

EU-Russia Energy Relations Dilemmas and Delusions

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Europe in the World Centre
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Conceptualising energy

- ◆ A source of power and Power
- ◆ Multi-sectoral; multiple actors
- ◆ Post-Cold War environment (cross-border flows)
- ◆ Rogue-like behaviour
- ◆ Increased European dependence upon imports
- ◆ EU vs Russia energy approaches

Plan of Attack

I. EU Energy

- ◆ Security of Supply issues
- ◆ Energy in EU policy

II. Russian Energy

- ◆ Security of Demand issues
- ◆ Energy in Russian policy

III. EU-Russia Bridge-building

- ◆ From Gas Spats to Solutions

Introduction

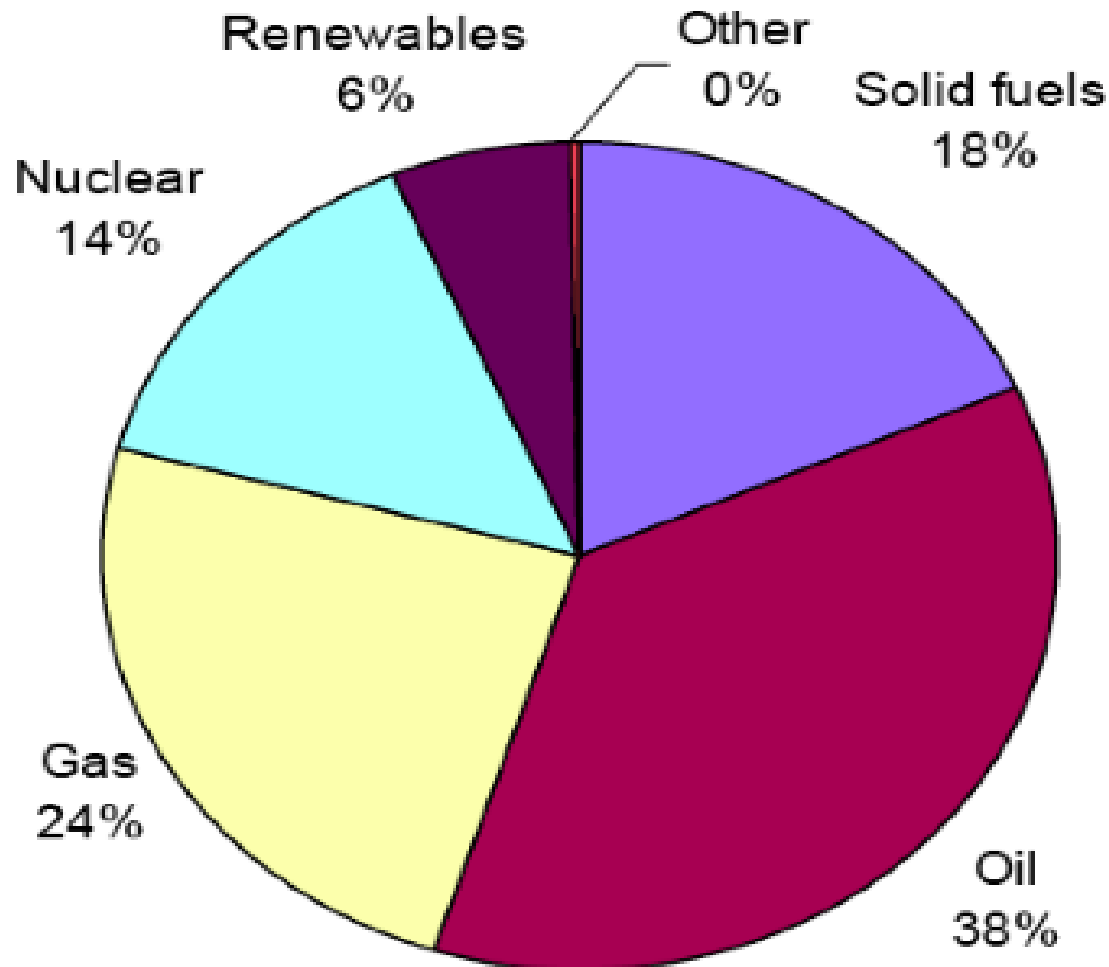
- ◆ Energy Security: reciprocity between importers, transit & exporters
- ◆ Security of Supply *and* Security of Demand
- ◆ Perceptions: lack of info; us vs. them
- ◆ Energy Security hinges on:
 1. Dependency
 2. State Involvement
 3. Foreign Policy
- ◆ Foreign policies now need to integrate energy security

Europe's Energy Needs

- ◆ EU: second largest energy consumer in the world, & the largest energy importer
- ◆ Market, population growth & EU enlargement = produced a surge in demand
- ◆ Transport – 98% dependent upon oil; Households: 63% dependent on oil & gas
- ◆ Huge demand in electricity (generated largely by nuclear, coal & natural gas)
- ◆ Strongest energy producers: Germany (solid fuels), France (nuclear), Britain (gas & oil), Italy (oil) and Spain (solid fuels)
- ◆ Highest energy consumers: Bulgaria, Romania, 2004-10 accession states, Finland, Med states
- ◆ Overall: conventional energy reserves in Europe are limited & expensive to extract

EU-27 Energy Supply (2004)

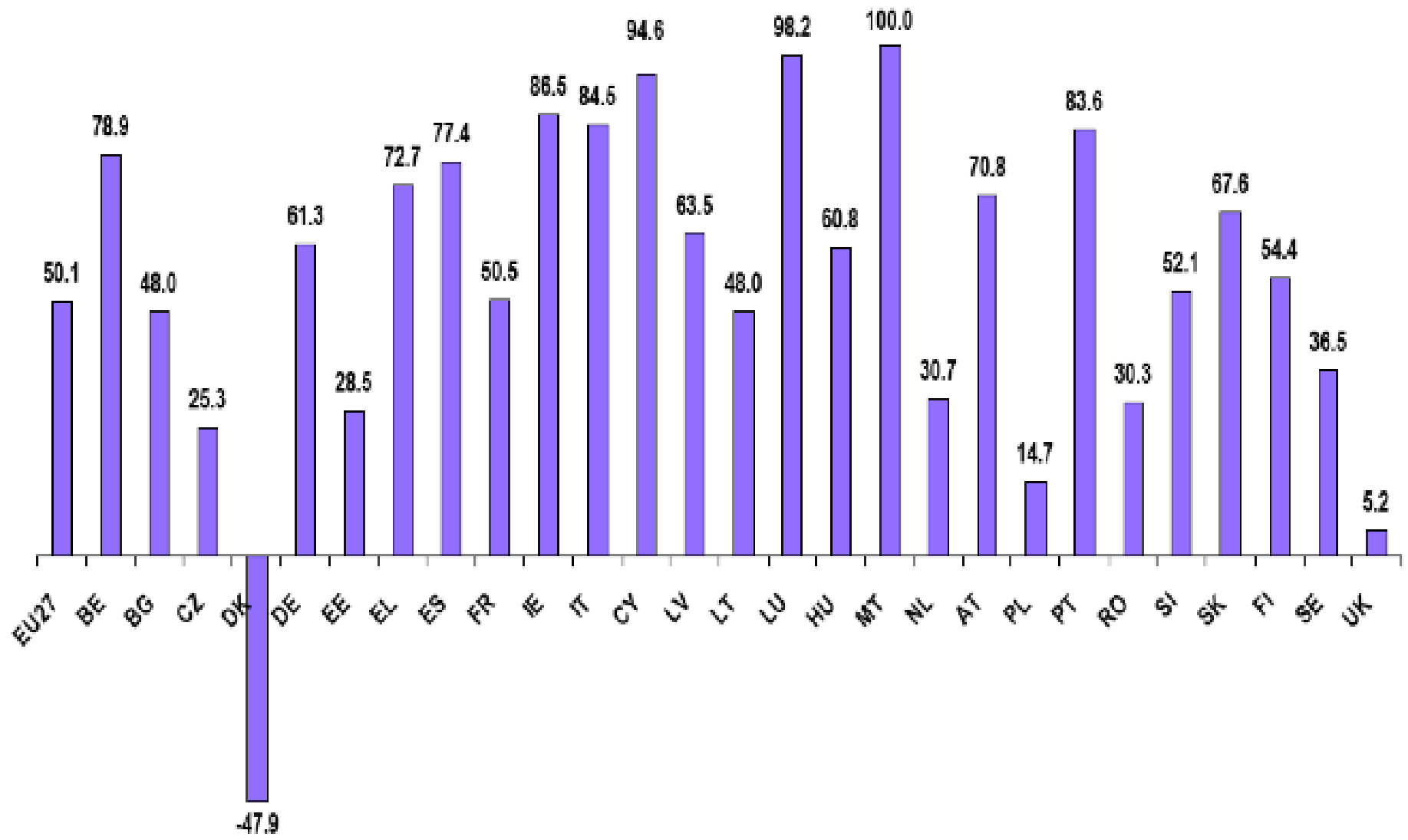
EU-27 Total Primary Energy Supply (2004): about 1 800 Mtoe



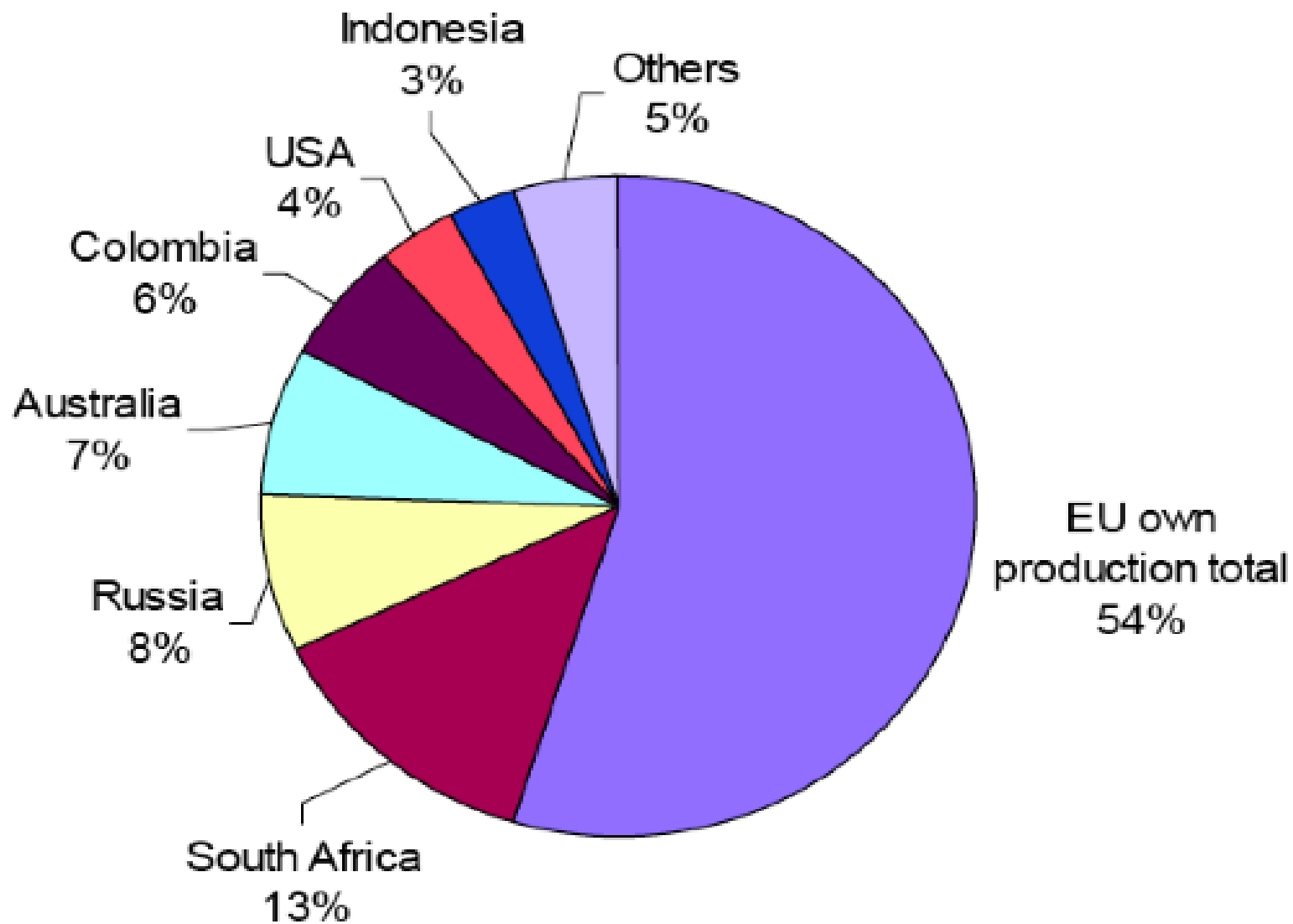
EU Energy: Declining Supplies

- ◆ Oil: 4% of world reserves; North Sea (UK) reduced by 2025
- ◆ Natural Gas: 2% of world reserves (Netherlands & UK), depleted by 2020
- ◆ Solid fuel (coal, lignite, peat, shale) 5%, or 200 years, but a costly pollutant
- ◆ Uranium: 2% of world's reserves, most mines now closed
- ◆ Renewable sources (wind, solar, biofuels) remain undeveloped

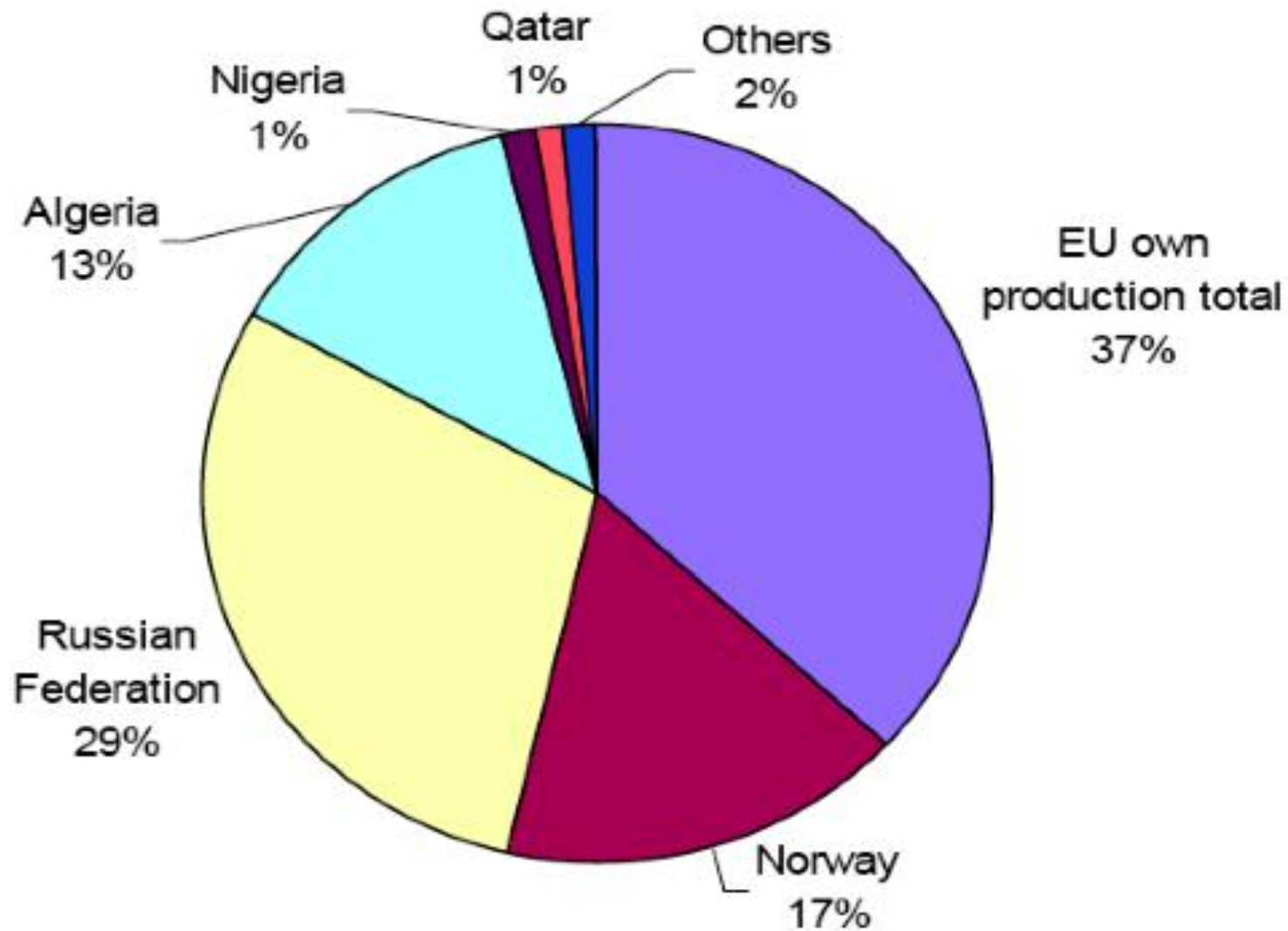
EU-27 Import Dependency



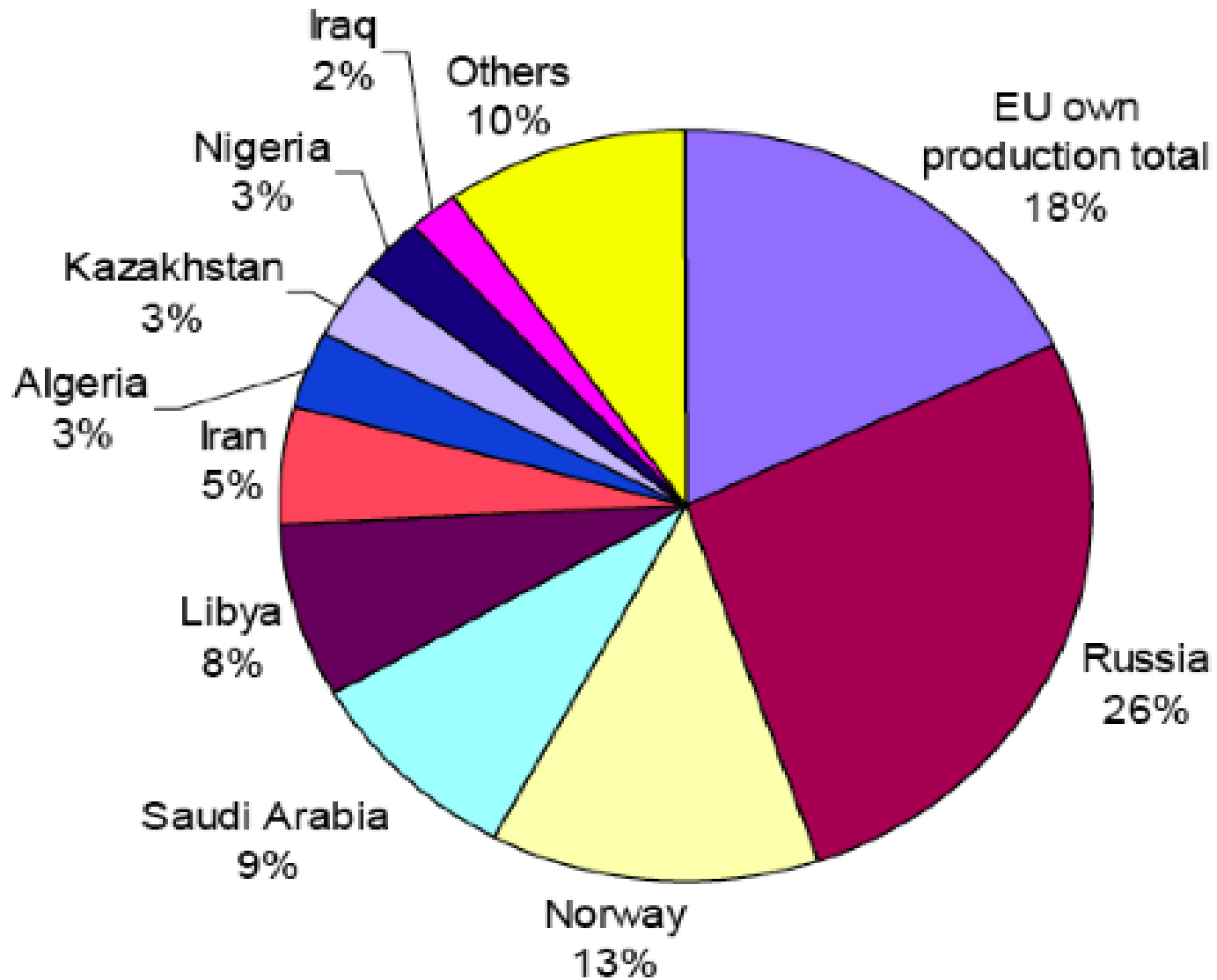
EU-27 Origins of Coal (2004)



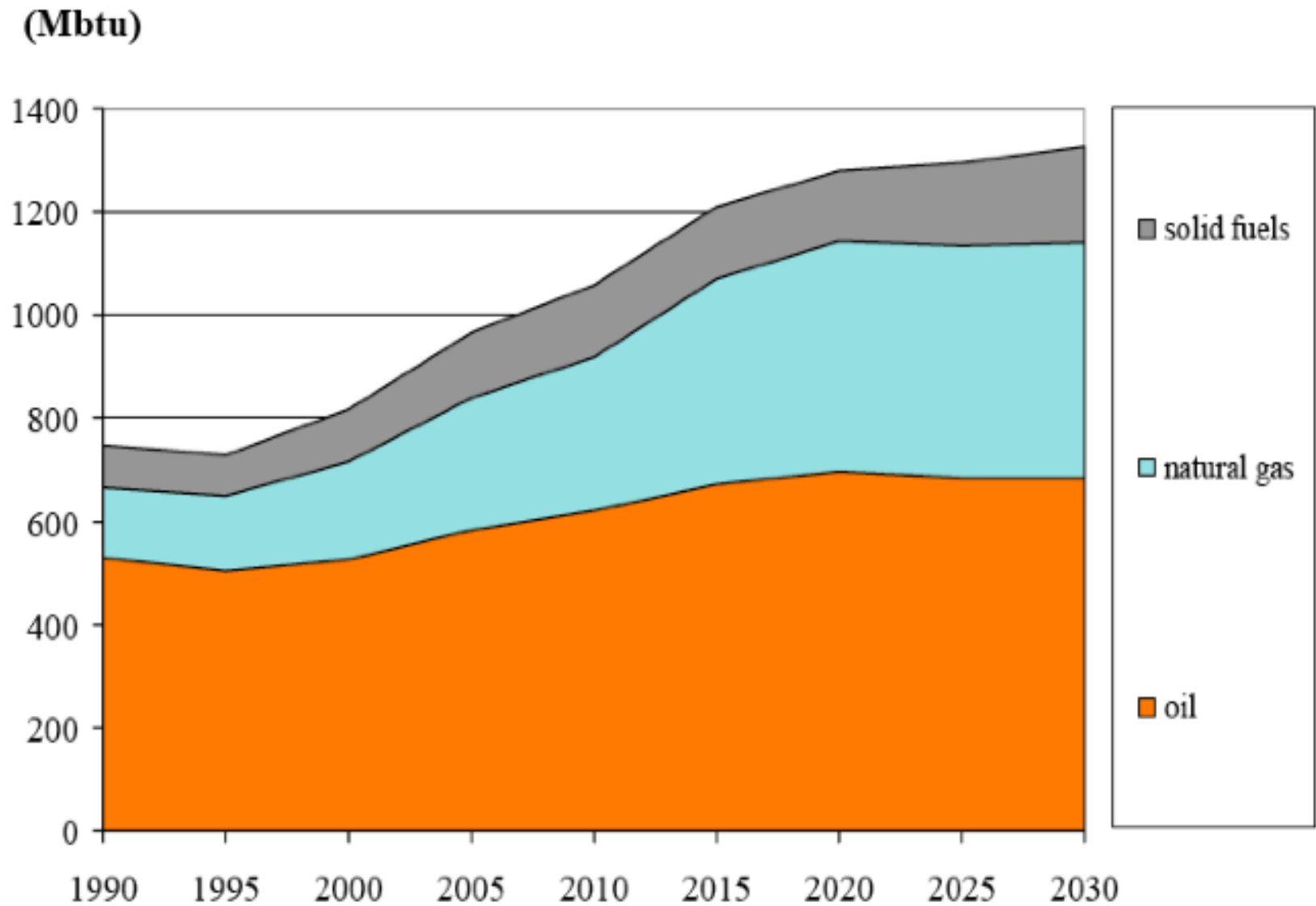
EU-27 Origins of Natural Gas (2004)



EU-27 Origins of Oil (2004)



EU-27 Net Imports of Fossil Fuels



EU Energy 2007 Supply

- ◆ Current EU import dependence = 50%
- ◆ By 2030: 70%
- ◆ Current EU gas dependence = 57%
- ◆ By 2030: 84%
- ◆ Current EU oil dependence = 82%
- ◆ By 2030: 93%
- ◆ Major Oil & Gas Suppliers: Norway, Russia, Algeria, Middle East

EU Energy as a Security Issue

- ◆ Security of **demand** difficulties arising from Europe's own complex energy market: electricity, oil & gas markets
- ◆ Security of **supply** problems with Russia and the Middle East
- ◆ 2003 European Security Strategy
 - Energy security as 'global challenge'
 - Energy dependence: European concern
 - Nuclear proliferation; enhanced provisions

EU Energy Policy Papers

- ◆ 2001 Green Paper *Towards a European strategy for the security of energy supply*
 - Brussels, we have a dependency problem
- ◆ 2004 *Study on Energy Supply Security and Geopolitics*
 - EU foreign and security policy and external trade policy are crucial energy policy tools to achieve future security of supply
- ◆ 2006 Green Paper *A European Strategy for Sustainable, Competitive and Secure Energy*
 - the EU needs a common voice on energy issues

EU Energy Innovations

- ◆ Unbundling (separating ownership of energy infrastructures from the sources energy generation): cross-border ownership
- ◆ Swift cross-border investment in EU energy infrastructure
- ◆ Solidarity between EU members states regarding security of supply (no more North Sea Pipelines)
- ◆ Set binding renewable energy targets (biofuels for transport)
- ◆ Decide on Nuclear Power: less vulnerable to price changes; cheap source of low carbon energy; EU's technological lead vs safety & proliferation
- ◆ Invest in clean coal technology; and R&D to promote CO₂ capture and storage

2007: 'An Energy Policy for Europe'

Grounding the Innovations

- ◆ Climate change + increasing import dependence + growth of Europe
 1. Sustainability: EU committed to reducing EU & global greenhouse gas emissions (20% by 2020)
 2. Security of Supply: weaning Europe off oil & gas dependence
 - Increasing external supply failures
 3. Competition
 - Complete Internal Energy Market for fair & competitive energy prices
 - Invest in low carbon energy technologies

EU Energy Features : Common & External

1. ‘The challenges of security of supply & climate change cannot be overcome by the EU or its Member States acting individually.’
 2. Energy ‘must become a central part of all external EU relations, it is crucial to our geopolitical security, economic stability, social development and climate change goals’. ‘We cannot separate the external from the internal’.
- ◆ How? Via effective energy relations with international partners; through bilateral, multilateral and regional agreements in which there are deeper energy provisions

Energy in European Foreign Policy

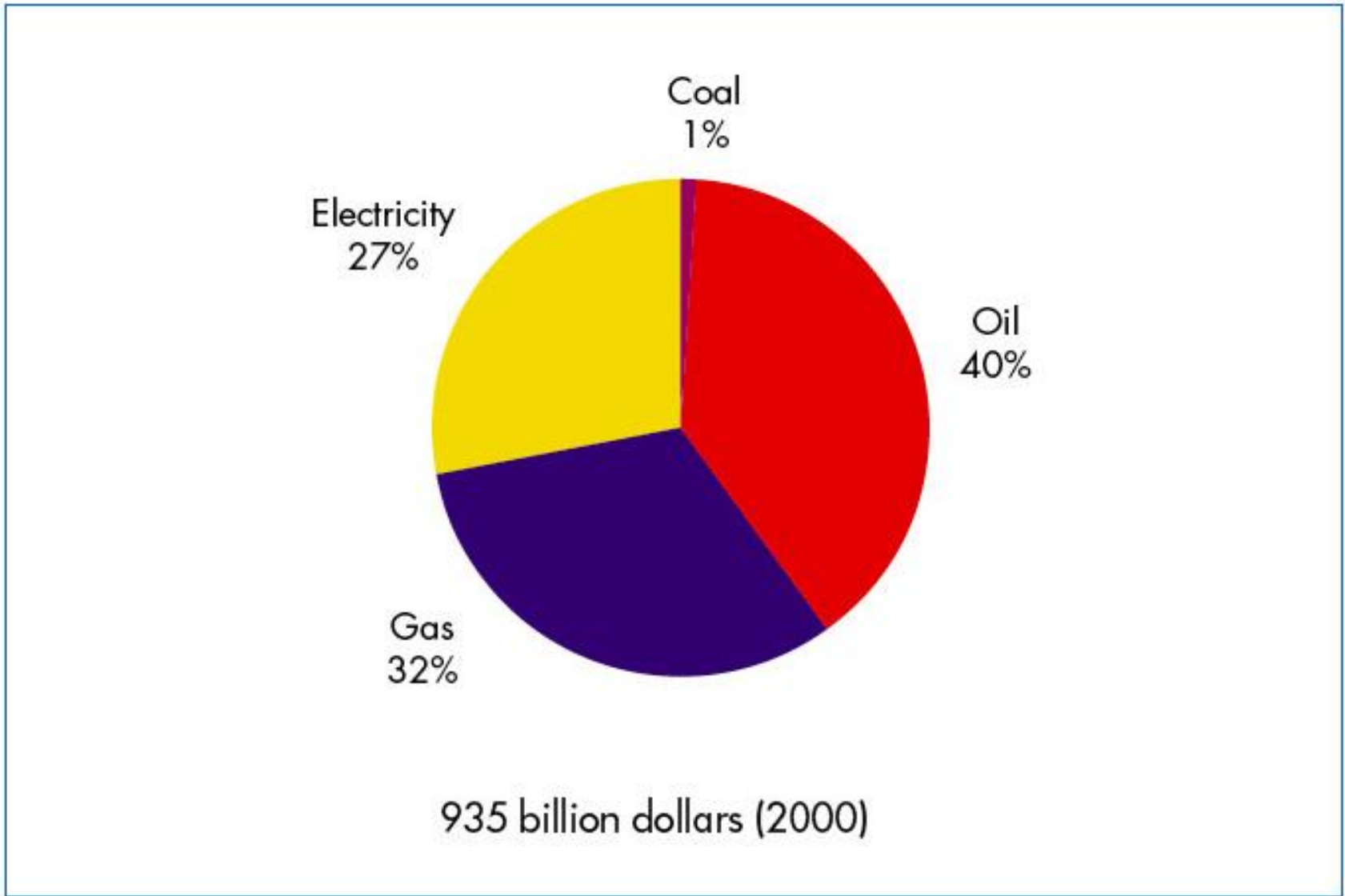
‘Deepen relations with key energy producers & transit countries’

- ◆ Euro-Med region (North Africa & Middle East): An *Africa-Europe Energy Partnership*
- ◆ New Neighbourhood: Ukraine, Georgia, Azerbaijan, possibly the Caspian (Azerbaijan)? *EU-ENP Energy Treaty*
- ◆ Energy Community Treaty (legal framework for an integrated Balkan energy market) pushed East to the Caspian, North to Norway, South to the Med & M. East
- ◆ Complete the Nabucco gas pipeline (from Caspian to Austria), possibly with US-Russia cooperation?
- ◆ Stronger dialogue with OPEC, GCC, IEA & G8
- ◆ Re-visiting the Energy Charter Treaty (& Transit Protocol) as a framework for enhanced East-West energy relations (Russia applies the ECT provisionally)

II. Features of Russian energy

- ◆ Russia is a 'triple hatted' energy actor: major producer, consumer & transit state.
- ◆ State control over all of gas sector and most of oil: Gazprom (gas) Rosneft (oil) Transneft (pipelines)
- ◆ Extensive east-west network of gas and oil pipelines drawing reserves from the Black & Caspian seas, from Western Siberia to Austria and Finland
- ◆ Energy = national revenue; shield against global fluctuations; foreign policy leverage
- ◆ Energy = symbolic of economic development, reserves, public/private overlap, re-centralisation

Cumulative Energy Investment Needs in Russia, 2003 - 2030



Russian Oil Pipelines



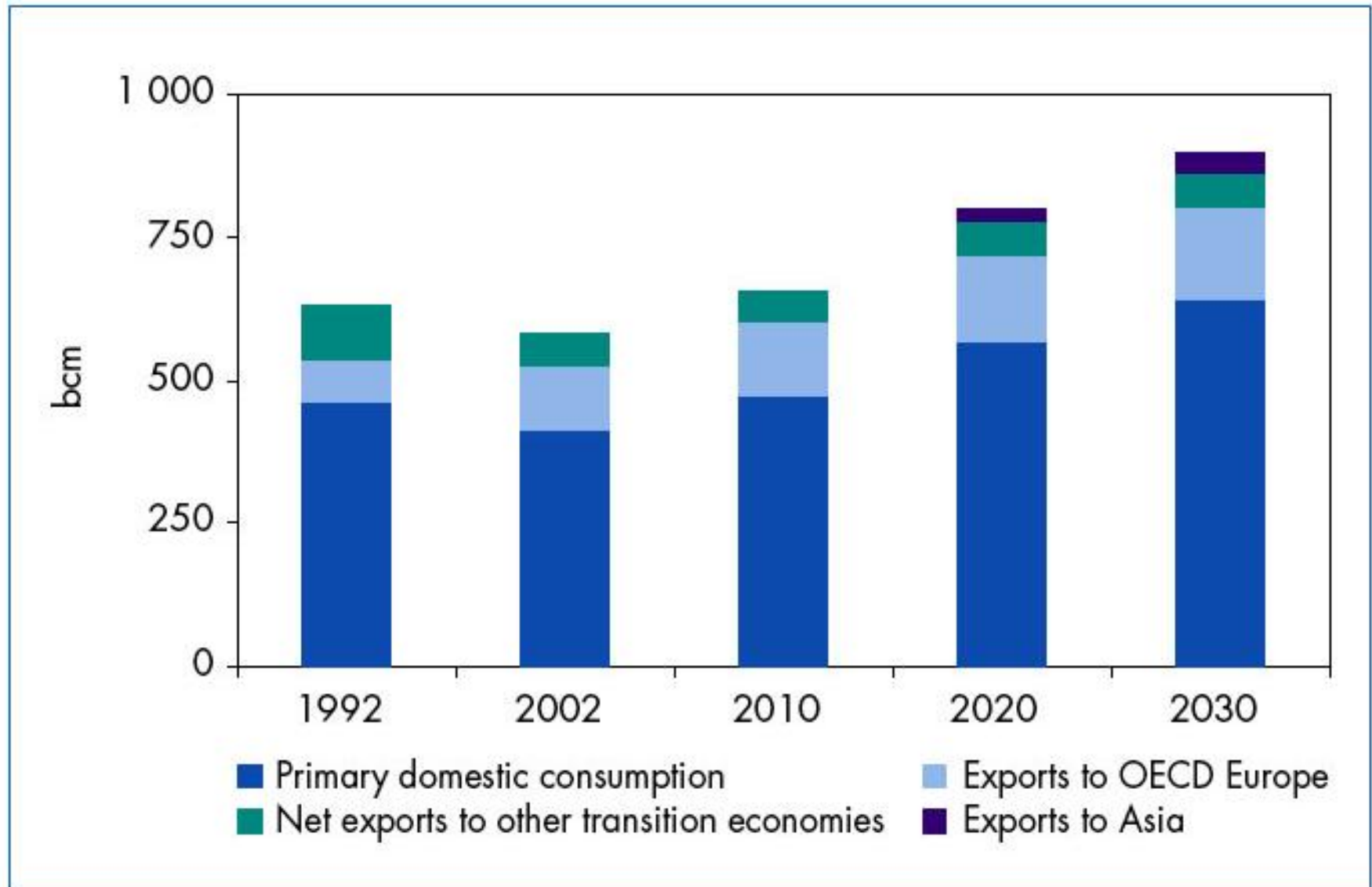
Source: *World Energy Outlook (2004)* International Energy Agency, p.302.

Russian Gas Reserves & Pipelines

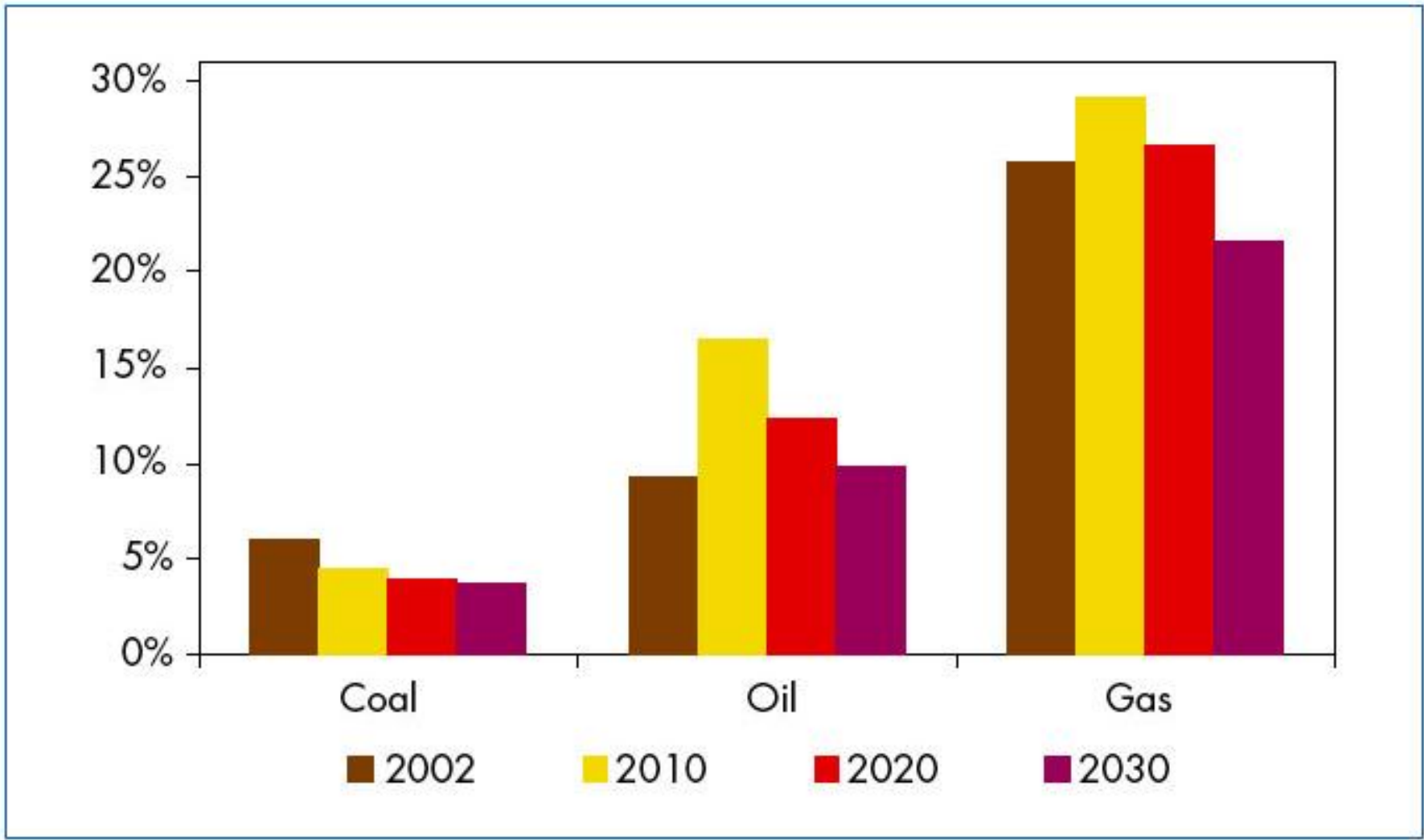


Source: *World Energy Outlook (2004)* International Energy Agency, p.310.

Russian Gas Balance



Russian Fossil-Fuel Exports as Share of World Trade

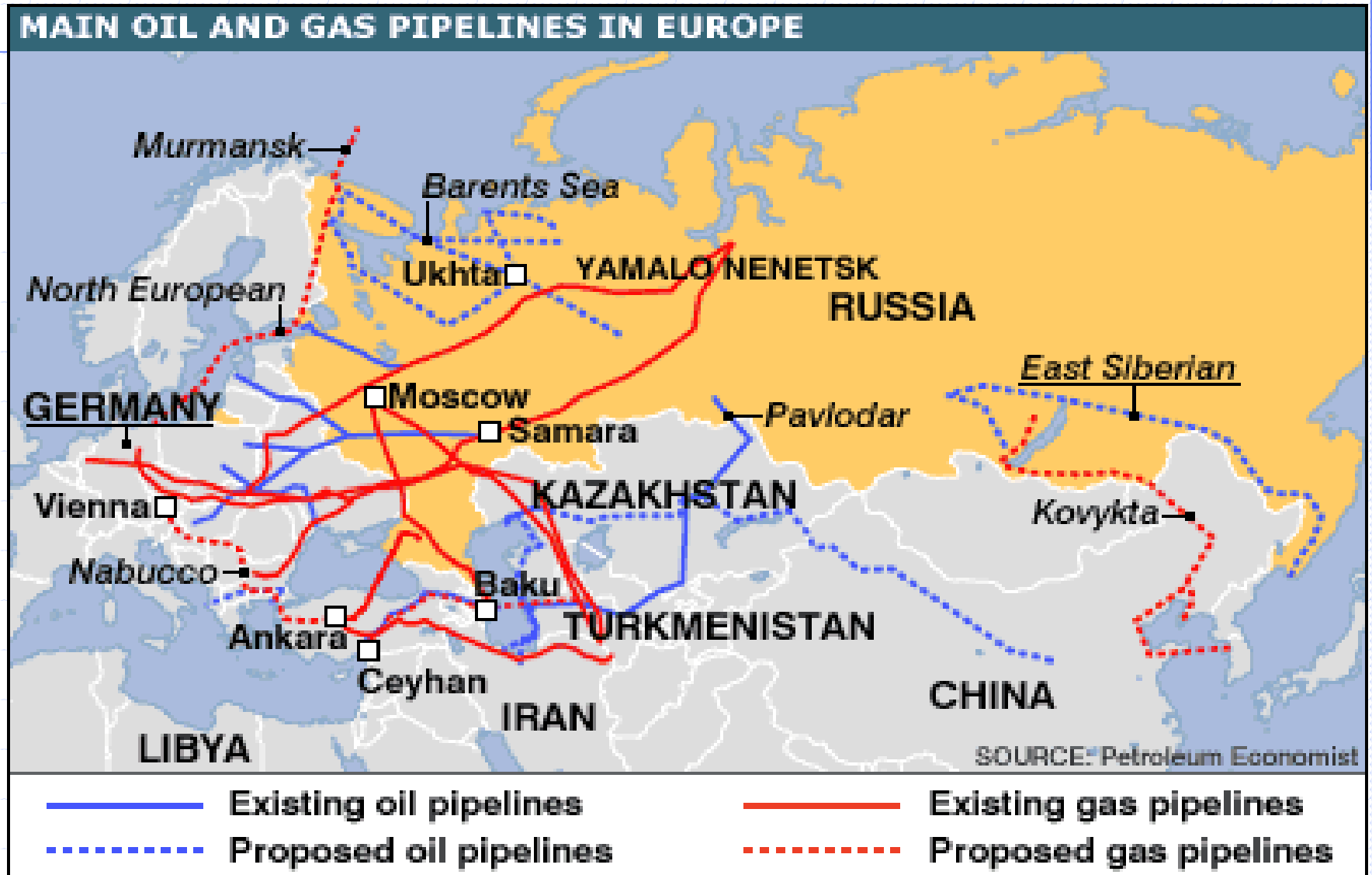


Source: *World Energy Outlook (2004)* International Energy Agency, p.324.

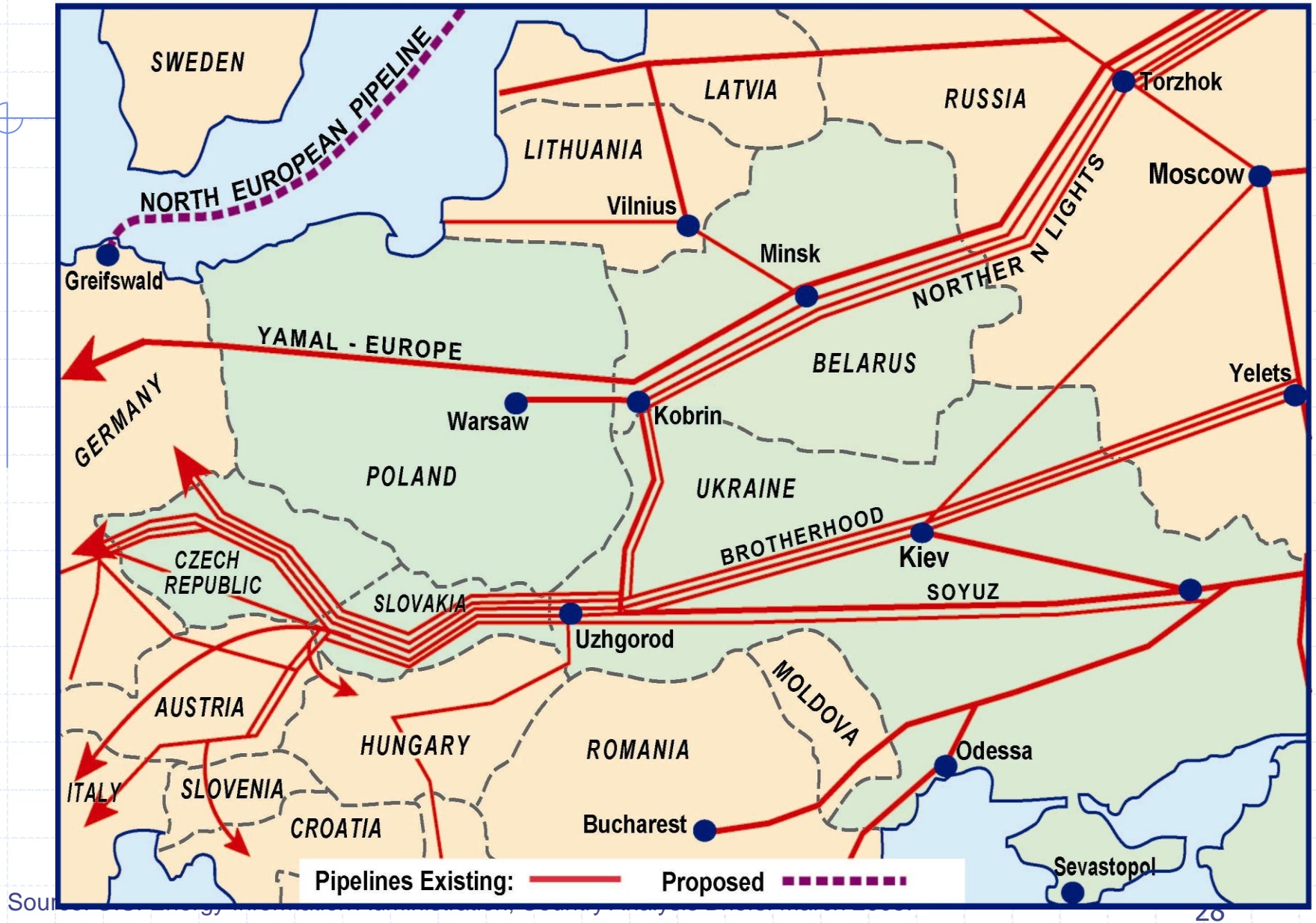
Energy & Russian foreign policy

- ◆ 2000-2010 Middle Term Strategy: energy as key to Russian national security & foreign policy
- ◆ Reclaiming super-power status based on natural energy resources
- ◆ EU role: security of demand
- ◆ Eurasian energy space
- ◆ Pan-European transport corridors

Russia-Europe Oil & Gas Pipeline Projects



Major Russian Natural Gas Pipeline Projects



Russian forays

- ◆ 2002: Yukos break-up for unpaid taxes; followed by investor legal action
- ◆ January 2006: Ukraine & Moldova gas spat
- ◆ March 2006: North Sea Pipeline deal signed with Germany (Putin & Schroeder)
- ◆ April 2006: Gazprom market declaration
- ◆ Summer 2006: Russian Presidency of G8: security of supply prioritised
- ◆ Sept 2006: Finnish Presidency: punchy Putin
- ◆ December 2006: BP 'bought out' of Sakhalin fields by Gazprom
- ◆ January 2007: Belarus gas spat

Current Trends

- ◆ Energy as a source of national greatness AND an instrument of foreign policy.

Gas Spats:

- ◆ undermined Russia's reliability & reputation as an energy supplier;
- ◆ reduced European consumer confidence;
- ◆ highlighted the risks of relying on foreign sources and the vulnerability of transit methods;
- ◆ show energy security to be an issue of Russian foreign policy and a foreign policy problem for the EU.

EU-Russia energy relations

- ◆ 1994 Energy Charter Treaty
- ◆ 1997 Partnership & Cooperation Agreement
- ◆ 1999 Common Strategy
- ◆ 2000 EU-Russia *Energy Dialogue*
 - True partnership or narrowed interests?
- ◆ Annual Reviews by both sides
- ◆ 2004 Energy Dialogue: 2000-2004
- ◆ 2005: Permanent Partnership Council

EU concerns

- ◆ Rising European dependence on Russia
- ◆ Moscow's unilateral cutting of energy supplies without warning
- ◆ Persistent Russian reluctance to agree to the ECT (promoting the liberalisation of Russian energy markets)
- ◆ Energy imports as a foreign policy lever

EU: Dealing with Russia

- ◆ Enhancing EU-Russia relations via a robust framework agreement (renewed PCA, ratified ECT, a new tool?)
- ◆ Both sides must benefit (common interests rather than common values)
- ◆ Creating conditions for European investment in Russia (no more Sakhalins) and Russian investment in more open European energy market (more liberal European market)
- ◆ Security of supply/demand based on market principles (not statist retaliation), preferably those of the ECT

European Responses

- ◆ Blair to Russia (13.03.07): ‘one of the reasons why Europe has been busy setting out its new energy policies is Moscow’s behaviour.’
- ◆ ‘I do hope that Russia understands... that its best prospect of playing a full part in the international community and becoming a strong economy is if it plays by the same rules as everybody else... in Europe and with America too.’

Conclusion

- ◆ there are significant uncertainties from where Europe will receive substantial additional oil & gas supplies post-2020
- ◆ Europe is increasingly obsessed with “unreliable and nasty foreigner” theories of energy security but the urgent problems are:
- ◆ political relationships between Europe and major gas exporters – particularly Russia, North Africa, the Middle East and the Caspian, some of which are in decline