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EU Gas Supply Security: The Power of the Importer

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1 Introduction

This chapter examines several aspects of European Union energy policy. First, we map EU gas relationships and attitudes towards its external gas suppliers in the broader context of the internal debate on increasing energy import dependence as a challenge to the security of supply. Second, we explore what energy policy instruments the Union has at its disposal in general and when related to external suppliers of gas. The sheer size of the market is the key strength of the EU's relations with external actors while its development of a set of well-functioning market tools and regulations adds what can be described as regulatory state power to this equation. Third, we examine how the use of various energy policy instruments and choice of priorities in energy policy can influence the future of the European gas market and impact on relations with its gas suppliers. In the

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fourth part, we narrow the geographical scope of this study to gas relations with Russia and Norway, the current main suppliers of gas who have the ambition to remain important players in the ongoing energy game. This choice is justified by the central position of these two on the gas market and their various ways of relating to the EU in formal and informal terms. Russia for obvious reasons is treated as a significant—some would even say, indispensable—energy partner, but also as a source of strategic concern. Norway, in turn, is viewed as a good commercial partner and a semi EU-insider because of its 'membership' of the European Economic Area (EEA). In the concluding part, we look at what the use of these policy instruments can reveal about the Union's strengths, weaknesses, opportunities, and threats as a gas importer and market regulator.

2 The EU as a Market for External Energy Suppliers

The European Union is not a single, collective purchaser of energy commodities. Energy supplies are delivered to concrete recipients in individual EU member states. However, general rules of the energy game are, at least in theory, the same on the whole territory of the Union and should apply to all EU Member States. Since 2004, the EU has had to import cumulatively over 50% of the energy it needs, mostly due to falling domestic production that was not outpaced by improved energy efficiency. In 2014, 53.5% of the EU-28's gross inland energy consumption—45.64% of solid fuels, 94.01% of crude oil and petroleum products, and 67.4% of natural gas—had to be imported. Since 2013, when Denmark's energy production dropped, all the Member States have been net importers of energy. The level of import dependence varies from almost 100% in the case of Malta to 8.9% in the case of Estonia. As a consequence, the EU is the most important importer of energy in the world (World Trade Organization WTO 2010), which makes access to its market an attractive option to all those who export energy commodities. The competition over supplies is harsh, but there is a relatively high level of concentration of supplies coming from a limited number of external suppliers. In 2014, 69.1% of gas imports and 43.5% of crude oil imports

came from the two top suppliers (Russia and Norway), while 70.7% of solid fuels—mostly various forms of coal—were supplied by Russia, Colombia, and the United States. Table 9.1 illustrates which countries were the most important external suppliers of energy to the EU in three categories of energy supplies in 2014.

At the same time, the EU's import dependence gives the external suppliers certain leverage in their relations with the Union. However, exporters of energy to the EU face several challenges related to Union energy policy. First, the consumption of energy in the EU is being decoupled from economic growth, so the EU market is not a growing market, even in a period of prosperity. Second, the question of the sustainability

Table 9.1 External suppliers of energy to the EU—shares of EU import in per cent (official EU data for 2014)

Country	Share of EU import of solid fuels	Share of EU import of crude oil	Share of EU import of natural gas
Algeria		4.2	12.3
Angola		3.3	
Australia	6.2		
Azerbaijan		4.4	
Canada	2.5		
Colombia	21.2		
Indonesia	3.4		
Iraq		4.6	
Kazakhstan		6.4	
Libya			2.1
Nigeria		9.1	1.5
Norway	0.7	13.1	31.6
Others	5.1	15.5	6.5
Peru			0.4
Qatar			6.9
Russia	29	30.4	37.5
Saudi Arabia		8.9	
South Africa	9.9		
Trinidad and Tobago			0.9
Turkey			0.2
Ukraine	1.5		
United States	20.5		

http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports, accessed 25 May 2017

of current and future energy supplies has made it to the top of the EU energy agenda, and there is a clear ambition on the part of the EU and its member states to reduce the share of fossil fuels in their energy mix as a way of mitigating the risk of climate change and at the same time reducing the level of energy import dependence. Third, external energy supplies are increasingly being viewed as not only an economic challenge but also a security risk that must be addressed. Fourth, the EU has developed a strong regulatory framework that all importers must bear in mind when deciding to export their energy commodities to this market.

3 EU Gas Needs and Import Dependence

At the strategic level, the EU seems to face today two key gas-related challenges. First, there is the question of the sustainability of gas as a source of energy in the context of the debate on climate change and the need to cut GHG emissions, which could be achieved only by reducing the role of fossil fuels in the energy mix. Although the Second Report on the State of the Energy Union concluded very optimistically that Europe's energy transition was well underway (European Commission 2017a, b), the EU 2016 Reference Scenario assessing the developments until 2050 presented a more realistic and challenging picture (European Commission 2016). EU domestic energy production, especially of fossil fuels, is expected to decline in this period; the gross inland energy consumption is to slightly decline from 1 666 601 ktoe in 2015 to 1 491 621 ktoe in 2050, but the import of gas is to increase from 269 292 ktoe in 2015 to 332 706 ktoe in 2050. The imbalance between the dynamics of EU gas production and gas consumption constitutes a serious, yet not unexpected, problem in terms of security of supply. As data presented in Table 9.2 show, this negative trend has been a characteristic feature of the EU gas market since at least 2000 when domestic production peaked. This gap is likely to widen. Due to the expected falling domestic production of gas, the level of gas import dependence is to increase from 69% in 2015 to 86% in 2050. Gas is also to remain an important source of energy in the EU energy mix—its share in the EU in 2015 was 23.2% while in 2050 it is to have a 25.3% share.

Table 9.2 EU gas production, consumption, and import—recent dynamics (European Commission 2016, p. 9)

EU-28, 2014	mtoe							Average annual growth rate	
	1990	1995	2000	2005	2010	2013	2014	90 > 14	05 > 14
Natural gas primary production	164.1	190.9	209.2	190.6	159.6	131.8	117.0	−1.40	−5.28
Gas gross inland consumption	298.2	336.1	396.2	445.2	447.3	387.3	342.9	+0.58	−2.86
Natural gas net imports	135.7	145.5	193.4	254.1	278.0	252.6	231.1	+2.24	−1.05

Hence, the second long-term strategic gas-related challenge—from where to import additional volumes of gas needed to fuel the EU economy? In 2014, import covered around two-thirds of the EU's gas needs and the bloc had to rely on a relatively small number of gas suppliers, as almost 70% of external gas supplies were coming from only two countries—Russia and Norway. Algeria accounted for only 12.3%, Qatar 6.9%, and Libya 2.1% of total EU gas imports in 2014. Although the EU aims at diversification of its gas supplies, for example, through the development of LNG trade, Russia and Norway, due to strong infrastructural ties, probably will remain the most dominant suppliers for decades to come.

Although in terms of negative environmental impact coal is the main challenge, the role of natural gas in the EU energy mix and in its strategic energy designs for the future is also disputed. This worries all EU external gas suppliers who have invested heavily in the infrastructure that links gas production sites with consumers and want thus to use it in the future. Some of them, like Gazprom with its Nord Stream 2, plan also to add new elements of the costly infrastructure to secure their access to the EU market and strengthen their position. Natural gas is often presented by its producers (and some consumers as well) to be the most attractive fossil fuel with a far lower environmental footprint than coal or oil (Magnus et al. 2016).

There are, however, several aspects of natural gas that may undermine its position on the European energy market. The high level of import

Table 9.3 External sources of gas supply to the EU between 2004 and 2014 (in per cent of import—EU official data)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Russia	43.6	40.7	39.3	38.7	37.6	33.1	32.1	34.9	34.9	41.2	37.5
Norway	24.3	23.8	25.9	28.1	28.4	29.4	27.5	27.3	31.2	30.0	31.6
Algeria	17.9	17.6	16.3	15.3	14.7	14.3	14.0	13.2	13.6	12.8	12.3
Qatar	1.4	1.5	1.8	2.2	2.3	5.5	9.7	11.8	8.5	6.6	6.9
Libya	0.4	1.6	2.5	3.0	2.9	2.9	2.7	0.7	1.9	1.7	2.1
Nigeria	3.6	3.4	4.3	4.6	4.0	2.4	4.1	4.4	3.6	1.8	1.5
Trinidad and Tobago	0.0	0.2	1.2	0.8	1.7	2.3	1.5	1.1	0.9	0.7	0.9
Peru	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.5	0.4
Turkey	0.0	0.0	0.0	0.0	0.1	2.0	0.2	0.2	0.2	0.2	0.2
Others	8.7	11.0	8.8	7.3	8.2	9.9	8.2	6.3	4.5	4.5	6.5

http://ec.europa.eu/eurostat/statistics-explained/index.php/Energy_production_and_imports, accessed 25 May 2017

dependence on Russia is viewed not only as an economic concern but also as a hard security challenge in a situation where it has questioned the very basic principles regulating cooperation in Europe by annexing Crimea and intervening in eastern Ukraine (Godzimirski 2015; Pirani et al. 2014; Stern et al. 2014). In addition, the issue of the environmental footprint of fossil fuels and global warming may undermine the position of natural gas in Europe. Russia and Norway may face greater competition for market shares from each other, greater competition from other suppliers of gas to Europe, including those supplying LNG, as well as growing competition from other more environmental-friendly sources of energy available locally, such as wind or solar (Table 9.3).

4 Instruments and Tools of EU External Energy and Gas Policy

Energy policy instruments are used to achieve energy policy goals set by a given actor in its interaction with other actors. They are used to influence the behaviour of other participants in the energy game by providing various incentives, promoting specific actions and approaches, or by de-incentivising other types of behaviour (Prontera 2009). They can thus be

described as either carrots or sticks or a combination of both approaches, depending on what goals are sought.

In his paper outlining various sides of energy policy and how energy policy interacts with other policies, Prontera (2009) listed a host of available policy instruments. The list included communicative instruments (negotiations, bargaining, the threat of sanctions, use of international organisations, persuasion, promotion of a rational and responsible use of energy), economic instruments (the promise or offer of rewards, taxation measures, financial incentives and subsidies, market liberalisation, and privatisation), as well as organisational instruments (creation of public firms and independent agencies, long-term planning, improvement of efficiency and energy savings).

Sathiendrakumar argued that energy policy instruments can be divided into two main categories, regulatory-legal and economic (Sathiendrakumar 2003), but for the purpose of this study, we find the categorisation of instruments proposed by Egmond et al. (2006)—who operated with four categories of energy policy instruments, namely, *legal-judicial*, *economic*, *communicative*, and *structural*—to be the most relevant.

Judicial and legal instruments prescribe the desired behaviour and set norms. Hence, as such, they influence the behaviour of actors by making them understand what is desired and accepted and what is not. If actors comply and play by the rules, they can expect rewards; if they don't, they should expect a kind of punishment or sanction. Economic instruments aim to influence financial considerations of actors, providing economic incentives to those who accommodate the interests of rule-setters and de-incentivising those who could oppose the realisation of various aspects of energy policies and plans. Communicative instruments transfer knowledge for the purpose of informing, persuading, convincing, or tempting. These instruments can also be combined with and support other instruments. They often create social support or opposition and increase awareness of the impact of implementation of various aspects of energy policies. Finally, infrastructural, physical instruments can be used to promote interests by, for instance, the construction of various elements of physical energy infrastructure or actions aimed at existing infrastructure to change its physical and market parameters and render it either useful or useless to other actors.

All the types of policy instruments listed above can be found in the EU energy policy toolbox (Andersen et al. 2015; Birchfield 2011; Birchfield and Duffield 2011; Kuzemko and Hadfield 2015; Matlary 1997). However, to understand how EU energy policy in general, and EU policy towards its external gas suppliers in particular, are put into practice, we need to get a better understanding of what the EU long-term energy policy goals are, how EU energy policy is 'organised' in institutional terms and how these goals would be achieved by translating ideas on energy policy into policy actions.

In the most general terms, EU energy goals boil down to three long-term objectives. Its energy policy aims to secure access to needed energy sources by promoting the security of energy supply, make energy supply and use sustainable, and secure the economic competitiveness of the EU economy in the global economic game (European Commission 2006, 2011).

How the EU is going to realise its energy policy goals depends also on how and by whom these energy policy goals are set and policies fulfilled. The EU is a very special political construction where policies are defined and implemented through a unique pattern of interactions between EU institutions and member states (Eberlein 2010; Eberlein and Kerwer 2004; Sabel and Zeitlin 2010). In the field of energy policy, the division of competences between the EU and member states is defined in Article 194 of the Treaty on The Functioning of the European Union. In broad lines, the EU is responsible for liberalisation and market creation, competition, construction of infrastructure, and the environmental aspects of energy policy, including energy efficiency and development of renewable energy sources, while member states are responsible for their energy security, energy mix, and development of various types of energy sources.

The actual implementation of energy policy therefore takes place in a very complex institutional landscape in which both EU institutions and national actors have a say (Eberlein 2008, 2010; Eberlein and Kerwer 2004). In addition, policy-related decisions are also directly and indirectly influenced by many actors with direct and indirect stakes in energy, such as non-EU governments, energy companies, NGOs, consumers, regional and local authorities, lobbyists, media, and so on, who use both formal and informal channels to influence the policymaking process (Godzimirski 2011; Nørgaard et al. 2014).

This raises several questions: How are these instruments and frameworks used, how are EU ideas about energy priorities translated into action, and what has been the EU practice when it comes to the EU's exertion of its market and regulatory power towards external gas suppliers?

The EU's power as gas importer is a result of the aggregation of its member states' interests and positions, the evolution of the institutional and regulatory setting, as well as external factors impacting suppliers' positions that the EU can use to its own advantage, factors that have played a part in defining its relations with external gas suppliers. These relations have been shaped by the EU decision on the creation of a single internal gas market as outlined in the three EU energy packages, three Gas Directives, and by the implementation of gas legislation at EU and national levels (Eikeland 2011; Romanova 2016; Yafimava 2013). Also, changing market conditions (Grigoriev et al. 2016; Kardaś 2014; Stern and Rogers 2014) with the emergence of new potential suppliers of gas, including suppliers of LNG (Molnar et al. 2015), and hopes for development of new gas resources in Europe in the wake of the US shale gas revolution (McGowan 2014; Szalai 2013) played a part in this process. The increased focus on sustainability of the energy system and the negative impact of fossil fuels on the global environment have been important factors influencing the situation of gas on the European market (Mathieu 2014; Youngs 2013). Because of the high level of import dependence, the state of political relations between the EU and countries supplying gas has both direct and indirect impacts on the situation on the European gas market. A quick glance at the list of key suppliers of gas to Europe reveals that, except for Norway and Trinidad and Tobago, this list is 'populated' by actors who do not necessarily share EU norms and values. Relations with these countries may therefore pose several challenges because an EU that represents liberal values has to relate to actors and gas suppliers operating in another normative universe (Godzimirski 2014b; Goldthau and Sitter 2015; Smith 2011). In addition, the EU regulations on competition and other aspects of energy policy have had an impact on the situation of external suppliers of gas on the European market.

In its whole history, the EU has faced several gas-related issues that have had to be addressed by the application of various policy instruments

and measures. The most important tool was the EU regulatory power based on the application of a set of legal-judicial instruments designed and implemented by the Union and member states (Andersen et al. 2015; Goldthau and Sitter 2015). The EU has also applied various types of economic instruments in its pursuit of policy goals by providing subsidies for some sorts of energy sources and punishing economically the use of other energy sources (Rashchupkina 2015). The EU has also used a whole host of communicative instruments to increase energy awareness among its citizens and other actors operating in the EU to persuade them to use available energy resources in a more rational and efficient way. The communicative instruments have also been widely used to present the EU energy policy goals to the outside world and to promote EU approaches to energy. Finally, the EU has also been using various infrastructural instruments to improve its energy security and resilience. A good example of the use of these types of instruments is the increased interconnectivity of the EU energy system, including gas infrastructure, which has made the whole system better prepared for unexpected disruptions in energy supplies and other possible problems both within the EU and in its energy relations with the world outside (European Commission 2015c; Glachant et al. 2013; Parmigiani 2013; Westphal 2014; Zachmann 2013). The EU's cooperation patterns with its two main suppliers, Russia and Norway, allow for an in-depth analysis of the EU's importer power and tools it uses to exert it.

5 Russia and Norway: Current and Future Gas Suppliers to the EU

Russia is the EU's most important partner, but also the most significant challenge in its gas policy. This results from numerous geopolitical conditions: Russia's tendency to manoeuvre on the boundary of established rules, different perspectives on common problems, as well as the unequal relationships the individual Member States and their gas companies have with Russia's Gazprom. On the other hand, Russia can also feel put to the test (and complains about it), as the EU is in reality formulating and exploring its own policy during interactions with this most challenging

partner. The same as their respective gas policies are constantly in the making, the bilateral EU-Russia relationship goes through ups and downs, slowly towards a predictable convergence.

Definitely, due to the geopolitical EU-Russia setting, the issue of the Union's dependence on gas import from Russia is high on the political agenda. Both are preoccupied with the issue of security—of supply for the EU and of demand for Russia. From this perspective, it has been of common interest to appease threats related to the transit of gas to the EU. The Russia-Ukraine gas conflicts in 2006 and 2009, as well as recently in 2014, made alarm bells ring in the EU. However, these alarms were heard by the Europeans only after the second conflict and truly woke up the Union only in 2014. Yet, while the EU was willing to respond to this problem in two ways, by implementing several measures to reduce its gas vulnerability vis-à-vis Russia and to be less exposed to possible transit-related problems (Godzimirski 2014a) while also supporting gas sector reforms in Ukraine, the Russians have been pushing for the total elimination of Ukrainian transit through bypass pipelines. In this context, some infrastructure projects to boost the development of the internal single gas market of the EU, especially numerous interconnectors on member states' borders, were implemented with financial and organisational support from the EU. It must be underlined, however, that even the Nord Stream pipeline, viewed as a strategic challenge by some new members (Godzimirski 2009) and aimed at ruling out Ukraine from the Russian gas business, was at that time labelled as a project that deserved EU political support.

Russia in its dealings with Ukraine has proved to be able to use energy as a tool to exert power and influence or even a direct threat. It is questionable, however, whether Gazprom would be able to use the same set of tools towards the EU. Numerous voices have underlined that Russia could not use its energy resources to inflict damage on the Union as Russia is also highly dependent on access to the European market (Godzimirski 2013; Godzimirski and Demakova 2012; Goldthau 2008; Orttung and Overland 2011). According to data provided by the Russian Central Bank (Central Bank of the Russian Federation 2017), between 2000 and 2015, Russia's earnings from export of crude oil, petroleum products and natural gas, representing 63.6% of Russia's export revenues

in this whole period, amounted to a rather impressive sum of 3 209 million USD. Overall, 91.1% of the value of Russian oil export and 93% of the value of the export of petroleum products came from trade with non-CIS countries. In addition, 73% of the volume of Russian gas export went to non-CIS customers, and sale of gas to those customers is the most important source of revenue to Gazprom, the Russian piped gas export monopolist. EU member states were the most important destination for export from Russia in general and for Russian export of energy commodities in particular. In his recently published detailed study on the Russian gas sector, Kardaś presented data on the growing importance of the EU as an importer of gas from Russia (Kardaś 2017). His data show 55% of the volume of Russian gas export in 2011 went to the EU, and in 2016, mostly because of the dramatically falling export of gas to Ukraine, the share of the EU in the volume of Russian gas export increased to 72%. In 2016, five EU member states could be described as mega-importers of Russian gas, importing more than 10 bcm each. Germany imported an impressive 49.8 bcm, Italy 24.7 bcm, the UK 17.9 bcm, France 11.4 bcm, and Poland 11.1 bcm. Austria took in 6.1 bcm and Hungary 5.5 bcm, while export to other EU member states was less than 5 bcm. This list defines how Russia sees the strategic importance of its gas relations with member states and how member states depend on Russian supplies to meet their gas needs. The argument raised in 2014 by the Russians about Gazprom's possible pivot towards Asia and an increase in gas supplies to the East seems now of little relevance to the EU market. This Russian export diversification would not translate into gas resource scarcity for the EU market, as the two export directions take advantage of different, distant resource bases.

Nevertheless, Russia's actions in Ukraine, as well as attempts to use propagandist leverage on the EU, have challenged the whole set of rules regulating cooperation in various spheres of post-Cold War Europe. They have undermined trust in Russia as a strategic partner and reintroduced military power as an instrument in European politics and in relation to energy. This had a huge impact on the EU's thinking on energy security (Godzimirski 2014a), putting this question on top of the European energy agenda (Dreyer and Stang 2013, 2014). These strategic energy-related challenges have forced various bodies of the EU and the expert

communities to present assessments of how Europe could reduce its gas dependence on Russia (Peruzzi et al. 2014) and work out a set of documents aimed at assisting the EU in identifying and addressing crucial issues pertaining to European energy security (European Commission 2014b, c; Glachant 2015; Slingerland et al. 2015). The need to address questions related to energy security of supply was one of the key factors behind the recent establishment of the Energy Union, a new institutional framework that is to make EU energy policy more coherent and effective (Egenhofer et al. 2014; European Commission 2015b; Szulecki et al. 2016).

The EU has strengthened its stance over the years, underlining that the ability of a Russian gas supplier to generate revenues from trade with the EU will depend on its ability to adapt to changing market and regulatory conditions in Europe. Despite much turbulence in the EU-Russia relationship, it is possible to observe a number of EU achievements and, hence, Russia's forced adaptation to the EU regulatory framework.

First of all, as shown in the Commission's exercise of stress tests conducted in 2014 (European Commission 2014a) simulating Russian gas supply disruption scenarios, through a number of investments created with the use of EU funds (e.g., Projects of Common Interest, Baltic Energy Market Interconnection Plan, etc.), the Union has significantly increased its capacity to jointly respond to gas security threats. Liquidity of the gas market being one of the conditions for supply security, the EU has put a strong emphasis on the construction of new infrastructure such as LNG terminals and the densification of pipeline networks on its territory (European Commission 2015a). Flagship projects Lithuanian FSRU in Klaipėda and Polish LNG terminal in Świnoujście (both appearing on the PCI list) have proven to constitute an immediate remedy to overdependence on Russian piped gas supplies as a means of effective diversification and market game-changers (Godzimirski et al. 2015). Similarly, numerous interconnector projects, such as Poland-Lithuania or Poland-Slovakia, have allowed the most vulnerable countries to integrate better with the EU internal gas market (Černiuk 2016). Also important has been the effort to increase market flexibility through enhancement of reverse pipeline capacity, which has allowed Ukraine's European neighbours to pump gas eastwards and help it secure energy supplies. Among

the most debated projects in Central and Eastern Europe (CEE) is the so-called Baltic Pipe, a part of the broader Northern Gate project. The project itself has long been on the list of EU PCIs but only recently, in response to Russian-German plans to build Nord Stream 2, has gained momentum. By the time renegotiation of the long-term gas supply contract with Russia comes in 2022, Poland wants to have an ace up its sleeve. Baltic Pipe, delivering gas from the Norwegian shelf with a few bcm capacity, is considered a reliable alternative to Russian supplies, not only for Poland but also for the whole region. Worth underlining is that Norway, the main competitor with Russia on the EU market, is considering involvement in the project. First, it openly claims that it would be conditional upon an economic assessment stating clearly business benefits for itself. Second, due to the pipeline's relatively small capacity (especially in comparison with the 55 bcm Nord Stream 2), Norway probably does not see any threat of direct confrontation with Russia in the CEE region. Third, Russia has not yet presented any official views about this infrastructure and remains reluctant to make any moves.

Within its borders, the EU has also insisted on uniformity of rules, regulations, and habits linked to the gas industry, especially after the biggest enlargement in 2004. New member states, the most exposed to Russian gas jugglery due to historical and infrastructural ties, the existence of long-term contracts, strong dependency, and the dominant position of Gazprom, adhered to the European *acquis.* As a consequence, liberalisation of their gas markets has become a contribution to their increased security of gas supplies. With the constant development of EU energy and gas policies, this troubled region could see a protective regulatory umbrella being spread in a similar way as over the Western EU states. For instance, the question of compliance of Gazprom's South Stream pipeline with the Third Energy Package was one of the major reasons for participants to stop work on this project. Recently, in the name of transparency, the European Commission (EC) acquired the right to review intergovernmental gas agreements concluded with non-EU parties as a means of ensuring their compliance with EU law. In signing new agreements, this should help avoid numerous legal issues in relations with Gazprom, such as abuse of its dominant position, the partition of markets, as well as breaking antitrust rules in the CEE region. Facing the risk

of substantial fines (11 billion euro in the ongoing antitrust case), Gazprom openly questions the EC's proceedings but nonetheless is quietly adapting to the new EU market requirements (Romanova 2016). Russia is, for instance, diversifying its export portfolio with LNG or offering more gas at spot prices, as well as at auction (Grigoriev et al. 2016; Mitrova 2013).

In addition to the above-mentioned examples of regulatory powers influencing Russia's behaviour, the European Union has gained a better overview of all member state gas markets—although they are still not connected enough—as well as their dealings with external suppliers. Thanks to increased access to information, the Commission was able to put itself on a higher plane, caring, at least declaratively, for the good of all members. It is therefore closely following and participating as a side in a court battle between supporters and opponents of extended Gazprom access to the Opal pipeline (an extension of Nord Stream on German territory). This position, however, does not allow the Commission to satisfy all member states' interests nor to conduct a fully consistent policy. The Nord Stream 2 case especially shows certain shortcomings. On the one hand, Germany, backed by Gazprom and its major gas companies (some also partially owned by Gazprom or its subsidiaries), together with a number of other European gas companies, has tried to convince the Commission of the necessity of this project's implementation for the sake of supply security, using economic arguments. On the other hand, Poland, with neighbouring CEE states, has tried to demonstrate the exact opposite, namely the threat posed by Nord Stream 2, using more political arguments (Lang and Westphal 2017). The Commission in this crossfire is considering both sides' arguments and its own capacity to intervene. Seeing such indecision in the EU, Gazprom has not hesitated to pour oil on the flame, spreading information about the start or completion of the next, small stages of the project (Lissek 2016).

Marked by significant distrust, Gazprom's continuing race to find legal loopholes while the Commission patches them ad hoc, the influence of various players (states, companies, even individuals such as Gerhard Schroeder[1]), flipping business and political arguments, and simply the clash of different political and regulatory orders, this European-Russian relationship has developed beyond expectations over the last 50 years

through a set of new connections and deals, but has become strong enough so that both parties cannot imagine doing business without the other.

Norway, the second key supplier of gas to the EU, is also interested in retaining its position on the EU market. The Norwegian interest in 'defending' the role of gas on the EU market is due to the increasing role of gas in the country's energy exports. In 2002, gas represented only 24% of petroleum export from Norway, but in the first months of 2015, its share stood at 61% (Ytreberg 2014). Norwegian experts see, however, some challenges emerging in this important market, such as the falling demand for gas in Europe, especially in the power generation sector where gas is replaced by cheaper coal and the possible impact of the implementation of EU climate policy on the role of fossil fuels in the energy mix (Endresen and Ånestad 2013; Kaspersen 2014; Løvas 2015; Wærness 2014). However, according to the latest edition of Statoil's official assessment on the future of energy, gas does not look that gloomy: By 2040, the share of gas in the global energy mix will be the same or even slightly higher than in 2013 (Statoil 2016). The same assessment of the future of the global energy system estimates that the demand for gas in the European Organisation for Economic Co-operation and Development (OECD) area will be both in 2020 and in 2040 lower than in 2013, which will indeed cause some problems for current and future gas suppliers to Europe (ibid. p. 58). Today, almost 100% of Norwegian gas export reaches the EU market, and the country is highly dependent on revenues from this sector and trade (Godzimirski 2014c; OED 2016). Of Norwegian gas exported through the well-developed pipeline system, 42.3% reaches the EU market in Germany, though some of this gas is shipped further down the chain through German pipelines to other customers; 24.5% is exported directly to the UK; 15.1% to France; 12.3% to Belgium; 0.4% to Denmark; and the rest, 5.3%, is marketed as LNG. Between 2000 and 2015, Norway's export of gas and oil generated on average 510 billion NOK in revenue per year, or 8 164 billion NOK in total, and represented on average 47% of the country's export revenues. This clearly illustrates that Norway has a very strong economic incentive to remain one of the key external energy suppliers to the EU, which, according to most estimates, will have to

increase its energy imports due to falling domestic production (European Commission 2016).

The most important feature in the context of Norway's energy cooperation with the EU is that Norway has been a member of the EEA since 1994 and has been following, with some exceptions, all the rules, including on energy, set by the EU (Archer 2005; Austvik 2003; Austvik and Claes 2011; Claes and Eikeland 1999; UD 2012). This has over the last 25 years resulted in many decisions influencing the conduct of Norwegian energy policy, such as the organisation of the energy sector, the state's role in it, the disbanding of the centralised gas sales monopoly, Gassforhandlingsutvalget (GFU), licensing practices, non-discrimination against foreign companies, and the overall liberalisation of the regulatory regime. This is especially the case of GFU in which Norway in 2001 was forced by the EU to abandon a quasi-monopolist approach to the sale of gas to the EU market. That was a clear example of how EU energy and competition policies contributed to changing the national Norwegian framework. The GFU was established in 1986 to manage the sale of Norwegian gas to Europe in a situation when external gas sellers had to deal with a buyers' monopoly represented by several European transmission companies that used their dominant market power to 'dictate' the conditions of gas trade. The idea was to strengthen the position of Norwegian gas and secure better conditions for its deliveries to the European market by providing the Norwegian state with an instrument that would limit the role of non-Norwegian producers of gas who were also among its most important buyers represented in the monopoly. However, when Norway joined the EEA and the European gas market became liberalised in response to the quasi-monopolistic practices of key companies controlling domestic markets and transmission networks, Norwegian authorities were forced to accept the EU objections and reform the national framework for management of energy resources and trade by, among other things, abolishing the GFU in 2001 and establishing Gassco, Gassled, and Petoro (Austvik and Claes 2011; UD 2012, pp. 554–556).

The GFU case was a very good example of how, in response to the new emerging institutional and regulatory reality and to improve its ability to indirectly influence EU energy policy, Norway has had to adopt rules and

practices that were in line with EU formal requirements. Norway's adaptation to new regulations is a good example of the adoption of legal instruments by an actor that is interested in having access to the attractive market. But Norway responded also by applying other instruments: communicative, such as direct contacts with DG Energy, participation in working meetings in Brussels, organisation of Baltic-Nordic breakfast meetings before the councils to communicate Norway's interests, increasing the presence in Brussels by establishing governmental and non-governmental organisation representations in the EU to communicate their interests; structural, such as the construction of new elements of infrastructure facilitating new gas deliveries; and economic, such as incentives for European companies that operate on the Norwegian shelf (Austvik and Claes 2011; Puka et al. 2015).

A recently published study (Puka et al. 2015) argues that the EU and Norway have a common interest in maintaining stable trade and therefore see their energy cooperation as a win-win scenario. However, the price interests of these two actors do not overlap, as they approach the market from two different positions—one a seller and the other a buyer. In addition, the study argues, EU market regulations intend to optimise European economic developments and do not primarily support Norway's national economic interests. To achieve its economic and political goals in its dealings with this important external/internal supplier of gas to the EU, the Union exerts pressure in two ways on Norway. First, it develops rules influencing policies in the sphere of liberalisation, competition, and climate that Norway must follow as a member of the EEA framework. Second, the EU aims at the long-term transformation of the Union towards a low-carbon economy, and this may also create the risk of shrinking demand for Norwegian oil and gas. The latter issue is also directly connected with the impact of EU climate policy on the situation of all external suppliers of fossil fuels since the policy of energy transition aims at limiting the use, and thus the demand for, fossil fuels in Europe. In the case of Norway, which is obliged to follow EU regulations as a member of the EEA, the question of the application of binding environmental requirements on petroleum production and ETC schemes also has had an impact on the country's ability to pursue its national goals in energy policy.

Norway faces therefore a double challenge in its energy relations with the EU—how to best adapt to a changing EU regulatory framework and market conditions and how to make its fossil fuels relevant in a situation in which they are increasingly being viewed by the EU and other concerned actors as a challenge or problem rather than a long-term solution to the EU's energy problem.

There are, however, several factors that make Norway an important EU partner. First, contrary to Russia, which spends most of its revenues generated from the petroleum trade with the EU on many ambitious politically driven projects, such as the huge military modernisation programme launched in 2012 by the newly re-elected President Putin, Norway shares basic values with its European partners, plays by the rules set by the EU, and has followed the policy of setting aside most of its revenues in the Norwegian Pensions Fund Global, which makes the country an important investment player in Europe and globally (Sverdrup 2016). Second, Norway has some specific features that make it a highly attractive energy partner for the EU. The country has a unique energy mix dominated by hydropower, which could help stabilise a greener energy system in Europe (Gullberg 2013). Norwegian gas could also serve several purposes: help the EU stabilise its energy market (Schjøtt-Pedersen 2016) and reduce the dependence of some of the most exposed European gas customers on Russian gas supplies, which are also bound, in the opinion of some European politicians, to a relatively high level of political risk. Norway has already embarked on a cautious policy of market diversification and has started supplying gas to Lithuania and Ukraine. It is considering supplying gas to Poland and via Poland to other regional customers in Eastern Europe if the Baltic Pipe project is completed. Norway is also a NATO ally to all its major energy customers in Europe, which is important in a situation when energy and gas dependence on Russia is increasingly viewed by some of them not only as an energy security challenge but also increasingly as a 'hard' security issue to be viewed through the lens of state security and foreign policy (Sverdrup 2014). What may pose a challenge for Norway's continued role as an important external supplier of gas to the EU, however, is the expected fall in gas production with the depletion of Norwegian gas fields. According to Norway's own estimates, the production of gas is about to plateau and

may start declining in the coming decades just when the EU will need more gas from external suppliers to fill the growing gap between falling domestic production and its gas needs (European Commission 2016).

6 Conclusions, or How to Assess the EU's Ability to Influence External Gas Suppliers?

The European Union finds itself in an interesting position of a vulnerable norm-setter in whose hands, to a certain extent, lies the capacity to define whether its own features constitute an impediment or an advantage in dealings with external gas suppliers. In addition to this, the attitude of the supplier (aiming to reach a win-win situation, as in Norway's case, or a position of strength, as in Russia's) plays a role in determining the application of the EU's market and regulatory power.

The EU is the biggest importer (if the states are viewed collectively) of gas worldwide, and that makes it both strong and exposed in its relations with external suppliers of gas. Strong, because it is extremely appealing to external gas suppliers who, for geographical and infrastructural reasons, would have problems with supplying gas to other markets but have access in the EU to a market with a high level of predictability, secure environment, and willingness to pay an attractive price for the commodity. Hence, the EU's gas relationships with Russia and Norway throughout the years have been put, with mutual consent, on track of ever-stronger interdependency, where stepping back on one side would create in the short to medium term more damage to the gas trade balance in Europe than benefits for all parties concerned. Exposed, because external suppliers of gas are also aware that the EU would face huge problems with meeting its gas needs in case of a sudden rupture in gas relations with its current suppliers. The strong energy connection between consumers and suppliers can even create a situation in which suppliers may think that some of their actions challenging the existing order would be tolerated and go unpunished due to this strong energy interdependence (Busygina and Filippov 2013). The somehow external factor playing in favour of the

EU is the peaceful symbiosis of Statoil and Gazprom on the Union's market, since none of them is willing to compete aggressively with the other. However, if there is a gas supply disruption from one of these companies, be it for political or technical reasons, the other would eagerly and immediately substitute, at least partially, for the failing supplier, reducing the threat of gas scarcity on the EU market.

Similarly, the strength of the EU lies in the size of its market, common rules, and unity. Any breach in solidarity is considered by suppliers to be weakness and a potential flash point for abuse. While it is not surprising that the member states often diverge in their interests related to gas—all the more when taking into account, for instance, the large discrepancy in gas consumption patterns among them (five countries, Germany, Italy, France, UK, and Spain, account for over 70% of total gas imports in the EU, while 14 countries each account for 1% or less, with 0% for Malta and Cyprus)—the EU has yet to learn how to build an internal consensus over controversial issues, instead of airing its dirty linen in public. In reality, the EU's perseverance on common gas policy formulation and implementation is what defines the suppliers' room for manoeuvre. This is best illustrated by the Opal pipeline case. Its operating rules set by the Commission in 2009 and constantly questioned since then by Gazprom underwent a long process of revision supported by the German regulatory authority and that resulted in a new decision at the end of 2016. However, insufficient consultations with other member states, curious exemption solutions, and a number of other uncertainties alarmed some of the CEE countries, which brought the case to the European Court of Justice, which in turn ruled against the decision.

The multitude of interests of the member states, their gas companies, lobbies, and so on, as well as shared competences between member states and EU institutions, determine internally the democratic strength of any worked-out European consensus. However, when faced with a company with a focused position (such as Statoil, which follows a precise business model) or a state (such as Russia, often guided by geopolitical interests), this consensus and shared values prove to be out of touch with reality. Too often, the European Union opens only one compartment of its toolbox, choosing the right but not a comprehensive form of interaction with

the gas suppliers. That was long the case of the EU's legal-judicial approach towards Russia, deprived of a political (therefore communicative as well as structural) dimension. Only the announcement of the Energy Union concept in the name of ending 'Russia's energy stranglehold' on Europe (Tusk 2014) constituted the beginning of a new wide-ranging European energy policy. Three years later, the Energy Union rising like a phoenix from the ashes amidst fears of insecurity of gas supply constitutes still the greatest opportunity for European Union gas policy. Time will show whether this ambitious project will be up to the task of preparing the EU to not only respond properly and uniformly to all gas suppliers but also to take the initiative and become a proactive, decisive player.

Notes

1. Gerhard Schroeder served as Germany's Chancellor from 1998 to 2005. He joined the board of Gazprom immediately after he lost the election in 2005, becoming a lobbyist. He was also directly involved in the Nord Stream pipeline project as the head of the shareholders' committee of the company.

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