Dear Readers,

Another wonderful year with GlobalVU! Thank you so much for everyone's continued effort to make this publication what it is, a truly unique outlet for our opinions and concerns in an increasingly loud world. Inside, I hope you find the diversity of viewpoints and articles telling of our passion for international relations.

As our fifth issue, this is the most expansive publication to-date with fifteen articles from various members of the Vanderbilt community and from other authors from various institutions. Thank you again for all of your dedication.

I would like to thank the editorial board and staff for their continuous hard work on both our print and online features. In addition, I would like to thank the Vanderbilt International Relations Association and Vanderbilt Student Communications for their unwavering support.

In a world that is seemingly different each day, this publication hopes to serve as a reminder to slow down and recognize the historical entanglements and complexities to modernity. Our wish is that this publication provides the inspiration for new life-long research and inquiries.

Sincerely,
Jackie Olson
Editor-In-Chief

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Russo-European Natural Gas Relations and the Complexities of Mutual Dependence

Hugh Ramlow
Georgetown University

Russia and Europe share a mutual dependence on the natural gas trade. At its best, this trade is very beneficial to each side. However, in recent years the European Union has pursued a strategy of diversification, attempting to find a supply of natural gas from sources other than Russia. This strategy is largely based on mistrust of Russia’s future ability—or desire—to continue supplying Europe with reliable streams of natural gas. There is a fear within the European Union that Russia’s intentions are less than benign, which has led to strong opposition to Russian attempts to expand transit routes from Russia to the European Union. What are Russian intentions, and how justified are European fears that they will be left without a reliable source of natural gas?

This analysis examines the origins of European dependence on Russian natural gas; discusses a few key episodes in the history of Russo-European gas relations, including the Russo-Ukrainian disputes of 2006 and 2009; examines the critical issues at play in the current gas trade, including supply and demand balances, geopolitical tensions, and regulatory frameworks; and finally, addresses the questions posed above, namely what are the driving intentions behind Russian policy, and the extent to which European fears may or may not be justified.

AUSTRIA AND THE ORIGINS OF EUROPEAN DEPENDENCE

The origins of European dependence on Russian natural gas date back to 1968, when the Soviet Union signed a gas contract with Austria and subsequently began to export a share of its gas production via pipeline to Western Europe. Of course, this contract is historically and symbolically significant. The Iron Curtain was permanently pierced, because unlike shipments of most other commodities, natural gas requires a fixed transportation system—a pipeline. This bridge between communism and capitalism was the culmination of long processes, and it illustrates the axiom that “starting points have origins beyond the antecedents chosen to define them.” Nevertheless, arising in the time of Ostpolitik and détente, it was to become the first of a series of gas contracts that linked much of what would become the European Union with what would become the Russian Federation.

Beyond its symbolic significance, the Austro-Soviet gas deal had practical impacts that reach to the present day. An inherent “locking in” occurs when a gas deal is completed because pipelines are very expensive, long-term capital investments. Once an importing country has enough pipelines to meet its demand, it has little incentive to build more. If it is landlocked, as in the case of Austria, it has no method other than pipelines to meet any large-scale demand. Austria has produced its own gas in small quantities for a long time, but has nowhere near enough domestic supply to meet demand.

For these reasons, Austria remains heavily dependent on Russian gas today. The European Union estimated that in 2007, 49% of gas used in Austria came from Russia (57% of Austria’s total imports), while the International Energy Agency stated that by 2012 the share Austria imported from Russia had grown to 71%.

While Austria’s decision to sign an import contract with the Soviet Union held substantial symbolic meaning, it was of relatively small practical importance to Western Europe at the time. Yet the connection between Soviet gas and the Western economy has produced very far-reaching geopolitical and economic outcomes for both the gas producer and the gas consumers. Austria’s story of dependence is mirrored across many of the countries in the European Union. At the macro level, this story has two main, interconnected themes.

First, many of the main natural gas pipelines in Europe were built in the 1960s, 1970s, and 1980s. These transportation systems were enormous projects that required vast capital investment and were typically completed with the encouragement and backing of powerful agents that almost always featured the leadership of national governments. This reliance on powerful, motivated coalitions of capital-rich actors
is a strong deterrent to continuous innovation and change, both on the side of the producer and the side of the consumer.⁵ As a result of the disincentives to building new import routes, there is widespread path dependence across the board in Europe.

Second, many of the pipeline routes and import-export relationships were built at a time when natural gas was a distant third behind coal and oil in the European energy mix. Members of the European Union have been increasing their consumption of natural gas since the 1960s, but the real boom in consumption occurred between 1986 and 2010, when EU consumption grew from 302 billion cubic meters (bcm) to 500 bcm.⁶ Once the boom hit, many of the import relations with Russia were already built. When gas was less important as a strategic resource, countries were willing to become dependent on the Soviet Union. In current times, many seem to be reconsidering their earlier decisions.

The present situation reflects this legacy. Today, of the twelve countries in the European Union which import over half their gas from Russia, three are former Soviet Republics (the Baltic States) and five are former members of the Warsaw Pact.⁷ Slovenia was a part of Yugoslavia, which never joined the Warsaw Pact, but was communist nonetheless. The remaining three countries are Finland, Greece, and Austria, all of which were right on the edge of the Eastern Bloc.⁸

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**EUROPEAN ENERGY POVERTY**

Europe is relatively gas-poor. The two largest producers of natural gas in the European Union are the Netherlands and the United Kingdom. If one excludes Russia, the largest producer on the European continent is Norway. In 2015, Norway produced 117.2 bcm of gas, the Netherlands produced 43.0 bcm, and the U.K. produced 39.7 bcm. No other country in Europe produces more than 20 bcm. The EU's total consumption in the same year was 402 bcm. The region's low production and high demand make it a two producing countries especially important for meeting its gas needs, but those two countries fulfill only about 20% of the EU countries' requirements. Among EU member states that produce significant amounts of gas, the U.K. is a net importer, meaning that only the Netherlands produces more than it consumes, and even that amount is very small. Norway consumed only 4.8 bcm in 2015, meaning that it is by far the largest net exporter in Europe (excluding Russia). In 2015, Norway exported only about 5 bcm by LNG shipment, meaning that roughly 110 bcm of natural gas left Norway by pipeline, all headed to Europe. The United Kingdom's gas production peaked in 2000 and has dropped off dramatically since then, with little sign of recovering its earlier levels. Dutch production has stayed more consistent, but has also been in decline since 2010.⁹

Europe also imports a little LNG—a share that may grow in the future due to possible U.S. shipments—and a little from Algeria, but all in all, this amounts to a situation where Russia and Norway are far and away the most important suppliers of gas to Europe. In the long term, gas consumption in Europe has risen very quickly, although it has dropped off somewhat since 2005. EU gas consumption hit a 19-year low in 2013, but rebounded in 2014 and 2015.¹⁰ Still, the overall trend in Europe has been lower demand, while Russia and Norway have increased supply.

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**THE RUSSO-UKRAINIAN RELATIONSHIP**

Over time, the Soviet and later Russian gas production sites have moved generally farther north and east. Since the 1980s, these have primarily been located in supergiant fields in the West Siberian Plain, near the Yamal Peninsula. The Soviet Union built pipelines to take the gas from the east to its population centers in the west, where it could also be exported to Western Europe. But the domestic gas industry of the Soviet Empire is much older than the Siberian discoveries. It dates back to a time when Ukraine produced a large share of Soviet natural gas. The Soviets built pipeline infrastructure throughout Ukraine and western Russia to connect the gas supplies to Moscow and St. Petersburg, then Leningrad.¹¹ Soviet planners never envisioned a time when “Ukraine” as different from “Russia” was anything more than a symbolic distinction, an attitude that is evident in the “gifting” of Crimea to Ukraine by General Secretary Nikita Khrushchev in 1954.¹²

These two factors, together with Ukraine's location and terrain, explain why so much of Russia's exported natural gas goes through Ukraine. It also helps to explain why there is so much tension between Russia and Ukraine. It further helps one to understand what is causing so much contention between Europe and Russia in the present day and in the future of the gas trade. The two main pipelines through Ukraine, named Soyuz and Brotherhood, together bring roughly
160 billion cubic meters (bcm) of natural gas to Europe per year. After traversing Ukraine, they continue through Slovakia and the Czech Republic and link up to the European pipeline network, meaning that much of Central Europe is connected to its main gas supply from Russia via Ukraine.

Soyuz and Brotherhood make Ukraine the most important country in the transit of Russian gas to European markets. Furthermore, Ukraine is a major importer of Russian gas to meet its own domestic needs. On the whole, however, the Russo-Ukrainian gas trade in the 1990s and early 2000s was a bad deal for both sides. On the Russian side, it is probable that the gas that it sold in Ukraine was at a price lower than the cost of delivery, let alone production costs. The 1990s gas trade, especially, was plagued by a series of Ukrainian payment defaults, stolen gas-in-transit, and sharp disagreements over debt. These issues prompted Russia to shut off the gas to Ukraine's domestic market several times throughout the 1990s.

"An important takeaway in this dispute arose primarily over economic disagreements, rather than political ambitions."

On the Ukrainian side, the over-reliance on Russian gas meant little security or independence. Ukraine needed the rents from the gas transit trade and the cheap gas for its own markets to alleviate pressure on its own financial system and struggling infrastructure during the recession that followed the collapse of the Soviet Union. In one sense, the availability of large quantities of cheap Russian gas was a blessing, but it turned out to be a curse to the Ukrainians as they attempted to break free of the Soviet heritage.

Ukraine has struggled with an identity crisis since 1991. The eastern half of the country is much more oriented toward Russia, while the western half favors integration with Europe. This split has led to a series of governments which shift back and forth between the two sides. Viktor Yushchenko, president from 2005-10, was seen as leaning toward Europe, while Viktor Yanukovych, president from 2010-14, was often portrayed in the West and in Ukraine as a pawn of the Kremlin. Tied up in this identity crisis is the gas trade. The current president, Petro Poroshenko, would likely prefer to extricate Ukraine from its Russian ties in the gas trade, but is unable to for three reasons.

First, the pipelines aren't going anywhere. Pipelines are big, stationary pieces of equipment that are very valuable, both to the country in which they originate and to the countries to which they deliver gas, in this case Russia and an increasingly integrated European market. Neither Russia nor the European Union could afford to let the pipelines running through Ukraine be shut down.

Second, the pipelines are very valuable to Ukraine as a transit country. Naftogaz, the Ukrainian natural gas company, reported rents of $1.7 billion on transit of 64.1 bcm of Gazprom's natural gas in 2015 alone. Shutting them down would turn off a major source of easy revenue for the perennially cash-poor Ukrainian government.

Third, the gas industry has powerful interests involved, including former Prime Minister Yulia Tymoshenko and many of the businessmen in the eastern industrial regions, who would lobby hard against any shutdown of the gas industry. It is unlikely that the Poroshenko government, even if it overcame the first two obstacles to lessening the gas trade, would be able to overcome this final barrier. As a result, the de facto divorce proceedings for this "bad marriage" are being instituted by Gazprom's effort to diversify its gas transit routes through neutral territory, particularly the Baltic Sea, not from the Ukrainian side.

In the early 2000s, as the post-Soviet world stabilized and recovered from the lurching economic journey of the "Wild Nineties," the price of European gas began to rise. However, the prices that Russia charged to the broader European market did not match the prices it charged to countries in the Commonwealth of Independent States, particularly Ukraine and Belarus. Because European prices were much more profitable, Russia's majority state-owned gas company, Gazprom, began to aggressively pursue the goal of raising Ukrainian and Belarusian prices to European netback levels.

In the post-Leonid Kuchma years, President Viktor Yushchenko's goal of politically distancing Ukraine from Russia caused Gazprom to push Ukraine toward higher prices more aggressively than some of the other post-Soviet states, such as Armenia or Belarus. In January 2006, in the cold of winter and at peak natural gas demand, Russia cut off Ukraine's gas supply for three days. By cutting off Ukraine, Russia really just lowered the export volume of gas traveling primarily through the Soyuz and Brotherhood pipelines. However, much of the gas going through the
Ukrainian pipelines is bound for Europe, so to cover its own domestic supply, Ukraine diverted some of the gas bound for Europe. As a result, Central European gas supplies were limited; three days later, on the resolution of the Russo-Ukrainian dispute, full supply resumed, and at no time was supply fully shut down.  

While it did improve its business position in several respects, Russia was unable to achieve its primary goal of imposing netback prices on Ukraine, but instead worked quickly to resolve the situation and resume full flow to Europe. Ukraine’s trump card was its near-monopoly on the transportation of Russian gas to Europe. In 2008, Ukraine and Russia again ran into trouble.

In that year, the Ukrainian state-owned gas company Naftogaz began to accumulate large debts owed to Gazprom that it failed to clear. This was largely due to losses from unpaid heating company bills and a weak hryvnia. Naftogaz claimed that this debt amounted to approximately $1 billion, while Gazprom claimed it was higher than $2 billion. In November, Gazprom and then-Prime Minister Vladimir Putin suggested that if an agreement over the debt was not reached by the end of December, Russia would raise prices on gas to the netback level, which Ukraine had earlier committed to paying.

Naftogaz was not in a strong financial position, but by all accounts had enough cash to pay the $2 billion that Gazprom claimed. Interestingly, on December 23 the European Commission issued a statement—but did not intervene directly—warning Ukraine, not Russia, to make sure that transit remained uninterrupted. The European Commission made this statement presumably under the authority of the Energy Charter Treaty, which was ratified by Ukraine but not by Russia.

On December 30, Naftogaz paid Gazprom $1.5 billion, but Gazprom claimed an additional $600 million. Naftogaz denied the additional outstanding debt and was prepared to resolve the disagreement through international arbitration. But on January 1, 2009, Russia cut its supply marked for Ukrainian consumption to zero, as it had done in 2006. However, unlike in 2006, five days later Russia alleged that Ukraine was stealing a portion of the gas bound for Europe. Ukraine of course denied the “stolen” gas, stating that it needed to take this gas to run the compressor stations, and that it was allowed to do so under contractual allowances.

By January 7, the dispute over the allegedly stolen gas reached the point where Gazprom shut off all deliveries to Europe. In the cold of winter, many of the countries in Europe were without sufficient supplies of heating or lighting fuel. Naftogaz and Gazprom continued to negotiate, but it was not until European companies, especially Italy’s Eni, stepped in to speed along negotiations that an agreement was reached. On January 20, thirteen days after it had stopped, gas resumed flowing into Europe.

The 2009 crisis brought home the realities of gas dependence to all of Europe. It remains the only time since the beginnings of the Austro-Soviet gas trade in the 1960s that gas stopped flowing from Russia to Europe. Especially in the southeast and the Balkans, millions of people were left freezing in the dark, all over a poorly-handled dispute between Russia and Ukraine. The experience left a strong impression on members of the European Union, and has deeply wounded Russia’s international reputation as a gas provider to Europe.

"But the heart of the message was that Russia did not want Europe to diversify its sources away from Russia, and to do so would actually be detrimental to the European Union.”

An important takeaway is that the dispute arose primarily over economic disagreements, rather than political ambitions. Russia and Ukraine have an historically rocky relationship, and the dispute over prices and debts had a political element to it due to the nature of their relationship, but it was primarily an issue of who would get (and give) how much cash. Another separate, but related takeaway is that Russia never intended to hold Europe hostage by cutting off supply and exercising the “gas weapon.” In fact, Gazprom’s long-term position in Europe was seriously damaged by its inability to resolve its dispute with Ukraine. Gazprom and Russia were well aware of the repercussions of shutting down gas to Ukraine, and it is likely that the reason that Gazprom allowed debts to pile up to point that they did before taking action is because it retained hope that a solution could be reached without resorting to a limited gas flow. In short, rapid settlement of the dispute with Ukraine was in Russia’s best interest.
THE RUSSIAN SHIFT AWAY FROM UKRAINE

Russia produces huge amounts of natural gas on an annual basis. Each year, it produces an amount in excess of the consumption of the entire European Union. The EU is currently the only feasible market for Russia's huge supply of gas, and for that reason, Russia is not willing to allow disputes with Ukraine to inhibit its lucrative export trade to Europe.

In the wake of the 2009 crisis, Russia has done everything it can to diversify the way in which it supplies Europe with gas. That goal—diversifying the means of supply—was highlighted in a keynote speech given by the Minister for Energy of the Russian Federation, Sergey Ivanovich Shmatko, in December of 2010 at the Anniversary Conference of the EU-Russia Energy Dialogue in Brussels. Minister Shmatko said that what Russia was most interested in was “international cooperation,” “stable relations with the traditional consumer countries of Russian energy,” and “efficient use of [Russia’s] energy potential.” Shmatko went on say that Russia was achieving these goals to the mutual benefit of itself and the EU by undertaking two major pipeline projects: Nord Stream and South Stream. Then Shmatko made perhaps the most interesting comment of the speech:

Unfortunately a note of mistrust remains in the energy field between Russian and European partners. A consequence of it is the actively pursued policy of diversification [by the EU]... But we understand that any diversification creates additional expenditure. It is the consumer ... who will pay for it in the end. This leads to lowering the competitiveness of the industry.

While it is true that diversification of sources can increase cost (due to the cost of building new infrastructure to accommodate the new supply, e.g. pipelines or regasification facilities), Shmatko’s statement that diversification “leads to lowering of the competitiveness of the industry” is wholly false. But the heart of the message was that Russia did not want Europe to diversify its sources away from Russia, and to do so would actually be detrimental to the European Union. Embedded in this speech are two opaque messages. The first is a veiled threat, that if the EU attempted to move away from Russian supplies, Russia would take action to “lower the competitiveness of the industry,” in a sense utilizing the “gas weapon.”

The second is the “note of mistrust,” by which Shmatko was referencing a new EU regulation which had gone into effect a few months earlier, Regulation No. 994/2010. This regulation by the European Parliament was designed to combat the type of supply disruption and crisis that occurred in 2009 over the dispute between Russia and Ukraine. It required EU member states to put into place plans to prevent supply disruption and plans to mitigate the situation in the event of a disruption. The two mandated plans, the Preventative Action Plan and the Emergency Plan, compelled member states to diversify their sources of natural gas away from total reliance on a single provider. Although the regulation never once mentions Russia, its enactment was a response to the loss in confidence toward Russia that the EU experienced as part of the fallout from the 2009 Russo-Ukrainian dispute. Nevertheless, the tone of EU-Russia relations in 2010 and the language of this regulation were only wary, not hostile. In fact, prominent European leaders by and large supported Russian efforts to undertake projects such as the Nord Stream pipeline.

NORD STREAM AND NORD STREAM 2

Nord Stream is an undersea pipeline which runs from Vybog in Russia, near the Finnish border, under the Baltic Sea to Greifswald in northeastern Germany. At Greifswald it splits into two overland pipelines traveling south and west, respectively. The western route is called NEL, and links to the northwest and southwest German gas distribution networks that are operated by Ruhrgas. NEL was completed and has been in operation since 2013. The southern route, named OPAL, follows near the Polish border, past the eastern edge of Berlin, and eventually down to Olbernhau on the Czech border. OPAL has been in operation since 2011, shortly before Nord Stream itself became operational. Most of the gas in OPAL is destined for the Czech Republic, and OPAL alone is more than capable of covering all of the Czech Republic’s natural gas demand.

From Gazprom’s point of view the primary purpose of Nord Stream is not to increase total export capacity to Europe—though it certainly does that—but instead to diversify its export strategy. Russia is interested in continuing to hold its market share in Europe, but does not like the extent to which it is dependent on the Ukrainian pipeline system to get its gas to market. The
Russo-Ukrainian gas transit contract is set to expire in 2019, and in the meantime Russia is doing everything it can to eliminate its own dependence on Ukraine by building alternative routes.\(^9\) Nord Stream was the first major alternative it was able to bring online. Despite being limited to 80% of its total capacity, Nord Stream has been a success for Russia and, as mentioned above, was largely supported in Europe.\(^{40}\) It was implemented with relatively little controversy.

Since Nord Stream's completion, however, Russia has had more trouble in continuing to expand this strategy of route-diversification. Gazprom is in the early stages of constructing a second pipeline along the same Baltic Sea route, Nord Stream 2. Nord Stream 2, which has a planned capacity of 55 bcm per year, would allow Russia to export a much larger percentage of its foreign-bound natural gas directly to EU markets, bypassing Ukraine.\(^{41}\) If it were to come online in 2019 as planned, it would be another step for Europe in the direction of continued dependence on Russia for most of its natural gas, but it would also allow both sides to increase the security of the trade by avoiding future debacles in the Russo-Ukrainian relationship.

However, Russia's relationship with the EU has soured in recent years, which has significantly increased opposition to the pipeline within the European Union. This is primarily a reaction to Russia's aggression toward Ukraine. Russia's handling of the armed conflict in the Donbass region in Ukraine and Russian annexation of Crimea have generally created an atmosphere of suspicion concerning President Putin's broader intentions. As stability deteriorated in Eastern Ukraine in 2014, Russia annexed the southern peninsula of Crimea, which extends into the Black Sea.\(^{42}\) Crimea is contiguous with the mainland of Ukraine and does not connect by land to the Russian mainland, but it is heavily populated by ethnic Russians.\(^{43}\)

Furthermore, as separatists in the self-proclaimed "Donetsk People's Republic" gained traction against the Ukrainian government, there is strong evidence to suggest that they did so with military and economic support from the Kremlin.\(^{44}\) These Russian actions have been categorically denounced by the United States government and are strongly opposed by many of the European Union states, which has led to economic sanctions against Russia.\(^{45}\) As a result of this situation, Ukraine has also become the poster child for resistance against illiberalism and imperialism. The Western press has covered this situation extensively, and has even speculated about the possible dawn of a new Cold War.\(^{46}\) In the last two years, relations between Russia and the West have if anything declined still further.

In this geopolitical climate, the European Commission on February 16, 2016 proposed to repeal and replace the EU energy regulation to which Russian Energy Minister Shmatko alluded four years earlier, No. 994/2010. The proposed regulation carries a different sort of legal language, emphasizing a new term in particular: solidarity.\(^{47}\) If one reads into the context of the current relationship between the EU and Russia, it is not difficult to see what “solidarity” means. Solidarity is needed in the face of an outside threat, which in this case is Russia. For this reason, when Russia has pushed for a new pipeline, Nord Stream 2, European governments have reacted with considerable hostility, despite reasonably smooth commercial relations between Gazprom and its European partner companies.

However, it is not the European Union itself that is leading the charge against Nord Stream 2, but instead the national government of one of its members: Poland. In fact, Poland objected quite strongly against Nord Stream 1 as well, comparing it to the infamous Molotov-Ribbentrop Pact of 1939, the treaty which led to the Nazi-Soviet invasion of Poland.\(^{48}\) This is a wild exaggeration, but it does raise the question, why is Poland so adamantly opposed to Russian pipelines bypassing Ukraine by going through the Baltic Sea? There are three main reasons.

First, liquefied natural gas (LNG) changes the overall picture. In 2014, Poland built a major regasification facility on its Baltic coast at Świnoujście to accommodate the global gas glut that was going on at that time.\(^{49}\) As its shale production boomed, the United States became a net exporter.\(^{50}\) This has eliminated a major export market for LNG producers and pushed them toward new export strategies more focused on Europe, not to mention putting more LNG onto the general world market. Poland's recently-built regasification facilities are aimed at a long-term strategy of both supplying its domestic market from places other than Russia, and of possibly capturing a share of the huge German gas market. Both of these goals are inhibited by Russo-German pipeline projects in the Baltic Sea.

A second possible reason for Poland's opposition to the Nord Stream pipelines is its own loss in potential rents from the Russo-German gas trade. The main
pipeline which runs through Poland on its way from Russia to Germany is the Yamal-Europe pipeline, which is jointly owned by Gazprom and PGNiG, the Polish state-owned oil and gas company.\footnote{51} Other than additional subsea pipelines through the Baltic, the most obvious alternative transit system which would allow Russia to increase its exports to Europe is additional pipelines through Poland. When Russia opts for the Baltic Sea route, Poland is cut out of the lucrative transit trade.

The final reason for Poland's opposition to the Nord Stream pipelines is its general mistrust toward Russia and its wariness of Russia's inclination to exercise Gazprom's European export share as an extension of Russian foreign policy. Poland and Russia have not gotten along since the beginning of the Cold War, and the Polish story is largely one of liberalization and a fundamental pivot westward, codified by its entry into the European Union in 2004.\footnote{52} While Polish mistrust of the Russian gas giant did not preclude a large enough coalition in 2010-11 to block Nord Stream 1, anti-Russian sentiment may now be strong enough for Poland to find enough sympathetic ears in the EU to block Nord Stream 2.

On May 5, 2004, when Poland joined the EU, it was joined by nine other countries. Since then, three more have joined. Of those thirteen (including Poland), all but four remained firmly within the Soviet sphere of influence throughout the Cold War. Of those remaining four, two—Slovenia and Croatia—were part of Yugoslavia, which broke away from the U.S.S.R.'s dominance but remained a part of the Communist Bloc until its breakup in 1989-1991.\footnote{53} In fact, the only two countries that have joined the EU since 2004 that were not under Russian or Soviet influence for much of the Twentieth Century are the small Mediterranean islands of Malta and Cyprus.\footnote{54} This rapid expansion of the European Union into the former Soviet sphere has combined with President Putin's expansive foreign policy to create much friction in Eastern Europe.

More importantly for the purposes of this analysis, however, it has caused, due to uneasy relationships between these new states and Russia, perhaps insurmountable political barriers to the completion of essentially commercial deals between Gazprom and original members of the European Union, such as Germany.

It is far from a sure bet that Nord Stream 2 will go into operation by its scheduled completion date in 2019. If it were to become operational, it would both increase Western European supply security and heighten Western European dependency on Russian natural gas. Supply security would be increased by avoiding the uncertain ground of Ukraine and Poland, but dependency would be increased by building one more long-term link between Russia and Western Europe. The commercial considerations that have largely driven Gazprom and Germany are being stalled by political concerns across the EU, but concentrated in Poland. This case is an indication of the larger complexities that face the future of the gas trade between Russia and Europe.

\section*{Conclusion}

The natural gas trade has been a fixture of relations between Russia and Europe since the late 1960s, when Austria first began to import natural gas from the Soviet Union. Somewhat miraculously, this trade has expanded and continued with minimal disturbances, the only two major interruptions occurring in 2006 and 2009. Both of these were almost entirely caused by contractual disputes between Russia and Ukraine, and only one of them, the 2009 Russo-Ukrainian dispute, resulted in a complete shutoff of Russian natural gas supply to Europe. Since then, the Russian state-owned gas company Gazprom has wholeheartedly pursued a policy of diversifying its supply routes to the European market in order to retain and protect its market share from interruptions along the route. It has met strong opposition in these attempts, particularly from Eastern European countries which benefit from transit rents, such as Poland and Ukraine. Meanwhile, the EU has attempted with partial success to lessen its dependency on Russian gas.

Gazprom's strategy of retaining market share and strengthening transit corridor security by avoiding troubled areas like Ukraine gives strong indication that Russia's primary intention in the gas trade is economic and not geopolitical. Russia's largely stable supply to Europe before 2006 and again after 2009 gives further indication of this intention. European fears of being left to freeze in the dark, then, have been largely unfounded. However, as Russia continues to pursue foreign policies antithetical to the values held by the European Union, those fears are likely to continue, and Russia's plans to expand its pipeline capacity to Europe will meet a chilly reception.
References

5. Per Högsetius refers to these actors as “system-builders.” Högsetius, Red Gas, 5.
8. While Eastern Europe is far more dependent on Russia by percentage consumed, if one counts by volume consumed, several of the Western European countries far outweigh those in Eastern Europe.
22. The “netback” price is equal to European border prices minus the transportation charges from Russia. To take 2004 as an example, the price of one million cubic meters of gas at the European border was approximately $143. The transit cost from Russia was approximately $27. Therefore, the netback price was $116. Pirani, Stern, and Yafimava, “The Russo-Ukrainian Gas Dispute of 2009,” 7, 10.
2016. 9.
34 Sergey Ivanovich Shmatko speech at “Tenth Anniversary Conference,” 31-32.
53 It is possible that Yugoslavia was not technically part of the “Communist Bloc,” depending on how one defines the Communist Bloc. Economically, it pursued a socialist agenda. However, it was not a