

The Current Situation of Energy Trade Between Russia and the EU: From the Perspective of Economic Nationalism

Runyu Li¹, Junjie Qin¹ and Lingsu Yu^{2,*}

¹ School of Foreign Languages and Literature, Shandong University, Jinan, 250100, China

² New Collage, University of Toronto, Toronto, M5S 2E8, Canada

* Corresponding Author Email: lingsu.yu@mail.utoronto.ca

Abstract. Energy trade has been a long-standing pillar of EU-Russia relations and a critical economic driver, leading to higher interdependence in the energy sector. With the outbreak of the Russia-Ukraine crisis, the energy relations between the EU and Russia and the development of the energy trade have changed, which also generates different energy trade policies and the current state of the energy trade. For a long time, people tend to pay attention to the political nature of nationalism and ignore its economic and cultural nature; they pay attention to the study of energy issues from the economic perspective and neglect the comprehensive study of energy issues from the political, cultural, and even nationalist perspectives. Synthesis, multiple factors, and the interaction of national security in the overall national security situation are significant features of the nationalist-economist perspective. This paper will explore the EU-Russia energy trade dealings from an economic nationalist perspective, focusing on the current state of energy relations and energy policies. Analyzing the current state of cooperation and trade in Russian-EU energy trade from this perspective can fill the gaps in the political and economic interactivity of Russian-EU relations in related studies.

Keywords: Energy trade; Russia and EU; economic nationalism.

1. Introduction

The European Union has long been Russia's core trading partner, and bilateral cooperation is mutually beneficial. Shared borders, a long history of political and economic cooperation, knowledge of each other's cultural peculiarities, and economic interdependence make intensive economic cooperation between Russia and Europe possible and necessary [1]. Cooperation between Russia and Europe is based on the Partnership Agreement signed by the parties in 1994. The Agreement provides extensive cooperation between the parties, particularly in the economic sphere. The duration of the Agreement is ten years, with automatic annual extensions [2]. The energy trade is also an essential economic driver and long-term pillar of Euro-Russian relations.

Due to political issues and multiple factors, Russia and Ukraine have changed and plunged into tensions and war issues in their state relations in the last decade or so. With the outbreak of the Russian-Ukrainian crisis, the energy relations between the EU and Russia and the development of energy trade have changed, generating different energy trade policies and the status quo of energy trade. Moreover, the EU's sanctions on the import of Russian energy have had a series of butterfly effects on politics, the economy, and people's livelihoods. Prior to this, the liberal approach to energy policy was rooted in the neoliberal study of international relations, which was mainly characterized by a positive view of interdependence and reliance on markets to solve transnational supply and demand problems [3]. The free market of energy trade has been disturbed, and energy security has been challenged, with multiple factors contributing. This paper will explore the correlation between the policies and multiple realities of energy trade between Europe and Russia and economic nationalism to explain the relevance of their relationship.

2. The Association and Role of Economic Nationalism in Energy Trade Frictions

2.1. Energy Trade between the EU and Russia Has Economic-Nationalism Overtones

Most previous studies of economic nationalism have defined it as the pursuit of power and wealth to advance national interests globally out of a sense of national loyalty and national feeling. The state must formulate and implement economic strategies and policies consistent with this concern to protect and strengthen the national economy and gain markets and resources for its external expansion [4].

However, with the development of economic globalization and its irreversible trend, the rapid development of economic globalization has brought development opportunities to all countries. However, at the same time, it has also made the contradiction between the creation and distribution of global wealth more and more prominent. It is for the sense of contradiction of economic nationalism, so economic nationalism from the beginning of its manifestations shows the diversity and complexity. In subsequent research definitions, economic nationalism is based on the scarcity of wealth, emphasizes competitiveness rather than cooperation, and argues that the economic and trade actions of countries, enterprises, and individuals should serve the overall national interests and national security and should be aimed at the interests of their own countries [4]. At the same time, economic nationalism has become one of the most essential choices for many countries to protect their economies and cope with external shocks after decades of globalization. In the case of energy trade between the EU and Russia, economic nationalism has always existed, but sometimes it is strong, and sometimes it is weak. However, there are times when trade policy needs to be subordinated to the overall national interest and national security, and these are the times when economic nationalism is strong.

The issue of energy security is also now the main conflict in energy relations between the EU and Russia. After the beginning of the Russian-Ukrainian crisis, the EU started to impose sanctions on Russia and modified its gas energy policy and market changes. For the ongoing energy trade disputes and tense trends, programs are introduced for the predictability of the gas-energy relationship, such as the European Commission's antitrust case against Gazprom [5]. The EU approaches the energy relationship with Russia between economic and political drivers [5], viewing the relationship between the EU and Russia through economic nationalism. On the one hand, the interdependence of this energy trade relationship is driven by economic factors and interests; on the other hand, the EU also has fringe political concerns about Russia and thus considers nationalistic policy and political factors.

Regarding energy security, the interdependence of the EU-Russia energy relationship will also be a source of mutual vulnerability and sensitivity in the aftermath of the Russia-Ukraine crisis. At the same time, the EU and Russia are influenced by two different perspectives of interest and values on energy security issues [6], while the existence of a free trade market allows the EU and Russia to have different perceptions and approaches to energy trade interests. In the period after the Russo-Ukrainian war, the EU's market and trade policy towards energy trade with Russia changed. This change also reflects a solid economic nationalism.

2.2. Relationship Between Strength of Economic Nationalism and Energy Trade Between EU

Russia serves as the primary supplier of oil, natural gas, and solid fuels to the European Union (EU), and it also acts as a uranium supplier and nuclear energy partner for certain EU member states. During the Cold War, the Soviet Union extensively exported fossil fuels to European countries. The end of the Cold War further opened the door for expanded energy trade between Russia and Europe. Subsequently, a high level of mutual interdependence in energy trade developed between the EU and Russia.

However, this does not mean that the energy trade between Europe and Russia lacks the element of economic nationalism; rather, it is relatively weaker. During this phase, the European Union (EU) exhibited a more positive stance towards Russia's energy trade, reflecting its "idealistic" approach and indicating a lesser emphasis on economic nationalism in this trade. For example, in 1993, Polish

policymakers praised the Yamal-Europe pipeline construction and the long-term natural gas supply agreement with Russia as a "contract of the century." This pipeline, which transports Russian natural gas to Germany and Poland via Belarus, became operational in 1997 and reached its maximum capacity of 33 billion cubic meters per year in 2005. In 1994, Russia and the EU signed the Partnership Agreement. The agreement provides for a wide range of cooperation between the two sides, especially in the economic field. The term of the agreement is 10 years, with automatic annual renewal [2]. Furthermore, in the 1990s and early 21st century, certain Western European energy companies strengthened their cooperation with Russia's state-owned enterprise Gazprom and initiated new projects. Between 2001 and 2002, a joint venture involving Gazprom and Italy's ENI constructed the Blue Stream pipeline, which transported Russian natural gas across the Black Sea to Turkey. Of significant importance, in 2005, Gazprom and its German partners BASF and E.ON (later joined by the Netherlands' Gasunie and France's ENGIE) initiated the Nord Stream pipeline project, capable of annually transporting 55 billion cubic meters of natural gas from Russia through the Baltic Sea to Germany. Simultaneously, several major European importers of Russian natural gas (including companies from Germany, Italy, and France) extended their long-term contracts with Gazprom.

In 2006 and 2009, gas disputes between Russia and Ukraine led to crises in gas deliveries, triggering internal controversies among EU member states regarding their energy trade with Russia. At the end of 2006, the European Energy Commission commented on Russia's energy strategy, stating: "Russia lacks the capacity to meet the growing energy consumption demands of Europe. It cannot balance its internal needs with external supplies." This comment clearly highlighted significant disparities between the EU and Russia in terms of energy development direction and geopolitical objectives [7].

After the Crimea crisis in 2014, the EU's trade policy adopted a more pronounced tone of economic nationalism, considering its broader security interests. For instance, the EU suspended all government-level energy dialogues and cooperation with Russia, including the EU-Russia energy dialogue mechanism, aiming to exert political influence on Russia through economic pressure [8]. Although the proportion of gas supply from Russia to the EU increased by 8% from 2014 to 2019 in relation to the total annual natural gas consumption, this was closely related to the EU's initiation of multilateral agreement plans (due to internal disagreements). Furthermore, the cessation of dialogue during this period intensified the mutual mistrust between Russia and the EU, deteriorating the external environment for EU energy development and exacerbating energy conflicts between Europe and Russia [9].

In February 2022, Russia initiated a special military operation in Ukraine, prompting the EU to impose comprehensive sanctions on Russia and adopt energy trade policies with a stronger emphasis on economic nationalism. During this process, EU member states bore nearly all the spillover risks. Trade frictions intensified, leading to a substantial increase in the market prices of major energy resources and a severe energy crisis. At the outset of the Russia-Ukraine conflict, the European Union promptly announced its intention to reduce its natural gas demand from Russia by two-thirds, and Germany voluntarily suspended the Nord Stream 2 gas pipeline project. Data from the Intercontinental Exchange (ICE) showed that on February 21, 2022, the price of Dutch natural gas futures (European gas benchmark) was 71.436 euros per megawatt-hour (MWh). In the aftermath of the Russia-Ukraine conflict a week later, gas prices surged dramatically. By March 7, the price had skyrocketed to 217.29 euros per MWh, marking an increase of over 200% in just around two weeks [10]. The European Union exports to Russia fell by 50 percent between February 2022 and March 2023, while imports from Russia fell by 82 percent over the same period. These developments resulted in the EU's trade deficit with Russia peaking at €18.4 billion in March 2022 and turning into a small surplus of €200 million in March 2023.

In conclusion, despite the differences in the paths taken by EU member states to achieve energy diversification from Russia, driven by their varying levels of dependency, there is a consistent pattern in the interplay between trade frictions and economic nationalism. The stronger the presence of economic nationalism within a country, the more likely it is to engage in robust trade negotiations or

even implement energy diversification strategies, even if this involves short-term economic sacrifices. This interrelationship underscores the complex dynamics shaped by geopolitical pressures and national interests in shaping the energy landscape.

3. Multiple Factors that Affect Energy Policies between the EU and Russia

3.1. Energy dependence

Many European Union (EU) countries highly depend on Russia for natural gas and oil. This dependency makes energy policy a core issue in the bilateral relations between the EU and Russia. Energy dependency puts the EU in a complex position in its political interactions with Russia, requiring a balance between energy security and political stance. When the EU is highly dependent on Russian energy, especially natural gas, it may tend to avoid overly nationalistic policies in order to maintain a stable energy supply. In this scenario, strategies of economic nationalism may be downplayed, as stable energy relations are perceived to be of higher strategic importance than political disagreements. With a high dependency on Russian energy, any political conflict with Russia poses a greater risk to the EU, as Russia can use energy supply adjustments as a political tool. In such a scenario, the EU may be more inclined to avoid deteriorating trade relations with Russia to preserve energy supply stability. However, as the EU begins efforts to reduce its dependency on Russian energy, such as by developing alternative energy supply channels or promoting energy diversification, its reliance on Russian energy will decrease. Under such circumstances, the EU might be more willing to adopt a tougher policy stance toward Russia, such as implementing energy supply restrictions or trade sanctions. Such policies are more likely to provoke energy trade frictions with Russia. Thus, high energy dependency may lead the EU to exercise greater caution in its energy trade relations with Russia. However, as the EU attempts to reduce this dependency, energy trade relations with Russia will likely worsen.

3.2. Geopolitics

The European Union depends on Russia for its natural gas and oil supplies, and geopolitical stability is a prerequisite for ensuring the security of these supplies. For instance, many EU countries rely on natural gas from Russia through Ukraine. The Ukraine crisis, the conflict in Georgia, and the security situations in neighboring countries are significant factors in the EU-Russia relationship. These geopolitical events prompt the EU to adopt a more cautious approach toward its foreign policy with Russia and may lead to sanctions and diplomatic friction. Geopolitical conflicts like the Ukraine crisis may encourage the EU to strengthen its economic nationalism strategy. This might manifest in imposing economic sanctions on Russia, promoting energy supply diversification to reduce dependence on Russia, or enhancing energy integration within the EU. For example, under geopolitical pressure, the EU might diversify its energy import routes to reduce reliance on Russia, possibly seeking to import more natural gas and oil from Central Asia, the Americas, or Africa. When geopolitical tensions escalate, the EU may be more willing to resort to measures such as sanctions, resulting in worsening energy trade relations with Russia. However, when geopolitical relations are stable and energy supplies are more secure, the EU may likely soften its economic nationalism strategy, thereby consolidating energy trade relations with Russia. Moreover, the formulation of the EU's energy policy is also influenced by geopolitical factors. For instance, in response to Russia's geopolitical behavior, the EU may be more inclined to develop renewable energy to reduce its dependence on Russian energy. This policy formulation manifests economic nationalism but may also lead to tensions in energy trade relations with Russia.

3.3. Internal discord

EU member states are divided on handling relations with Russia, as different members have distinct histories, cultures, and political-economic interests. These divisions may limit the unity and effectiveness of the EU's policy towards Russia. The differing stances of EU member states on

relations with Russia could lead to disagreements within the EU on economic nationalism policies. For instance, countries highly dependent on Russian energy might oppose harsh economic policies against Russia, while those with tense geopolitical relations with Russia may favor a stricter stance. These internal divisions within the EU could weaken its unified and strong response towards Russia, which might slow down energy trade relations with Russia. However, such frictions could escalate significantly when a particular event prompts a consensus among EU member states, leading to a more unified and stricter stance towards Russia.

4. Conclusion

In 2014, the EU imposed a series of economic sanctions on Russia due to the Ukraine crisis and the Crimea issue. These sanctions aimed to limit Russia's finance, energy, and defense sectors. Despite the EU being a major consumer of Russian energy, especially natural gas, this decision was made as a political response to express dissatisfaction with Russia's actions. The EU heavily relies on Russia's natural gas, especially Germany and Eastern European countries. While these sanctions have affected EU-Russia relations, the EU remains a significant buyer of Russian energy. However, this crisis reminded the EU that its high dependence on Russian energy could be a strategic vulnerability, encouraging the EU to strive to reduce its dependency on Russian energy by advancing the "Southern Gas Corridor" project and diversifying energy supplies.

Additionally, given that the Ukraine crisis is a clear geopolitical issue, the EU and Western allies like the United States imposed sanctions on Russia due to Russia's actions in Crimea and the conflict in Eastern Ukraine. The EU's sanctions on Russia are a clear geopolitical response. This decision reinforced the EU's willingness to use economic means (in this case, economic nationalism strategies) to respond to geopolitical challenges. In addressing this issue, EU member states were divided on taking action against Russia. For instance, Germany is a significant recipient of Russian natural gas, while Poland and the Baltic states adopt a much tougher stance. After the Ukraine crisis, although the EU eventually reached a consensus and imposed sanctions on Russia, this process took work and required balancing the interests of different member states. Such internal divisions may have limited the EU's ability to adopt a quicker and more robust response.

Such a case illustrates the connection between the EU's external economic nationalism strategies and energy trade. The Ukraine crisis triggered the EU's reevaluation of its dependency on Russian energy supplies, encouraged the EU to adopt a certain degree of economic nationalism policies (such as sanctions), and revealed the divisions within the EU on how to deal with its relationship with Russia. The paper presents how geopolitical tensions, energy dependency, and internal divisions collectively influence the EU's economic nationalism strategies and energy trade relations with Russia. All in all, multiple real-life factors affect changes in the strength of economic nationalism between the EU and Russia. If economic nationalism places more emphasis on economic interests and leans toward liberalism, the trade volume between the two sides in the energy sector will increase; when it focuses more on national security and economic security, it will lead to a decrease in energy trade between Russia and the European Union and the tendency for multi-source energy supply.

Authors Contribution

All the authors contributed equally, and their names were listed in alphabetical order.

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