

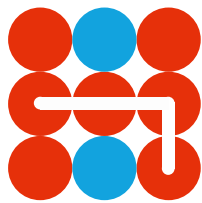
NOVEMBER 2017

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Hybrid CoE Strategic Analysis 2  
**Is Russia's Energy Weapon  
Still Potent in the Era of  
Integrated Energy  
Markets?**

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AGNIA GRIGAS



Hybrid CoE

## Is Russia's Energy Weapon Still Potent in the Era of Integrated Energy Markets?

*Today and going forward, Russia's traditional use of energy influence as practiced over the past few decades will increasingly be constrained. Nonetheless, the energy sector will remain at risk from a mix of hybrid threats such as cyber attacks, propaganda, and conventional and unconventional military threats. – writes Agnia Grigas, energy and political risk expert and a non-resident Senior Fellow at the Atlantic Council in Washington DC.*

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**Some of the major transformations in the global energy markets over the last decade have been the US shale revolution, the boom in LNG trade, and the build up of inter-connective energy infrastructure.**

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Today's hostile influencing practices increasingly involve a wider array of actors, weapons, and spheres, thus necessitating more comprehensive analysis of potential risks. Energy security and, conversely, energy threats are precisely such areas that require a risk reassessment from a hybrid threat perspective. For NATO and the EU countries, most of which are energy importers, this is particularly salient for several reasons. For one, Russia, as a major global energy exporter, the world's largest natural gas exporter, and Europe's primary natural gas supplier,

has acquired the reputation of using energy as a source of influence or even as a weapon. Second, relations between Russia and NATO as well as the EU countries have markedly deteriorated since the annexation of Crimea in 2014. Third, the United States and Russia are now increasingly direct competitors in the energy markets, particularly as exporters in the natural gas markets.

Some of the major transformations in the global energy markets over the last decade have been the US shale revolution, the growth of



liquefied natural gas (LNG) trade, and the build up of inter-connective energy infrastructure. Today and going forward, Russia's traditional use of energy influence as practiced over the past few decades will increasingly be constrained. The shale gas revolution has made the United States the world's largest natural gas producer. It launched its own LNG exports across the world in 2016 and by the summer of 2017, American LNG made their way to Lithuania's (as well as to neighbouring Poland's) LNG terminals highlighting the end

of Gazprom's era of dominance in the region.

Nonetheless, the energy sector will remain at risk from a mix of hybrid threats such as cyber attacks, propaganda, and conventional and unconventional military threats. The Baltic States serve as an excellent case study of how previously highly energy vulnerable states are transforming their energy security and how they will fare in the reconfigured energy markets and in the context of Russia's ambitions.

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### **If not always an outright weapon, Russia's energy heavy-handedness traditionally manifested itself in pricing, restriction to supply, and political influence.**

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Since the 1950s and 1960s, Russia (and its predecessor the Soviet Union) has been supplying natural gas by pipelines to both Western and Eastern European states. Russian gas accounted for roughly a third of the EU's natural gas imports in the past few decades. The 2000s were seemingly the "golden age" of Russian state energy company Gazprom and the Kremlin's energy influence under the helm of Vladimir Putin. In Europe, as domestic production declined, demand for imports rose, and prices of natural gas remained generally high on the back of high global oil prices. Competition from alternative suppliers was low and European energy companies were eager to do business with Russian state

energy companies. This context paved the way for Moscow and Gazprom to use energy as part of its foreign policy toolkit.

Russia acquired the reputation for using energy as a weapon for gaining influence in a heavy-handed way. Action manifested itself in pricing, restriction to supply, and political influence. Countries like the Baltic States and others in Central and Eastern Europe complained that they were charged higher 'political' gas prices than those in Western Europe, such as Germany, when Moscow did not approve of their foreign or domestic policies. Moscow seemingly dangled the carrot of lower gas prices for political concessions.



Another element of Russia's energy power play was tied to Gazprom's and other Russian energy companies' investments in European energy companies. Shares were acquired transparently and non-transparently, including via various shell companies. With the promise to ensure gas supply to the Baltic States, Gazprom and another Russian energy company, Itera, bought into their national gas companies – Estonia's Eesti Gaas, Latvia's Latvijas Gaze and Lithuania's

Lietuvos Dujos – as well as invested in opaque local gas distribution companies run by Kremlin-friendly businessmen. In contrast, when Russian energy companies failed to acquire the Lithuanian oil refinery Mazeikiu Nafta and the Latvian energy transportation company Ventspils Nafta, Moscow permanently rerouted flows of oil via the Druzhba pipeline, cutting these companies out of the oil refinery and transport business.

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### **Gazprom's gas halts and perceived heavy-handedness strengthened the EU's resolve to pursue greater reform and regulation of its energy sector.**

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In addition to the US shale revolution, EU regulations were another key development in transforming the geopolitics of energy on the European continent. Gazprom's gas halts to Ukraine in the winters of 2006 and 2009 and perceived heavy-handedness strengthened the EU's resolve to pursue greater reform and regulation of its energy sector. The Third Energy Package of regulatory legislation adopted in 2009 marked a turning point. Among other regulation, it called for 'unbundling' of assets by energy companies such as Gazprom so that production of resources such as natural gas or electricity would be owned and operated separately from their distribution. As a result, Gazprom was forced to sell

off its shares in Lietuvos Dujos, Eesti Gaas, and (by end of 2017) in Latvijas Gaze.

The EU also earmarked funds and investment for major infrastructural projects to connect countries such as the Baltic States that were deemed 'energy islands' to the rest of European energy markets and infrastructure. Projects included support for electricity links with Finland and Sweden as well as Lithuania's LNG terminal. The Klaipeda Floating Storage Regasification Unit (FSRU) – a floating LNG import terminal – was launched in late 2014 and soon after broke the country's and the region's 100% dependence on Russian gas when LNG from Norway arrived.



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## **It would be naïve to assume that Russia's quest for more influence will bypass the energy realm even if market conditions are now more favourable for the EU and NATO states**

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The transformation of the EU regulatory environment and the global gas markets has significantly constrained (though not eliminated) the traditional means of Russian energy influence. Threats to hike prices for uncooperative foreign or domestic policies are no longer likely. Threats of a gas halt are less plausible as Gazprom is eager to maintain its markets in Europe in the face of new competition from Norwegian, Qatari, Algerian, and American LNG. The looming arrival of Azeri gas (albeit in modest amounts) from the Caspian Sea via the Southern Gas Corridor pipeline system likewise adds more competition. Moreover, the EU prohibition of Gazprom favoured 'destination clauses' from gas trade contracts now allows European countries to re-export Russian gas to other countries. This reduces Gazprom's leverage with its importers and the feasibility of a gas blockade.

Nonetheless, it would be naïve to assume that Russia's quest for influence will bypass the energy realm even if market conditions are now more favourable for EU and NATO states. Risks remain even in the newly competitive and more regulated natural gas sector. Outside of a physical attack on energy infrastructure that could be carried out by conventional

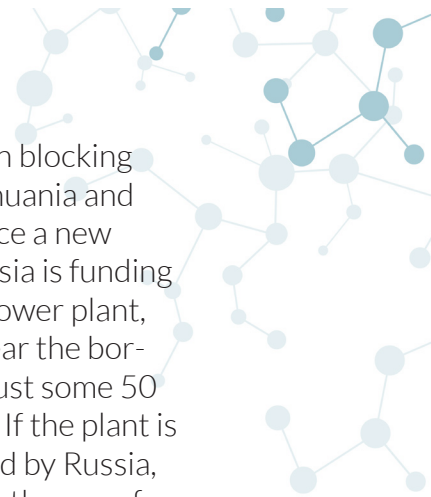
or unconventional forces, the risk of cyber attacks is perhaps most worrying. Information warfare is already in play. The Baltic and particularly Lithuanian media and social media is beset with propaganda stories of how Klaipeda FSRU is an uneconomical, and even corrupt project and that the Lithuanian public would be better served with cheap Russian gas. This can turn the public against government officials and undermine general trust in the state.

Similar physical, cyber, lobbying and propaganda risks remain in other energy spheres. The electricity sector is another prime example where despite the EU driven reforms and new connective infrastructure, risks persist. Here the most pressing issue is the planned synchronisation of the Baltic States to the European electricity networks (ENTSO-E) and desynchronisation away from their current Moscow-controlled electricity network (BRELL). With the Baltic States long members of EU and NATO, resolution to this last vestige of dependence on Soviet-era infrastructure is much overdue.

The nuclear sector has re-emerged as one of the newest frontiers in Baltic security. Following the EU-stipulated closure of Lithuania's Chernobyl-style

nuclear power plant Ignalina in 2009, the country went from being an electricity exporter to importing electricity from Belarus and Russia. Failure to secure investment and find political agreement thwarted Vilnius' plans to build a replacement nuclear power plant. Moscow's meddling via political and business interests groups, lobbying, and trying to mobilise society against nuclear power

have also played a part in blocking the project. Instead, Lithuania and the Baltic region now face a new type of nuclear risk. Russia is funding and building a nuclear power plant, Ostrovets, in Belarus near the border with Lithuania and just some 50 kilometres from Vilnius. If the plant is built and will be operated by Russia, it creates an opening for the use of information operation sowing fear



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## Today hybrid threat risk assessments should include the energy sector as a strategically important element.

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The global energy markets have experienced a significant transformation in the past decade that greatly benefits energy importing states and compliments many of EU and NATO countries' regulatory and policy efforts to improve energy security. Nonetheless, threats and risks in the energy sector remain. The increased propensity among international actors, including Russia, to turn to irregular forces and unconventional methods for conflict, to use cyber and information operations, and to do so in a simultaneous fashion makes its necessary to prepare the energy sector for the era of hybrid threats.

**Today, the hybrid threat risk assessments should include the energy sector as a strategically important element. Energy infrastructure, although different than before, remains vulnerable. Ports, sea routes, terminals, and underwater cables need to be added**

**to more traditional pipeline risk assessments. As with many other fields, the energy sector needs to urgently improve its cyber security resilience, not only from cyber crime and malfunction, but also from hostile foreign actors. Similarly, analysis of propaganda often excludes the energy sector, which is falsely assumed to be driven by government policy or private sector economic cost-benefit analysis. In fact, the manipulation of public and elite opinions can sway important national energy policies. Finally, the role of hostile foreign state-supported lobbies and interest groups also have to assessed in hybrid threat risk modelling because such actors can serve as a destabilising force in a nation facing crisis, weaken its institutions, as well as shape public opinion. The pressure put on the energy sector can influence local, state, regional and institutional decision-making and resilience.**



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## Author

Dr. **Agnia Grigas** is an energy and political risk expert and a non-resident Senior Fellow at the Atlantic Council in Washington DC. This paper draws on her new book *The New Geopolitics of Natural Gas* (Harvard UP, 2017). She is also the author of *Beyond Crimea: The New Russian Empire* (Yale UP, 2016) and *The Politics of Energy and Memory between the Baltic States and Russia* (Ashgate / Routledge 2013/2016).

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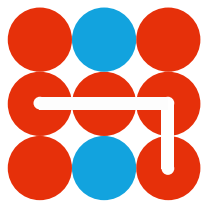
The European Centre of Excellence for Countering Hybrid Threats  
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ISBN 978-952-7282-59-5  
ISSN 2670-2282

Second version of the publication. Previously published as "Strategic Analysis November 2017: Is Russia's Energy Weapon Still Potent in the Era of Integrated Energy Markets?"

Hybrid CoE is an international hub for practitioners and experts, building participating states' and institutions' capabilities and enhancing EU-NATO cooperation in countering hybrid threats located in Helsinki, Finland.

The responsibility for the views expressed ultimately rests with the authors.



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