

UNIVERZITA PALACKÉHO V OLOMOUCI  
Filozofická fakulta  
Katedra politologie a evropských studií

Nikol Ostianová  
The EU-Russia Energy Relations  
Bakalářská diplomová práce

Vedoucí diplomové práce: Mgr. Markéta Žídková

OLOMOUC 2009

I hereby declare that this thesis I submit for assessment is entirely my own work and has not been taken from the work of others save to the extent that such work has been cited and acknowledged within the text of my work.

In Olomouc March 25, 2009

---

My sincere thanks go to Mgr. Markéta Žídková for her supervision, expert opinion and advice which contributed to writing of this thesis.

## OBSAH

Introduction.....	4
1 Theoretical clarifications .....	7
1.1 Terminology.....	7
1.2 Theoretical approaches: How to grasp the issue.....	8
2 Physical factor .....	10
2.1 Different points of view on Russia's physical dispositions .....	10
2.2 The EU's physical disadvantage .....	14
3 Financial factor .....	16
3.1 Financial Aspects of the Russian Energy .....	16
3.2 Financial management of the EU's energy.....	23
4 Institutional factor .....	25
4.1 Consolidated power over the Russian energy sector .....	25
4.2 Diffuse institutional power of the EU bloc.....	28
5 Informational factor.....	31
5.1 Russia's domestic and international energy strategy .....	31
5.2 The EU's energy strategy.....	34
5.3 Interactions of the EU and Russia.....	36
6 Conclusion.....	38
7 SOURCES AND LITERATURE.....	40
7.1 SOURCES.....	40
7.2 LITERATURE .....	47
8 ANNEXES .....	51
9 ABSTRACT .....	58
10 ABSTRAKT .....	59

## Introduction

The Cold War that divided Europe into two spheres of influence is over for twenty years now. Debate over Russia becoming once again superpower is getting intense. The Europeans seem to be alarmed. Roots of this rationale stem from an assumption that the adjustment of the Russia-EU energy relations gives Russia a possibility to use its energy resources advantage in a way that could harm the EU. Main fears prevail in the field of the EU's security of energy supply and consequent Russian overall power aspirations. The main source of the fear is Russian overwhelming abundance of natural resources, namely oil and natural gas, and the EU's heavy dependence on energy supplies of these commodities from the territory of the Russian Federation. These worries indisputably have a solid ground, yet arguments and factors which play against this widely spread assertion exist. Through their analysis I will argue for and test the following hypothesis:

*Russia does not represent a threat for the EU with respect to their mutual energy relations since a gap between reality and Russia's image exists.*

The time line of this paper concentrates on the era after the collapse of the Soviet Union. To be more specific, I will not focus on the beginning of Yeltsin's period in a great detail for two main reasons: the 90's in Russia were hit by a severe economic crisis and decline in natural resource production and export,<sup>1</sup> and thus Russia had to concentrate more on domestic issues rather than on promoting its foreign policy in near abroad and in the old EU-15. Similarly, the EU began to formulate policy to address its growing energy dependency on external sources by focussing on the relationship with Russia in the late 1990's.<sup>2</sup> It was a time when the Partnership and Cooperation Agreement

---

<sup>1</sup> BP *Statistical Review of World Energy 1997*. In: BP, <http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622> (20. 3. 2009)

<sup>2</sup> HUGHES, James: *EU relations with Russia: partnership or asymmetric interdependency?* In: CASARINI, Nicola – MUZU, Costanza, (Edd.): *The EU's foreign policy in an evolving international system: the road to convergence*. London 2006, p. 98.

(PCA) between the EU and Russian Federation was finally ratified by the latter actor in 1997, and the EU-Russia Energy Dialogue was consequently launched in 2000.

The territorial segment embodies the area of Russian Federation after the collapse of the Soviet Union, meaning that the former Soviet republics are considered to be independent sovereign states. On the other hand it is worth noting that the relations of Russia and its once sphere of influence area are inseparable from the problematic of the Russia-EU relations since number of them are directly or indirectly involved in energy process. Last but not least, area of Asia is included for various reasons. Russian economic ties are strengthening with countries such as China or Japan and new extraction facilities, as a Sakhalin project, are being built in the geographical part of Asia.

Literature and sources of information used in this paper can be divided into three sections. First, official documents and information issued by the Russian Federation which mainly president, government, ministries and administrative bodies. On the EU side a valuable use of the documents elaborated by the European Commission and its subsidiaries was made. Last but not least, joint documents, such as papers dealing with the EU-Russia Energy Dialogue or the Partnership and Cooperation Agreement (PCA), of the EU and Russia were included. Second, while using media reports two basic problems when using Russian media arise. Freedom House has reported Russia as a country where the press is not free and where state continues to exercise extensive control over television, radio and the print media<sup>3</sup> and majority of Russian media (printed or internet news agencies) do not provide the English translation. I was consequently forced to use foreign media, which refer about the related issue because of the possible credibility and language gap. The last section of used literature is research papers and factual data obtained from independent or state research and analysis institutes, expert international

---

<sup>3</sup> ORTTUNG, Robert W.: *Russia*. In: *Nations in Transit*. Freedom House, 2008, [http://www.freedomhouse.hu/images/fdh\\_galleries/NIT2008/NT-Russia-final1.pdf](http://www.freedomhouse.hu/images/fdh_galleries/NIT2008/NT-Russia-final1.pdf) (19. 2. 2009)

agencies/institutions or companies which operate on the energy background. I would like to emphasise work of the Russian Analytical Digest, Carnegie Moscow Center For International Peace, International Energy Agency and Energy Information Administration of the U.S. Government. The issue currently receives huge attention yet not many monographs were published therefore mainly briefing and research papers provide satisfactory analysis.

This paper is divided into six chapters. The first chapter briefly clarifies applied terminology, concentrates on applied theoretical approach and the framing on which the thesis is based. The composition of theoretical background exhorts to subsequent division of the paper into four main chapters. Each one is dedicated to one factor which contributes to either confirmation or rebuttal of stated hypothesis. The last fifth chapter concludes findings and brings inference to the whole issue. Foretelling is not the aim of this paper but one cannot avoid a portion of future telling if he or she is discussing a topic which moves Europe and Russia constantly. A glimpse into the future is made in the end.

The topic is a case study of the Russia-EU based energy relations with an accent on the formation of energy issue on the Russian side. According to chosen theoretical approach, empirical data and events are analysed and linked thus a multi-causal explanation is presented as a verification of proposed hypothesis.

## 1 Theoretical clarifications

### 1.1 Terminology

Term *energy security* is a relatively new one and was brought into existence by the Copenhagen School, from that Copenhagen approach. *“It rejects the traditionalists’ case for restricting security to one sector, arguing that security is a particular type of politics applicable to a wide range of issues.”*<sup>4</sup> A multisectoral understanding of security is not only about military issues or about state security. Numerous sectors of security issues and multiple level analysis are characteristic for understanding of the complex notion of security. Barry Buzan, Ole Waever and Jaap de Wilde<sup>5</sup> present five sectors which can be affected by security issues: military, political, societal, environmental and economic. The environmental sector has the shortest history and is the one to which authors attribute energy issues.

*Security* is closely locked onto *securitisation*. It is a political process which labels issue as issue of security. In its Study on Energy Supply Security and Geopolitics from 2004 the European Commission has defined energy security as *“the availability of energy at all times in various forms, in sufficient quantities, and at reasonable prices and/or affordable prices”* and in their study focus on *“the availability of oil and gas in sufficient quantities, and in particular on the risk of oil disruption.”* The EU fears that current energy relations with Russia can jeopardise its energy security since the EU is aware of dependence on Russia, growing demand for its energy resources and other aspects such as natural resources finiteness.

---

<sup>4</sup> BUZAN, Barry – WAEVER, Ole – DE WILDE, Jaap: *Security: a New Framework for Analysis*. Boulder CO 1998, p. vii.

<sup>5</sup> Ibid.



## 1.2 Theoretical approaches: How to grasp the issue

Energy Policy for Europe Communication from the Commission to the European Parliament and the European Council sets three main priorities in the above mentioned area are: sustainability, security of supply and competitiveness.<sup>6</sup> This paper concentrates on the security of supply objective. The EU is a diverse bloc of states with national interests and attitudes. Nevertheless, in connection with Russia and the EU's energy dependence on it, it can be generally claimed that within the European Union the security discourse has been actualised as a fear that Russia would use energy as a lever to influence EU policies which would happen by a disruption of oil or natural gas supply.<sup>7</sup> The realistic frame views energy as a weapon which can be used any time. However, Russian dominance in the physical factor is just one side of the coin. To look on the other side, one has to take into account that the energy issue is a complex and multilayer one therefore one should eschew this monistic and simplistic nature of the Russia-EU relations by concentrating on the one aspect where Russia prevails.

Energy issue can be much better grasped and consequently understood in broader context. David Dusseault, a researcher at the Finnish Centre for Russian and Eastern European Studies The Aleksanteri Institute, presented such a theoretical approach towards studying of the energy issue which is able to give its true picture. In his view, energy system comprises of several factors: physical, informational, financial and institutional which includes actors active in energy process. The physical factor covers existing reserves, geographical position, infrastructure, etc. The informational factor assesses what, how and to what extent actor presents an energy sector

---

<sup>6</sup> *Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe*, 10 January 2007. In: EUR-Lex, Access to European Union Law, p. 6, [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT\(20.3.2009\)](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT(20.3.2009))

<sup>7</sup> KIVINEN, Marku: *Frames of Russian Energy Policy in Transition*. In: DUSSEAULTS, David (ed.): *The Dynamics of Energy in the Eurasian Context*. Helsinki 2007, p. 19.

strategy. The institutional factor evaluates the degree of power consolidation over the energy industry and what and how actors participate in the energy sector. The financial factor covers the range of issues from the price of commodities, their impact on economy, expenses joint with infrastructure building etc. It avoids a prejudice towards Russian dominance within the physical resource factor and describes interactions and outcomes among the whole group of factors.

Because the interaction of factors does not happen in contextual vacuum, the exclusive interest will not be paid only on explaining Russian part of the story, but the EU's part must be reviewed as well. Furthermore, attention should be paid to time factor. The values of factors are not permanent and change in time which can and does influence actors.

## 2 Physical factor

Physical factor embodies abundance or lack of natural resources, consequently their geographical location and climatic conditions they are found in. Further existing infrastructure (pipelines) is included. Relations with other countries are sketched as well. For both The EU and Russia they fulfil important roles: countries through which pipelines run, which deliver or consume natural resources and finally those which have mixed role.

### 2.1 Different points of view on Russia's physical dispositions

To create a picture of what Russia has in its soil, a short overview with the most important indicators is presented. Russia reportedly possesses one of the largest natural resource reserves in the world.<sup>8</sup> Namely it takes a world lead in the natural gas reserves where its total share counts for 25.2 %, followed by countries such as Iran, Qatar and Saudi Arabia where only Iran slightly exceeds 15 %. Russia is on the 6<sup>th</sup> rank in oil reserves with 6.4 % where Saudi Arabia, Iran, Iraq, Kuwait United Arab Emirates respectively is ahead. Domestic energy mix is created from 55 % by natural gas, 19 % by oil, 16 % by coal, 6 % hydroelectric power and 5 % by nuclear. Consumption, mainly the share of natural gas, has been increasing contrary to Energy Strategy until 2020.<sup>9</sup> Andrew Monaghan from the Defence Academy of the United Kingdom argues that Russia faces potential energy shortages, because

---

<sup>8</sup> The factual data in this chapter are taken from: *International Energy Agency Statistics and Balance website*, <http://www.iea.org/Textbase/stats/index.asp> (21. 2. 2009), *BP Statistical Review of World Energy June 2008*, In: BP, [http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/downloads/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_review\\_2008.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf) (21. 2. 2009)

<sup>9</sup> BUSHUEV, Vitalyi – TROITSKII, Artem: *The Energy Strategy of Russia until 2020 and Real Life. What Is Next?* Thermal Engineering, 54, 2007, No. 1, p. 6.

while consumption is increasing, gas and electricity production is stagnating.<sup>10</sup>

Russia is the vastest country in the world stretching from Europe to Asia. On one hand, it is gifted by the extensive amount of resources, which lie on its territory and proximity to its markets in Europe and Asia (see Diagrams 1 and 2). On the other hand, Russian land lies within several climatic zones. On West the weather a temperatures are similar to those familiar to continental Europe. On Far East, in East Siberia temperatures can drop as low as minus 70°C. Majority of brown fields which are responsible for current resource extraction lie within the Western part of Russia. Majority of the big producing fields are in post-peak phase which means Russia will have to move its exploitation eastwards soon (See Diagram 3). Upstream exploration in the eastern part of Russia is poor due to described unfavourable climatic conditions. As Nina Poussenkova assesses activities of Russian energy companies on Far East she notes that roughly 19 % of gas reserves are to be found within mentioned regions. The average density of drilling there is 2 meters of deep wells per 1 sq km, while the Russian average is 23 meters per 1 sq km.<sup>11</sup> Exploration can take place under two basic conditions and that is investment, which will be further discussed, and enough time.

Russia is constructing its new pipelines to developing markets in Asia which are thirsty for resources. Construction of the Chinese part of East Siberian Pacific Ocean (ESPO) oil pipeline may start this year in April.<sup>12</sup> This is the only physically existing project not directed towards established markets in Europe. That means that even if Russia did not want to, it has to export its energy resources to Europe since it does not possess a sufficient infrastructure to deliver it elsewhere.

---

<sup>10</sup> MONAGHAN, Andrew: *Stakhanov to the Rescue? Russian Coal and the Troubled Emergence of a Russian Energy Strategy*. Shrivenham 2007, p. 4, <http://www.da.mod.uk/colleges/arag/document-listings/russian/> (20. 3. 2009)

<sup>11</sup> POUSSENKOVA, Nina: *All Quiet on the Eastern Front*. Russian Analytical Digest 4, 2008, No. 33, p. 13. <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>12</sup> *Construction of ESPO Chinese pipeline leg could begin in April*. RIA Novosti, February 19, 2009, <http://en.rian.ru/russia/20090219/120228018.html> (22. 2. 2009)

Not only that pipeline terminals are in Europe but Russian infrastructure suffers from outdateness. Considerable number of pipes was constructed in the soviet era and its lifetime comes to an end. Gennady Shmal<sup>13</sup> labels the underestimation of infrastructure construction as a fatal problem of the Russian energy sector.<sup>14</sup> The lifetime of pipes is about thirty years and major pipelines as Druzhba, which transports oil to major receivers of Russian oil such as Germany or Poland, will reach this level soon. Since the Russian state has a monopoly on pipe infrastructure managed by Transneft it will be the state which will have to invest large amount of money into construction of new facilities.

The infrastructure and exploration aspect brings two positives for the EU. Currently Russia can effectively export resources only from its western part that means to Europe and it will take many years till this status can change. Russia is building new pipelines but it is not a question of rapid boom rather it can still be labelled as a rarity which leaves Europe as main target market. Furthermore aging infrastructure needs to be renovated or built brand new which costs money and it can be only obtained through export revenues. Given the two prior premises these finances have their origin in Europe.

International actors involved in the energy issue, from the Russian point of view, are divided into four categories according to their function: supplier, consumer, transit or hybrid countries.<sup>15</sup> Most of them belong to the Commonwealth of Independent States (CIS) countries but for the Russia-EU energy the Ukrainian case, as a transit country example, is important in the light of the latest developments on the international energy and politic scene. January 2009 was a milestone in triangular relationship of Russia-Ukraine-EU. New row between Russia

---

<sup>13</sup> Gennady Shmal is the President of the Union of Oil and Gas Producers of Russia, Chairman of the Board of Russian Joint-Stock Company “Rosneftegazstroy”, and Vice President of Russian Oil and Gas Contractors Union.

<sup>14</sup> *An untapped potential: Interview with Gennady Shmal.* GDS International, <http://www.gdsinternational.com/infocentre/artsum.asp?mag=135&iss=267&art=274303&lang=en> (10. 3. 2009)

<sup>15</sup> LIBMAN, Alexander: *Gas Equilibrium in Post-Soviet Space: Changes and Factors of Instability.* In: DUSSEAUULTS, David (ed.): *The Dynamics of Energy in the Eurasian Context.* Helsinki 2007, p. 83.

and Ukraine broke out. The Czech Presidency and the European Commission demanded complete renewal of energy supplies to affected member countries. The image of both countries was seriously harmed and the EU's security of energy supply questioned again. The conflict could push forward construction of the Nord Stream pipeline.<sup>16</sup> It is not only the EU who wants to build new infrastructure. Russian Prime Minister Putin said in joint statement, with Ukrainian counterpart Yulia Tymoshenko that in future they need to eliminate risks of leaving end consumer markets and diversify transport routes, as well as build new pipelines, namely the Nord Stream along the Baltic seabed and the South Stream along the Black seabed, in the Balkan direction.<sup>17</sup> Russia wants to create better image on the West as a reliable supplier by similar public proclamations of its aims, which brings one to evaluation of the importance of third countries in the Russia-EU energy relations.

Other CIS countries are appreciable part of the Russia-EU equation as well because Russia sells the CIS gas to Europe to fill the gap in its production and keeps own gas for domestic consumption. Russia benefits from lacking infrastructure on territory of the CIS country territories and transports it through Russian pipelines. Kazakhstan, Turkmenistan and, to a somewhat lesser extent, Uzbekistan have substantial gas deposits.<sup>18</sup> More than 90 per cent of current Central Asian gas exports go to Russia, only Turkmenistan exports some gas to Iran, while Kazakhstan and Uzbekistan provide Kyrgyzstan and

---

<sup>16</sup> WESTPHAL, Kirsten: *Europe Held Hostage?* Russian Analytical Digest, 4, 2009, No. 53, p. 17, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>17</sup> *Prime Minister Vladimir Putin held negotiations with Ukrainian Prime Minister Yulia Tymoshenko in Moscow, following which Gazprom and Naftogaz Ukraine signed a contract for the sale and purchase of natural gas for 2009-2019, January, 19 2009.* In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/1736.html> (20. 3. 2009)

<sup>18</sup> Kazakhstan, Turkmenistan and Uzbekistan respectively dispose of 1.1 %, 1.5 % and 1.0 % share of world proved natural gas reserves. *BP Statistical Review of World Energy June 2008*, In: BP, [http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/downloads/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_review\\_2008.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf) (21. 2. 2009)

Tajikistan with gas.<sup>19</sup> Despite the Russian dominance within the region projects without Russian participation are taking place as well. The Baku-Tbilisi-Ceyhan oil pipeline transports Caspian oil to the Turkish coast from where it is shipped to the European markets<sup>20</sup> but situation on the gas scene is still more negative in favour of the EU.

## 2.2 The EU's physical disadvantage

If Russia is an energetically self-sufficient entity the same cannot be said about the EU. The EU's energy production satisfies less than half of its needs, with import dependency reaching almost 56 % in 2006.<sup>21</sup> The indigenous sources of oil are located in the North Sea area (United Kingdom, Denmark and Norway) and in South-East Europe (Romania). Gas reserves are found mainly in United Kingdom, the Netherlands, Romania and Norway.

A glance on EU energy mix explains worries of the European bloc: 37 % of oil, 24 % of natural gas, 18 % of solid fuels, 14 % of nuclear energy and 7 % of renewable. Moreover, the origin of energy import plays a crucial role: 54 % of the EU's overall energy is imported where 60 % are oil, 26 % are natural gas and 13 % are solid fuel imports. Out of that 33 % of oil, 42 % of natural gas and 26 % of solid fuels come from Russia which positions it as a number one in all three import categories when single country suppliers are considered. Energy dependency is the EU's perceived biggest weakness, which the EU forecasts to even raise since domestic production is decreasing. The European Commission warns member states that with "business as usual" the hydrocarbon import dependency will jump from current 50 %

---

<sup>19</sup> *International Crisis Group: Central Asia's Energy Risks, Asia Report N°133, 2007.* In: International Crisis Group, May 2007, <http://www.crisisgroup.org/home/index.cfm?id=4866&l=1> (21. 3. 2009)

<sup>20</sup> *Baku-Tbilisi-Ceyhan pipeline.* In: BP, <http://www.bp.com/sectiongenericarticle.do?categoryId=9006669&contentId=7015093> (20. 3. 2009)

<sup>21</sup> *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Europe's current and future energy position: Demand – resources – investments.* In: European Commission, Energy, Energy Strategies, p. 10, [http://ec.europa.eu/energy/strategies/2008/2008\\_11\\_ser2\\_en.htm](http://ec.europa.eu/energy/strategies/2008/2008_11_ser2_en.htm) (20. 3. 2009)

to 65 % in 2030.<sup>22</sup> The EU fears to be dependent so heavily on one country. On the other hand as was previously pointed out so is Russia dependent on exports to the EU.

The EU as a bloc is dependent on energy imports by more than 50 %. However, the dependency varies from country to country. Generally it can be said (see Diagram 4) that closer to Russia EU country in geographical term the more dependent on gas supplies it is. The Baltic countries and Finland<sup>23</sup> import 100 % of natural gas consumption from Russia. Spain, Portugal, United Kingdom or Ireland is completely independent on Russian gas. The implications of such a contrast indicate difference in countries priorities which is later discussed in the informational section.

The EU strives to overcome its physical disadvantage. The bloc seeks for other supplier countries such as Norway, Algeria or planned cooperation with CIS countries are clear examples. Yet Russia was, is and will be the most important oil and gas importer to the EU in foreseeable future (see Diagram 5). Furthermore, the physical predispositions forge it to use alternative sources of energy. Last but not least new projects for infrastructure constructions are on the way. The difference exists between oil and natural gas markets. Gas transport is tightly linked to pipelines therefore the EU has to rely on physically existing infrastructure while the oil market is a global market with a relatively small share of oil transported through pipeline, Europe has some room for manoeuvre. Should Russian production stagnate or decline or should Russia divert considerably more of its oil to the Asian market, Europe could theoretically turn to other suppliers.<sup>24</sup>

---

<sup>22</sup> *Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe*, 10 January 2007. In: EUR-Lex, Access to European Union Law, p. 3, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT> (20. 3. 2009)

<sup>23</sup> Finland even stores 10 % of its annual natural gas supplies from Russia.

<sup>24</sup> PEROVIC, Jeronim – ORRTUNG, Robert: *Russia's Energy Policy: Should Europe Worry?* Russian Analytical Digest, 2, 2007, No. 18, p. 6, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)



### 3 Financial factor

Financial factor encompasses all costs and benefits linked to management of energy systems. In the Russian case tax revenues with budget formation, tax burden, price of commodities linked to price dependency and investment is discussed. The EU part is a complicated one since it cannot be easily described as the Russian case therefore the most important peculiarities of the EU's financial energy management are covered.

#### 3.1 Financial Aspects of the Russian Energy

Studies labelling the Russian Federation as once again raising superpower, take two points into account. First, the high prices of crude oil and natural gas. Second, which has been discussed in the previous chapters, Russian imports to the EU are seen inevitable taking into account the importer mix, raising consumption and declining production of the EU bloc. Different point of view, however, exists.

The Russian state treasury is heavily dependent on commodity export taxes. The tax revenues from oil and gas production form about 50 % of Russian federal budget (see Diagram 6). Oil, oil products and gas contribute about three fifths to aggregate export earnings. If coal and metals are added, the overall natural resource share of exports in recent years has been on the order of four-fifths. Within hydrocarbons exports, crude oil makes up somewhat over a half by value, oil products about a quarter and natural gas only a fifth.<sup>25</sup> The Russian GDP growth is therefore closely linked to price of oil and natural gas on international market. The situation has changed since the turbulent 1990s when drastic cuts followed by the discontinuation of state investment in the extracting sector, were not compensated by funds from other sectors. As a result, production volumes have abruptly

---

<sup>25</sup> HANSON, Philips: *How Sustainable Is Russia's Energy Power?* Russian Analytical Digest, 3, 2008, No. 38, p. 10, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

declined, which many saw as a crisis in the sector.<sup>26</sup> Since the beginning of Putin's first presidential mandate tax burden on mineral extraction have been steadily increasing<sup>27</sup> and so were the tax revenues in the state treasury mainly from export. Russia's real GDP growth in 2007 was at 6.4 %.

The economy is export driven and commodity structure of export attributes 64.7 % to mineral products in the same year.<sup>28</sup> The EU is Russia's top export partner, followed by Turkey, Ukraine and China, in the situation when 52.7 % of the whole Russian export is directed to the EU bloc and forms 7.2 % of all imports to the EU. On the other side the EU holds 52% share of all imports to Russia but it creates only 10 % of the EU aggregate export.<sup>29</sup> In such conditions when Russia exports minerals and the EU exports mainly machinery and technology to each other it is pointless to state and argue for symmetrical or asymmetrical interdependency of actors. They both need each other and it is not a quantitative question. They both benefit from mutual trade but it should be acknowledged that due to increasing prices of oil and gas, Russia benefits more in financial terms if the prices are high.

The prices of natural gas<sup>30</sup> and crude oil (see Diagram 7) have been steadily rising since 2000 and Russia benefits that. The Russian government established the Stabilisation Fund of the Russian Federation on January 1, 2004. The purpose was to balance the federal budget during period when oil prices fall below cut-off prices which is currently set to \$27 per barrel.<sup>31</sup> As of February 1, 2008 the Fund was divided into two sections: the Reserve Fund and the National Wealth Fund. The first one has the same purpose as its predecessor and its

---

<sup>26</sup> ARBATOV, Alexander: *Unrelenting Oil Addiction*. Russia in Global Affairs, 4, 2005, No. 2, <http://eng.globalaffairs.ru/numbers/11/914.html> (20. 3. 2009)

<sup>27</sup> *Oil burden slows Russian stocks rally*. Reuters, October 15, 2007, <http://uk.reuters.com/article/oilRpt/idUKL1219724920071015> (22. 3. 2009)

<sup>28</sup> *Commodity Structure of Export of the Russian Federation, 2007*. In: Federal Statistic Service, [http://www.gks.ru/bgd/regl/b08\\_12/IssWWW.exe/stg/d02/26-08.htm](http://www.gks.ru/bgd/regl/b08_12/IssWWW.exe/stg/d02/26-08.htm) (21. 3. 2009)

<sup>29</sup> *Bilateral Trade Relations with Russia*. In: European Commission, DG Trade, [http://ec.europa.eu/trade/issues/bilateral/countries/russia/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/russia/index_en.htm) (21. 3. 2009)

<sup>30</sup> *Changes in average prices of natural gas sold in FSU and Europe*. In: Gazprom, <http://www.gazprom.com/eng/articles/article20160.shtml> (21. 3. 2009)

<sup>31</sup> *Budget code of the Russian Federation, Chapter 13.1, Article 96.1, 96.2*. In: Ministry of Finance of the Russian Federation, <http://www1.minfin.ru/en/stabfund/about/> (21. 3. 2009)

maximal size is limited to 10 % of Russian federation GDP forecast for the corresponding year. The second one's main aim is to finance pensions of the citizens. In addition to help balance the budget of the Pension Fund for the Russian Federation.<sup>32</sup>

Russia's problem is that it counts on those stable or even increasing oil prices when calculating the budget revenues and consequently budget size. Russia's 2008 budget is based on oil prices of more than \$90, and similar figures form the core of the 2009-2011 budget.<sup>33</sup> The fall in the price of Russian (Urals) oil from a monthly average of \$130.8/barrel at the peak in July 2008, to around \$45/b in December, hit the Russian public finances, export revenues and the terms of trade hard.<sup>34</sup>

In the light of financial crisis Russian Ministry of Finance had to recalculate the budget revenues from oil quickly and dramatically. The Russian economy may have a deficit budget and a negative trade balance, for the first time in several years. The budget revenues are expected to shrink by 39 % in 2009.<sup>35</sup> If the oil price climbs back to \$50 per barrel and the budget deficit declines to 5 percent next year and 3 percent in 2011, as Russian Minister of Finance Alexei Kudrin hopes, the Reserve Fund will run out in 2011, covering just half of the deficit that year. The government would have to rely exclusively on borrowing thereafter.<sup>36</sup> This means the government will have to dip into fund reserves to pay for budgetary programs and for the growing amount of imports. The state will be unable to adjust the wages of public-sector workers to inflation, and pensioners may not receive the planned increase in 2009. Russian government thus faces problem of setting its priorities in allocating state finances. Amendments to Budget Code are expected to be adopted by Russian State Duma. New law is supposed

---

<sup>32</sup> *National Welfare Fund: Russian Federation*. In: Sovereign Wealth Fund Institute, <http://www.swfinstitute.org/fund/russia.php> (20. 3. 2009)

<sup>33</sup> *Russia's "curse of the well"*. RIA novosti, October 20, 2008, <http://en.rian.ru/analysis/20081020/117837822.html> (20. 3. 2009)

<sup>34</sup> HANSON, Philips: *How Sustainable Is Russia's Energy Power?* Russian Analytical Digest, 3, 2008, No. 38, p. 11, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>35</sup> *Russia to run budget deficit for the first time in 8 years – minister*. RIA novosti, March 19, 2009, <http://en.rian.ru/business/20090319/120651854.html> (22. 3. 2009)

<sup>36</sup> *Budget For Next 2 Years Face AX*. The Moscow Times, March 11, 2009, <http://www.moscowtimes.ru/article/600/42/375184.htm> (20. 3. 2009)

to lift restrictions on the use of oil and gas revenues and of the Reserve Fund to meet government's social commitments and to fund anti-crisis measures.<sup>37</sup>

Russia faces a multiple problem. It has to choose where to allocate money, which is in shortage these days. It first has to meet its social promises but in the longer run there might not be enough money even for that. It is clear now that the exploration of new fields will be postponed and priorities will concentrate on the above mentioned sphere. The EU as a main trading partner is therefore of vital importance to Russian economy and Russia should keep this in mind. It could help it out in severe situation should Russia adopt more liberal and open strategy towards the EU.

Russian energy sector generally suffers from the lack of investment to upstream be it private or public one. In the oil sector tax burden is very high, and because companies have to register on the federal level tax collection has shifted from regional level to federal one to make sure state collects its revenues. But the financial crisis has made its impact on the federal government decision to decrease the tax burden in order to foster oil companies to invest which will mean \$ 5 bln less to the state treasury and oil lobby would like to see even further reduction of taxes.<sup>38</sup> Private companies in natural gas sector are limited in their investment incentives as well. Firstly, the tax burden is still high. Prospective investors often cannot afford any improvement mainly in the upstream developments which are so much needed in the light of current status quo of Russia's physical conditions. Secondly, state has the monopoly on gas pipelines that is why companies do not have a practical opportunity to invest into construction. Thirdly, in the natural gas sector Gazprom has an export monopoly so no other company can benefit from selling gas abroad since domestic prices do not correspond with those on the international market. The outlook for domestic gas

---

<sup>37</sup> *Prime Minister Vladimir Putin chaired the Government meeting, March 10, 2009.* In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/2261.html> (20. 3. 2009)

<sup>38</sup> *Russian oil lobby has slim chance for tax cuts.* Reuters, February 10, 2009, <http://www.reuters.com/article/GCA-Oil/idUSTRE51944020090210> (20. 3. 2009)

prices is to about double from current levels to just over USD 2.64/MBtu (USD 100/1,000 m<sup>3</sup>) in 2010, still only 40% of current European export prices (which may change in the interim).<sup>39</sup> Perovic and Orrtung sum up the situation on the Gazprom example: The production-oriented upstream sector makes up only a modest share of Gazprom's investments, according to the company's own figures. What Gazprom obviously intends is to control the whole chain of supply: from production to transportation and distribution. Gazprom seeks to establish dependencies via the building of export pipelines and long-term contracts, and only later worries about actually filling the pipelines.<sup>40</sup> Indicators show that in the financial stringency the upstream investment will slow down.<sup>41</sup> Imbalance between gas investment required and gas investment actually realized by Gazprom is highly telling.<sup>42</sup> Even if one takes into account other companies which operate domestically they are not able to fill the gap. The sector strategy obviously hinders its development.

It is not the case that Russia will stop delivering its oil and natural gas supplies to the EU any time soon since its export is built on trade with the EU. As Vladimir Putin put it, the EU is Russia's largest trade partner, accounting for over 50% of trade, and highlighted their growing integration in the energy sector, pointing to European companies involved in oil and gas production in Russia, and European partners' cooperation in building new gas pipelines from Russia to

---

<sup>39</sup> SIMMONS, Daniel – MURRAY, Isabel: *Will There Be Enough Investment?* Russian Analytical Digest, 2, 2007, No. 27, p. 5, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>40</sup> PEROVIC, Jeronim – ORRTUNG, Robert: *Russia's Energy Policy: Should Europe Worry?* Russian Analytical Digest, 2, 2007, No. 18, pp. 2-8, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>41</sup> *One Step forward, Two Steps Back. Is the Latest Crisis Cause for Another Time-Out in the Barents Sea?* Oil and Gas Eurasia, January 2009, <http://www.oilandgaseurasia.com/articles/p/90/article/798/> (20. 3. 2009)

<sup>42</sup> PEROVIC, Jeronim – ORRTUNG, Robert: *Russia's Energy Policy: Should Europe Worry?* Russian Analytical Digest, 2, 2007, No. 18, p. 4, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

Europe.<sup>43</sup> Russia is dependent on the EU's FDI which amounts for a large share of its economy. The EU27 FDI in Russia has grown in recent years, rising from 9.0 bln euro in 2004 to 9.6 in 2005, 10.7 in 2006 and 17.1 bln in 2007, while Russian direct investment into the EU27 increased from 0.3 bln in 2004 to 2.8 bln in 2005, then fell to 1.5 bln in 2006 and 1.0 bln in 2007.<sup>44</sup>

Germany, with outflows of 6.7 bln and a 39% share of EU27 direct investment, was the largest investor in Russia in 2007, followed by Belgium (1.0 bln or 6%). The main recipients of direct investment from Russia were Ireland (0.3 bln or 35%) and Spain (0.3 bln or 30%).<sup>45</sup> The EU's FDI in Russia, though it is significant amount of money, however does not signal any sort of openness of the Russian energy sector since machinery and transport trade forms the main part of the EU's FDI. This trend is codified in the Law on Foreign Investment in Strategic Sectors which states that no foreign company is allowed to own a major share in any energy project. Arid Moe argues that *"an excessively strict control of foreign investment could reduce business activity in Russia and lead to a reduction of foreign investment in a number of sectors."*<sup>46</sup>

Disputes over several multinational projects of energy companies discourage other potential investors to the Russian energy sector. The case of Royal Dutch Shell and its engagement in Sakhalin II Project support the assumption that Russian side is more than reluctant to leave any non-Russian company have an important role in energy projects. The Sakhalin-2 project is the world's largest comprehensive oil & gas project with the licensed reserves averaging 4 bln barrels of oil equivalent. The present-day production potential of Sakhalin-2 is 80 thousand barrels of oil equivalent per day, taking account of 9.6 mil tons

---

<sup>43</sup> Putin addresses key foreign policy concerns in Q&A session, RIA novosti, December 4, 2008, <http://en.rian.ru/russia/20081204/118693811.html> (20. 3. 2009)

<sup>44</sup> EU27 trade in goods with Russia up by a quarter in the first half of 2008, November 11, 2008. In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/08/156&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

<sup>45</sup> Ibid.

<sup>46</sup> MOE, Arid: *Status of legislation for foreign investment in the Russian petroleum sector and on the continental shelf*. In: Fridtjof Nansens Institute, April 2008, [http://www.fni.no/russcasp/AM-investment\\_legislation.pdf](http://www.fni.no/russcasp/AM-investment_legislation.pdf) (22. 3. 2009)

of LNG to be produced per annum.<sup>47</sup> These numbers were worth to attract attention of the Russian monopoly firm. The sale of 50 percent plus one share followed months of mounting regulatory problems at the site, problems that President Vladimir Putin, in announcing the entry of Gazprom into the project, said would now likely be resolved.<sup>48</sup> Gazprom, Shell, Mitsui, Mitsubishi signed Sakhalin II Protocol on December 21, 2006.<sup>49</sup> Gazprom purchased a 50 per cent stake plus one share in Sakhalin Energy for US\$ 7.45 bln. To execute the deal each of Sakhalin Energy's shareholders decreased its stake by 50 per cent with recompenses which were allocated on a proportional basis. As a result, Shell currently owns a 27.5 per cent stake, and Mitsui and Mitsubishi - 12.5 per cent and 10 per cent of shares, respectively. Gazprom will play the leading role in the project as a majority shareholder and Shell will go on making a crucial contribution in the Sakhalin Energy operational management and remained as technical adviser, the document clarifies roles of companies.<sup>50</sup>

The most recent developments of the Sakhalin-1 project are alarming for the west companies which are involved in the project: ExxonMobil (30% interest), Japanese consortium SODECO (30% interest), the Indian state-owned oil company ONGC Videsh Ltd. (20% interest) and affiliates of Russian state owned Rosneft. Russia has refused to approve their budget proposal and has called on investors to sell all natural gas from the project to Russian gas export monopoly OAO Gazprom at prices lower than domestic market levels. Exxon

---

<sup>47</sup> *Gazprom, Shell, Mitsui and Mitsubishi sign protocol on Sakhalin-2 project, December 21, 2006.* In: Gazprom News, <http://www.gazprom.com/eng/news/2006/12/22076.shtml> (20. 3. 2009)

<sup>48</sup> *Shell cedes control over Sakhalin-2 to Gazprom.* International Herald Tribune, December 21, 2006, <http://www.iht.com/articles/2006/12/21/business/shell.php> (20. 3. 2009)

<sup>49</sup> *Gazprom, Shell, Mitsui and Mitsubishi sign Sakhalin II protocol, December 21, 2006.* In: Shell News & Media releases, [http://www.shell.com/home/content/media/news\\_and\\_library/press\\_releases/2006/sakhalin\\_protocol\\_21122006.html](http://www.shell.com/home/content/media/news_and_library/press_releases/2006/sakhalin_protocol_21122006.html) (20. 3.2009)

<sup>50</sup> *Gazprom, Shell, Mitsui and Mitsubishi sign protocol on Sakhalin-2 project, December 21, 2006.* In: Gazprom News, <http://www.gazprom.com/eng/news/2006/12/22076.shtml> (20. 3. 2009)

Mobil, the project operator, had planned to construct an export pipeline to China.<sup>51</sup>

### 3.2 Financial management of the EU's energy

The EU's sector and economy is heavily dependent on energy supplies from abroad. On the contrary, it allowed the EU member states to avoid building its economic growth on both energy production and energy export. The economies are diversified in their composition and thus can survive crises more easily than one-sector oriented economy which Russia represents. Nevertheless, this fact does not help the EU when dealing with Russia. Energy dependency as the main problem to solve from the EU point of view plays a crucial role. The institutional and informational aspect of the bloc's further slows down turning the EU's natural resource disadvantage into advantage. Unlike other policies the energy sector, meaning infrastructure projects, does not receive a community funding.<sup>52</sup> If it did, it could develop independently on national interests. Dependence of projects on support and sponsorship from individual countries would be omitted.

The EU member countries invest money into several diverse spheres, which are part of their strategy, to reduce their dependence on Russian energy deliveries. Firstly, constructing of new infrastructure and bringing resources from other supplier countries. Secondly, building up of infrastructure which bypass transit countries but where Russia remains supplier country. Fourthly, investment into wider utilisation of renewable sources of energy and developing technology. Fifthly, developing frame for energy savings and increasing of energy efficiency and savings. Last but not least, as is explained earlier in this paper, natural resources are not infinite. This is another smaller advantage for the EU. Its economy is diversified and able to adopt while Russia is still widely considered as a natural resource periphery. Yet current strategy

---

<sup>51</sup> *Russia refuses to Approve Exxon's Sakhalin Project*, *Sankei Say*. Oil and Gas Eurasia, February 2009, <http://www.oilandgaseurasia.com/articles/p/92/article/832/> (20. 3. 2009)

<sup>52</sup> *No EU funding for Nabucco, says Merkel*. EurActiv, March 3, 2009. <http://www.euractiv.com/en/energy/eu-funding-nabucco-merkel/article-179883> (20. 3. 2009)



still concentrates on primary natural resource exploitation and less attention is paid to financing of diversification of its economy and production of energy added value products.

The picture of Russia-EU energy relations observed through financial frame is a complicated one and it is not enough to state that Russia makes money on the EU. Even during the current financial crisis, Russia cannot afford to cut down expenses directed towards energy sector. The status of its infrastructure and upstream development require investment Russia currently cannot provide alone. At the same time it does not permit foreign companies to operate freely on its territory. The financial crisis might be a catalyst, which will allow the relationship between Russia as a supplier and the EU as a recipient regain a new momentum.

## 4 Institutional factor

The institutional factor clarifies what actors are involved in the energy system process. It goes hand in hand with consolidation of system, rules followed and with actors' disagreement. The two subchapters show how diametrically different the EU and Russia in this context is. Yet, they are able to cooperate. Following lines likewise describe who and how benefits institutional settings.

### 4.1 Consolidated power over the Russian energy sector

Unlike the EU, Russian state is able to consolidate power over its energy industry. Although the Russian government is not the only actor, state behaves as a unified unit. Other actors take part in the energy business. However, state is the most important one. This fact helps Russia to promote its interests on the international scene.

Energy sector consolidation is not an inherent feature to Russian environment. Process of state concentration begun in 2000 after Putin had been elected a president (see diagram 8). Before that Russian economy and energy sector as well, were characteristic by diffused power among competing elites which acquired possession after disintegration of the Soviet Union during the 1990's which were characteristic by "wild privatization" and replaced by more civilized and legalistic course in 1996, when Chernomyrdin's government accomplished one of the most controversial deals in the Post-Soviet history of the country.<sup>53</sup> The 'loans-for share' deal left political power fused with business interests.

In 2000 Putin eliminated affiliates of Russian ex-president Boris Yeltsin was Head of "Semya" (Family)<sup>54</sup> and installed his own

---

<sup>53</sup> TKACHENKO, Stanislav L.: *Actors in Russia's Energy policy towards the EU*. Paper presented at the annual meeting of the International Studies Association 48th Annual Convention, Chicago, February 28, 2007, [http://www.allacademic.com//meta/p\\_mla\\_apa\\_research\\_citation/1/8/0/1/9/pages180193/p180193-1.php](http://www.allacademic.com//meta/p_mla_apa_research_citation/1/8/0/1/9/pages180193/p180193-1.php) (20. 3. 2009)

<sup>54</sup> Russian elite associated with Yeltsin's era and his person.

group “pitersko-silovaja”,<sup>55</sup> which among others was a precondition for a presidential candidate in 2008 – to be a member of Putin’s group. Which Dmitry Medvedev is and it partly explains reasons why today Russia works as “tandemocracy”, “duumvirate” or “diarchy” and other various ways the system is described.<sup>56</sup>

The reform of 2000 was not designed solely in order to reorganize ministries and realize a federal reform. It was oriented toward creating a controlled monolith of Russian society and providing manageability and tough control in a semi-military order, including direct subordination, strict distribution of responsibilities, power verticals, and state control over business.<sup>57</sup> It helped to shift collecting of taxes from energy sector to national level and further expansion of federal power over other spheres as presidential competence to appoint regional governors.

The institutional factor also means the ability of state to set the rules of game other actors are to follow. The prime instance, which received vast public attention, is the Yukos affair. In 2002, the five largest Russian private oil companies – Lukoil, Yukos, TNK, Sibneft and Surgutneftegas – agreed on co-operating in the construction of an oil pipeline from the western Siberian oil fields near Surgut to Murmansk. On October 3, 2003 Yukos merged with Sibneft that created the biggest oil and gas company in Russia. Murmansk is a port city and it is a transport route to USA and Western Europe.<sup>58</sup> The private joint project aimed at increasing export and on self-evident interest of earning money for private companies would be a serious rival to state owned pipeline monopoly of Transneft. It was three years after presidential election when Putin started to realise a vertical reform in strategic sector of

---

<sup>55</sup> Putin himself comes from St. Petersburg. Pitersko means ‘coming from Petersburg’. Silovaja labels high rank army members. ŠIMONOV, Jaroslav: *Vývoj státnosti za Putinovy éry*. In: SOULEMAINOV, Emil and col.: *Rusko a postsovětský proctor*. Praha 2007, s. 10.

<sup>56</sup> RAYBOV, Andrei: *Tandemocracy in Russia*. Russian Analytical Digest, 3, 1998, No. 49, p. 2, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009)

<sup>57</sup> PETROV, Nikolai: *Power Ministries and Federal Reform in Russia*. In: Center for Strategic and International Studies, 2002, p. 3, [http://www.csis.org/component/option,com\\_csis\\_pubs/task,view/id,2183/type,1/](http://www.csis.org/component/option,com_csis_pubs/task,view/id,2183/type,1/) (20. 3. 2009)

<sup>58</sup> LUKOIL, Sibneft, TNK, and YUKOS Sign Memorandum of Understanding on Murmansk Pipeline, November 27, 2002. In: Gazprom Neft Press releases, <http://www.gazprom-neft.com/press-center/press-releases/?id=171> (20. 3. 2009)

industry and only one year left before presidential elections. Those were reasons for Khodorkovsky, Lebedev and their partners to get involved with Russian state. Khodorkovsky was considering selling his share in Yukos to Exxon Mobil. The foreign investor was about to purchase around 40 % of all Yukos shares which could be later raised as Khodorkovsky planned after his retirement.<sup>59</sup> The whole asset contract was estimated at US\$ 11bln.<sup>60</sup> Secondly, Yukos was openly contributing to opposition political parties to advance its interests and shape the laws - instead of following the age-old Russian and Soviet tradition of ignoring the laws and bribing those who implement and enforce them.<sup>61</sup> Last but not least, Khodorkovsky is believed to be a Yeltsin 'family' affiliate. Shortly after these events Khodorkovsky was arrested on October 25, 2003. He was convicted in May 2005 of charges including large scale tax evasion and fraud. He lost an appeal in September 2005 and was sent to prison in Chita, near the Chinese border.<sup>62</sup> Press and public discourse is widely persuaded that charges are formal and real context lies within the state's and Putin's fear of challenging economic and political power of Russian state. The destruction of Yukos and the transfer of its assets to the state-owned Rosneft and the sale of Sibneft to state owned Gazprom followed. Yukos example shows the Russian state's strength vis-a-vis big business is unusual for a middle-income country - or indeed for any country.

Strong central government brings portion of predictability in its policy and dealing with its partners. On the other hand Kremlin has to make effort to make sure that everybody follows its line. It often uses opaque instruments and strategy that deters potential investors. Russia is constantly offering Europeans an exchange of assets, but Europe is in no hurry to take advantage of this offer. Russia's lack of transparency deters it, as does the fact that the rules governing its economy remain

---

<sup>59</sup> *Gov't sees no obstacle to YUKOS-Exxon deal.* RUSNET.NL, October 8, 2003, [http://www.rusnet.nl/news/2003/10/08/print/businesseconomics\\_02\\_3446.shtml](http://www.rusnet.nl/news/2003/10/08/print/businesseconomics_02_3446.shtml) (20. 3. 2009)

<sup>60</sup> *ChevronTex, Exxon may bid for Yukos stake – report.* Marketwatch, September 15, 2003? <http://www.marketwatch.com/news/story/chevrontex-exxon-may-bid-25/story.aspx?guid={A9478871-8522-48F4-8679-72FD92E0E7CB}> (20. 3. 2009)

<sup>61</sup> ARON, Leon: *Russia's Revolution.* Washington 2007, p. 232.

<sup>62</sup> *Who is Russian jailed tycoon Mikhail Khodorkovsky.* Reuters, March 3, 2009, <http://www.reuters.com/article/OILPRD/idUSL335336920090303> (20. 3. 2009)

unclear. Moscow refuses to accept that the discrepancy between its code of conduct and the way it is applied really is a major obstacle to closer cooperation, even on an economic level, between the EU and the Russian Federation. That makes Russia weaker and thus it loses opportunities for its domestic energy development and gaining international credit.

#### 4.2 Diffuse institutional power of the EU bloc

The biggest problem, institutional structure of the European Union suffers from, is the fact that the EU is not a unified actor. Even though the EU delivers a united strategy it often happens that member states act independently and in conflict with other countries. The EU is not even a unified energy sector. Level of dependency on energy supplies from Russia, which shapes national preferences,<sup>63</sup> is a feature of long-term characteristic and to change even citizens' attitude requires time.<sup>64</sup> To overcome differences, the EU launched the EU's Common Strategy on Russia in 1999.<sup>65</sup> Despite the fact that the document aimed at achieving common positions towards Russia the instruments and means of the Strategy require each presidency to draw up actually national priorities within the Common Strategy on Russia. HUGHES calls it "the Christmas tree method".<sup>66</sup> It is also a reflection of the significance

---

<sup>63</sup> Stefano Braghiroli and Caterina Carta has categorised EU countries according to their level of loyalty towards Russia on Eastern divorced, loyal views, vigilant critics and acquiescent partners in their study: *The EU's attitude towards Russia: condemned to be divided? An analysis of the Member States and Members of the European Parliament's preferences*. In: European consortium for political research, <http://www.jhubc.it/ecpr-riga/VIRTUALPAPERROOM.CFM> (20. 3. 2009)

<sup>64</sup> According to Eurobarometer study from 2006 čárka vždy za according to xy... citizens of 19 member countries out of current EU 27 favoured national level decision making in energy issues: *Energy Issues 2006*, In: European Commission, Eurobarometer, [http://ec.europa.eu/public\\_opinion/archives/](http://ec.europa.eu/public_opinion/archives/) (20. 3. 2009)

<sup>65</sup> *Common Strategy of the European Union of June 1999 on Russia (1999/414/CFSP)*, June 24, 1999. In: Official Journal of the European Communities, [http://eur-lex.europa.eu/pri/en/oj/dat/1999/l\\_157/l\\_15719990624en00010009.pdf](http://eur-lex.europa.eu/pri/en/oj/dat/1999/l_157/l_15719990624en00010009.pdf) (20. 3. 2009)

<sup>66</sup> HUGHES, James: *EU relations with Russia: partnership or asymmetric interdependency?* In: CASARINI, Nicola – MUZU, Costanza, (Edd.): *The EU's foreign policy in an evolving international system: the road to convergence*. London, Palgrave 2006, p. 102.

of regionalism within the EU.<sup>67</sup> Regional prioritisation is not always fruitful for the EU and such a process contributes to preserving diffuse power within the EU.

There are tendencies to act bilaterally or in country groups with Russia. The North European Gas Pipeline was and is an illustrious example. Francois Lamoureux, the EU Commission's General Director for Energy and Transport, announced in November 2002 that the Commission saw the NEGP project as a priority and would present it to European Bank of Reconstruction and Development.<sup>68</sup> However the project did not receive backing of all the EU member countries. The EU cannot find a common ground in the case of Nabucco and the South Stream project either. While Energy Commissioner Andris Piebalgs committed the EU support for the Nabucco project, which is supposed to carry Iranian and Caspian gas, on the Budapest conference in September 2007 together with representatives of involved countries (Austria, Bulgaria, Hungary, Romania and Turkey)<sup>69</sup> the Russian supported plan of South Stream, which will not diversify the EU's suppliers but will bypass Ukraine, was labelled as a threat to the Nabucco pipeline project and aimed at keeping Europe dependent on Russian gas, Topolánek said at Budapest summit dedicated to the Nabucco project on January 27, 2009.<sup>70</sup> Hungarian Prime Minister expressed support for construction of South Stream and signed a deal with the Russian side for project participation lately.<sup>71</sup>

---

<sup>67</sup> ARCHER, Clive: *EU and the Common Strategy to Russia: A bridge too Far?* In: HERD, Graeme P. (ed.): *EU Enlargement in the North: Security Dynamics in Nordic-Baltic-EU-Russian Relations into the New Century*, Aberdeen 2000, p. 65.

<sup>68</sup> SMITH, Hanna: *The NEGP and growing Bilateralism Between Russia and the European Union*. In KAZIN, Philip (ed.): *The North European Gas Pipeline: Political and Economic Implications for Russia and the EU*. Saint-Petersburg, Baltic Research Center 2006, pp. 9-13.

<sup>69</sup> *Commissioner Pielbags recalls European commitment to Nabucco project in a conference held in Budapest*. In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1338&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3.2009)

<sup>70</sup> *Speech by Mirek Topolánek at the Nabucco Summit, February 11, 2009*. In: Czech Presidency of the European Union, Speeches and Interviews, <http://www.eu2009.cz/en/news-and-documents/speeches-interviews/speech-by-mirek-topolanek-at-nabucco-summit-7778/> (20. 3. 2009)

<sup>71</sup> *Prime Minister Vladimir Putin and Hungarian Prime Minister Ferenc Gyurcsany summarised intergovernmental consultations at a news conference, March 10, 2009*. In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/2262.html> (20. 3. 2009)

In short, the European Commission is the EU's main representative in the energy issues, and devises the agenda under close supervision of the member states and in cooperation with representatives of big businesses<sup>72</sup> which previously tied the European Commission and predominantly the DG TREN to make progress on more technical level rather than taking substantial advancement. On the other hand this synthesis of actors made a progress that is unique and considerable taking into account the diversity of member states, their different priorities and efforts to keep energy decision-making on the national level. Furthermore the trend seems that while in crisis or conflict states are aware of the need for taking a unified attitude. Leaving aside the roots of the most recent Russia-Ukraine gas dispute, which had a direct impact on the EU member, states the EU under the Czech leadership the EU demonstrated that it could speak with one voice, and was able to act quickly and resolutely.<sup>73</sup> Critical situations give new impetus to the common EU energy security debate and measures. The European Commission also identified common route the EU should take in order to promote its energy security.<sup>74</sup>

---

<sup>72</sup> ROMANOVA, Tatiana: *Energy Dialogue from Strategic Partnership to the Regional Level of the Northern Dimension*. In: AALTO, Pami (ed.): *The EU-Russia Energy Dialogue*. Aldershot 2008, p. 67.

<sup>73</sup> *Energy Council – Brussels*, February 19, 2009. In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/72&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

<sup>74</sup> *Statement of President Barroso on the resolution of the Ukraine-Russia Gas Dispute*, January 20, 2009. In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/12&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

## 5 Informational factor

Informational factor in the EU-Russia relations enables one to see what energy strategies do players pursue and employ for achieving their goals and interests. It is important to point out that it is crucial for image creation and subsequently for counterpart adaptation in the environment. At the same time, both actors try to shape the other one to comply its preferences. The case of EU and Russia is examined separately and at the end of the chapter key milestones of the EU-Russia energy interactions are presented.

### 5.1 Russia's domestic and international energy strategy

Russia's sector strategy is monopolisation. From 2000 onwards, the state has significantly increased number of energy companies under its influence. Process of acquiring previously private assets has not been always transparent as the Yukos example or other cases of international partners attempting to participate in projects inside Russia show. Russia does not want to share its wealth with others. It plays a crucial role in the international relations since it allows Russia to pursue a unified strategy. *"The principle of a unified export channel has always been part of our export strategy, though it hasn't been set out in any normative documents or legislation,"* Gazprom spokesman Sergei Kupriyanov said. *"Now it will become the law."*<sup>75</sup> During the last years Russia has increased its energy exports to the EU in favourable conditions of increasing market prices of oil and natural gas which was one of the reasons why former president Vladimir Putin has strongly driven foreign and domestic policy under the slogan of a "strong and self-confident Russia" which he wanted to build through modernisation of country ranging from rule of law to economic reforms.<sup>76</sup>

---

<sup>75</sup> BOYKEWICH, Stephen: *Gazprom's Export Monopoly Cemented. Johnson's Russia List, July 2006*, <http://www.cdi.org/russia/johnson/2006-152-12.cfm> (20. 3. 2009)

<sup>76</sup> *President Vladimir Putin, Speech at Expanded Meeting of the State Council on Russia's Development Strategy through to 2020, February 8, 2008.* In: President of Russia, Statements on Major Issues,



Russia strives to change the role of supplier of raw resources to the role of substantive member of the world economy. The image of gaining back lost position of a player of major importance and an approach: accept us as we are, treat us as equals, and establish cooperation based on mutual interests<sup>77</sup> is a strategy Russia has been vigorously working on and which the EU has been concerned of. After two Russia-Ukraine gas crises, the disruption of gas deliveries to the Czech Republic after it signed an agreement with the USA on positioning its antimissile radar on its territory in July 2008 the EU's concerns of using energy as a political weapon gained intensity which culminated in the beginning of this year.

The official Russian external energy strategy is marked with its national aspirations. Russia seeks to diversify its export lines not to be dependent on one target market. Forming of the common energy and energy and transport infrastructure in the regions of Europe and Asia, development of the international energy and transport systems, providing of the indiscriminatory transit of energy answers the strategic interests of Russia.<sup>78</sup> Objective contains multiple implications. First, Russia will avoid transit countries such as Ukraine, whose mutual relation is a source for disruption of natural gas deliveries even to the EU countries, which will help to fix its damaged image. Second, urgent need of investment into old or missing infrastructure should be thus tackled. Third, Russia even does not have an alternative choice since it needs to shift its production eastwards that is the reason why it seeks new markets in Asia. In the Ninth Progress Report of EU-Russia Energy Dialogue the Russian Party stressed that diversification of oil and gas exports by increasing the deliveries to Asia is in no way connected to stability of the long-term contracts of oil and gas supply to the EU

---

[http://www.kremlin.ru/eng/speeches/2008/02/08/1137\\_type82912type82913\\_159643.shtml](http://www.kremlin.ru/eng/speeches/2008/02/08/1137_type82912type82913_159643.shtml) (20. 3. 2009)

<sup>77</sup> TRENIN, Dmitri: *'Moscow The Muscular': The Loneliness of an Aspiring Power*. In: Center. Carnegie Moscow Center, January 2009. <http://www.carnegie.ru/en/pubs/briefings/80284.htm> (20. 3. 2009)

<sup>78</sup> 2003\_strategy\_2020. p 12

countries.<sup>79</sup> On the other hand Russia has identified the EU market as a main partner for next twenty years.<sup>80</sup>

Concentration on upstream in energy sector and investment is one of the priorities but should be forced more consistently (see Diagrams 9 and 10). Russia also needs to concentrate on its low ability to produce and export products of added value which it would made capital of changing its image of natural resource empire. Russia is to satisfy both domestic and international demand in situation when the big fields are drying up, consumption on both fronts is steadily rising, investment is under the favourable level and Russia is reluctant to let foreign companies operate in energy sector to which Russia owes for its tremendous contribution to federal budget. Furthermore when energy companies were private during 1990's and in the beginning of new millennium their performance was much better than under current state majority ownership, which is inferior to comparable types of companies in other petrostates.<sup>81</sup> Gazprom simply does not have to behave as a commercial subject.

Shortly and briefly Russia has not achieved its vision of building modern state it rather created a state whose foreign policy is based on energy export and its economy is oil and gas revenues dependent but otherwise cannot be compared with modern developed countries of the West. To use natural wealth as a weapon makes its behaviour unpredictable and worrisome to partners is not sustainable in the long-term perspective also awareness of natural resources finiteness should bring Russia to a change.

---

<sup>79</sup> *Ninth Progress Report of EU-Russia Energy Dialogue, Paris, October 2008.* In: European Commission Energy, [http://ec.europa.eu/energy/international/bilateral\\_cooperation/russia/progress\\_reports\\_en.htm](http://ec.europa.eu/energy/international/bilateral_cooperation/russia/progress_reports_en.htm) (20. 3. 2009)

<sup>80</sup> Ibid.

<sup>81</sup> HANSON, Philip: *Kremlin Oil: State Intervention in the Russian Oil and Gas Sector, and Russia's Relations with the West.* In: DUSSEAULT, David (ed.): *The Dynamics of Energy in the Eurasian Context.* Helsinki, 2007, p. 36.

## 5.2 The EU's energy strategy

The EU managed to issue its common position to energy being aware of its weaknesses, matters to be improved and things it should work on. Yet, it came very late. Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy elaborated by the European Commission in 2006 was a first comprehensive document of its kind that only suggested that the EU member states could be able to agree on the aims of the External Energy Policy at the Community level. An Energy Policy For Europe elaborated by the European Commission in 2007 was a great leap forward and it set clear goals.

The EU conscious of its high and increasing dependency on Russia as its main energy supplier which does not follow the rule of law, transparency and principles of free competition which are key points of departure of the very general broad EU energy philosophy of liberalism and afraid that the increase of Russian export of energy deliveries cannot satisfy its needs<sup>82</sup> labelled three main external policy components to ensure durable energy security: to diversify its energy transport infrastructure, supplier partners and energy consumption mix.<sup>83</sup> It is worth noting that the EU member states established the “European Nuclear Energy Forum” in 2007<sup>84</sup> and a broad long term debate on future and further use of nuclear energy was initiated.<sup>85</sup>

The EU can achieve a lot in its energy security if it realizes goals set in the Energy Strategy for Europe on the inter-EU level: energy savings, efficiency, solidarity, improvement of technology, greenhouse gas reduction. Solidarity has become one of the most inflected words

---

<sup>82</sup> *Speech delivered by Director of the EU-Russian Energy Dialogue Christian Cleutin on Geopolitics of Energy Supply, Brussels, May 10, 2006.* In: European Enterprise Institute, [www.european-enterprise.org/public/docs/speech20061005.pdf](http://www.european-enterprise.org/public/docs/speech20061005.pdf) (20. 3. 2009)

<sup>83</sup> *Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe*, 10 January 2007. In: EUR-Lex, Access to European Union Law, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT> (20. 3. 2009)

<sup>84</sup> *European Nuclear Energy Forum.* In: European Commission Energy, [http://ec.europa.eu/energy/nuclear/forum/forum\\_en.htm](http://ec.europa.eu/energy/nuclear/forum/forum_en.htm) (18. 3. 2009)

<sup>85</sup> *Council of the European Union, Presidency Conclusions, Brussels, May 2, 2007.* In: Public register of Council documents, <http://register.consilium.europa.eu/pdf/en/07/st07/st07224-re01.en07.pdf> (20. 3. 2009)

since the January 2009 gas crisis. An event, that left countries like Slovakia completely without natural gas supplies. Claude Mandil a former executive director of the IEA in his recent interview claimed that “*notion of energy solidarity among the EU countries is still just words.*”<sup>86</sup> In addition, the mechanisms to ensure solidarity between Member States in the event of an energy crisis are not yet in place.<sup>87</sup>

The national strategies, which the EU states still do not want to give up, as well as diffuse institutional frame are the main obstacle in achieving those goals the EU can reach with its effort. As was mentioned before, the latest crisis is likely to foster and speed up the EU’s action. The dispute between Gazprom and Ukrainian Naftogaz, got the message very clearly: for Europe, energy security means security from a real shut-off of the Russian “pipe.” This will bring about long-term changes in EU policies, from the development of a unified energy policy and a united position in negotiations with Moscow to a more active search for alternative sources of energy, including compressed gas, and the construction of new gas pipelines that do not pass through Russian, Ukrainian or Belorussian territories.<sup>88</sup> After the deliveries of Russian gas to the EU via Ukraine were restored on January 18, 2009<sup>89</sup> the Industry Committee of the European Parliament set out wide-range recommendations for the EU’s future energy policy.

In an effort to overcome the EU’s and Russia’s differences regarding either strategies, institutional differences or simply because the EU needs Russia and therefore it is better to talk with it the Partnership and Cooperation Agreement (PCA) was concluded in 1994

---

<sup>86</sup> Mandil: *Energy solidarity ‘still just words’*. EurActiv, February 9, 2009, <http://www.euractiv.com/en/energy/mandil-energy-solidarity-just-words/article-179254> (20. 3. 2009)

<sup>87</sup> *Communication from the Commission to the European Council and the European Parliament: An Energy Policy for Europe*, 10 January 2007. In: EUR-Lex, Access to European Union Law, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:NOT> (20. 3. 2009)

<sup>88</sup> TRENIN, Dmitri: *‘Moscow The Muscular’: The Loneliness of an Aspiring Power*. In: Center. Carnegie Moscow Center, January 2009. <http://www.carnegie.ru/en/pubs/briefings/80284.htm> (20. 3. 2009)

<sup>89</sup> *Russian gas deliveries towards Russia Ukraine initiated*. In: Gazprom Press. <http://gazprom.com/eng/news/2009/01/33736.shtml> (20. 3. 2009)

and entered into force in 1997. An institutional framework for cooperation was set up via periodical high-level summits and ministerial meetings between the EU and Russia. The agreement regulates the political, economic and cultural relations between the EU and Russia and is the legal basis for the EU's bilateral trade with Russia. One of its main objectives is the promotion of trade and investment as well as the development of harmonious economic relations between the parties. The PCA contains special provisions regarding the economic relations between the EU and Russia. The agreement expired in 2007 and due to Russia's international behaviour, such as its military intervention in Georgia in 2008, negotiations on a new agreement were postponed.

### 5.3 Interactions of the EU and Russia

Both partners needed a common frame. The EU was probably in more urgent situation since the Russian side is a signatory party to the Energy Charter Treaty but refused to ratify it. The ETC entered into force in 1998 introducing it as a binding treaty under public international law. It covers central areas of energy cooperation as trade, investment, transit, dispute settlement, and energy efficiency. It incorporates principle of equal treatment of national and foreign actors.<sup>90</sup> In doing so, the treaty attempts to strengthen the market principle and multilateralism in the form of equal access to markets and networks.

Despite the fact that President Putin declared that Russia chose its European path in 2003 Russian Finance Minister Alexei Kudrin said straight after a G8 finance minister's meeting in St. Petersburg in June 2006 that Russia will continue to share principles of the Energy Charter, but it is not happy with certain things contained in agreements to the Energy Charter.<sup>91</sup> Among other provisions the Treaty promotes the principles of freedom of transit and of non-discrimination, includes an

---

<sup>90</sup> *General Agreement on Trade Tariffs (GATT), art 29 IIa.* In: WTO legal texts, [http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm](http://www.wto.org/english/docs_e/legal_e/legal_e.htm) (20. 3. 2009)

<sup>91</sup> *EU-Russia Energy Charter deal in autumn?* EurActiv, June 29, 2007, <http://www.euractiv.com/en/energy/eu-russia-energy-charter-deal-autumn/article-156253> (21. 3. 2009)

obligation to provide national treatment for energy in transit, and prohibits interruption of flows and the placing of obstacles to construction of new energy transport facilities. It also contains a specific conciliation procedure for disputes over energy transit.<sup>92</sup>

When it became clear that the EU failed to draw Russia to the ECT because it does not correspond with Russian interests the EU proposed to launch the EU-Russia Energy Dialogue and received a positive response from Russia and cooperation dates back to the Summit in Paris in 2000. The *raison d'être* was awareness of mutual dependence. Furthermore the EU wanted Russia to embrace principles as set in the ECT and thus overcome the essential mismatch between the EU and Russia - the clash over open free market and closed monopolised energy sector. Besides that it is a channel how to adjust and harmonize different national voices within the EU. On the Russian side the EU-Russia energy dialogue represents at least an opportunity of sorts for attracting investments in order to maintain and eventually expand its energy exports, modernise its decaying energy infrastructure and create better conditions for the country's economy. It contributes to move away from a 'third world' model of merely exporting natural resources in conditions of high energy prices, and towards a high technology based model with energy proceeds used for building and advanced knowledge-based society.<sup>93</sup> The overall problem decelerating the process is the fundamental disagreement over partner's strategies, the very rationale why Russian side has not ratified the ECT yet and more broadly speaking the different picture of the energy relations and systems the two parties envisage.

---

<sup>92</sup> *Energy Charter Treaty, Transit Provisions.*  
<http://www.encharter.org/index.php?id=40&L=1%2F> (20. 3. 2009)

<sup>93</sup> AALTO, Pami – WESTPHAL, Kirsten: Introduction. In: AALTO, Pami (ed.): *The EU-Russia Energy Dialogue*. Aldershot, 2008, p. 14.

## 6 Conclusion

Energy is a highly complicated issue, which, as was showed, cannot be explained via accepting realist premise of a zero-sum game. The aim of this paper was to test the hypothesis: *Russia does not represent a threat for the EU with respect to their mutual energy relations since a gap between reality and Russia's image exists.* Examination of hypothesis stands on examination of physical, financial, institutional and informational factor in time.

Physical conditions indisputably favour the Russian Federation. It does not have to rely on foreign energy and therefore be concerned about security of energy supply as the EU. On the other hand, it faces a multiple challenge: necessity of territorial shift of upstream exploration and consequent production, lack of and aging infrastructure. The challenge is accompanied with a heavy financial burden. The Russian Federation is in a vicious circle it should seek to avoid. Russia uses its oil and gas benefits to carry out its social commitments and fails to concentrate on investment into its energy sector to an extent to which it should. Furthermore, it is more than reluctant to share its natural resources and denies access to foreign corporations since its politics of state concentration and monopolisation does not allow it to do so. In last years prices of commodities were very favourable for Russia and it enjoyed a time of economic boom which was, from a great part, energy export driven and show Russia's price dependency.

It is not the case that the EU is Russian saviour, but as a main trading partner, is able to provide Russia with higher rate of FDI into energy sector, cooperate on energy projects and share that financial burden Russia is now not able to carry alone. Adjustment of Russian strategy is necessary in order to fully integrate into international community and gain back its lost position, which has been further deteriorating by failure to adopt multilateral agreements and unpredictable behaviour vis-à-vis its partners.

The real concern for the EU is a temporal disruption of deliveries of energy from Russia and in a long-term perspective shift of Russian energy exports markets from the West to the East. Delivery disruption is a routine the EU should have got used to it will be sorted out by adopting commitments set in its Energy Strategy For Europe such as the common energy grid or solidarity between states. The summary of the International Energy Agency calls upon the European Commission to be proactive in creation of energy policy as well as it urges for transfer of further authority from national states to the EU centre: *“the Commission should strive to for increased responsibility in this area.”*<sup>94</sup> Russia would thus receive a clear picture of who is its partner, it would strengthen the EU’s position internationally and make its policy and its execution more effective and flexible.

The relationship of the EU and Russia in terms of their mutual energy relations is a state of interdependence both partners benefit. However, they could benefit more. In such a case Russia does not represent an existential threat for the EU. Considering impact of time and natural resources finiteness it is Russia who needs to transform its strategy and institutional system adjustment towards the Western and predominantly the EU’s energy standards and thus be a trustworthy partner of the EU.

---

<sup>94</sup> *IEA Energy Policies Review – The European Union: Executive summary and key recommendations.* In: International Energy Agency, 2008, [www.iea.org/Textbase/npsum/EU2008SUM.pdf](http://www.iea.org/Textbase/npsum/EU2008SUM.pdf) (22. 3. 2009)



## 7 SOURCES AND LITERATURE

### 7.1 SOURCES

*An untapped potential: Interview with Gennady Shmal.* GDS International,  
<http://www.gdsinternational.com/infocentre/artsum.asp?mag=135&iss=267&art=274303&lang=en> (10. 3. 2009)

*Baku-Tbilisi-Ceyhan pipeline.* In: BP,  
<http://www.bp.com/sectiongenericarticle.do?categoryId=9006669&contentId=7015093> (20. 3. 2009)

*Bilateral Trade Relations with Russia.* In: European Commission, DG Trade,  
[http://ec.europa.eu/trade/issues/bilateral/countries/russia/index\\_en.htm](http://ec.europa.eu/trade/issues/bilateral/countries/russia/index_en.htm)  
(21. 3. 2009)

*BP Statistical Review of World Energy 1997.* In: BP,  
<http://www.bp.com/productlanding.do?categoryId=6929&contentId=7044622> (20. 3. 2009)

*BP Statistical Review of World Energy June 2008,* In: BP,  
[http://www.bp.com/liveassets/bp\\_internet/globalbp/globalbp\\_uk\\_english/reports\\_and\\_publications/statistical\\_energy\\_review\\_2008/STAGING/local\\_assets/downloads/pdf/statistical\\_review\\_of\\_world\\_energy\\_full\\_review\\_2008.pdf](http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf) (21. 2. 2009)

*Budget code of the Russian Federation, Chapter 13.1, Article 96.1, 96.2.*  
In: Ministry of Finance of the Russian Federation,  
<http://www1.minfin.ru/en/stabfund/about/> (21. 3. 2009)



lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52007DC0001:EN:  
NOT (20. 3. 2009)

*Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Europe's current and future energy position: Demand – resources – investments.* In: European Commission, Energy, Energy Strategies, [http://ec.europa.eu/energy/strategies/2008/2008\\_11\\_ser2\\_en.htm](http://ec.europa.eu/energy/strategies/2008/2008_11_ser2_en.htm) (20. 3. 2009)

*Council of the European Union, Presidency Conclusions, Brussels, May 2, 2007.* In: Public register of Council documents, <http://register.consilium.europa.eu/pdf/en/07/st07/st07224-re01.en07.pdf> (20. 3. 2009)

*Energy Charter Treaty, Transit Provisions.* <http://www.encharter.org/index.php?id=40&L=1%2F> (20. 3. 2009)

*Energy Council – Brussels , February 19, 2009.* In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/72&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

*Energy Issues 2006,* In: European Commission, Eurobarometer, [http://ec.europa.eu/public\\_opinion/archives/](http://ec.europa.eu/public_opinion/archives/) (20. 3. 2009)

*European Nuclear Energy Forum.* In: European Commission Energy, [http://ec.europa.eu/energy/nuclear/forum/forum\\_en.htm](http://ec.europa.eu/energy/nuclear/forum/forum_en.htm) (18. 3. 2009)

*EU-Russia Energy Charter deal in autumn?* EurActiv, June 29, 2007, <http://www.euractiv.com/en/energy/eu-russia-energy-charter-deal-autumn/article-156253> (21. 3. 2009)

*EU27 trade in goods with Russia up by a quarter in the first half of 2008, November 11, 2008.* In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/08/156&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

*Gazprom, Shell, Mitsui and Mitsubishi sign protocol on Sakhalin-2 project, December 21, 2006.* In: Gazprom News, <http://www.gazprom.com/eng/news/2006/12/22076.shtml> (20. 3: 2009)

*Gazprom, Shell, Mitsui and Mitsubishi sign Sakhalin II protocol, December 21, 2006.* In: Shell News & Media releases, [http://www.shell.com/home/content/media/news\\_and\\_library/press\\_releases/2006/sakhalin\\_protocol\\_21122006.html](http://www.shell.com/home/content/media/news_and_library/press_releases/2006/sakhalin_protocol_21122006.html) (20. 3.2009)

*General Agreement on Trade Tariffs (GATT), art 29 Ila.* In: WTO legal texts, [http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm](http://www.wto.org/english/docs_e/legal_e/legal_e.htm) (20. 3. 2009)

*Gov't sees no obstacle to YUKOS–Exxon deal.* RUSNET.NL, October 8, 2003, [http://www.rusnet.nl/news/2003/10/08/print/businesseconomics\\_02\\_3446.shtml](http://www.rusnet.nl/news/2003/10/08/print/businesseconomics_02_3446.shtml) (20. 3. 2009)

*Crude oil Prices 1997-January 2009.* In: International Energy Price Information, <http://www.eia.doe.gov/emeu/international/prices.html#Crude> (21. 3. 2009)

*Construction of ESPO Chinese pipeline leg could begin in April.* RIA Novosti, February 19 2009, <http://en.rian.ru/russia/20090219/120228018.html> (22. 2. 2009)

*IEA Energy Policies Review – The European Union: Executive summary and key recommendations.* In: International Energy Agency, 2008, [www.iea.org/Textbase/npsum/EU2008SUM.pdf](http://www.iea.org/Textbase/npsum/EU2008SUM.pdf) (22. 3. 2009)

*International Energy Agency Statistics and Balance website,* <http://www.iea.org/Textbase/stats/index.asp> (21. 2. 2009)

*LUKOIL, Sibneft, TNK, and YUKOS Sign Memorandum of Understanding on Murmansk Pipeline, November 27, 2002.* In: Gazprom Neft Press releases, <http://www.gazprom-neft.com/press-center/press-releases/?id=171shtml> (20. 3. 2009)

*Mandil: Energy solidarity ‘still just words’.* EurActiv, February 9, 2009, <http://www.euractiv.com/en/energy/mandil-energy-solidarity-just-words/article-179254> (20. 3. 2009)

*National Welfare Fund: Russian Federation.* In: Sovereign Wealth Fund Institute, <http://www.swfinstitute.org/fund/russia.php> (20. 3. 2009)

*Ninth Progress Report of EU-Russia Energy Dialogue, Paris, October 2008.* In: European Commission Energy, [http://ec.europa.eu/energy/international/bilateral\\_cooperation/russia/progress\\_reports\\_en.htm](http://ec.europa.eu/energy/international/bilateral_cooperation/russia/progress_reports_en.htm) (20. 3. 2009)

*No EU funding for Nabucco, says Merkel.* EurActiv, March 3, 2009. <http://www.euractiv.com/en/energy/eu-funding-nabucco-merkel/article-179883> (20. 3. 2009)

*Oil burden slows Russian stocks rally.* Reuters, October 15, 2007, <http://uk.reuters.com/article/oilRpt/idUKL1219724920071015> (22. 3. 2009)

President Vladimir Putin, Speech at Expanded Meeting of the State Council on Russia’s Development Strategy through to 2020, February 8,

2008. In: President of Russia, Statements on Major Issues, [http://www.kremlin.ru/eng/speeches/2008/02/08/1137\\_type82912type82913\\_159643.shtml](http://www.kremlin.ru/eng/speeches/2008/02/08/1137_type82912type82913_159643.shtml) (20. 3. 2009)

*Prime Minister Vladimir Putin and Hungarian Prime Minister Ferenc Gyurcsany summarised intergovernmental consultations at a news conference, March 10, 2009.* In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/2262.html> (20. 3. 2009)

*Prime Ministr Vladimir Putin chaired the Government meeting, March 10, 2009.* In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/2261.html> (20. 3. 2009)

*Prime Minister Vladimir Putin held negotiations with Ukrainian Prime Minister Yulia Tymoshenko in Moscow, following which Gazprom and Naftogaz Ukraine signed a contract for the sale and purchase of natural gas for 2009-2019, January, 19 2009.* In: Government of the Russian Federation, <http://premier.gov.ru/eng/pda/events/1736.html> (20. 3. 2009)

*Putin addresses key foreign policy concerns in Q&A session, RIA novosti, December 4, 2008,* <http://en.rian.ru/russia/20081204/118693811.html> (20. 3. 2009)

*Russia to run budget deficit for the first time in 8 years – minister. RIA novosti, March 19, 2009,* <http://en.rian.ru/business/20090319/120651854.html> (22. 3. 2009)

*Russian gas deliveries towards Russia Ukraine initiated.* In: Gazprom Press. <http://gazprom.com/eng/news/2009/01/33736.shtml> (20. 3. 2009)

*Russian oil lobby has slim chance for tax cuts.* Reuters, February 10, 2009, <http://www.reuters.com/article/GCA-Oil/idUSTRE51944020090210> (20. 3. 2009)

*Shell cedes control over Sakhalin-2 to Gazprom.* International Herald Tribune, December 21, 2006, <http://www.iht.com/articles/2006/12/21/business/shell.php> (20. 3. 2009)

*Speech by Mirek Topolánek at the Nabucco Summit, February 11, 2009.* In: Czech Presidency of the European Union, Speeches and Interviews, <http://www.eu2009.cz/en/news-and-documents/speeches-interviews/speech-by-mirek-topolanek-at-nabucco-summit-7778/> (20. 3. 2009)

*Speech delivered by Director of the EU-Russian Energy Dialogue Christian Cleutin on Geopolitics of Energy Supply, Brussels, May 10, 2006.* In: European Enterprise Institute, [www.european-enterprise.org/public/docs/speech20061005.pdf](http://www.european-enterprise.org/public/docs/speech20061005.pdf) (20. 3. 2009)

*Statement of President Barroso on the resolution of the Ukraine-Russia Gas Dispute, January 20, 2009.* In: Europa Press releases RAPID, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/12&format=HTML&aged=0&language=EN&guiLanguage=en> (20. 3. 2009)

*Who is Russian jailed tycoon Mikhail Khodorkovsky.* Reuters, March 3, 2009, <http://www.reuters.com/article/OILPRD/idUSL335336920090303> (20. 3. 2009)

## 7.2 LITERATURE

AALTO, Pami – WESTPHAL, Kirsten: Introduction. In: PAAMI, Alto (ed.): *The EU-Russia Energy Dialogue*. Aldershot, Ashgate Publishing Ltd. 2008, pp. 1-23.

ARBATOV, Alexander: *Unrelenting Oil Addiction*. *Russia in Global Affairs*, 4, 2005, No. 2, <http://eng.globalaffairs.ru/numbers/11/914.html> (20. 3. 2009)

ARCHER, Clive: *EU and the Common Strategy to Russia: A bridge too Far?* In: HERD, Graeme P. (ed.): *EU Enlargement in the North: Security Dynamics in Nordic-Baltic-EU-Russian Relations into the New Century*, Aberdeen 2000, pp. 62-81.

ARON, Leon: *Russia's Revolution*. Washington, American Enterprise Institute for Public Policy 2007. pp. 374.

BOYKEWICH, Stephen: *Gazprom's Export Monopoly Cemented*. *Johnson's Russia List*, July 2006, <http://www.cdi.org/russia/johnson/2006-152-12.cfm> (20. 3. 2009).

BRAGHIROLI, Stefano – CARTA, Catarina: *The EU's attitude towards Russia: condemned to be divided? An analysis of the Member States and Members of the European Parliament's preferences*. In: European consortium for political research, <http://www.jhubc.it/ecpr-riga/VIRTUALPAPERROOM.CFM> (20. 3. 2009).

BUSHUEV, Vitaliy – TROITSKII, Artem: *The Energy Strategy of Russia until 2020 and Real Life. What Is Next?* *Thermal Engineering*, 54, 2007, No. 1, pp. 1-7.



BUZAN, Barry – WAEVER, Ole – DE WILDE, Jaap: *Security: a New Framework for Analysis*. Boulder CO, Lynne Rienner 1998. 240 pp.

HANSON, Philips: *How Sustainable Is Russia's Energy Power?* Russian Analytical Digest, 3, 2008, No. 38, pp. 8-12, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

HANSON, Philip: *Kremlin Oil: State Intervention in the Russian Oil and Gas Sector, and Russia's Relations with the West*. In: DUSSEAULT, David (ed.): *The Dynamics of Energy in the Eurasian Context*. Helsinki, Gummerus Printing 2007, pp. 30-45.

HUGHES, James: *EU relations with Russia: partnership or asymmetric interdependency?* In: CASARINI, Nicola – MUZU, Costanza, (Edd.): *The EU's foreign policy in an evolving international system: the road to convergence*. London, Palgrave 2006, pp. 92-111.

KIVINEN, Marku: *Frames of Russian Energy Policy in Transition*. In: DUSSEAULTS, David (ed.): *The Dynamics of Energy in the Eurasian Context*. Helsinki, Aleksanteri Institute Series 2007, pp. 7-30.

LIBMAN, Alexander: *Gas Equilibrium in Post-Soviet Space: Changes and Factors of Instability*. In: DUSSEAULTS, David (ed.): *The Dynamics of Energy in the Eurasian Context*. Helsinki, Aleksanteri Institute Series 2007, pp. 77-90.

MOE, Arid: *Status of legislation for foreign investment in the Russian petroleum sector and on the continental shelf*. In: Fridtjof Nansens Institute, April 2008, [http://www.fni.no/russcasp/AM-investment\\_legislation.pdf](http://www.fni.no/russcasp/AM-investment_legislation.pdf) (22. 3. 2009)

*sector and on the continental shelf*. In: Fridtjof Nansens Institute, April 2008, [http://www.fni.no/russcasp/AM-investment\\_legislation.pdf](http://www.fni.no/russcasp/AM-investment_legislation.pdf) (22. 3. 2009)

MONAGHAN, Andrew: *Stakhanov to the Rescue? Russian Coal and the Troubled Emergence of a Russian Energy Strategy*. Shrivenham, Defence Academy of the United Kingdom 2007, 29 pp., <http://www.da.mod.uk/colleges/arag/document-listings/russian/> (20. 3. 2009).

*One Step forward, Two Steps Back. Is the Latest Crisis Cause for Another Time-Out in the Barents Sea?* Oil and Gas Eurasia, January 2009, <http://www.oilandgaseurasia.com/articles/p/90/article/798/> (20. 3. 2009).

ORTTUNG, Robert W.: *Russia*. In: *Nations in Transit*. Freedom House, 2008, [http://www.freedomhouse.hu/images/fdh\\_galleries/NIT2008/NT-Russia-final1.pdf](http://www.freedomhouse.hu/images/fdh_galleries/NIT2008/NT-Russia-final1.pdf) (19. 2. 2009).

PEROVIC, Jeronim – ORRTUNG, Robert: *Russia's Energy Policy: Should Europe Worry?* Russian Analytical Digest, 2, 2007, No. 18, pp. 2-8, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

PETROV, Nikolai: *Power Ministries and Federal Reform in Russia*. In: Center for Strategic and International Studies, 2002, 3 pp., [http://www.csis.org/component/option,com\\_csis\\_pubs/task,view/id,2183/type,1/](http://www.csis.org/component/option,com_csis_pubs/task,view/id,2183/type,1/) (20. 3. 2009).

POUSSENKOVA, Nina: *All Quiet on the Eastern Front*. Russian Analytical Digest 4, 2008, No. 33, pp. 13-18, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

RAYBOV, Andrei: *Tandemocracy in Russia*. Russian Analytical Digest, 3, 1998, No. 49, pp. 2-7, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

ROMANOVA, Tatiana: *Energy Dialogue from Strategic Partnership to the Regional Level of the Northern Dimension*. In: AALTO, Pami (ed.): *The EU-Russia Energy Dialogue*. Aldershot, Ashgate Publishing Ltd. 2008, pp. 63-93.

*Russia refuses to Approve Exxon's Sakhalin Project*, Sankei Say. Oil and Gas Eurasia, February 2009, <http://www.oilandgaseurasia.com/articles/p/92/article/832/> (20. 3. 2009).

*Russia's "curse of the well"*. RIA novosti, October 20, 2008, <http://en.rian.ru/analysis/20081020/117837822.html> (20. 3. 2009).

SIMMONS, Daniel – MURRAY, Isabel: *Will There Be Enough Investment?* Russian Analytical Digest, 2, 2007, No. 27, pp. 2-6, <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

SMITH, Hanna: *The NEGP and growing Bilateralism Between Russia and the European Union*. In: KAZIN, Philip (ed.): *The North European Gas Pipeline: Political and Economic Implications for Russia and the EU*. Saint-Petersburg 2006, pp. 9-13.

TKACHENKO, Stanislav L.: *Actors in Russia's Energy policy towards the EU*. Paper presented at the annual meeting of the International Studies Association 48th Annual Convention, Chicago, February 28, 2007, [http://www.allacademic.com//meta/p\\_mla\\_apa\\_research\\_citation/1/8/0/1/9/pages180193/p180193-1.php](http://www.allacademic.com//meta/p_mla_apa_research_citation/1/8/0/1/9/pages180193/p180193-1.php) (20. 3. 2009).

TRENIN, Dmitri: *'Moscow The Muscular': The Loneliness of an Aspiring Power*. In: Carnegie Moscow Center, January 2009. <http://www.carnegie.ru/en/pubs/briefings/80284.htm> (20. 3. 2009).

ŠIMONOV, Jaroslav: *Vývoj státnosti za Putinovy éry*. In: SOULEMAINOV, Emil and col.: *Rusko a postsovětský proctor*. Praha, Eurolex 2007, 10-34.

WESTPHAL, Kirsten: *Europe Held Hostage?* Russian Analytical Digest, 4, 2009, No. 53, pp. 15-18. <http://www.res.ethz.ch/analysis/rad/index.cfm> (20. 3. 2009).

8 ANNEXES

Diagram 1: Major Russian natural gas basins



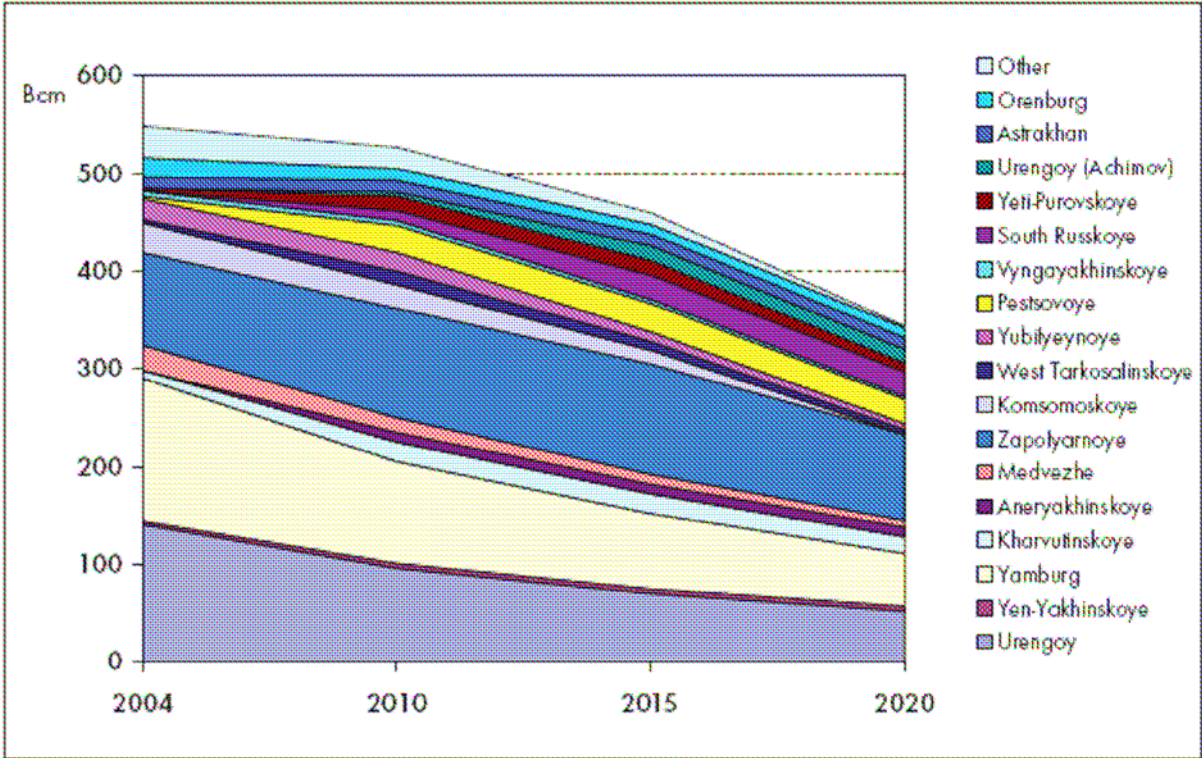
Source: Energy Information Administration

Diagram 2: Major crude oil basins



Source: Energy Information Administration

Diagram 3: Projected production of currently producing major gas fields



Source: Russian Analytical Digest, 2, 2007, No. 18, p. 8.



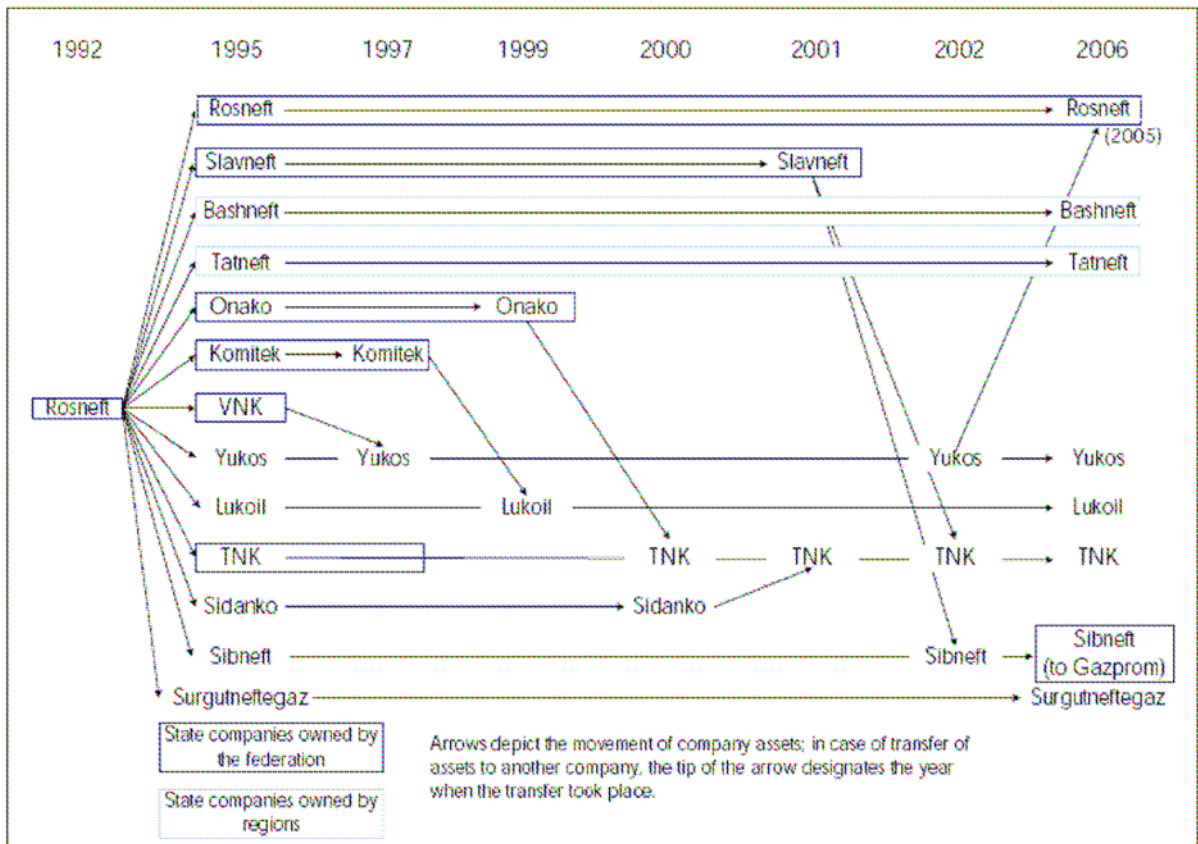
Diagram 6: Basic parameters of the federal budget of Russia

	2006 (reported)	2007 (ex ante)	2008 (project ed)	2009( projec ted)	2010 (proje cted)
Bln.rubles					
Revenue, total	6,27 6.3	6,614.2	6,644.4	7,465. 4	8,089. 9
including oil and gas	2,95 4.4	2,471.1	2,383.1	2,351. 9	2,38.3
Including oil-and-gas transfer	-	-	2,135.0	2,103. 6	2,016. 3
Non-oil and gas	3,32 1.9	4,143.1	4,261.3	5,113. 5	5,741. 6
Expenditures, total	4,28 1.3	5,615.5	6,570.3	7,451. 2	8,089. 9
including non-interest expenditures	4,11 2.2	5,458.7	6,382.5	7,052. 3	7,438. 3
interest expenses	169. 1	156.8	187.9	212.6	247.1
provisionally approved expenditures	-	-	-	186.3	404.5
Budget surplus	1,99 5.0	998.7	74.1	14.2	0.0

Source: Ministry of Finance of the Russian Federation

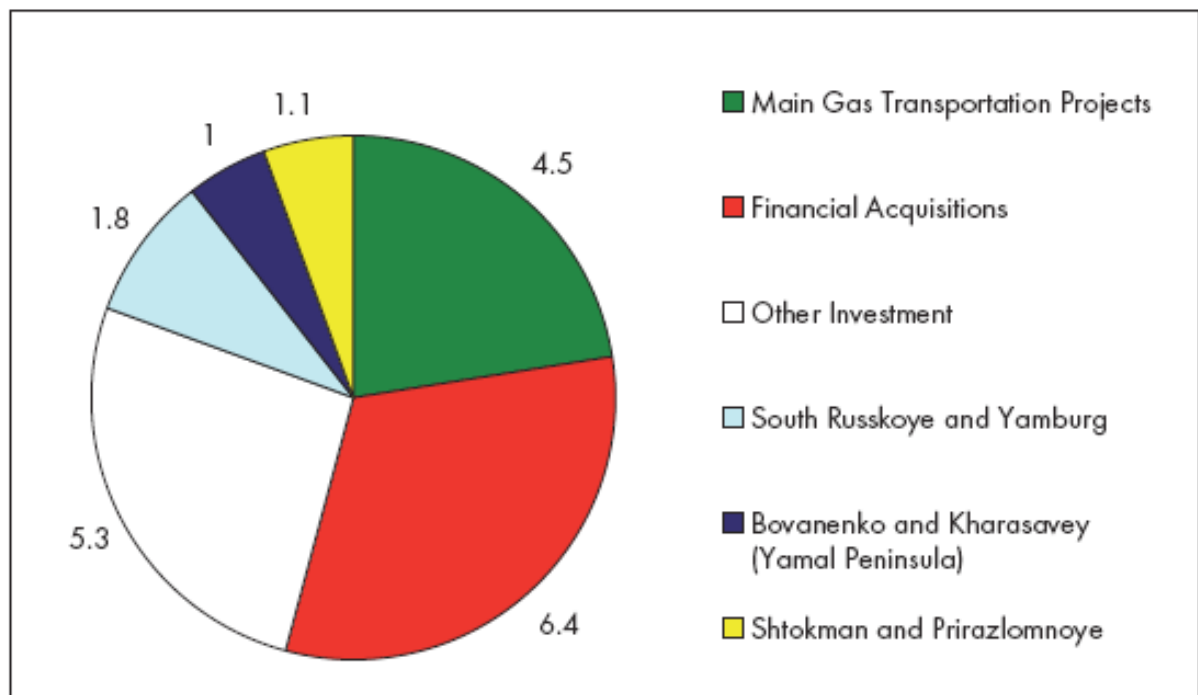


Diagram 7: The process of consolidation in Russian oil industry 1992-2006



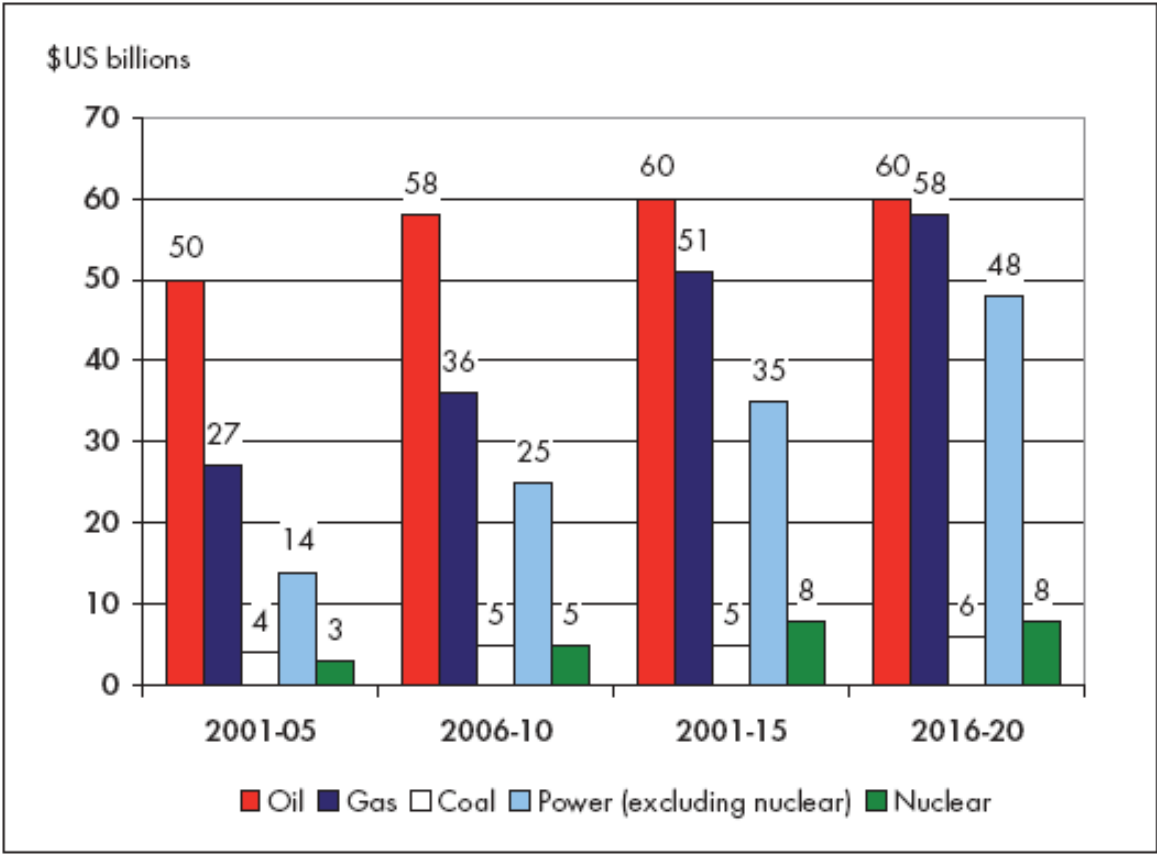
Source: Russian Analytical Digest, 1, 2006, No. 1, p. 9.

Diagram 8: Gazprom's investment program 2007, US\$ Billion



Source: Gazprom

Diagram 9: Investment required according to the Energy Strategy (Minimal estimate)



Source: Russian Energy Strategy 2003-2020

## 9 ABSTRACT

The bachelor thesis aims to give a picture of the EU-Russia energy relations. The current debate over the topic portrays the Russian Federation as a potential threat for the EU and its energy security be it deliberate or unintentional one. The paper claims that Russia does not represent a threat for the EU in their mutual energy relations and therefore does not jeopardise the EU's energy security. Application of multi-factoral approach avoids delivering oversimplistic explanations of the nature of the above mentioned actors energy relations. Both Russia and the EU are tested respectively.

The theoretical clarification precedes chapters divided according to four examined factors: physical, financial, institutional and informational and conclusion summarizes the outcomes.

The closing chapter reaches the conclusion that the EU and Russia are in relation of mutual dependence, they both need each other. Yet, future looks brighter for the EU bloc. When one takes into account Russia's major weapon which is natural resource abundance combined with time factor and consequently with resource finiteness it is Russia who needs to come closer to the EU and the West rather than the EU to Russia.

## 10 ABSTRAKT

Bakalářská diplomová práce usiluje o poskytnutí obrazu EU-Rusko nergetických vztahů. Současná debata na toto téma vykresluje Ruskou federaci jako potenciální hrozbu pro EU a její energetickou bezpečnost, ať už umyslnou či neúmyslnou. Práce tvrdí, že Rusko nepředstavuje hrozbu pro EU, a proto neohrožuje její energetickou bezpečnost. Aplikací multifaktorálního teoretického přístupu umožňuje vyhnout se uchýlení se k zjednodušujícím závěrům. Jak Rusko tak EU jsou podrobeny analýze.

Teoretické upřesnění předchází kapitolám, které jsou rozděleny podle čtyř analyzovaných faktorů: fyzický, finanční, institucionální a informační a závěr shrnuje celkové poznatky.

Závěrečná kapitola tak dochází k výsledku, že EU a Rusko jsou ve vzájemném vztahu interdependence, oba se navzájem potřebují. Přesto budoucnost vypadá nadějněji pro seskupení EU. Největší zbraň Ruska, kterou je její nerostné bohatství, kombinovaná s faktorem času a následně tedy s vyčerpitelností nerostných surovin, je to Rusko, kdo se potřebuje přiblížit k EU a Západu spíše než EU k Rusku.