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# Don't Go It All Alone

## The EU and Russia Must Develop and Advance Their Energy Relations Together – Starting From the Very Beginning

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*The EU cannot secure its energy supplies without Russia, while Russia is also dependent on the EU as its key market. Since this interdependency is going to continue in the foreseeable future, both sides should work together from the very beginning and stop developing projects alone. These are doomed to fail because at a later stage neither the EU nor Russia is able to get the other side on board. The Energy Charter Treaty, which the EU has been promoting for years to no avail, the latest Russian counter proposal for a 'New Legal Framework', or the modernisation agreement for the Ukrainian pipeline system are telling examples. Beyond this, more projects that bring tangible benefits to both the EU and Russia are lacking, for instance in the sector of energy efficiency. Especially Germany, as a forerunner in environmental technologies, can benefit from such cooperation, since Russia is in dire need of energy saving and climate protection measures. The upcoming establishment of a Russian-German Energy Agency will send an important signal for further joint projects between the EU and Russia.*

The EU and Russia are mutually dependent on one another in the energy sector. More than 40% of all gas and 30% of all oil imports into the EU stems from Russia; some of the member states are completely or almost completely dependent on energy imports from there. Russian Gazprom, in turn, exports mainly to Europe: While 30% of the gas produced by Gazprom is being exported to the EU and Turkey, these exports make up about 60% of the company's revenues. These quotas can be reduced by means of diversification, but only to a small extent and after huge financial investments. Against this background, neither the EU nor Russia can afford not to cooperate with the other side. Both would be well advised to act accordingly, especially with regard to the following examples.

### Common Document instead of Energy Charter Treaty and Russian Counter Proposal

President Dmitri Medvedev during his visit in Helsinki on 20 April 2009 announced a Russian initiative for a 'New Legal Framework for Energy Cooperation'. The aim of the Russian proposal is to replace the Energy Charter Treaty that Russia, although it signed the treaty in 1994, has never ratified. In Russia, the opinion prevails that the Energy Charter Treaty discriminates against Russia, and that Russia, therefore, will never ratify it. Especially the transit regulations are perceived as directed against Russian national interests, since the treaty would grant third countries access to the Russian pipeline system. Gazprom and Transneft do not want to give up control over their pipeline monopolies for gas and oil and admit other companies to access their networks – not Russian companies and even less foreign companies. The fact that the signatory states to the Energy Charter Treaty constantly insist on Russia to ratify the treaty – for instance the EU during the negotiations about a new Partnership Agreement – has increasingly made Russian decision makers believe that the regulations of the treaty were detrimental to Russia. While Russian representatives have continued to take part in negotiations on amendments of the Energy Charter Treaty, the Russian proposal of a new treaty reveals how futile these negotiations have actually been.

However, as unlikely as it is that Russia will ever join the Energy Charter Treaty, it is also unlikely that the EU and other proponents of the Energy Charter Treaty could accept the Russian counter proposal that was set up without their contribution. They have fought so long for the treaty that this would now look like caving in to the Russian position. This is especially true for those governments promoting an EU foreign energy policy with a critical stance towards Russia. Single states like Germany might be ready to accept the Russian proposal as a negotiating basis. But for some other member states and for the EU as a whole the Russian proposal will stay a Russian proposal – and embarking on it would mean a confession of failure for their own project, the Energy Charter Treaty. Therefore, the Russian proposal is not acceptable as a negotiating basis for the EU. While the Energy Charter Treaty has passed away over the years, the Russian proposal will never come to life.

It is less important whether a ratification of the Energy Charter Treaty would actually disadvantage Russia; nor is it a key issue whether and to what extent Russia might be bound to the treaty already by its signature. The positions, too, do not seem to be irreconcilable since the Russian proposal postulates principles similar to those of the Energy Charter Treaty and also aims at tackling the pending transit issue. For both the EU and Russia it is rather a question of how to avoid an imminent stand-off in a way that allows both sides to save face. An appropriate solution would be that both parties return to the starting line. They should – starting from the beginning with joint negotiations – work out a new document that is acceptable for both the EU and Russia and that both parties then present jointly to the public, for instance as part of a new Partnership Agreement. This would not only help all those involved to save face but would also provide for the long-lasting acceptance of the new document by both parties.

## No Modernisation of the Ukrainian Pipeline System without a Russian Contribution

The badly needed modernisation of the decades-old Ukrainian gas pipeline system represents another example for the fact that initiatives that do not involve all parties from the very beginning remain without perspectives. It suggests itself to get all of those who have an interest in the smooth functioning of the Ukrainian pipeline system on board for the expansive financing of the modernisation – Russia as supplier, the EU and its member countries as customers. But the issue is not that simple. Russia/Gazprom is heavily dependent on Ukraine since about 80% of its gas exports cross Ukrainian territory and has, therefore, tried to reduce the Ukrainian transit power. Besides the construction of bypassing pipelines like NordStream and SouthStream, Russia has also striven for influence on the Ukrainian pipeline system. In Ukraine, however, politicians seek to remain national control over the gas pipelines – just as Russia does with regard to the Energy Charter Treaty. No influence shall be granted to Russian Gazprom because the control over the pipelines that are so important for Russia's gas exports to the EU is the only trump card that Ukraine can play in conflicts with Russia.

As a result, Ukraine has looked for other investors – especially after the last gas crisis – and created interest with the EU Commission, the European Investment Bank, the EBRD, and the World Bank. A Russian delegation, headed by Energy Minister Sergei Shmatko, attended a donor conference on 23 March 2009 in Brussels where 2.5 billion Euros were announced as support for the modernisation of the pipeline system. The Russian delegation, however, has not been involved on equal footing in the negotiations about and the drafting of the closing communiqué. Accordingly, the Russian reaction was huffy – the delegation left the conference ahead of schedule, and the government postponed a meeting with their Ukrainian counterparts, where Russia was supposed to grant Ukraine a 5 billion US-Dollar loan. Were these the results that the EU was aiming for? Probably not, because during the following days European politicians like Chancellor Angela Merkel, representatives of leading European energy companies as well as even the Ukrainian leadership argued for Russian participation and contribution.

The involved will have to finally accept that the modernisation of the Ukrainian pipeline system only makes sense when Russia is included. Firstly, the Ukrainian system cannot be separated from the Russian one since due to their common historical origins they have been built as a single system. Secondly, the gas trade which as a matter of fact involves three parties – the EU as customer, Ukraine as transit country, and Russia as supplier – simply functions more securely when those three parties work together, especially with regard to such an important issue as the modernisation of the pipeline system. More important than the content of the agreement is that all the involved share their commitment in a compromise. Otherwise, the agreement might not be worth the paper that it is written on. And thirdly, it is high time that the EU, Ukraine and Russia stop perpetuating the spiral of mutually reinforcing threat perceptions. After all, the exclusion of one of the parties raises mistrust and results in the excluded party to feel threatened by the actions of the others. On the contrary, the involvement of all parties can build up confidence and disrupt this cycle. The conclusion, therefore, has to be once again: Back to square one. It is essential to reach a new agreement on the modernisation of the Ukrainian pipeline system by actively involving all parties from the very beginning.

## More Joint Projects – Especially in the 'Green Sector'

A mutual development of the energy relations between the EU and Russia can only be accomplished when projects that concern both sides are being jointly developed and managed from the very beginning. Therefore, it is important to identify potential new projects and to expand those that already exist. The need to realise Russia's (as well as Ukraine's) immense potentials in the sectors of energy saving, energy efficiency and renewable energies is decisive for the EU's security of supply, for Russia's economy to prosper, as well as for combating climate change – and far off 'pipeline hysterics' of any kind. Especially German and European technology and know-how are able to support Russia's endeavours in the 'green sector'. These topics have already been dealt with for a couple of years in a working group of the EU-Russia Energy Dialogue, but show great potential for expansion. The benefits for both sides are obvious: Not only can $CO_2$ emissions be lowered massively by reducing domestic consumption and wastage in Russia, but it is also possible to set free enormous capacities of gas and put them to other, better uses. Russia/Gazprom can sell these capacities of gas to customers in the EU at far higher profit margins than on the subsidised Russian market. European consumers, in turn, are interested in importing more gas in the mid to long term perspective. As a result, gas trading will also lose much of its political ballast and will again be increasingly regarded from an economic perspective.

The signs for cooperation in the 'green sector' bode well: The Russian government – most notably Prime Minister Vladimir Putin – announced on 23 April

2009 plans to develop a Russian 'climate doctrine'. He also explicitly called upon NGOs to participate in the discussion and showed, thus, a heretofore unknown openness for the 'green sector'. It is, however, hoped that this announcement will not remain lip service since the doctrine was afterwards developed without public consultation and promotes adaptation to rather than fight against climate change. At least, an awareness of problems inflicted by climate change that Russia will suffer from and a readiness to look for answers have recently gained support among the Russian leadership. One example is that the Russian Energy Ministry and the German Energy Agency (dena) are about to set up a Russian-German Energy Agency (RuDEA) that is slated to enhance energy efficiency and to upgrade the use of renewable energies in Russia. Such kinds of projects that are being jointly developed and operated from the very beginning do not evolve without frictions – but their prospects of success are by far better than those of unilateral forays. The energy relations between the EU and Russia definitively need more of them.

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