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THE EU AND RUSSIA IN 2007:
NEGOTIATING A NEW RELATIONSHIP

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I would like to thank the Baltic Forum for inviting me. I think that this kind of second-track dialogue is is always very helpful and i don't have the impression that you are lecturing each other, and I am sure that interesting ideas are being exchanged here. My title gives you already the idea about the whole direction of my talk: EU-Russia energy relations: A further rationale fro a radical shift in EU energy policy.

Russia has pursued a rather confrontational course in the past year. And this has triggered a debate in the EU: should we go on like this or should we revise our energy policy with Russia? There are optimists who claim: there is no need for worry, we only need Russia to sign the energy charter treaty and Russia needs to acknowledge that it does need EU companies to invest in its energy infrastructure. I instead will argue that the EU has increased its dependency on Russian energy and fossil fuels in general. I do also see a short term co-dependency between Russia and EU, while in the mid term it turns into an asymmetry, a unilateral dependency of EU on Russian energy and, in the long run not only consumers, but also producers have to think of different kinds of energy strategies. That even applies for Russia, although certainly in the long term.

The EU energy import pattern is dramatically increasing. Today, we import 50% of our energy consumption. In 2030 it will be 70%: 84% for oil and for gas it will be 90%. Russia is the single country where we get most of our energy from (24% of gas and 27% of oil). Africa is also going to be interesting: 22% if you include Algeria. The rest is still from indigenous sources. As you know, the North Sea oil has peaked and the production rate is declining. That the discovered and projected oil and gas reserves there are among the largest on Earth and Russia has 34% of proven gas reserves), and Russia has succeeded in strengthening its energy sector by a couple of very skilful strategies based on the divide and rule principle. Nothing wrong with that. Just to list them: nationalisation of the energy sector: Gasprom is now a state-run company. There are a couple of pipe-line strategies which provided Russia with dominance over the newly independent states. One strategy is seen in the resent deals with Turkmenistan and Kazakhstan which secured Russia central Asian gas, pre-empting the Chinese and US attempts to get a hold on the gas of this region. The other strategy is that of direct pipelines which avoid transit countries, like the North-European pipeline. GAsprom has entered the EU market – whether the EU likes it or not. That is the other side of liberalisation: companies are coming in that you might not like to see. Gasprom is also planning a gas cartel: Cooperation has already started with Algeria's biggest company. There is nothing wrong with these skilful strategies, where Russia was capable of building on its strengths. But what I think is wrong is Russia's use of energy as a foreign policy tool. I strongly disagree with Dr. Simes, where I think what he referred to were sanctions and blackmail. I have listed here cases of cuts of supplies to Europe and a couple of statements by Putin where the content is a threat of delivery stop in case of the EU's non-compliance. The earliest statement was launched as early as in 2002 and the latest statement is that Russia might re-direct future exports to Asia, which were meant for Europe, if the EU blocked the expansion of Gasprom into EU markets. I would call that blackmail and nothing else. Other statements are from Alexei Miller or Gasprom. So far, you could always read in the EU's documents: "but Russia has always been a very reliable partner, even during the cold war, so no worries." But I found this statement in an important 2006 EU document: "Increasing dependency on energy imports from unstable regions presents a serious risk. Some major producers and consumers have been using energy as a political leverage." I think that Belarus in 2007 was a major event – also for chancellor Merkel. She was not amused, and she was not amused that Putin did not consult her. That also might have triggered the development that you have seen in the last months. I completely agree that there is short-term co-dependency. Europe is still an important market for Russia, with Europe importing 80% of its energy. So at the moment there is mutual dependency, no doubt about it, at least numerically. But, if that is so true I really would like to know about the EU position on the human rights aspect of Russia. I have heard that there are consultations going on; I have also heard from Dr. Arbatova that we have to be more merciful, that Russia has come a long way from being an authoritarian state. But still, I do not understand why Chechnya cannot be addressed much more consistently. This whole conflict has not died down – may be in the media, but not in real. I just want to question this thesis of short-term co-dependency, because public shame is important.

My main points are these: China will be an important customer in the mid-term, the EU has to live with that. I do believe that Russia is facing limitations of its resources, because it does have a very moderate production capacity at the moment. This also plays into the situation. There will be a competition for Russian gas and oil, so no worries for Russia about any kin fog demand. Now, the responses: one is NATO. The Polish suggestions to exclude Russia and create a consumer cartel – this idea I think does not fly. The EU is counting on liberalization – "just liberalise the market and you do not have supply problems any more" – I think it is misleading. But the EU has got one thing right, and it was not just reaction to climate change; it was also a reaction to Putin's use of energy as a foreign policy tool. The EU is planning to focus on renewable sources and to replace 10% of nonrenewables by biofuels. We have to see whether this is going to be implemented.

Importantly, peak oil is a problem. Although it's only at midpoint of depletion, it's a problem because production is going to decrease: pressure is going down and water is coming in. All the OPEC countries are going to face this problem in the coming years. The recommendations for the EU: stop insisting on deals which are not attractive. I do not see Russia signing the Energy Charter treaty. Why would Russia sign it? Put it in the larger context of the WTO, then you at least have a nice bonbon for Russia, not just the Energy Charter treaty is playing with the wealth of Russia. Russia is very well-consulted here to keep its wealth, not to give it away too quickly. It is the wealth of this country and it has too use it very carefully. And we have to accept that.