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Energy Relations between the European Union and Russia: content, problems, prospects.

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Table of Contents

Acronyms

EASA	European Aviation Safety Agency
EU	European Union
ERGEG	European Regulator's Group for Electricity and Gas
CDU	Christlich Demokratischen Union
CEER	Council of European Energy Regulators
CIS	Community of Independent States
LNG	Liquefied Natural Gas
PCA	Partnership and Cooperation Agreement
WTO	World Trade Organization
USSR	Union of Soviet Socialist Republics

Introduction

1. Preface

Within several decades, Russia has become a strategic partner of Western Europe in the field of energy. Recently, this theme became very fashionable in mass media and became extremely politicized. Such notions as a "gas war" and a "new cold war" are very often used. The theme of energy relations attracts more and more attention of the analysts and experts of the various areas: political science, geopolitics, economy and other sciences.

However this theme is not new. And in the opinion of the ex-chancellor of Germany Helmut Schmidt, an economical cooperation was in line with the development of friendly political relations: "Two states, dependent on each other economically, will not be at enmity. It means that the economical cooperation serves the creation of peace"[1].

Formation of energy relations between the Western Europe and Russia began to occur in the end of the XIX century when the Russian empire delivered to Europe oil from the deposits the Bakinskiy oil-and-gas region. By the end of the 1950s the USSR renewed these deliveries. Oil mainly was delivered to the countries of socialist camp. And due to the opening of "the second Baku" in the Volgo-Uralskiy region, and also to significant investments into the energy sector, in 1955-1960 the USSR became the second world manufacturer of oil after the USA that allowed the USSR to begin export of oil.

In the situation of the cold war a renewal of the Soviet deliveries caused some worries in the West. Besides, it disturbed the large oil companies dominated in the world energy market.

[1] Trade in energy resources between Russia and the EU, 06.11.2007, News on-line (Торговля энергоресурсами между ЕС и России: чему учит история http://www.vremya.ru/2007/224/13/193378.html)

However, in 1957 the Italian state company ENI, despite of the veto of the Anglo-American companies, concluded a historical contract with the USSR on deliveries of oil. As a result Italy became the important importer of the Russian hydrocarbons and remains till now.

In 1968 the Soviet gas for the first time came to Austria, a neutral country. In the following year the first important negotiations with the countries of the European block took place (with German concern Ruhrgas and Italian ENI). And in 1969 the first contract on purchase of gas was signed.

So during 1970th the hydrocarbons became the main component of the trade between Europe and the USSR. The development of the energy trade was accompanied with the construction of the large trans-European energy supply systems.

The oil crises of 1973 and 1979 made Western Europe to develop the strategy of management of energy resources based on energy saving and diversification. Thus, Western Europe tried to achieve a decrease in external energy dependence. However for the reason of failure with realization of IGAT-II gas pipeline (Iranian Gas Trunkline) import of hydrocarbons from the USSR continued to increase.

But the oil crisis of 1986 changed the situation completely. The export of expensive Siberian oil became unprofitable and oil supplies to Europe decreased essentially.[2]

Thus, between the European Community/the European Union and the Soviet Union/Russia close mutually advantageous trade relations in the energy sphere existed for a long time. The gas contracts promoted the development of the cooperation, creating strong bilateral relations. The development of the Siberian deposits allowed the countries of Western Europe who were after two oil crises in a strong dependence on the countries of the Near East, to diversify sources of energy

[2] Kampaner N. European energy security and the lessons of history, Russia in Global Affairs N6, November-December 2007, p.4. (Кампанер Н. Европейская энергобезопасность и уроки истории, Россия в глобальной политике №6, Ноябрь-Декабрь 2007 г., С.4.)

supply. But on the other hand, the USSR and later Russia became dependent on a foreign market of hydrocarbons.

Historically a basic precondition for the energy dialogue was an objective interdependence and mutual interest of the EU and Russia which would become stronger in the future. It is related, first of all, with a predicted increase of energy consumption in the EU countries and, secondly, with objective complexities for Russia to be reoriented at other export markets – Asian and American.

The key element of energy dialogue between Russia and the EU is a gas branch. On the one hand, Europe shows a constant growth of the share of gas consumption in total energy consumption. On the other hand, deliveries of natural gas, because of the system restrictions on the mechanisms of transportation, adheres consumers and suppliers to each other toughly, promoting creation of regional alliances.

The dialogue evolution and a gradual deepening of the cooperation between the European Union and Russia occur constantly. If earlier Russia was a simple exporter of energy resources, now there is an exchange of assets between the Russian and the European energy companies, there is a joint realization of the projects. The energy dialogue passes various stages in its development. So, at the research stage the key areas representing mutual interest were defined. Now there is a gradual institutionalization of the energy dialogue which is realized in different formats of mutual relations and cooperation: bilateral meetings, summits, thematic groups.

However, in spite of an increasing interdependence, the EU and Russia collide today with a number of problems, solving of which will define the further development of the relations. All it proves that the EU and Russia at present are on the new stage of cooperation.

2. Objectives of the analysis.

The theme of energy relations between the European Union and Russia is especially current in the context of discussions about a new Partnership and Cooperation Agreement. Besides, Russia and the European Union will continue to remain strategic partners in the field of energy as interdependence of the sides will increase in the future. And with the apparition of such notions as an "energy security" and a "new cold war" also the politisation of this theme will increase. The formation of new legal bases and the process of liberalization of the energy market prove that the European Union and Russia are at the new stage of the cooperation and it will force to reconsider already existing relations. All these processes witness about scientific and practical necessity to research current situation and prospects for the EU-Russia energy cooperation - a process involving economic, political, geopolitical interests of different actors - states and transnational companies.

The purpose of this work is, analyzing the legal, conceptual and institutional bases and analyzing achieved successes and existing problems, to offer possible variants for the future cooperation between the European Union and Russia in the field of energy.

The main tasks of the following work are first of all to analyze the formation of the legal and institutional bases of the EU-Russia cooperation in the field of energy. The legal basis includes the treaties, agreements, memorandums and declarations concluded between the European Union and Russia. It gives a general historical overview of the legal relations between two sides and allows understanding the level of scrutiny of this question. The following task is to analyze and to compare the conceptual bases of the cooperation – energy strategies of the European Union Russia. Comparing the energy strategies it's possible to make a conclusion about initial compatibility of the energy concepts and its main directions for a long-term prospect.

Based on the energy concepts of the European Union and Russia, we can define the spheres for the cooperation in the field of energy. So, the next task is to examine the mutual achieved successes and the directions for the mutual cooperation. The author chose two main spheres representing mutual interest and in which there some positive results: cooperation in the field of the energy saving and an infrastructural cooperation. Mutual positive results can serve the basis for the future cooperation and deepening of the cooperation in the above-mentioned spheres.

Having analyzed the common results it's necessary to find and define the basic problems and disagreements in the energy sector between the European Union and Russia. There are quite a big number of problems and questions causing disputes between two sides, but most of them are connected with the question of future legal regulation of the energy relations and with the process of liberalization of energy market as it changes not only the format of relations but the existing energy models in general.

And, the final task is on the basis of the made analysis to draw conclusions about the compatibility of approaches in the field of energy and to consider the prospects for the development of the EU-Russia cooperation.

During the work the author used the following methods:

First, the *Systemic* method, which allows to group analytical data, to systematize and to analyze them, was used. Then, the *historico-statistical* method. It allows considering and comparing events and the phenomena in dynamics. The *comparative* method allows comparing and revealing the common and different in the views and approaches. Applying of the *institutional* method allows considering the formation of the common basis for the cooperation, and also the process of its evolution. And the *prognostic* method allows on the basis of the lead analysis drawing conclusions and offering possible variants for the cooperation and the development of events.

During the work, the author used various sources and documents: legal documents, books, periodicals, newspapers, interviews and speeches, and also the Internet resources. It is important to note, that in the following work different points

of view and approaches to the question of energy relations between the EU and Russia are treated. The number of authors reflected this question in the positive context and some in the negative.

3. Outline of the chapters.

The following work consists of three chapters, each of which examines a certain aspect of the energy relations between the European Union and Russia.

In the first chapter the author considers legal, institutional and conceptual bases of the EU-Russia cooperation in the field of energy. Legal and institutional bases of the cooperation allow considering the dialogue in dynamics, and the analysis and comparison of the concepts allows revealing primary compatibility and the purposes of the energy policies of the EU and Russia. The author examined the main documents related to the energy sphere of the EU-Russia cooperation. Besides, as in comparison with the EU Russia appears as a uniform actor, so in the first chapter the author considers the problem of the formation of the common energy policy in the EU. It explains one of the reasons why relations between the European Union and Russia have different formats and different levels.

In the second chapter the basic directions for the cooperation and the achieved successes in the field of energy are considered. Firstly, it is a realization of the common infrastructural projects and their perception by each of the parties. The author also examines the question of creation of the Mediterranean Union as a reaction to the possible gas cartel. Secondly, the cooperation in the field of energy efficiency as it isn't only equitable to interests of both parties, but also promotes a deepening and strengthening of the cooperation and allows offering additional variants for the solving of the existing problems. In the same chapter the energy relations between Russia and Germany are examined and their role in the European context, as an example of the cooperation between the EU and Russia. There is a so-called strategic partnership between two countries which exists for a long time

In the third chapter the author examines the problems demanding common efforts for their solving and the existing misunderstandings and the conflicts of

interests. First of all, it is a questions related to the ratification by Russia of the Energy Charter Treaty. Secondly, it is the process of liberalization of the energy market in the Europe and adaptation of Russia, in particular Gazprom, to this process. Both problems are interconnected and their analysis allows offering possible ways for the further cooperation between the EU and Russia in the field of energy. It is especially current in the context of negot iations about a new Partnership and Cooperation Agreement.

1. Legal, institutional and conceptual basis of the energy cooperation between the European Union and Russia.

1.1 Legal and institutional bases of the EU-Russia energy cooperation.

The process of shaping institutional and legal frameworks for the EU-Russia cooperation can be divided in three stages. It began in 1991, intensified in 1994, while in 1997 and 1999 the lasts significant agreements and documents were finalized[3].

The energy dialogue between the European Union and Russian Federation arose for the first time in 1986 when the prime minister of Holland R. Ljubbers proposed to include the USSR in energy sector of Europe, that later found reflection in **the European Energy Charter** accepted in 1991. The Energy Charter has two distinctive features: first, it is the unique set of international laws developed specially for energy sector. Secondly, the Energy Charter covers a wide circle of various countries of Eurasia, including both manufacturers and consumers of energy, and the transit countries[4].

The Treaty to the Energy Charter was signed in December, 1994 and came into force in April, 1998. At present 51 countries of Europe and Asia signed the Treaty to the Energy Charter. Russia signed it in 1994, but till now did not ratify it, because for Russia it's very important how this document solves the problem of transit. From its point of view the approach offered there has the unilateral character

[3] Handke Susann, Jacques J. de Jong Energy as a Bond : Relations with Russia in the European and Dutch Conext, Clingendael International Energy Programme, September 2007, p.41.

[4] Energy Charter official website http://www.encharter.org/index.jsp?psk=02&ptp=tDetail.jsp&pci=265&pti=12 available on 22.05.2008.

taking into account only the interests of the European party which obtains the right to pump over the gas from the third countries freely. For the purposes of transit the territory of the EU countries is considered as uniform territory to which the internal EU regulations are applied.

In 1994 Russia and EU signed the **Partnership and Cooperation Agreement** which then became a legal basis for an energy dialogue. The agreement came into force on December, 1st, 1997 and initially was valid for 10 years. After its expiration, two variants were possible: 1) prolongation of agreement; 2) signing of a new more profound agreement. At the EU-Russia summit (November, 2006) the first variant was chosen[5].

The Partnership and Cooperation Agreement established institutional basis for energy dialogue between the European Union and Russian Federation:

- The Summits of the heads of the states or the governments which take place twice a year and define a strategic direction for the development of the future relations.
- The Ministerial level within the framework of **Permanent Partnership Council** allowing ministers to meet often and in the most different formats for discussion of concrete questions.
- **Committee of parliamentary cooperation** between the European Parliament and the State Duma of the Russian Federation. The committee is governed by two co-chairmen: a member of European Parliament - K.Erlingsom and the vice-president of the State Duma - O.Morozov.
- Between the senior officials of both parties: at annual sessions of the Committee on cooperation and at an expert level at the sessions of the subcommittees of Permanent Partnership Council [6].

[5] Partnership and Cooperation Agreement between Russian and the European Union, official website of the European Commission's Delegation to Russia http://www.delrus.ec.europa.eu/en/p_243.htm available on 22.05.2008.

[6] Gusev A.S Legal and institutional bases of EU-Russia cooperation in the domain of energy. Nyzhny Novgorod State Linguistic University, Nizhny Novgorod, p.324.

After studying at an initial research stage, the main questions of the energy dialogue are discussed in Thematic Groups of experts. They are concentrated on the questions of energy strategies, investments, transfers of technologies and energy infrastructure, and also on energy efficiency and ecological as pects. There are three Thematic Groups of experts for discussion of the following key directions representing mutual interest for EU and Russia: 1) energy strategies and forecasts; 2) development of energy market in Russia and the EU ; 3) energy efficiency[7].

In June 1997 the Russian Federation at the summit in Denver joined G8. As it is known, **"Group of Eight"** - an informal forum of leaders of the leading industrially developed democratic countries. For Russia "G8" represents an additional channel for the cooperation with the EU which occurs already in other format. The accent is made on relations with individual countries, and not with the EU as a whole, for example, the Russian Federation and Germany, the Russian Federation and France[8].

On February, 11th, 1999 the Russian Federation and the EU signed **the Memorandum[9]** in which they supported the initiative of industrial coope ration in the energy sector, however the parties did not take any concrete obligations.

Also on February, 11th, 1999 the Russian Federation signed **Kyoto Protocol**. It was ratified by the Russian Federation on 22October 2004.The Commission has provided technical assistance through the TACIS program since January 2005 [10]. The

[7] EU-Russia energy dialogue: Eighth progress report. Brussels /Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

[8]Russia's position. Official website of the "G8" presidency o f the Russian Federation in 2006 http://en.g8russia.ru/agenda/nrgsafety/russianrole/

[9] Memorandum of Understanding on Industrial Cooperation in the Energy Sector between the Ministry for Fuel and Energy of the Russian Federation and the European Commission, Moscow, 11 February 1999, available at http://www.delrus.ec.europa.eu/en/p_251.htm on 22.05.2008.

[10] EU-Russia Energy Dialogue, 24 September 2007.Euroactive, available at http://www.euractiv.com/en/energy/eu-russia-energy-dialogue/article-150061 on 28.05.2008.

key elements of the Kyoto Protocol are quantitative levels of obligations on the reduction of emission of greenhouse gases for industrially developed countries [11].

But a permanent basis the energy dialogue between Russia-EU received only in 2000, when it was approved the initiative of R. Prodi, head of the European Commission, about an increase of the deliveries of the energy carriers from the Russian Federation in 1,5 times in exchange for investments and technologies. The main objective of the energy dialogue became a creation of the stable partnership and a maintenance of stability of oil and gas supplies [12]. At present time energy dialogue also includes the cooperation in the field of integrating of electricity grids of the Russian Federation and the EU and trade in nuclear materials.

The energy dialogue between the EU and Russian Federation creates a legal basis for expansion of trade turnover and investment streams in the field of energy resources, and also is a basis for the four **"Common Spaces"** aimed at creation of common economic space between the Russian Federation and the EU. Four road maps were approved on May, 10th, 2005 at the EU-Russia Summit[13]. The main objective of the creation of Common economic space is an increase in efficiency of the cooperation in the sphere of energy including the questions of stability and reliability of manufacture, distribution, transportation and an effective use of energy resources. As examples can be given the development of Trans-European transport system (roads, railway transportation), energy (pipelines, links between energy supply systems) and telecommunications.

[11] United Nations Framework Convention on Climate Change, Kyoto Protocol http://unfccc.int/kyoto_protocol/items/2830.php

[12] EU-Russia Summit: Joint Statement, 30 October 2000, Paris., official website of the European Commission's Delegation to Russia, available at http://www.delrus.ec.europa.eu/en/p_240.htm on 22.05.2008.

[13] Four Common Spaces, 2005 official website of the European Commission's Delegation to Russia, available at http://www.delrus.ec.europa.eu/en/p_494.htm on 22.05.2008.

Main directions of the energy dialogue between Russia and the EU, its achievements, problems and prospects are highlighted on a regular basis in progress reports. Last, Eighth progress report was prepared in October, 2007[14].

Among other important documents forming the legal bases of the energy dialogue between Russia and the EU, it is necessary to note **"Energy strategy of Russia for the period up to 2020"** approved by the government of the Russian Federation in August, 28th, 2003. It emphasizes importance of the European energy markets for Russia and makes a forecast concerning the volume of energy supplies to the EU. According to the given forecast, "the market of the countries of Western and Central Europe will remain for Russia the largest in forthcoming 20-25 years. It is necessary to continue a meaningful dialogue, both with the European Union, and with other countries of Europe, aimed at expansion of commodity market of the Russian energy resources"[15].

As it is underlined in the document, "cooperation can include a realization of the common energy projects, an exchange of experience in the field of introduction of scientific and technical development, joint efforts in the field of energy saving. The Russian export of oil and gas to the countries of Europe can make in 2020 accordingly 1590-1600 million tons and 160-165 billion м3"[16].

In the EU, on the contrary, there was never a common energy policy, as it was the sphere of the competencies of the EU member-states. In the field of energy in the EU still prevails an interstate approach. Nevertheless, at a level of EU there are significant documents, concerning energy sector. For example, on March, 8th, 2006

[14]EU-Russia energy dialogue: Eighth progress report. Brussels/Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

[15] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 (Энергетическая стратегия России на период до 2020 года).

[16]Ibid.

"Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy" which contains recommendations for the further liberalization of energy market, prevention of reductions of energy carriers stocks and prevention of negative influence of energy branch on ecology [17].

1.2 Common energy policy of the European Union

Though the European Community of Coal and Steel and Euratom Treaties, on the basis of which the European Union was created, were based on energy, all of the country members of the EU till now have not transferred some of their competence in the field of energy to the Community yet.

The member-states of the EU refused to include provisions on energy in the Treaty on the EU for several reasons. Energy policy was always considered as a part of the national security and consequently the states did not want to lose a part of the sovereignty in this area. Though the member-states of the EU share a common purposes and problems at the international level, as for example, negotiations within the framework of the Kyoto Protocol or negotiations within the framework of the WTO. All foreign and security policy represent areas in which the purposes and policies of the individual countries seriously differ. Therefore the member-states of the EU more often pursue their own strategic interests and give preference to the bilateral relations.

To develop a common approach is really very difficult. Firstly, 27 member-states of the EU have different purposes and diverse approaches in energy, economic and foreign policy. After the last expansion of the EU harmonization of interests and the purposes became even more complex as "new" members of the EU have another political and social conditions, another level of economic growth and development comparing to the "old" members of the EU.

[17] Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, adopted by thee European Commission on 8th of March 2006 (COM(2006) 105 final) http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

Secondly, another factor interfering the development of the common approach are contrast directions of member-states' behavior with major energy suppliers. A significant example can be relations with Russia and the USA. Some of the "new" member-states as, for example, Poland stake on transatlantic relations. While other countries, in particular, for example, Germany, especially under Chancellor Schroeder try to keep good relations with Russia. Poland and other Baltic countries try to provide energy security, reducing dependence on Russia by means of diversification and formation of a common solid position. France and Germany, from their part, want to develop long-term relations with Russia[18]. As a consequence of various positions, there are collisions inside the EU. When Germany and Russia signed an agreement on construction of a direct gas pipeline connection running under the Baltic sea (Nord Stream) in 2005, Germany emphasized several times, that this project corresponds to its direct interests. Poland and Lithuania which were bypassed with a new gas pipeline saw in it a threat to their energy security. They declared that Germany had neglected the interests of other states and had not coordinated the strategy at the EU level, having signed this agreement [19]. After joining to the EU, the Eastern European countries practically lost t heir levers of influence which gave them the status of transit countries. They were less vulnerable and it allowed them to negotiate the prices. The joining to the EU actually weakened them[20]. Moreover, from the point of view of Poland, realization of Nord Stream will divide energy security of Poland and Western countries, undermining the principle of solidarity and an opportunity to create a common energy policy [21].

[18] EU unity on power is elusive, International Herald Tribune, March 23, 2006. Available at http://www.iht.com/articles/2006/03/22/business/energy.php on 22.05.2008.

[19] Cohen Ariel The North European Gas Pipeline Threatens Europe's Energy Security, 26 October 2006, available at http://www.heritage.org/Research/Europe/upload/bg_1980.pdf on 22.05.2008.

[20] Westphal Kirsten "Energy Policy between Multilateral Governance and Geopolitics: Whither Europe?" International Politik und Gesellschaft, Bonn, Germany, 4/2006, P.57.

[21] Wyciszkiewicz Ernest "One for All – All for One – The Polish Perspective on External European Energy Policy". In: Foreign Policy in Dialogue, Vol. 8, Issue 20, "Dealing With Dependency. The European Union's Quest for a Common Energy Foreign Policy"? Trier, Germany, 11 January, 2007.

According to some opinions such policy of Germany can weaken the European efforts to ensure reliable and secure deliveries of energy carriers from Russia. Besides it can divide Germany with its political partners. This decision of Germany also promoted strengthening of negotiations about common energy policy of the EU.

The similar policy of individual decision-making in the field of energy does not take into consideration a possible influence on other EU countries, and also destroys an opportunity of coordination of energy policy, undermining the European Union's ability to operate as a unit.

Thirdly, there are serious disagreements between the member-states concerning the structure of energy which defines the basic directions for their energy policies. For example, Germany imports oil and gas, uses own coal and has decided to reduce a share of nuclear energy. While many "new" member-states, for example Poland, till now use basically coal. Other important point is the supply of member-states with natural resources. Some of the countries are manufacturers, in particular Great Britain and the Netherlands whereas the majority of the countries are the country-importers. It is natural, that Great Britain and the Netherlands want to keep the sovereignty over their natural resources.

Hence, the countries depend on the import of energy resources to a different extent, and depend on different countries. The majority of the "new" member-states which have entered the EU in 2004 and 2007 depend on import of energy resources from Russia for the historical and geographical reasons. To such countries as Bulgaria, Finland, Latvia, Lithuania, Romania, Slovakia import of natural gas and a greater part of oil comes from Russia. Other countries, such as France and Italy, could reach a sufficient level of diversification of energy supplies

The fourth serious reason interfering the formation of the common energy policy of the EU is various structures of national energy sector [22]. For these reasons energy policy was not the part of the project of common market up to 1990s years. It

[22] Egenhofer Christian "European Energy Policy", CEPS, Brussels, 2001, P.40 -41.

also predetermined various national priorities of the member-states. Some countries, as it has already been marked above, for example, France and Finland are interested in the development of nuclear energy while other countries, for example, Germany and Poland struggle for the preservation of their coal sector. Germany, Denmark and other member-states of the EU support development of renewable energy sources as it is marked in the European directives [23].

However it is expected, that national distinctions which interfere formation of energy policy at the level of the EU, will disappear in a long-term prospect due to creation of the common market and regulatory convergences [24].

However, even the process of liberalization of energy market in Europe passes with different rates in the EU countries. The Netherlands is undertaking a full ownership unbundling of network and distribution companies while other countries carry out only legal or organizational division [25]. In France the government undertook huge efforts to keep Suez from acquisition by Italian ENEL. It promoted occurrence of the term "economic patriotism". Spain also tried to keep Endesa from acquisition by German E.ON. Thus some countries have tried to create "national champions", capable to compete in the European market, even before realization of directives on gas and electricity liberalization. Besides the industrial policy of other EU countries differed by its problems and directions from German and Italian one. The protectionism especially developed in France and Poland. It is explained, firstly, with the fear to lose "national champions", and, secondly, to be strongly dependent on Russia[26].

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[23] Meritet Sophie "French Energy Policy in the European Context". In: Foreign Policy in dialogue, Vol.8, Issue 20, "Dealing With Dependency. The European Union's Quest for a Common Energy Foreign Policy", Trier, Germany, 11 January, 2007.

[24] Egenhofer Christian "European Energy Policy", CEPS, Brussels, 2001, P.42.

[25] Hoogeveen Femke and Perlot Wilbur "Tomorrow's Mores: The International System, Geopolitical Changes and Energy", Netherlands Institute of International Relations Clingendael, The Hague, December 2005.

[26] EU unity on power is elusive, International Herald Tribune, March 23, 2006, available at http://www.iht.com/articles/2006/03/22/business/energy.php on 28.05.2008.

But all member-states of the EU have one common feature - dependence on import of gas and oil. And as, this dependence threatens energy security, member - states of the EU have decided to move in a direction of formation of common energy policy as it will facilitate achievement of their purposes. The European Commission has declared that the approach based on the individual policy of each of the member - states will not work. Uniting efforts, the countries can render more influences and carry out projects which are equitable to their interests. Till now, the EU relied on good functioning of markets that allowed providing with security of supplies. But gradually EU becomes more and more dependent on supplies of energy carriers from Russia and the Middle East where energy resources belong to the state companies. Therefore, having recognized necessity of common energy policy, EU tries "to speak with one voice on energy questi ons"[27].

1.3 Conceptual bases of the EU-Russia energy cooperation.

In the beginning of a new century, Russia and the EU have developed new long-term strategies of energy policy establishing priorities for the development of energy systems for a long-term perspective (till 2020 in Russia and till 2030 in the EU):

- The main provisions of energy strategy for Russia till 2020, approved by the government of Russia (№1234-r);
- The "Green Paper Towards a European strategy for the security of energy supply" shaping priorities in energy policy for the EU till 2030; the "Green Paper A European Strategy for Sustainable, Competitive and Secure Energy" and "Green Paper on energy efficiency: doing more with less".

The necessity of the long-term orientated programs of energy policy is obvious and caused by duration of a reinvestment cycle in the sectors connected with

[27] The European Gas Market: Eurogas Views On The Way Forward., Eurogas, 2006, p.17.

manufacture, transport, transformation and consumption of energy, long-term character of consequences of structural policy in highly inertial energy sector. Finally the purpose of energy policy - creation of long-term signals for giving an impulse to economic development as a whole: supply with energy plays a key role in resource maintenance of economic development and for increase of competitiveness of Russia and EU economies, and consequently, in economic policy of Rus sia and the Europe.

Russia and the European Union, traditional and long-term partners in energy sphere, are doomed to be partners because of their geographical positions, peculiarities of an energy potential and because of historically developed economic relations. However, in energy sphere the system organization was never inherent to economic relations: long-term programs of energy policy have been accepted only in the beginning of XXI century, and the previous actions in the field of energy cooperation, in a greater degree, used to support the interaction of business within the limits of concrete projects, rather than coordinated actions of the Russian Government and the Commission of the European Communities on interaction development in energy sphere. New challenges in this area dictates and forthcoming expansion of EU ("scenario of EU-30"): the new country - members of the EU-30 in a much greater measure are dependent on deliveries of energy resources from Russia, and their economy a little more energy intensive, that, quite possibly, will demand strengthening concentration on development of common energy policy within the limits of realization of energy strategies of Russia and the European Union [28].

1.3.1 General estimation of the purposes and problems of en ergy policy of Russia and the EU, compatibilities of energy strategies.

The initial conditions for formation of the energy policy strategies in Russia and in the EU are different: the EU countries in general are not provided with own

[28] Cleutinx Christian The Energy Dialogue EU-Russia, presentation, October 2005, p.20.

energy resources, which could be sufficient for the satisfaction of the internal demand of energy (taking into consideration the enlargement of the EU, in the nearest 30 years the demand for energy will increase). While Russia possesses sufficient resources of oil, gas, coal, uranium for the satisfaction of the internal demand for energy in long-term perspective and possesses wide opportunities for export of energy resources. Thus potential enlargement of EU in the scenario of EU -30 does not change a lot the status of EU as a deep net-importer of energy resources: the applicant countries, basically, also are net-importers of energy, except of Norway.

This distinction determines also a difference in the basic purposes and problems of Russia and EU energy policies: for the European Union the management of the risks connected with volatility (energy dependence) has a basic importance whereas Russia in a long-term perspective is measured to play an active role of the exporter of the basic energy resources, providing internal consumption basically due to own resources and using import only under condition of economic feasibility of it[29].

Meanwhile, such distinction in purposes and problems of energy policy just predetermines the general favorable background for development of energy cooperation between Russia-EU: Russia needs a stable market for its energy resources, and the EU requires safe and stable deliveries of power resources. The system decisions providing a deepening of energy cooperation between Russia and the EU on mutually advantageous conditions of minimization of the export/import risks of energy resources, would answer the purposes in energy domain of both Russia and EU.

One more important component of energy strategy is the managing energy demand (energy efficiency and energy saving). Firstly, it is an important tool to increase competitiveness of Russia's and EU's economies – more the economy is efficient, less resources it is necessary for manufacture of gross national product, and

[29] Handke Susann, Jacques J. de Jong Energy as a Bond: Relations with Russia in the European and Dutch Context. Netherlands Institute of International Relations, Clingendael, September 2007, p. 55.

the feedback from investments is higher. Secondly, reduction in demand for energy up to a rational level – it's in itself an additional source of liberated energy resources which can be used[30].

Further, the policy aimed at the formation of the effective energy markets in Russia and in EU is totally different. The EU is orientated towards liberalization of energy markets, assuming their opening for greater number of participants and creation of conditions for more effective competition in sphere of deliveries of energy. But at the same time, both of them try to support and protect national companies (according to the Third package on the liberalization of the energy market the European countries have some priorities before the countries from the third states)[31]. The low level of a competition at the energy markets creates structural obstacles for economic development, interfering with increase of efficiency in the use of energy resources. "A truly competitive single European electricity and gas market would bring down prices, improve security of supply1 and boost competitiveness. It would also help the environment, as companies react to competition by closing energy inefficient plant"[32]. Liberalization of the power markets and support of a competition - the important element of energy strategy of the EU while in Russia, on the contrary, the tendency towards nationalization of energy resources is observe. It evidently complicates the further cooperation.

Special attention both in the Russian and the European energy strategies is paid to the problems of negative influence over the environment and climate change. There should be a decrease of negative influence of a energy sector over the environment and decrease in a level of gas emissions in the atmosphere. The EU

[30] Policy Development and Challenges in Delivering Energy Efficiency, Energy Charter Secretariat, Brussels, September 2007, p.144.

[31] Explanatory Memorandum of the third energy package on the liberalization of the energy market, the European Commission's official website http://ec.europa.eu/energy/electricity/package_2007/index_en.htm

[32] Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, adopted by the European Commission on 8th of March 2006 (COM(2006) 105 final) http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf

adopted a special **Emissions Trading Scheme** which creates a flexible and cost-efficient framework for more climate friendly energy production [33].

Energy policy of Russia and the EU agrees on the necessity of expansion of transport infrastructure, which connects two regions and could provide unobstruc ted movement of resources in the most convenient and economically effective transport corridors. The significant attention is given also to maintenance of safe and reliable functioning of the infrastructure. This problem is a field for active interaction a nd is an important component of Russia-EU energy dialogue.

It is necessary to note one more important point: "Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy" specifies necessity of decrease in the dependence on import of en ergy resources, and it is offered to diversify suppliers and to develop renewable energy sources. It clearly identified priorities for the upgrading and construction of new infrastructure necessary for the security of EU energy supplies, notably new gas an d oil pipelines and liquefied natural gas (LNG) terminals as well as the application of transit and third party access to existing pipelines. Examples include independent gas pipeline supplies from the Caspian region, North Africa and the Middle East into the heart of the EU, new LNG terminals serving markets that are presently characterized by a lack of competition between gas suppliers [34].

1.3.2 Basic aspects of energy policy in Russia and EU: energy efficiency and management of the demand on energy.

The problem of energy efficiency and management of the demand on energy take an important place in energy strategies of Russia and EU because of importance for the purposes of competitiveness of Russia's and EU's economies. The Russian energy strategy marks that at present time Russian economy is characterized by a

[33] Ibid.

[34] Ibid.

high energy consumption, which in 2-3 times exceeds energy-intensity of economy in developed countries. The main reasons for such situation are more severe climate conditions, territorial factor, the structure of industrial production formed during a long period of time, and an increasing technological backwardness of energy-intensive industries, and also underestimation of cost of energy resources, first of all, of the gas, that doesn't stimulate energy saving[35].

According to the "Green paper", the economy of the European Union is also energy-intense. In spite of the fact that last years the growth of demand for energy was stable and did not exceed 1-2 % since 1986, the problem of energy efficiency is estimated as serious in the long term for two main reasons:

- During the last period, the EU has made serious changes in order to diversify economy increasing the spheres of services, thus if industrial consumption of energy practically did not grow, demand for the electric power and warmth from the part of households and the sectors of services grew more intensively and there are also forecasts for its further growth;
- Economy of the future country-members of the EU (in the scenario of EU-30) essentially lag behind of "old" country-members on parameters of energy efficiency, and taking into consideration that their economies should grow more quickly, than economy of the "old" country-members (3-6 % of growth a year against 2-4 %), it is necessary to expect an additional growth of demand for energy with the expansion of EU[36].

Energy strategy of EU estimates restraint of growth of demand for energy, first of all from buildings and constructions and transport sector, as a priority source

[35] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 (Энергетическая стратегия России на период до 2020 года).

[36] Green Paper on energy efficiency: doing more with less, adopted by the European Commission on 22 of June 2005 (COM(2005) 265 final)
http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

of energy dependence minimization of the European Union and as one of three priorities of energy policy.

According to the Russian energy strategy, the degree of increase of energy efficiency will predetermine long-term perspectives of development not only of energy sector, but also the economy of the Russian Federation as a whole. Orientation of economy to inertial power-intensive growth threatens with advancing growth of internal demand for energy resources. As a result, even at achievement of the maximal technical parameters of growth of their manufacture, demand for energy resources can be provided with the offer only under condition of export restriction. The existing potential energy saving in Russia is estimated of about 360 -430million tons of conditional fuel (250-300 million tons of oil equivalent), that is almost equal to present volume of export of the Russian energy carriers to Europe (in EU the potential energy saving is estimated approximately in 160 million tons of oil) [37]. In this situation, EU is interested in cooperation with Russia in the field of energy saving equipment and technologies in Russia as it will allow to provide reliable deliveries of Russian energy carriers to Europe in sufficient volume.

As Russia, and EU assume to use a lot of tools of economic policy (adjusting and stimulating influences) for stimulation of energy saving in economy. These methods definitely differ in view of national specificity, in particular, in EU: in European countries the prices of energy are high enough, whereas necessity admits in Russia as the basic method of stimulation energy saving is "the proved growth of the internal prices of energy carriers with economically justified and comprehensible to consumers rates"[38]. However a difference of the internal prices of oil, gas, coal in Russia and EU is of the same level as a difference in energy consumption of gross national product and consumption of energy per capita, therefore the problem of increase of the internal prices for energy with a view of stimulation energy saving

[37] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 (Энергетическая стратегия России на период до 2020 года).

[38] Ibid.

should be considered as a specific problem of Russia [39]. More general for both Russia and EU are the tools forming steady and effective system in which consumers of energy are interested to invest into energy saving resources and to use energy saving products, including:

According to the Federal Program "Energy efficient economy" i n Russia it's necessary:

- To change existing norms and rules defining expenditures of fuel and energy, in a direction of toughening requirements of energy saving;
- To alter and improve the rules of account and control of energy consumption, to establish standards of energy consumption and energy lost (энергопотерь), to certify energy consumption devices and the equipment of mass application on their conformity to specifications of energy consump tion; to carry out regular energy audit of the enterprises (obligatory for the enterprises of budgetary sphere);
- To support business specializing in the field of energy saving – energy saving companies offering and realizing optimum scientific, design -technological, industrial decisions, directed at decrease in energy consumption (to form system of realization of effective business-projects in corresponding sphere, insurance of commercial and noncommercial risks);
- Wide support by the state of an effective use of energy, mass training of the personnel, development of the accessible databases containing the information about energy saving actions, technologies and the equipment, the specifications and technical documentation;

[39] Asia-Pacific Economic Cooperation Energy Overview 2007, Asia -Pacific Energy Research Centre, Institute of Energy Economics, Japan, January 2008, p.136.

- To hold conferences and seminars on an exchange of experience, propaganda of energy saving in mass media; [40]

According to the Green Paper on the energy efficiency in the EU it's necessary:

- To use the tools of a tax policy for stimulation of decrease in consumption of energy by transport and in household sector on the purpose of heating (insufficiency of an operating level of excise taxes in this sphere);
- To subsidize (due to public funds) the use of renewable energy sources;
- To assist development of technologies improving efficiency of use of fuel by vehicles, promoting progress in development of more effective mobile means with the electric drive;
- To assist increase of commercial appeal of "hydrogen engines" (the engines using fuel elements);
- To stimulate the use of alternative sources of fuel, in particular in transport and heating - biomass, natural gas as motor fuel, in the long-term plan - hydrogen[41].

According to the national energy strategy of Russia, more than half of the Russian potential energy saving is concentrated in electric energy industry, in heat supply and housing-and-municipal sector. Thus, cooperation with the European Union regarding introduction of advanced energy saving equipment and technologies and the tools of economic policy stimulating their application, represent strategically

[40] Federal program "Energy efficient economy" till 2010. The official website of the Russian Ministry of Atomic Energy http://www.minatom.ru/News/Main/view?id=5264&idChannel=125 (Федеральная программа "Энергоэффективная экономика" до 2010 года).

[41] Green Paper on energy efficiency: doing more with less, adopted by the European Commission on 22 of June 2005 (COM(2005) 265 final)
http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

an important direction. In particular, it would be useful for Russia to study the experience concerning realization of regulative initiatives of EU regarding stimulation of energy saving in the buildings.

- Regulation of volumes of energy consumption in buildings on a cubic meter of the area and delivery of certificates of energy saving buildings, toughening of requirements to hermetic sealing buildings and construction on this basis of differentiation of fiscal requirements concerning bui ldings;
- Stimulation of use of renewable energy sources (photo -electric systems, roof solar batteries)[42].

In conditions of predicted growth of a consumer demand there would be rather expedient a wide cooperation in the field of an exchange of methods and t ools stimulating energy saving decisions of energy consumers.

Export/import of energy resources

In this sphere functional roles of Russia and the European Union are various, however it causes a potential generality of strategic interests: Russia, being ne t-exporter of energy resources in a long -term perspective, is interested in the market of EU, and the European Union - net-importer of energy - in minimization of energy dependence, in maintenance of steady channels of long -term deliveries of energy resources under the fair prices. Energy strategy of the European Union, marking a high degree of dependence on deliveries of some energy resources from Russia, especially gas.

Oil

Particularly problematic for the EU is the high level of dependence on import of oil from OPEC countries (51% in structure of import of oil) and from Russia, which carry out the coordinated policy of reduction of oil supplies to the world

[42] Policy Development and Challenges in Delivering Energy Efficiency, Energy Charter Secretariat, Brussels, September 2007, p.147.

market with the aim of maintenance of the high prices for oil. The importance of this problem for the EU essentially increases as it is predicted a raise in a share of oil import in structure of EU's consumption up to 90% (against today's 76 %) to 2020. On the other hand, Russia has serious plans about increase in extraction and expansion of oil export in a long term perspective up to 2010 At a combination of favorable internal and external conditions and factors (optimistic and favorable variants of development) the oil recovery in Russia is predicted in volume up to 490 million tons in 2010 and up to 520 million tons - in 2020[43]. Significant part of extracted oil will be intended for export, thus according to the Russian energy strategy, the market of Western and Central Europe remains for Russia as one of the largest in forthcoming 20-25 years. For the European Union assistance in development of oil deposits in the countries which are not members of the OPEC, first of all Russia, is extremely important.

Gas

One more quickly growing energy market for the EU becomes the market of natural gas which share of consumption should increase, first of all because of growth of its consumption in electric energy industry, manufacture of heat and households. An increase in a share of gas import is predicted up to 70 % to 2020 -2030. However, Russia still remains the most important supplier of gas for the European Union.

Energy strategy of Russia marks, that the basic commodity market of the Russian natural gas are Western and Central Europe where the Russian gas has a leading position. Natural gas is exported to the European countries mainly within the limits of long-term contracts (within 25 years) and on conditions "take or pay". Expansion of the European Union, economic growth in the EU countries should play a positive role in expansion of the Russian export to the se markets - the market of the countries of Western and Central Europe remains for Russia one of the largest in

[43] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final). http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

forthcoming 20-25 years. Therefore, for Russia it is necessary to continue a meaningful dialogue with the EU countries, directed on expansio n of a commodity market of the Russian energy resources. The cooperation can include realization of joint projects on energy, an exchange of experience in the field of modern scientific and technical development, joint efforts in the field of energy saving. Th e Russian export of oil and gas to the EU countries can constitute 150 -160 million т and 160-165 milliards м3 in 2020. Strategy of the Russian gas export is not limited only to network gas: according to the Russian energy strategy, after 2010 it is possibl e an output of Russia to the world market liquefied natural gas and also the beginning of export of synthetic motor fuel [44].

Coal

According to the "Green paper", coal of the European origin is appreciably noncompetitive in comparison with imported coal. Mor e complex geological conditions of its extraction and a rule of social protection of the European Union cause 3-4 multiple excess of coal mining cost in the EU against the world price for coal (150 dollars for ton against 40 dollars). Today the EU imports more than 50 % of consumed coal, and despite of decrease in absolute demand for coal and almost doubling of own extraction as a result of enlargement, the EU predicts growth of dependence on import of coal up to 70 % by 2020 [45].

The world market of coal is estimated as highly diversified and characterized by stable prices (especially in comparison with the world prices for oil and the prices connected with them for gas), thus the basic deliveries of coal to the EU countries are carried out not from Russia: it is the Rep ublic of South Africa (35,5%), Colombia (more than 20%) and Poland (almost 15%). In this connection the "Green Paper", despite of the ecological restrictions and the worst warm ability, warns against

[44] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final). http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

[45] Ibid.

underestimation of opportunities which gives the use of coal for provision of energy for the EU countries, especially taking into consideration positive influence of relative stability of the coal prices on the balance of payments of EU and absence of critical dependence on one/several producers [46].

The Russian energy strategy predicts, that under favorable conditions the coal mining in Russia can make about 305-335 million tons in 2010 and increase up to 410-445 million tons in 2020, at less favorable or adverse combination of external and internal conditions and factors the coal mining will be less: 270-300 million tons in 2010 and 310-375 million tons in 2020. A significant part of growth potential of coal output is intended for increase in export: strategy provides realization of projects connected to modernization aimed at increase of ports' throughput at the European direction – Ust-Luga, Murmansk deep-water port. The share of Russian coal suppliers in the structure of EU's import makes less than 5 %. In this situation it is possible to predict, that the energy policy of EU in the sphere of coal is favorable for Russian export of coal[47].

Electricity

Russia gives a great importance to expansion and deepening of common work of energy systems between EU and Russia. In general, energy systems of Russia and EU are surplus - the cumulative established capacity of power stations of EU today is around 600 GWatt and, according to forecast, will increase by 2020 up to 800 -900 GWatt. In Russia today the general energy surplus constitutes nearby 30 GWatt, thus energy strategy predicts at a favorable variant inputs of generating capacities at power stations of Russia (in view of replacement and modernization) during 2003 -2020 in volume up to 180 GWatt, and at the moderate variant - up to 120 GWatt. Thus, production of the electricity is a unique sphere of energy where mutual relations

[46] Ibid.

[47] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 (Энергетическая стратегия России на период до 2020 года).

Russia-EU are beyond a traditional chain "producer-importer", creating conditions for the organization of trade in domain of electricity based on principles of mutual export/import[48].

Integration of electro- and energy markets of Russia and EU is possible in case of inclusion in parallel work of electro- and energy systems of Russia and Europe. According to the Russian energy strategy, growth of demand for the Russian electricity in Europe by 2020 is possible up to 30-75 billion kWatt/h. "Green Paper" estimates growth of demand for electricity in forthcoming decades as the fastest (that corresponds to the today's tendency) - about 3 % annually against growth of demand for energy as a whole within the limits of 1 %.

It is necessary to note, that "Green Paper" mentions the necessity of measures aimed at restriction of supplies at the EU market of the electricity produced by nuclear power stations, exploitation of which does not meet the European security requirements[49]. In this case, realization of the project on synchronization of energy systems of Russia and the EU can face some difficulties: not only nuclear power stations functioning in Russia but also in CIS (especially, in Ukraine) should conform to the EU's safety requirements.

Nuclear fuel

Reserves of natural uranium in the EU are limited (approximately 2 % of world volume), and the EU expects closing uranium mines basically because of reserves depletion and for economic reasons (excessively high cost of own extraction of uranium in comparison with the world prices). Already today the EU depends on import of uranium at 95%, it dependence will increase. Though energy strategy of the EU names nuclear energy among "undesirable" energy sources, basically in

[48] Final report of the Thematic Group on energy infrastructure within the framework of the EU-Russia energy dialogue, October 2006, p.7.

[49] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final). http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

connection with possible influence of radiation on health of citizens and a problem of nuclear waste, the share of nuclear energy in production of electricity constitute 35 %. Though the general share of nuclear energy in structure of primary energy consumption in EU will, under forecasts, decrease from 15% to 8,1% up to 2020. And in the nearest future the construction of new nuclear power stations is not expected.

Though Russia is the largest supplier of natural uranium to EU (29% of deliveries of uranium), nevertheless, in the "Green book" such share of supplies is noted as critical dependence on import of uranium from Russia. The Russian energy strategy estimates increase in an export potential of nuclear technologies and nuclear fuel as an important component which favors the development of nuclear industry. Besides, a long-term technological policy in the field of atomic engineering provides gradual input of new nuclear energy technologies based on faster reactors (uranium - plutonium fuel) that will decrease restrictions on fuel raw material and will expand opportunities for its export[50].

1.3.3 Trade, principles of the organization of markets and competition. External trade.

The Russian energy strategy ascertains, that liberalization of prices and partial privatization in energy sector during economic reforms were not accompanied with system measures on demonopolization and formation in Russia of effective internal energy markets[51]. Therefore, the system of internal trade of all kinds of energy resources is characterized by an insufficient level of a competition, absence of objective indicators of supply and demand, opacity of prices formation. Lack of the

[50] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 (Энергетическая стратегия России на период до 2020 года).

[51] Ibid.

competitive environment and closeness of the Russian energy markets worsen access to energy sector of new investors, including the European companies.

The Russian energy strategy marks, that the main priority should be reforming of electro- and energy.

"Green Paper" pays significant attention to organization of internal markets, to realization of directives opening electricity and gas markets for competition. It also pays attention to problems of respecting the principles of competition and to prevention of cartel arrangements in the retail markets of oil. Presence of restrictions on access of independent traders to retail trade of energy resources at the European markets (as a result of their monopolization) prevents the interests of Russian exporters who are able to compete effectively with traditional European monopolies and are able to offer energy resources to the European for lower prices, than existing. "Green Paper" emphasizes necessity of strengthening competitive policy at the oil market in a subsystem downstream, in particular regarding removal of barriers to an input of independent operators to the retail markets [52].

Thus, mergers and acquisitions in the field of energy are a normal reaction to globalization of economy. Large and competitive national energy companies act as powerful economic clusters of development that is marked, for example, in the energy strategy of EU. In this connection, for example, the European strategy supports competition at the energy markets and concentrates on the requirement concerning division in the domain of energy (production, transport, sale).

Mode of the reciprocal trade

The Russian energy strategy as well "Green Paper" do not contain mentions about restrictions (tariff or not tariff) of reciprocal trade in the domain of energy between Russia and the EU. The Russian energy strategy causes application of such measures as customs-tariff regulation concerning the energy carriers exported to

[52] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final). http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

Europe, only in order to create reciprocal favorable conditions of energy resources suppliers to internal market and on export. On the other hand, energy strategy of the EU, despite of a principle of minimization of energy dependence, does not assume application of any limiting measures concerning import of energy carriers from the countries holding a high share in the structure of their supplies to the EU (except of possible introduction of restrictions on construction of new power stations working on the dominating kind of fuel, regardless to the origin of this fuel).

From this follows, that strategically neither Russia nor the EU are going to introduce any direct or indirect restrictions on reciprocal trade in energy resources.

Stability of world energy markets

Energy strategy of EU expresses anxiety about existing situation at the world market of oil, characterized with anticompetitive behavior of the separate country - exporters of oil (OPEC), with a high degree of price volatility. In the Russian energy strategy it is emphasized, that Russia as one of key participants of the world energy market should participate actively in an establishment of proved and predicted prices for energy resources, fair and favorable both for country-producers, and for country-consumers[53].

Energy infrastructure

Giving new impulses to the development of energy infrastructure which connects Russia and EU and providing unobstructed moving of resources through transport corridors - a major strategic task providing expansion of trade with energy resources between Russia and the European Union. It is a first step to creation of the possible common energy market. Besides for EU development of the infrastructure expanding access to new regions where energy resources are produced - one of key tools assuring reliability of energy supplies. The analysis of energy strategies allows

[53] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final). http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

to draw following conclusion: there is a certain "package" of the infrastructural projects providing a deepening of mutual energy integration, liquidation of "bottlenecks" (narrow places) in the transportation of energy resources, and providing development of perspective directions in transportation of energy resources.

The EU tackles this problem in a system context, estimating long-term necessity in realization of projects on construction energy and transport infrastructure (connecting EU with country-producers of energy resources, as well with trans-European) - oil-and gas pipelines, terminals for liquefied natural gas. A special attention is paid to transit of energy resources from Russia and the CIS countries to the EU and to cooperation within the limits of programs Inogate (Interstate oil and gas program for the development and rehabilitation of oil and gas pipelines in the countries of the former Soviet Union) and Traceca (program for the rehabilitation of transport in the countries of the former Soviet Union). [54]

Oil

Russia intends to expand volumes of oil export to Europe with the development of the Nord and South Streams. In this context EU's energy strategy emphasizes a special importance of constructive energy dialogue with the European countries in the field of oil-and transport infrastructure. The mainstreams of oil transportation development are:

For increase in oil export to Europe a construction of oil pipelines Syzran - Saratov - Volgograd - Novorossisk and oil pipeline Kstovo - Yaroslavl - Kirishi - Primorsk and also a transshipment complex in port Primorsk is provided.

EU also notes, that increase in oil import from Russia and the Caspian basin will demand a construction of new oil pipelines from this region.

Gas

[54] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final).
http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

It is necessary to note, that Russian energy strategy does not pay special attention to the development of infrastructure for gas transport to Europe. Projects "Yamal-Europe" and the "North-European pipeline" haven't received sufficient reflection in the strategy, and "Green Paper" ascertains that during last years some new gas-supplying corridors expanding opportunities of gas deliveries to various regions of EU have been built. Thus taking into consideration situation of infrastructure in gas sphere it's necessary to expand capacities of port infrastructure on reception of liquefied natural gas.

The eighth progress report in the frame of energy dialogue between Russia-EU (Brussels, October, 2007), among the projects representing reciprocal interest, specifies Shtokman gas field, construction and operation of the "South stream", and also the "Nord stream"[55]. Besides, in December 2000, according to the deci sion of the European Commission North-European gas pipeline received status of a **TransEuropean network.**

Electricity

According to the Russian energy strategy, efforts in the field of inclusion in parallel work of electro systems of Russia and Europe have s pecial importance. It should provide wider access of Russia to the electricity markets of Europe, and development of trade relations. Reform of the Russian electric power industry will create conditions for a competition of the electric companies in the in ternal as well in external markets, and that will allow to expand an export potential of Russia. Development of electricity export is admitted as strategic task of state importance because in contrast to export of hydro carbonic material, it represents pro motion to the foreign markets of hi-tech finished goods. The state is going to render active support to expansion of electricity export, including simplification of procedure of customs registration, harmonization and synchronization of Russian electricity

[55] EU-Russia energy dialogue: Eighth progress report. Brus sels/Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

wholesale market with the norms and the rules accepted in the European Union (UCTE).

The eighth progress report in the frame of energy dialogue between Russia - EU (Brussels, October, 2007) marks that preliminary results of the feasibility study on the synchronous interconnection of the power systems of the CIS and Baltic States (IPS/UPS) to UCTE haven't shown any technical barriers to their potential synchronous work. In order to complete the feasibility study by Summer 2008, the Parties will take necessary steps and will agree on the timeline for competing the study. It also notes, that work on integration electricity markets of the EU and CIS, with the development of necessary elements and principles of trans -border trade in the region that encompasses Bel arus, Moldova, Russia, Ukraine on the CIS side and Latvia, Lithuania, Estonia, and Finland on the EU side being the first step in this context[56].

Coal

Russian energy strategy emphasis that it's necessary to solve the transport problem of inter-regional transportations connected with additional coal supplies to the ports of the Baltic and Black seas with the aim of increase in coal export. For this purpose it is envisaged to increase transport abilities of railways in the western direction, modernization and increase in throughput of Ust-Lugansk and Murmansk deep-water ports.

EU does not pay special attention to development of infrastructure for transportation of coal because the world market is highly diversified.

Security standards of energy systems.

Both the "Green paper", and the Russian energy strategy consider problems of maintenance of ecological and technical safety of energy systems among priorities.

[56] EU-Russia energy dialogue: Eighth progress report. Brus sels/Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

The Russian strategy recognizes, that one of the largest environmental problems of thermal power station are pollution of environment with oil in the regions of oil extracting, places of oil pipelines, near tank bases and ports.

In this sphere for Russia could be useful EU's experience, whose standards and requirements are considered to be a sample for imitation. The "Green paper" expresses inquietude concerning technogenic and ecological consequences of some projects on export of energy resources from Russia (in particular, the Baltic pipeline system and port constructions in Primorsk).

Quite probably, it will be necessary to modernize oil tankers transporting the Russian oil to Europe, as according to EU's transport strategy, because there is an interdiction for one-wall tankers to enter EU's ports since 2015 [57].

Problems of climate change

Struggle against climate change caused by gas emissions to the atmosphere is one of the basic points of the energy policy of the EU. A basis for the reduction of gas emissions according to the obligations accepted within the limits of Kyoto protocol, is the management of demand on energy (EU has carried out its obligations on reduction of gas emissions in 2000, but growth of economy and consumption of energy lead to additional increase in emissions). Further fulfillment by EU the obligations of Kyoto protocol will not be possible without an essential reduction of demand for energy. Approximately 94 % of CO2 emissions to the atmosphere in the EU countries is connected with burning of fuel. The growth of emissions (more than 90 %) is mainly connected with transport sector, first of all automobile. According to EU's energy strategy, increase of ecological requirements to transport and

[57] White Paper "European transport policy for 2010: time to decide", adopted by the European Commission, 2001 http://ec.europa.eu/transport/white_paper/documents/doc/lb_texte_complet_en.pdf

introduction of more rigid specifications on CO2 emissions is considered to be a primary goal[58].

"Green Paper" pays special attention to renewable sources of energy and to energy efficiency. Besides tackling climate change, they will contribute to security of energy supply and will help to limit the EU's growing dependence on imported energy. It could also create many high-quality jobs in Europe and maintain Europe's technological leadership in a rapidly growing global sector.

In this context, the **EU Emissions Trading Scheme** creates a flexible and cost-efficient framework for more climate friendly energy production. The full review of the EU Emissions Trading Scheme gives an opportunity for expanding and further improving the functioning of the scheme. In addition, the EU Emissions Trading Scheme provides the nucleus for a gradually expanding global carbon market, hereby giving European business a head-start.

An effective policy in this area means making cost-effective investments in order to reduce the waste of energy, thereby increasing standards of living and saving money, and using price signals, that would lead to more responsible, economical and rational use of energy. Market-based instruments, including the Community energy tax framework, can be a very efficient tool in this respect.

Although Europe is already one of the world's most energy efficient regions, it can go much further. In its 2005 Green Paper on Energy Efficiency, the Commission showed that up to 20% of EU energy use could be saved: equivalent to spending as much as € 60 billion less on energy, as well as making a major contribution to energy security and creating up to a million new jobs in the sectors directly concerned[59].

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[58] Green Paper: Towards a European strategy for the security of energy supply, adopted by the European Commission on 29of November 2000 (COM(2000) 769 final).
http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

[59] Green Paper on energy efficiency: doing more with less, adopted by the European Commission on 22 of June 2005 (COM(2005) 265 final)
http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

One useful instrument in this respect is the EU's cohesion policy, which identifies as objectives supporting energy efficiency, the development of renewable and alternative energy sources and investments in networks where there is evidence of market failure. The Commission calls upon Member States and regions, when preparing their National Strategic Reference Frameworks and operational programs for 2007-2013, to make effective use of the possibilities provided for by cohesion policy in support of the present strategy [60].

Energy strategy of Russia emphasizes the necessity of fulfillment by the country of international obligations in the field of ecology. According to Kyoto protocol to the frame Convention of the United Nations on climate change, Russia has assumed liability to keep during 2008-2012 gas emissions at the level of 1990. Russia is going to use mechanisms of flexibility stipulated by Kyoto protocol with aim of further reduction of gas emissions, thus institutional and legal frameworks of project organization will be established within the frame of Kyoto protocol, providing efficiency and transparency of their realization [61].

Conclusions:

Thus, as a result of comparison of Russia's and EU's purposes in the field of energy it is possible to make some conclusions:

1. Despite the distinctions of aims in energy policy, caused by various characteristics of own energy potential, energy strategies of Russia and EU form a basis for long-term cooperation in energy sphere;
2. Methods aimed at increase of energy efficiency of Russia's and EU's economies, as well management of the demand on energy and energy saving, mentioned at energy strategies, are close ideologically and organizationally. Their

[60] Ibid.

[61] Energy strategy of Russia till 2020, adopted by the Government of Russian Federation on 28 August 2003. http://www.minprom.gov.ru/docs/strateg/1 Энергетическая стратегия России на период до 2020 года.

application can bring the greatest effect in case of mutual penetration of experience and energy saving tools, stimulating economic development of Russia and EU;

3. Development of energy infrastructure connecting Russia and EU within the limits of the most convenient and economically effective transport corridors answers to the purposes of Russia's and EU's energy policies, and to harmonization of mutual trade conditions;

4. Stimulation of reduction of negative influence of energy sector over the environment and decrease in a level of emissions of greenhouse gases to the atmosphere is a direction in energy policy representing mutual interest.

Consequently, the long-term energy strategies of Russia and the European Union represent mutually compatible programs, where significant part of the content forms basis for the construction of a system energy dialogue, importance of which is noted at the "Energy strategy of Russia till 2020" [62], and at the "Green Paper: To the European strategy of reliability of supply by energy" [63] and at the "Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy" [64].

[62] Basic positions of Russia's energy strategy till 2020. Chapter 4.7 "External energy policy".

[63] "Green Paper: To the European strategy of reliability of supply by energy". Chapter III. Relations with producer countries: making our voice heard.

[64] "The Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy". Chapter 2.6: Towards a coherent external energy policy.

Chapter 2 Mutual successes of the EU -Russia cooperation in the energy sphere.

2.1 Infrastructural projects representing common interest

2.1.1 Energy interdependence of Russia and the EU.

The EU is the largest trade partner of the Russian Federation and thi s mutual interdependence is most evident in the sphere of energy. Nearly 60% of Russian exports to the EU by value are energy products, and Russia accounts for over 26% by value of total EU energy imports.

Russia today is the single most important external supplier of natural gas to the EU, accounting far almost 44% of total gas imports in 2004 or 24% of total EU gas consumption[65].

Since 2000 the volume of Russian oil exports to the EU has been growing steadily, both in absolute figures and in market share. Crude oil supplies from Russia have increased from 94 million tones in 2000 to 144 million tones in 2004. Over the same period, the EU imports of oil products from Russia increased from 26 to 32 million tones.

In conditions of growing needs for energy carri ers and reducing production of electricity inside the EU because of reduction of economically accessible stocks, the general dependence of the EU from energy import is increasing[66].

The Russian Federation will continue to play an important role in ensuring reliable energy supplies to the European Union for decades to come.

[65] Final Report of the Tematic Group of experts on energy infrastructure within the framework of the EU-Russia energy dialogue, October 2006, p.1.

[66] Gas Industry in the year 2020: The Growing Dependence of Europe., Bulletin of Cedigaz Members, March 2006, p.4.

For provision of the growing needs for energy, it will be necessary to modernize an existing energy-transport network and to create new energy infrastructure based on modern rentable and ecologi cally save technologies.

One of the most important tasks should be a gradual formation of the integrated market consisting of the EU member-states, of the European countries outside the EU, the states of the Caspian region and the Russian Federation. In case i f it is based on the homogeneous competitive environment in terms of market opening, a fair competition, fair access to infrastructure, reciprocity, a high level of protection and safety of environment, including nuclear safety, the construction of such an integrated market will promote increase of reliability of supply and demand, investments, establishment of a competitive price level, improvement of influence of power sector over environment[67].

It will also demand not only acceptances of separate general rules and norms in energy sector, but also creation of additional infrastructure, for further integration of energy networks and decrease the risk of "bottlenecks" in infrastructure.

Despite the fact that the responsibility for realization of such projec ts, and also a choice of routes is, mainly, the responsibility of the companies and the countries, participating in projects, the role of the governments in creation of due conditions for investments is obvious. Giving to some projects the status of repres enting “common interests” could promote their realization.

[67] Report of the Thematic Group on energy infrastructure within the framework of the EU -Russia energy dialogue, 2006, p.1.

2.1.2 Gas projects representing common interest.

In the context of energy dialogue between the EU and Russia, in October, 2007 thematic groups of experts have defined the following gas projects, as representing "common interest"[68]:

- Gas pipeline "Nord Stream" (Northern European Gas Pipeline);
- Gas pipeline "South Stream";
- Development of the Shtokman field;
- Yamal – Europe gas pipeline through Belarus and Poland.

Besides, both the EU and Russia recognize the importance of support and improvement of existing infrastructure.

Gas pipeline "Nord Stream" is a new route for export of the Russian natural gas to the EU. Realization of the given project will provide with increase in volumes and can exceed reliability of Russian gas supplies to the European market due to diversification of export routes[69].

The land section of the gas pipeline will go in the territory of the Russian Federation up to Vyborg. The sea section is go from Vyborg through Baltic sea up to the coast of Germany (near Greifswald) with a possible construction of a branch pipeline to Sweden. The stream is planned to enter into operation in 2010 with annual production rate of 27.5 milliard m3. Construction of the second parallel pipe line will provide with final throughput of 55 milliard m3 a year [70].

The project "Nord Stream" caused ambiguous reaction and became one of the key factors influencing the policy in the region. Signing of the agreement actually meant the conclusion of the political union between Russia and Germany. "I consider

[68] EU-Russia energy dialogue: Eighth progress report. Brussels/Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

[69] Nord Stream project: official website of Gazprom http://www.gazprom.com/eng/articles/article18466.shtml

[70] Nord Stream official website http://www.nord-stream.com/

this gas project reasonable. It is not merely of German interest but of interest for several EU member countries" [71] – said Dr. Angela Merkel, Chancellor of the Federal Republic of Germany. Besides, the he ad of this project was chosen Gerhard Shroder. For this reason the Baltic States and Poland were against the realization of this project. Right after the conclusions of the agreement the president of Poland Alexander Kvasnevsky called the "signed pact of P utin – Shroder bad from the point of view of ecology and weak from the economic and political points of view" [72]. And the Polish diet accepted the application in which it was said, that German -Russian agreement on construction of the Northern European Gas Pi peline "threatens security and independence of Poland" [73].

The Prime Minister of Latvia Aygars Kalvitis declared, that planned construction "does not answer the common energy policy of the EU" [74]. On 13th December 2005, however, Minister for Foreign Affairs of Latvia Artis Pabriks declared, that Latvia could take part in the Northern European Gas Pipeline [75].

On 15th September 2005 the Prime Minister of Lithuania Algirdas Brazauskas declared, that construction of the "Nord Stream" will become an ecological catastrophe for the Baltic Sea as at the bottom of the Baltic Sea in some places there were buried chemical weapon of Germany after the Second World War II [76].

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[71] Angela Merkel Speech in Parliamentary Assembly of the Council of Europe, 15 April 2008 http://www.nord-stream.com/

[72] Russian-German gas pipeline is threatened with chemical weapon of Hitler http://www.lenta.ru/news/2005/09/16/baltia/_Printed.htm Russian daily newspaper

[73] Soloviev V, Zigar M., The Warsaw verdict: Authority journal, N39(642) http://www.kommersant.ru/doc.aspx?DocsID=614121

[74] Russian-German gas pipeline is threatened with chemical weapon of Hitler http://www.lenta.ru/news/2005/09/16/baltia/_Printed.htm Russian daily newspaper

[75] Latvia wants to join Nord Stream project: Kommersant N235(3319) http://www.kommersant.ru/doc.aspx?DocsID=635391 Russian business newspaper

[76] Russian-German gas pipeline is threatened with chemical weapon of Hitler http://www.lenta.ru/news/2005/09/16/baltia/_Printed.htm Russian daily newspaper

Shtokman field is located in the central part of a shelf of the Russian sector in the Barents Sea at 600 km to north-east from Murmansk. Depths of the sea in this area is from 320 up to 340 m. Proven reserves (2006) - 3.7 trillion m3 and 31 million tons of condensate[77].

For a long time "Gazprom" planned to involve in development of the field foreign companies, transferring them 49 % of actions of the field. In September 2005 short-list was made consisting of five foreign companies - potential participants in the consortium on development of the field - Hydro and Statoil (Norway), Total (France), Chevron and ConocoPhillips (USA)[78].

However on 9th October 2006 Alexei Miller declared that any of these companies don't dispose assets, "corresponding in volume and quality to the stocks Shtokman deposit"[79]. So, Gazprom will explore it itself, and "the authoritative international companies" will be involved only as contractors [80].

Simultaneously "Gazprom" declared that gas from the deposit would be delivered not by tankers to the USA as it was supposed, but by Northern -European Gas Pipeline to the Europe.

On 12th July, after telephone conversation between Vladimir Putin, president of Russia and Nicholas Sarkozy, president of France it was declared, that the partner of Gazprom in development of Shtokman will be a French company Total. It will receive 25% in company-operator of Shtokman[81]. Other 24% were transferred to

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[77] Shtokman project : official website of Gazprom http://www.gazprom.com/eng/articles/article21712.shtml

[78] Miles Tom, Bergin Tom Shtokman pourrait être trop gros pour Gazprom : Libération http://www.liberation.fr/actualite/reuters/reuters_economie/209739.FR.php?rss=true

[79] Gazprom decided to explore Shtokman gas field itself: Catalogue of industrial production for oil and gas sector http://www.oil-gas.ru/news/view/?9950 ОАО «Газпром» решил самостоятельно разрабатывать Штокмановское месторождение Каталог промышленная продукция для нефтегазового комплекса.

[80] Ibid.

[81] Gazprom and Total sign a framework agreement for cooperation in the first phase of Shtokman development: official website of the company TOTAL

another foreign partner - recently united StatoilHydro. Giving interview to Agence France-Presse (AFP), Al Breach, leading analyst of investing bank UBS Warburg, called the contract between Gazprom and Total "the main victory of France and Europe. And though Total does not own reserves but as a joint company it owns infrastructure and then will take the profit" [82].

On the one hand, participation of Total in the development of Shtokman deposit raised its status as it was a little apart in comparison with the American and Norwegian companies. On the other hand, the fact of participation in the project of European companies instead of American, and on the other hand a possible reorientation of gas export from American market to the European – all this promoted better relations between Europe and Russia [83].

The project "Yamal-Europe Gas Pipeline" assumes construction of a gas pipeline from gas deposits in Western Siberia to Germany through Belarus and Poland. Its main purpose is maintenance of Gazprom's contract obligations on export of gas to the Europe and diversification of gas export supplies. Connection of the gas pipeline with existing gas-transport system in the territory of Germany allowed integrating it completely into the European gas network.

The project is developed with the opportunity of putting separate sections and compressor station capacities into operation stage-by-stage according to market needs. The existing and new fields in the Nadym-Pur-Tazovskiy area of the Tyumen region are the sources of gas for the first phase, with gas later being supplied from the Bovanenkovskiy field on the Yamal Peninsula.

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http://www.total.com/en/press/press_releases/pr_2007/070713-total-gazprom-shtokman-agreement_12970.htm

[82] Total remporte "une victoire majeure" auprès de Gazprom : l'Expansion http://www.lexpansion.com/economie/actualite-entreprise/total-remporte-une-victoire-majeure-aupres-de-gazprom_122060.html journal of economics

[83]Total chosen to Partner Gazprom in Developping Shtockman: Gas Field Global insight., 13 July 2007.

Now 32 milliard m3 a year is transported through gas pipeline Yamal -Europe. Expediency of construction of the second thread which will raise the general annual production rate up to 60 milliard m3, will depend on demand for gas in EU and on estimation of opportunities of various routes [84].

The project "South Stream" is the Russian-Italian project of gas pipeline which will pass on the bottom of the Black Sea from Novorossisk to the Bulgarian port Varna. Further its two branches will pass through Balkan Peninsula to Italy and Austria. According to plans, the project should become operational by 2013 [85].

As noted the prime minister of Greece Costas Karamanlis "the project "South Stream" will provide diversification of natural gas supplies to Europe, thus, strengthening energy security and providing more open and competitive internal market of natural gas"[86]. Besides, the project will allow to decrease dependence of suppliers and buyers on transit-countries, particularly, from Ukraine and Turkey. For this reason the project "South Stream" received broad support of the Greek government. For the last 20 years Greece and Russia established a long and productive cooperation in the gas sphere. It is expected, that by the end of 2015 Greece will consume 7 million м3 of natural gas annually. Now 80% of the gas consumed by Greece is imported from Russia [87].

The project "South Stream" is created for diversification of supplies of the Russian natural gas to the Europe and decrease in dependence of suppliers and buyers

[84] Yamal-Europe gas pipeline: official website of the firm EuRoPol Gaz s.a. http://www.europolgaz.com.pl/english/gazociag_liniowe.htm

[85]South Stream project: official website of Gazprom http://www.gazprom.com/eng/articles/article27150.shtml

[86] Athens give special importance to pipelines from Russia to Europe: Russian Agency of International Information http://www.rian.ru/world/20080429/106128282-print.html Афины придают особое значение трубопроводам из РФ в Европу: Российское Агентство Международной Информации РИА Новости

[87]Athens give a special importance to the pipelines from Russia to Europe: Russia in global affairs, 29 April 2008.

from the transit countries, in particular from Ukraine and Turkey. The "South Stream" is considered as a competitive project of a planned gas pipeline "Nabucco" supported by the European Union and the USA. The aim of "Nabucco" project is to decrease dependence on Russia. There is an opinion, that apparition of the project "South Stream" is connected with complexities in realization of the gas pipeline "Blue Stream" through Bosporus to the Balkans.

Brotherhood, a 2,750-km long gas pipeline that connects Russia, Ukraine, Slovakia and Western Europe. Completed in 1967 it has an annual capacity of about 30 bcm. Natural gas exports through this pipeline represent about 25 percent of the natural gas consumed in Western Europe and about 70 percent of Russian gas exports to Western Europe[88].

Northern Lights (Urengoi-Uzhgorod) is a 4,500 km long pipeline, completed in 1983, with a capacity of 27.9bcm of gas per annum. It trespasses the territory of Ukraine, where it joins the path of Brotherhood pipeline and heads in the direction of Slovakia, Austria and Germany. It transports another third of the overall gas destined for Europe[89].

Blue Stream is a 1,250 km pipeline that connects Russia to Turkey. It runs from the Izobilnoye gas plant in southern Russia across the Black Sea bed (at record debths of 2,150 meters belowe the sea level) to the Turkish port of Samsun, and onwards to Ankara. Online since November 2005, the pipeline was built with an intention to diversify Russian gas deliveries to Turkey and at the same time avoding third countries, such as Ukraine, Belarus and Moldova. By 2010, Blue Stream is

[88] Borisocheva Ksenia Analysis of the Oil- and Gas-Pipeline-Links between EU and Russia: An account of intrinsic interests, Centre for Russia and Eurasia, Athens, Greece, November 2007, p.7.

[89] Ibid.

expected operate at full capacity, delivering 16 bcm of gas annually. By 2025 Russia plans to export 311 bcm of gas to Turkey via this route .[90]

2.1.3 Mediterranean Union against Gas OPEC.

The initiative of the President of France Nicolas Sarkozy about the creation of the new regional organization - the Mediterranean Union - is approved by the majority of the EU member-states, including Germany which till the last moment doubted about the expediency of creation of this alliance. The European Union tries to expand economic contacts with the countries of North Africa and the Near East and it would like see in the Mediterranean Union, first of all the countries rich in energy resources and especially in gas [91].

It was announced that the main tasks of the Mediterranean Union are struggle against terrorism and emigration. However, there various opinions about the apparition of the Mediterranean Union.

The first version declares that the Mediterranean Union appeared as a reaction to the idea of gas OPEC which could unite the major gas exporting countries such as Russia, Iran, Algeria, Qatar and others. Really, Russia tries today to expand its influence in Africa: it was proposed to Algeria and to Libya to write off their debts. In exchange they will conclude contracts on the import of armament fr om Russia. In case of Algeria Russia failed as the USA have a strong influence in Algeria [92]. But in fact, the creation of the gas OPEC is almost impossible as for the American market Russia needs to develop technologies of the liquefied natural gas and, bes ides, there are enormous infrastructural problems for gas export to Asia [93].

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[90] Gazprom Company Official Website, available at http://www.gazprom.com/eng/articles/article8895.shtml on 28.05.2008.

[91] Bauchard Denis L'Union pour la Méditerranée: un défi européen , Politique étrangère, IFRI, Janvier 2008.

[92] Mediterranean Union as an alternative of the gas OPEC, Prime Times, 14.03.2008 , available at http://www.prime-tass.ru/news/show.asp?id=2400&ct=articles on 28.05.2008.

[93] Finon Dominique La Russie et l'OPEP du gaz: vraie ou fausse menace?, Centre Russie/NEI, Novembre 2007, p.6-19.

Another reason for the creation of the Mediterranean Union can be structural and organizational problems with which face today international organizations. For example, the situation with Kosovo showed that Organization of United Nations is in crisis nowadays. This situation leads to the creation of the regional alliances [94].

But the creation of the Mediterranean Union it's a question of a long-term prospect.

2.1.4 Oil infrastructure projects representing common interest.

Burgas-Alexandroupolis Oil Pipeline

The intergovernmental cooperation agreement at realization of this project was signed in the presence of heads of the states by governments' representatives of Russia, Greece and Bulgaria in March, 2007. President of Russia Vladimir Putin noticed, that "this decision opens new horizons of the Russian-Greek cooperation. The basic purpose of energy projects "South Stream" Gas Pipeline and Burgas-Alexandroupolis Oil Pipeline is to raise essentially energy security not only of the Balkans, but of the whole European continent" [95].

It is supposed, that oil from Novorossisk will be delivered by tankers to the Bulgarian port Burgas, where it will be pumped over through the given route to Alexandroupolis and then again by tankers it will be transported to a place of final delivery. Possible throughput of the oil pipeline in the extent of 285 km will make 35 million tons a year with an opportunity of increase up to 50 million tons a year [96]. Russia owns in this project 51% of actions [97].

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[94] Mediterranean Union as an alternative of the gas OPEC, Prime Times, 14.03.2008, available at http://www.prime-tass.ru/news/show.asp?id=2400&ct=articles on 28.05.2008.

[95] Vladimir Putin From "South Stream" Europe will win, Russian News Agency http://www.rusnovosti.ru/news/94687/

[96] Christos Dimas Burgas-Alexandroupolis Oil Pipeline Project, BAPLINE Joint Venture HELPE S.A - THARAKI S.A., 3rd Emerging Europe Energy Summit, 8-9 November 2007, Frankfurt.

[97] Transneft: project of the Burgas-Alexandroupolis oil pipeline, official website of the company Transneft http://www.transneft.ru/Projects/Default.asp?LANG=RU&ID=172

Realization of this project will allow Russia to solve many problems, and also to take benefits. Since 1995 Turkey limited the miss of the Russian tankers through Bosporus, the Aegean Sea and Dardanelles and wit h infringement of the international conventions began to apply its own rules of transit. Because of it passages are the main deterrent fact for development of export routes in the Black Sea which are important for own Russian deliveries and for transit del iveries from the Caspian region to the Southern Europe. From the geopolitical point of view such position was very favorable for Turkey which owing to it received the lever of pressure upon Russia. All these circumstances made Russia to refuse a shorter va riant of its lining on the western extremity of Turkey (Kiykiey -Ibrighaba)[98].

The project represents the interest not only for the states -participants, but is also considered as a contribution to the world economy as it brings a serious contribution to the development of the European energy sector, allows to diversify and to expand volume of supplies to world market. As declared President of Russia Vladimir Putin, "energy potential of Russia and favorable geographical and transport position of Bulgaria and Greece - all it opens wide prospects for our cooperation, forms new opportunities for creation in Bulgaria and in Greece of regional transit centers for Russian energy carriers to the European and world markets" [99].

However a number of experts strongly criti cize this given project. For example Dimitris Apokis from Hudson Institute, considers Greece to be a "Trojan horse" because the agreement on construction of oil pipeline Burgas -Alexandroupolis does not answer the EU's policy aimed at diversification of energy deliveries and to reduce dependence of the Europe on Russia. Also he marks, that the Greek

[98] Expert: We don't need turkey. Analytical journal, N11, 19 March 2007, p.2.. (Эксперт: не нужен нам берег турецкий, №11, 19 марта 2007).

[99] Press-conference of President of Russia Vladimir Putin, Prime -minister of Greece Konstantinos Karamanlis and Prime –minister of Bulgaria Sergey Stanishev 15 March 2007, Athens. http://www.kremlin.ru/appears/2007/03/15/1747_type63377type63380_119925.shtml (Совместная пресс-конференция Президента России Владимира Путина, Премьер -министра Греции Константиноса Караманлиса и Премьер -министра Болгарии Сергея Станишева 15 марта 2007 года, Афины. Официальный сайт Президента России).

government plays according the rules of Kremlin, having agreed to give 51% of actions to Russia[100]. Actually the oil pipeline belongs to Russia that confirms the statement said by the Deputy Minister of the Industry and Energy Andrey Dementyev: "We assume that actually Burgas -Alexandroupolis will become a part of our pipeline system"[101].

Among other negative consequences of the construction of this oil pipeline it is necessary to note ecological risks, as in the Aegean Sea there are many underwater rocks and it represents difficulties for navigation[102]. Besides the basic kinds of economic activities of the population located nearby on the islands are fishery and tourism. In case of accident of oil tankers the huge damage for Greek tourist sphere will be caused[103].

"Druzhba" or "Friendship" pipeline

It is the world's longest oil pipeline of 4,000 km. With approximately 70 % of overall Russian crude levels destined for Europe passing through this pipeline network, it is the largest principal artery for the transportation of Russian (as well as Central Asian) oil across Europe. Constructed in 1964 with an aim to supply oil to the socialist allies in the former Soviet bloc as wel l as to western Europe, its current capacity is 1.2 to 1.4 million bpd. The pipeline begins in Samara, southeastern Russia, where it collect oil from western Siberia, the Urals, and the Caspian Sea. It

[100] Dimitris Apokis Dangers and strategic mistakes from Burgas -Alexandroupolis Agreement, Hudson Institute, 17 May 2007.

[101] "Burgas-Alexandroupolis" will become a part of our pipeline system. Official website of the company Transneft http://www.transneft.ru/press/Default.asp?LANG=RU&ATYPE=9&ID=12998 «Бургас-Александруполис» станет частью нашей трубопроводной системы. Официальный сайт компании Транснефть.

[102] Time to wake up from South -East Europe's pipeline dreams, 03.03.2006, available at http://www.bankwatch.org/publications/mail.shtml?x=1563936#time on 22.05.2008.

[103] AMBO Trans-Balkan Pipeline Agreement Finally Signed, 12.29.2004, available at http://www.balkanalysis.com/2004/12/29/ambo -trans-balkan-pipeline-agreement-finally-signed/ on 22.05.2008

runs to Mozyr in southern Belarus, where it splits into a northern (Druzhba I) and a southern branch (Druzhba II). (Another section of the pipeline splits of on the territory of Russia, tresspasses Ukraine and comes to an end at the Black sea port of Odessa)[104]. The northern branch crosses Belarus to reach Poland and Germany. Due to its overuse (it has been working for some time at full capacity) expansion works are currently underway to increase a section between Belarus and Polan. There have also been proposals to extend this branch to the German North Sea port of Wilhelmshave, which would reduce oil tanker traffic in the Baltic Sea and make it easier to transport Russian oil to the United States. The southern branch runs in the direction of Ukraine, Slovakia, Czech Republic and Germany[105].

Black Sea port of **Novorossiysk** is another export route for Russian and Central Asian oil. It is connected to the Russian Samara-Tihorek pipeline, which transports oil from Makhachkala and Baku (Azerbaijan). This route is also deemed attractive for Kazakhstan, especially after an expansion of an Atyrau (Kazakhstan)-Samara (Russia) pipeline. From here oil is transported to the Mediterranean and then to the European and Asian markets. However, the efficiency of this route is hindered by the limitations set for the passage of tankers though the Bosporus Strait[106].

The **Baltic Pipeline System** (BPS), completed in December 2001, is a another major export link, that carries around 74 million tons of crude oil per year from Russia's West Siberian, Ural-Povoljye and Timan-Pechora regions westward to the newly completed port of Primorsk in the Russian Gulf of Finland. From there the supplies are shipped via tankers, to various markets, including the Nordic European

[104] Transneft official website http://www.transneft.ru/Projects/Default.asp?LANG=EN&ID=231

[105] Borisocheva Ksenia Analysis of the Oil- and Gas-Pipeline-Links between EU and Russia: An account of intrinsic interests, Centre for Russia and Eurasia, Athens, Greece, November 2007, p.5.

[106] Ibid.

states[107]. Even though this route does not extend beyond the borders of Russia , it enables Russia to reach the western markets and has reduced dependence on the transit through Baltic countries, thus, lowering transportation costs by 3 -4 dollars per ton, which together with services for transport cost saves Russia more than a billio n dollars a year[108].

2.1.5 Electric power infrastructure

Through its subsidiaries RAO UESR of Russia now delivers electric power to the CIS countries and the Baltic States, and also to Finland, Norway, Mongolia and China. The policy of Russia is directed at expansion of electricity export that will demand of the strengthening cooperation with the transit countries, first of all, with Belarus, Ukraine, Kazakhstan, the Baltic States and the States of Central Asia. As electricity export is considered to be a n export of the product with added value and not as a primary resource, the state actively supports expansion of electricity export, including simplification of custom procedures, and also the measures directed at harmonization of standards and rules, oper ating in Russia with the European, and rendering of assistance in improvement of conditions for export of Russian electricity.

Now Russia is not directly connected to any of the EU countries which power supply systems function within the framework of UCTE [109] system (a power supply system of Finland enters into NORDEL [110]system, and power supply systems of the

[107] Transneft official website http://www.transneft.ru/Projects/Default.asp?LANG=EN&ID=227

[108] Ibrahimov R., Prospects of the Russian Oil Pipeline to the West, Advantages and Disadvantages of Current Infrastructure, The Journal of the Turkish Weekly Opinion Website, 25.02.2007, available at: http://www.turkishweekly.net/comments.php?id=2498 on 28.05.2008.

[109] UCTE- It is a Union on coordination of transfer of electric power which includes the majority of continental electric power systems of the EU.

[110] NORDEL - It is an Association of cooperation in the field of electric power in northern countries which includes Denmark, Finland, Icel and, Norway and Sweden.

Baltic States function synchronously with a power supply system of Russia (IPS/UPS))[111].

After the EU-Russia Summit in Brussels on the 3rd October, 2001 the project on synchronous integration of IPS/UPS with the power system of the continental Europe is recognized as the project of "mutual interest" [112].

The eighth generalizing report within the framework of energy dialogue between Russia and the EU (Brussels, October 2007) marks that preliminary results of synchronous association of power supply systems of the CIS countries and Baltic States (IPS/UPS with power supply systems UCTE) have not revealed any fundamental technical obstacles for their possible synchronous work. It is planned to finish the works by the summer of 2008. In the report it is also marked, that during integration of the electricity markets of the CIS and EU, a first step is the development of necessary elements and principles of transboundary trade in the region covering Belarus, Moldova, Russia, and Ukraine from the part of the CIS, and Latvia, Lithuania, Estonia, Finland from the part of the EU [113].

Creation of common electricity market will bring significant benefits from the point of view of increase of energy supply reliability and will serve the development of competition in the field of energy and to formation of new opportunities for business cooperation for Russia, as well for the member-states of the EU. In order to achieve success in this project it is necessary to provide carrying out of joint policy on the questions concerning integration of markets, questions of security of

[111] EU-Russia Energy Dialogue, 24 September 2007.Euroactive http://www.euractiv.com/en/energy/eu-russia-energy-dialogue/article-150061

[112] EU-Russia Summit : Joint statement, Brussels, 3 October 2001. The official website of the European Commission http://ec.europa.eu/external_relations/russia/summit_10_01/dc_en.htm

[113] EU-Russia energy dialogue: Eighth progress report. Brussels/Moscow, October 2007. http://www.delrus.ec.europa.eu/en/p_452.htm Delegation of the European Commission to Russia, official web site.

functioning of electricity infrastructure. This policy should be provided with creation of corresponding legal and institutional structures[114].

2.2 Energy efficiency

During the meeting held on 28 February 2006 in Brussels between V.B. Khristenko, Minister of Energy and Industry of the Russian Federation and A. Piebalgs, Commissioner of the European Union for energy, there was offered a joint initiative in the field of energy efficiency aimed at deepening of cooperation between Russia and EU[115].

It includes following objectives:

- Maintenance of energy security of European countries and Russia;
- Increase of efficiency of the state implementation;
- Improvement of legislative and normative base;
- Increase of transparency of adopted documents;
- Warranting of economic growth by reducing energy intensity of the economy;
- Organization of closer cooperation between industry and business;
- Reduction of negative impact over the environment by introducing energy-efficient ecologically clean technologies, renewable and alternative sources of energy[116].

The initiative should be implemented into the following fields:

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[114] EU and Russia agree to strengthen cooperation in the electricity sector, Press Release, 21.10.2003, available at the official website of the European Commission http://ec.europa.eu/energy/russia/events/electricity_en.htm on 28.05.2008.

[115] The EU Commisioner for Energy Andris Piebalgs meeting with the Russian Minister for Industry and Energy Viktor Khristenko, 28th February, 2006, available at http://ec.europa.eu/commission_barroso/piebalgs/doc/media/2006_02_28_eu_russia.pdf on 22.05.2008.

[116] Final report of the Thematic Group on Energy Efficiency of the EU -Russia Dialogue, October 2006, p.1.

- Legislation, energy strategy and policy;
- Production, transportation and distribution of fuel and energy resources;
- Consumption of fuel and energy resources and consumption of energy;
- Production of goods and services;
- Regional cooperation;
- Environmental protection;
- Scientific research and development;
- Investments;
- Energy infrastructure;
- Exchange of information and specialists, spread of knowledge and experience, promotion activities[117].

The initiative is implemented in the following forms:

- Joint projects in the field of production, transmission and consumption of energy;
- Joint research and information exchange in the field of energy efficiency in various branches of economy;
- Joint conferences, seminars, exhibitions;
- Direct communication between Russian regional centers on energy efficiency and similar agencies in the European countries;
- Joint capital investments;
- Joint campaigns on realization of projects in the field of energy efficiency;
- Organization of production of energy efficient and energy saving equipment, instruments and materials[118].

[117] Delivering Energy Efficiency: Policy developments and challenges, Energy Charter Secretariat, Brussels, 2007, p.166.

[118] Final report of the Thematic Group on Energy Efficiency of the EU -Russia Dialogue, October 2006, p.1.

2.2.1 Energy efficiency in Russia and EU.

Common interest in energy efficiency

Energy is a major question in the Road map which is aimed at deepening of cooperation between Russia and the EU. First of all, it is indispensible to understand conditions necessary for achievement of energy efficiency as it will help essentially to improve interaction in the field of energy efficiency.

For the EU the main conditions are: 1) guarantees of supplies of Russian energy for EU; 2) guarantees of a diligent competition; 3) concrete actions on realization of the Kyoto Protocol.

For Russia energy is a major factor of economic development. The national energy balance, and particularly the level of hydrocarbon exports, is in line with the Russian Energy Strategy. Increase of energy efficiency is a reasonable alternative to significant investments into expansion of extraction at maintenance of growing internal consumption of energy.

The exchange of experience between Russia and the EU concerning the use of energy efficient technologies, methods of projects financing and stimulation of their prompt realization will provide with understanding of energy efficiency as one of means to guarantee security of energy supplies.

Energy efficiency in Russia

Russia's Energy Strategy to 2020 was approved in the governments Decree No. 1234-r (23 August 2003). One of its main priorities is the decrease in specific expenditures on production and use of energy resources due to rationalization of their use, application of energy saving technologies and equipment, reduction of losses in recovery, processing, transportation and realization of products of thermal power station[119].

[119] Energy Strategy of Russia till 2020, approved by the Government of the Russian Federation on 28 August 2003, Decree. No. 1234-r. http://www.minprom.gov.ru/docs/strateg/1 Энергетическая стратегия России на период до 2020 года.

In this context, implementation of the Energy Strategy of Russia is done via the Federal Program "Energy efficient economics" till 2010. Th is Federal Program establishes for the branches of Russia's economy concrete tasks on increase of efficient use of fuel and energy resources [120]. The 2005 "Comprehensive Action Plan to implement the the Kyoto Protocol in the Russian Federation" uses the targets o f the Energy Strategy of Russia to 2020 [121]. There is also a draft Federal Program "Energy-saving Economy" for 2006-2010.

At the federal level, the major part of activities to improve energy efficiency in Russia is implemented by the Ministry of Industry and Energy together with the Ministry of Economics. Besides, most regional entities have ministries or organizations responsible for energy efficiency [122].

In 78 regions of the Russian Federation are developed and implemented more than 600 energy saving programs, including 50 regional programs, 93 sectoral programs, 462 municipal and city programs [123].

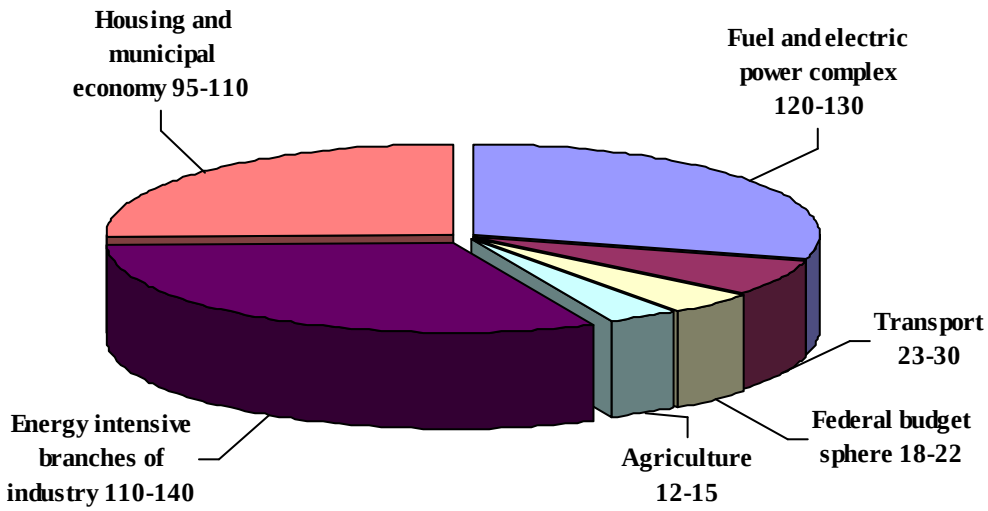
[120] Federal program "Energy efficient economics" till 2010. The official website of the Russian Ministry of Atomic Energy http://www.minatom.ru/News/Main/view?id=5264&idChannel=125 (Федеральная программа "Энергоэффективная экономика" до 2010 года).

[121] Comprehensive action plan to implement Kyoto Protocol in the Russian Federation, 2005. Russian Climate Change Public Portal http://www.climatechange.ru/russia/actionplan.htm Комплексный план действий по реализации в Российской Федерации Киотского Протокола, 2005 г.

[122] The Federal Law on Energy Saving, 1996. MosEnergo website, http://www.mosenergosbyt.ru/laws/federal/laws6 Федеральный Закон "Об энергосбережении" 1996 года.

[123] Delivering Energy Efficiency: Policy developments and challenges, Energy Charter Secretariat, Brussels, 2007, p.208.

Fig. 1 Energy Saving Potential in the Russian Economy
(million tons of standard fuel)



Total potential of energy saving is 360 -430 m tones of standard fuel (Mtoe)

Source: Thematic Group on Energy Efficiency within the framework of the EU - Russia cooperation

In connection with completion of the Federal Program "Energy efficient economy" in 2006, now, according to the assignment of the President of the Russian Federation, a new Federal Program of increase of efficient energy consumption in the Russian Federation was developed. It provides integration of efforts between state and business in the sphere of energy saving based on partnership between private sector and state. Priorities of the state are related to optimization of energy component of the state expenditures, increase of budgetary efficiency of regions' energy supply. Priorities of business are attaining profits and strategic fastening in the emerging service and products markets in this sphere.

The purpose of the program is effective use of Russia's energy potential on the basis of energy saving actions.

For achievement of this purpose it is necessary to solve the following tasks:

1. To create a complex system of effective measures on implementation of energy efficiency to the sphere of energy resources consumption.

2. To reduce energy intensity of production and to provide an effective use of energy resources on the basis of new technologies, materia ls and equipment[124].

Energy efficiency in the EU

In June 2005 the European Commission adopted the Green Paper on energy efficiency which indicates an opportunity of 20% energy saving in the EU that constitutes 60 billion euro a year[125].

If present rates of growth of energy consumption will be kept, total energy consumption in the EU will increase by 10% by 2020. The European Commission has made a number of legislative initiatives in order stop this tendency. Some of them were accepted by member-states, in particularly, Directives on energy saving in buildings and co-generation. On 15th of February 2007 the EU adopted benchmarks for assessing when combined production of electricity and heat is delivering energy efficiency. They will support implementation of a 2 004 directive on cogeneration of heat and power[126]. However, for their full implementation it's necessary to include them into national legislation. Strengthening of this approach in the field of energy saving demands a political will.

The Green Paper is called to become a catalyst of the new initiative in the field of energy efficiency at all levels of the European society: EU, national, regional and local. Besides, the Green Paper should bring an essential contribution, to serve an example and to play a leading role in international efforts focused on decision of

[124] Federal program "Energy efficient economics" till 2010. The official website of the Russian Ministry of Atomic Energy http://www.minatom.ru/News/Main/view?id=5264&idChannel=125 (Федеральная программа "Энергоэффективная экономика" до 2010 года).

[125] Green Paper on energy efficiency: doing more with less, adopted by the European Commission on 22 of June 2005 (COM(2005) 265 final) http://ec.europa.eu/energy/efficiency/doc/2005_06_green_paper_book_en.pdf

[126] Delivering Energy Efficiency: Policy developments and challenges, Energy Charter Secretariat, Brussels, 2007, p.86.

climate change questions by means of energy efficiency. The opportunities marked in the Green Paper, will help to reduce the gap between the foreseen actions on increase of energy efficiency and an available economic potential. Use of the revealed opportunities can lead to rentable reduction of total energy consumption at 20%.

Thus, the main task of the Green Paper is to designate the main problems which at present do not allow carrying out profitable energy saving: for example, lack of corresponding stimulus, information and mechanisms of financing.

The Commission presented in autumn 2006 an Action Plan on the basis of the Green paper. The overall short-term objective of this Action Plan is to present an operational framework of policies and measures for saving an estimated 20% of annual primary energy consumption[127]. To do this, the Action Plan proposes cost-effective initiatives to be put in place and implemented in the coming six years, with a view to reaching the savings goal by 2020.

- Establishing of Annual Action Plans on energy efficiency at national, regional and local levels, and also their subsequent estimation of achieved success. Besides, it's necessary to make a comparative analysis and an expert estimation of Action Plans at the European level so that member-states could learn on achievements and mistakes of others;
- Providing population with better information, for example, by means of targeted publicity campaigns and improved product labeling;
- Perfection of taxation with the purpose of real implementation of the principle «polluter pays», though, not raising the general level of taxes;
- Better targeting state support where public support is justified, sufficient and necessary to create stimulus for more effective use of energy;
- Use of state purchases for implementation of new energy efficient technologies, such, as more energy efficient cars, IT equipment, etc.;

[127] Action Plan for Energy Efficiency: Realising the Potential, Brussels, adopted by the European Commission 19.10.2006 COM(2006)545 final, available at http://ec.europa.eu/energy/action_plan_energy_efficiency/doc/com_2006_0545_en.pdf on 22.05.2008.

- Using of new or more perfect financial instruments, both at the EU level, and at the national level to stimulate companies and population to apply profitable methods of increase of energy efficiency;
- Enforcing of similar efforts on energy efficiency regarding buildings, where existing Directives of EU can be applied, and, probably, exten ding it to small constructions so that to provide cost-effectiveness and minimal expenditures on personnel;
- Implementation of Commission's Initiative "EU CARS 21" for creation of new generation of fuel-efficient vehicles[128].

"Notwithstanding that energy ef ficiency starts at home, it is also very much an international issue. The EU should use its bilateral and international trade and development policy, agreements, treaties and instruments (including dialogues) to promote the development and use of energy-efficient technologies and techniques" [129].

One proposal included in the Action Plan is for a new multilateral partnership for energy efficiency and the development of international framework agreement. International cooperation on energy efficiency is also an important component of EU assistance programs, such as Tacis, Phare and (from 2007) the new European Neighborhood and Partnership Initiative. An important aspect of the European Neighborhood Policy, and the strategic partnership with Russia, is to extend new forms of technical assistance to these partners; Legislative approximation, regulatory convergence and institution-building will be supported through mechanisms which proved successfully in transition countries that are now EU Member States, i.e. targeted expert assistance (Technical Assistance and Information Exchange - TAIEX), long-term twinning arrangements with the EU member-states'

[128] Action Plan for Energy Efficiency: Realising the Potential, Brussels, adopted by the European Commission 19.10.2006 COM(2006)545 final, available at http://ec.europa.eu/energy/action_plan_energy_efficiency/doc/com_2006_0545_en.pdf on 22.05.2008.

[129] Ibid.

administrations – national, regional or local – and participation in relevant Community programs and agencies [130].

2.2.2 Energy efficiency – a component of the global energy security.

Among the major principles of global energy security, adherence to which was declared at the G8 Summit in St.-Petersburg, is encouragement of measures on increase of energy efficiency and energy saving due to the initiatives implemented at national and international levels [131]. These efforts were reinforced by the G8 at their summit in Heiligendamn in 2007 [132]. Adopted Action Plan on Global Energy Security in this sphere concentrates particularly on:

- Strengthening and improvement of the system of statistical recording in the field of energy efficiency at national and international levels;
- Determining national targets of reducing energy intensity of economic development;
- Elaboration, development and implementation of product labeling programs based on advanced technologies and consideration of the national conditions of energy efficiency standards;
- Creation of financial and tax stimulus promoting implementation of energy efficient technologies, and also to expansion of the scale of application of the technologies already existing in this area;
- Implementation of energy efficient technologies in the buildings of government agencies and provision of electricity due to alternative energy sources;

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[130] Delivering Energy Efficiency: Policy developments and challenges, Energy Charter Secretariat, Brussels, 2007, p.144.

[131] Global Energy Security Action Plan, St. Petersburg, July 16, 2006, available at http://en.g8russia.ru/docs/11.html on 22.05.2008. "G8" official website.

[132] G8 Summit 2007 in Heiligendamm Growth and responsibility in the world economy: Climate change, Energy Efficiency and Energy Security – Challenge and Opprtunity For World Economic Growth, 08.06.2007, available at http://www.g-8.de/Content/EN/Artikel/__g8-summit/anlagen/2007-06-07-gipfeldokument-wirtschaft-eng,templateId=raw,property=publicationFile.pdf/2007-06-07-gipfeldokument-wirtschaft-eng on 22.05.2008.

- Realization of integrated approach to the whole resource cycle within the framework of the 3R Initiative (Reduce, Reuse, Recycle); [133]
- Enhanced attention to energy sector which is capable to bring a significant contribution to efforts on increase of energy saving level and energy efficiency due to reduction of losses of energy resources in the course of their production and transportation (enhancing the level of ecological safety and effectiveness of hydrocarbons processing; reducing the amount of associated gas flared etc);
- Enhancement of energy efficiency in the transport sector, large-scale installation of hybrid and/or ecologically clean diesel engines on public transport facilities, diversification of the energy sources for transport facilities based on new technologies[134].

Progress in all these directions is important both for Russia and EU, and demands development of mutually advantageous international cooperation.

2.2.3 Propositions on the EU-Russia cooperation in the field of energy efficiency.

1. Active implementation of new technologies (on the basis of EU-Russia Energy Technology Centre).
2. Preparation of EU-Russia analysis of legislation and regulations in the field of energy efficiency, heat supply and renewable energies, including tariff regulation and market based stimulations.
3. Analysis of opportunities of the regional centers on energy efficiency and strengthening of their role.

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[133] The 3R initiative available at http://www.env.go.jp/recycle/3r/en/outline.html on 22.05.2008.

[134] G8 Summit 2007 in Heiligendamm Growth and responsibility in the world economy: Climate change, Energy Efficiency and Energy Security – Challenge and Opprtunity For World Economic Growth, 08.06.2007, available at http://www.g-8.de/Content/EN/Artikel/__g8-summit/anlagen/2007-06-07-gipfeldokument-wirtschaft-eng,templateId=raw,property=publicationFile.pdf/2007-06-07-gipfeldokument-wirtschaft-eng on 22.05.2008.

4. Elaboration of the regulatory and legal basis for implementation of energy performance contracting schemes and further stud ying of mechanisms warranting investments - especially in the sphere of municipal housing construction and heat supply.

5. Joint implementation of projects in the framework of Kyoto Protocol.

6. Information exchange and development of research project s on renewable energy.

7. Establishment of EU-Russia Venture Funds for the development of energy efficiency and renewable sources of energy [135].

3.2 Germany as an example of the energy cooperation between Russia and the European Union.

During its Presidency in the European Council in the first half of 2007, Germany had to face with decision-making of some vital questions for the EU such as development of common European Energy Policy. After active, but unsuccessful attempts in 2006, it was expected, that Germany could reach a consensus among the member-states of the EU concerning the priorities in the external energy policy and division of the competencies in this area between the European Union and the member-states. In Germany, as well in other countries, interests of energy companies were crucial in formation of energy policy [136]. Till now, maintenance of energy security in Germany was mainly the task of energy companies such as Ruhrgas (now E.ON Ruhrgas) and Wintershall. It was repeatedly discussed by Germ an analysts who approved that domination of the private companies in this area led to formation of

[135] Final report of the Thematic Group on Energy Efficiency of the EU -Russia Dialogue, October 2006, p.6.

[136] Notz Kristina La politique énergétique allemande : entre impératifs nationaux et exigences communautaires, Comité d'études des relations franco -allemandes, Mars 2007, p.8.

various tendencies in the field of energy, one of which is an increasing energy dependence on Russia.

And that fact, that Germany has staked on strengthening of relations with Russia, in comparison with other West-European countries, allows speaking about "special" or "strategic" relations between Russia and Germany [137]. It is important to notice, that these relations were defined more likely by economic and private interests, rather than political.

3.2.1 Interdependence of Germany and Russia

The basic energy resources consumed by Germany are oil and natural gas. While gas makes 27.3% of German energy consumption, oil constitutes approximately 40%. Among fossil fuels, coal makes only 5.2% of the general energy consumption and it is completely covered by own resources [138].

Oil and gas together make 67.3% of German energy mix. Import of both sources is vital for the country. Import from Russia constitutes 33.7 % of all imported oil and 39.1 % of all imported gas [139]. It is a little bit less than import of the European Union itself after expansion: 30% import of oil and 50% import of gas from Russia. In spite of these data, relations between Germany and Russia are characterized as interdependent. Germany is one of the basic markets for export of Russian energy resources, and the petrodollars received from export are at present the basic engine for economic development of Russia. However, in the future this dependence can become unilateral if Russia successfully develops and uses technologies of liquefied

[137] Rahr Alexander Germany and Russia: A Special Relationship, The Center for Strategic and International Studies and the Massachusetts Institute of Technology, 2007, p.1.
A critical evaluation of this claim can be found in: Götz, Roland: Deutsch-russische Energiebeziehungen – auf einem Sonderweg oder auf europäischer Spur? Discussion Paper Stiftung Wissenschaft und Politik (SWP). Berlin, November 10, 2006. Available at http://www.swp-berlin.org/de/common/get_document.php?asset_id=3423 on 22.05.2008.
[138] Schiffer, Hans-Wilhelm: Energiemarkt Deutschland. Köln, 2005, p. 30

[139] Bundesministerium für Wirtschaft und Technologie (ed.) (2006): Kurzbericht. Verfügbarkeit und Versorgung
mit Energierohstoffen. Berlin, March 29, 2006.
http://www.bmwi.de/BMWi/Navigation/Presse/pressemitteilungen,did=127764.html

natural gas (LNG). It will provide significant flexibility of export of the Russian energy resources therefore Germany will appear in a weaker position.

Gas import from Russia covers 25% of gas consumed in Germany. In the Western Europe only Austria considerably surpasses Germany on this parameter: 55% (France: 28%, Italy: 27%). In the countries of the East Europe the situation is absolutely different. Estonia, Latvia, Lithuania cover 100% of their energy consumption due to energy supplies from Russia, Slovakia 99%, Hungary and the Czech Republic more than 70%[140]. Dependence of Poland is limited to 53%. In total import of energy carriers from Russia makes 25% of all EU consumption[141]. Hence, dependence of Germany on import of the Russian energy carriers can be defined as average in quantitative terms that, however, does not give a clear explanation of "special" relations between Germany and Russia. Most likely, it explains with relations between energy companies.

One of main German private actors in the energy market is E.ON Ruhrgas (in March 2003 Ruhrgas has been absorbed by E.ON). E.ON Ruhrgas is the largest provider of natural gas to the German market (639.5 bio. in kWh in 2003) . Owing to the stocks in 5.2 billion м3, the company can essentially reduce vulnerability of Germany and the EU in crisis situations. It is very important, as the company receives all gas from Russia, basically from "Gazprom". Relations between two companies began to be formed in 1970 when a 20-year contract was signed between the Soviet foreign trade ministry and the West German company Ruhrgas for delivery og gas to the FRG. Two more import contracts were signed by Ruhrgas in 1972 and 1974 and since then gas relationship between West German and the Soviet Union become

[140] Michael Sander A "Strategic Relationship"? The German Policy of Energy Security within the EU and Importance of Russia: The European Union's Quest for a Common Energy Foreign Policy, Volume 8 – Issue 20, Trier, Germany, 11 January 2007, p.17.

[141] European Commission (2000): Green Paper: Towards a European Strategy for the Security of Energy Supply. Luxembourg, November 29, 2000, p. 40.
http://ec.europa.eu/energy/green-paper-energy-supply/doc/green_paper_energy_supply_en.pdf

stronger and stronger[142]. This dependence is supported with participation of the company in Gazprom's governing body. Burckhardt Bergmann, one of managing directors of Ruhrgas, was selected to the Board of directors at Gazprom in 2000 and since then he is re-elected annually[143]. It is the unique representative of the foreign company within the structure of the Russian gas monopolist. Since December, 21st, 1998, Ruhrgas pursued the policy of buying assets in Gazprom. Now it possesses 6.5% of Gazprom's actions out of 7.4% belonging to foreign shareholders. It is the biggest foreign holder of actions[144].

The second largest energy company in relations between Germany and Russia is WINGAS. This company was founded in order not to admit monopolization of the gas market in Germany by Ruhrgas, establishing direct relations with importers of gas. Such policy should have lowered expenses for chemical production of head-company BASF. As Ruhrgas, WINGAS began to establish dialogue with Russia for maintenance of gas supplies. WINGAS is a subsidiary of BASF-Wintershall (65% and the rest 35% belonged to Gazprom). Basic participation of WINGAS in the Russian market is assets in Sothern Russian gas deposit in Siberia. Due to this transaction Gazprom increased its share in WINGAS up to 50%[145].

Uniting these processes, it is possible to affirm, that they promoted formation of increasing interdependence between Russian and German energy companies. In particular, close cooperation between E.ON Ruhrgas and Gazprom can be characterized as "special". However, Gazprom actively cooperates with other European companies, for example with Italian Eni. The Italian energy company closely cooperates with the Russian energy industry and even wanted to buy in 2004

[142] Stern Jonathan Gas pipeline co-operation between political adversaries: examples from Europe., Royal Institute of International Affairs (Chatham House), January 2005, p.2.

[143] Starobin Paul Commentory: Give Gazprom a Fresh Start, President Putin, Business Week, June 4 2001, http://www.businessweek.com/magazine/content/01_23/b3735147.htm

[144] Gazprom's official website http://www.gazprom.com/eng/articles/article23 674.shtml

[145] Gazprom raises Wingas stake to 50% in asset swap with BASF, 23 October 2007, available at http://russogasoil.blogspot.com/2007_10_01_archive.html

assets in subsidiary of Yukos - Yuganskneftegaz. More recently Eni planned to get access to development of oil-and-gas deposits in Russia, in exchange having given to Gazprom access to the Italian energy market. During the forth Russian-Italian consultations between the President of Russia Vladimir Putin and the President of Council Romano Prodi on 13/14 March 2007, a partnership agreement on nuclear energy was signed between ENEL and Russian Federal Agency of Nuclear Energy. [146]

Another example of cooperation in the field of energy could become integration of British company British Petrolium into the Russian energy sector through its subsidiary TNK-BP. But in general, relations between the Great Britain and Russia are more conflict, rather than in case of Germany and Italy. It was especially obvious, when the British government was completely against entering of Gazprom to the British market through purchase of assets in energy company Centrica[147]. The similar model of relations can be observed between Russia and East-European countries, for example Poland or Lithuania which for preservation of their energy safety repeatedly blocked attempts of Gazprom to acquire assets in power companies of these countries[148]. In all examples mentioned above, the leading role played the private companies with the support of political actors.

Any way, it is possible to observe close interdependence of business and policy. The former chancellor Schroder said that he made the choice for his country in the sphere of energy, having put exclusively on Russia. "Europe will achieve success only if it has good relations with Russia. This country has stable political system, - answered Schroder to the criticism of his close relations with Putin, - Russia possesses the largest stocks of hydrocarbons and is ready to a serious long-term

[146] Paillard Christophe-Alexandre L'Allemagne, la Russie et l'énergie, Questions d'Europe N55, Fondation Robert Schuman, le 19 mars 2007, p.5.

[147] Romanova Tatyana Energy Partnership – A Dialog in Different Languages., Russia in Global Affairs, N1, January-March 2007, p.2.

[148] Michael Sander A "Strategic Relationship"? The German Policy of Energy Security within the EU and Importance of Russia: The European Union's Quest for a Common Energy Foreign Policy, Volume 8 – Issue 20, Trier, Germany, 11 January 2007, p.19.

energy partnership with Europe and Germany."[149]. While the European Union signed arrogant documents with Russia, Schroder and Putin agreed about more essential projects. In April 2005 German energy company Wintershall (subsidiary of concern BASF) signed the memorandum of mutual understanding with Gazprom on joint exploitation of the Yuzhno Russkoye gas deposit in northern part of Siberia [150]. According to the arrangement, Wintershall received 50 % of actions of the deposit, and Gazprom - access to the market of natural gas in Germany. At an industrial exhibition in Hanover in April 2005, Putin and Schroder presented this transaction as the sample of the agreement taking into consideration interests of both countries. Meanwhile international analysts emphasize its advantage first of all for Gazprom as the Russian state company got access to the key western consumer market under rather low price[151].

For Schroder and Putin energy business is more, than simply trade. It is a way to be kept at authority and to influence large business and a policy simultaneously. Being a social democrat, Gerhard Schroder always maintained close relations not with small and average business, but with large corporations. Organizational structures the companies like E.ON are similar to state bureaucracies, and many German social democrats feel themselves in comfortably in such companies. And Vladimir Putin in any case does not have alternative to interaction with Russian business-giants like Gazprom as small and average business isn't enough developed in the country. Recent purchase of the control share holding of Gazprom by the state confirms that the Russian economy in many aspects depends on the government [152].

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[149] Schroder Gerhard Strong Russia it's good for Europe, 09.06.2007, available at http://www.podrobnosti.ua/opinion/2007/06/09/430993.html on 28.05.2008.

[150] Wintershall : History of the North European Gas Pipeline (NEGP), available at http://www.wintershall.com/458.html?&L=0 Wintershall's official website.

[151] Thumann Michael Diversification des sources – la meilleure stratégie pour les relations énergétiques UE-Russie, Programme de recherche Russie/NEI, IFRI, Mai 2006, p.10.

[152]Ibid., p. 11.

The closest advisers of Putin and Schroder work or worked in energy companies. Current president of Russia Dmitry Medvedev was the chairman of board of directors in Gazprom. The nearest colleague of Vladimir Putin from St. -Petersburg Alexei Miller worked in the Kremlin before the Russian president appointed him the chairman of board of Gazprom. In 1998 Gerhard Schroder appointed Verner Muller, top-manager from energy sector, Minister of Economics. Later Muller became chairman of board Ruhrkohle AG, a powerful energy company of the Western Germany. The nearest employee of chancellor Alfred Take, economist closely connected with trade unions, worked with Schroder during all its political career in the Down Saxony till his appointment as chairman of boards of directors in energy company Steag in Berlin in 2005. Energy business became a continuation of Schroder's career himself after he had to leave an armchair of the chancellor as a result of defeat at elections in September 2005: president Putin proposed him it to be the head of board of directors in the company-operator on construction of the North-European gas pipeline. Its headquarter because of the low taxation was situated in Switzerland[153].

In Germany energy policy is a competence of the Ministry of Economics (it consists from christian-democrats, and the head of the Ministry is Michael Glos). After apparition of the Big Coalition under Angela Mercel, the question who will define directions of energy policy began to be argued by social democrats (they form the Ministry of Environment the head of which is Zigmar Gabriel) [154]. This opposition in many aspects defines basic lines of energy policy. The use of nuclear power can serve a significant example. On the one hand social democrats (SPD), "Green" and "Left" opposed the use of nuclear power, insisting that, first, in case of accident there will be very serious consequences, and secondly, they specified the problem of

[153]Russia: Former German Leader Staunchly Defends Moscow's Priorities, Radio Free Europe, 11.12.2007, available at http://www.rferl.org/featuresarticle/2007/12/b8bf972d-c38c-404f-b7ce-cc5901deb47b.html on 28.05.2008.

[154] Muller Friedemann U.S. and German approaches to the energy challenge: AICGS Policy Report, American Institute for Contemporary German Studies, Washington, 2007, p.32.

nuclear waste. Therefore in long-term prospect they insisted on increase in energy mix of the share renewable energy. Two other parties, Christian-democrats (CDU and CSU) and liberals (FDP), on the contrary, supported preservation of nuclear power. As basic arguments they mentioned that nuclear power in comparison with the use of fossil fuels promotes climate protection, reduces energy dependence and it can be produced by low and stable prices [155].

3.2.2 Bilateral relations between Russia and Germany in the field of energy

The special role of energy companies in German-Russian relations finds its reflection also on bilateral level that also confirms formation of "special relations", for example, in the context of negotiations about construction of the North-European gas pipeline, and also development and export of gas from Shtokman deposit, Gazprom gave preference to German companies and to other European or American companies. If in the first case it was a question of distribution of assets, in the second it was reorientation of supplies from American market to the European and it had already strategic character. Evidently, good relations between the Russian and German energy companies play a positive role for Germany and give profit.

Political leaders also play an important role in formation of relations, however, not always defining. For example, negotiations about construction of the North-European gas pipeline were conducted by the companies Gazprom, on the one hand, BASF and E.ON Ruhrgas on the other hand. This project caused strong counteraction of Poland which pointed at increasing energy dependence on Russia. Realization of this project led to deterioration of relations between Germany and its Eastern neighbors. Besides, during discussions on the development of Shtokman deposit, Angela Merkel asked Vladimir Putin to change the market of export from

[155] Notz Kristina La politique énergétique allemande : entre imperatives nationaux et exigencies communautaires., Comité d'etudes des relations franco-allemandes, Mars 2007, p.4.

American to European[156].

Thirdly, the Russian players more often define the framework of bilateral relations and formulate conditions of cooperation themselves. At transnational level, a significant example can be the project of the North-European gas pipeline. Initially the project was offered by Finland, but Gazprom began to realize it together with Germany, keeping itself the control over share holding. Besides, Gazprom negotiated for inclusion in the project of Dutch company Gasunie in order to emphasize a European character of the project. As a result, both German companies conceded a part of their assets to the Dutch company, and Gazprom received assets of Gasunie in the British project. However the British government didn't allow getting assets in British company Centrica. This example illustrates well the important role of the energy companies in politics and their influence over it [157].

At the international level, Vladimir Putin himself frequently defined conditions of bilateral cooperation. As an example it is possible to mention his remark about Shtokman deposit where he offered to Germany a role of the distributor of the Russian gas for the EU countries. At the same time he denied criticism about politization of bilateral energy relations: "Our interdependence creates sustainability, reliability and stability … Should our export be reduced? In this case we shall find other markets without any problems" [158].

Therefore, Germany considers Russian energy policy as a political instrument to put pressure upon the country. However, in comparison with other European countries, bilateral German-Russian relations between energy companies as well between political leaders are characterized with absence of conflicts. For example,

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[156] Adomeit Hannes Germany's Policy on Russia: End of the Honeymoon?, September 2005, Research Program Russia/NIS, IFRI, p.18.

[157] Michael Sander A "Strategic Relationship"? The German Policy of Energy Security within the EU and Importance of Russia: The European Union's Quest for a Common Energy Foreign Policy, Volume 8 – Issue 20, Trier, Germany, 11 January 2007, p.21.

[158] Brössler, Daniel, Kilz, Hans Werner: Interview mit Vladimir Putin. Diese Leute sind Provokateure oder sehr dumm. Sueddeutsche Zeitung, October 10, 2006. http://www.sueddeutsche.de/ausland/artikel/274/88186/

British company TNK-BP had problems with tax payments and another example Royal Dutch-Shell participating in Sakhalin 2 had problems related with environments protection[159].

3.2.3 German policy in the European context

In the European context Germany supports formation of common European Energy Policy. At the meeting with the prime minister of Britain Toni Blair on February, 18th, 2006, the chancellor Angela Merkel called for creation of common European approach in the external energy policy[160]. Minister Gloss in the speech in November, 2006 insisted on necessity of the common European Energy Policy if between the EU member-states there are common interests. The publication of the Action Plan on energy was an important purpose of German Presidency at the summit in spring 2007. In this context German energy strategy has three basic elements. The first is liberalization of the global energy markets, the second - the further diversification of suppliers and transport routes. The third and the most important, is stabilization of energy relations through constant dialogue and gradual integration with the basic suppliers and transit countries. Internal and external diversification of energy resources are one of the basic purposes of German policy in the context of the European Energy Policy[161]. As for integration with the basic export countries, Minister Glos said, that "… interdependence creates security"[162]. It reminds the note

[159] TNK-BP paid its debt of $1.5 billions, Oil Ressources Info, 10.11.2006, available at http://oil-resources.info/archives/676 on 28.05.2008. (ТНК-ВР погасила налоговый долг в $1.5 млрд.)

[160] Merkel will Energie sichern. Frankfurter Rundschau. February 18, 2006

[161] Achievements oft he 2007 German Presidency of the Council of the EU in the Field of Economic Policy; Europe's Economy in the Age of Globalization, German Federal Ministry of Economics and Technology, available at http://www.bmwi.de/English/Redaktion/Pdf/europes-economy-in-the-age-of-globalisation,property=pdf,bereich=bmwi,sprache=en,rwb=true.pdf on 28.05.2008.

[162] Glos Michael: Deutschlands Beitrag zu einer wettbewerbsfähigen, sicheren und umweltverträglichen Energieversorgung innerhalb der EU. Rede des Bundesministers für Wirtschaft und Technologie Michael Glos MdB anlässlich der Konferenz des Wirtschaftsrates der CDU. http://www.bmwi.de/BMWi/Navigation/Presse/reden-und-statements,did=170904.html

made earlier by Vladimir Putin. Expansion of South-East European Energy Community towards Norway, Ukraine and Moldova, and also integration of energy cooperation within the framework of new Cooperation and Partnership Agreement are the most important measures in this context.

Increasing dependence on gas and oil import from Russia is considered as inevitable. According to some experts, Russian import can cover two third of all German import of energy carriers by 2020[163]. The political answer of the German government to this forecast is the intensification of energy dialogue with Russia. In this context, the Ministry of Economics constantly criticizes the agreement between the government and energy companies about gradual reduction of nuclear energy.

Conclusions

As a result of the made analysis it is possible to make two basic conclusions. Firstly, between Germany and Russia there are "special" relations which have material benefit. Though many basic features of German-Russian relations in the field of energy can be found in relations of Russia with other European countries, but still high interdependence and participation of German energy companies in the Russian market make these relations special.

Secondly, the role of energy companies in German energy policy and energy security will remain very important. Change of German policy towards to Russia will be grdual.

[163] Kristina Notz La politique énergétique allemande : entre imperatives nationaux et exigencies communautaires., Comité d'etudes des relations franco-allemandes, Mars 2007, p 13.

Chapter 3 Problems and prospects of the energy cooperation between the European Union and Russia

3.1 Liberalization of the energy market in Europe and adaptation of Russia.

In September 2007 the European Commission published its propositions of "the third package" on liberalization of energy market of. In the Western and Russian press immediately appeared a number of opinions and discussions around the published documents. What are the main provisions of "the third package", prospects of its adoption in the European Union and potential consequences for Russia?

3.1.1 The content of the third package on liberalization

The package of bills on energy liberalization includ s five documents, aiming to realize the key purposes of the European Energy Policy: creation of the competitive market, decrease of negative impact over environment and increase of energy security of the European Union.

These three tasks presented in the Green Paper (2006) [164], make the conceptual basis of all the actions of the European Commission. They were also depicted in Lisbon Treaty [165].

[164] Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy, adopted by thee European Commission on 8th of March 2006 (COM(2006) 105 final) http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_document_en.pdf on 28.05.2008.

[165] Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, Conference of the Representatives of the Governments of the Member -States, Brussels, 3 December 2007, available at http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2007:306:SOM:EN:HTML on 28.05.2008.

"The third package" seeks to make three essential changes in the management of EU's energy sector:

- Final unbundling of segments of business;
- Strengthening of regulative agencies;
- Improvement of conditions for the cooperation between network operators[166].

Firstly, the propositions contain the intention finally to liquidate "vertical integration", in other words to separate (unbundling) producing capacities (extracting - in case of natural gas and generating - for electricity) from transport networks – gas pipelines or high-voltage transmission lines. Today the biggest part of transport assets is concentrated within the hands of large gas and electric companies that interferes with the emergence at the market of new players and creates obstacles for consumers in choosing supplies. According to the opinion of the European Commission, the present structure of the property on transport assets does not promote "correct" investments into development of network assets [167].

The European Commission insists on the tougher variant of allocation of the transport component. The member-states of the European Union can choose two ways according to the offered scheme [168].

The first is a separate possession of two segments. It means that big producers of energy and natural gas are obliged to sell transport network assets to independent companies.

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[166] Explanatory Memorandum of the third energy package on the liberalization of the energy market, the European Commission's official web site http://ec.europa.eu/energy/electricity/package_2007/index_en.htm

[167] Liberalisation of the EU gas sector, 26 March 2008, available at http://www.euractiv.com/en/energy/liberalisation-eu-gas-sector/article-171067 on 28.05.2008.

[168] Romanova T.A. The "third package" and the future of Gazprom, Russia in Global Affairs N6, November-December 2007, available at http://www.globalaffairs.ru/numbers/29/8828.html on 28.05.2008. (Романова Т.А. «Третий пакет» и будущее Газпрома, Россия в глобальной политике №6, Ноябрь-Декабрь 2007).

The second is the preservation of the property of extracting/generating companies on pipelines/high-voltage transmission lines under the condition that management of networks should be given to an independent company and there will be a rigid control from the part of the regulator.

There are some exceptions in the division of segments of business. The first concerns minority shareholders: they can keep the property right simultaneously in extracting/generating and transport segments as their voice is not decisive. The second exception concerns new infrastructure: with the purpose of recovery it can be not separated from extracting/generating assets of the company-investor during the first years of its functioning. The third exception is made for gas storehouses: it is authorized to their owners to divide extracting assets and capacities of storage by creation of the separate legal person and independent management. Thus, there is a less rigid way of unbundling[169].

Secondly, regulatory control in the energy sphere is supposed to be strengthened both at the national level and at the level of the European Union. This aims to create a regular multilateral control over the implementation of regulations by energy companies[170].

First of all it is supposed to strengthen national agencies on regulation giving them independence of the legal person and a budgetary autonomy. Propositions clear up the competencies of national regulators: they should exercise monitoring of implementation of directives on energy liberalization, analyze investment plans of operators of transport networks, observe for transparency the market and competition, and also to protect consumers. All these measures are to provide regulators with

[169] Explanatory Memorandum of the third energy package on the liberalization of the energy market, the European Commission's official website http://ec.europa.eu/energy/electricity/package_2007/index_en.htm

[170] Dempsey Judy European Commission seeks to beef up energy regulators, International Herald Tribune,17 September 2007, available at http://www.iht.com/articles/2007/09/17/business/energy.php on 28.05.2008.

independence (legal, functional and financial). The European Commission also proposes to allocate regulatory agencies with the right to undertake investigations and to make legally obligatory decisions concerning all the players of energy market. It means that national regulatory agencies will become sort of judicial bodies[171].

Besides it is planned to create new Agency for the regulation of energy on the basis of the European Regulator's Group for Electricity and Gas (ERGEG) - an informal forum for consultation between national energy regulators. According to the European Commission creation of such an agency will facilitate cooperation of national regulators in creating a uniform system. The agency will supervise also the interaction between the operators of gas networks and high-voltage transmission lines, especially in transboundary questions and to advise the European Commission concerning development of regulation[172].

Thirdly, it is proposed to simplify and deepen cooperation between network operators. For the purposes of strengthening interaction between the companies possessing network assets, it is necessary to develop general technical standards for the functioning of networks, to incur a joint management of networks, and also investment planning. So, it is necessary to have an official body providing cooperation between operators of transport capacities at the level of the European Union. Thus, in the field of network assets there is an evident movement towards centralized, all-European system of control[173].

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[171] Dempsey Judy European Commission seeks to beef up energy regulators, International Herald Tribune,17 September 2007, available at http://www.iht.com/articles/2007/09/17/business/energy.php on 28.05.2008.

[172] European Energy Regulators CEER & ERGEG official website http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_ABOUT/ERGEG

[173] Energy Policy : Questions and Answers, Press Release, 19.09.2007, the European Commission's official website http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/362&format=HTML&aged=0&language=EN&guiLanguage=en

Provisions of reform are directed not only at stimulation of competition in energy sphere, but also at formation of the all-European regulation of energy. So, along with liberalization there is a process of management cen tralization.

3.1.2 Vertical integration

All five documents should be approved by the European parliament and the Council of Ministers. The main political groups of the European Parliament already supported the propositions of the European Commission.

To achieve approval among member-states is more difficult. The European Commission mentioned that the heads of the states and the governments agreed with the Commission's initiatives at the summits of the European Council in Humpton (March, 2005) and in Brussels (March and June, 2007).

Really, the heads of the states and the governments support further liberalization of the EU energy market. However, despite on the aims, the member-states do not agree the methods of their achievement.

Today the basic objections are caused with division of assets. Traditionally the opponents of assets division (though and for different reasons) are France and Germany.

Paris defends the concept of producer protection and supports so-called "national champions" - large companies, capable to compete the world scene (Gaz de France and Electricité de France). In September 2007 the French Ministry of Environment and Development addressed to the European Commission a letter in which it is emphasized that the aims of EU energy policy should be reduction of the negative impact on the environment, security of supplies, decreasing of oil and electricity prices and not a wide liberalization as the tool of reduction of prices on energy carriers[174].

[174] Ministère de l'Ecologie, du Développement et de l'Aménagement durables de la France Marché intérieur de l'électricité et du gaz, 19 septembre 2007, available at http://www.equipement.gouv.fr/article.php3?id_article=2464 on 23.05.2008.

Germany opposes ideas to force private companies to sell their property as it is legislatively forbidden. Under the insistence of Berlin the second variant of abolition of vertical integration was developed. Germany considers, that division of assets will destroy existing harmonious system of functioning of energy sector which is based on mutual arrangements and obligations of private energy companies [175].

The Minister of External Trade of France, Kristin Legard (nowadays he is a Minister of Finance) and the Minister of Economics and Technologies of Germany Michael Glos, called the initiative of the European Commission pure bureaucracy, having declared their intention to prevent the obligatory sale of network assets. The Franco-German tandem creates fears that the propositions will not be adopted if the terms of assets division are not changed[176].

Moreover, in July 2007 Austria, Bulgaria, Greece, Cyprus, Latvia, Luxembourg and Slovakia sent the letter to Brussels in which they supported the point of view of Paris and Berlin: "the idea of the complete separation of production and distribution as the only key to the development of the internal energy market for electricity and gas should be avoided" [177]. Thus, during the adoption in the European Council, the European Commission will face serious opposition.

The calendar of the presidency in the European Union is also not favorable to the propositions of the European Commission on the final vertical division of assets. The first and basic decisions in the Council of Ministers on the package of reforms

[175]Glos Michael Completion of the Single European Market for Electricity and Gas – striking the balance between competition and energy security, Berlin, 29 March 2007, available at http://www.bmwi.de/English/Navigation/Press/speeches-and-statements,did=195184.html on 23.05.2008.

[176] EU unveils plan to dismantle big energy firms, 20 September 2007, available at http://www.euractiv.com/en/energy/eu-unveils-plan-dismantle-big-energy-firms/article-166890?Ref=RSS on 28.05.2008.

[177] "Third option" mooted on energy liberalization, 27 November 2007, available at http://www.euractiv.com/en/energy/third-option-mooted-energy-liberalisation/article-168593 on 23.05.2008.

coincide with the presidency of Slovenia (the first half of 2008). It is questioned if it will be able to influence the decision in the Council of Ministers .

There is no common position concerning propositions on liberalization at the level of various groups of interests. So, in the opinion of representatives of the Association of the electric companies (Eurelectric), the initiative of the European Commission not only does not promote creation of the common market, but also worsens conditions of activity for the companies as it deprives them of guaranteed trade channels of electricity[178]. The association of employers of EU member-states (BusinessEurope) is interested in the preservation of long-term contracts on deliveries of the gas, as it provides energy security of the EU. It especially emphasizes the value of steady relations between large producers of gas and electricity on the one hand and infrastructural objects on the other[179].

Thus, the biggest companies of the European Union give priority not to the market but to stability and security of deliveries on any terms. At the same time, for example, EU Chemical Industry Council (CEFIC) declared that propositions of the European Commission are not capable solving the most important problem of the energy market - monopolization of the sector[180].

There are different ways of solving the conflict. The most probable one is a correction of Commission's propositions on allocation of transport infrastructure into independent business and consequently selling transport assets to independent companies. But changes made by the Council of Ministers, obviously, will concern the companies of the European Union, but not the operators of the third countries. Most likely, member-states will agree with strengthening regulatory agencies and

[178] Union of the Electricity Industry EurElectric A Competitive Market: Full liberalization of the EU electricity and gas market, available at http://www2.eurelectric.org/Content/Default.asp?PageID=818 on 28.05.2008.

[179] Third energy package: stakeholder reactions broadly positive, 20 September 2007 http://www.euractiv.com/en/energy/third-energy-package-stakeholder-reactions-broadly-positive/article-166908

[180] EU Chemical Industry Council Energy markets liberalization, available at http://www.cefic.org/Templates/shwStory.asp?NID=537&HID=539 on 23.05.2008.

cooperation of network operators, and also with measures of investment restriction for the third countries.

3.1.3 Changes in institutional structure of regulation

Meanwhile apart from the division of assets there is much more important problem – changes of institutional structures of regulation. It is a question of intention to strengthen national regulators and to build a regulative network led by the central agency at the level of the European Union, and also to develop cooperation of network operators. These changes seem to be much more essential than vertical integration.

The strengthening of national agencies for the regulation of energy will lead first of all to centralization of regulation. Colliding with criticism from national executive and legislative branches, the agencies will address Brussels for support. And in order to strengthen themselves they will actively promote the ideas of the European Commission. Something similar already occurred with national judicial bodies which, hurrying up to prove the independence and limits of competencies, actively cooperated with the European Court. It led to creation of existing system of the European law of primary importance and direct action [181].

Creation of energy agencies is a management policy of the modern control system of the European Union which assumes formation of vertical structures for interaction between national bodies and structures in separate segments of the market (chemical, medical, food stuffs, etc.). On the one hand, owing to multilevel interaction and communications regulatory institutes become stronger, but on the other hand there is a redistribution of competencies between member-states and Brussels in favor of the latter.

[181] Romanova T.A. The "third package" and the future of Gazprom, Russia in Global Affairs N6, November-December 2007, available at http://www.globalaffairs.ru/numbers/29/8828.html on 28.05.2008. (Романова Т.А. «Третий пакет» и будущее Газпрома, Россия в глобальной политике №6, Ноябрь-Декабрь 2007).

At the first stage agencies will represent only a weak coordination bod y: it is the compromise of the European Commission as the member -states are not ready yet to agree to a radical redistribution of regulative functions in favor of supranational structures. However in the future it is possible to expect strengthening of agencies. A significant example is a gradual development of the European Aviation Safety Agency (EASA)[182].

As a result energy policy which is nowadays among the mixed competencies of the European Union and the member -states (both according to Amsterdam and Nice Treaties as well to Lisbon Treaty) will become more and more the sphere of the responsibility of the European Commission. Thus, it will gradually influence indirectly those aspects of activity which today are exclusively in the charge of the member-states as, for example, definition of external suppliers or energy mix structures[183].

Thus, strengthening of national regulators and creation of energy agencies at the level of the EU are much more important initiatives for the further development of energy sphere in compa rison with liquidation a vertical integration. The agencies will allow the European Commission to centralize subsequently a lot of competencies in the energy sector. Focusing on the short-term prospects and problems, the member - states overlook long-term changes of the competencies in the field of energy.

3.1.4 Future politisation of the energy cooperation?

In the proposition it is said that any enterprise founded in the third state (without dependence from, whether it owns assets in energy or not) will not h ave the right to carry out the control over network assets of the European Union. The companies of the third countries can invest into network assets of the member -states only after approval at the level of the European Union and after signing the

[182]Ibid.

[183] EU unveils plan to dismantle big energy fi rms, 20 September 2007, available at http://www.euractiv.com/en/energy/eu -unveils-plan-dismantle-big-energy-firms/article-166890?Ref=RSS on 28.05.2008.

international agreement between the EU and the state where the corresponding enterprise was established[184].

Inside the European Union the necessity of conclusion of bilateral agreements allowing investments will lead to two consequences.

First, the essential part of competencies on the regulation of external energy policy will be the priority of the European Commission, as it was mentioned above.

Conclusion of agreements with different countries of the world will allow formalizing decision making process. However negotiations will demand serious bureaucratic efforts and time for the coordination of the text, its signing and ratification/approval (depending on legal base inside the EU). Hence, investment decisions will be postponed, and trance-boundary partnership of private companies which was earlier encouraged, will be blocked at the political level.

According to the European Commission, such agreements should create obstacles for investments of the state funds of Russia, China and of some other countries to the European Union which pursue political and not economical interests.

In clause 7a of Lisbon Treaty there are remarks about relations with neighbours, based on the principle of reciprocity[185]. Thus, the Reform Treaty post factum confirms propositions of "the third package" on energy liberalization in its external aspects. However the principle of reciprocity for the moment is not defined in economic, nor political or legal plan. Maybe such principle will be developed on a practical basis of the relations between Russia and the EU. During the meeting between EU Energy Commissioner Ahdris Piebalgs and Russian Energy Minister Victor Krishtenko held in Brussels on 16 October, it was announced that the

[184] Explanatory Memorandum of the third energy package on the liberalization of the energy market, the European Commission's official website http://ec.europa.eu/energy/electricity/package_2007/index_en.htm

[185] Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, Conference of the Representatives of the Governments of the Member-States, Brussels, 3 December 2007, available at http://eur-lex.europa.eu/JOHtml.do?uri=OJ:C:2007:306:SOM:EN:HTML on 28.05.2008.

reciprocity clause would block Gazprom and other foreign investors from acquiring energy assets in Europe if their countries don't open th eir markets in return[186].

3.1.5 The "third package" on energy liberalization and consequences for Gazprom

Certainly the "third package" on liberalization of the energy market will affect Russia and especially Gazprom. At least four aspects of "the third packag e" represent crucial importance for the future relations between the European Union and the Russian Federation.

"Gazprom's clause". The legislation of the European Union is extra-territorial. It means that its legislation concerns the companies of all the countries of the world without dependence on the place of their establishment. Sufficient criterion for the European Commission is the presence of the enterprise in the market of the European Union.

Under this clause, foreign companies would need to comp ly with the same unbundling requirements at home before making acquisitions in the EU. The conditions would be laid down in a bilateral agreement [187].

Besides, according to the project, any extracting or generating company created in the third state can't con trol transport capacities in the territory of the European Union. Thus it is not clear, how the control will be defined. It can be a

[186] EU, Russia to explore "reciprocity" in energy trade, 17 October 2007, available at http://www.euractiv.com/en/energy/eu-russia-explore-reciprocity-energy-trade/article-167662 on 28.05.2008.

[187] Liberalisation of the EU gas sector, 26 March 2008, available at http://www.euractiv.com/en/energy/liberalisation-eu-gas-sector/article-171067 on 28.05.2008.

control package or a share in 10%, allowing to the company to influence on decision-making process. Though member-states are still free to choose suppliers (it is a question of national competencies), the choice of ways of interaction with them is limited by established rules [188].

In the long term perspective there can appear a question of Gazprom's property on the main gas pipelines situated in the territory of the EU (for example, Yamal-Europe gas pipeline, gas-supplying systems in the Baltic countries, Nord Stream gas pipeline). The clause threatens with the requirement to sell corresponding assets or their part to independent companies.

Investment agreements and the principle of reciprocity. In relations between Russia and the European Union investment agreements on the basis of reciprocity get special state. After clearing its value the specified principle can play a role of the compromise. Initially Brussels demanded legal rapprochement from Moscow which would provide the general conditions of cooperation for all economic players. The accent on legal rapprochement was made within the framework of the energy dialogue started in 2000. Moscow emphasized importance of an equivalent exchange of assets on the basis of conclusion of arrangements in concrete cases, and better at the political level. Besides, it emphasized that gas and electricity infrastructures function differently, he said, and are governed by different market mechanisms and investment decisions, including long-term contracts [189].

Today Brussels obviously perceives energy cooperation through the prism of security policy. The Russian position finds more and more economic content and is directed at maximization of profit (including due to the movement into the sector of

[188] Energy Policy : Questions and Answers, Press Release, 19.09.2007, the European Commission's official website http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/362&format=HTML&aged=0&language=EN&guiLanguage=en

[189] EU, Russia to explore "reciprocity" in energy trade, 17 October 2007, available at http://www.euractiv.com/en/energy/eu-russia-explore-reciprocity-energy-trade/article-167662 on 28.05.2008.

distribution of the European Union). In such a situation of different directions, transition to a new principle of reciprocity can appear as conceptual breakthrough[190].

But there are various difficulties because the principle of reciprocity is not defined economically, politically and legally. It is required complex technical and not declarative political work which the European Commission carr ied out for today more successfully than the Russian participants of negotiations.

Ambiguity of the principle of reciprocity causes sharp splash of attention to it in political, business and scientific circles. The discussions can be extremely useful not only for the development of energy dialogue, but also for the whole complex of mutual relations between Russia and EU, especially in the framework of development of new Partnership and Cooperation Agreement.

Uniform regulatory network. The formation of a uniform regulatory network in the European Union means that importers will submit more and more to supranational structures cooperating with national regulators [191]. As a result they will gradually lose an opportunity to agree with national regulative agencies, inc luding on creation of new infrastructures. It can have both positive and negative consequences.

It is necessary to carry alignment of conditions and game rules in all member - states of the European Union to positive moments. In each concrete case it won't be necessary to search with whom and how to solve this or that question. However it is

[190] Romanova T.A. The "third package" and the future of Gazprom, Russia in Global Affairs N6, November-December 2007, available at http://www.globalaffairs.ru/numbers/29/8828.html on 28.05.2008. (Романова Т.А. «Третий пакет» и будущее Газпрома, Россия в глобальной политике №6, Ноябрь-Декабрь 2007).

[191] EU unveils plan to dismantle big energy firms, 20 September 2007, available at http://www.euractiv.com/en/energy/eu -unveils-plan-dismantle-big-energy-firms/article-166890?Ref=RSS on 28.05.2008.

obvious, that in case of centralization of regulation the separate member -states can block a part of investments (especially infrastructural)[192].

Cooperation of network operators. Certainly, cooperation of network operator facilitates transportation of energy resources (gas, oil, electricity) for long distances and through the borders of the member -states. There are new channels of sales, rationalization of streams.

However, it remains unclear how the companies of the third countries owning infrastructural objects in territory of the European Union will be involved. Whether to them will be applied the general norms and whether will be given the opportunity to participate on equal investment planning, an estimation of adequacy of an infrastructure and development of technical standards? [193]

3.1.6 Reaction of Gazprom to the liberalization of the energy market

Gas strategies of Russia and its largest company Gazprom in the Eu ropean market are the reaction to uncertainty (of the volumes and the prices), caused by liberalization of the gas market of the European Union. This statement is confirmed with Gazprom's politics of acquiring assets, growth of export transport networks, a nd also aspiration to keep long-term contracts with simultaneous use of new opportunities. Liberalization of the European gas market is the important factor which can lead to the changes of existing relations between manufacturers and consumers. Thus, Gazprom will have to adapt to less certain environment in its main external market, and at the same time, at the internal market Gazprom should deal with logic inherited from planned economy and limiting freedom of actions. It is impossible to understand Gazprom's strategies without taking into account peculiarities of the internal Russian market and the policies chosen by the Kremlin. The President and its

[192] Dempsey Judy European Commission seeks to beef up energy regulators, International Herald Tribune,17 September 2007, available at http://www.iht.com/articles/2007/09/17/business/energy.php on 28.05.2008.

[193]Ibid.

cabinet support transnational enterprises, capable to compete with the world giants and to influence the international markets owing to the investment opportunities. Gazprom undoubtedly is the most indicative example of this tendency [194].

For Russia the process of the adaptation follows four basic directions, some of which sometimes contradict each other and make the gas policy of Russia towards the Europe even less transparent.

Industrial strategy. Large stocks of energy resources give to Russia an opportunity to export about 197 billion м3 that makes it the first manufacturer of natural gas in the world. It has two main export networks, one of which passes through Ukraine, and another one through Belarus. In order to increase the share of the market in the Europe, it is necessary for Russia to develop transport opportunities, creating new ways with simultaneous search for new export markets. This second purpose is directed, first of all, at the security of the export to the Europe and avoidance transit dependence through Ukraine and Belarus. The Nord Stream and the South Stream answer these purposes. In the future to these projects will be added Yamal II which will duplicate Yamal I.

Export security is reached also by the purchase of the shares in the companies of gas transit. So, in Belarus Gazprom has got 50% in Beltransgas in exchange for the moderate increase of the prices for the gas delivered to this country till 2011. However this variant did not manage to be used in Ukraine because of the conflict relations between two countries [195]. Nevertheless, Ukraine remains an absolute priority for Gazprom. Security of transport routes demands clearing of contractual relations between Russia and the CIS countries and, hence, an establishment of monetary relations instead of today's barter, inherited from the Soviet system.

[194] Boussena S., Pauwels J.P., Locatelli C., Swartenbroekx C., Le Défi pétrolier: questions actuelles du pétrole et du gaz (Нефтяной вызов: актуальные нефтегазовые вопросы), Paris, Vuibert, 2006, p.394.

[195] Dubien Arnaud The Opacity of Russian-Ukrainian Energy Relations, Institut Français des Relations Internationales, May 2007, p.7.

Analyzing Russia's relations with Ukraine and Belarus it is necessary to divide contracts for gas transit and contracts for gas delivery for these countries. Also I would like to underline that in these countries there is necessary a process of gradual transition to market prices both for the transit, and for the sales of gas. Thus, the rise of prices on import of energy can entail serious consequences in Ukraine and Belarus that will raise the question about industrial specialization of these countries. Besides, necessity to pay the increased accounts on energy can lead to serious social tensions[196].

Strategies of alliances in the downstream context.

As affirms C. Locatelli, a member of the Laboratory of Economics and International Integration, Gazprom's strategy to acquire downstream assets can be perceived as the answer to the uncertainty of the prices and the volumes caused by market liberalization. The aspiration to get access directly to consumers (especially wholesale) is actually a strategy of insurance from the risks arising in connection with the changes of terms and conditions of long-term contracts ("take or pay"), with the development of the spot markets and short-term transactions, and also with the growth of the competition. Liberalization can cause changes also in distribution of "rent" in a gas chain in favour of downstream. Therefore for Gazprom it is a question of access to the incomes received by sellers from final buyers at the final stage of the process. Strategies providing the control over suppliers-distributors or an alliance with the historical supplier-distributor company can represent a certain interest. As an example it can be given such companies as Wingas (joint venture Wintershall/BASF and Gazprom), with French GDF joint Fragas, Gasum with Finland [197].

Trade strategies: long-term contracts against short-term sales.

[196] Ibid.

[197] Locatelli Catherine L'UE: aiguillon des strategies de Gazprom? Institut Français des Relations Internationales, Février 2008, p.12.

Aspiration to the preservation and even an increase in the share of the market in the Europe and consequently the volumes of export is expressed also in the strategy of spot or short-term that are realized in some cases in the British spot market. In the case of Gazprom, it is only a question of using favorable opportunities because spot prices are higher than contract. But Gazprom invariable supports the long-term contracts as the main principle for energy export as it was shown during the last negotiations with GDF, E.ON-Ruhrgas, ENI and OMV. In the context of the very low internal prices, contracts "take or pay" are key for the maintenance of the financing of the investments necessary for the input in the large-scale manufacture of new gas deposits, such as Yamal. Their development is practically inconceivable without the long-term guaranteed deliveries to the Europe. It is necessary to note, that long-term contracts are important for all suppliers of gas (not only for Gazprom), because of the financial investments required in the field of the development of gas deposits and construction of gas pipelines. They provide deliveries and more or less stable and predicted prices for the long-term period that allows planning large investments into the development of new gas zones without a great risk [198].

Long-term contracts against downstream strategies.

In the same way, downstream strategies force Gazprom to choose between the maintenance and the development of contractual relations with its historical clients on the on hand and large-scale expansion of the downstream policy (it will demand carrying out of a consistent policy of investments into the European enterprises on processing and selling). The similar policy can destabilize contractual relations which Gazprom has established and aspires to support it with the old clients as they will have to reduce the contract obligations and to demand a greater flexibility of the contractual conditions that would contradict Gazprom's strategies.

The downstream policy as well the policy of short-term sales, in particular in the spot markets, will remain the marginal strategies of Gazprom until the main

[198]Ibid., p.14.

interest of the Russian gas giant there will be a security of long -term contracts[199]. And taking into consideration a situation in the Russian internal market and its low profitability, long-term contracts will remain a key element for the maintenance of the investment capacity[200].

3.2 Energy Charter Treaty.

Energy Charter was created as the mechanism of cooperation between Western and Eastern Europe on energy questions and was signed in the Hague on December, 17th, 1991. By 2003 51 states of Europe and Asia joined the treaty. 17 countries and 10 international organizations have the status of obs erver.

The basic provisions of the treaty are: protection and stimulation of foreign investments into the energy sector, free trade in energy resources, freedom of energy transit through pipelines and networks, reduction of negative influence o n the environment, creation of mechanisms of conflict resolution between states or between investor and the state[201].

Russia signed the Energy Charter Treaty in 1994, but untill now did not ratify it, therefore participation of Russia in this Treaty has a temporary character [202]. The main reason why the Russian Federation didn't not ratify Energy Charter Treaty is presence in the Treaty of Transit Protocol according to which the admission of the foreign companies to national transport infrastructure is provided under internal

[199] Gazprom business strategy, available at http://www.gazprom.com/eng/articles/article8523.shtml on 28.05.2008.

[200] Finon D., Locatelli C. Russian and European Gas Interdependence. Can Market Forces Balance out Geopolitics?, Energy Policy, N1, 2008, p.423 -442.

[201] Energy Charter, official website www.encharter.org

[202] Russia aims to support gradual change of Energy Charter, 27.03.06., available at www.g8russia.ru/news/ on 21.05.2008. Россия намерена выступать за постепенное изменение Энергетической хартии.

tariffs. As a result such countries as Azerbaijan, Georgia, Kazakhstan, Turkey, Turkmenistan and Uzbekistan having stocks of energy resources and desiring to deliver them on favorable terms through the territory of the Russian Federation to the Europe, appear directly interested in ratification of Energy Charter Treaty by Russia. They have already signed and ratified Energy Charter Treaty and now are initiators of negotiations with the Russian Federation.

In the open access there are no official estimations of consequences of Energy Charter Treaty ratification by Russia. Simultaneously official position of Russia during negotiations is represented first of all by "Gazprom", whose interests can suffer essentially in case of signing the Treaty. These factors give to some experts the basis to assume, that the true reason of unwillingness to ratify the Treaty consists in fears of the company to lose the control over commodity streams in the world market of energy, and also to lose influence on political decisions.

V.S.Milov, the president of Institute of energy policy in Moscow, points at the high politisation of polemics around Energy Charter Treaty and it "interferes development of the weighed professional estimation of the maintenance of this Treaty and to the sober analysis of its acceptability" [203].

It is obvious, that consequences of ratification by the Russian Federation of Energy Charter Treaty can't be unequivocal. On the one hand, ratification of Energy Charter Treaty will accelerate the process of diversification of the EU energy supply. If Russia signs the Treaty, deliveries of gas from Central Asia and the Caspian region (where cost price is below the average in Russia) to the European market will increase. It will lead to decrease in importance of the Russian energy resources at the energy market of the EU. Besides, growth of gas offer can essentially reduce the price. These consequences will come quickly enough, and in the short-term period the structure of the European energy market can change to worse for Russia. As a result

[203] Milov V.S. Energy dialogue between Russia and EU: to fill the vacuum, Russia in global affairs, N5, September-October 2007. В.С. Милов Энергодиалог Россия-ЕС: заполнить вакуум., Россия в глобальной политике, №5, Сентябрь-октябрь 2007 г.

high rates of gross national product growth, observed in Russia for the last years due to a favorable world conjuncture in the market of energy carriers, will decrease, and economic development of the country will be slowed down [204].

Russian government is also concerned by a question of who will supervise gas streams to Europe. In case Russia ratifies the Energy Charter Treaty, the influence of the countries of Central Asia and the Caspian region in the world trade will increase. Consequently, the USA will gain more control in energy market as in the CIS countries prevail transnational corporations (such as "BP", "ExxonMobil", "Shell") and not local companies. If Russia collides with the competition from the part of the USA, its positions in the world market of energy resources could suffer strongly.

Simultaneously, it's necessary to take into consideration consequences of ratification of the Treaty by Russia in long-term prospect. Even if Russia does not ratify Energy Charter Treaty, it can't prevent EU diversification of energy supply as in the European Union real carries out different projects in this direction. For example, Transcaspian and Transafganian gas pipelines are under construction. Also it is important to be aware of legislative and tax problems, lack of investments into branch and a high degree of deterioration of main funds. Joining the Charter can give Russia a flow of investments about 480-600 billion dollars within 20 years [205] and improvement of an investment climate, and not only in energy sector, but in the whole economy (ratification by Russia of Energy Charter Treaty will mean that Russia is ready to provide protection of foreign investments). Besides investors will have reasons to pay attention to other branches and natural monopolies will have to invest more in updating of main funds. Joining Charter will protect Russia from discrimination measures in the western markets.

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[204] Kvochko E.A., Lanshina T.A. Problems and prospects of Russia-EU cooperation within the framework of energy dialogue, Institute of International Organizations and International Cooperation, 2006, p.9. (Квочко Е.А., Ланьшина Т.А. Проблемы и перспективы сотрудничества России и ЕС в рамках энергетического диалога, Институт международных организаций и международного сотрудничества, 2006, С.9).

[205] Antiohin M. Gazprom against Energy Charter, available at www.smi.ru/print/?id=173977 on 21.05.2008. (Антиохин М. «Газпром» против Европейской энергетической хартии).

3.2.1 Interdependence of the EU and Russia

The oil and gas recovery in the North Sea is falling and Europe becomes more and more dependent on import of energy resources, first of all Russian: in fact they represent the most favorable opportunity to provide increasing needs of EU. Attempts of the European Union to follow a policy on liberalization and de monopolization of energy markets don't coincide with economic policy of Russia directed at strengthening of national energy monopolies, first of all Gazprom, which seek to influence the European market.

Expansion of the Russian companies is natural: relati ons between Russia and the European Union in energy sphere overcame the format of transboundary wholesale trade. However the more and more wide presence of Russian corporations causes fears for Europeans from the point of view of possible threats for their competitiveness. In fact, fears are not unreasonable, especially if to have a look at the situation at the Russian energy market. It provokes restrictions for investments of the Russian energy companies into the EU.

However the EU in the nearest future remains t he basic export market of energy resources for Russia that confirms also construction of North and South gas pipelines and Burgas-Alexandroupolis oil pipeline. China and America remain potential commodity markets of Russia, but only after 2015 as in this c ontext for Russia it is necessary to develop technologies in liquefied natural gas (LNG)[206].

3.2.2 Creation o fthe common legal base

Many experts approve that for the strengthening of mutual cooperation between the EU and Russia and for the decision of existing probl ems it's necessary to create a strong legal basis which could be not obligatory the Energy Charter Treaty but a common developed complex agreement on energy concerning all the problems

[206] Locatelli Catherine L'UE: aiguillon des strategies de Gazprom? Institut Français des Relations Internationales, Février 2008, p.9.

in this area[207]. Besides, Europeans themselves criticized Energy Charter Treaty for its limited format that does not allow for solving existing problems[208].

However, for the development of such an agreement, first of all, it is necessary to answer several questions: whether Russia is ready to join legally binding international agreements which will dictate rules of behaviour, partly in its own territory? Whether the negative Russian position is a consequence of concrete lacks of the document, or it is dictated by the general unwillingness to incur the international obligations and to carry them out?

The answer to this question is essentially important for politico-economical mutual relations of Russia and the European Union. The attitude towards the Energy Charter reflects the general mood of a significant part of the Russian eli te who simply does not want to incur performance of any international norms and rules. Therefore as consequence not only the attitude to the Charter, but also mutual relations with the rest of the world are based on a principle "we shouldn't give anything to any body"[209].

Probably, a similar approach to the international problems is a consequence of the self-confidence of the Russian authorities based on growth of the Russian economy during last years and strengthening of "financial independence". Especially it is characteristic for the sphere of energy as Russia, possessing the largest proven stocks of gas and oil, will continue to remain the largest exporter of hydrocarbons to the world market and, in particularly, to the European market. That's why the Russian political class used to say "Europeans can't do without us" [210].

However analyzing energy relations between the EU and Russia and taking into consideration possible consequences of ratifying the Energy Charter Treaty by

[207] Romanova Tatyana Energy Partnership – A Dialog in Different Languages., Russia in Global Affairs, N1, January-March 2007, p.2.

[208] V.S. Milov Energy dialogue between Russia and EU: to fill the vacuum, Russia in global affairs , N5, September-October 2007. В.С. Милов Энергодиалог Россия-ЕС: заполнить вакуум., Россия в глобальной политике, №5, Сентябрь-октябрь 2007 г.

[209] Ibid.

[210] Ibid.

Russia, it is possible to draw a conclusion, that for the further cooperation both parties need a mutual complex international agreement on energy, mentioning a number of problems and, above all, concerning transit and investments.

3.2.3 The future of the Energy Charter Treaty

What role does the Energy Charter Treaty play today and can it be in the future a necessary international agreement or can it be a basis for the development of the mutual international agreement? In the European Union itself the attitude towards Energy Charter Treaty is rather ambiguous. Russia signed the Energy Charter Treaty in 1994 but didn't ratify it. The Treaty tackles four blocks of questions:

1. Trade in energy resources on the basis of principles of the WTO.
2. Protection of capital investments at post-investing stages from various non-economic risks and guarantee of profit redistribution.
3. Transit of energy resources. Here the Energy Charter and the Protocol to it provide freedom of transit through the territories of all participating states, and also participation of the world intermediary for resolution of disputes. It is necessary to note, that Gazprom is afraid to loose a significant part of the incomes and the control over the system of gas supply.
4. Questions related to energy efficiency[211].

In 1994 the Energy Charter Treaty was called to regulate complicated questions of deliveries in conditions of the big uncertainty after disintegration of the USSR. After expansion of EU the geography of potential application of this Treaty was narrowed, as the biggest part of the states which ratified the Energy Charter Treaty (a number of the countries of Warsaw Pact) applied internal rules of the European Union. The Treaty didn't obtain a global character as it was ratified neither

[211] Romanova Tatyana Energy Partnership – A Dialog in Different Languages., Russia in Global Affairs, N1, January-March 2007, p.37.

by the countries of Middle East, nor by North America, and in Asia - only by Mongolia and Japan[212].

It is important to note, that in its energy strategies ("Green book" 2000 and 2007) the EU almost does not mention the Energy Charter. Great disputes and disagreements are caused by clause 20 of the Transit Protocol to the Energy Charter Treaty (so-called regulations about regional economic integration). This clause actually released the EU member-states from obligatory application of norms of the Transit Protocol on their territory. Thus, the Transit report appeared to be the document adjusting actually exclusively the relations outside member-states or potential members of the EU. It was one of the main reasons why Russia refused to sign the Transit Protocol in 2003[213].

Refusal to sign the Transit Protocol raised the question about the future of the Energy Charter Treaty, its role and value. As the basic norms and positions actually coincide with norms and rules of the WTO, a number of the Russian experts, for instance, Romanova T.A., Milov V.S. consider that the practical utility represent only regulations about transit and protection of investments. However in practice they almost were not applied. The transit report in the long run was not adopted, and the regulations about protection of investments became valid only in the states which ratified the Charter. But among these countries some of them didn't dispose significant energy assets and others already had a favorable investment climate before ratification and there were no discrimination restrictions for investors (Europe, Japan). As a result during its 13 years of existence, the Energy Charter Treaty didn't become a global legal document: cases of its application during conclusion of contracts or the resolution of disputes are not numerous [214].

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[212] Vladimir Milov Russia-EU Energy Dialog: Filling a Vacuum, Russia in Global Affairs, N4, October-December 2007, p.2.

[213] Ibid.

[214] Romanova Tatyana Energy Partnership – A Dialog in Different Languages., Russia in Global Affairs, N1, January-March 2007, p.2.

But in 2006 discussions about ratification by Russia of the Energy Charter Treaty renewed. It was connected, firstly, with Ukrainian -Russian crisis in 2006, and, secondly, with the forthcoming summit of "G8". The European Union pointed that all substantial provisions adjusting relations in the field of energy were already f ixed in the Energy Charter Treaty; hence, it was necessary only to ratify it.

After the May summit Vladimir Putin formulated precisely Russian position having declared: what Russia will obtain in exchange for ratification of the Energy Charter Treaty except the fl ow of investments? So, he was pointing at necessity to give to the Russian energy companies access to consumer market and, consequently, to revise provisions of the Energy Charter Treaty.

During an informal meeting of the head of Russia and heads of the states and the governments of the European Union in Lahti (Finland) on 20 th October it was offered to integrate corresponding positions of the Energy Charter Treaty and of its Protocol directly into new legal base - into the Partnership and Cooperation Agreement[215]. And at present there are discussions concerning this opportunity.

It is necessary to note, that despite of constant discussions, including the high-rank officials, about "disadvantages" for Russia to ratify the Energy Charter Treaty, a complex analysis of the Energy Charter treaty which pointed "pluses" and "minuses" of it for Russia was not undertaken. Unfortunately, frequently opinions about such documents or their separate positions are not accompanied with professional analysis, and based only on political o pinions and discussions or represent position of separate companies (first of all "Gazprom"). So, experts of "Gazprom" have received the main vote during the negotiations about the Energy Charter Treaty.

[215] Finland's EU Presidency, Russian President Vladimir Putin, Finland's Prime Minister Matti Vanhanen and Commission President José Manuel Barroso at the press conference of the Lahti Summit on 20 October 2006, available at http://www.eu2006.fi/media_services/photos/meetings/en_GB/lahti_press_conference on 28.05.2008.

3.2.4 Transit dependence

However Russia in force of objective reasons should be itself an initiator of the legal agreement on energy with Europe.

First of all, Russia depends on transit of energy resources to the main export markets from the third countries, and this dependence will be kept in the future, therefore for Russia it is necessary to have effective international legal tools for protection against transit risks.

Secondly, Russian companies actively enter the European market not only as suppliers of energy resources but also as investors, buyers of assets, and it is important to dispose with adequate protection of the rights in the view of increasing aspiration to limit their investment activity in Europe.

Thirdly, Russia is interested in occurrence of supranational rules of law in the field of international energy relations as it would allow to lower dependence on the internal rules adopted by the European Union on various energy problems because these decisions can become defining.

Unfortunately, today the Russian politicians give preferences to closed bilateral agreements with separate countries and companies and even separate politicians. It isn't a solid basis: positions vary, politicians come and leave. The similar approach actually conserves and makes static Russian role in the European energy market.

Opponents of the Energy Charter Treaty often make comparison between Russia and Norway which is also a large producer and the supplier of oil and gas. However Russia is distinguished from Norway in some basic points: this northern country does not depend on transit. It extracts all the volume of oil and gas at the sea shelf and exports it through underwater pipelines or in the form of liquefied natural gas (LNG). It does not depend on transit states and does not export its energy carriers through the land at all (the basis for internal market of energy resources in Norway is

electric power developed at hydroelectric power stations). So, as Norway does not depend on transit risks it doesn't need the Energy Charter Treaty [216].

In case of Russia it's different. It was and it would be always depend on gas and oil transit to export markets through territories of the third countries. Ideas of bypassing pipelines in practice aren't good in economic terms and, the most important, they change one transit countries to some others.

For example, the Nord Stream Gas Pipeline on the bottom of the Baltic Sea is considered to be a bilateral Russian-German project. But actually it's intended mainly for gas supplies to the markets of the third countries. In case of its full output capacity Germany will become the consumer only of about a half of the gas. Other part will go to Belgium, Great Britain, Luxembourg, the Netherlands, France, as extraction in the North Sea, the core source of supply of this region, is falling. Thus, Russia only will replace dependence on one transit countries - first of all Belarus and Poland - with dependence on Germany.

For the sake of the Nord Stream Russia gave up the construction of the second thread of Yamal-Europe gas pipeline which is comparable in volumes with the Nord Stream. Construction of the second thread of Yamal-Europe gas pipeline within developed infrastructure and in one corridor with already functioning first thread would cost much more cheaply - nearby 2.5 billion dollars. And the Nord Stream only according to official declarations will cost more than 10 billion dollars (real cost is not still clear, but basically it can reach 5 billion dollars). Thus disagreements on transit tariff of the second thread Yamal-Europe gas pipeline through the territory of Poland which partly promoted refusal of this variant in favor of the Nord Stream, constituted only 18 cents for 1000 m3 of gas at 100 km (gas transportation through Nord Stream will not be cheap either). Thus, "bypassing maneuver" appears expensive, but does not relieve Russia from risks [217].

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[216] Vladimir Milov Russia-EU Energy Dialog: Filling a Vacuum, Russia in Global Affairs, N4, October-December 2007,p.5.

[217] Vladimir Milov Russia-EU Energy Dialog: Filling a Vacuum, Russia in Global Affairs, N4, October-December 2007,p.5.

Other similar examples could be the South Stream Gas Pipeline through the territory of Bulgaria and Burgas-Alexandroupolis Oil Pipeline through the territory of Bulgaria and Greece. Thus, in reality, Russia only changes one transit countries to others. The problem of reliable transit was and remains one of key in the process of deliveries of the Russian energy resources to the European market.

Current system of relations forces Russia to lean exclusively on the b ilateral agreements which are unstable and not protected from an opportunity of unilateral revision. These risks remain rather significant in relations with today's transit partners - Belarus, Poland, Turkey, and Ukraine. Any real tools (except of politica l pressure) for protection of interests in the sphere of energy doesn't remain for Russia. Besides, absence of corresponding international agreements an image of Russia as non-reliable supplier of energy resources that became obvious during the last years after the scandals with Ukraine and Belarus.

3.2.5 Development of a new agreement

The unique tool capable to generate a steady field for stable mutual relations in sphere of transit can become an international legal agreement. Otherwise problems with the transit countries will inevitably pursue Russia in the future.

Certainly, if Russia wants that its energy resources were transported through the territory of the third countries at fair conditions, Russia should provide access to its gas pipelines, for example, for producers from Central Asia for gas transit to Europe. But within the last 15 years Moscow unequivocally pursued the goal of the control over export of energy resources from Central Asia and obtaining profits from it.

However in the long-term prospect this approach leads to nowhere. The countries of Central Asia can diversify directions of energy export so that they will sharply reduce dependence on their transit through the Russian territory; they are already actively dealing with it.

Kazakhstan successfully finished construction of an oil pipeline to China and is going to expand it (by the way, Russian energy companies are already refused in

access to it). It agreed to deliver oil bypassing Russia through the pipeline Baku - Tbilisi - Ceyhan[218].

Turkmenistan also has chances to enter the market of China constructing one of alternative gas-supplying routes. Elimination of the Russian monopoly for export of energy resources from Central Asia is a question of the nearest future [219]. So, is it really worth protecting the monopoly for the future and maybe it's better to solve questions related to transit on a legal basis?

In the long run Russia will have to agree with the participation of the foreign companies in the development of the Russian oil-and-gas resources if it wants to obtain assets in Europe. Participation of foreign companies is favourable first of all for Russia itself. Besides, it's more important that the European Union will introduce restrictions for investments of state companies and it is being already discussed. Certainly, it will concern countries which create obstacles for foreign investors. There are already some significant examples: oil refining factories Mazeikiu Nafta in Lithuania and Europoort in the Netherlands, the gas compan y in Great Britain which prove that.

Obviously, if Russia wants to have equal rights in access of the Russian companies to energy assets at the territory of the European Union, it should encourage creation of a new compulsory agreement with the Europe about principles of protection and encouragement of investments. But certainly, in this case it's necessary to open access to the Russian energy market especially taking into consideration that in the long-term prospect de-monopolization and opening of energy sector are inevitable, and it will be useful for economy in general.

[218] Molla-Zade Jayhun Azerbaijan and the Caspian Basin: Pipelines and Geopolitics p.6.

[219] Milov V. Polar models of the approach: Economic outlook, 24.04.2007, p.3. (Милов В. Полярные модели подхода: экономическое обозрение, 24.04.2007, С.3).

Conclusion

On the basis of the lead analysis it is possible to make a number of conclusions. Firstly, at the present stage the relations between the EU and Ru ssia in the field of energy collide with a number of problems and complexities which interfere with the development of the dialogue. Many researchers affirmed that relations are in a deadlock. However, in my opinion all it proves is that there is a necessity to begin a system of dialogue between the EU and Russia.

The situation of the existing conflict has been caused by some mistakes committed by both parties.

Russia for the development of its energy market chose the monopole model. Therefore, naturally, Russia refuses to give access to its reserves to foreign companies and to give access to its infrastructure for the transportation of gas from Central Asia to Europe. It's one of the reasons why Russia refused to ratify the Energy Charter Treaty and the Tr ansit Protocol. However, it's a short term strategy because on the one hand the energy companies from Central Asia create projects bypassing Russia (for example, Baku -Tbilisi-Jeyhan oil pipeline) and on the other hand, monopolization of the energy market c reates a threat for the competition in the European energy market. And, certainly, Europe will not be reconciled with such policy directions as the competition is one of the major values of the effective market economy. Secondly, Russia aims to establish b ilateral relations with the governments and the energy companies of the separate countries which aspire to the security of energy supplies, and are ready to conclude bilateral agreements as Russia plays a very important role in providing the European Union with energy. But more and more countries begin to understand that such agreements are connected to high risks. For example, in 2006 because of the extremely cold weather in Europe and in Russia, Gazprom was unable to provide additional volumes of gas. If similar situations repeat

the traditional partners (German, Austrian, Italian companies) will change their relations with Russia.

But Europe in its turn made some decisions which had a negative impact over the EU-Russia relations in the sphere of energy. The representatives of the European Union insisted on introduction into the Transit Protocol of the so-called regional integration amendment (item 20 of the Transit Protocol). According to this clause the Transit Protocol is applied only at the territory of the third countries and inside the European Union, internal rules are used. Certainly, it is unfair. Because of this integration amendment the European Union lost the supporters of the energy Charter Treaty in Russia. The Transit Protocol is the major document within the structure of the Charter. All other positions in general duplicate the norms of the WTO but there are no transit rules in the WTO agreement.

I think that both the European Union and Russia need new approaches towards energy relations. Certainly, Europe should understand that former models of relations with Russia don't work anymore. And Russia should realize that it's not possible to remain a monopoly in the long-term prospect for several reasons: because the monopoly will not be able explore new gas fields which demand huge investments and it will be compelled to involve the international investors.

Concerning the question which model of the energy market is more perspective, it is, undoubtedly, the European model connected with liberalization of the energy market. Today it is the most advanced and potentially effective of possible models of the energy market. Decades of the vertical integration in the electricity and gas markets showed, that such approach only promotes creation of monopoly, not protecting from different risks, faults in reliability of deliveries, interferes with the competition. Therefore an orientation of the European Union towards the liberalization of the markets and re-structuring of the energy companies, towards de-monopolization and the maintenance of the free access to the transport infrastructure - it is a unique strategically correct line.

However, at the moment both parties have a number of disagreements related to liberalization of the energy market.

Liberalization of the gas and electricity markets in the European Union aims to promote competition of suppliers and can lead to an increase in the use of the spot - market. The antimonopoly policy of the European Union is directed at the division of the vertically integrated companies according to a functional attribute (manufacture, supply and selling, transportation), and also at the reformation of the national monopolies and avoidance of their domination in the regional markets. However, the Thematic group of experts on infrastructure within the framework of the energy dialogue emphasized that it is necessary to keep long-term contracts and to give a priority to them and not to spot-markets because the infrastructural projects demand considerable investments and the energy companies want to be sure in the export market and that the investments are justified.

The Russian energy companies try to adapt to the process of liberalization of the EU internal energy market by the maintenance of their direct presence in the market and corresponding investments into a transport, distributive, processing, marketing and downstream infrastructure of the European market. However by the present time they achieved only a limited success in the separate spheres of the energy market. It creates fears that the attempts of some Russian energy companies, connected to the purchase of assets, will lead to absence of the competition as other suppliers will be removed from the market. On the other hand Russia perceives it as an opportunity for the increase of security, stabilization of the prices and maintenance of the interests, as an exporter.

That's why it's necessary to begin a system of dialogue in the sphere of energy between the European Union and Russia in order to realize what barriers exist and what measures can be undertaken for their overcoming. In my opinion it's necessary to develop a new joint agreement in the field of energy which would take into consideration the interests of both parties. Russia itself should be the initiator of such an agreement as it will create a legal basis for the relations between the transit countries like Ukraine and Poland.

At the development of the joint agreement it is necessary to take into consideration existing experience of the successful cooperation in different directions

of the energy policy, but also the difference of the conceptual approaches towards energy policy.

As a result of the comparison of the purposes and problems of the energy policies of Russia and the European Union it is possible to make some qualitative conclusions:

1. In spite of the distinctions in aims and tasks of the energy policy, caused by various characteristics of own energy potential, energy strategies of Russia and the European Union form a basis for the long - term cooperation in the energy sphere;
2. Methods aimed at the increase in energy efficiency of Russia's and the EU's economies, as well the management of the demand on energy and energy saving, mentioned at the energy strategies, are close ideologically and organizationally. Their application can bring the greatest effect in case of mutual penetration and use of experience and energy saving instruments, stimulating the economic development of Russia and the European Union;
3. Development of the energy infrastructure connecting Russia and the European Union within the framework of the most convenient and economically effective transport corridors answers the purposes of Russia's and EU's energy policies, and to harmonization of mutual trade conditions;
4. Stimulation of the reduction of negative influence of energy sector over the environment and decrease of the level of emissions of greenhouse gases in the atmosphere is a direction in energy policy representing mutual interest.

Consequently, the long-term energy strategies of Russia and the European Union represent mutually compatible programs, where a significant part of the content forms the basis for the construction of a system energy dialogue.

However, as it was already marked above, it is necessary to take into consideration the difference in conceptual approaches of Russia and the European Union in the field of energy.

Firstly, the European Union perceives the energy policy as continuation of the general policy on the development of the competition and integration of the European market. The Russian approach perceives the energy separately from the general economic context and it is controlled more by the administrative mechanisms of the state.

Secondly, the approach of the European Union is more mature and deeper and better motivated from the point of view of the European law, concrete criteria, rules and norms. The Russian approach is based mainly on political declarations and on concrete situations.

Thirdly, the concept of the European Union assumes the formation of th e common legal regime which will create conditions for the wide actions of the companies. At the same time Russia gives preferences to concrete contracts and agreements between certain companies and on precisely marked assets. This approach is confirmed with the negotiations of Gazprom with German E.ON Ruhrgas and BASF on the North-European gas pipeline and extraction of gas at the Uzhno-Russkoe field as well the disputes around Stockman field. Actually it is a question of a political principle which then should become a basis for concrete contracts.

Fourthly, in the case of the liberalization of the energy market in Europe, Russia raises a question on indemnification for the loss of the exclusive right to operate the unique system of its gas pipelines and deposits. The European Union points at the benefits of the market relations in general and at the advantages of the construction of the all-European market.

Finally, the situation becomes complicated because Russia appears as a uniform actor: the position is declared by the head of the state and by the ministers, and the energy companies actively enough develop these directions of the energy policy. At the same time the European Union has no common European energy

policy. Certainly, approaches and opinions of the European Commission, the EU member-states and the separate energy companies not always coincide.

It is quite obvious, that because of a divergence in sights and approaches the European Union and Russia should search for a compromise which will allo w considering approaches and opinions of each side.

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Annexes.

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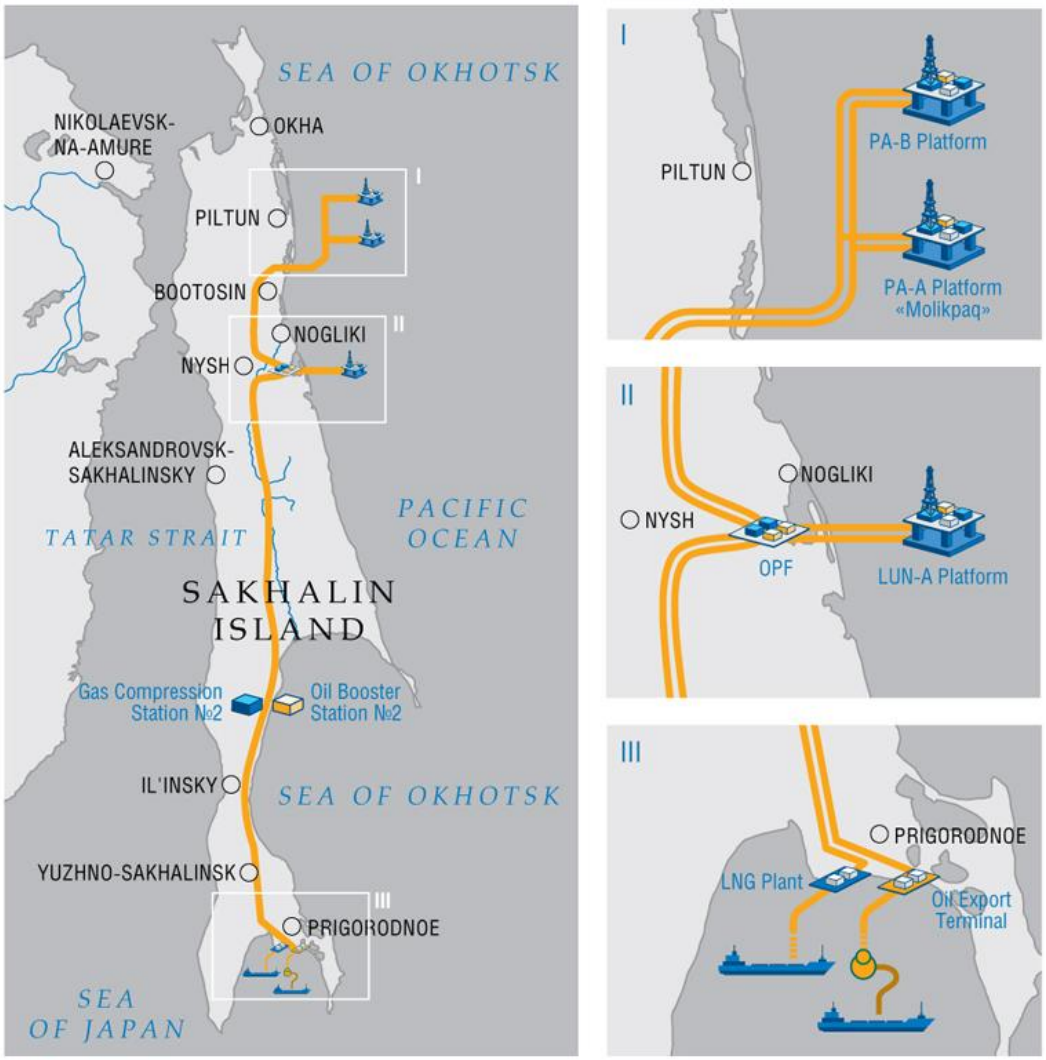
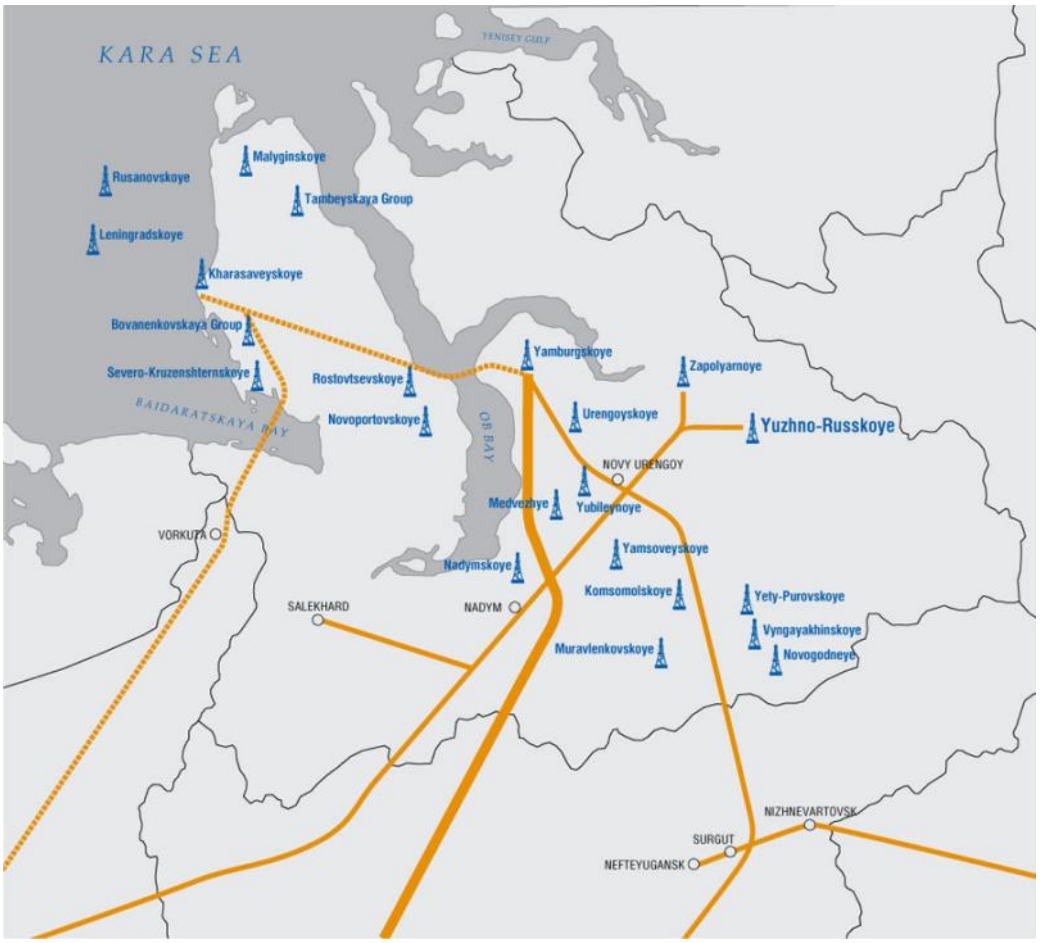
Source: Energy information Administration : Official Energy Statistics from the U.S. Government http://www.eia.doe.gov/emeu/cabs/Russia/Maps.html



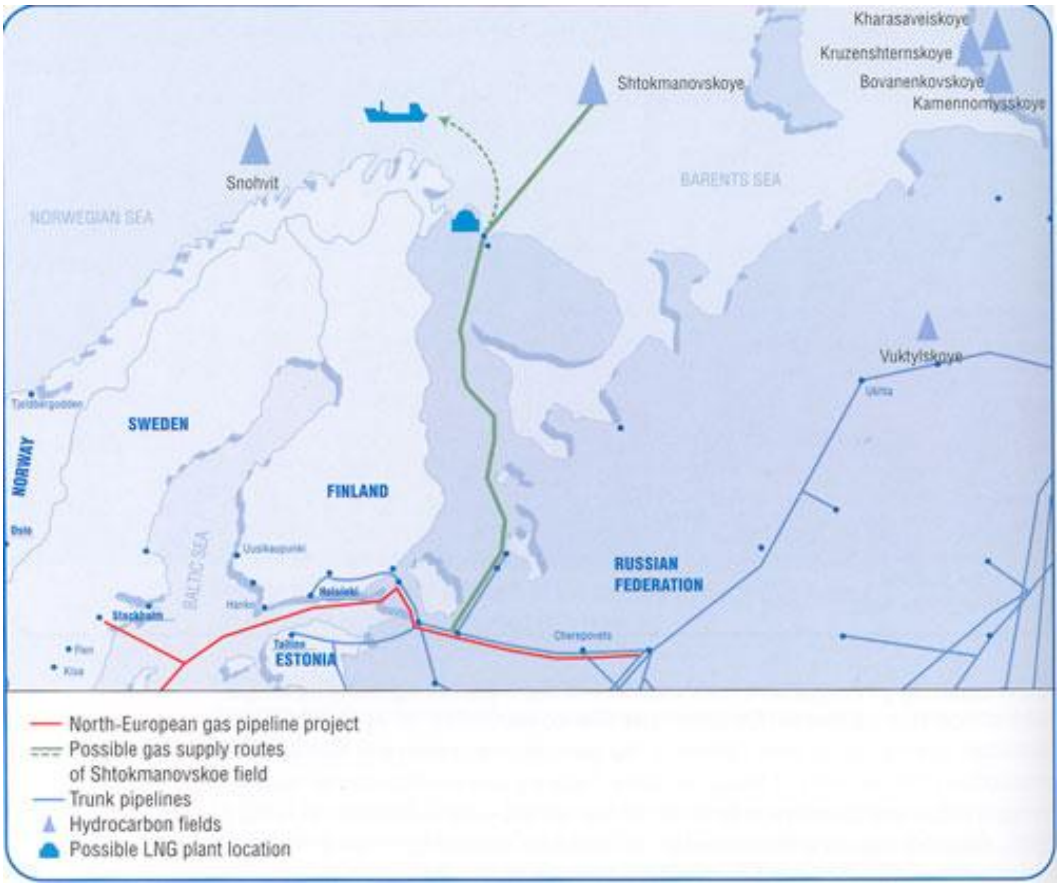
Sakhalin II Project

Source: Gazprom's official website
http://www.gazprom.com/eng/articles/article25792.shtml



Yuzhno-Russkoye field

Source: Gazprom's official website
http://www.gazprom.com/eng/articles/article26473.shtml



Shtokman project

Source: Gazprom's official website
http://www.gazprom.com/eng/articles/article21712.shtml