EU-Russia energy relations

Some political and economic aspects

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Overview

- Introduction
- EU-Russia relations after the end of the Cold War
- German-Russian energy cooperation
- Current dilemmas in EU-Russia energy relations
- Conclusion
1. Introduction

The Ukrainian-Russian Gas Dispute
The Ukrainian-Russian energy relations I:

- **after the demise of the Soviet Union**: Ukraine unable to pay for the annual 50 billion cubic metres of Russian gas, Russia repeatedly reduced supplies to enforce payments, unauthorised diversions of the volumes in transit to European countries by Ukraine.

- **since 2002**: high oil and gas prices on world markets; Russia less and less tenable to subsidies Ukraine and the rest of the client states – high world prices make subsidies too expensive against the market value of the oil and gas.

- **2004**: barter agreement for the period 2005–9 signed.
Ukraine, 2004: Political and economic reorientation?

- **autumn 2004**: Orange Revolution
- **2005**: confusing statements – refusal of pipeline consortium concept, storage episode, the whole *settlement reopened*
The Ukrainian-Russian energy relations II:

- negotiations on Common Economic Space (Russia, Ukraine, Belarus, Kazakhstan)
  - summer 2005: Ukraine wants new arrangements in energy cooperation with Russia
  - second half of 2005: negotiations between Naftogaz and Gazprom
Ukraine and Russia in 2005/6:

- **Russian side**, November 2005: “If Ukraine demonstrates political and economic movement towards the Euro-Atlantic region, Russia’s subsidies of the Ukrainian industry at the expense of gas prices is absolutely illogical.”

- negotiations between Gazprom and Naftogaz failed in late 2005 – Gazprom cut off supplies on 1 Jan 2006
The fallout of Russia’s gas dispute with Ukraine:

- Russia’s other European customers have been left with doubts about its reliability as an energy supplier
- early January 2006: a sense of panic in Europe – the full extent of dependency on Russian supplies dawned, but also the importance of European markets for Russia!
- intensifying debate on energy security in the EU – decades of cheap and abundant fossil fuels led to insufficient investment in infrastructure and a benign neglect of energy policy
Lessons for the EU

• dependence on single supplier or a single supply route is not wise

• dispute between third countries – supplier and transit country – can severely affect European energy security

• despite new projects (Nord Stream and Blue Stream), the geography of Russia’s existing pipeline export infrastructure through Ukraine, Belarus, and Moldova cannot be changed
# Russia’s natural gas supplies, 2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Imports from Russia 1,000 m cubic metres</th>
<th>Share of consumption, %</th>
<th>Share of gas imports, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>0.9</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3.1</td>
<td>99.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Finland</td>
<td>4.3</td>
<td>99.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Latvia</td>
<td>1.5</td>
<td>93.8</td>
<td>93.5</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2.9</td>
<td>93.2</td>
<td>93.5</td>
</tr>
<tr>
<td>Ukraine</td>
<td>34.3</td>
<td>48.5</td>
<td>50.4</td>
</tr>
<tr>
<td>Poland</td>
<td>6.3</td>
<td>47.6</td>
<td>69.2</td>
</tr>
<tr>
<td>Germany</td>
<td>37.3</td>
<td>43.4</td>
<td>40.6</td>
</tr>
<tr>
<td>France</td>
<td>13.3</td>
<td>29.8</td>
<td>29.8</td>
</tr>
<tr>
<td>Italy</td>
<td>21.6</td>
<td>29.5</td>
<td>35.2</td>
</tr>
</tbody>
</table>

*Source: Krashakov, 2005*
2. The EU and Russia
Europe after the Cold War:

• “the end of history” proclaimed - peace dividend, competition among countries, but no ideologically inspired conflicts

• Central and Eastern European countries started economic shock therapies to introduce market economy, perspective of EU membership
Mutual misjudgements:

- EU offered Baltic, Central and Eastern European countries membership if Copenhagen criteria are fulfilled - no such offer to Russia, but the same demands for implementation of market economy and democracy.

- Russia headed for Gorbachovian “Common European Home” – under Yeltsin Russia opened itself towards Europe, member of the Council of Europe, hope that it would become accepted partner, economic crisis of 1998.

- 1997 NATO enlargement when Russia entered its worst economic crisis under a politically weak president.
Institutionalisation of EU-Russia cooperation:

• 1994: Partnership and Cooperation Agreement signed; Energy Charter Treaty

• EU approach: focused on humanitarian issues, good-governance projects – no strategic choices

• transition processes – cooperation must be redefined now!

• **today**: meetings between leaders focus on the promotion and management of economic cooperation at the expense of more normative issues

• EU approach to Russia ever more influenced by its dependency on Russian energy supplies and the need for security in the region
3. German-Russian Energy Cooperation
German-Russian energy ties

- **late 1970s**: West-Germany negotiated energy supplies to diversify supplies from unstable Middle East
- **1980s**: GDR - together with other Eastern European countries - built gas pipeline from Siberia to Central Europe, USSR paid for construction with future energy deliveries, continued after the German reunification
- Energy cooperation is about companies! – RWE, E.ON/Ruhrgas, BASF active in gas production in Russia and have also established joint ventures with Gazprom in Germany; plan to build Nord Stream gas pipeline
German EU Presidency, 2007 – ambitious plans:

- **July 2007**: completion of the internal gas and electricity market
- energy efficiency and climate-change issues
- security of energy supply – focus on North Africa, the Caspian region and Central Asia
- focus on EU neighbourhood policy – Central Asia in particular
- new strategic agreement with Russia
4. Dilemmas in EU-Russia Energy Relations
European security of supply

- Russia has consolidated enormous power in the hands of Gazprom and the state
- European Commission preoccupied with completing liberalisation, unbundling of large energy companies, and breaking up long-term contracts - energy policy needs to create incentives for investment in storage and connectivity
- Russia and the EU move towards opposite directions! – state control vs. market liberalisation
- EU insists on Energy Charter Treaty - Russia refuses to ratify the Treaty and the Transit Protocol
European dilemmas:

• disagreement among EU member states - Eastern European countries wish to decrease their dependence from Russia - Poland vetoed the beginning of negotiations on the new Partnership and Cooperation Agreement (energy will be part of the agreement)

• EU Commission: “EU and member states should speak with one voice.” - what should that voice say?

• EU institutionally unprepared: energy issues dealt with by several DGs, external foreign policy intergovernmental, energy mix responsibility of EU member states
Some Concluding Remarks

• Ukraine pivotal: transit country of most gas supplies from Russia - EU policies towards the country must recognise this fact; neither Russia nor the EU can force their will on transit countries!
• redefinition of EU-Russia relations - recent political and economic developments must be acknowledged
• interdependence - more mutual confidence and trust needed; Russia should improve transparency; EU should not politicise energy relations
• comprehensive neighbourhood policy - no geopolitical competition with Russia! - in order to stabilise the whole region
• courageous step towards common energy policy needed
Thank you!

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