New Partnership between EU and Russia: Common Denominator is Energy

Author’s:
1Assist.Prof.Dr. Ramazan Erdağ-Lecturer and Deputy Head,Department of International Relations
Eskisehir Osmangazi UniversityMeselik Kampüsü, 26480 Eskisehir, Turkey

ABSTRACT: Energy is the most important source for production and development. On the one hand energy has become key factor on economical development; on the other, it also has become dominant element in world politics. Russia, as one of the most important oil and gas producer in the world, and with regional and global activity has started to play dominant role in international relations. In this context Russia develops relations with EU diplomatically and economically. This “compulsory” ties lines EU’s energy need. Russia is one of the most important gas suppliers for EU. Because of this fact EU has to get fine relations with Russia under the global economic crises. Russia also tries to emphasize her affect to region and global arena via energy with pipe-lines. This “bilateral” relation has been revising together Russia and EU in conjunction of energy.

Key words: Energy, EU, Russia, Partnership.

1. INTRODUCTION

Energy is the vital important issue for European Union (EU). The energy need of EU has increased 10 percent only between 1990 and 2000. According to data’s, dates back 2000, 15 percent of the energy consumption in the world is belonged EU. The energy mapping of EU shows that EU is the biggest energy importer and second consumer after US in the world. It assumed that EU’s external dependency in energy will be reached 68 percent by 2030. By the way energy is the core element of European’s history. For instance Germany and France agreed on alienating the iron and steel sources to a supranational authority after World War II. For this purpose European Coal and Steel Community (ESCS) established in 1951 with Paris Agreement. Subsequently the founder agreements of European Atomic Energy Community (EURATOM) and European Economic Community (EEC) were signed in 1958. This indicates a common consensus consisted in Europe that defragmenting benefits on iron and steel would prevent wars and conflicts. This initiative has launched today’s EU’s economical and political integration process. In the historical period EU’s energy policy has gradually developed in company economical integration (The Economic Development Foundation, 2011).

In this context Russia is the largest energy resource importer for EU. According to 2009 numbers; 36 percent of the EU’s total gas imports, 31 percent of the EU’s total crude oil imports and 30 percent of the EU’s coal imports originate from Russia. At the same time EU is the largest trade partner in energy for Russia. 80 percent of all Russian oil, 70 percent of all Russian gas and 50 percent of all Russian coal exports go to the EU in consideration of 2009. This mutual interdependency and interest has made up an economic-based relation between EU and Russia. EU-Russia Energy Dialogue has launched in 2000 for developing a close partnership in the energy sector. EU and Russia aim to improve investment opportunities, to secure and to expand transportation infrastructure via dialogue (European Commission, External dimension: EU-Russia Energy Relations, 2011).
Aims

This article aims to research EU and Russia’s partnership in energy. Firstly it sets out a EU-Russia’s energy cooperation history by reviewing before comes into effect of EU-Russia Energy Dialogue. It goes on formation, origin and development of the initiative in energy cooperation- EU-Russia Energy Dialogue (EU&R-ED). And then it debates two sides of energy policies in conjunction with EU-Russia energy dialogue. With the data’s of energy trade it is to seek this mutual relation. The article concludes with discussion of sustainability and future of energy relationship of EU and Russia.

2. HISTORICAL BACKGROUND OF EU-RUSSIA ENERGY PARTNERSHIP

EU and Russia signed an agreement in 1994 for cooperation in energy. Partnership and Cooperation Agreement (PCA) includes enhancing the relations between EU and Russia on economical sphere. PCA entered into force 1 December 1997 and started to discuss energy dialogue on basis sub-committee, environment and nuclear safety. The leaders of EU and Russia came together six times in Paris since the PCA implement. EU-Russia Summit hold in Paris in 30 October 2000. Participants the summit President of the European Council, J. CHIRAC, assisted by the Secretary-General of the Council/High Representative for the Common Foreign and Security Policy of the EU, J. SOLANA, of the President of the Commission of the European Communities, R. PRODI, and of the President of the Russian Federation, V. V. PUTIN declared a joint declaration about summit and stressed that the strategic partnership of EU and Russia “based on principles of democracy, respect for human rights, the rule of law and the market economy”(European Commission Directorate-General for Energy, EU-Russia Energy Dialogue: The First Ten Years: 2000-2010, 2011:6-8).

The other important factor behind EU-Russia energy cooperation is the definition of four common spaces. In St. Petersburg EU-Russia Summit, hold in May, 2003, EU and Russia agreed on four policy issue: the Common Economic Space, the Common Space of Freedom, Security and Justice, the Common Space of External Security and the Common Space of Research and Education. With these historic overview and bilateral summits between EU and Russia enforced cooperation (European Commission, External dimension: EU-Russia Energy Relations, 2011).

2.1. EU-RUSSIA ENERGY DIALOGUE (EU&R-ED): MUTUAL INTEREST AND COOPERATION

EU&R-ED has opened a new phase between EU and Russia. Natural/mandatory partnership came into force under an official structure and political and commercial objectives of two sides combined in a common denominator in which energy. As shown in figures 1, 2 and 3 trade capacity of natural gas, oil and hard coil between EU and Russia remarkably figure outs this converge. From this economic view EU needs energy resource for production and economic development. Russia also seeks to control energy trade and monopoly by using resources and pipelines. All these show that EU and Russia share nearly same doubts on energy issues. The legal structure-EU&R-ED- made this initiative to act more actively for two sides.
Under the EU&R-ED technical working groups were made up for subunits like common strategies, infrastructure, and investment in January/February 2001. These groups guided to acting plan for EU&R-ED as an advisor. First summit of EU&R-ED was held in St. Petersburg, May 31, 2003 and agreed on establishing Permanent Partnership Council (PPC) enhancing cooperation. In May 1, 2004 ten new member states accessed to EU. The enlargement of EU has raised energy demand and opened a new period. Kyoto Protocol entered into force in February 2005 and same year second summit of EU&R-ED was held in Moscow. In this summit it focused on sustainability of structure and efficiency in energy using. The first meeting of PPC was actualized in October 2005, second in 2006, third in 2008, fourth in 2009. The thematic groups were reorganized in 2007. In the third EU&R-ED summit, held in Khanty/Minsk, June 27, 2008, discussed a launching new agreement in place of PCA. In 2009 “Early Warning Mechanism” was signed. It aims ensuring quick communication and counteracting interruptions of energy supply. In November 10, 2010 the fifth PPC meeting was made in Brussels and signed EU&R-ED’s 10th anniversary report (European Commission Directorate-General for Energy, EU-Russia Energy Dialogue: The First Ten Years: 2000-2010, 2011:62). The efforts of two sides to decrease mutual dependency energy supply expound why the partnership be called “mandatory”. Despite the efforts to energy diversify EU confirms that Russia is key actor of energy supplier for EU and also Russia confirms supplying energy to EU stably and EU-Russia energy partnership accord to expand the relation (European Commission Directorate-General for Energy, EU-Russia Energy Dialogue: The First Ten Years: 2000-2010, 2011:62).

The Joint Report of EU-Russia Energy Dialogue 2000-2010 sums up and display the general aim and common policy of partnership and ten years dialogue process. It lays down these states:

“We welcome the development of the partnership between the European Union and the Russian Federation during recent years, on the basis of the Partnership and Cooperation Agreement (PCA), the Common Strategy of the European Union on Russia, and the Russian Federation’s Medium-term Strategy for developing relations with the European Union.

Furthermore, we recognize the importance of rigorous implementation of the PCA, particularly in the economic and social spheres.

The approximation of legislation and a transparent and stable legal framework will help to facilitate our
trade relations. The Union welcomes the fact that the Russian authorities have drawn up an economic programme intended to promote investment in Russia and which should enable further progress in this key area of our cooperation. The EU’s technical assistance will be continued in this respect. The two sides will continue their efforts, particularly under the PCA, with a view to improving investment opportunities” (European Commission Directorate-General for Energy. EU-Russia Energy Dialogue: The First Ten Years: 2000-2010, 2011:6).

Russia-Ukraine gas crises showed the energy security of EU is needed to be more important EU’s agenda (Ferrero-Waldner, 2006:141). One important problem areas that are great amount of energy dependency to Russia for EU. The sudden energy-cuts or descending prices directly affect the EU’s economy and trade. This bad experience forced EU to alternate energy supply. In this context the Nabucco project is an alternative energy road to EU.

“Nabucco finally was considered a realistic possibility and came to be embraced as a ‘strategic European project’ following the Russian–Georgian war of August 2008 and the Russian–Ukrainian gas crisis of 2009. These episodes exposed European countries’ vulnerabilities stemming from their dependence on Russian-controlled lines, and reduced the internal disagreements among the EU members before the adaptation of a common position on external energy policy.” (Kardas, 2011:62).

3. EU COMMON ENERGY POLICY AND TARGETS

In 2006 The European Commission adopted a roadmap to member states of EU for Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy. Commission lays out a strategic guideline to EU for near future energy demand, security and supply. Commission summarizes the global energy overview in which EU faces; in the great scale there is quick energy investment and it’s estimated the total quantity of investment to be reached one trillion euros by 2020, also EU’s dependency of energy import is rising and it will be reached 70 percent which of them- because of the existing few reserve countries- import insecure regions, at the same time demand for energy and prices in world scale are rising, the other factors are global climate change and lack of competitiveness internal market in Europe (European Commission, Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, 2006:3).

It’s mainly stressed in the report that EU has to talk in one manner, and develop common energy strategy. Now that it’s impossible to live without energy and insufficient internal resources EU-27 must review national behavior. An overall approach on energy issues be considered includes substructure investments, internal energy security, stockade gas and oil in case of disruption, etc. Commission also advises members in order to diversify energy resources EU must develop relations with global energy players like OECD, Gulf Cooperation Council and of course most important energy partner Russia. All these must be a coherent approach. For integration and future of EU sake a new formal external energy strategy is implemented (European Commission, Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, 2006:3).

Within this context former energy commissioner of the EU, Andris Piebalgs emphasizes lack of efficient EU energy strategy. He stressed EU’s energy strengths; (i) wideness of EU in energy market, (ii) technological base and (iii) diversity. According to Piebalgs EU’s
weakness is that 27 member states have different approaches on energy and lack of sufficient connection among members. Most important is the lack of shared common policy and aims (Piebalgs, 2009:118).

The European Commission is suggesting EU to descend the Russian gas import volume. Commission also advices to limit gas import from Russia with 30 percent. Energy dependency to Russia will naturally have economical, social and political effects to EU. In spite of the advices some EU countries (i.e. Germany) are executing own policies discordant EU on behalf of “national interest” (Pamir, 2005:7). The European Commission adopted a communication (COM (2007) 1) related common energy policy for EU in January 10, 2007. EU’s energy policy focuses on sustainability, security and competitiveness. High energy prices, dependency in energy import and climate change are difficulties of EU. The most important is dependency because it weeks member state’s economical and political capacity and naturally affect EU-27 each-other. That’s why EU has to develop a common language in energy literature. EU follows new energy resource i.e. renewable energy [Commission of The European Communities, An Energy Policy For Europe, 2007:3]. Price is one of the most important issues for EU, for example the document of Energy 2020: A Strategy for Competitive, Sustainable and Secure Energy, which published by European Commission in 2010, starts with “The price of failure is too high” (European Commission, Energy 2020: A Strategy for Competitive, Sustainable and Secure Energy, 2010:1).

For reducing the dependency on Russia in energy, one of the alternative energy recourses is hydrocarbon. EU is seeking to import more hydrocarbons from the Caspian region, the Gulf, West/North Africa, Algeria, Egypt and Libya (Gareth, 2008:161). In this context Algeria and Egypt are becoming exporters of Liquefied Natural Gas (LNG) to EU [Gareth, 2008:166]. The other alternative energy source of EU is wind power industry. The European Commission adopted to increase the EU electricity from renewable energy. All EU countries support to produce electricity from renewable resources (Erdogdu, 2009:1364).

3.1. EU NEW ENERGY GOALS: 20&20&20 BY 2020

EU aims to reduce greenhouse gas emission 20 percent from 1990’s levels, increase 20 percent of renewable energy recourses in consumption and increase 20 percent of energy efficiency by 2020 [European Commission, Key Figures: Market Observatory for Energy, 2011:25-32]. “Nevertheless, the reception of these targets was far from positive throughout the EU member states, with particularly the new members fearing that meeting these targets would be more difficult for them than for the original EU-15” (Neuman, 2010:345).

Recent document on common energy policy of EU, Energy Roadmap to 2050 presented by European Commission, aims to cut emissions 80 percent by 2030 by the way the energy production of EU will almost be carbon-free. Important aims of the documents are;

“Decarbonisation of the energy system is technically and economically feasible. All decarbonisation scenarios allow achieving the emission reduction target and can be less costly than current policies in the long-run.

Energy Efficiency and renewable energy are critical. Irrespective of the particular energy mix chosen, higher energy efficiency and important rising shares of renewables are
necessary to meet the CO2 targets in 2050. The scenarios also show that electricity will play a greater role than now. Gas, oil, coal and nuclear also figure in all scenarios in different proportions, allowing Member States to keep flexible options in their energy mix provided a well connected internal market is achieved quickly.

Early Investments cost less. Investment decisions for the necessary infrastructure up to 2030 must be taken now, as infrastructure built 30-40 years ago needs to be replaced. Acting immediately can avoid more costly changes in twenty years. The EU’s energy evolution requires anyway modernisation and much more flexible infrastructure such as cross border interconnections, “intelligent” electricity grids and modern low-carbon technologies to produce, transmit and store energy.

Contain the increase of prices. The investments made now will pave the way for the best prices in the future. Electricity prices are bound to raise until 2030, but can fall thereafter thanks to lower cost of supply, saving policies and improved technologies. The costs will be outweighed by the high level of sustainable investment brought into the European economy, the related local jobs, and the decreased import dependency. All scenarios get to decarbonisation with no major differences in terms of overall costs or security of supply implications.

Economies of scale are needed. A European approach will result in lower costs and secure supply compared to national parallel schemes. This includes a common energy market which should be completed by 2014” (European Commission, Energy Roadmap 2050: A Secure, Competitive and Low-Carbon Energy Sector Is Possible, 2011).

Russia’s energy policy concern on security and become more politicized. Energy policies of Russia are fragile and critical importance with her neighbors and trade-partner countries (Makarychev, 2006:3). Russian energy policy depends on internal and external factors. Historical and institutional constrains affect Russia’s energy goals [Ivanenko, 2008:266]. Russia plays an energy actor in global word politics via Gazprom. Gazprom is the Russia’s biggest energy monopoly. It holds important part of energy capacity of Russia. Russia’s strategy on energy issues depends on importer’s demand and to use as a political tool. Russia seeks to get influence on importer countries by supplying rates and pipelines. Ascending energy demand of regional and global countries gets Russia as an important actor in energy game.

Russia’s natural gas and oil pipelines have ensured advantages to Russia in regional and global politics. In this context Russia’s leading actors has recently started to influence energy exporting countries and aimed to take control in respect to energy ways. Russia’s transit energy ways considerably exist in Belarus and Ukraine. With these countries’ cooperation and partnership Russia aimed gain importance share of energy trade but Russia-Ukraine energy crises had a controversy effect. At the same time another pipeline projects like Baku-Tbilisi-Ceyhan (BTC) has become an alternative way to supply west energy need by-passing Russia. Naturally Russia opposes these issues and tries to hold its share and importance (Gidadhubli, 2006:3358-3359).

The global energy crises affected the word negatively. Russia has also been affected by global financial and economic crises. Between 2008 and 2009 Russia’s gross national product (GDP) dropped down considerably, but it started to be recovered...
by 2010. Russia is still an important trade partner for EU in energy supplies (Ottens, 2011:1). However Russia has also been criticized by domestic and foreign analysts for dependency oil and gas revenue in economy. The proportion of this single-sided economic development model risks the country’s economic future. It’s not surprisingly that probable crisis’s (e.g. Ukraine) or shortcuts and technical problems in pipe-lines worsen the all economic situation. Considering the limited energy sources and attempts to seek alternative energy ways get Russia rethink on energy politics.

For instance according to Ian Pryde, founder and C.E.O. of Eurasia Strategy & Communications in Moscow, global economic crises and its effect to Euro-Zone and instability Middle East and the other regions threaten Russia’s energy dependent economic and fiscal structure. Russia’s great amount of revenues of her budget relies on gas, oil and other energy recourses export. The global economic and social instability in the world and the endeavors of EU’s countries to reduce dependency on energy to Russia will naturally affect Russia’s single-source finance. On this account Russia must diversify (for energy relations of Russia to anther regions, see. Wishnick, 2007:58-67) its economy apart from energy 8Pryde, 2011).

Figure 1. Natural Gas: EU-27 imports from Russia 2000-2008

Figure 2. Oil: EU-27 gross inland consumption and imports from Russia 2000-2008


Figure 3. Hard Coal: EU-27 imports from Russia 2000-2008

4.1. ENERGY POLITICS OF MUTUAL RELATIONS OF EU AND RUSSIA

Ascending energy demand of countries, high prices and energy security concerns challenges overall world. Like US and EU other big economies try to overwhelm energy issues balance security and supply. New Energy Order Politics (Neopolitics) requires the states take step to safe energy supply, diversify and control energy prices (Ariboğan and Bilgin, 2009:122). “Crucially, the effects of Russian reassertion also effect the EU more directly than its merely being caught in the turbulent wake of US-Russia relations. This is most obvious in the energy domain, where Russia has not hesitated to exploit the energy dependence of the EU an neighboring states for political as well as economic advanta[ge]” (Marsh, 2008:189).

EU energy dependency and in this context import rates from Russia has increased since 10-member enlargement in 2004 (see figure 1, 2 and 3). New 12 member states-which accessed EU after 2004- are former east-block member and considerably dependent on energy to Russia. EU’s enlargement process inevitably launched a new strategic cooperation phase with Russia. Although EU is seeking to get new energy resources apart form Russia, with developing technology and industry log term EU-Russia energy partnership is indispensable. According to U.S. Energy Information Administration (EIA) world total energy consumption in 2008 is 504.7 quadrillion Btu. 82.2 quadrillion Btu of belongs Europe countries and it’s estimated to reach this rate to 93.8 quadrillion Btu by 2035 (U.S. Energy Information Administration, The International Energy Outlook 2011, 2011:9).

“Even with Russian oil production flattening and gas exports in temporary decline, Moscow has continued to use its energy revenues to buy downstream energy facilities in Europe. At the same time, Gazprom representatives have strengthened their influence with political leaders in key transit and consuming countries. The Nor[th] Stream and South Stream gas pipeline projects, opposed by many of the United States’ closest friends in Europe, is gaining momentum, thanks in part to Moscow’s ability to recruit and pay substantial salaries to at least two former European leaders. Additionally, in some European countries, officials reportedly benefit from their financial ties to Russia’s Gazprom, thereby furthering European acceptance of Moscow’s pipeline projects. These ventures are designed primarily to tie Europe closer to Russia politically, while decreasing the possibility that competitive non-Russian pipelines, such as Nabucco, will be constructed. Although a case has been made that Nabucco is not and will never be commercially viable, it is not less viable than the Nor[th] Stream and South Stream projects, and it adds to, rather than decreases, Europe’s dependency on Russia” (Smith, 2010:4).

5. CONCLUSION

Energy has been vital importance for all countries. Limited supplies and ascending demand get energy more crucial. Russia is a dominant player in energy game. EU is also important energy exporter to Russia. EU is doubtlessly dependent to Russia in order to sustain economic and industrial business. In this context EU and Russia have launched a dialogue processes. EU and Russia Energy Dialogue based on secure, reliable and sustainable energy
trade. Technical and infrastructural investments support the project. EU and Russia have been in the search of getting mutual benefits for energy issues via this project. As an important export partner Russia to EU and vice versa import partner EU to Russia is arranging an energy corridor. It’s still unclear if the partnership between EU and Russia survive for along time. Although two sides agreed on sustaining partnership, some important realities jeopardize this balance. On one side EU lacks of common policy for energy issues. In EU-27 dominant actors France and Germany and the other members can act unlikely in common politics. While ensuring long time projects with Russia, dependency to Russia for oil and gas force the EU to seek alternative supplies. On the other Russia’s economy significantly rely on energy revenues. Most critics to Russia are related to single sided economic model. Russia must diversify economic revenue and search alternative energy roads. Russia uses energy pipelines as a political hegemony tool and tries to influence the near geopolitics area. Ukraine crises showed the energy security’s importance. Both side (EU and Russia) revising the politics and seek to get mutual maximum gains and indispensably in energy relations carry forward partnership.

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