

WAR IN THE ENERGY SECTOR AS A SECOND FRONT

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Unlike physical aggression, when “green soldiers” appeared in Crimea in February 2014, energy aggression against Ukraine took place much earlier — from 2000. “Energy wars” between Ukraine and Russia not only worsened relations between the two countries, but involved third parties, like EU countries, in the conflicts. In 2014 Russian aggression in the energy sector against Ukraine became increasingly visible, and caused the EU to contribute to the conflict resolution.

Ukraine is a member of the European Energy Community. It has obligations to implement EU Directives in the energy sphere, including the Third Energy Package, in order to become part of the common EU energy market. The EU and Ukraine should consider developing a common energy policy and form “one voice” in their external energy policy.

In Ukraine-Russia energy relations, the role of the EU is not as a “moderator”, but a partner, helping Ukraine to form common energy markets with European countries. It is a hard task, taking into account the EU still is depended on Russian energy resources, and some EU countries publicly support Russian policy. It is also a big challenge for Ukraine, which has to “fight” simultaneously on several energy fronts with Russia, who is not ready — either politically, or economically — to lose one of their biggest consumers and the territory which has always been considered a “vassal” of Russia.

This article describes three dimensions of the Ukraine-Russia conflict in the energy sphere. Firstly, the Russian instruments which influence Ukraine by controlling their resource supply; secondly, the fight for a gas transmission system which delivers gas to EU borders. Thirdly, to propose concrete recommendations for Ukraine and the EU countries which may prevent similar “energy wars” in the future.

1. The War for Resources: How Russia is Trying to Keep Ukraine “Thirsty”

The Russian annexation of Crimea and aggression in Eastern Ukraine had a profound impact on Ukraine’s energy security. It will definitely impact the energy balance as most of the active coal mines are located on territories under terrorist control. However, hybrid warfare is also aimed at cutting away the most potential and promising deposits of energy sources from Ukraine.

The annexation of Crimea and Sevastopol resulted in a seizure of energy rich resources on the Black Sea, offshore, as Russia claimed not only landmass but

an exclusive maritime zone with rights to mineral reserves. Russian occupational authorities have “nationalized” Ukraine’s state-owned Chornomornaftogaz.¹ The company owned 17 hydrocarbon fields — 11 natural gas fields, 4 gas condensate fields, and 2 oil fields. Chornomornaftogaz’s activities include 13 offshore platforms and interest in 5 license blocs — Skhidno-Kazantypske in the Sea of Azov, and Odeske, Bezymenne, Subbotina and Palasa in the Black Sea.²

The region is third in Ukrainian natural gas production after the Kharkiv and Poltava regions. According to the 2013 gas balance Chornomornaftogaz should have produced 1.649 bcm of natural gas that year³ and 0.34 bcm in January and February 2014.⁴ Presently the company is under Western sanctions and operates as a “state unitary company” under Russian laws.

However, the potential for deepwater resources was even higher. Several international companies have been in negotiations for production sharing agreements (PSA) for offshore development. These include the Vanco Prykerchenska PSA of 2007 (for the development of the Prykerchenska block), the PSA of ExxonMobil, Shell, OMV Petrom, and Nadra Ukrayny consortium (Skifska block), the PSA of Eni, Electricite de France, Chornomornaftogaz, and the Water of Ukraine LLC consortium (Subbotina, Abikha, Mayachna, and Kavkazka blocks).⁵ The government of Ukraine estimates their losses at 300 billion USD.⁶ According to the Douglas-Westwood energy research group, Ukraine will lose approximately the equivalent to 117 million barrels of gas production in the next seven years, given that 50 offshore wells would have been drilled and completed.⁷ Overall, the deepwater gas reserves are estimated at 4 to 13 trillion cubic meters.⁸

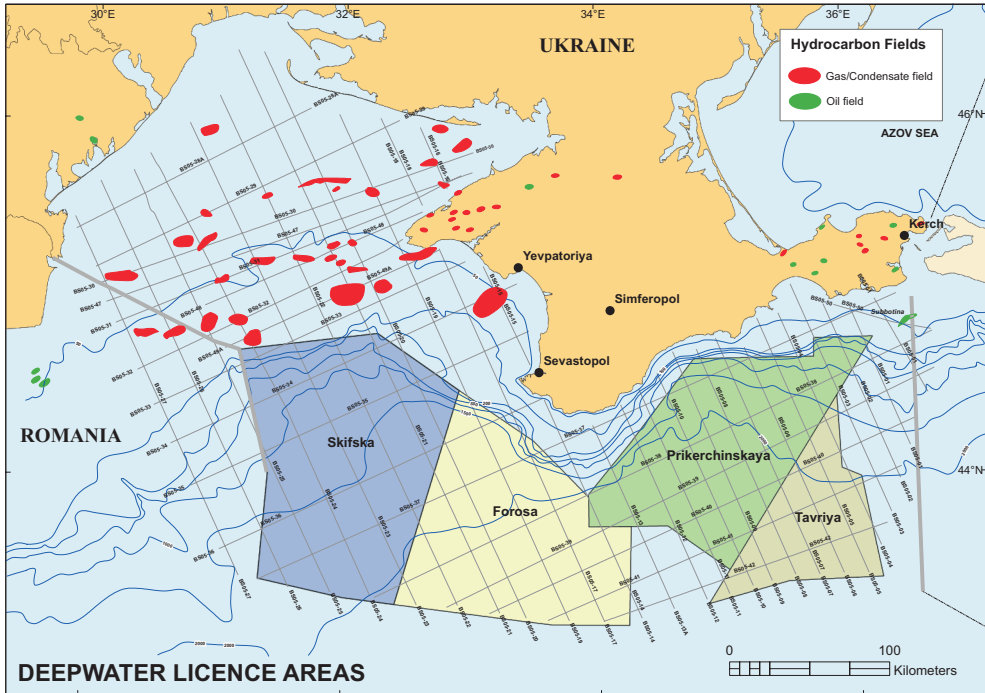
These projects will probably be frozen for the foreseeable future due to political reasons, apart from the legal issues of a possible conversion from the Ukrainian PSA regime to the Russian one. The Ukrainian legislation considers Crimea a “temporarily occupied territory” and an integral part of Ukraine. According to the “Law on Enforcement of Rights and Freedoms of Citizens of Ukraine on the Temporarily Occupied Territory”, property rights (including the exclusive maritime zone and continental shelf resources) are secured and cannot be transferred to any state or legal entity.⁹

Russian aggression in Eastern Ukraine has had a serious impact on the energy balance, as most coal mines are located in the Donbas (Donetsk and Lugansk) regions. Ukraine has been self-sufficient in coal generation, producing around 83.7 million tons in 2013.¹⁰ However, fighting between government forces on one side, and pro-Russian separatists and Russian troops on the other — officially referred to as the Anti-Terrorist Operation (ATO) — has resulted in closure of more than half the coal mines and shutting down railway lines to supply power plants. Therefore, in 2014, coal production decreased to 65 million tons (–22.3 percent)¹¹ and more than 60 coal mines in eastern Ukraine shut down.

According to the Ministry of Energy and Coal Industry, there are 36 coal mines on the territory under government control, with the Donbas representing 23 with commercial reserves of 1142.4 million tons and an annual production capacity

of 19.7 million tons.¹² As for coal mines on the territory under terrorist control, militants block its delivery to power plants on Ukraine-controlled territory, using smuggling channels. Also, the OSCE monitors have reported Russia taking coal over to its territory.¹³

Map 1. Deepwater Licence Areas



Source: *Viable Opposition, Ukraine's Oil and Natural Gas Reserves — A Pawn in a Geopolitical Chess Game? March 16, 2014, <http://viableopposition.blogspot.com/2014/03/ukraines-oil-and-natural-gas-reserves.html>*

The war has created a deficit coal supply to thermal power plants, which had generated around 40 percent of electricity in Ukraine. In late November, coal reserves stood at 1.5 million tons compared with normal winter stocks of 4–5 million,¹⁴ and Ukraine needed to import 1–2 million ton each month. In order to cover the shortage, the government was forced to look for coal abroad.

In August 2014, state-owned trade company Ukrinterenergo signed a contract with Steel Mont Trading Ltd to purchase 1 million tons of coal from South Africa.¹⁵ The first deliveries arrived at the end of October 2014, but due to political factors and scandals¹⁶ the South African coal was declared as unusable. Despite that fact, private holding DTEK continued to purchase it.¹⁷ The government also negotiated coal imports with other potential suppliers, notably from Kazakhstan (Ekibastuz coal field) and the US.

The current situation looks grim as Ukraine has increased its dependence on Russia which accounted for 64.19 percent of total coal imports to Ukraine in 2014 equaling 1.138 billion USD, and 35.85 percent in January and February 2015.¹⁸ Moreover, Russia effectively manipulated its position by partially suspending coal exports to Ukraine in January 2015¹⁹ which — according to the deal reached in late 2014 — should amount to at least 0.5 million tons a month.²⁰

Another impact of the war is the destabilization of the electricity market, as the uncovered coal deficit followed with rolling blackouts throughout Ukraine from early till late December 2014. About 20 electricity plants have been made idle due to steam coal (namely, anthracite types) shortages.²¹ The government announced an emergency situation and even registered a draft “Law On Special Period in Fuel and Energy Sector”. It also held negotiations with Western partners on the possible reequipping of thermal generation to use available coal of other types.

In December 2014, the government of Ukraine permitted any company operating in the market to directly import electricity. On 30 December 2014, Ukrinterenergo signed two contracts on electricity imports from Russia: the first with Inter RAO UES provides for delivery of up to 1500 MW; the second with Inter RAO subsidiary Center for Payment Settlements (TsOR) concerns a reliable and uninterrupted electricity supply to Crimea.²² The agreements, however, became subject of public attention as the second one allegedly mentioned the “Crimean Federal District” — the Crimea which has been refuted by Energy Minister Volodymyr Demchyshyn.²³ Investigations were launched to check possible violations, including parliamentary initiatives and an investigation of the Prosecutor General’s Office.²⁴

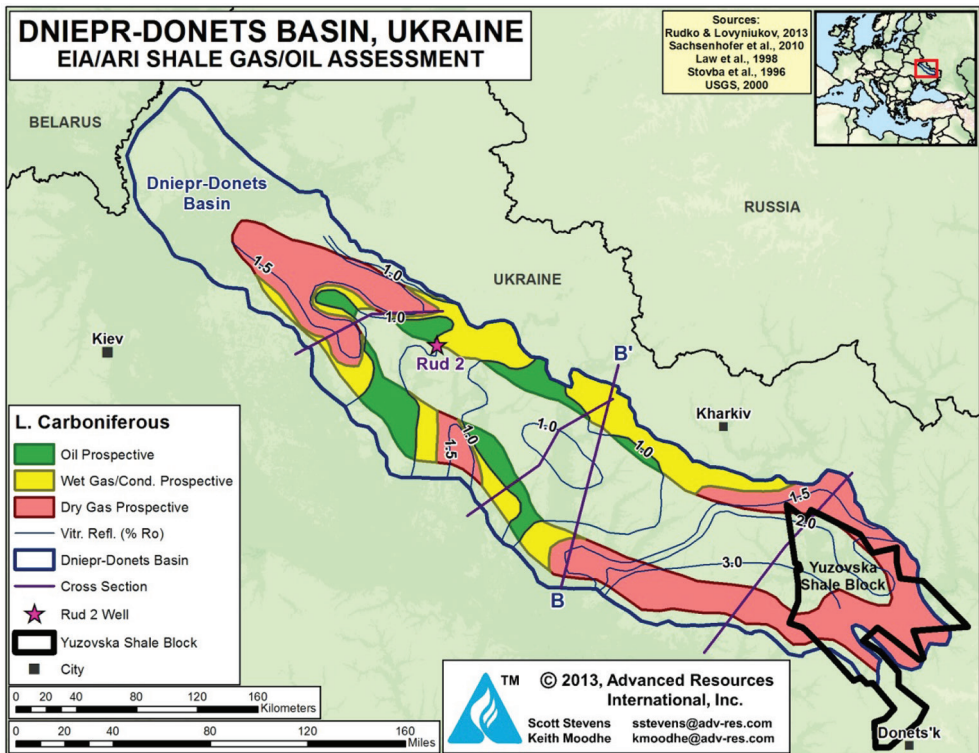
After the heating season and decrease of consumption, the Ukrainian side aims to limit imports of electricity. At present, imports amount to 300 MW out of a possible 1500 MW under the present contract.²⁵ At the same time, dependence on Russian supplies will persist as long as there is a threat of rolling blackouts and an instability of the grid caused by coal shortage.

Finally, the war in Eastern Ukraine influenced the resource-rich region located above the Dnipro-Donetsk depression, notably the Donetsk, Kharkiv, and Poltava regions. The Dnipro-Donetsk basin accounts for 90 percent of oil and gas production in Ukraine in more than 140 deposits. But it is unconventional gas which may make Ukraine an energy independent country. According to the US Energy Information Administration, the potential of available deposits of tight gas is 48 trillion cubic feet (1.36 trillion cubic meters), and 12 tcf (340 bcm) of them are technically recoverable.²⁶ In a study of IHS CERA, commissioned by Ukraine’s Ministry of Energy, experts estimate Ukraine can annually produce 60 to 70 bcm of gas by 2035, given the necessary investments.²⁷

According to IHS CERA, conventional gas resources are estimated at 2.88 trillion cubic meters, and unconventional (shale and coalbed methane) at 11.5 trillion cubic meters. As for tight gas resources, they are estimated at 1.5 to 8.5 trillion cubic meters, with 300 bcm technically recoverable.²⁸ Calculations of the

Institute for Economics and Forecasting, Ukrainian National Academy of Sciences, indicate Ukraine can become independent from gas imports in 2024.²⁹ It is exactly these perspectives that made Russia launch an anti-shale gas campaign in Ukraine, with some pro-Russian movements being particularly active even before the war,³⁰ not to mention the propaganda on terrorist-controlled areas. Some theories even imply that Russian aggression aimed at the very areas of potential exploration of unconventional gas, in particular north of the Donetsk region and south of the Kharkiv region.

Map 2. Dniepr-Donets Basin, Ukraine



Source: Viable Opposition, Ukraine's Oil and Natural Gas Reserves — A Pawn in Geopolitical Chess Game? March 16, 2014, <http://viableopposition.blogspot.com/2014/03/ukraines-oil-and-natural-gas-reserves.html>

Actually, it is the precise location of the Yuzivska field, with 4.054 trillion cubic meters reserves of gas forecasted (different types which are mainly tight and basin-centered gas). At this field Ukraine awarded the first unconventional gas PSA with Shell in January 2013. The company has also run another project to explore the gas potential of tight sands on six license blocks together with state-owned Ukrgazvydobuvannia, drilling only two wells.

However, in March 2015, Shell announced termination of the joint activity agreement with Ukrgezvydobuvannia, citing exploration results which demonstrated the project “is not economically feasible”.³¹ No additional comments were provided, but we can assume that the security situation was among key factors which impacted the decision, as investors are quite vulnerable to any warfare in close proximity to their sites. As for the Yuzivska project, Shell did not refuse its development but declared force majeure,³² shortly after Malaysia Airlines Flight MH17 flight crashed less than 100 km away. Shell suspended execution of certain PSA provisions, including major exploration activity such as drilling and seismic studies,³³ but will continue with safer activity such as geological data analysis, social investments, and academic cooperation.

2. Fight for the Pipeline: Influence on the EU and Ukraine by Controlling the Infrastructure

Since 2000, Russia has attempted to take control over Ukrainian pipelines — both in the main gas pipelines delivering natural gas to Europe, and distribution pipelines in Ukrainian regions. However, these attempts have not been successful.

The Ukrainian gas transportation system is about 36.7 thousand kilometers long. It includes 13 underground gas storage facilities (UGSs) with a capacity of more than 32 billion cubic meters, which secures reliable transit; its input capacity totals 290 billion cubic meters, the output is 170 billion cubic meters. The Ukrainian gas transportation system has operated for over 30 years. During all this time no failures or disruptions have occurred.³⁴

Russia is among the countries with the largest oil and gas reserves in the world, and often uses them in order to put pressure on consuming countries and achieve its own political goals. Relations between Russia and Ukraine in 2006, 2009, and 2014 are apt examples, when the natural gas supply was used as an instrument to force the consuming country to recognize its debts and liabilities to Russia. However, manipulations with resources will not produce significant effects as long as the consumer can choose between suppliers. Now European consumers of Russian gas have learned Ukraine’s lesson and seek to diversify their sources of natural gas supply to avoid ‘gas threats’. They are building more liquefied natural gas terminals, new gas pipeline networks, and expanding the geography of gas supplies to EU countries. All the above is an effective vaccine for the potential energy blackmail Russia can use against the EU.

Russia realized long ago that with gas as its only political instrument, it runs the risk of losing its market and influence. That is why it is vigorously struggling for gas supply infrastructure — it would be much more difficult and expensive for consumers to build new, alternative pipelines. With only a minor struggle, Russia took control over Beltransgaz,³⁵ i.e. one of the lines of natural gas supply to the EU. At the same time, the struggle for the Ukrainian pipeline delivering 50 percent or

more of Russia's natural gas to the EU continues. The Ukrainian pipeline offers the easiest way to supply natural gas to EU countries, therefore, gas transported through it will always be competitive. Apart from supplying Russian gas, the Ukrainian gas transportation system is also capable of transporting resources from Central Asia, particularly Turkmenistan. This would offer substantial benefits to both Turkmenistan and the EU, currently seeking to establish cooperation without Russia's mediation. Hence, the above-mentioned pipeline could be a hazard to Russia in many ways, as it creates possibilities for its competitors. It is no wonder Russia puts so much effort in getting access to the system, each time inventing new methods. These attempts can be classified as follows:

Attempting to persuade European partners that Ukraine is an unreliable transit country, so the EU should refrain from cooperating with it directly, and have Russia as a mediator instead.

The legal argument suggests European companies currently buy natural gas from Russia on the border between Ukraine and the EU, and Russia pays transit fees to Ukraine at its own expense. Russia is the one to most benefit from this situation because that requires Ukraine to secure the volumes of gas necessary for transit on its own (i.e. Ukraine is forced to buy additional volumes of natural gas at the same price it pays for gas for its own purposes), while the tariff for transportation of natural gas through Ukrainian territory is rather low when compared with EU tariffs (\$2.88 per thousand cubic meters every 100 meters). Both parties have long struggled to force Russia to revise either the transit tariff or its participation in filling storage facilities with the volumes of natural gas necessary for transit. Back in 2013, there was conflict between Russia and the Ministry of Energy of Ukraine, represented by Minister Eduard Stavvtskyi, where Ukraine requested Russia to fill up the gas storage facilities. Subsequently, the necessary volumes of gas were pumped into storage facilities through companies³⁶ owned by the oligarch Dmytro Firtash. Because of this Ukraine could not appeal to an international court to settle the dispute, as Russia would immediately attempt to prove Ukraine was destabilizing the transit of natural gas and was therefore an unreliable transit country. That is why Ukraine continues to transport natural gas despite being under Russia's pressure and breaking the rules every now and then. However, Ukraine is really interested in becoming a strong partner in the gas transportation system for the area.

Today, Ukraine keeps insisting the EU support the transition to buying natural gas at the border between Ukraine and Russia. Ukraine is approaching the final stage in creating the necessary background — a law on the natural gas market that complies with all requirements of the Third Energy Package, including those related to the entry-exit system, has already been drafted and will be adopted soon. At the same time, it is obvious such efforts will face strong opposition on the part of Russia and many European companies who receive natural gas at the

border between Ukraine and the EU. This brings the need for intensive support of both national governments and the European Commission to make European companies revise their agreements with Russia and sign relevant agreements on natural gas transportation through the territory of Ukraine with the Ukrainian operator. It must become a top priority for cooperation between Ukraine and the EU in the energy sector in the next one or two years. A notable de-escalation of conflict regarding gas relations between Ukraine and Russia, including around a future gas transportation system, can only be expected when Ukraine becomes an independent player in the natural gas market and undertakes relevant commitments to all European partners.

Attempt to prove the pipeline will be unnecessary within the next 5–7 years where better alternatives are available.

In 2000, when Ukrainian Prime Minister Yulia Tymoshenko recognized Ukraine's debts resulting from unauthorized gas off takes, Ukraine was offered the opportunity to sell its pipeline to Russia as a debt repayment. However, this offer was rejected by the Government and the Parliament of Ukraine. Consequently, the first virtual project was launched to bypass Ukraine — the second leg of the Yamal–Europe natural gas pipeline. The pipeline was supposed to deliver natural gas to Poland, bypassing Ukraine. Following intensive discussions, however, the project was not implemented. The Nord Stream gas pipeline to Germany was more successful. However, even with this pipeline in place, Ukraine remained the key transit country. What's more, from the very beginning of the planning stage until present, Nord Stream has faced a wide range of problems. In 2015 it became apparent it could not become an alternative pipeline and take Ukraine's transit burden, when Gazprom refused to build another line to Great Britain.³⁷ The third pipeline bypassing Ukraine was the South Stream. Its design capacity was 60 billion cubic meters and would allow the redirection of gas flows from Ukraine. For a long time South Stream was an argument for the Ukrainian Government to move towards the EU. According to the Minister of Energy of Ukraine Yuriy Boyko, the need to stop construction of the South Stream pipeline was the reason that encouraged Ukraine to join the Energy Community. And a year later, Mr Boyko and other Ukrainian officials stated they were disappointed with the Energy Community, precisely due to the Russian project not being eventually suspended. Construction of South Stream triggered new discussions about the possibilities to create a new consortium involving Russia. However, under public pressure on the part of European politicians, the EU did start a more profound assessment of South Stream pipeline's compliance with EU standards. The assessment revealed South Stream failed to comply with rules of the Third Energy Package. Apart from legal risks, the project was precarious from a geopolitical point of view — countries currently demonstrating pro-Russia behavior (Bulgaria, Austria), could become

even more dependent on Russia's policy, thus becoming the European "fifth column". Eventually, following long public discussions, Russia decided to abandon the project in 2014 with no previous consultations or negotiations, which caused resentment among its partners. A new project was initiated instead with Russia planning to build a new Turkish Stream pipeline, in cooperation with Turkey. However, so far it remains unclear who will finance it. In the context of such a scenario, the Ukrainian gas transportation system will become "unnecessary" within the next four years. However, experts and politicians doubt the success of the Turkish Stream. At the same time, it is quite possible the efforts of Gazprom, aimed at building the Turkish Stream, will once again encourage pro-Russia politicians in Ukraine to promote the establishment of a consortium with Russia.

Today it is important to ensure the Turkish Stream remains strictly supervised by the EU. Although the EU will in fact only have control over this project on the border between Turkey and Greece, it obviously represents an attempt to stop or delay implementation of the EU Southern Gas Corridor initiative, which is one of the EU's current priorities. The Southern Gas Corridor will be a direct competitor of the Turkish Stream in many ways. Therefore, it is not improbable Russia will exert pressure on Azerbaijan or Turkey to speed up the implementation of its own project. That is why neither the EU nor Ukraine should turn a blind eye to dialog between Russia and Turkey, while focusing only on their projects.

Attempts to overburden Ukraine with debts which then may be "exchanged" for some concessions, including those that are strategic.

After the conflict related to unauthorized gas off takes was settled and European monitoring teams obtained access to Ukrainian data, Russia began to search for new opportunities to make Ukraine its debtor. Thus, in 2005 a new conflict arose — this time in relation to 7.8 billion cubic meters of Russian natural gas that had been allegedly transported to Ukrainian underground storage facilities.³⁸ A special mission arrived in Ukraine from Russia to make an onsite inspection. The problem was eventually resolved, but Russian politicians kept insisting Ukraine owed certain volumes of natural gas to Russia. In 2006–2009, there was an attempt to sharply increase the price for natural gas for post-Soviet countries. This automatically meant they were going to get into debt. Double or even triple an increase of price for natural gas was a "bargaining chip" that allowed Russia to impose its own economic and political conditions that consuming countries would never agree on if they could demonstrate sustainable development. In 2012, during a period of abnormally cold weather, Gazprom attempted to accuse Ukraine of exceeding the contractual transit gas withdrawal limits — despite the fact Nafrogaz of Ukraine PJSC, on the contrary, reported an increase in volumes of gas to be withdrawn for transit purposes.³⁹ In December 2013, Russia lent USD 15 billion to Ukraine. The first tranche, in the amount of USD 3 billion, was spent by ex-Prime Minister

Mykola Azarov⁴⁰ for social purposes, and today there is a high risk Russia could request an immediate repayment. What is more, Russia never stops reminding Ukraine of its debt for natural gas withdrawn over the contractual limit. At the same time, Ukraine does not recognize the debt and is going to settle the dispute at the Arbitration Institute of the Stockholm Chamber of Commerce.

Although Ukraine, the EU, and Russia conduct trilateral negotiations on natural gas, the latter is still trying to use a high price levy to exert pressure on Ukraine. As we know, so-called “winter package” agreements allowing Ukraine a USD 100 discount for Russian natural gas will expire in late March. Last autumn, the parties agreed to discuss a “summer package” as spring approached, but now Russia states there is no need to discuss any discounts. Russia avoided this statement during present trilateral negotiations, and afterwards will once again refuse to establish dialog with Ukraine as soon as its officials return home.

Russia accuses Ukraine of unreliability, stealing gas and other sins, but at the same time often breaks the rules and official arrangements itself. For example, in February 2015, Gazprom reduced supplies to Ukraine and began transporting gas to occupied territories through the gas measuring stations Platovo and Prokhorivka, bypassing Naftogaz. According to Russia, terrorist leaders stated they did not receive gas from Ukraine. President Vladimir Putin stated the Minsk agreements had been violated, and Gazprom started direct supplies invoicing relevant costs to Naftogaz. In turn Naftogaz immediately sent letters to Gazprom, the European Commission, and the Energy Community Secretariat claiming Gazprom had breached the Brussels Protocol. In response Gazprom requested the increase of pre-payment and warned of possible cut-offs. Russian Federation President Vladimir Putin, and Minister Oleksandr Novak, also threatened Ukraine. Naftogaz of Ukraine NSJC refused to meet Gazprom’s requirements under such circumstances, insisting Gazprom was blackmailing Ukraine and Europe in this way, and referred to a possible court appeal. The parties met in Brussels with the participation of the European Commission, where they agreed Naftogaz would not pay for natural gas supplied by Gazprom in contravention of agreements.

A sharp increase of transit through Ukrainian territory is another example. In March, Gazprom increased the volume of natural gas transited through the territory of Ukraine (mainly on the border between Ukraine and Slovakia) by 40 percent in one day. It is interesting that there was no lack of gas reserves in Western Europe, so Gazprom’s decision was rather unexpected. In response Naftogaz accused Gazprom of breaching the contract, and reminded them that a single monopoly was not authorized to increase the daily transit so sharply without prior notice. Eventually, the Ukrainian company had to abandon pumping gas to UGSs and proceed with gas offtakes. With regard to this situation, experts suggested either Gazprom needed to renew their big exports after a seven-month restriction (there is no facility to accumulate gas, while conservation of wells and fields is too expensive), or Russia attempted to cause Naftogaz of Ukraine NJSC to fail. All in all no failure occurred, but agreements have been breached.

All the aforesaid proves Russia in not going to play fair in the energy sector. Moreover, it still believes it will do it unpunished. Ukraine is currently unable to give it due response while there are still political forces and business partners in the EU who will block attempts to increase pressure on Gazprom. The reason is quite simple — Europe is still very dependent on Russian natural gas. On the other hand, Russia knows this well, and uses it smartly. Russian President Vladimir Putin has already shown he was not lacking friends in the EU when, in the course of the war with Ukraine, he was warmly welcomed in Austria and Hungary. Besides, when Ukraine needed to increase the imports of natural gas from the EU, Hungary refused to help, explaining it needed to fill its own gas storage facilities.

3. How to Win the War: Lessons for Europe

Russia has often used a “divide and rule” approach against the EU energy policy. Unlike common foreign and security policies, energy is one of the sectors that lacks joint participation of all member states in making decisions. Gaining that power automatically requires including some sovereign decisions into common EU procedures. Despite all the challenges and threats Europe has hesitated to do that for a long time — a situation used by Russia to push its agenda. That laid down some blocking mechanisms now creating bottlenecks when the EU tries to face energy challenges when making common decisions.

The “South Stream” story showed Russia used manipulations to receive votes from some EU countries to have an impact on EU energy policy. Through special relations with gas importers, future “stream” users, and some “nuclear” EU states, Russia created a network of “friends with benefits” among EU member states. The “top of the iceberg” benefits included gas price discounts, loans for infrastructure projects such as NPP, or gas pipeline constructions etc.

Russian Gazprom created a number of EU member states joint ventures that were supposed to build (and later benefit from) the South Stream, including Bulgarian, Hungarian, Slovenian, and Austrian companies, and also Italian, French, and German companies as partners for the deep sea stretch of the pipeline. These were joined by Serbian and Croatian (at that time non-EU members) companies that were partners to Gazprom.⁴¹ Russia also negotiated construction of the sea stretch with Turkey. During that time energy companies from states already mentioned received gas price discounts from Gazprom — 20 percent for Bulgaria in 2012,⁴² reportedly less than 7–10 percent for Hungary in 2013,⁴³ and 24 percent for Slovenia in 2013⁴⁴ etc. Such actions seem to not be the acts of good will as one can track some kind of relation between key project decisions and discount negotiations. The real price of such a partnership though had to appear either after the statement from the European Commission about a breach of European law by bilateral South Stream deals⁴⁵ or after the project was closed by Russia.⁴⁶ Apparently some countries are chasing what they think are their lost benefits or hope that next

time everything will be different, but with Russia selecting Turkey as the key point for its new stream⁴⁷ the story seems to be just the same — in February 2015 the country received a 10.25 percent gas price cut from Gazprom.⁴⁸

Russia has always used energy as political tool, and even a weapon. Lack of acknowledging that matter in the 2006 gas crisis led to a limited response and further crises of 2009 and 2014. The central part of the latter is the address of Russian President Putin to leaders of some EU countries with his offer to hold separate negotiations,⁴⁹ ignoring the EU's High Representative in particular, and EU Common Foreign policy in general. That was pointed out in the reply of EU President Barroso, where he stated consultations were held will all 28 EU Member States that mandated his letter.⁵⁰ This case shows how common foreign policy was executed in the EU and how it helped to frame further actions. Russian aggression on Ukraine took the whole world further in defining red lines and pulling out of "special relations" with Russia. Putin's visits to Austria⁵¹ and Hungary⁵² amid sanctions' policy, together with voices from representatives of some EU States against introducing new sanctions (although disappearing with obvious disregard for international law and its own commitments by Russia), still demonstrate challenges to EU common policy. Russia searches European boundaries with its manipulations, testing the strength of ties between Member States and partnerships of the EU in international coalitions. Such an exercise will last until the European Union works out a systematic solution to key energy challenges and attempts to use energy weapons against EU citizens. The solution should be at the heart of the new policy serving not a one-time tool, but rather, a jointly found mechanism to stop threats and bargaining.

With the multiple challenges and considerable influence of Russian pressure it becomes evident that EU and non-EU States have little chance of withstanding such policy on their own. While pipelines with Russian gas unite a number of countries in a "customer line" with Russia, it makes each of them dependent on its supply. Money paid by each country separately seems to be strong, but an insufficient argument in the gas "dialog".

There's no single and definite solution to this threat. Although the European Union has enough experience to know where to look for it. Finding the necessary checks and balances has always been at the heart of the EU. The idea of uniting countries in joint efforts to combat or generate confrontation for peace and prosperity has been a key mechanism.

Now, after many years of building common trade, foreign, and security policies, the EU has to rethink its energy policy with the mechanisms it is widely using. It seems the Union is facing the need to introduce one more layer of common policies. With energy evolving as weapon and threatening countries inside and outside the EU, and with energy wars having a strong impact on the lives of EU citizens, it became evident that outlining an operational common policy of energy market relations is high on the present EU agenda.

The Energy Union introduced at that time by the Poland's Prime Minister Donald Tusk, is one of the most rapid European ideas to be implemented. Although it has been less than a year between the time when people in EC corridors shrugged their shoulders answering questions about the Energy Union, to the time when the "thematic" EC Vice President was approved and started working, the idea of a common energy policy is not new and was advocated for since around 2010.⁵³

The EU will find challenges on its way to an Energy Union. Energy is a substantial economic and security area where countries are very uncomfortable about sharing significant sovereignty. Though there were examples in European practice when direct involvement of the European Commission in negotiating new supply contracts played a crucial role, it is clear that Russia, neglecting international laws and practices, together with their aggression against Ukraine, was the final push to start officially considering the idea. The process will only start with bringing the responsibility of all possible stakeholders for its final implementation. While the "one voice" policy was the symbolic start to exercise, check, and practice the possibility of common policymaking in energy, the Energy Union has every chance to line up in one row with Monetary and Customs unions. The success depends on many key points, with willingness to share responsibility demonstrated by the majority of Member States being in the middle of all of that. Besides, agenda setting and mechanisms development also fit into the list of most important prerequisites.

Fighting inner pressure is one of the biggest challenges for the Energy Union. It is obvious there will be a price to pay for all the "friends with benefits", and trying to detach from these friends and patrons will not be a pleasant walk. But now in not only economic and political situation, but with military threats in the center of Europe, its citizens have all the necessary rights to know the resource flows from Russian energy giants in order to make sure it does not sponsoring terrorism or bring threats to state security. The antitrust investigation started by the EU has to be finished in an efficient and transparent manner to lay strong grounds of trust and cooperation in the EU. Third countries should not manipulate European rules and values in order to blur responsibility and influence sovereign decisions. Developing a standard and transparent contract framework is one of the grounds to build common energy policy. This should deprive suppliers of the chance to introduce "special" conditions to some partners and "hidden punishment" to others. The idea of common gas purchase has to be reconsidered in order to find the most effective solution. Together with that common EU energy rules should be applied, meaning not only proper transposition of EU *acquis* into national legislation, but also full and binding implementation in all countries involved, thus forming a "common-ruled" area, without allowing any exclusions or privileges. This is the only way of securing the implementation of common European energy markets with earlier declared values of transparency, consumer benefits, and efficiency.

Another challenge the EU has to face is excluding its partners into the Energy Union. Ukraine, being part of the Energy Community Treaty, has to become part of the Energy Union bearing all rights and responsibilities of it. That will make the Union instrumental in allowing a lot of single market mechanisms to be introduced and common energy security to be substantially increased. Inclusion of Ukraine will send a clear signal of new, uniting efforts of the EU, and energy being the main driver for it. That will also demonstrate the effectiveness of the decision to build common energy policy, showing the difference between cooperation and confrontation. Inclusion of Ukraine will give every available opportunity for refusal from compromises in a full-scale implementation of European legislation, and provide vivid results of the common energy policy.

Developing a new common energy policy will give new incentives to the European Union, providing for energy security and better understanding between all the countries involved. It will not only install the mechanisms for “single voice” policymaking, but also demonstrate the importance of the binding implementation of European regulations. The Energy Union will only be effective in the event it will not be a voluntary menu for countries to pick the mechanisms they like and ignore the ones they are not sure about. It is an excellent opportunity to create common EU energy markets, including key partner countries such as Ukraine to cooperate, securing key principles and values along the EU border and safeguarding the markets of future members. While Ukraine implements European rules in the energy sector, it is very important for the Union to clearly show how instrumental they are and what benefits it brings, letting the system work properly and building trust with Ukrainian partners. Such trust should convert to letting Ukraine participate in common EU energy policy as long as the country fulfills its commitments and implements the proper legislation. This approach will demonstrate the difference between being a victim of third party influence and enjoying the benefits of cooperation with partners who understand and support you. Learning the lesson from recent events, the EU and Ukraine have to realize the threats are real and the security and wellbeing of their citizens is at stake. Such an understanding should definitely lead both sides to become one, sharing and defending values and rules together, but also the responsibilities for developing a common and effective policy of managing energy resources, and then providing them to citizens.

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