹⁰²⁸ European Commission, "Impact Assessment," (Brussels: European Commission, 2007), 3.

The Third Energy Package

Reform was moving slowly. However, 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 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.¹⁰²⁹ These were welcome developments for Commission President Barroso, who had long wanted to resume the Lisbon Process of 2000, which I briefly discussed in chapter one. Energy would be focal point of Barroso's new reform agenda.¹⁰³⁰

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). However, in order to appease the opponents of MU, 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 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 and finally 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

¹⁰²⁹ Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?."

¹⁰³⁰ Jose Manuel Barroso and Günter Verheugen, "Working Together for Growth and Jobs, a New Start for the Lisbon Strategy," (Brussels: European Commission, 2005).

operating under a separate brand name.¹⁰³¹ This option was presented in January 2008, after fierce lobbyism by Austria, Bulgaria, France, Germany, Greece, Luxembourg, Latvia and the Slovak Republic.¹⁰³²

External Relations: DG Comp Takes Charge

As for external relations, things were proceeding more slowly. The intergovernmental mode of decision-making which prevailed from Maastricht 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.¹⁰³³ The European External Action Service, established in 2010, would gradually assume many of the external responsibilities of the Commission. But it was a cosmetic change. Substantive foreign policy remained a member state prerogative. However, even though the Commission lacked control 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.'¹⁰³⁴

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-

¹⁰³¹ European Parliament, "3rd Energy Package Gets Final Approval from MEPs," (Brussels: European Parliament, 2009).

¹⁰³² Euractiv, "Eight EU States Oppose Unbundling, Table 'Third Way'," *Euractiv*, 1 February 2008.

¹⁰³³ European Union, "Treaty of Lisbon," (Lisbon: Official Journal of the European Communities, 2007), 87.

¹⁰³⁴ Republic of Azerbaijan, "INOGATE," (Baku: State Agency on Alternative and Renewable Resources, 2014).

focused TEP marked the entrance of DG Comp as a core actor in EU energy policy.¹⁰³⁵ The TEP was not conceived by DG Comp (it 'was really the footprint of Piebalgs', as one EU official in the Energy Dialogue noted¹⁰³⁶). Nevertheless, DG Comp's increased prominence in energy was already visible in staff rotations. The new DG for Energy, Philip Lowe, who would later join the Energy Dialogue, was brought in from his post as DG at DG Comp. DG Comp's presence was also reflected in its fervent investigation activity against major energy companies. For instance, EDF, Suez-Electrabel, Distrigaz and E.ON were all charged with abusing their dominant market position through long-term contracts.¹⁰³⁷ In late 2011, Gazprom's offices were raided as well, as part of a comprehensive EU-led antitrust investigation. And 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 Narrative' below.¹⁰³⁸

¹⁰³⁵ Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?," 50.

¹⁰³⁶ Author's interview with Klaus Kleinekorte.

¹⁰³⁷ Eikeland, "The Third Internal Energy Market Package: New Power Relations among Member States, EU Institutions and Non-state Actors?," 253.

¹⁰³⁸ Alan Riley, "Commission v. Gazprom: The Antitrust Clash of the Decade?," *CEPS Policy Brief* 285, no. 31 October (2012).

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 a:

[M]echanism with detailed procedures for the exchange of information between Member States and the Commission with regard to intergovernmental agreements, i.e., legally binding 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.¹⁰³⁹

This caused heated debates in the Council. On the one hand: Countries like Poland and the Baltic States, who wanted the Commission to become more involved in contract setting.¹⁰⁴⁰ On the other hand: The usual suspects, including 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.¹⁰⁴¹ Moreover, energy policy continued to be plagued by the fact that it was split between a minimum of five commissioners – energy, competition, industry, environment and foreign policy. 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.¹⁰⁴²

¹⁰³⁹ 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.

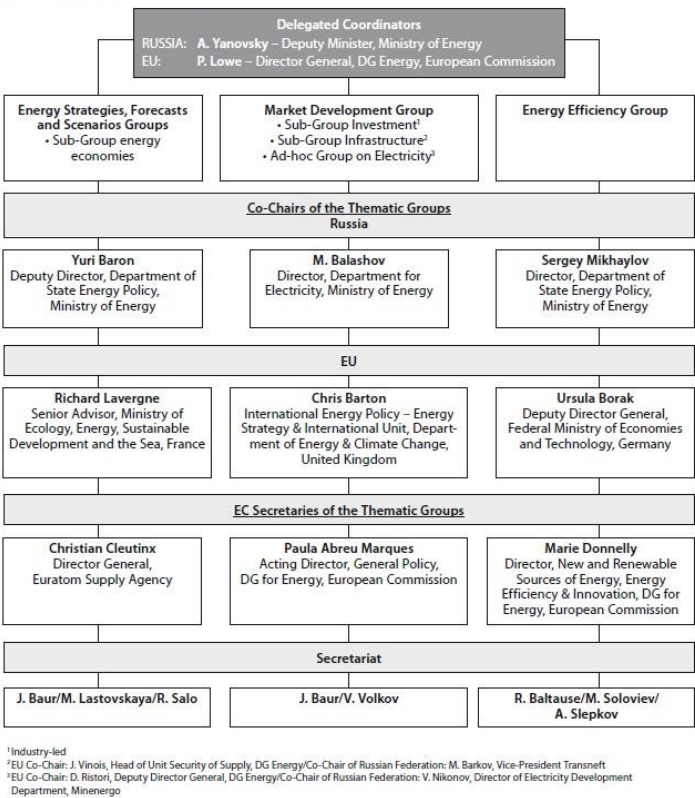
¹⁰⁴⁰ Author's interviews with Mariusz Kawnik; Mati Murd; Dins Merirands.

¹⁰⁴¹ European Parliament and Council of the European Union, "Decision No 994/2012/EU," (Official Journal of the European Union, 2012).

¹⁰⁴² Scaroni, "Europe Must Speak with One Voice on Energy."

The heterologue between the EU27 and EUropean narratives prevailed. 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.

Figure 5.2 – The EU-Russia Energy Dialogue in 2010



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The EU27 Narratives

The member states – now 27 in total, after the 2007 accession of Romania and Bulgaria and Romania – remained ever suspicious of the Commission, and demanded to continue monitoring the Energy Dialogue. In 2010, the Energy Dialogue was restructured yet again (Figure 5.2). The UK, Germany and France retained their co-

¹⁰⁴³ EU-Russia Energy Dialogue, "The First Ten Years: 2000-2010," 19.

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 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 relationship with Angela Merkel, the German Chancellor, was downright bad.¹⁰⁴⁴ Oettinger was not even Merkel's first choice for the Commissioner post, and when Merkel presented Commission president José Manuel Barroso with Oettinger's name, Barroso was reported to have been 'surprised'.¹⁰⁴⁵ Indeed, the reactions among senior German politicians were equally befuddled, with one senior politician calling it 'political madness'.¹⁰⁴⁶

Oettinger's rise to power was riddled with controversy, due to accusations of corruption and alleged Nazi sympathies.¹⁰⁴⁷ But for the authorities in Berlin, Brussels had been a convenient 'dumping group' for bothersome or burnt-out politicians.¹⁰⁴⁸ 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.¹⁰⁴⁹ However, the fact of the matter may have been that Berlin did not care all that much. Merkel was reportedly more

¹⁰⁴⁴ Author's interview with Matthias Dornfeldt, analyst at the Berlin Center for Caspian Region Studies [Phone, 03.02.10]; Florian Gathmann and Hans-Jürgen Schlamp, "Günther Who? EU Perplexed by Germany's Choice of Oettinger as Commissioner," *Der Spiegel*, 27 October 2009.

¹⁰⁴⁵ Ibid.

¹⁰⁴⁶ Ibid.; Rebecca Harms, "Harms: Oettinger schadet dem Ansehen der EU-Klimapolitik " (Brussels: The Greens/European Free Alliance, 2010).

¹⁰⁴⁷ *Der Spiegel*, "Revising History: Politician Under Fire for Praising Former Nazi Judge," *Der Spiegel*, 16 April 2007.

¹⁰⁴⁸ Author's interviews with Matthias Dornfeldt; Florian Gathmann and Hans-Jürgen Schlamp, "Günther Who? EU Perplexed by Germany's Choice of Oettinger as Commissioner," *ibid.*, 27 October 2009.

¹⁰⁴⁹ Author's interview with Vaclav Bartuska.

concerned with the Council than the Commission, and was trying to strengthen the former at the expense of the latter.¹⁰⁵⁰

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'.¹⁰⁵¹ This was illustrated by the implementation of the TEP, which was not consistent among the member states. By January 2013, only 11 out 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, but were nevertheless lagging in their implementation.¹⁰⁵² For France, which had actively lobbied against the Commission's unbundling efforts, energy sovereignty remained a key concern.¹⁰⁵³

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.¹⁰⁵⁴ 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

¹⁰⁵⁰ Gathmann and Schlamp, "Günther Who? EU Perplexed by Germany's Choice of Oettinger as Commissioner."

¹⁰⁵¹ Barbara Lewis, "Cold Crisis Shows Need to End Energy Fiefdoms-Oettinger," *Reuters*, 14 February 2012.

¹⁰⁵² Siobhan Hall, "EU's Energy Market Reforms Making a Difference," *Platts*, 23 January 2013.

¹⁰⁵³ Author's interview with Quentin Perret.

¹⁰⁵⁴ Author's interview with Mariusz Kawnik.

on the streets of Prague, or Oslo or Paris for that matter.’¹⁰⁵⁵ 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.¹⁰⁵⁶

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. Hence the Commission had in fact been undermining its own energy policy.¹⁰⁵⁷ 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.¹⁰⁵⁸ However, when Russia attempted to do the same for South Stream, the Commission refused, as I will show below.

The PCA Talks

The member states also differed widely with respect to the PCA itself. The first PCA 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.¹⁰⁵⁹ 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

¹⁰⁵⁵ Author’s interview with Vaclav Bartuska.

¹⁰⁵⁶ Author’s interview with Jonathan Stern.

¹⁰⁵⁷ Helm, *Energy, the State, and the Market, British Energy Policy Since 1979*, 382-84.

¹⁰⁵⁸ Radu Dudău and Teodora Simoniell, *The Politics of the Third Energy Package* (Bucharest: Romania Energy Center, 2011), 4-5.

¹⁰⁵⁹ Euractiv, "Russia Lifts Embargo on Polish Meat," *Euractiv*, 21 December 2007.

Russia's frozen conflicts with Georgia and Moldova be resolved before talks could proceed. After incessant lobbying, in part by Germany, PCA talks finally resumed in May 2008.¹⁰⁶⁰

But this was only a temporary respite. The Georgian War in August led to yet another postponement. The conflict divided the EU member states. According to American diplomatic cables, the EU split into 'Russia-friendly' and 'Russia-hostile' clubs, with Germany allegedly 'parroting' Russian diplomats, whereas Lithuania was calling for NATO to intervene in Georgia.¹⁰⁶¹ 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. Once again, the new member states were not unequivocally hostile towards Russia. Most Central Eastern European states actually 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.¹⁰⁶²

And so it continued. In 2010, Oettinger said that Russia's accession to the WTO would be a first step towards a new agreement.¹⁰⁶³ In 2012, after 18 years of talks, Russia finally acceded, albeit without many specifics on energy. But the accession did not help. No new agreement was concluded, given Russia's unyielding opposition towards the TEP, to which I will now turn.

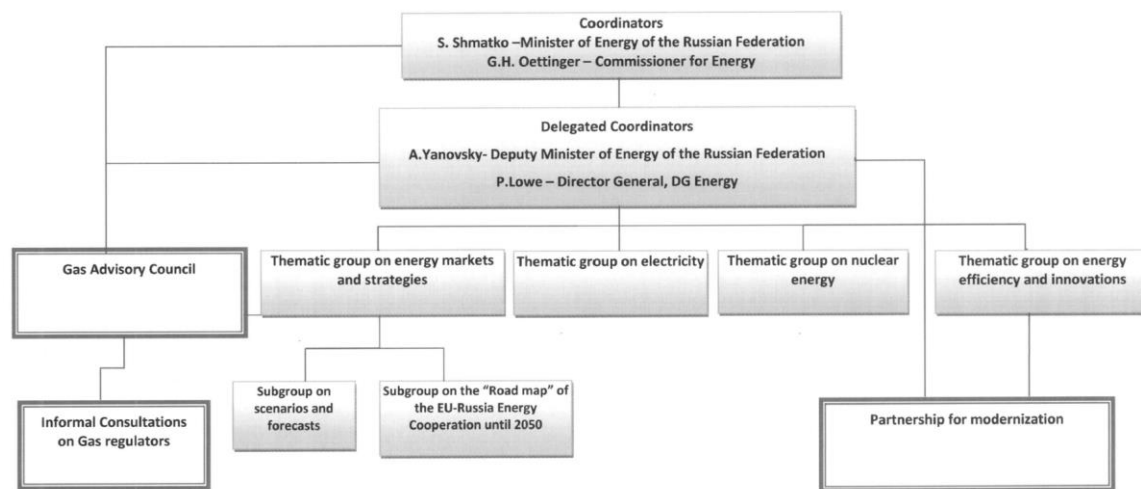
¹⁰⁶⁰ Walter S. Reid III et al., "Nato Allies Lack Cohesion During First Meeting On Georgia Crisis," no. 08USNATO281 (2008).

¹⁰⁶¹ Ibid.

¹⁰⁶² Katinka Barysch, "PCA? The EU Needs a Real Russia Debate " *Centre for European Reform*, 24 November 2008.

¹⁰⁶³ Euractiv, "EU, Russia Seek 'Common Language' on Energy," *Euractiv*, 23 November 2010.

Figure 5.3 – The EU-Russia Energy Dialogue in 2012



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Russia's Euro-Asian Narratives

In 2012, the Energy Dialogue was restructured for the fifth time (Figure 5.3). Strategies was made a subgroup, complemented by another subgroup on the 'Road map' of the 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.

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 Road Maps (2005) intended to facilitate negotiations. Viktor Khristenko remained firmly opposed to conflating the Energy Dialogue with the

¹⁰⁶⁴ EU-Russia Energy Dialogue, "12th Progress Report," 7.

Common European Economic Space and the Four Common Spaces.¹⁰⁶⁵ He had suggested establishing a fifth common space on energy, albeit without success.¹⁰⁶⁶ The Energy Dialogue retained its institutional independence, but 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.¹⁰⁶⁷

However, it did not end there. In June 2010, the Partnership for Modernisation (P4M) was launched at the EU-Russia Summit at Rostov-on-Don. Its purpose was to revitalise the stagnant Four Common Spaces.¹⁰⁶⁸ The Energy Dialogue was included as one of the *sixteen* sectoral dialogues of the P4M. The P4M would be coordinated through a newly established Partnership for Modernisation 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 2010.¹⁰⁶⁹

The EU-Russia Energy Roadmap 2050

The Energy Dialogue had become an institutional hydra. In 2011, the EU-Russia Energy 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. But the EU had 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

¹⁰⁶⁵ Khristenko, "Making Headway to Integration."

¹⁰⁶⁶ Author's interview with Dutch Industry Official.

¹⁰⁶⁷ 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.

¹⁰⁶⁸ European Union and Russian Federation, "Joint Statement on the Partnership for Modernisation," (Rostov-on-Don: Council of the European Union, 2010).

¹⁰⁶⁹ Joanna Sopinska, "Partnership for Modernisation: Unpromising start," *Europolitics*, 2 December 2010.

economy in Europe.¹⁰⁷⁰ 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.'¹⁰⁷¹ To do so, the Commission mapped out seven different scenarios.¹⁰⁷² However, as one executive of a major EU energy company pointed out, 'only one has natural gas, others envisage decline.'¹⁰⁷³ This, of course, was troubling to the Russians. As one Russian official warned, 'after 2035, gas will have to fade away from the EU market.'¹⁰⁷⁴ And natural gas, as another senior Russian official told me, 'is the core of our relations.'¹⁰⁷⁵ Perhaps not so strange that some Russian official saw the EU's climate agenda as a cover for Brussels' desire to push Gazprom out of Europe.¹⁰⁷⁶

The EU completed its 2050 Roadmap in late 2011, whereas the initial deadline of the EU-Russia Roadmap was for summer 2012. But it was repeatedly postponed. Russia wanted fixed future import numbers, but the EU refused.¹⁰⁷⁷ Russian officials I spoke to complained that their arguments were not taken into account by the EU.¹⁰⁷⁸ For this reason, many Russians considered the EU's Roadmap to be – and I quote – 'bullshit'.¹⁰⁷⁹ The parties did not simply diverge on targets, but on methodology. The EU's roadmap was based on the so-called PRIMES framework.¹⁰⁸⁰ PRIMES was a patented framework,

¹⁰⁷⁰ European Commission, "A Roadmap for Moving to a Competitive Low Carbon Economy in 2050," (Brussels: European Commission, 2011).

¹⁰⁷¹ "Energy Roadmap 2050," (Brussels: European Commission, 2011), 2.

¹⁰⁷² "Impact Assessment," (Brussels: European Commission, 2011).

¹⁰⁷³ EU Industry Official D.

¹⁰⁷⁴ Author's interview with Maxim Buyakevich, former First Secretary, Permanent Mission of the Russian Federation to the EU [Phone, 06.11.12].

¹⁰⁷⁵ Author's interview with Russian Official B.

¹⁰⁷⁶ Author's interview with Mati Murd.

¹⁰⁷⁷ Author's interview Russian Official B; Yasmina Sahraoui, "Interview with Dr. Vladimir Feygin," *Natural Gas Europe*, 24 January 2013.

¹⁰⁷⁸ Author's interviews with Maria Belova; Russian Official B.

¹⁰⁷⁹ Author's interview with Jonathan Stern.

¹⁰⁸⁰ European Commission, "Impact Assessment."

leased to the Commission. The algorithm was thus a business secret. This lack of transparency had been a problem in the Energy Dialogue, as noted by non-Commission EU participants in the thematic group on scenarios and forecasts.¹⁰⁸¹ Similarly, the Russian leadership argued that the opacity of PRIMES raised 'significant difficulties' for the work of the group, whose objective was to exchange information about future supply and demand.¹⁰⁸² Indeed, this opacity was even a problem for the independent expert panel which was employed by the Commission to develop the EU's own 2050 roadmap.¹⁰⁸³ Conversely, the Russian government employed its own set of forecasting tools, including the open-source TIMES model. But using different tools made the task of joint forecasting even more opaque.

What is more, on both sides of the table the entire exercise of scenario building for 2050 was questioned. As one advisor close to the EU's 2050 Roadmap confessed – 'in energy in particular, who knows what the technology is going to be?'¹⁰⁸⁴ Similarly, a Russian diplomat close to the Energy Dialogue claimed it did not matter either way, given that on either side 'nobody gives a damn, because in 2050, 100 per cent of those who are writing it right now will be dead.'¹⁰⁸⁵

So far, the Russians had little to fear (Figure 5.4). The EU remained heavily dependent on Russian oil and gas imports. Although oil consumption was falling, oil imports remained relatively stable. However, Russian gas imports, while stable in absolute terms, had nevertheless dropped as a share of the EU's total imports. This is

¹⁰⁸¹ EU-Russia Energy Dialogue, "Roadmap of the EU-Russia Energy Cooperation until 2050, Progress Report," (Brussels: EU-Russia Energy Dialogue, 2011), 44.

¹⁰⁸² "Energy Forecasts and Scenarios 2009-2010 Research, Final Report," (Moscow: EU-Russia Energy Dialogue/Institute for Energy and Finance, 2011), 24.

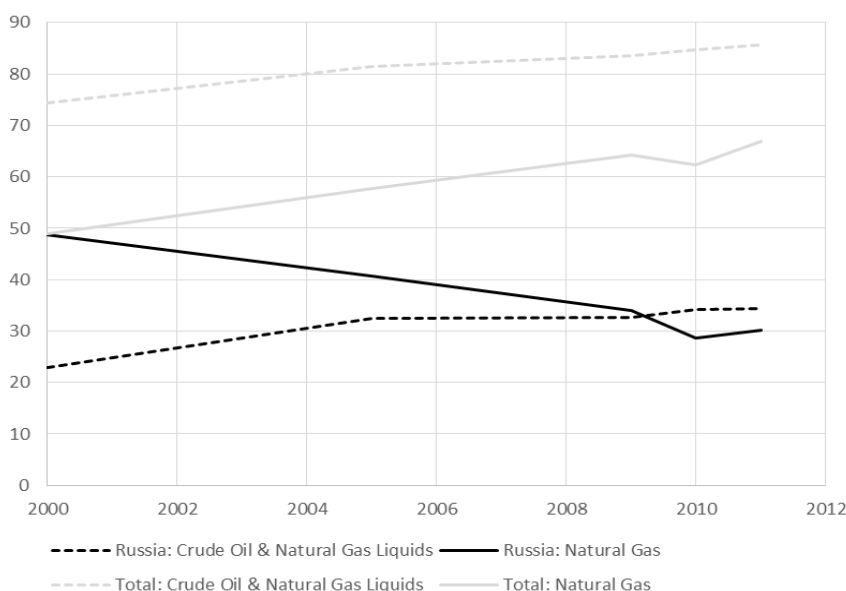
¹⁰⁸³ European Commission, "Final Report of the Advisory Group on the Energy Roadmap 2050," (Brussels: European Commission, 2011), 17.

¹⁰⁸⁴ Author's interview with Dieter Helm.

¹⁰⁸⁵ Author's interview with Maxim Buyakevich.

striking, considering that the 'Prodi Plan' initially sought to *double* gas imports. The drop was partly an aftereffect of the 2008-2009 financial crisis. But it 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. However, given the still embryonic state of wind and solar power, it was not certain how the EU would achieve its goal of 80-95 percent emissions reduction, without increasing its reliance on either gas or nuclear energy. Germany, which relied on Russia for 30 percent of its gas imports, was determined 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 United States remained hesitant to export, and relations with Russia remained cordial. All of this could change, of course.

Figure 5.4 – EU Gas & Oil Import Dependency, 2000-2011 (in %)



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¹⁰⁸⁶ 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: European Commission, "Eurostat".

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 one Russian official, the probe was yet another example of the Commission wanting to strip governments of their decision-making authorities.¹⁰⁸⁷ Vladimir Feygin, a senior Russian Energy Dialogue official, said that 'the European Commission has long fought to demonopolize domestic European energy markets.' In order to achieve this, 'Gazprom has been assigned the role of "an outside enemy"', Feygin noted.¹⁰⁸⁸ Again, Russia was defined as Europe's 'Other'.

Putin, who in 2012 returned to the presidency, stated that the probe was connected with the Eurozone crisis, which had been ongoing since 2009, due to the Commission's considerable financial obligations to the Eastern European states. Lower gas prices would alleviate their predicament, and Russia was supposed to assume the burden of this subsidisation.¹⁰⁸⁹ This was unacceptable to Putin, who had 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*.¹⁰⁹⁰

¹⁰⁸⁷ Tatiana Mitrova, "Chto na samom dele khochet Briussel' ot "Gazproma"?," *Forbes.ru*, 7 September 2012.

¹⁰⁸⁸ BBC, "Russian Media Concerned at EU's "Unexpected" Gazprom Antitrust Raids " *BBC Monitoring*, 30 September 2011.

¹⁰⁸⁹ Interfax, "Gazprom Probe Caused by Eurozone Problems, Primarily in Eastern Europe - Putin," *Interfax*, 9 September 2012.

¹⁰⁹⁰ Vladimir Putin, "Russia and the Changing World," (Moscow: Government of the Russian Federation, 2012).

The Third Energy Package and the Gas Advisory Council

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.'¹⁰⁹¹ To be sure, his statement covered up many points of dispute. Already at the beginning of the Energy Dialogue, 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. As a determined statist, Ivanov said 'it would be quite unreasonable to expect a Russian accession to the EU or a binding association with it affecting our sovereignty and statehood.'¹⁰⁹² Ivanov 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.¹⁰⁹³

However, this was easy enough to say when the Russian economy grew by seven percent year on year. But as time progressed, simply ignoring the EU would become increasingly hard to do, as Russia's fortunes shifted, and the Commission's legal narrative became more authoritative within both the EU and Russia's near abroad. In 2007, the same year that the PCA expired, the TEP was proposed. The TEP would have been of no concern to Russia, had the Commission not intended to enforce these rules vis-à-vis third countries as well. According to a regulation issued by the Commission:

¹⁰⁹¹ Khristenko, "Making Headway to Integration."

¹⁰⁹² Ivanov, "Ne poddavaites' na ulovki Briusselia."

¹⁰⁹³ Ivanov, "E dinyi vnutrennii rynek es: svet, teni, istoricheskaiia perspektiva."

[T]hird-country individuals and countries cannot acquire control over a Community transmission system or transmission system operator unless this is permitted by an agreement between the EU and the third country.¹⁰⁹⁴

The regulation was put forward due to concerns of certain member states that Gazprom would amass assets that were sold off by unbundled EU companies.¹⁰⁹⁵ The regulation meant that Gazprom, if it were to own assets within the EU, would have to unbundle ownership like other EU companies. It also meant that coming to agreement over the new PCA would become even more challenging, as the Kremlin was dead opposed to unbundling Gazprom. Moreover, the Russians would also have to grant third party access to pipelines and infrastructure, which included the EU-based pipelines connecting to Nord Stream and South Stream.

Russia's main objection to the ECT was exactly focused on third party access. The EU considered third party access to be 'the cornerstone of the liberalization of the electricity and energy market in Europe.'¹⁰⁹⁶ But Moscow did not see it like this. Hence the 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.

¹⁰⁹⁴ European Commission, "Proposal for a Regulation of the European Parliament and of the Council Amending Regulation (EC) No 1775/2005," (Brussels: European Commission, 2007).

¹⁰⁹⁵ Euractiv, "'Gazprom Clause' Issues Russia Ultimatum for Energy Co-Operation," *Euractiv*, 20 September 2007.

¹⁰⁹⁶ Johnston and Block, *EU Energy Law*, 4.23.

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.¹⁰⁹⁷

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.¹⁰⁹⁸

The Gas Advisory Council

However, the EU Commission was adamant in its determination to impose unbundling. The Russians were growing increasingly confused and upset by the TEP, as an Estonian official noted.¹⁰⁹⁹ As a workaround, the frustrated Russians proposed setting up a dedicated Gas 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. The people behind the GAC were primarily officials who had worked with the ECT negotiations, representing Russia. The GAC had its own thematic groups, which partly overlapped with those of the near-dormant Energy Dialogue. In fact, there was considerable apprehension about putting the GAC under the umbrella of the EU-Russia Energy Dialogue. There was a desire to achieve something tangible, as opposed to the Energy Dialogue, which was perceived as a talking shop of marginal significance.¹¹⁰⁰

¹⁰⁹⁷ Andrew Rettman, "Energy Quarrel, Topless Protest Mark EU-Russia Summit," *EU Observer*, 21 December 2012.

¹⁰⁹⁸ European Union and Russian Federation, "Agreement on Partnership and Cooperation."

¹⁰⁹⁹ Author's interview with Mati Murd.

¹¹⁰⁰ Author's interview with Russian Official C.

The EU's co-chair in the GAC remarked that legal and institutional uncertainty was the biggest challenge of the Energy Dialogue.¹¹⁰¹ But similar to the dialogue itself, the GAC struggled to provide anything of substance. At first the Russians sought to use the GAC to steer the TEP in a direction more amenable to Gazprom. However, 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.¹¹⁰²

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, Energy 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).¹¹⁰³ 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. 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.¹¹⁰⁴

¹¹⁰¹ Natural Gas Europe, "Europe's Gas Advisory Council: Reducing Uncertainty," *Natural Gas Europe*, 21 March 2013.

¹¹⁰² Author's interview with Jonathan Stern.

¹¹⁰³ Euractiv, "EU, Russia Seek 'Common Language' on Energy."

¹¹⁰⁴ EU-Russia Internal Market Work Stream, "Glossary of Gas Market Terms," (Gas Advisory Council, 2012), 2-3.

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 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.¹¹⁰⁵

Despite several rounds of discussions, the parties had by 2013 yet 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:

The negotiations for a New EU/Russia Agreement to replace the existing Partnership and Cooperation Agreement experienced serious delays due to differences with regard to the Trade and Investment provisions [...] as well as on the competence issue created by the transfer of certain trade competencies from Russia to the Russia-Belarus-Kazakhstan-Customs Union level.¹¹⁰⁶

As so many times before, the main obstacle was energy. The Commission and the Council, which was led by Poland during the second half of 2011, had long and fruitlessly called for Moscow to share its comments for the new PCA. When the Russian government finally submitted its proposals in autumn 2012, it demanded to have the new Customs Union included in the agreement. Once again evoking Russia's 'post-

¹¹⁰⁵ Ibid.

¹¹⁰⁶ Russian Federation and European Commission, "EU-Russia Common Spaces Progress Report," (Brussels/Moscow: Russian Federation/European Commission, 2012), 1.

imperial narrative', a Eurasian Union 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', not Lamoureux' 'Unified Europe'. It evoked Ivan Ivanov's 2000 statement that 'the world's great powers [...] very rarely attach to foreign unions, they create their own.'¹¹⁰⁷ In their classified comments for the new '*Non-Binding Agreement*' (NBA, emphasis added), the Russian government expressed 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'.¹¹⁰⁸

The Russians were 'obsessed' with the TEP, according to a senior EU businessman in Russia.¹¹⁰⁹ But Moscow's objections were fruitless. Dropping the TEP was out of the question for the Commission.¹¹¹⁰ Moreover, 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.'¹¹¹¹ 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:

¹¹⁰⁷ Ivanov, "Raschishchat' puti k zrelomu partnerstvu Rossii i Evrosoiuza."

¹¹⁰⁸ 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.

¹¹⁰⁹ Author's interview with Vladimir Drebenstov.

¹¹¹⁰ Author's interview with Ismo Koskinen.

¹¹¹¹ Author's interview with Russian Official D.

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.¹¹¹²

This pessimism was shared by a Polish Energy Dialogue 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 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.¹¹¹³

The pessimism 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.' Thus, he reconfirmed Russia's determination to diversify east, and that Russia had 'formulated the need to develop the eastern vector, to build transport infrastructure there, to develop that market and to search for partners.' But in a moment of reflection, Shmatko 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.¹¹¹⁴

Alexander Novak and the Missing Progress Report

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

¹¹¹² Author's interview with Quentin Perret.

¹¹¹³ Author's interview with Mariusz Kawnik.

¹¹¹⁴ Russian-American Business, "Russia-E.U. Talks on Third Energy Package Come to Impasse Shmatko," *Russian-American Business*, 21 February 2012.

weak connections in the gas and oil sector.¹¹¹⁵ 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 of 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). Meanwhile, Igor Sechin, who had left the position as Deputy Premier, had become the CEO of Rosneft. True to the 'dual state', Sechin immediately began the work of stripping Deputy Prime Minister responsible for energy, Arkady Dvorkovich, and the Medvedev government, of every meaningful responsibility of the Russian energy sector.¹¹¹⁶

In December 2012, Novak met Oettinger at the PPC for energy. Here Novak reiterated the Kremlin's request that Russia should receive exemptions from the TEP, for both Nord Stream and South Stream.¹¹¹⁷ 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.¹¹¹⁸ South Stream was 'not a priority'. Although the Nabucco pipeline was on hold, Oettinger was determined to conclude talks with Azerbaijan and Turkmenistan about building a new Trans-Caspian pipeline, bypassing Russia altogether.¹¹¹⁹ Neither of these countries were beacons of democracy. However, they were not Russian, which to Brussels was seemingly more important in questions of energy security.

¹¹¹⁵ Lenta.ru, "Prezidentu "Rosnefti" prochat dolzhnost' ministra energetiki," *Lenta.ru*, 26 August 2010.

¹¹¹⁶ John Lough, "Why Dvorkovich and Sechin's Turf War Is Public " *The Moscow Times*, 24 July 2012.

¹¹¹⁷ Howard Amos, "Minister Seeks Exemption from EU Energy Package for South Stream " *ibid.*, 17 December.

¹¹¹⁸ Kostis Geropoulos, "Oettinger Raises South Stream Issue with Russia," *New Europe*, 13 December 2012.

¹¹¹⁹ Russian-American Business, "Russia-E.U. Talks on Third Energy Package Come to Impasse Shmatko."

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 twelve 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.¹¹²⁰ 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

The TEP epitomised the ‘EUropean Narrative’ for energy. By 2012, it had emerged as arguably the single biggest obstacle against a new PCA between Russia and the EU, and was as such diametrically in opposition to Putin’s ‘Statist Narrative’, which favoured state control, but also the ‘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 Narrative’, 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.

A consequence of the lack of narrative unity was not the cancellation of the Energy Dialogue (although 2012 was the first year when there was no progress report),

¹¹²⁰ Author’s interview with Russian Official A.

but the establishment of new institutional structures, such as the GAC, the Roadmap 2050, and the Partnership for Modernisation. As a consequence, the Energy Dialogue became an institutional hydra, devoid of meaningful exchange beyond writing dictionaries and distant roadmaps. By 2013, the 'Prodi Plan' was dead, and 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.

Conclusions: The Energy Heterologue

In March 2013, the EU-Russia Roadmap 2050 was finally signed by the two main coordinators of the Energy Dialogue, Oettinger and Novak. The signing came as a 'pleasant surprise' to the interlocutors of the Energy Dialogue.¹¹²¹ However, the targets listed in the roadmap were mostly vague and non-binding. From a legally binding energy partnership, the objective had shifted to achieving a 'tolerable level of uncertainty'.¹¹²² In fact, the Russian delegation was passing through at the signing ceremony. Medvedev, now prime minister, remarked that 'there is a certain symbolism in the fact that we start working with our European colleagues and then our government [members] leave for a Russia-China meeting.' To which Barroso said that the EU was 'not jealous' about Russo-Chinese cooperation, '[w]e believe the development of Russian-Chinese relations is, in principle, in the EU's interests', adding that '[i]n the 21st century, we all depend on each other.' ¹¹²³ But rather than an affirmation of the 'strategic partnership' between Russia and the EU, it was an affirmation of both parties' determination to pursue multiple trajectories of collaboration. The integration of 2000 had by 2013 been replaced by diversification.

Around the time of the launch of the Roadmap in 2013, one senior Russian energy expert involved in the Energy Dialogue compared the Russo-EU energy relationship to a faltering marriage: 'The situation reminds me of a couple that is thinking about divorce –

¹¹²¹ Author's interview with Jonathan Stern.

¹¹²² EU-Russia Energy Dialogue, "Roadmap, EU-Russia Energy Cooperation until 2050," (Brussels: The EU-Russia Energy Dialogue, 2013), 2.

¹¹²³ RIA Novosti, "Russia, EU Sign Energy Cooperation Roadmap," *RIA Novosti*, 22 March 2013.

they have two options: getting divorced or going to therapy. I hope we will save this marriage', she said.¹¹²⁴ However, shortly thereafter, the EU Commission stepped up its attacks on Gazprom, by declaring all the company's bilateral agreements with EU member states governing South Stream were illegal. Conversely, Gazprom and the Kremlin countered by saying that EU Law could not prevail in EU-Russia relations, only international law.¹¹²⁵ The legal stalemate was nowhere near resolution. As one Polish official said about the dialogue:

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.¹¹²⁶

In this thesis 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 European Union. In this conclusion I will, first, answer my research question and review the main findings of the thesis. Secondly, I will summarise my contributions, and then, third and finally, identify avenues for further research.

Answer to Research Question and Summary of Main Findings of the Thesis

My research question is *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. The dialogue lacked a conceptual vision from the outset.¹¹²⁷ As one senior EU interlocutor

¹¹²⁴ Natural Gas Europe, "Europe's Gas Advisory Council: Reducing Uncertainty."

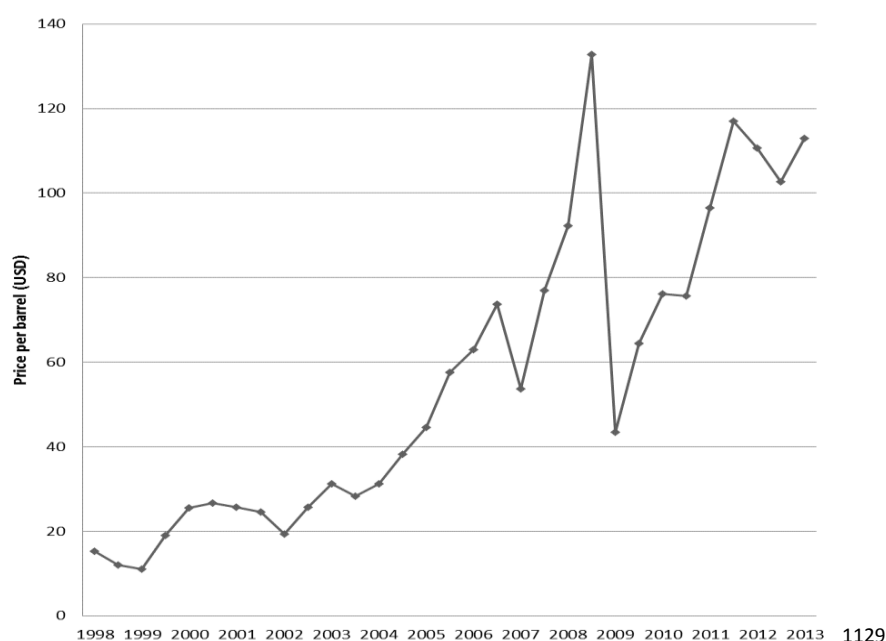
¹¹²⁵ Euractiv, "South Stream Bilateral Deals Breach EU Law, Commission Says," *Euractiv*, 4 December 2013.

¹¹²⁶ Author's interview with Mariusz Kawnik.

¹¹²⁷ Author's interviews with Jonathan Stern; Klaus Kleinekorte; Vladimir Milov; Alexei Mastepanov.

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.'¹¹²⁸ 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' baseline narratives of what the Energy Dialogue was supposed to become were not congruent.

Figure 6.1 – Average World Oil Prices, January 1998 – January 2013



Yet the failure of the Energy Dialogue was never pre-determined. The exact scope of this narrative incongruence did not become apparent until a few years later. Meanwhile, the mismatch was exacerbated by other pre-existing narrative divergences, but also subsequent political, economic, geo-economic and legal developments – all influenced by the ebbs and flows of world oil prices (Figure 6.1). The failure of the

¹¹²⁸ Author's interview with Jonathan Stern.

¹¹²⁹ U.S. Energy Information Administration, "Spot Prices".

Energy Dialogue was not caused by a singular factor, but shaped in the multidimensional, unfolding time-space of Russo-European relations. This is the answer to the why question. By the mid-2000s, the initial optimism of the Energy Dialogue had been replaced by pessimism, if not indifference, and the prospects of an energy partnership were dim.

The focus on narratives makes this a constructivist account. In the theoretical chapter I discussed the prevalence of attribute ontology and dialectics in the extant constructivist literature. This, I argued, has contributed to an overall de-politicisation of constructivism. Rather, I sought a *re-politicisation* of constructivism, by focusing on process and dialogue. This new narrative framework was built on Mikhail Bakhtin's theories of heterologue and chronotope. This was done in order to enable greater flexibility when understanding the unfolding of the Energy Dialogue. The Energy Dialogue was a dynamic, spatially contingent, ongoing process, with hundreds of participants working in a volatile political, economic, geo-economic and legal environment.

Throughout the five subsequent chapters I applied my six narrative clusters. These clusters revealed both the initial and acquired differences between Russia and the EU, but also the initial and acquired divisions within the two interlocutors themselves. In this respect, the clusters should not be taken as fixed ontological images. Rather, the clusters are ideal-typical; they are plastic, so as to contain the spatio-temporality that so profoundly impacted on the course of the Energy Dialogue. In the theoretical chapter, I illustrated my approach (Figure 0.1), including the continuous centripetal 'tying' and centrifugal 'untying' of these narratives. I will now summarise the evolution of these clusters from 2000 through 2012.

The European Union

The **EUropean Narrative** moved from weakness towards authority, both vis-à-vis Russia and the EU's 27 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 ECSC. 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. From the beginning of my period there were differences, or heterologue, within the Commission as to what channels should best regulate the Russo-EU energy relationship. Other sections of the Commission were not pleased with the prospects of being displaced by DG TREN in the diplomatic relationship with Russia. Hence, competing initiatives were launched, such as the Common European Economic Space.

Despite these divisions within the Commission, however, the EUropean Narrative maintained its veneer of universality. For this reason, DG TREN wanted to remain impartial to business interests. Thus, it severely restricted business participation in the Energy Dialogue, to the chagrin of the companies themselves. Still, this supposed impartiality did not stop the Commission from directly involving itself in business conflicts between Russia and EU member states, such as the 2006 incident over the Mazeikiu Nafta refinery in Lithuania.

Moreover, DG TREN and the Commission had to wrestle with its member states. The 2004 expansion from 15 to 25 members represented a challenge for the EU as a whole. But for the Commission it was also an opportunity to move forward with the internal

energy market, as these countries were generally more supportive of Brussels taking the lead in relations with Russia. The big turnaround came with the first gas crisis in Ukraine. The crisis represented a long-welcome opportunity for the Commission to forge a unitary energy narrative for the EU, or to 'speak with a common voice.' This paved the way for the TEP, adopted in 2009, which marked the start of a truly integrated energy market in Europe. The legal state of the internal energy market, and external energy policy, was quite rudimentary at the launch of the Energy Dialogue. This had now changed, and it did not take long before the TEP had sailed up as the single biggest obstacle against a new PCA, and thus a legally binding energy partnership with Russia. Meanwhile, as a result of the first and later second Ukraine crises, Russia lost its standing as the EU's most favoured supplier of hydrocarbons. In the 2012 version of the European Narrative, Russia was no longer considered a trusted neighbour, but a threat. Thus, as the European Narrative became more authoritative, legally and politically, it also gradually shifted from integration with to diversification away from Russia, in terms of both supply channels and energy sources.

The **EU15 Narratives** in 2000 varied from tacit compliance to fierce opposition. The UK and the Netherlands were dead against the Energy Dialogue, whereas Germany and France agreed for it to proceed, on the condition that the Commission did not intervene with their energy contracts with Russia. However, none of the member states seriously thought the Energy Dialogue would extend beyond its first year anyway. 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 by themselves, through bilateral channels with Russia.

However, this indifference changed slightly after the EU's expansion in 2004, when the EU expanded to 25 member states, and the EU15 Narrative shifted to the **EU25**

Narrative. 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 to take a more active role in 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, which in turn strengthened its bargaining position within the Energy Dialogue proper.

In 2007 the EU expanded to 27 member states, hence the **EU27 Narrative**. The new member states continued to use their veto powers to delay negotiations over the new PCA, in order to extract concessions from both Russia and the Commission. However, many of them were supportive of the Commission's desire to take charge of external energy relations, for instance through the sanctioning of bilateral energy contracts with third-parties like Russia. So despite the expansion, and the incomplete ratification of the TEP by all EU member states, all in all the EU27 Narrative was tilted in favour of an increased prominence for the Commission in energy affairs, compared with the original EU15 Narrative. Important in this respect was the said TEP, as well as the Commission's internal roadmap for 2050.

In sum, 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 EU27 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 Narrative** was 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, or how close Russia should become with the EU. Initially, the 'EU vector' of the Euro-Asian narrative predominated. The Russian government pushed forward with various measures intended to facilitate an energy partnership, including a revised PSA framework. But the efforts failed or were rejected. Eventually, more Eurosceptic vectors of the Euro-Asian narrative took over, and multi-vector integration took precedence.

This shift was partly due to the disappointing yields of the Energy Dialogue itself, part due to domestic political changes, and part due to external influences such as the crisis in Ukraine and rising energy prices. In line with its multi-vector policy, Russia sought new energy dialogues, including a new Russia-US Energy Dialogue, later to be followed by a Sino-Russian Energy Dialogue. Neither of these dialogues were any successful. Despite Moscow's determination to diversify, Russian pipelines remained tethered to Europe, so Russia was wary of, and vulnerable towards, any changes within the EU itself.

However, Russia was just as 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. Russia threatened to resist expanding the PCA into Eastern Europe, unless the Commission conceded with Moscow's demands. However, the EU did not yield, and the PCA was expanded according to schedule. Moscow grudgingly relented.

Meanwhile, Russian fears over EU expansionism were exacerbated when the Commission revealed its designs for the strategically important CIS countries. In the years after 2005, Brussels signed several MoUs with the 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 launch of Putin's 'Eurasian Union' in 2011. With respect to the PCA, and thus the envisaged legal partnership of the Energy Dialogue, the Kremlin insisted on including Russia's Customs Union with Kazakhstan and Belarus as a party to the new PCA. This, however, was unacceptable to the EU.

The prospects of a binding agreement was 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 supplemented by an unofficial 'sistema' narrative. Because of this duality, strategic planning was often impaired, as was the case with Russian 2020 Energy Strategy. The strategy was developed by the Ministry of Energy, which represented Russia in the Energy Dialogue, but which at the time was permeated by factional conflict. This factionalism pervaded much of Russia's bureaucracy, which was ingrained by the country's 'shadow' structures.

Moreover, in the early 2000s, business relations were often regulated through clandestine, informal relations, rather than through transparent tenders. The situation did not improve during the time period of the Energy Dialogue. Rather, this 'legal

nihilism' worsened, with Russia falling nearly a hundred places on global corruption indices. While this arguably suited Putin's mode of governance, it scared potential investors away from Russia. In addition, it made the prospects of a working legal agreement with the EU a difficult prospect indeed.

One would think that Putin's consolidation of power would end this situation. However, Putin's **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. Nevertheless, for Russia the state always held a privileged position, and the Energy Dialogue would be no different. The early PSA regime was designed to benefit state companies. The Kremlin only scrapped the PSA framework after the state had again assumed full control over the Russian energy sector. This concentration of power into the hands of the state 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, and both narratives were by nature expansionistic (centripetal), thus creating a zero-sum environment between them.

The sovereignty-minded Russians were sceptical towards the Commission's legal expansionism. Russia left the ECT in 2009. But by this time the Kremlin's concerns were focused on the *acquis*. From 2000 to 2012, Russia's focus for the Energy Dialogue shifted from careful legal approximation with the EU to disillusionment, and then from hubristic denial to acceptance. The task by 2012 was to mitigate the energy directives' negative impact on Russian export contracts and crucial infrastructure projects like Nord Stream and South Stream – both of which were directed at the EU market. Legally, the TEP would become the biggest obstacle for the successful conclusion of the Energy Dialogue.

In Russian eyes, the TEP, coupled with the Commission's climate change agenda for 2050, were implemented merely to push Gazprom, and Russia, out of Europe.

This narrative conflict was firmly illustrated in the negotiations over a new PCA, and particularly the dispute over ownership unbundling of Russia's state-owned, vertically integrated energy companies. The Kremlin refused to sign an agreement which it felt would 'weaken the state', in the words of one Russian Energy Dialogue official. Russia remained heavily dependent on the EU-market, as witnessed when the financial crisis struck in 2008-2009. But even though commercial ties continued at pace, the Statist narrative made political integration difficult. As the same official later told me, 'Russian authorities are not ready to transfer a single per cent of authority.'¹¹³⁰ Russia refused to accept the TEP, or any other legal commitment for that matter. Thus, the new PCA remained on hold, and the Energy Dialogue in limbo.

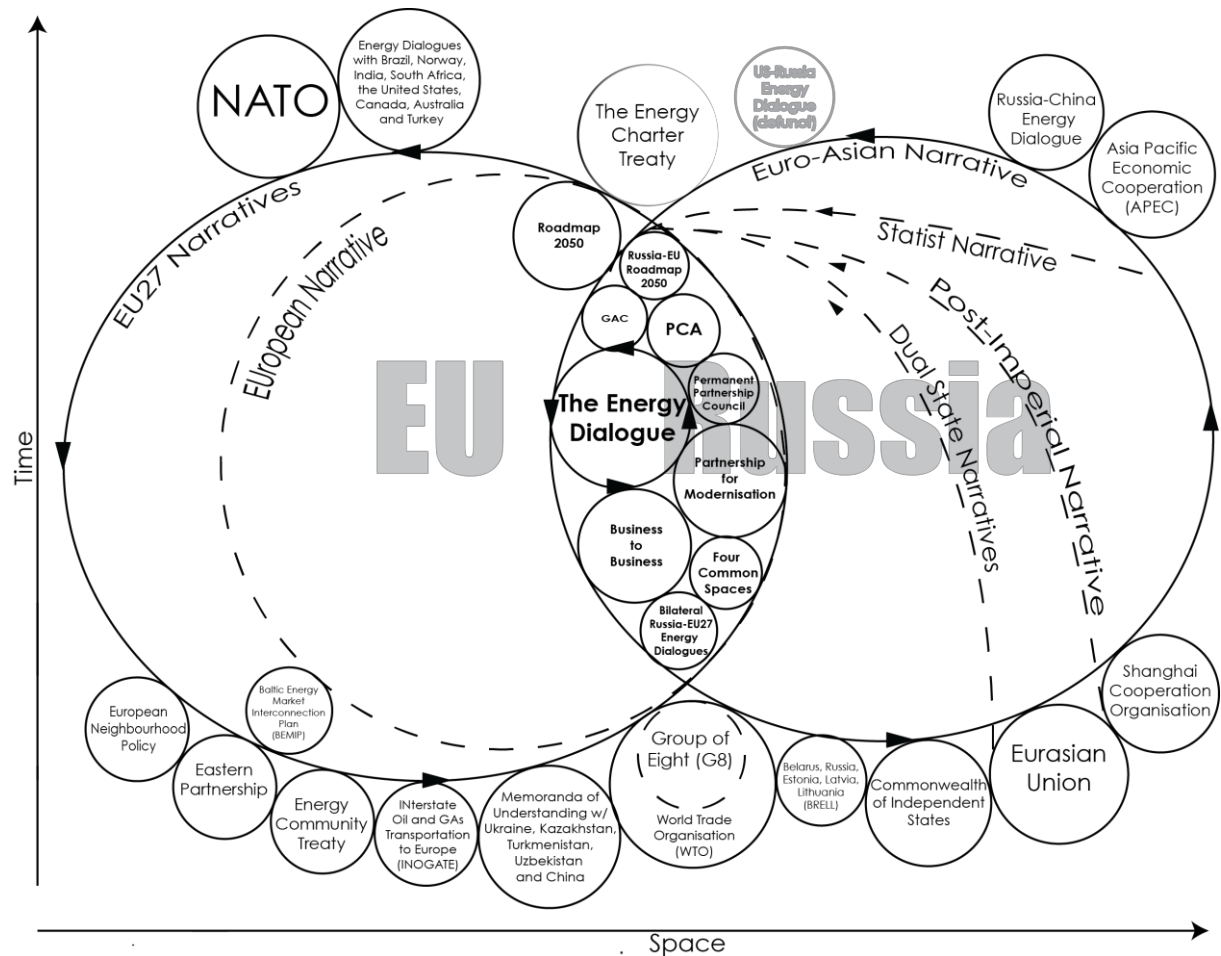
The Energy Heterologue

What remained by the end of 2012, was not one but multiple competing narratives. The figure below builds on the figure in the theory chapter (Figure 0.1). It is more elaborate than the rather simplified version presented previously. Again, the figure is an ideal type. It is not exhaustive, and should not be taken as an ontological image of reality. Nonetheless, I have included it as an attempt to illustrate the extreme complexity of what I have termed the 'EU-Russia Energy Heterologue'. The Energy Dialogue was not successful in resolving the substantive 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,

¹¹³⁰ Author's interview with Maria Belova.

and several others. Each of these represented separate ‘cogwheels’, with both centripetal and centrifugal effects on the narrative clusters.

Figure 6.2 – The EU-Russia Energy Heterologue in 2012



In addition was the plethora of external, non-Energy Dialogue structures, which nevertheless factored in, such as the Eurasian Union, the Baltic Energy Market Interconnection Plan, APEC and the Shanghai Cooperation Organisation (which I have not really discussed, but is still a potentially important multilateral platform for Russia in Central 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.

Such was the narrative, political, economic, geo-economic and legal chaos of the EU-Russia Energy Dialogue when it entered 2013.

Summary of Main Contributions

This study has two major implications, one academic and one policy related. With respect to academic implications, there are both empirical and theoretical contributions for scholars interested in EU-Russia relations and energy relations. As for empirical contributions, this thesis represents the first comprehensive account of the EU-Russia Energy Dialogue. It is also one of the few academic accounts of EU-Russia, including EU, energy politics (there is more work on Russian energy politics, although this, too, is limited). This thesis provides new empirical information about EU and Russian energy politics during the first decade of the 2000s, through dozens of interviews with policy makers and stakeholders on both sides. The primary data presented in the preceding chapters should be of interest to anyone investigating EU-Russia relations in general, and not just the Energy Dialogue in particular.

As for theoretical implications, this thesis contributes to the limited body of theoretically informed EU-Russia studies, covered in the theoretical chapter. It also invokes IR theory into the theoretically scarce field of energy studies, an academic area formerly dominated by energy specialists, economists and geologists, but not so much by political scientists. What is more, the thesis presents a novel theoretical framework, by applying Mikhail Bakhtin's concept of dialogue and narratives, a theoretical universe which has primarily been the reserve of literary theoreticians and education specialists.

However, Bakhtin's dialogical framework should be applicable to any area of international relations and comparative politics, and not just EU-Russia relations. This is due to its open-ended, non-dogmatic, and empirically guided focus. Dialogism does not provide universal predictors of behaviour, nor does it provide a fixed framework which can be applied to any given situation. What it does, however, is unpack the methodological assumptions of a given study, and provide conceptual, heuristic pegs for these. Methodological concerns are usually underspecified in much extant international relations and comparative politics literature. Quite often, researchers move quickly to methods ('techniques for gathering and analysing bits of data'), whilst devoting cursory attention to methodology ('the logical structure and procedure of scientific enquiry').¹¹³¹ In the next section below, I will expand the premises of this methodology more in depth, and show where it breaks with more conventional approaches.

As for policy implications, these are partly the same as the academic implications name above. In this respect this thesis should prove a useful contribution to the debate on EU-Russia relations in general and energy relations in particular. This is important, given the considerable mutual dependency between Russia and the EU in the energy sector and elsewhere. Moreover, despite its disappointing yields, the Energy Dialogue is still ongoing. The parties are still talking, if not much else. Several officials involved in the Energy Dialogue expressed interest in a comprehensive analysis, rightly recognising the lack of scholarly material dealing with the Dialogue. Other officials, who were currently part of the Dialogue, told me that they had already read my previous publications about the Energy Dialogue, whose research has also informed this account. Now, I am not claiming that I have shaped the course of the Energy Dialogue, but the officials did say that it provided a good background for those just joining the dialogue,

¹¹³¹ Jackson, *The Conduct of Inquiry in International Relations: Philosophy of Science and Its Implications for the Study of World Politics*, 25.

and those who are unfamiliar with its past activities (which, broadly put, is practically everyone outside of the dialogue itself, but also people on the inside, given the considerable turnover of officials). Most officials do not know the roots of the Energy Dialogue, nor its original objectives, on either side of the table. Therefore, this account should have direct relevance to anybody connected with the Energy Dialogue, either directly or indirectly. This thesis should also be relevant to anybody working on EU-Russia relations, EU or Russian politics, or energy politics more broadly. Hence, it may serve an important epistemic function for policy practitioners.

Understanding versus Explaining

I will now elaborate on the methodological underpinnings of this thesis. During my work with this thesis I have been challenged by external readers over the element of explanation versus that of understanding in my research. The basic assumption is that there is a fundamental difference between *explaining* events in terms of their objective causes, and *understanding* them by way of the actors' subjective reasons.¹¹³² A similar division would be that between nomothetic and idiographic knowledge. According to Windelband, nomothetic knowledge is that which relates to, involve, 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.¹¹³³ One could say that explanation should be nomothetic, whereas understanding is idiographic. For instance, Hempel defines explanation as 'a statement (or set of statements) that demonstrate that the outcome of a particular event is merely an example of an

¹¹³² Martin Hollis and Steve Smith, *Explaining and Understanding International Relations* (Oxford: Clarendon, 1990), 1-7.

¹¹³³ Wilhelm Windelband, *Geschichte und Naturwissenschaft. Rede zum Antritt des Rektorats der Kaiser-Wilhelms-Universität* (Strasbourg 1904).

established pattern.¹¹³⁴ Mere description, or simple understanding, is not enough. Hollis and Smith do not actively use the concepts of nomothetic and idiographic knowledge in their analysis, but nonetheless assert that International Relations, unlike International History, must avoid 'collapsing into a fragmented Diplomatic History which lacks all rhyme and reason.'¹¹³⁵ The former deals with patterns, whereas the latter deals with historical events in their specificity. It is indeed possible to make the claim that this account is an example of such 'fragmented Diplomatic History'. But this is misleading, for reasons I will come onto below.

However, while Hollis and Smith stress the necessity of both explanation and understanding, they claim they are incommensurable and should be kept analytically distinct.¹¹³⁶ This is the classical agent-structure problem, whose original form is derived from Plato, and whose modern incarnation was coined by Descartes and his distinction between the (ideational) mind and (material) world. The task of science and scientists was to bridge the gap between the mind-dependent and mind-independent worlds, yet recognising their distinction.¹¹³⁷ This is similar to Kant's nomenal and phenomenal worlds. Cartesian 'dualism' was later challenged by those who questioned the possibility of transcending the ideational world at all. These 'monists', the most famous of which are Hume and Spinoza, but also Hegel and Bakhtin, argued that we do not need to seek outside of the immediate, present experience to find an underlying truth, as these are nevertheless outside our grasp. As Wittgenstein, another opponent of mind-independent metaphysics, said, 'we cannot think what we cannot think',¹¹³⁸ hence the search for

¹¹³⁴ 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).

¹¹³⁵ Hollis and Smith, *Explaining and Understanding International Relations*, 194.

¹¹³⁶ *Ibid.*, 7.

¹¹³⁷ Jackson, *The Conduct of Inquiry in International Relations: Philosophy of Science and Its Implications for the Study of World Politics*, 44-59.

¹¹³⁸ Wittgenstein, *Tractatus logico-philosophicus*, 5.61.

outsider perspectives, causes, rules as a means to explain reality is futile. What we are left with is our understanding, and thus understanding *as* explanation.

How, Why and What

My research question is ‘*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.’¹¹³⁹ Further, Van Fraassen claimed that a theory of explanation ought to take the shape of a theory of *why* questions.¹¹⁴⁰ But distinguishing between the two types of questions is not straightforward. As Charles Tilly famously said, ‘the *how* is the *why*.’¹¹⁴¹ *How* and *why* questions are both causal, and both contain elements of understanding and explaining. The laws of physics are often based on explanatory *how* questions.¹¹⁴² This is ultimately a question of perspective, leading back to what I have said about time-space and narratives, or the *chronotope*. 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 subjective 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

¹¹³⁹ Charles B. Cross, "Explanation and Theory of Questions," *Erkenntnis* 34, no. 2 (1991): 237., emphasis added

¹¹⁴⁰ Bas C. Van Fraassen, *The Scientific Image* (Oxford: Clarendon, 1980).

¹¹⁴¹ Charles Tilly, *Identities, Boundaries, and Social Ties* (Boulder, CO: Paradigm, 2005), 6.

¹¹⁴² Cross, "Explanation and Theory of Questions," 244.

put together rather than the relation between independent and dependent variables.¹¹⁴³ 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 the structures in virtue of which they exist.'¹¹⁴⁴ It would mean how certain features of the EU, Russia and the Energy Dialogue, like narratives, are constructed. It is of course possible to describe the EU as a given number of member states, and set of key institutions. Likewise, Russia has a given size and location, and a president named Putin. The trouble emerges when we try to bridge these 'givens' with foreign policy outcomes. It is even more difficult when we try to link ideas to these outcomes. This goes back to what I said in the theoretical chapter about constructivism and attribute ontology. Wendt claims that ideas are discrete attributes with causal effects to be scientifically evaluated: 'Ideas and social structures can have causal effects, and as such the relevance of causal theorizing is not limited to natural science.'¹¹⁴⁵ I emphatically disagree with Wendt that it is possible to empirically verify or prove our constitutive theories.¹¹⁴⁶ Beyond physical attributes, we cannot scientifically prove what things are made of. As such, constitutive theories remain just that – theories. Wendt himself admits that the boundaries between causal and constitutive questions are not always clear.¹¹⁴⁷ This, in my view, is because we are constituted through action, through dialogue, and through the responses elicited through these actions. We are thus better served by looking at processes, not attributes. This is what I am doing by looking at narratives, as they are formed dialogically, as both the EU and Russia are continuously constituted and re-constituted, tied and untied, through practice.

¹¹⁴³ Wendt, *Social Theory of International Politics*, 87.

¹¹⁴⁴ "On Constitution and Causation in International Relations," *Review of International Studies* 24, no. 5 (1998): 104-6.

¹¹⁴⁵ *Social Theory of International Politics*, 65.

¹¹⁴⁶ *Ibid.*, 85.

¹¹⁴⁷ *Ibid.*

The reason for dividing my research question into how and why is not so as to distinguish ideographic from nomothetic knowledge. It is rather to discern between proximate (how) and ultimate (why) causes. It is both a methodological choice, and a choice of methods. I define proximate as something ‘very near’ the Energy Dialogue, such as the actual discussion in the Energy Dialogue’s thematic groups, and ultimate as something ‘remote in space and time’, such as domestic policy debates or institutions, third-parties such as Ukraine and China, or even historical legacies.¹¹⁴⁸ As per Figure 0.1 in the theoretical chapter, I have introduced time *and* space as a component of my ‘variables’. Thus, my thesis is built up in a roughly chronological way, with chapter one dealing with the years leading up to 2000, chapter two dealing with the first few years, chapters three and four the intermediary years, and chapter five the final years through 2012. Although any social science analysis is inherently causal, I would like to argue that time and space, or process, is a better way to think of the Energy Dialogue than variable-centred cause and effect. Cause and effect are contingent upon time and space, making the latter pair epiphenomenal to the former. 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.¹¹⁴⁹ In practical terms, this distinction might seem pointless. But in methodological terms it is quite profound.

¹¹⁴⁸ Merriam-Webster, "Ultimate," in *Merriam-Webster Online* (Springfield, MA: Merriam-Webster, Incorporated, 2013); "Proximate," in *Merriam-Webster Online* (Springfield, MA: Merriam-Webster, Incorporated, 2013).

¹¹⁴⁹ David Hume, *An Enquiry Concerning Human Understanding* (Oxford: Oxford University Press, 2007).

From Understanding & Explaining to Narratives

Instead of dependent and independent 'variables', I suggest narratives, as they are spatio-temporal.¹¹⁵⁰ My proximate cause is narratives, whereas my ultimate causes are legal institutions, politics, business interests and geo-economics. The interaction between proximate and ultimate causes is assumed through my ideal types of narrative clusters. As indicated in the introduction, the reason why I have focused on narratives as the proximate cause of the failure is methodical, as it allows me to stay more focused on the politics of the Energy Dialogue, as opposed to the relatively depoliticised nature of extant accounts, and much constructivist scholarship as such. However, I am also considering narratives as another ultimate cause, as antecedent narratives – spread throughout the time-space – do cause subsequent narratives. This renders my account susceptible of charges of endogeneity, or a causal loop between my 'independent' and 'dependent' 'variables'. But 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 multi-causal process unfolding in time-space. As Giddens said, time-space constitutes all social action, absence coexists with presence, and synchronicity coexists with diachrony.¹¹⁵¹ It does not make sense to consider discrete narratives, when the boundaries of the variables themselves are contingent upon the time and physical point of observation. Hence it is the process, not the attributes, that is of interest.

Finally, let me briefly return to the alleged incommensurability between understanding and explaining. Hollis and Smith argue that '[a]lthough it is appealing to believe that bits of the two stories can be added together [...] combinations do not solve

¹¹⁵⁰ Bakhtin, *The Dialogic Imagination, Four Essays*; Paul Ricoeur, *Time and Narrative* (Chicago: University of Chicago Press, 1984).

¹¹⁵¹ Anthony Giddens, *Central Problems in Social Theory: Action, Structure and Contradiction in Social Analysis* (London: Macmillan, 1979).

the problem.¹¹⁵² However, it is not clear what the ‘problem’ is, as they never define it. It would be a good bet to assume that they mean the conflation of mind and matter, the specific with the general or 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?¹¹⁵³ This is indeed a valid point. Interestingly, Hollis and Smith describe understanding and explanation as two different *stories*.¹¹⁵⁴ They’re different, yes, incommensurable, yes, 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.’¹¹⁵⁵ If one rejects the meaningfulness of the ontological distinction between explanation and understanding, and rather think in pragmatic, heuristic terms of proximate (near) and ultimate (distal) causes, then this problem disappears altogether. Stories, according to Ricoeur, are an act of ‘com-prehension’, which literally means ‘understanding together’.¹¹⁵⁶ So understanding and explaining 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.

¹¹⁵² Hollis and Smith, *Explaining and Understanding International Relations*, 7.

¹¹⁵³ Hidemi Suganami, "Narrative Explanation and International relations, Back to Basics," *Millennium* 37, no. 327 (2008).

¹¹⁵⁴ Hollis and Smith, *Explaining and Understanding International Relations*, 7.

¹¹⁵⁵ 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.

¹¹⁵⁶ Suganami, "Narrative Explanation and International relations, Back to Basics," 344; Ricoeur, *Time and Narrative*, 76.

Limitations of the Thesis and Avenues for Further Research

For my purposes, Bakhtinian dialogue has been a useful heuristic tool, which has facilitated my understanding of the EU-Russia Energy Dialogue. Thus, my primary concern is the Energy Dialogue, not theory building. However, it is certainly possible to move further towards theory, and to unpack Bakhtin's theoretical and methodological assumptions more thoroughly. This would perhaps allow a more refined causal framework, where narratives and various policy outcomes – including the hypothetical scenario of success – would become more firmly established. One such avenue would be looking into the centripetal and centrifugal forces of Bakhtin's heterologue – what are the conditions under which a narrative is 'tied' and, conversely, what are the conditions under which they are 'untied'? In other words, why do some narratives persist whilst others perish? Similarly, what are the conditions under which a narrative becomes embedded, be that externally authoritative, internally persuasive or both? Finally, how do different speech genres (e.g. Russia <-> Baltic States) relate to other speech genres (e.g. Baltic States <-> the EU); how are they mediated, ranked, dispersed, assimilated and/or differentiated? Answering some, if not all, of these questions would provide further theoretical tools to understand not just EU-Russia relations, but international relations and politics as such.

This study is wholly focused on the Energy Dialogue. However, it is certainly possible to apply the Bakhtinian framework to other cases of international relations or comparative politics, as well as energy politics. This study certainly could have benefited from a control case, either found within the broader EU-Russia relationship, or in another international energy dialogue, such as the US-Russia Energy Dialogue or the Sino-Russia Energy Dialogue. A particularly interesting case in point would be an up to date account of the political bargaining of the ECT, which to date remains the only legally

binding framework of international energy cooperation. With its 52 signatories, the ECT is a complex heterologue of conflicting narratives, covering countries as diverse as France and Tajikistan.

Another possibility would be to look more in depth at the institutions of the EU, going inside the Commission, examining the various speech genres of the different DGs and Commissioners in the formation of the internal energy market. Conversely, a Russian chain of command-analysis, including a comparison between the formal and informal levels of power, would certainly help to unpack the black box of Russian energy policy vis-à-vis the EU. Moreover, a 'chronotope' of the narratives of Europe's energy infrastructure could be both novel and interesting. For instance, by addressing the motivations behind Nabucco and South Stream, with reference to the narratives of their littoral states, or do a historical piece by looking into the formation of the European gas pipeline grid in total.

Bakhtin's dialogue could also be a useful theoretical tool to merge with the recently established, but theoretically vague literature on energy governance – how to govern under conditions of considerable heterologue? In a sense, that is what I have done here, but only with reference to the Energy Dialogue in its specificity. Other researchers could certainly try to draw more general conclusions, and even attempt a dialogical framework to understand the possibilities and limitations of international energy governance. Because of the diversity and open-ended nature of Bakhtin's theories, the possibilities are indeed endless.

So much for theoretical refinement. It is also possible to strive for empirical sophistication. This survey is limited in that the data used is primarily based on qualitative data. Moreover, I have of course not had access to each participant, although I have certainly tried to get a hold of as many as possible. Besides further interviews,

another data option would have been quantitative data. However, it is not clear what type of statistical data this should have been, as the data on the Energy Dialogue is already limited. I am not saying it is impossible, and that there are no ingenious ways to incorporate quantitative data, only that it would probably entail 'external' data, such as Eurostat, which in turn would run against the stated objective of this thesis to focus on workings of the Energy Dialogue proper. Moreover, using quantitative data would most likely require a somewhat different research design, a possibility which is certainly open to other researchers. Finally, it could be argued that the account would have benefited from a broader focus, perhaps one of the other multilateral energy dialogues, named above, as a control case.

In the introduction I said that the Energy Dialogue in many ways is a microcosm of EU-Russia relations. Many of the narrative conflicts which plagued the Energy Dialogue also apply to the broader EU-Russia relationship. This includes the wrangling over the PCA, control over Russia's near abroad, corruption in vertical-power Russia versus the hypertrophic Brussels bureaucracy, but also the question of Russia's place in Europe in general. These are all important challenges, which served to undermine the efficacy of the Energy Dialogue, and Russo-EU relations in general. In addition to the Energy Dialogue, there are also a myriad of other arenas of engagement between Moscow and Brussels, each of which are worthy pursuits of inquiry, including the various sectorial dialogues on everything from visas to aviation. Each of these represent potentially valuable troves of information, which will hopefully be explored by others in the future.

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List of Interviewees

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]

Baltause, Ruta. Polic Officer, DG Transport and Energy, European Commission. 30.03.10: Phone [recorded].

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].

Barton, Chris. International Energy Policy – Energy Strategy & International Unit, Department of Energy & Climate Change, UK. Former co-chair of Market Development Group, EU-Russia Energy Dialogue. 10.06.11: Meeting, London [recorded].

Bartuska, Vaclav. Ambassador-at-Large for Energy Security, Czech Foreign Ministry. 28.05.12: Phone.

Belova, Maria. Senior Analyst at Skolkovo Energy Centre, Moscow. Participant of the Thematic Group on Strategies, Forecasts and Scenarios under the EU-Russia Energy Dialogue. 15.02.12: Meeting, Moscow; 13.04.14: E-mail

Belyi, Andrei. Associate Professor Moscow Higher School of Economics. Former participant of the Thematic Group on Thematic Group on Energy Market Developments under the EU-Russia Energy Dialogue. 02.02.10: Meeting, Oxford [recorded].

Borak, Ursula. Deputy Director General, Federal Ministry of Economics and Technology, Germany. Co-chair of Energy Efficiency Thematic Group under the EU-Russia Energy Dialogue. 23.06.11: E-mail.

Bortz, Kevin. Director for Natural Resources, European Bank of Reconstruction and Development (EBRD). Former participant of the Thematic Group on Investments under the EU-Russia Energy Dialogue. 01.10.12: Phone [recorded].

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].

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].

Dornfeldt, Matthias. Advisor for International Energy and Resources Policy, Technical University Mining Academy, Freiberg. Assistant Professor, Technical University Chemnitz, Berlin. 03.02.10: Phone.

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]

Dutch Industry Official. 21.09.12: Phone [recorded].

EU Industry Official A. 18.04.12: Phone [recorded].

EU Industry Official B. 16.04.12: Meeting, Moscow [recorded].

EU Industry Official C. 02.10.12: Meeting, Brussels [recorded].

EU Industry Official D. 12.04.12: Meeting, Moscow [recorded].

EU Industry Official E. 01.11.12: Phone [recorded].

EU Industry Official F. 06.11.12: Phone [recorded].

EU National Official A. 13.04.12: Meeting, Moscow.

EU National Official B. 18.10.12: Phone [recorded].

EU National Official C. 15.11.13: E-mail.

EU National Official D. 22.10.12: Meeting, Brussels [recorded].

EU National Official E. 24.09.12: Phone [recorded].

EU National Official F. 30.10.12: Phone [recorded].

EU National Official G. 18.10.12: Phone [recorded].

EU National Official H+I: 03.04.12: Meeting, Moscow [recorded].

EU National Official J: 30.10.12: Meeting, Brussels [recorded].

EU National Official K: 24.02.12: Meeting, Moscow [recorded].

EU National Official L+M+N: 15.10.12: Meeting, Berlin [recorded].

EU Official A. 22.05.12: Meeting, Brussels [recorded].

EU Official B. 11.09.12: Meeting, Brussels [recorded].

EU Official C. 29.10.12: Phone [recorded].

EU Official D. 19.10.12: Meeting, Brussels [recorded].

EU Official E. 23.04.10: Phone.

EU Official F. 24.05.12: Phone [recorded].

EU Official G. 18.10.12: Phone [recorded].

EU Official H. 22.09.12: Phone [recorded].

French Official A. 27.09.12: Phone [recorded].

French Official B. 26.09.12: Phone [recorded].

Grigoriev, Leonid. Professor Higher School of Economics. Former Deputy Minister of Economy and Finance of Russia. Former president of Institute for Energy and Finance, Moscow. 09.11.12: Phone [recorded].

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].

Hadfield, Amelia. Jean Monnet Professor of European Foreign Affairs Vrije Universiteit Brussel. Former Lecturer in European International Relations, University of Kent. Former Research Consultant, Legal Affairs, at the Energy Charter Secretariat, Brussels. 24.03.10: Phone [recorded].

Härmälä, Jukka. President and CEO of Stora Enso. Former co-chair of the EU-Russia Industrialists' Round-Table. 12.04.10: E-mail.

Helm, Dieter. Professor of Energy Policy at the University of Oxford. Former Adviser to Energy Commissioner Günther Oettinger. Former Adviser to UK Prime Minister Tony Blair. 04.10.12: Meeting, Brussels [recorded].

Kawnik, Mariusz. Head of International Affairs Unit, Oil and Gas Department, Ministry of Economy of Poland. Member of the Thematic Group on Energy Markets and Strategies under the EU-Russia Energy Dialogue. 29.10.12: Meeting, Brussels [recorded].

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].

Komlev, Sergei. Head of pricing and contract formation at OAO Gazprom Export. Member of the Gas Advisory Council under the EU-Russia Energy Dialogue. 04.04.12: Meeting, Moscow [recorded].

Koskinen, Ismo. Energy Counsellor, EU Delegation to the Russian Federation, Moscow. 15.02.12: Meeting, Moscow.

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.

Larsson, Sofia. Energy Counsellor, Royal Swedish Embassy, Moscow. Former Participant in the Thematic Group on Energy Markets and Strategies under the EU-Russia Energy Dialogue. 08.03.12: Meeting, Moscow.

Loit, Silver. Counsellor, Embassy of Estonia, Moscow. Former participant in the Thematic Group on Energy Strategy Forecasts and Scenarios and the Thematic Group on Energy Efficiency under the EU-Russia Energy Dialogue. 13.04.12: Meeting, Moscow [recorded].

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].

Meister, Stefan. Program Officer Russia/Eurasia, Deutsche Gesellschaft für Auswärtige Politik e.V., Berlin. 02.02.10: Phone.

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].

Mernier, André. Former Secretary General of the Energy Charter Secretariat, Brussels. Former Ambassador of Belgium to Russia. Former participant of the Thematic Group on Investment under the EU-Russia Energy Dialogue. 02.02.10: Meeting, London [recorded].

Milov, Vladimir. Former Deputy Minister of Energy of Russia. President of the Institute of Energy Policy, Moscow. 11.03.12: Meeting, Moscow [recorded].

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.

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].

Ojuland, Kristiina. Former Foreign Minister of Estonia. Member of the European Parliament. 11.02.10: E-mail.

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].

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].

Remes, Seppo. Former co-chair of the European Business Club. Former board member of RAO UE. 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].

Romanova, Tatiana. Associate professor at the Department of European Studies of the School of International Relations of St. Petersburg State University. 10.02.10: Phone [recorded].

Russian Industry Official A. 14.03.12: Meeting, Moscow [recorded].

Russian Industry Official B. 29.03.12: Meeting, Moscow [recorded].

Russian Official A. 22.03.12: Meeting, Moscow [recorded].

Russian Official B. 16.02.12: Meeting, Moscow [recorded]; 30.03.12: Phone [recorded].

Russian Official C. 04.03.12: Phone [recorded]; 09.04.12: Phone [recorded]; 22.04.12: Phone [recorded].

Russian Official D. 15.02.12: Meeting, Moscow [recorded].

Sass, Sebastian. Former Head of Communications & EU Affairs, South Stream Transport AG. Former Head of EU Representation, Nord Stream AG. 30.03.12: Phone.

Schuwer, Henne. Dutch Ambassador to the European Union. 09.10.12: Phone [recorded].

Simonia, Nodari. Deputy Director, IMEMO, Moscow. 04.04.12: Meeting, Moscow [recorded].

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].

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].

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].

Westhof, Peter. Head of Energy Policy at Wintershall Group. 08.04.12: E-mail.

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.

Åberg, Martin. Energy Counsellor, Royal Swedish Embassy, Moscow. Former Participant in the Thematic Group on Energy Markets and Strategies under the EU-Russia Energy Dialogue.
08.03.12: Meeting, Moscow.