Austria, the Visegrád Group, and the Energy Union:
Is there a Central European approach to European energy security?

Research Project
September 15, 2017

András Oláh

Master of Arts Graduate
The Johns Hopkins University
School of Advanced International Studies (SAIS)

Washington, DC

Spring Semester
Academic Year 2016-2017
# Table of Contents

Introduction......................................................................................................................... 4

Austria’s energy profile and energy security concerns ............................................. 6
  Key characteristics of Austria’s energy system today .......................... 7
  Energy supply ........................................................................................................ 7
  Energy Demand .................................................................................................... 8

Current energy issues for Austria related to the ‘security of supply’ ...... 9
  Energy Import Dependency and Weak Diversification of Supplies ...... 9
  Limits on the Deployment of Renewables ......................................................... 10
  Uncertain fulfillment of national climate goals ......................................... 10
  Electricity Supply .............................................................................................. 11

The Visegrád Group’s Energy Security Concerns and Austria’s advantageous position.................................................................................................................. 12
  Brief energy profile and strategies of the Visegrád countries........... 12
    Poland ............................................................................................................... 12
    The Czech Republic .................................................................................... 14
    Hungary ....................................................................................................... 14
    Slovakia ....................................................................................................... 15

The V4’s key energy security concerns .............................................................. 16

Austria’s edge in energy over the Visegrád Group countries .................. 19
  Excellent Economic and Business Relations.......................................... 19
  Austria’s Strategic Importance for Gazprom and its Benefits .......... 20
  Strong Cooperation with Germany ............................................................. 21
  Technological Edge in Developing Potential Shale Gas Reserves ...... 22
Austria and the Visegrád Group’s Aligned Interests: The Need for a Central European Approach ................................................................. 22

Need for a unified voice .................................................................................................................. 22
Need for market integration ............................................................................................................ 23

The Politics of Energy in Central Europe in the Past and Present .......... 24
A Central European approach: history of energy cooperation between Austria and the V4 ................................................................. 24
Divergence of energy policies ........................................................................................................... 27
The Austria-Visegrád Schism over Nord Stream 2 ............................................. 27
The Slavkov Triangle: New Alliance in Central Europe? ....................... 28
Remaining an Ardent Supporter of Diversification: Poland .................. 30
A Trojan Horse of the Kremlin? - The Hungarian Case ..................... 31

Implications for the Energy Integration Process at the European Level .. 33

Conclusion ........................................................................................................................................ 35

Glossary of Acronyms and Abbreviations ...................................................... 36

Bibliography ................................................................................................................................. 37
Academic Studies ......................................................................................................................... 37
Reports .......................................................................................................................................... 41
Articles .......................................................................................................................................... 41

Endnotes ......................................................................................................................................... 42
Introduction

Central Europe’s energy insecurity has long been regarded by regional policy-makers as one of the key strategic challenges confronting the region. Energy security in the region has been, in particular, centered around securing the stable supply of energy, primarily natural gas, a key energy source for Central European countries, the majority of which they not only need to import from abroad, as a result of their limited domestic gas production opportunities, but also have to primarily buy from a single energy supplier, Russia. This perception of energy security was further exacerbated in 2006 and 2009 when Central European (and Balkan) countries experienced severe shortages in natural gas supplies as a result of Gazprom’s politically-motivated commercial disputes with the Ukrainian Naftogaz over transit fees, higher gas prices and debts.¹ The 2009 gas crisis was specifically a turning point in Central European-Russian energy relations, as for the first time ever natural gas supplies to these countries were entirely halted, plunging the region into a full-blown energy crisis for almost two weeks and severely damaging the perception of Russia as a reliable energy supplier.² The issue of energy security came to the forefront even more since the outbreak of the current armed conflict in Ukraine in 2014, where Moscow clearly demonstrated that energy is only another tool of statecraft for achieving its geopolitical aspirations.³ The conflict in Ukraine removed any lingering doubts about the urgent need for enhanced regional energy security, as it has once again demonstrated the region’s excessive dependence on Russian energy supplies. Indeed, several member states were reluctant to politically confront with Moscow, either because they feared a heavy-handed response in the form of higher energy (gas) prices and/or the disruption of their gas imports from Russia, or because they were actually pressured by Moscow to make political decisions related to Ukraine that are less harmful to Russian interests.

In order to reduce the region’s, and also the wider European continent’s dependency on Russia’s energy, primarily gas supplies, the European Union adopted several so called “energy packages”, among them the most famous ‘Third Energy Package’, with the aim to establish an integrated, highly-connected European energy market, also called the ‘Energy Union’. The key goal of the Energy Union would be to ensure that EU member states become more resilient to external shocks, natural gas supply disruptions in particular, in times of crises similar to the ones in 2006 and 2009. Emphasis was placed on the ‘security of supply’, aimed to be achieved namely by the diversification of both external energy infrastructure, as well as energy suppliers in order to reduce the region’s single-track dependency on Russian energy supplies.
The core of Central Europe, Austria and the countries of the Visegrád Group (also referred to as ‘V4’), consisting of the Czech Republic, Hungary, Poland, and Slovakia, have been highly supportive of deepening energy integration on both the regional and European level, given that they all recognize their shared common energy challenges. Although Austria not being a signatory, already the 1991 Visegrád (founding) Declaration stressed the need for Central European collaboration on the field of energy by, among others, the coordination of the development of power systems, and the creation of North-South gas streams, that also includes Austria. In recent years, in the aftermath of the 2009 gas crisis, Austria and the V4 countries have also strengthened regional cooperation (in particular on natural gas markets), and, in addition, they also effectively supported with a unified voice the later abandoned Nabucco pipeline project which would had significantly decreased the region’s single-track dependency on Russia by the diversification of both external energy suppliers, and the transport routes for gas and oil.

Most recently, however, several disagreements have emerged not only between Austria and the V4, but also within the four member states of the Visegrád Group. Despite their unified commitment to the ‘Energy Union’, Austria and the countries of the Visegrád Group have decided to pursue very different approaches on how to reduce their energy security vulnerabilities to outside shocks.

My aim with this research study was to investigate Austria’s and the V4 countries’ positions on energy policy, in particular their policies to achieve energy security and to contribute to the creation of the ‘Energy Union’, a more integrated and less vulnerable energy community, and to answer the main question whether, despite the differences, “Austria and the countries of the Visegrád Group can reduce their dependence on hydrocarbons from Russia or, failing that, whether they can at least learn to form a common front in the face of Russian market power and support the deepening European energy security integration, and the idea of the European Energy Union with a unified voice?”.

In the first part of the study, I looked at Austria’s national energy security concerns, and highlighted the main elements that have been driving Austrian energy policy strategies and diplomacies in recent years.

Then, in the second part, by looking at the Visegrád countries’ current energy profiles, policies and energy security concerns, I explained why Austria is in a much better position than the Visegrád countries in terms of pursuing its energy policy objectives. In both this and the previous section, particular emphasis was given to the structure of individual countries’ energy
sectors and industry, and also their energy mixes which are generally major factors influencing national energy strategies.

Thirdly, moving on to the regional level, I explained why, however, all five countries’ fate is closely intertwined and therefore matters for Austria’s energy security objectives.

Then, I shed light on the underlying (oftentimes deeply political) dynamics of these national approaches, and answered the question whether, as a result of their reliance on each other, there has been a convergence in Austria’s and the V4’s approaches to reduce the region’s dependence on Russian energy supplies, or at least to have a common approach vis-à-vis European energy integration; or, on the contrary, there has been a divergence in their approaches instead.

Lastly, I put the findings into the broader European context and investigated whether the Central European example can have implications for the Union level integration of energy markets, and if so, then “how it could serve as a model of EU wide integration of the energy market” (as for member states’ aligning their positions) or, on the other hand, "what does it mean for Europe if they fail to cooperate on such a key issue".

While there are generally several aspects of achieving energy security, including the reduction of energy intensity by energy efficiency measures and the deployment of renewable energy sources, this study’s main focus was on the challenges posed to Austria and the V4 by the insecurity of energy supply, natural gas in particular.

Austria’s energy profile and energy security concerns

The stated goal of Austria’s energy policy today is “to support economic growth, environmental protection and the security of energy supply in a balanced manner”. Based on the most recent Austrian energy strategy that was published by the Austrian Federal Ministry of Economy, Family and Youth in 2010, the three main pillars of Austria’s energy policy are the promotion of (1) the security of supply, (2) energy efficiency, and (3) renewable energy sources in the share of the country’s energy mix. Moreover, the energy strategy which outlines goals for the period between 2010 and 2020 also underlines the importance of the Austrian energy policy’s “environmental compatibility, cost effectiveness, social compatibility and competitiveness within the framework of the European targets”.

Ensuring the security of energy supply is the top priority of Austria’s energy strategy, and given that the country is still a net importer of energy, the two latter goals are also inherently linked to the advancement of first one. Historically, Austria’s energy policy has rested on these three pillars since the first oil crisis in 1973, and has not been changed even in times of lower fossil
fuel prices such as the 1980s. The strategy is also in line with the European Union’s “Europe 2020” growth strategy’s objectives, which were supported by the two recent landmark legislations, the 2014 Energy Efficiency Act which encourages energy intensity measures made primarily by energy providers, large companies and government agencies; and the 2012 Green Electricity Act that attempts to create a good regulatory environment and proper financing mechanisms that encourage and promote the development of renewable sources.

Key characteristics of Austria’s energy system today

Energy supply

Domestic production in Austria was capable of satisfying 36.46% of the total energy use in 2015. This percentage underlines the high dependency of Austria on external energy supplies to satisfy its energy needs, a negative fact that is further worsened by the country’s rejection of nuclear energy, a power generation form that has been outlawed by constitutional law adopted in 1979 and by a resolution of the Austrian Parliament in 1997 which declared the country “nuclear-free”.

However, on the other hand, Austria has been one of the leading EU member states in energy production through renewable energy. In fact, in 2013, nearly ¾ of Austria’s domestic primary energy production were covered by renewables, energy generation coming mostly from hydropower. From the EU member states only Sweden has a higher share of hydropower in energy production, while in overall Austria had the fourth largest contribution of renewable energy to its total final energy consumption between 2013 and 2014 out of all EU member states with 32.9%. While domestic oil and gas production has been on the decline for decades, total domestic energy production still grew by 150% between 1990 and 2013 in Austria, a trend attributed entirely to the deployment of renewable resources, given that renewables generated energy production has been constantly on the rise.

Renewables also play an essential role in the primary energy production of Austria, with around 4/5 of the production coming from them. Importantly, the biggest contribution is from biogenic energy resources (bioenergy and waste providing around 20% of the total primary energy supply, an exceptionally high share), followed by hydropower. At the same time, photovoltaic energy production has also been on the rise, increasing by 72% only between 2012 and 2013, while Austria plans to install an additional 3 GW wind and photovoltaic power capacity by 2020 (which would be equal to roughly 14% of its current total capacity). However, wind and solar energy still constitutes only 2% of all renewable generated energy.
Finally, electricity generation has been also dominated by renewables in Austria, with hydropower itself already accounting for 2/3 of electricity generation.

Despite the fact that total energy supply has increased by 3.8% between 2005 and 2013, as a result of a rise in domestic production by 22.2%, and that imports in the same time period decreased by 2.4%, Austria still remains a large net importer of energy, with oil (92% of which was imported from abroad) covering 37% of its energy mix, and gas (more than half of which is imported) accounting for 21% of the total energy consumed in the country in 2013. Solid fuels, a 100% of which are imported, covered another 10% of Austria’s energy mix.

**Gross Inland Energy Consumption in 2013**

![Diagram showing energy consumption by sector in Austria and EU28]

- **Austria**
  - Gross inland consumption: 33.8 Mtoe
  - Energy sources:
    - Solid Fuels: 37%
    - Petroleum and Products: 10%
    - Gases: 21%
    - Nuclear: 0%
    - Renewables: 12%
    - Waste, Non-Renewable: 30%

- **EU28**
  - Gross inland consumption: 1666.2 Mtoe
  - Energy sources:
    - Solid Fuels: 33%
    - Petroleum and Products: 17%
    - Gases: 23%
    - Nuclear: 14%
    - Renewables: 12%
    - Waste, Non-Renewable: 0%

**Energy Demand**

While in most EU countries energy use has declined since 1995, Austria’s energy consumption increased substantially and steadily in the same time period (in particular between 1995 and 2008), resulting in a total energy consumption per capita that is even higher than of France’s and Germany’s today. According to the analysis of Pohoryles, this could not have happened due to energy inefficiency as Austria has managed to effectively decouple GDP growth and the Gross Domestic Energy Use (GDEU). Instead, he argues, growth in energy consumption might be the result of increasing consumption primarily in the transport and residential sectors. Indeed, this has had a serious impact on Austria’s energy imports as Austria’s biggest energy user group is the transportation sector where an overwhelming share of the energy consumed comes from fossil fuels, primarily oil (which has an 88.4% share in the
sector’s energy consumption) but also, to a lesser extent, from gas. The residential sector also has a significant share in the country’s gas consumption, while the third sector, industry, remains the country’s largest consumer of natural gas (which accounts for around one third of its total energy consumption).\textsuperscript{15}

Current energy issues for Austria related to the ‘security of supply’

Energy Import Dependency and Weak Diversification of Supplies

Austria’s energy dependency remains high, with an import ratio of 65.9% in 2014 which is significantly higher than the EU average of 53.5%. Moreover, Austria imported 75% of its natural gas,\textsuperscript{16} and the share of Russian supplies in its total imported gas is especially high, constituting 51.5% in 2014 (while the other main suppliers were Norway and Germany).\textsuperscript{17} Even though, this share has dropped significantly in recent years (down from 77.6% in 2010\textsuperscript{18} and 63.2% in 2013),\textsuperscript{19} it is still well-above the EU level of 37.9%. Moreover, while the share of imported energy has been decreasing, the absolute amount of energy imports meanwhile has been growing and the IEA projects that Austria will continue to be a net importer of energy in the foreseeable future.\textsuperscript{20} This means that Austria, which, in fact, if we discount the EU’s member states who joined after 2004 (e.g. Visegrád countries), today is already the second most energy insecure country with respect to gas, after Finland, will remain one of the most vulnerable countries with regards to Russian natural gas supplies in Europe.\textsuperscript{21} However, the same could not be told about Austria’s oil imports, which offset approximately 90% of the country’s total oil consumption, where both sources and routes are well-diversified, and where Russia was only the third largest supplier in 2014, contrary to most EU countries where Russian oil companies are the single largest suppliers (on average Russia is the top oil supplier to the EU by a wide, 30.4% margin). Similarly, while most EU countries import solid fuels (e.g. coal) predominantly from Russia, Austria’s main partners are fellow Central European states, mostly Poland and the Czech Republic.\textsuperscript{22} Therefore, while Austria is less dependent on a single supplier (Russia) in terms of its oil and solid fuel imports as it has more diversified import sources, the country remains one of the most dependent Central European nations on Russian gas supplies. (In overall, Russian natural gas supplies constituted 14% of Austria’s total energy needs in 2012.\textsuperscript{23}) Although, in the long-term the growth of renewables and alternative technologies in the transport sector could decrease the amount of energy imports needed, in the short- and medium-term Austria’s import dependency will remain despite some energy efficiency measures which are projected to have only a limited impact on Austria’s energy profile.\textsuperscript{24}

9
Lastly, even if Austria manages to diversify away from Russian fossil fuel imports, energy import dependency remains a major concern stated in Austria’s Energy Strategy due to the fact that most of its other oil and gas suppliers are politically less stable countries with high risks associated with the ability to produce and deliver energy supplies, such as Kazakhstan, Nigeria, Libya and Iran. Today, it is Austria’s major energy policy goal to lower its high import dependence and increase the diversification of its imports in order to avoid the increase of energy and electricity prices for its industries and citizens.

**Limits on the Deployment of Renewables**

The Austrian Energy Strategy’s stated objective is to achieve 34% share for renewables in the country’s energy mix by 2020. This is in line with the EU’s 20-20-20 targets (binding commitments to reduce CO₂ emissions compared to 1990 levels by 20%; to make sure that 20% of the energy, on the basis of consumption, comes from renewables; and to increase energy efficiency by 20%). While Austria still possesses unlocked potential in the deployment of renewables due to the country’s geographic characteristics, especially in hydropower, a recent Austrian study questions whether renewables, especially biogenic energy resources (biomass in particular) could be increased further, and instead states that biomass generated energy seems to be already in decline. Moreover, according to a study of a group of researchers at the University of Natural Resources and Life Sciences in Vienna, the continued deployment of hydropower, which would be needed in order to achieve Austria’s target of 34% for renewables, has its limitations as well and might be severely constrained as a result of a conflict with Vienna’s very own environmental targets and the EU’s Water Framework Directive that impose strict protection on surface water bodies.

**Uncertain fulfillment of national climate goals**

Austria has been at the forefront of reducing its greenhouse gas (GHG) emissions over the past decade, achieving a reduction of nearly 20% by 2015 compared to its peak in 2005. The country’s share of GHG emissions in the EU is only 1.85%, while its economy’s share of the total GDP of the Union is 2.1%, meaning that its level of pollution relative to its GDP is below the EU average. However, the Energy Strategy emphasizes that this trend in the reduction of pollution, which was almost entirely generated by energy efficiency measures in the country’s energy sector, might not be sustainable and, in fact, according to a recent report on climate protection, Austria might fail to meet its Kyoto target for the second commitment period (2013-20).
The potential limits on the deployment of renewable energy sources (outlined above) coupled with Vienna’s rejection of nuclear power might mean that if Austria were to achieve its Kyoto targets, it would need to rely more on “cleaner fuels” than solid fuels (coal in particular) and oil, especially in its industry which still has a higher energy intensity than the EU average (energy intensity in Austria’s transport sector is also above the EU level). Given that natural gas is generally considered to be a significantly less pollutant form of energy, this could very likely mean increased natural gas imports in the future, leading to more energy import dependency on external, potentially Russian natural gas supplies. Moreover, Austria will also generally need more gas during its transition to a “fully green economy” as it is generally regarded as a “bridging energy” due to the limited amount of CO₂ it produces. In fact, the International Energy Agency (IEA) projects that even if Austria manages to succeed with its targets in increasing energy efficiency and the share of renewables in its energy mix, the country will still need additional (fossil fuel) energy imports due to its economy’s growing energy demand.

Electricity Supply

According to the IEA, the focus of security of supply in Austria has significantly expanded from oil and gas to electricity in recent years. The security of electricity supply has become an even more important issue earlier this year in May when the Austro-German common electricity market was split into two after constituting one single electricity zone for over 15 years. The reason behind this decision was not a political but a technological one, given as a response to the problems caused by the lack of congestion management on the Austrian-German interconnector that resulted in destabilizing power spills into the electricity grids of the neighboring Visegrád countries caused by the high share of renewable generated power in Germany’s electricity system. However, while the German and Austrian electricity wholesale markets constituted a single bidding zone for electricity; thus, the same wholesale electricity price applied in both countries, Austria, from now on, will need to buy additional capacity via the Leipzig stock exchange that the Austrian government expects to cost around 100 million euros. Austria’s energy prices have been so far among the lowest in the EU as the country generated a record 76% of its power from renewables and imported only 4% from abroad (53% of which came from Germany), a percentage that is slightly above of the EU average of 1% in 2012. However, the split of the two markets will very likely result in the increase of electricity prices for Austrian consumers. Moreover, it has been also argued that Austria’s energy networks, including its electricity grids, are in need of upgrading as their capacity is insufficient.
to handle the growing energy demand, production and import. Additionally, the IEA stresses the need for Austria to improve the cross-border integration with other Central European states of its electricity markets in order to ensure that the level of security of electricity supply is adequate.\textsuperscript{36}

**The Visegrád Group’s Energy Security Concerns and Austria’s advantageous position**

Although, the fall of the Berlin Wall brought major changes in political, economic and social terms for most of the former Eastern Bloc countries of Central Europe, due to its communist era built energy infrastructures that were originally designed to support their command economies within the framework of COMECON, the region remained highly dependent on Russian natural gas exports, resulting in continued economic captivity vis-à-vis Moscow.\textsuperscript{37} The countries of the Visegrád Group are in particular among those countries in the region that are not only highly dependent on the import of natural gas because their domestic productions are largely incapable of meeting the current demands of their own consumers, but at the same time also rely on primarily one energy supplier, Russia. At the same time, they lag behind the EU average in renewable energy production (about 5% in all four countries compared to the EU average of 8%) and energy efficiency.\textsuperscript{38} The V4 countries were hit already by the 2006 crisis so severely that Slovakia, for instance, had to declare a state of emergency even though the crisis lasted only four days.\textsuperscript{39}

**Brief energy profile and strategies of the Visegrád countries**

**Poland**

According to Schmitt, Poland could be characterized as being “both highly dependent on Russian energy and not”. While more than 90% of Polish crude oil imports and 75% of gas imports came from Russia in 2013 (percentages that have not changed considerably since the 1990s while the absolute quantity of imported Russian supplies has been growing), Poland is less reliant on oil and gas than the other Visegrád countries as both its total primary energy supply and electricity production is covered by domestically produced coal, 50% and 80% respectively. (Poland also produces approximately 27% of its domestic oil and 31% of its gas demand).\textsuperscript{40} This advantage, however, is under pressure now from Brussels which is pushing
Poland hard to abandon the reliance on coal in its energy mix. Meanwhile Warsaw is aiming to develop its first nuclear power plants to substitute at least some of its coal generated primary and secondary energy, however due to the uncertainty of this policy goal and the subsequent projected 40% increase in electricity consumption over the course of the next 15 years, Warsaw will very likely be in need to substantially increase its oil and gas imports.  

In addition to the planned development of two nuclear power plants (planned to operate starting from 2025 and 2035), Poland’s energy security strategy today is centered around its goal to diversify its gas imports by developing its own liquefied natural gas (LNG) import capacities. Indeed, even the 2014 Polish National Security Strategy emphasized that the most important external threat for Poland security is posed by the lack of diversification of its energy imports. The recently inaugurated (2015) import terminal in Swinoujscie, a Baltic Sea port near the Polish border with Germany, has received its first LNG shipment from the United States this June. Plans to expand the facility to have a capacity of 7.5 billion cubic meters per year instead of the current 5 bcm/y are already underway. At the same time, Poland is also building interconnectors and developing reverse-flow pipeline connections with Germany in order to be able to buy gas not only from the East but also the West. Last, but not least, Warsaw is pushing for the construction of an interconnecting pipeline that would allow it to buy gas from Norway via Denmark under its “Northern Gate” strategy, that could potentially replace all imported Russian gas. In fact, Warsaw decided not to prolong an agreement with Moscow on the purchase of gas supplies which is due to expire in 2022.

The planned Skanled and Baltic Pipelines connecting Poland with Norway
The Czech Republic

Prague has an even bigger dependency on Russian fossil fuel imports than Warsaw. Almost all Czech imported oil comes from Russia, and while the Czech Republic used to buy around 90% of its imported gas from Moscow, this percentage grew over the past five years, reaching a 100% in 2012 and 2013. However, somewhat similarly to Poland, natural gas has a low, only 16% share in the country’s energy mix, while the share of fossil fuels in the Czech Republic’s electricity generation is negligible. This is again due to the large use of domestically produced coal (and lignite), and in the case of the Czech Republic the large contribution of nuclear energy coming from its two active nuclear plants in Temelín and Dukovany.

Similarly to Poland, the Czech Republic is facing the challenge of reducing its reliance on coal to meet its EU environmental targets. In addition, the existing nuclear plants are reaching the end of their lifetime, while planned new plants are unlikely to be built and come online earlier than the 2030s. As a result, Prague, similar to Warsaw, will likely face increased dependency on Russian fossil fuel imports, gas in particular.

Despite these challenges, the Czech Republic remains the least energy insecure country of the Visegrád Group. This is the result of intense diversification efforts made by the Czech government in the 1990s which, among others, led to the most extensive network of transmission and refineries, managed by Western investors, in the Visegrád area. These robust energy networks make the Czech Republic the most prepared country in the region to protect itself against potential disturbances in the supply of oil and gas. The Czech Republic, similarly to Austria and contrary to the other three Visegrád countries, enjoys access to supply routes other than the old East-West ones, enabling it to procure gas from Western Europe, especially Norway (via Germany).

Hungary

Even though, gas in Hungary’s energy mix is larger than in the Polish and Czech case, standing at more than 30%, the country is less reliable on Russian gas supplies due to its domestic gas production, which covered around 20% of total gas consumption in 2015, and its generally declining energy demand. On the other hand, Russian sources have been increasingly dominating Hungary’s gas imports, their share rising from 75% in 2006 to 95% in 2015, of which more than 90% came through one single pipeline, the Brotherhood pipeline that crosses Ukraine. Approximately 89% of Hungary’s oil demand was also provided by Russian imports in 2016.
In order to reduce its dependency on imported gas, Hungary has been promoting several pipeline projects in the past, as well as the development of interconnectors and reserve-flow capacities with neighboring countries, similarly to Poland. However, due to primarily political reasons (explained below), policies have been promoting mostly route and not supply diversification, meaning that the share of imported Russian gas would remain at current levels based on the implementation of current Hungarian initiatives. Instead, it seems that Hungary aims to secure its gas supplies by becoming a regional gas hub for Russian gas (similar to Austria today) which Budapest would intend to use to mitigate its other energy security related to gas: its lack of having any significant gas transit position in Central Europe.\(^5^7\) While all the other three Visegrád countries play a key transit role for fossil fuels in the region, Hungary does not, making it highly vulnerable both to Russian gas price hikes and possible supply interruptions.\(^5^8\) As part of the goal to address this vulnerability, Budapest has already succeeded with the creation of one of Central Europe’s largest storage capacity, the largest in the Visegrád region, with Russian help. Additionally, Hungary’s current political leadership is also prioritizing nuclear energy, a key source of energy already, as the expansion of the existing nuclear plant in Paks by two reactors scheduled to start next year under the supervision of a subsidiary of the Russian nuclear energy company, Rosatom, with the financial help of Moscow (more on this below).\(^5^9\)

**Slovakia**

In 2015, 97% of Slovakia’s domestic gas consumption, and 98% of its oil demands were covered by Russian supplies. In fact, Slovakia imports close to 90% of its total primary energy sources, most of which comes from Russia.\(^6^0\) Despite this extreme degree of import dependency, Bratislava managed to keep energy insecurity at a low level due to the fact that Slovakia is not only an end-consumer of Russian gas, but also a key transit of Russian supplies towards the Austrian Baumgarten gas hub and Western Europe.\(^6^1\) However, in times of crisis, this extreme level of dependency could cause grave damages for the Slovakian economy and energy security as it did during the 2009 crisis when, according to experts, the country lost up to 100 million euros a day as a result of supply disruptions.\(^6^2\) Therefore, supply diversification and the preservation of the country’s key transit status remain the key energy policy goals of the Slovak government today.
The V4’s key energy security concerns

Already the 1991 Visegrád (Founding) Declaration explicitly mentioned the need for Central European collaboration on the field of energy by the “the development of the infrastructure […] mainly in the north-south direction, and an aim to further coordinate of their energy systems”. Cooperation on the integration of regional gas networks and the liberalization of gas markets, especially in recent years, has been significant since the 2010 Budapest V4+ Energy Security Summit Declaration. However, the V4’s dependency on Russian gas supplies remains overwhelmingly present in the countries’ energy mixes and strategies for several reasons.

Firstly, although the share of natural gas in the V4’s energy mixes varies between 15% in Poland and 38% in Hungary, a significant percentage is Russian natural gas in the share of all gas imports, while the Visegrád countries are poor in proven conventional natural gas reserves.

While up until recently three of the four Visegrád countries, the Czech Republic, Poland and Slovakia, have been protected by their key transit positions for Russian natural gas flowing to Gazprom’s main, Western European consumers, their degree of geopolitical dependence on Russian supplies is likely to grow as a result of the geopolitics of pipelines in the foreseeable future as the planned expansion of the North European Gas Pipeline (Nord Stream II) could result in more Russian natural gas circumventing the region to reach Western Europe. Similarly, the recently agreed Turkish Stream (Southern) Gas Pipeline if implemented will also leave East Central Europe “in the cold” contrary to the past Nabucco and South Stream Pipeline projects, as in a case of a supply cut only limited alternative supply routes will exist. Losing the “transit status” will also result in the drop in government revenues, for instance in Slovakia gas transit fees constituted 1.2% of the country’s GDP in 2011 alone.

The planned Turkish Stream and the previously planned South Stream pipelines

![Map of Turkey, Greece, Italy, Austria, Hungary, South Stream, Turkish Stream]
This problem is further amplified by the fact that competition between energy companies on these markets is very limited (domestic natural gas markets being dominated by one company, with the exception of Hungary, by 62.4%, 76%, and over 90%, in the Czech Republic, Slovakia and Poland respectively), as most of these countries represent only small markets, leading to limited energy import infrastructures and storage facilities, as well as investments in alternative supply routes. While certain efforts to invite other European companies were made, it were oftentimes the national governments themselves who were reluctant to embrace more competition as it might threaten the position of the often still partly state-owned “national champion” energy utilities.

Another major problem is the continuing lack of regional physical connections, especially in the North-South Interconnection (NSI), that is based on historical and economic challenges to infrastructure development in the Visegrád countries. Although, in recent years significant progress has been made in building new connections between the V4 countries, such as the Czech-Polish “STORK” launched in 2011 (and a second interconnector, “STORK II” being currently under planning), the Slovak-Hungarian “SK-HU” (2015), and the Hungarian-Croatian and Hungarian-Romanian (2011) interconnectors, regional transboundary interconnector capacities remain underdeveloped especially between Poland and Slovakia, and the Czech Republic and Austria, so far preventing the formation of a fully integrated regional market. Additionally, the region also remains not properly connected to Western-European markets,
and thereby dependent on the Ukrainian and Belorussian transit routes coming from Russia, with the exception of the Czech Republic which has become highly connected to Germany and could therefore significantly diversify its gas imports primarily to Norway.\textsuperscript{73} This has had major consequences for regional gas prices, as Russian gas supplies still remain the cheapest source. Even though, local Central European gas hubs, such as the Austrian Baumgarten, offer lower prices, their liquidity remains low; while gas imports from much higher-frequency Western European hubs, such as the Dutch TTF, lose their price advantage due to long transit.\textsuperscript{74} The connectivity of the Visegrád countries is in sharp contrast with that of Austria which even managed to prepare for a potential gas emergency by enabling physical reversibility of several pipelines with neighboring countries, such as Germany and Italy.\textsuperscript{75}

Also, it is an equally important common challenge for the Visegrád countries to not only connect, but to further develop and modernize their existing transmission infrastructure. This is a necessary precondition for implementing the EU’s Regulation of Security of Supply which aims to enable the creation of an EU wide energy solidarity mechanism in times of disturbances. Given that many (non-Visegrád) EU member states, such as Austria, rely on renewables in their power generation, it is an utmost importance for the Visegrád countries to modernize their infrastructure in order to be able to accommodate renewables into their energy systems.\textsuperscript{76}

Additionally, all four V4 economies are extremely energy intensive compared to other member states of the EU (they are among the eight most energy intensive EU countries).\textsuperscript{77} According to Eurostat data, in 2007 the four economies needed between 2.4 (Poland) and 3.3 times (the Czech Republic) more energy unit per GDP than the EU average.\textsuperscript{78} This means that in the V4 countries any supply disruption or significant and unexpected price increase would result in serious economic problems and losses.\textsuperscript{79}

Finally, more recently, the question of social affordability of gas prices also significantly strengthened the leverage of Moscow over several countries of East Central Europe (and the Balkans), as political populists in the region have been campaigning and winning elections with the promise of (artificially) low utility prices (e.g. in Hungary, Bulgaria, Slovakia) as gas prices have multiplied during the last decade and remained at an unprecedented high level after the 2008/09 financial crisis (according to Eurostat, the share of utility costs of final household consumption in the V4 ranged between 7.3\% [Hungary] to 11.3\% [Slovakia] in 2012).\textsuperscript{80} As EU regulations leave very little room for subsidizing, this financially unsustainable pricing regime is only possible by external supplier(s)’s (Gazprom’s) price concessions, which Russia has been taking an advantage of in recent years.\textsuperscript{81}
Austria’s edge in energy over the Visegrád Group countries

Excellent Economic and Business Relations

Contrary to the Visegrád countries, Austria’s economy is generally closely linked to Russia’s. As Weidinger et al. argue, some of the largest and most important Austrian companies (especially on the fields of energy and finance), such as OMV and Raiffeisen (but also Strabag etc.), have built excellent relations with Russian businesses over the years. OMV, Austria’s largest company in terms of net turnover, and the country’s top oil and gas company, has cultivated particularly strong relations with Gazprom. This relationship was built on the exemplary history of successful Austrian-Russian energy relations of the past which took off as early as 1968 when Austria, as the first non-Eastern Bloc Central European country, started receiving natural gas from the Soviet Union. Energy relations between the two countries were built on friendly pragmatism ever since, and have been facilitated by the lack of any historical tensions and unresolved political issues between Vienna and Moscow, the ones that exist to larger or a lesser extent between each Visegrád country and Russia. Moreover, Austria’s foreign policy vis-à-vis the USSR (and later Russia), which was based on a politics of “active neutrality” and “a policy of opening and normalization” towards the Eastern bloc, also helped the two countries to develop excellent relations over the second half of the 20th century, ones that continued after the end of the Cold War. There are also a whole range of unofficial contacts today that also strengthen relations between the two countries. Based on these relations, Austria has become a key country for Russia’s energy strategy in Europe, a situation from which both Vienna and Moscow have mutually benefited from.

Consequently, Austria’s and its energy companies, OMV in particular, contrary to the Visegrád countries, were able to sign long-term and more credible deals with Gazprom on gas imports that guaranteed supply stability. Moreover, OMV, which is considered by Gazprom as its main partner in Austria, has been a key ally of the Russian energy company in the planning and development of major Russian pipeline projects in Europe (e.g. the cancelled South Stream), a privileged status that the company continues to hold despite Austria’s recent sanctions on Russia related to the conflict in Ukraine. Among others, OMV is one of the five Western European energy companies today which signed a shareholder agreement on September 4, 2015 with Gazprom to construct Nord Stream 2 from Russia to Germany across the Baltic Sea. Most recently, in December 2016, the business relations between OMV and Gazprom were strengthened even further when the two companies signed a major agreement to
swap upstream assets in Western Siberia and Norway, a deal which said to be favored the Austrian side.\textsuperscript{87}

Due to this excellent history of energy cooperation on the level of state-owned and private enterprises between the two countries, Austria has enjoyed an edge over the Visegrád countries and has generally been less enthusiastic to press for cooperation on the regional and European level.

\textit{Austria’s Strategic Importance for Gazprom and its Benefits}

Based on the previously mentioned fruitful Austro-Russian relations, Austria became Gazprom’s strategic hub for its gas heading to primarily Western and Southern Europe. For instance, the Baumgarten gas hub in Lower Austria, also known as the Central European Gas Hub AG (CEGH), the main gas trading platform in the region, was developed with the support of Russia and has become the entry point for nearly one third of Russian gas deliveries to West, South and Southeastern Europe since 2005.\textsuperscript{88} In 2011 solely, 38.9 billion cubic meter (bcm) of natural gas (almost 8 times the quantity of Russian gas that Austria imported that year) was traded at Baumgarten.\textsuperscript{89} Given this strategic importance for Russian gas exports, Austria has never suffered any major gas disruptions except in 2009 (where Vienna blamed primarily Ukraine for the gas shortages), and today Vienna continues to regard Russia as a reliable partner,\textsuperscript{90} unlike its V4 neighbors. Due to its importance for Gazprom, Baumgarten has been also the main planned destination point for all major Russian gas pipeline projects in the past, such as the cancelled South Stream pipeline. In fact, contrary to the Visegrád countries’ relations to Russia, the recent EU (and Austrian) sanctions imposed on Russia after the events in Ukraine had little impact on Austria’s energy relations with Russia and Baumgarten today remains the potential destination of both major Kremlin proposed current pipeline projects, Nord Stream 2 and Turkish Stream (via the planned Tesla Pipeline).
The major gas hubs of the European Union

In addition to supply stability, Austria was also able to develop a strong gas storage capacity with the help of Gazprom. For example, the Haidach gas storage, the second largest underground gas storage facility in Europe which is responsible for securing a large quantity of Russian gas exports to most of Central Europe, including Hungary and Slovakia, as well as Germany and Italy, was constructed and is owned 66.7% by Gazprom. This storage capacity enabled Austria to be capable of holding roughly 80% of its annual gas demand (2012 data) which would allow it to supply a gas output rate above peak demand on a cold winter day.

Strong Cooperation with Germany

Although, it is not of permanent nature, Austria is generally regarded to have a very strong cooperation on the field of energy with Germany, unlike the Visegrád countries. According to Matúš Mišík, Vienna enjoys having direct channels of communications with Berlin on energy issues which close ties are further underpinned by the two countries’ shared language. Furthermore, Austria had played a key role in providing electricity supply for Germany in winter times as Austrian thermal power plants supplied Germany with electricity which it lacked as a result of the phasing-out of its nuclear power plants following the 2011 Fukushima nuclear disaster.
In recent years, both Austria and all four Visegrád countries have been seen to have some potential to develop shale gas resources. By far Poland is the Central European country that is said to have the most favorable projections for shale gas deposits with an approximately 5.3 tcm according to the Energy Information Agency (EIA), while Austria and the other three V4 countries are estimated to have a much smaller amount of resources. However, contrary to the other Visegrád countries, Austria would be particularly well-positioned to exploit these resources as a result of its companies’ exceptional “technological know-how, strong environmental awareness and experience with upstream production”. Strong regulatory hurdles, created as a result of widespread public opposition to shale resources, have so far discouraged the further exploration of Austrian shale resources. OMV abandoned its plans to develop shale resources in 2012 due to a stringent requirement on conducting detailed and costly environmental impact assessment for each hydraulic fracturing in advance of any development that would each take three to four years. It is estimated that potential exploitable resources could equal up to 20 years of domestic gas consumption at minimum.

Austria and the Visegrád Group’s Aligned Interests: The Need for a Central European Approach

Despite Austria’s edge over the Visegrád countries in the field of energy, there are a number of issues that makes the fate of the countries in Central Europe intertwined and would encourage Austria to integrate its energy market and coordinate its energy policies with the V4 countries.

Need for a unified voice

First, the fact that Austria and the Visegrád countries have not been forming a common front against Russian energy market power in Central Europe has enabled Russia to apply divide-and-rule tactics, playing countries of the region against each other, by using their internal disagreements, concerning various issues, including problems in their energy sectors. Russian companies did this by negotiating with Central European countries on an individual basis, offering different opportunities to partners at different prices to strengthen their influence. These divide-and-rule tactics applied even to Austria, a country having excellent relations with Russia, several times in the past, including when Moscow promised Hungary to become the...
major gas hub in Central Europe for the South Stream pipeline, after promising the same for Austria’s Baumgarten.

Second, the lack of a unified Central European voice allowed Russia to exploit the asymmetries in its energy relations with the small and energy dependent countries of Central Europe and make deals with them that are less beneficial for them and more advantageous for Moscow. For instance, prices of gas have been generally much higher for Central European countries as Russia has been successful to pressure these countries to make long-term gas purchase contracts with Gazprom where prices are much higher compared to the spot market prices in Western Europe, since these contracts are connected to oil prices.101 Meanwhile, if they were united and formulate a common energy policy, Austria and the Visegrád countries could form the second largest costumer of Russian gas exports outside the Former Soviet Union after Germany (accounting for more than 1/4 of total Russian gas exports to the EU),102 significantly enhancing their negotiating position. In order to achieve this goal effectively, national energy diplomacies could be aligned through intergovernmental agreements and the formation of an energy purchase group that comprises the major energy companies of the region.103 Additionally, Austria and the V4 could also establish an Energy Policy Secretariat that would coordinate their joint policy initiatives (e.g. LNG terminals, interconnectors), and a joint lobbying for EU funding to finance these projects, based on the countries’ already existing shared interests.104

**Need for market integration**

In order to achieve full energy security in the long-term, Austria and the Visegrád countries will eventually need to achieve more market integration between each other. Moreover, the creation of single Central European energy market would be also highly lucrative for Austria for a number of reasons.

First, if Austria were to achieve more integration with the V4 countries that could make Baumgarten one of the largest gas trading platforms in Europe by boosting gas trade with the V4 countries at the same time as they are in the process of liberalizing their energy markets. This could, however, only be achieved by improvements in cross-regional gas networks, particularly interconnectors and the implementation of coordinated regulations.105 Furthermore, both Austria and the V4 countries, where gas prices for domestic consumers are relatively high compared to the rest of the EU, could achieve significant price reductions if a well-functioning and interconnected Central European gas market with competitive and market-based prices would be established.
More energy interconnectivity in the region, namely the completion of the North-South Corridor, could also enable imported LNG (mostly from the US) to become an important supplementary import source for Central Europe. The North-South corridor would establish an energy corridor between the Baltic and Adriatic seas, with Poland’s Świnoujście and Croatia’s planned Krk LNG terminals being at each end of the corridor. If realized, LNG imports could become a point of leverage for all Central European countries while (re)negotiating long-term gas contracts with Russia. Lithuania could serve as a major positive example from the past where in 2014 the state utility was able to receive price discounts from Gazprom, and thereby essentially broke the Russian company’s long-time monopolistic power that it utilized to use non-market based pricing, even before its LNG import terminal, Klaipėda, became operational later that year.

Enhanced market integration would also result in the increase the security of electricity supply and cost efficiencies, enabling both Austria and the V4 countries to keep their electricity prices low and maintain the solid continuity of electricity supply. In addition, there is also an urgent need for the establishment of a well-integrated regional electricity market with modern electricity interconnectors as current Central European electricity infrastructures are not being built as fast the deployment of renewables is happening in the region, while old electricity grids are insufficient due to their inability to absorb volatile production from the renewables creating loop flows.

Moreover, as Nosko argues, both Austria and the Visegrád countries could benefit by setting up cross border local generation plants especially in disadvantaged border regions, as the combination of low labor costs and new infrastructure developments could create opportunities for testing new technologies, as well as provide development opportunities in the regions.

Lastly, transport related risks could be also significantly reduced if the individual markets of Central Europe would form one single complex entity.

The Politics of Energy in Central Europe in the Past and Present

A Central European approach: history of energy cooperation between Austria and the V4

The starting point of regional cooperation on energy issues in Central Europe dates back to 2009, the aftermath of the Russian-Ukrainian gas crisis. From 2009 onwards cooperation was translated into the realization of concrete infrastructural projects targeting real diversification rather than just mere declarations as before 2009. At the V4-level the topic of energy security was elevated to be among the top priorities and a “High Level
Energy Working Group” was created in 2009 in order to examine possible joint infrastructural projects. The main turning point came in 2010, when the first energy security summit in Budapest took place in the V4+ format that included, among others, Austria as well. Representatives declared full support for both the joint promotion of the North-South Corridor and the development of Polish and Croatian LNG terminals, as well as the planned Nabucco pipeline and the EU’s enhanced integration on the field of energy. Expert-level ad hoc groups to deal with concrete energy projects in the future were also created among the V4+. Due to the combined efforts of the V4+, the North-South Corridor became one of the key priorities of the EU’s “Energy infrastructure priorities for 2020”, receiving substantial funding from Brussels. A Memorandum of Understanding on North-South Interconnections in Central-Eastern Europe, aiming the construction of interconnections of gas, oil and electricity, was also signed between the European Commission and 10 countries, including Austria.\textsuperscript{114} Efforts to jointly pursue a number of smaller, manageable regional infrastructure projects aimed at decreasing the Central Europe’s energy dependency on Russian supplies have so far proven to be fruitful. The Visegrád+ countries (that includes Austria) established regular meetings on sectorial level on issues related to energy security\textsuperscript{115} where they planned and developed plans in a coordinated way for the building of energy infrastructures all along the North-South Corridor. Both Austria and the Visegrád countries have actively participated in and succeeded with building gas interconnectors and reverse-flow capacities across the wider Central European region. It can be argued that starting from 2009 they have become more policy-shapers than policy-recipients on the field of energy policy in the EU.\textsuperscript{116}

The North-South gas corridor\textsuperscript{117}

Both Austria and the Visegrád countries agreed in several declarations on national and regional forums that in order to increase energy security in Central Europe, the EU should be given additional legislative powers. The Visegrád Group in a joint statement emphasized that: “[…] we highlight the importance of […] strengthening EU legislation related to security of supply and transparency of all gas agreements, while confidentiality of commercially sensitive information needs to be guaranteed, as well as full implementation of the legislation and
guaranteeing competitive and affordable energy prices”. Another joint statement of the Visegrád Group countries in December 2015 reiterated the previous V4’s commitments to energy integration on the EU level by saying “Lastly, we agree that energy and energy security are one of the top priorities of the Visegrád region as well as for the European Union as a whole.”

It was also together that Austria and the V4 countries have simultaneously resisted all initiatives that would grant the EU rights to fix member states’ energy mixes, emphasizing the protection of national sovereignty and thereby supporting a rather intergovernmental approach to energy, the opposite of the concept of the Energy Union.

Most recently, however, divergences started to emerge within the V4+, and the Visegrád Group and other Central European countries, including Austria, were unable to adopt a clear position on the Energy Union in March 2015 at the European Council meeting.

Central Eastern Europe’s existing reverse flow interconnection points
Divergence of energy policies

*The Austria-Visegrád Schism over Nord Stream 2*

Over the past two years, several disagreements have emerged even between Austria and the V4 countries. Ćwiek-Karpowicz, Jarosław et al. argue that there is a growing schism in Central Europe where some countries view the purpose of energy policy to achieve a more sustainable energy system (“sustainability”) which considers climate change as the key factor determining countries’ choices regarding their energy mixes, while others base their energy strategies on the paradigm of “energy security”, namely the diversification of supply sources. A striking example of growing divergences in Central Europe is the debate surrounding Nord Stream 2, a planned extension of the existing Nord Stream gas pipeline linking up Germany and Russia through the Baltic Sea. While Nord Stream 2 is primarily regarded by Austria (and Germany) as a “commercial project” with the involvement of “private investors” which would help achieving more sustainable and greener energy systems, the Visegrád countries consider it a Kremlin-backed initiative with the goal to achieve geopolitical objectives. As a result, while the Visegrád countries have officially opposed the project in a joint letter to the European Commission, Austria has been at the forefront of supporting the project.

Leaders of the V4 argued that Nord Stream 2 is not a commercial but a political project of Moscow, designed to increase the energy vulnerability of the entire Central European region by using new pipelines to directly reach Western Europe while circumventing the Visegrád region, and thereby subsequently diminishing their current transit status. Furthermore, the leaders of the Visegrád countries also argued that if Nord Stream 2 becomes operational they would be forced to buy Russian gas not only from the Eastern, but also the Western direction, from Germany and Austria’s Baumgarten hub, making Russian gas the only alternative and thereby entirely diminishing their diversification options. Meanwhile, cheap Russian gas shipped to Germany and Austria would also question the economic viability of the entire North-South Corridor, as well as the feasibility of the planned LNG terminal in Croatia, into which the V4 countries are investing a tremendous amount of money with the goal to achieve more energy source diversification. In contrast, Austria looks at energy projects solely through the lenses of economic rationale and commercial likelihood of success without political considerations, and supports Nord Stream 2 due to its perceived economic rationality while does not regard LNG imports as a real alternative yet due to missing infrastructure and economic uncertainties that question whether imported LNG will be able to compete with Russian gas.
However, despite their official common stance, Visegrád countries have also grown more divided over Nord Stream 2 and the other Kremlin-sponsored pipeline project, TurkStream over the past two years. Furthermore, disagreements on key energy issues, such as the Energy Union, and the diversification of energy suppliers have also propagated divisions not only between Austria and the V4, but also within the four member states of the Visegrad Group.

*The Slavkov Triangle: New Alliance in Central Europe?*

In 2015, the leaders of Austria, the Czech Republic and Slovakia announced the creation of a new regional cooperation in the Czech town of Slavkov. Although, the leaders of ‘Slavkov countries’ subsequently announced that this new regional platform would only aim to supplement, and not rival, the Visegrád Group, its establishment was regarded by suspicion especially in Warsaw. Strengthening cooperation on energy issues was a key target in the Slavkov declaration, which, in particular, referred to the integration of national gas markets in the context of infrastructure and regulations. While over the past two years, Slavkov did not “end” Visegrád, in the light of populist and Eurosceptic leaderships in Poland and Hungary there has been more coordination between Austria, the Czech Republic and Slovakia not only in terms of energy but also politics.

In terms of energy integration, the political leaderships of Austria, the Czech Republic and Slovakia have been showing several similarities in their approaches to major issues which, on the other hand, were further apart from the policies of Poland and Hungary.

Firstly, both Austria and the Czech Republic were critical on some parts of the European Commission’s Energy Union proposal since the very beginning, namely that the EU should purchase gas jointly. Both countries identified limits of how far the policy should be developed, and argued that the making of energy deals should remain under national sovereignty. Meanwhile, despite not making any objections and being at the forefront of supporting the development of the Energy Union on the declaratory level, Slovakia did not go beyond official statements and quickly dropped the issue of energy integration during its 2016 presidency of the Council of the EU, once other “more important” issues had arisen.

Secondly, the Czech Republic and Slovakia have recently opted to join Austria in the support of major Russian pipeline projects, despite their numerous past official declarations that stated their commitment to diversify their energy imports. Austria, as it was mentioned previously, has been openly supporting the Nord Stream 2 pipeline project where OMV is also one of the shareholders.
While the Czech Republic signed one of the protest letters of Visegrád (and some other East Central European) countries that was sent to the European Commission, Czech Prime Minister Bohuslav Sobotka already in 2015 refused to sign another one which was specifically written as a protest letter against the construction of Nord Stream 2. Last year, Prague also decided to take part in the construction of the Gazelle pipeline which is planned to transfer gas from Nord Stream to Southern Germany in the future, a move aimed at securing their position as a transit country even if the Czech Republic loses its current transit position for Russian gas due to the construction of Nord Stream 2. Schmitt argues that the Czech ‘undecidedness’ over Nord Stream 2 is not surprising “as a semi insulated state, neither major Czech party – nor the left-wing Social Democrats nor the right-wing Civic Democrats – saw Russia as a potential threat to the Czech Republic after Ukraine, as seen in their respective white papers on national security and defense issues”. Meanwhile the Czech President, Miloš Zeman has been openly talking about Russia warmly and questioned the internationally accepted notion of Russian violence in Ukraine, while Prime Minister Sobotka tried to take the middle ground to keep its party, the Czech Social Democratic Party (ČSSD) together which is deeply divided between the Russia-friendly ‘Zeman camp’ and the more Euro-Atlantic group of MPs. Additionally, Prague has been also motivated to break ranks with other Visegrád countries as there is much less pressure on the Czech Republic to diversify away from Russian gas supplies, thanks to its well diversified energy system and its internal gas transit role for Germany and the fact that it already receives most of its gas from Germany instead of Russia.

This is, however, not the case for Slovakia which, if Nord Stream 2 were become operational, would be hit the most by the loss of its transit revenues which were about 300 million euros solely in 2014. In fact, already the construction of the first Nord Stream pipeline severely hit the country as it resulted in amount of gas transferred via Slovakia falling by 37% in 2011-14. In order to prevent the complete loss of its transit role this time, the Slovak government, led by Prime Minister Robert Fico, has pursued a pragmatic “double-track” policy that has been guided solely by the national interest to maintain the country’s status as an important transit state for gas, and not by regional or European-level goals to integrate markets and diversify import sources. First, the Fico government has been supporting the development of Eastring, a pipeline that would deliver gas from Western Europe to Ukraine, Hungary, Romania and Bulgaria and subsequently enable Slovakia to continue its role as a gas transit country. While this previous initiative is in line with the goals of the Energy Union, Bratislava also showed interest in the Kremlin-sponsored Turkish Stream despite the fact that it would deprive it of lucrative transit fees. In fact, both Prime Minister Fico and representatives of Slovakia’s
main gas transmission company, Eustream, met several times with Gazprom and emphasized the desire to reconcile the Eastring project with Turkish Stream\textsuperscript{138} if Slovakia were to remain a major regional gas transit point for Russian gas. Lastly, Bratislava also proposed the establishment of a Central European ‘trading region’ with Austria and the Czech Republic (CEETR), however, it quickly withdrew in 2012 once it saw that it would have led to loss in revenues from the fees charged at the connectors with Austria and the Czech Republic.\textsuperscript{139} These recent developments in Slovak energy policy demonstrate that the government’s decisions on energy are based on economic and financial calculations instead of supporting regional integration efforts and supply source diversification.

The potential routes of the planned Eastring Pipeline\textsuperscript{140}

\textit{Remaining an Ardent Supporter of Diversification: Poland}

Poland has been at the forefront to promote energy integration on the European level which it regards as the way to increase its own negotiating potential and to improve the conditions of gas cooperation with Gazprom, as well as to reduce the country’s dependence on Russian energy supplies.\textsuperscript{141} According to Warsaw, this should be achieved by giving a stronger role for the European Commission in ensuring that intergovernmental agreements (IGAs) between EU member states and third countries (e.g. Russia) are compatible with EU regulations.\textsuperscript{142} In fact, it was President of the European Council Donald Tusk, the then Polish Prime Minister, who
proposed the idea first of a European Energy Union in 2014. However, when the European Commission’s document on the Energy Union was published, Warsaw’s initial enthusiasm faded as contrary to the Tusk proposal it stressed the need for taking away the energy mix from the hands of national governments, a priority opposed by all Central European states, including Poland (and Austria as well).

Contrary to the Czech Republic and Slovakia, Warsaw’s policies have been in line with its official declarations on Nord Stream 2, a project that Poland sees it as a serious threat to its national security. Indeed, Poland is concerned that the project would gravely complicate its diversification efforts and fears that it would eventually replace gas transit through the Yamal pipeline that runs from Russia to Germany via Belarus and Poland, allowing Moscow to gain more political leverage by interrupting gas deliveries without harming Germany once the pipeline becomes operational. Former Foreign Minister Radosław Sikorski went as far as to even compare Nord Stream 2 to the Molotov-Ribbentrop Pact of 1939, aiming to divide Poland between Germany and Russia. Despite major political changes in Poland over the past two years, the Polish approach to Nord Stream 2 remained unchanged under both the previous and current governments. Similarly to the previous government, led by the center-right Civic Platform, which in a November 2014 released national security strategy characterizing Russia’s policies as “assertive”, the new conservative Law and Justice Party (PiS) government also regards Russia as an “existential threat” and its behavior indicating that it is “seeking a new cold war”, and has been shaping Polish energy policy accordingly.

A Trojan Horse of the Kremlin? - The Hungarian Case

Lastly, Hungary has been officially supporting the creation of the European Energy Union and, under the ‘security of supply’, the diversification of energy imports (the reduction of Russian gas imports). In practice, Budapest, however, has had an entirely different approach to energy security and relations to Russia than the other Central European countries under the government led by Viktor Orbán. Since 2010, the Orbán government implemented its “Eastern Opening” foreign and economic policy with the goal to “recapture Eastern markets”, under which it has aimed to establish a strong strategic economic relationship with Russia. Under these exclusively interest-based relations, Budapest has effectively given up entirely on the diversification of energy suppliers, and instead it has pursued its objective of securing energy deals with Moscow with maximum benefits through a closer cooperation with Russia.

For instance, after abandoning the EU-sponsored Nabucco Pipeline, Budapest agreed to support the construction of the Moscow-sponsored South Stream Pipeline in cooperation with
Russia and Gazprom in 2015, despite the European Commission’s negative opinion. Moreover, after a meeting in Budapest between Prime Minister Orbán and Alexei Miller, the head of Gazprom, Hungary also unexpectedly stopped reverse-flow gas supplies to Ukraine for several days, going against both the EU and Visegrád official policies that stress energy solidarity with Ukraine. These two developments happened at the same time as Budapest managed to broker another long-term gas agreement with Gazprom until 2019 with substantial price discounts.\(^{149}\)

It was an achievement of great political importance for the Orbán government which managed to garner its political popularity and win reelection in 2014 to a large extent as a result of a populist move to cut household utility costs, particularly gas and heating costs.\(^{150}\)

Meanwhile, in 2014, the Hungarian government also awarded the construction contract of a major planned expansion of its only nuclear power plant in Paks to a subsidiary of the Russian nuclear giant, Rosatom. The nuclear expansion has been a cornerstone of the Hungarian government’s energy strategy which aims to promote an energy mix with a strong nuclear component in order to help the country achieve its clean energy goals, as well as to reduce its dependence on fossil fuel imports. While the nuclear expansion is intending to reduce Hungary’s dependence on Russian energy supplies on paper, in reality it will significantly increase Moscow’s influence over Hungary given that the deal will be predominantly financed by the Russian government as part of an inter-state loan, corresponding 10% of the total Hungarian GDP, to be paid back over 30 years. Suspicions about the deal’s political motives have been widespread given that it was made in secrecy without any prior consultation with the public, any cost-benefit analysis study, and without holding a tender,\(^{151}\) while experts raised serious questions about the profitability and the economic rationale of the project. The Paks Nuclear Deal is the quintessential demonstration of Hungary’s politically motivated energy policy today.

Last, but not least, despite the common V4 official position against the construction of Nord Stream 2, and despite the fact that Hungary might suffer economically due to the lost in transit fees and that all its past investment in underground gas storage infrastructure aimed at making the country a regional gas hub would prove useless,\(^{152}\) Budapest has decided to back the project alongside the other Kremlin-promoted project, Turkish Stream. Moreover, the announcement to back Turkish Stream project happened on the same day as the US President Trump arrived in Poland to the Three Seas Summit, organized by the United States to promote American LNG exports to Central European countries in order to help them diversify their energy exports and decrease their energy dependence on Russia.\(^{153}\) Experts argued that the reason behind
Hungary’s decisions is to become a regional gas distribution center / hub for Russian gas with the help of Moscow.\textsuperscript{154}

These examples clearly demonstrate that Hungary, while officially supporting common energy initiatives on the Visegrád and EU levels, has been pursuing an energy policy that has put relations with Russia above all other regional and EU objectives in order to promote solely Hungarian national energy interests. Budapest has also staunchly opposed giving the European Commission the right to monitor intergovernmental agreements.\textsuperscript{155} While it could be argued that these relations are solely based on business, given Orbán’s praising words on Russian President Vladimir Putin and Russia’s illiberalism, and the general political thaw between the two countries which is surrounded by secrecy, it is strongly suspected that there are strong political motives behind Hungary’s approach to energy security today.

**Implications for the Energy Integration Process at the European Level**

The example of the lack of convergence of Austria’s and the Visegrád countries’ energy policies can have important ramifications for the wider EU level energy integration processes, as Austria and the countries of the Visegrád Group can be regarded as a microcosm of the European Union.

Firstly, the Central European example demonstrates that it has so far proven to be very challenging to bridge the diversities in the region, namely the historical, societal, political and economic circumstances that define today the energy strategies of Austria and the Visegrád countries. For instance, the different energy mixes of countries have so far undermined cooperation on the field of energy even in a relatively homogeneous region like Central Europe\textsuperscript{156} where countries face mostly common energy challenges and have similar resource endowments. A prime example of this has been the question of nuclear power, a source of energy that is very much promoted in the Visegrád countries while strongly opposed by Austria. In fact, the issue of nuclear energy is the main reason why Austria is against the harmonization of national energy mixes by Brussels and supports the preservation of national sovereignty over key energy policy decisions.\textsuperscript{157} Integration of energy systems, including electricity grids, has also so far proven to be challenging as a result of sharply different electricity mixes. It is questionable whether countries with even more different energy mixes and policies than the ones in Central Europe will manage to agree on key energy policy issues at the EU level.

Secondly, differences between EU member states have been also around the question of what defines energy security, whether there is a need for source diversification in addition to supply...
security. In Central Europe, as the example of Nord Stream 2 demonstrated, the disagreements were based on the question whether energy policy should primarily support ‘sustainability’ (Austrian and German view) or ‘supply source diversification’ (Polish view). Related to the question of how much the diversification of energy sources matters, Strážay points out that there are extreme differences in “views regarding necessity and profitability of cooperation with Russia, including openness towards Russian investments in the energy sectors that differ from country to country”. As a consequence of these existing divisions and the lack of unity on key issues between EU member states, Russia has successfully managed to employ its strategy of “divide-and-rule” by driving an even bigger wedge between different EU member states in order to create mistrust and suspicion between Brussels and the different capitals on both the Central European and the wider EU-level to slow down or even halt regional and continental energy integration efforts, as the example of Nord Stream 2 clearly demonstrated.

Lastly, all five Central European countries are officially supporting the Energy Union and energy integration on both regional and European levels, and realized that market integration and interconnections are needed as small countries cannot succeed alone in ensuring energy security. However, this common position has not been translated into the creation of real EU-level solidarity mechanisms and unity with regards to energy, as member states have been following their national goals without much considering the positions of other countries instead. Austria and the Visegrád countries have been showing the same behavior as any other EU member state, namely their decision-making processes have been based more on their individual needs, the promotion of the notion of “energy sovereignty”, than on an effort for common approach to achieve internal market development, despite the known benefits of integration. Pohoryles argues that this is the outcome of an “undefined” Energy Union which is “a hybrid creation between a confederation and rudimentary federal state”. Divergence on individual energy issues of energy policies of EU member states is argued to be the direct outcome of the broad and undefined nature of the proposed Energy Union and the weak competencies of Brussels, as (1) member states realize that they cannot expect Brussels to strongly represent their interests as it lacks real power to do so, (2) they are uncertain of what goals “the Energy Union” really stands for, a fact that breeds misunderstandings and motivates member states to take their interests into their own hands instead. For instance, even though all Visegrád countries in principle have opposed the Nord Stream 2 project, they all realized that Brussels does not possess the real instruments (and / or the will) that would be needed to stop the project. Consequently, the initial unity of the Visegrád countries on Nord Stream 2 has slowly faded over the past year, and each country decided to rather focus on own national
interests and try to adapt to the reality of the project being realized sooner or later. This has led to even more divergence between them that already shows signs of seriously damaging the notion of European solidarity on energy in Central Europe today.\textsuperscript{161}

\textbf{Conclusion}

Austria and the Visegrád Group, despite their excessive dependency on Russian energy supplies, would be able to reduce their dependence on hydrocarbons from Russia if they could form a unified voice on energy issues and create a single Central European energy market through the coordination of their energy policies. However, the findings of this study point to another direction, namely that they have been unable to form a common front in the face of Russian market power and even their support for the deepening European energy security integration, and the idea of the European Energy Union is uncertain. While in principle all five countries agree on deepening European integration on the field of energy, they are divided on what national competencies should be transferred to Brussels and the goals a future Energy Union should stand for. According to the findings of the study, the main disagreement is over the “definition of energy security” which on the one hand means environmental sustainability for some countries, such as Austria (and Germany), while on the other hand it stands for a reduced dependence on Russian natural gas supplies through supply source diversification for others, such as Poland. Given this undefined nature of the European energy integration, member states have opted to pursue their own national energy policy objectives, which oftentimes are in contradiction with the very idea of European energy integration. While Austria enjoys a higher level energy security than its Eastern neighbors primarily due to its excellent business relations with Russia and strategic position for Russian energy exports to Western Europe, it cannot expect to achieve high-level of energy security without further integration with the Visegrád countries and the support of a common European energy policy. The direction of EU-level energy integration will be eventually the decision of Europe’s stronger member states, primarily Germany. However, in order to benefit the most from the future ‘Energy Union’ for its own sake, Central Europe could and should opt for becoming a policy-shaper instead of just being a bystander of European energy integration by forming a common approach to the Energy Union and standing up for its own energy interests with a unified voice.
**Glossary of Acronyms and Abbreviations**

**Bcm** – Billion Cubic Meter

**CEGH** – Central European Gas Hub

**CO₂** – Carbon Dioxide

**COMECON** – Council for Mutual Economic Assistance

**ČSSD** – Czech Social Democratic Party (Česká strana sociálně demokratická)

**EIA** – Energy Information Agency

**EU** – European Union

**GDEU** - Gross Domestic Energy Use

**GDP** – Gross Domestic Product

**GHG** – Green House Gases

**GW** – Giga Watt

**IEA** – International Energy Agency

**IGA** - Intergovernmental Agreement

**LNG** – Liquified Natural Gas

**MOL** - Hungarian Oil and Gas Public Limited Company

**NSI** – North-South Interconnector

**OMV** - Austrian Mineral Oil Administration (Österreichische Mineralölverwaltung)

**R&D** – Research and Development

**PiS** – Law and Justice Party (Prawo i Sprawiedliwość)

**TTF** – Title Transfer Facility

**V4** – Visegrád Group (Czech Republic, Hungary, Poland, Slovakia)

**V4+** - Visegrád Group + Austria, Bulgaria, Romania and Slovenia
Bibliography

Academic Studies

• Mangott, Gerhard. “Austria.” In: EU-Russia Watch 2012, edited by Ahto Lobjakas, Martin Mölder, Centre for EU-Russia Studies, University of Tartu, 2012.
• Miller, Ryan R. “Central Europe’s Energy Security Schism.” Center for European Policy
Analysis (CEPA), 2008.


• Stadtmüller, Elzbieta. “Poland.” In: EU-Russia Watch 2012, edited by Ahto Lobjakas, Martin Mölder, Centre for EU-Russia Studies, University of Tartu, 2012.


• Wójcicka, Marta. “Energy Security of the Visegrad Countries.” In: Journal of Modern

Reports


Articles

• *Energy Security of the Visegrád Countries*. Visegrád School of Political Studies, 2015.
Endnotes

5 Energy Strategy of Austria. Federal Ministry of Economy, Family and Youth. (p. 3.)
6 Ibid. (p. 2.)
8 Energy Strategy of Austria. Federal Ministry of Economy, Family and Youth. (p. 1.)
10 Energy Strategy of Austria. Federal Ministry of Economy, Family and Youth. (p. 4-6.)
12 “Member State’s Energy Dependence: An Indicator-Based Assessment.” European Commission, Occasional Papers 196, 2014. (p. 60.)
13 Ibid. (p. 59.)
16 Butler, Eamonn. “Central Europe.” In: Securing the Energy Union: five pillars and five regions. ISS Report, No. 32. (p. 18.)
17 Weidinger, Bernhard et al. “Russian Connections of the Austrian Far-Right.” Political Capital, 2017. (p. 19.)
18 Mangott, Gerhard. “Austria.” In: EU-Russia Watch 2012, edited by Ahto Lobjakas, Martin Mölder, Centre for EU-Russia Studies, University of Tartu, 2012. (p. 20.)
26 Energy Strategy of Austria. Federal Ministry of Economy, Family and Youth. (p. 4.)

Mangott, Gerhard. “Austria.” In: EU-Russia Watch 2012, edited by Ahto Lobjakas, Martin Mölder, Centre for EU-Russia Studies, University of Tartu, 2012. (p. 20.)


http://interfaxenergy.com/analytics/uploads/articles/1461759434176.jpg


The other shareholders are the Austrian Rohöl-Aufsuchungs Aktiengesellschaft (RAG) and the German Wingas.


Ibid. (p. 10.)


Hykl, Adam. “V4+ Energy Union and Energy Security.” Association for International Affairs (AMO), 2015. (p. 22.)


Adomeit, Hannes. “Germany, the EU, and Russia: The Conflict over Nord Stream 2.” CES Policy Brief, 2016. (p. 6.)


Schmitt, Gary J. “Poland, Hungary, and the Czech Republic – The Security Record of “New Europe”.” American Enterprise Institute, 2016. (p. 21.)


Ibid. (p. 203.)