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Unclear and present danger: Russia's geoeconomics and the Nord Stream II pipeline

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Russia's geoeconomics has long been successful in keeping the EU divided in its dealings with Russia. However, Russia's shift to traditional geopolitics in Ukraine undermined this "wedge strategy" and produced a relative increase in EU unity. This article looks at the features of geoeconomics as a foreign policy strategy, how it differs from geopolitics, and how it gives rise to ambiguity and depoliticization. Faced with the prospect of more rigorous counterbalancing, Russia may soon try to revive its geoeconomic power projection, spearheaded by energy projects in EU. From a technical perspective, the Nord Stream II pipeline could enhance some aspects of the EU–Russia gas trade. However, politically and strategically, Nord Stream II has the potential to undercut Germany's new leadership role in EU foreign policy, erode general solidarity within the EU, and create substantial policy incoherence for the EU vis-à-vis Ukraine.

Keywords: energy; EU; geoeconomics; geopolitics; Nord Stream; Russia

Introduction

As the geopolitical attention of the world has shifted from Ukraine to Syria, the issue of how to manage Russia's revisionist challenge to the European security order and whether EU should uphold its economic sanctions against Russia may become increasingly controversial in 2017. The sanctions were a result of Russia's unexpected turn to offensive geopolitics and the heightened threat perception that it triggered within the EU. As the Ukraine crisis fades into the background in the political discussion, several member states with economic interests in Russia will exert pressure on the EU for lifting the sanctions. In the meantime, the EU will make strategic decisions that will affect its relations with Russia, concerning for example

Gazprom's antitrust investigation, and whether to take decisive steps towards a European Energy Union. Faced with a set of other internally divisive issues, such as Brexit and the influx of migrants, it may become increasingly challenging for the EU to uphold even a relatively united and strategic policy toward Russia.

The situation may, with a possible de-escalation in Syria in 2017, give Russia the opportunity to revert to its previous – and remarkably successful – geoeconomic strategy, which employed economic means to keep the EU weak and divided in its dealings with Russia. Currently, the most important project with this strategic element is the Nord Stream II pipeline, which, if completed, would erode EU unity in general and

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Germany's leadership role in particular, while also, at least temporarily, increase Ukraine's vulnerability. Some influential actors within the EU consider Nord Stream II a non-political and commercial enterprise.¹ A European need for affordable gas supplies or the interest of some private European companies are the typically invoked commercial arguments. The relatively peaceful "new normal" in Ukraine may trigger the return of the 2000s – a period when the EU thought of energy in terms of commerce and Russia in terms of strategy.

The Russian geoeconomic influence, in case it is successful and goes unnoticed, drives wedges between EU members as well as causes disunity within the member states, thereby presenting Europe with an "unclear and present danger". We suggest that it is "unclear" for two interrelated reasons. Firstly, the European tradition of promoting free trade and liberal interdependency seems to distract the attention of some politicians and stakeholders. The founding assumption of the post-Cold War order in Europe was that economic integration would bring about closer political cohesion within the EU as well as in its neighbourhood, and thereby create a new security environment based on interdependency.² It is hard to find an EU foreign policy strategy paper from past decades that does not include this notion in one form or another. Secondly, geoeconomic power projection itself creates obfuscation. This is, in fact, the gist of our analysis. Geoeconomic activity may be calibrated to cause ambiguities and thereby to mask the strategic aims. Some actors will surely recognize the geoeconomic operation for what it is, while other actors who benefit from the economic carrots provided by the operation have an incentive to play down any threat scenarios. Russian geoeconomics empowers stakeholders within the EU with an interest to argue that geoeconomic projects are apolitical and commercial interactions. From 2014 to 2016 this reasoning prevailed, for example, in the context of Russia's South Stream and Nord Stream II pipeline projects, as well as

with regard to the Russian nuclear investments in Finland and Hungary, respectively.

While these projects actually bring some economic benefits to the targeted countries, they may come at the expense of political concessions. The concept of geoeconomics was originally coined by Edward Luttwak, who pointedly criticized the optimism surrounding the end of the Cold War, and the liberal assumptions about the new global interdependence doing away with strategic conflict (Luttwak, 1990). Instead, he emphasized how competition for relative power continues to drive state behaviour in international relations, albeit with states increasingly using economic means instead of military ones. Despite the means being different, the motivation is still geostrategic – broadening and deepening the sphere of political influence.

Recently, geoeconomics has become something of a buzzword amongst analysts and policymakers (Blackwill & Harris, 2016; Mattlin & Wigell, 2016; Szabo, 2015). Yet both seem to be much more preoccupied with negative forms of geoeconomics (the proverbial "sticks") compared to positive geoeconomics (the "carrot"). In the field of energy, the sticks include price increases, explicit and implicit threats of cut-offs, and strong-arming the foreign companies that operate within the geoeconomically active country. The carrots, such as price cuts for energy or unprofitable investments, loans, side payments, and asset swaps, are easier to portray as solely commercial activity.³ However, they may be just as effective in dividing the target and even producing classical command–obedience relationships (Abdelal & Kirshner, 1999).

In June 2016, High Representative Federica Mogherini presented the new EU Global Strategy on Foreign and Security Policy (EUGS). Some of the accompanying discussion on the work of EUGS revolved around the need for the EU to "start thinking more geopolitically".⁴ Yet, as we show in this article, there is also the related and urgent need for the EU to start thinking more

geoeconomically. There is an increased focus on geostrategic competition envisaged by the document (Biscop, 2016). As the work now starts on implementing the EUGS, this should not only be viewed in traditional geopolitical terms, but also from a geoeconomic perspective.

In this article, we start by underscoring the differences between geoeconomic power vis-à-vis traditional geopolitical power. We then turn to Russia's success as a geoeconomic operator, its subsequent strategic mistake of shifting to traditional geopolitics in Ukraine, and the ramifications of this move for EU–Russia relations. We briefly engage with the Nord Stream II pipeline as the most important current project with a geoeconomic dimension. In the concluding section we highlight the threat of Russia's current return to its previous geoeconomic strategy and discuss its policy implications for the EU.

Decoupling geoeconomics from geopolitics

While geoeconomics functions with the logic of strategy, it is crucial to differentiate it from traditional geopolitics in order to understand it correctly. Some commentators have been quick to invoke the Prussian military theorist Carl von Clausewitz, noting how strategic economic policies are a “continuation of war by other means” (Dyer, 2014; Greiling Keane, 2016). There is a tendency to overlook the dissimilar qualities and implications of geoeconomic and geopolitical power.

Geopolitical power projection is typically overt and conducted by military means. Its operational logic is to confront the target. The military nature of the operation means that it will be hard to conceal or negate. Indeed, the whole idea of geopolitical offensives is usually to appear intimidating, make credible threats and thereby pressure the target to do what the aggressor wants (to “bandwagon”). Hybrid warfare tactics may be adopted in an effort to initially conceal or deny involvement, but the concealment

will be difficult to sustain for long, as Russia's track record in the Ukraine crisis has shown. Subsequently, President Putin has also made little effort to conceal his geopolitics, confronting not only Ukraine, but also openly threatening EU members. In the heat of the moment, Russia threatened Denmark with a nuclear strike if the country joined NATO's missile shield, conducted a mock military attack against Sweden's capital, possibly with nuclear weapons, and kidnapped an Estonian security official at the Russian border.⁵ Such offensive deterrence is part and parcel of a geopolitical power.

An offensive *geoeconomic* operation, by contrast, is typically covert and conducted by economic means. Its operational logic can be called “selective accommodation” (Crawford, 2011). By covert, we mean that the operation is more subtle and easier to conceal than a geopolitical operation. The idea is not to openly confront the target, but to weaken its resolve by economic means. Applying the logic of selective accommodation, a geoeconomic operation offers discounts, side payments, and other “carrots” selectively to some members of an opposing bloc, but not to others. By manipulating economic rewards and punishments in this way, the geoeconomic operator exerts divergent pressures on these constituencies, causing friction among them and thus weakening their counter-balancing potential. Ideally, it wants to seduce “soft targets” away from the opposition, lure them into making a political bargain with the geoeconomic operator, or uphold them inside the country or bloc as middle-men in order to undermine its cohesion. Russia's use of its energy resources, in particular, may be viewed from this perspective, as an attempt to drive political wedges within target countries, as well as between them at the EU level. Such a wedge strategy is integral to the use of geoeconomic power.

As offensive foreign policy strategies, traditional geopolitics and geoeconomics are

thus strikingly different. As a consequence, they will duly have different effects on their targets and on the way they react to these operations. In fact, these effects will be almost contrary, as illustrated in Figure 1.⁶

Traditional geopolitics, by its very nature, will alarm the neighbourhood and strengthen the common threat perception of countries in the vicinity. That is also why geopolitical offensives often help to produce centripetal or unifying forces within the country or coalition affected by the threat. The overt, military and confrontational approach inherent in traditional geopolitical aggression, by heightening the common threat perception, will then also help to reinforce their preparedness to cooperate and join forces against the aggressor. Geopolitical aggression thus commonly provokes counter-balancing behaviour – although whether this ultimately takes place depends on perceptions about the balance of power (Crawford, 2011; Rosecrance & Lo, 1996). If the countries affected by the geopolitical threat perceive the aggressor to be so strong that they have little chance to deter it, or if the aggressor is perceived as having “less to lose” from a costly military confrontation, the target countries may opt to support it. Perceptions are the key, which is why the aggressor, having once chosen a geopolitical strategy, tries to appear as intimidating as possible so as to induce bandwagoning behaviour. At the same time, it needs to weigh the risk of having misjudged the situation and ending up provoking a balancing blowback instead. Hence, with his shift to traditional geopolitics, President Putin took a gamble.

A successful geoeconomic operation, by contrast, will not provoke a similar kind of

acute threat perception. Instead, threat perceptions will be dispersed as some domestic political actors or bloc members start fretting about the vulnerabilities created by the geoeconomic operation, while others, particularly those that stand to benefit from the carrots, will downplay and depoliticize this threat. Depending on the reward power of the geoeconomic operator, some targets may have incentives to exchange political concessions for these economic benefits. Indeed, geoeconomics is deliberately designed to shape the way target governments define their national interests. It assumes that foreign policy choices will result from internal political contests, and that a geoeconomic operation of an external power can affect the outcome of those internal political struggles (Abdelal & Kirshner, 1999). In particular, by helping to provoke divisions or aggravate existing tensions – centrifugal forces – between the members or potential members of an opposing alliance, geoeconomics can be calibrated to function as a wedge strategy, causing “underbalancing” against the threat.⁷ Here, President Putin’s geoeconomics thus presents a clear challenge, which is nonetheless much more subtle than his traditional geopolitics.

Russia’s geopolitics backfires

For much of the 2000s, up until the Ukraine crisis erupted in March 2014, Russia excelled at playing the geoeconomic game with the EU. In particular, it successfully applied energy politics to this end. With the operational logic of selective accommodation, the Kremlin has used gas exports, on the one hand, as a carrot, handing out discounts to certain sympathetic states in Europe, and,

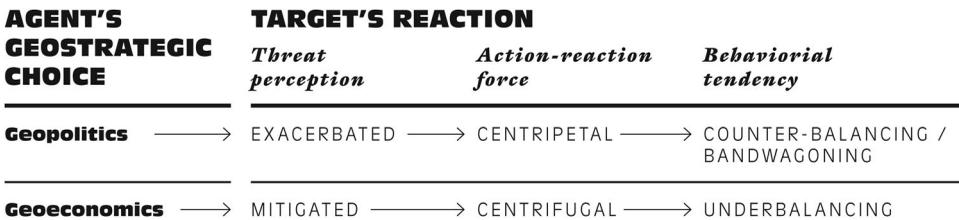


Figure 1. Different properties of traditional geopolitics and geoeconomics.

on the other hand, as a stick, providing “hard” contracts to less amicable governments (Vihma & Turksen, 2015). This use of diverging energy prices, calibrated to covertly reinforce the centrifugal pressures in Europe, was one of the means that proved successful by discouraging EU member states from pursuing common energy policies. The EU institutions, such as the Parliament and especially the Commission, have long underscored the need for the “Europeanization” of energy security. This stance has been countered by those EU member states enjoying favourable bilateral energy contracts with Russia and which have distanced themselves from the Commission’s efforts. For example, Gazprom has awarded favourable and flexible contracts to its German partners such as E.ON and the chemical giant BASF, companies that also hold sizeable shares in the Yuzhno-Russkoye gas fields (Turksen, 2014). These incentive-oriented gas policies have encouraged, alongside with other factors, German politicians not to pursue EU unity and collective action on the energy front.

Through these tactics in different economic sectors, the Kremlin has created European forces with an interest in upholding economic relations with Russia under any political situation, and which downplay the threat that this may pose to the EU’s ability to forge a strategic foreign policy approach. Indeed, Russia’s geoeconomic operation, by being covert and disguised as profit-oriented positive-sum business relations, has mitigated suspicions of Russia’s strategic intentions and how these may pose a challenge to the EU.

The Ukraine crisis turned out to be a game-changer. It exposed Russia as an unpredictable player that was not willing to abide by the European security order, raising suspicions of a broader expansionist agenda. The *annexation* of Crimea was legally, politically and strategically different from the Russian operations in the Georgian or Moldavian breakaway regions. Russian aggression was widely interpreted as an attempt to prevent Ukraine from deepening its relations with

the EU, and as Ukraine borders on four EU Member States, the crisis also directly touches upon the EU itself, unlike, for example, the Georgian war.

By bringing traditional geopolitics into play, Putin thus notably alarmed the Europeans and their leaders. Revisionist Russia became perceived as a real security threat and the counter-reaction was swift. Firstly, in the energy field, the EU managed to harden its stance on Russia’s South Stream pipeline project, leading to its abrupt cancellation in December 2014 (Vihma & Turksen, 2015). Similar centripetal tendencies triggered by the heightened threat perception can be noted in the re-emerging wider discussion on energy union. Trying to heed the moment, the EU Commission presented a new, more ambitious proposal in February 2015 (European Commission, 2015). In this context, Russia’s ability to use the gas trade as a political tool is continuously decreasing.

Secondly, the EU managed to unite behind a sanctions regime against Russia – to the surprise of many experts and actors involved, seemingly also to Putin himself.⁸ Early statements by Putin also suggest that he did not seem to fully grasp how vulnerable Russia is to sanctions, especially as the oil bust has heightened Russia’s need for foreign capital and finance. Though the root causes of Russia’s economic troubles are its vulnerability to oil price plunges, systemic corruption and a weak rule of law, the sanctions have exacerbated their impact on the Russian economy. The Kremlin had to acknowledge as much, with the head of administration, Sergei Ivanov, noting: “Yes, sanctions indeed did a certain damage, we have never denied that”.⁹ According to the IMF, in 2015 the sanctions brought a 1.5% drop in Russia’s GDP, and that drop will accelerate if they are kept intact. The sanctions have deprived Russian state-controlled banks and companies of an important source of refinancing for their external debts. As a result, credit costs have soared and investment has contracted, undermining

Russia's medium-term growth prospects (IMF, 2015). Public sector spending will have to be further slashed, which will affect a wide range of sectors from pensions and social policy items to local government subsidies.

Thirdly, Germany's policy toward Russia has taken a turn "from Ostpolitik to Frostpolitik" (Forsberg, 2016). Not only does Germany appear less willing to be Russia's interlocutor in Europe, but it has also stepped up to show increased responsibility in EU foreign and security policy. This change has been analysed in detail by Hellmann (2016, p. 7), who notes that a discursive shift that has taken place "within Germany over the past decade or so is both increasing realization *and* acceptance of the fact that Germany is Europe's 'leading' power". The other EU member states have also accepted German leadership surprisingly broadly, as Russian geostrategy has been perceived as a direct threat to European security. Germany has been prepared to sacrifice a degree of its traditional special economic relationship with Russia, and the EU's Russia policy in general has shown tentative signs of finally shaping up to a more coherent position.¹⁰ From Russia's perspective, such a prospect would directly weaken its ability to disperse any counter-balancing efforts by the EU. Faced with a more united EU, and a Germany more willing to back it up, Russia would no longer find it as easy as before to induce defections from the EU's Russia policy.

In short, it appears that by turning from geoeconomics to traditional geopolitics in Ukraine, Putin made a strategic mistake in 2014. By not considering how his geopolitics might weaken his previously successful geoeconomics, Putin undermined his own ability to play the geoeconomic game. Russia had previously been able to mask its strategic aims under the guise of commercial realism ("this is only about money") or even liberal interdependency ("mutual trade makes us friends"). Such masking is a geoeconomic strategy *par excellence*. Reverting to geopolitics, however, induced the EU to shift from its

emphasis on liberal interdependency and commercial realism in its relations with Russia toward more strategic thinking. However, there are signs that Putin has now realized how his geopolitics in Ukraine have caused a pushback, and may invest more assertively in the geoeconomic component of his European strategy.

Back to the future: Nord Stream II

A heightened focus on geoeconomics may be on the cards for Russia. In September 2015, Gazprom announced the Nord Stream II project with a consortium of five European partners: Wintershall, Uniper, E.ON, OMV and Shell. The plan is to follow the existing Nord Stream route through the Baltic Sea, bypassing Poland and Ukraine, with a capacity of 55 billion cubic metres of gas per year, which would double the capacity of the existing Nord Stream line. In August 2016, however, the Western companies withdrew their application to formally form the joint venture due to the resistance of Poland's competition authority – Poland has been the most vocal opponent of the project in the EU. The loss of five reputable partners was a blow for projects financing and possibly also political support, but Gazprom has signalled it will continue to push forward with the pipeline (Stratfor, 2016).

The project had aroused suspicions of strategic behaviour from the start, as did its southern counterpart South Stream in 2007–2014. In order to fill both Nord Stream I and II after 2019, the existing landlines through Ukraine would be subjected to much less use: by some estimates, 90% of the total Russian gas exports to the EU would go to or through Germany, and 80% via Nord Stream (De Jong, 2016; Korchemkin, 2016). This could jeopardize the stated goals of the Energy Union, namely the diversification of natural gas sources and increasing competition, and in this regard, arguably, also undermine the EU's external energy security. For example, the EU's Energy Commissioner, Arias Cañete, has concluded

that Nord Stream II would “increase Europe’s dependence on one supplier” and “increase Europe’s dependence on one route”.¹¹

As with the South Stream pipeline project, Russia stands to increase its influence in Ukraine. In the short term, the project could deprive Ukraine significant annual revenue and a rare political lever against Moscow as a transit state between Russia and the EU markets. This very same issue, from the EU perspective, would result in a sizeable policy incoherence, in which the EU and Germany would effectively end up supporting Ukraine, on the one hand, and weakening it, on the other. In the longer term, with the current Russian military aggression in Ukraine out of the equation, the argument of not weakening the Ukrainian geopolitical position may become less relevant, and Ukraine’s role in gas transit can be addressed from more technocratic lenses.

Equally importantly, with Nord Stream II Russia can reassert its influence in Germany, weakening Berlin’s solidarity within the EU ranks. This would take place by giving Germany the key transit country status to European markets. Here, Nord Stream II acts as a wedge strategy, exerting divergent pressures on EU members and thus weakening the cohesion of the EU. The wedge strategy element of the Nord Stream II pipeline project casts Germany in a remarkably different light than Chancellor Angela Merkel’s diplomatic efforts concerning Ukraine in 2014–2015. At that time, Germany took the lead in both coordinating sanctions within the EU and negotiating a ceasefire with Russian president Putin, and Merkel’s leadership role in brokering the Minsk deals “received widespread praise” in EU (Hellmann, 2016, pp. 7–8). With Nord Stream II pipeline in place, Germany would be seen as a country that enjoys its privileged relationship with Russia, is driven by economic self-interest, and when push comes to shove, is insensitive to the EU’s collective security, diplomatic efforts and energy policy objectives.

Some analysts note how *Russlandvertreter* remain an influential group in the German public debate, and how, by invoking the *Ostpolitik* tradition, they seek to revive Germany’s special relationship with Russia (Forsberg, 2016; Siddi, 2016). Advocating this conciliatory approach to Russia are some business interests as well as prominent Social Democrats that want to revive the *Ostpolitik* tradition as a way to differentiate themselves from the Christian Democrats, with a view to the upcoming general elections in September 2017 (Kundnani, 2016).

Nord Stream II became a lightning rod of controversies at the European Council in December 2015, with Poland and Slovakia leading a group of nine Central and Eastern European countries that protested against the project. Some analysts and politicians have labelled Nord Stream II as “Schroederization”, and warned against German–Russian bilateral cooperation that could make decisions with little regard for the interests of smaller states.¹² In addition, other rather provocative terminology has been applied: an analyst from Chatham House recently expressed concerns over “energy Finlandization” (Gould-Davies, 2016), which might take place in EU countries that do not have the awareness and/or necessary leverage to counterbalance Russia’s influence.

From a geoeconomic perspective, however, the key point of interest is the argument that Nord Stream II is purely a business case with little or no political relevance. Vice Chancellor Sigmar Gabriel stated that for Germany the pipeline is “a business issue” (EurActiv, 2016). His stance can be viewed against his background as a Schröder protégé (Kundnani, 2016). Some European leaders, including Finland’s Prime Minister Juha Sipilä, have taken similar positions (Jakobik, 2016). Professor Jonathan Stern (2016) frames the issue in a suggestive question:

Is it the Commission that decides whether pipelines are necessary, or is this rather a risk for investors which will be financially

penalised if it turns out there is no demand for this gas and therefore the pipeline capacity?

Here the EU Commission and EU energy law is cast as a bureaucratic arm that interferes in a project driven by private companies – although categorizing Gazprom as “private” requires something of an imaginative leap. This kind of depoliticization, we argue, is typical of geoeconomics. The economic power projection, with its carrots and sticks, winners and losers, produces centrifugal forces in the EU and member states alike. Not only is geoeconomics easier to conceal than traditional geopolitics, but the former actively creates interest groups that campaign for it – with depoliticization as a central, recurring theme. Scholars of energy issues and economics are typically more likely to see functioning markets and commercial motivations, while foreign policy analysts notice Machiavellian strategic behaviour.

Fostering this depoliticization is challenging under current conditions, as many countries and constituencies are acutely aware of Russia’s current efforts to influence European unity by various means, including information campaigning, cyber activity, financial support to anti-EU parties and so forth. But carving a political vacuum, in which energy issues are taken as long-term business relations that *are not* and *should not* be used for power politics, may well succeed, especially if Russia tones down its geopolitical campaign in Ukraine. EU Member States with deep economic ties and a longstanding tradition of cultivating a special relationship with Russia, such as Finland and Germany, may be particularly inclined to portray certain economic cooperation, such as energy, as purely a commercial or technical issue, despite its geostrategic implications.

The return of the geoeconomic game?

President Putin’s decision to intervene in Syria may be seen, among other perspectives, against the backdrop of his counterproductive

shift to geopolitics in Ukraine. The Western blowback, including the sanctions, risked marginalizing Russia on the international scene. By engaging in Syria, Russia became again a global player to be reckoned with. The Syria move also gave Putin a chance to recover some leverage for weakening the EU’s political cohesion and resolve. Some EU member states have signalled that the EU needs Russia’s help to stall the influx of Syrian refugees and may therefore be prepared to make some conciliatory moves to garner Putin’s support.¹³ Jean-Claude Juncker, the President of the European Commission, seemed to admit as much: “[w]e must make efforts towards a practical relationship with Russia [...] we can’t go on like this [...] Russia must be treated decently” (EurActiv, 2015).

At the time of writing this article in autumn 2016, however, a Russian military escalation is taking place in Syria, accompanied with a clear step up in geopolitical rhetoric. These traditional geopolitics will undermine the Russian campaign against sanctions for December 2016, when EU takes them up next time. However, the current escalation can also be interpreted as “the usual way of preparing for negotiations”, collecting bargaining chips, or raising the stakes, with an eye on positioning to make maximum demands of the next US president in 2017.¹⁴

It is also possible that Putin will again escalate the aggression in Ukraine, thus prolonging his engagement with traditional geopolitics in Europe. In Ukraine, Putin enjoys escalation dominance and thus has the geopolitical upper hand. The Minsk II agreement is certainly more favourable for Russia than the Minsk I agreement, suggesting that escalating the conflict has succeeded in practice. However, Putin also seems to have initially underestimated the anxiety created by his aggression in Ukraine. Whereas the EU foreign policy had typically been weakened by a cacophony of voices from various member states, it was able to straighten its lines, imposing sanctions

and blocking the negotiations over the South Stream pipeline, which perhaps became strategically the most significant victim of Putin's Ukraine adventurism (Chazan, 2014).

Hence, Putin may opt to revive Russian geoeconomics as a centrifugal, dividing force within the EU. Despite early scepticism of scholars such as John Mearsheimer (2014), sanctions have incurred considerable mid-term costs for the Russian economy and, through that, had a deterrent effect. While the sanctions have been framed as a punishment for Russian aggression in Ukraine, their real strategic intent is to signal resolve and deter Russia from further military adventurism, such as conquering the city of Mariupol, or engaging in another war in the neighbourhood. In the context of de-escalation in Syria, there is a real possibility that Russia will make maximum efforts to get the EU to drop the economic sanctions when they come up for reviews in 2017. As all EU member states must approve the extension of the sanctions, Russia will offer a host of inducements to selected countries so as to encourage disalignments. This task, among others, will be made easier if the decision to build the Nord Stream II pipeline is taken. Why would other EU countries not follow the new German example and let their constituencies maximize economic interests with Russia as they wish?

When analysing the security implications of energy, analysts should pay due attention to the easily de-politicized "carrot", and not only to the potential energy security "stick". In the short term, the EU and Germany need to put the Nord Stream II pipeline project on hold, calibrate their sanctions against Russia smartly, and signal clearly that they will not be prepared to drop them altogether as long as Russia continues to interfere in Ukraine and use risky geopolitical manoeuvres in the neighbourhood, for example in the Baltic Sea region. Mimicking Russia's geoeconomic strategy, the EU could calibrate its sanctions so as to exert divergent pressures on Russia's economic elite, with some business leaders squeezed harder than

others, and thus slowly weaken the cohesion of the Russian elite. Even by signalling its willingness to use such a wedge strategy, the EU would add to its deterrence capabilities and influence Putin's calculations. At the same time, the EU needs to continue building its own resilience against geoeconomic manipulation. To counter the Russian energy geoeconomics the EU should continue on the path shown by the antitrust case and insist that Gazprom plays in accordance with the rules of the common market and EU energy policy. The energy union should contain an external security dimension, further transparency and some level of "Europeanization" of the EU's energy borders, as envisioned by Donald Tusk and Gunther Öttinger, for example. In order for this to be successful, the EU should create new institutions that tilt the power balance between member states and the Commission towards the latter.

Russian geopolitical power has important implications for the ongoing EU strategy work on foreign policy. Geoeconomic manoeuvres in strategic sectors should be seen for what they are, not through the prism of commercial realism, which emphasizes the selective monetary profits made by some actors, or liberal interdependency, which naïvely assumes that increased economic interaction always brings about a more peaceful security environment. It should be duly acknowledged that Russian geoeconomic power has been successful in dividing the EU in the past, and it has strong ties in the European energy and finance sectors. In spite of the high political tensions and the unresolved Ukraine crisis, in 2016, Russian economic power is still a very relevant force in Europe. The recent asset swap deals by Gazprom and German and Austrian energy companies are a case in point (Dempsey, 2015), as is for example the manoeuvring around the Finnish nuclear power plant investment by Rosatom in 2014 and 2015 (YLE, 2014). However, Nord Stream II is the most weighty and consequential project. It may undercut what has been one of

Putin’s greatest challenges in recent years: a joint Western front opposing his plans to bring Ukraine back under his control, with Germany and Angela Merkel at the helm.

In the coming years, the economic relations between the EU and Russia may well develop into a more balanced relationship, in which all parties are on the same page regarding what is commercial and what is strategic. Commercial realism, and to a certain extent propositions suggested by liberal interdependency, may work with sectors dominated by small and medium-sized enterprises, such as tourism and services. By making it harder for Russia to use its energy resources for political ends, increased European firmness may actually induce the Kremlin to focus on the commercial side of its energy policy, and engage with foreign partners in a more business-like manner. In the meantime, in order to handle the current, confrontational EU–Russia relations in strategic economic sectors, an increased awareness of geoeconomics in general, and a mixture of commercial and strategic motivations in particular, is needed.

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Notes

1. See, for example, Germany’s Vice-Chancellor Sigmar Gabriel’s comments (Barber, 2016) and Finnish PM Juha Sipilä’s comments (Jakobik 2016).
2. The view was echoed by a large number of European policymakers, such as Finnish Foreign Minister Erkki Tuomioja in 2004:

The European Union and Russia are tied together into a knot of positive interdependence. In many public

statements our relation is often thus characterized as a “strategic partnership based on common values”. This touches upon something essential: our interaction and increased cooperation cannot but benefit us both.

See Finnish Ministry of Foreign Affairs, retrieved from: <http://formin.finland.fi/public/default.aspx?contentid=61044&contentlan=2&culture=en-US>

3. For a recent discussion on the interplay of business, politics and security, see Schmidt-Felzmann (2016).
4. For the Strategic Assessment issued by the EU’s High Representative for Foreign Affairs and Security Policy, as well as ensuing commentary and analysis, see <https://europa.eu/globalstrategy/en>.
5. These events have been widely covered by the European media. See for example Milne (2015), Braw (2015), and Sharkov (2016).
6. The distinctions we make between geopolitics and geoeconomics are ideal-typical in a Weberian sense. In practice, states often try to combine elements of both geopolitics and geoeconomics when projecting power. However, for analytical purposes it is worthwhile differentiating between them. Using a Weberian approach, they can be taken as “reference models”, helping to identify and describe the geostrategic behaviour of states. See also Wigell and Vihma (2016).
7. For a discussion on different forms of such behaviour, see Schweller (2006).
8. See, for example, US Senator John McCain’s comments (Sanchez, 2014). Other news sources suggesting this also include Schult, Schindler, and Neukirch (2014), Oliver, Fontanella-Khan, Parker, and Wagstyl (2014), Tétrault-Farber (2014), and RT News (2014).
9. Quoted in Shevtsova (2016).
10. For one such estimate, see European Council on Foreign Relations (2015).
11. Commissioner Arias Cañete at the European Parliament Plenary: opening and concluding remarks, 7 Oct 2015. Available at: http://europa.eu/rapid/press-release_SPEECH-15-5797_en.htm.
12. For example, the Estonian president, Toomas Hendrik Ilves, referred to “Schroederizatsiya” when discussing the Nord Stream II project at the Riga Conference in November 2015, see: <https://www.youtube.com/watch?v=CrB2Pn996G0>.

13. News sources speculating on this include Wishart (2015).
14. For these strategic viewpoints and speculations, see for example MacFarquhar (2016).

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