EU-Russia Energy Relations
Dilemmas and Delusions

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Conceptualising energy

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

I. EU Energy
   - Security of Supply issues
   - Energy in EU policy

II. Russian Energy
   - Security of Demand issues
   - Energy in Russian policy

III. EU-Russia Bridge-building
   - From Gas Spats to Solutions
Introduction

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

- EU: second largest energy consumer in the world, & the largest energy importer

- Market, population growth & EU enlargement = produced a surge in demand

- Transport – 98% dependent upon oil; Households: 63% dependent on oil & gas

- Huge demand in electricity (generated largely by nuclear, coal & natural gas)

- Strongest energy producers: Germany (solid fuels), France (nuclear), Britain (gas & oil), Italy (oil) and Spain (solid fuels)

- Highest energy consumers: Bulgaria, Romania, 2004-10 accession states, Finland, Med states

- Overall: conventional energy reserves in Europe are limited & expensive to extract

EU-27 Total Primary Energy Supply (2004): about 1800 Mtoe

- Oil: 38%
- Gas: 24%
- Nuclear: 14%
- Renewables: 6%
- Solid fuels: 18%
- Other: 0%
EU Energy: Declining Supplies

- Oil: 4% of world reserves; North Sea (UK) reduced by 2025
- Natural Gas: 2% of world reserves (Netherlands & UK), depleted by 2020
- Solid fuel (coal, lignite, peat, shale) 5%, or 200 years, but a costly pollutant
- Uranium: 2% of world’s reserves, most mines now closed
- Renewable sources (wind, solar, biofuels) remain undeveloped
EU-27 Import Dependency

- EU own production total: 37%
- Russian Federation: 29%
- Norway: 17%
- Algeria: 13%
- Nigeria: 1%
- Others: 2%
- Qatar: 1%

- Russia: 26%
- Norway: 13%
- Saudi Arabia: 9%
- Libya: 8%
- Iran: 5%
- Algeria: 3%
- Kazakhstan: 3%
- Nigeria: 3%
- Others: 10%
EU-27 Net Imports of Fossil Fuels

(Mbtu)
EU Energy 2007 Supply

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

- Security of **demand** difficulties arising from Europe’s own complex energy market: electricity, oil & gas markets
- Security of **supply** problems with Russia and the Middle East

**2003 European Security Strategy**
- Energy security as ‘global challenge’
- Energy dependence: European concern
- Nuclear proliferation; enhanced provisions
EU Energy Policy Papers

- **2001 Green Paper** *Towards a European strategy for the security of energy supply*’
  - Brussels, we have a dependency problem

- **2004 Study on Energy Supply Security and Geopolitics**
  - EU foreign and security policy and external trade policy are crucial energy policy tools to achieve future security of supply

- **2006 Green Paper** *A European Strategy for Sustainable, Competitive and Secure Energy*
  - the EU needs a common voice on energy issues
EU Energy Innovations

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

Climate change + increasing import dependence + growth of Europe

1. Sustainability: EU committed to reducing EU & global greenhouse gas emissions (20% by 2020)

2. Security of Supply: weaning Europe off oil & gas dependence
   - Increasing external supply failures

3. Competition
   - Complete Internal Energy Market for fair & competitive energy prices
   - Invest in low carbon energy technologies
EU Energy Features: Common & External

1. ‘The challenges of security of supply & climate change cannot be overcome by the EU or its Member States acting individually.’

2. Energy ‘must become a central part of all external EU relations, it is crucial to our geopolitical security, economic stability, social development and climate change goals’. ‘We cannot separate the external from the internal’.

How? Via effective energy relations with international partners; through bilateral, multilateral and regional agreements in which there are deeper energy provisions.
Energy in European Foreign Policy

‘Deepen relations with key energy producers & transit countries’

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

- Russia is a ‘triple hatted’ energy actor: major producer, consumer & transit state.
- State control over all of gas sector and most of oil: Gazprom (gas) Rosneft (oil) Transneft (pipelines)
- Extensive east-west network of gas and oil pipelines drawing reserves from the Black & Caspian seas, from Western Siberia to Austria and Finland
- Energy = national revenue; shield against global fluctuations; foreign policy leverage
- Energy = symbolic of economic development, reserves, public/private overlap, re-centralisation
Cumulative Energy Investment Needs in Russia, 2003 - 2030

Russian Oil Pipelines

Russian Gas Reserves & Pipelines

Russian Gas Balance

Russian Fossil-Fuel Exports as Share of World Trade

Energy & Russian foreign policy

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

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

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

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

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

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

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

Blair to Russia (13.03.07): ‘one of the reasons why Europe has been busy setting out its new energy policies is Moscow’s behaviour.’

‘I do hope that Russia understands… that its best prospect of playing a full part in the international community and becoming a strong economy is if it plays by the same rules as everybody else… in Europe and with America too.’
Conclusion

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