CHAPTER 5

RUSSIA'S PERSPECTIVE ON GLOBAL ENERGY SECURITY
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Energy questions have played and continue to play a vital role in Russia’s relationship with its near abroad, Europe and China. Russia’s relations with neighboring C.I.S countries as well as the Baltic States which have opted out of the CIS have been largely influenced by their energy dependency on Russia either in terms of domestic consumption or transit routes for their energy exports. There is no denying the fact that Moscow has directly or indirectly tried to use its predominance in the energy sphere as a foreign policy tool. By keeping these countries tied to Russia, energy dependency has induced other kind of dependencies on Russia which have often affected Russia’s relations with EU countries. In the post-Soviet period, energy issues have resulted to several kinds of interdependencies. There is an interdependency related to energy transit as in the case of Ukraine and Belarus and the Baltic States and Moldova, though, in a weaker form. There is strategic interdependency as in the case of Belarus, Georgia and Armenia. In all these cases the energy relationship with Russia has acted as a factor moderating and/or aggravating these larger interdependencies (Balmaceda 2008: 5).

Transit for Oil Pipelines:

- At the level of energy transit interdependency, Russia depends on transit through Ukraine and Belarus for export of most of its oil and gas to western European countries. This export is the largest source of Russia’s foreign currency earnings. Though not so important, transit through Moldova plays a central role in Russia’s export to Romania, Bulgaria and Greece. In 2003, Russia’s oil pipeline operated by Transneft stopped
shipping oil for export by pipeline through the Latvian port of Ventspils. This energy transit was a source of significant revenues for Latvia. Latvia tried to compensate this by shipments through railroad. Despite the Ventspils blockade, it still got Latvia USD 1.7 billion (Araloff, 2005, Online: Web) annually by 2005 through transit of Russian oil by rail. Rail transit through Latvia of Russian oil brought 30% of the annual budget of Latvia. Since the mid 1990s, Russia has sought to build additional pipelines bypassing such states as might not be dependable transit partners like Ukraine, Belarus, Poland and Latvia. Since Putin’s election as President in 2000, foreign and domestic policy changes have brought to the fore the question of Russia’s use of energy as a foreign policy tool, particularly for reintegration of the former Soviet space on Moscow’s terms. The rapid rise in world oil and gas prices since 2000 has further strengthened Russia’s clout to use the energy deliveries as instrument of political pressure. The situation changed drastically between 1996 and 2004. The former privatized oil monopolies of ten partially privatized companies were reshaped in the field of gas production as the giant Gazprom with a majority of state owned shares saw the destruction of the Yukos by December 2004 increased the state control of hydrocarbon resource. The Gazprom’s acquisition of Sibneft broke the administrative division between oil and gas. By December 2006, ouster of foreign companies the Royal Dutch Shell-led consortium also including Mitsui and Mitsubishi from the Sakhalin II oil and gas development project under strong pressure from Gazprom was a clear signal of the Russian government’s desire to divest foreign companies from controlling major projects through Production Sharing Agreements.
These changes since 2000 have greatly increased Putin's ability to use energy as a means of political pressure both within and outside from Soviet Union. "This [New] ability," writes. Margarita M. Balmaceda, "comes together with a new will to use energy for domestic and foreign policy goals." (Balmaceda 2008: 7).

In the new millennium ushered in by the 21st century concerns for energy security arose as never before against the backdrop of price hikes and uncertain prospects of normal supplies. The specter of the 1970s oil crisis began to haunt the world's leading oil consumers. The struggle for the control of the Yukos oil giant in Russia during 2003-2005 with strong political dimensions, political turbulence in oil producing states -Nigeria and Venezuela, disruption of oil production along the US coast in the bay of Mexico in 2005 and prolongation of the U.S. led war in Iraq which began in 2003, hiked the oil prices from 10-15 USD per barrel in 1998 to over 70 USD in 2006.

The Debate on Oil Prices:

At about the same time in the end of 2005 and beginning 2006, gas deliveries to the EU countries from Russia faced serious threat because of the tussle between the Russian gas giant Gazprom and the transit country Ukraine over gas prices for supplies to that country and Transit charges for Russian gas flowing to the west European Markets. In the winter, European Union (EU) saw Gazprom customers in western and central Europe shivering with cold in their homes as pressure levels in the gas pipelines passing through Ukraine fell low. In most recent shut off of gas supplies to Ukraine by Russia over a pricing dispute, 16 European countries’ supply of gas was severely disrupted. (Cohen and Graham 2009, Online: Web) This generated discussions about sufficiency
of gas reserves of Russia, dependability of Russia as an energy supplier and alternative sources and supply routes.

Other sources of energy electricity generated by thermal and hydro power as well as nuclear energy also came under clout. Electricity prices were also on the rise from 30 Euros per megawatt in 2005 to over 50 Euros in early 2006. After the Chernobyl nuclear plant accident, there was popular resistance to this source of energy on account of environmental concerns about the safety of nuclear waste storage.

Although the international community began to engage itself seriously with the question of energy security as early as December 1991 when in the Hague the original Energy Charter was signed, it was in the December 1994 that the Energy Charter Treaty and protocol on energy efficiency and related environmental aspects was signed in Lisbon. The treaty and protocol came into effect in April 1998. If the 1991 energy charter was a political declaration of principles for international energy including trade, transit and investment, together with the intention to negotiate the binding treaty, the Lisbon Energy Charter Treaty and protocol from December 1994, focused on 4 broad areas: The protection of foreign investment; non-discriminatory conditions for trade in energy materials, products and energy-related equipments based on WTO rules and provisions to ensure reliable cross border energy transits flows through pipelines, grids and other means of transportation; the resolution of disputes between participatory states and in case of investments between investors and host states; and the promotion of energy efficiency and attempts to minimize the environmental impact of energy production and use (Energy Charter Treaty 2009, Online :Web).
Russia, the energy superpower in Europe, has signed the Energy Charter Treaty (ECT) though it has not yet ratified it. But it has accepted provisional application of the treaty pending ratification with rider that Russia agrees to apply the provision of Energy Charter Treaty (ECT) to the extent that they are consistent with Russia’s constitution, laws and regulations.

Russia has linked the ratification of the ECT to negotiations on an Energy Charter Transit protocol. The protocol will amplify and strengthen ECT provisions on Energy Transit issues in order to mitigate some specific operational risks that continue to affect energy transit flows. Negotiations on the Text of the Transit Protocol began in early 2000. A compromise text reflecting a continued discussion between the European Union and Russia was tabled for adoption at the meeting of Energy Charter Conference held on 10th December, 2003.

However, a unanimous decision could not be achieved on the basis of the compromised text. The adoption of this compromised text was complicated by the factor that energy issues including transit were also a subject on the bilateral agenda for the European Union and Russia as a part of the ongoing Russian negotiations for accession to the World Trade Organization (WTO). The Protocol negotiations were temporarily suspended to be resumed in 2004 following agreement on terms of Russia’s WTO accession. Since the autumn of 2004, EU and Russia have been engaged in an energy security dialogue with Energy Transit Protocol as its central point. In December 2006, Russia made it clear that it could not ratify the ECT because of its provisions requiring Third Party access to Russia’s pipelines. In September, 2007, discussion in the European parliament’s Foreign Affairs Committee supported the view that EU should only lend support to Russian membership of WTO on the condition that
it accepts the Energy Charter Treaty. In December 2007, the Energy Charter Conference reaffirmed its support for finalization of negotiations and adoption of the Energy Charter Protocol on Transit in order to expand the existing provisions of the treaty. The conference resolved to ask the Energy Charter Group on Trade and Transit to return to multilateral consultations on the draft Transit Protocol during 2008 and report to the conference on the outcome of these consultations.

After more than twelve years long efforts, Russia was getting close in 2006 to overcoming the major hurdles to its WTO membership. In July, 2006, Russian President Vladimir Putin warned that if the deal was not finalized, then Russia would stop fulfilling the WTO obligations it had already accepted. A new spanner was thrown in Russia's way of joining the WTO by Georgia cancelling its 2004 bilateral deal accusing Moscow of discrimination against Georgian exports. Russia banned export of Georgian fruits, vegetables, wine and mineral water in July 2006 to which Georgia replied by annulment of its WTO accession agreement with Russia concluded in 2004. According to Randi Levinas, director of policy and programs at the US - Russia Business council in Washington, US and Russian trade negotiations have made tremendous progress. In his opinion, Russia was likely to be benefited from WTO membership in several ways. (Corwin 2006,Online:Web).According to the statements by the Chief Russian negotiator for WTO accession M. Medvedkov, Russia stands to gain somewhere between USD 8 billion and 10 billion annually for WTO membership as a result of expanding sales markets and reforms and efficiencies occurring in the domestic economy. Russia's WTO membership will also enhance the country's political stature. As a WTO member, it would join the world's largest economies in framing rules for world trade. In the opinion of another American economist Richard Ericson, Russia
would benefit by repeal of the Jackson Vanik amendment which was passed more than 30 years ago to pressurize the Soviet Union to allow the emigration of Jews. Some more Russia’s neighbors which are already WTO members (Moldova, Georgia, Armenia and Kyrgyzstan) will also benefit from Russian membership in WTO. In the Russian official circles, there are still some influential people who are not so excited about the prospects of Russia joining the WTO. While the metal industry favors WTO membership, other sectors such as manufacturing are worried about competition in Europe.

**Putin’s Energy Security:** At the G-8 meeting at St. Petersburg which was hosted and presided over by president Putin as chairman of G-8 in July, 2006, Putin had been repeatedly insisting that energy security and Russia’s role as a reliable supplier should be one of the themes to be discussed at the G-8 summit in St. Petersburg. Putin declared that “The Russian Federation has always abided by all of its obligations fully and completely, and it will continue to do so (Johnson, David 2007)

Putin’s declaration sounded hollow as just a few months before, during a cold January, 2006, Gazprom had curbed its flow of gas to Ukraine which then reduced the flow to Western Europe. The reason given by Moscow was that Ukraine as well as Georgia and Moldova had refused to pay the European market price. Russia also denied that it was putting political pressure on these countries. Moscow repeated the West argument that increased gas prices to the level of global prices, during the long run makes these countries’ industries more competitive. However, the fact that Belarus and Armenia which were close to Russia were also paying below European market prices contributed to the impression that Russia was using its gas, more as a political than an economic weapon (Goldman 2008: 7). But if one were to take into account that
soon Belarus and Armenia were also made to pay higher prices for Russian gas, the charge of political motive of Russia is negated. Yet, the fact can not be denied that Russia did, at times, try to pressurize its southern neighbors in central Asia and the Caucasus by using its monopoly of pipeline export routes to Europe. The practice of paying less for the Turkmen gas was soon given up by Moscow. It generally agreed to raise the transit charges and pay more for the Central Asia gas. The Central Asian Republics also gained by Russia’s agreement to enter annual contracts in place of the long term agreements which were the practice in the mid-nineties.

But even if Russia’ energy policy provides some ground for criticism, Moscow can not be faulted for following a policy of arm twisting against its western customer. Its record of last several decades goes to prove that it has meticulously honored its commitment under agreements to supply to gas its western customers. At the G-8 summit in St. Petersburg, Moscow slapped the demand of Russia’s participation in the domestic energy supply network of the West European countries as a rejoinder to their demand for Third Party’s control over Russian oil and gas pipelines.

Russia’s move for the creation of OGEL (Organization of Gas Exporting Countries) also raised concerns in the west where it was seen in certain quarters, as a counter part to OPEC. Putin visited the major gas producing countries Iran, Algeria and Qatar which were approached to join such organization. He also proposed that Russia and the Central Asian Republics producing natural gas explore possibility of creating an alliance to coordinate shipment of their natural gas. The Gas Exporting Countries Forum (GECF) was formed in 2001. It has met occasionally with the purpose of sharing information on prices and technology. Russia has not made any attempt to create on the model of OPEC a
supranational organization of gas producing countries. The non-existence of
global spot market for gas unlike oil has also prevented Russia from moving in
the direction of the OGEC but, as Marshall Goldman aptly observes, Russia is
effectively a one-country OGEC (Goldman 2008: 165). How important Russian
gas is to Europe can be seen from the table given below.

Table 5.1: Europe’s Reliance on Russian Gas (Bill. Cubic Meters), 2004

<table>
<thead>
<tr>
<th></th>
<th>Total consumption</th>
<th>Total imports</th>
<th>Imports from Russia</th>
<th>% of total consumption</th>
<th>% of imports</th>
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<td>526</td>
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<td>97</td>
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<td>36</td>
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<td>68</td>
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<td>26</td>
<td>32</td>
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<tr>
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<td>23</td>
<td>22</td>
<td>14.5</td>
<td>64</td>
<td>66</td>
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<tr>
<td>France</td>
<td>45</td>
<td>45</td>
<td>13.3</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Poland</td>
<td>14</td>
<td>10</td>
<td>6.3</td>
<td>42.5</td>
<td>63</td>
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<td>8</td>
<td>6</td>
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<td>75</td>
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<td>Hungary</td>
<td>14</td>
<td>11</td>
<td>9</td>
<td>66</td>
<td>82</td>
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<td>9.5</td>
<td>6.8</td>
<td>74.6</td>
<td>72</td>
</tr>
<tr>
<td>Slovakia</td>
<td>6.6</td>
<td>6.4</td>
<td>5.8</td>
<td>97</td>
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<td>4.6</td>
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<td>100</td>
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<tr>
<td>Estonia</td>
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<td>0.97</td>
<td>0.97</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Latvia</td>
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<td>1.75</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Lithuania</td>
<td>2.93</td>
<td>2.93</td>
<td>2.93</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Data from natural gas information, International Energy Agency (OECO), 2005

Oil Policy in Baltic:

Finland and Baltic countries depend on Russia for 100% of their gas. Germany
imports 42% of its gas supplies from Russia. Even Italy and France depend on
Russia for more than 30% of their gas import. The Gazprom has taken over the
internal pipeline delivery of 3 billion cubic meters of gas directly to individual
French households. Italian company Eni, and old business partner of Russia
Enel has agreed to allow Gazprom to sell up to 3 billion cubic meters of gas to
Italian homes and factories by 2010. In exchange, Eni was allowed to buy gas
producing assets within Russia. Italian companies own 19% shares in Novatek, second largest producer of gas in Russia. The German companies have created a joint venture with Gazprom to develop the Yyzhno Ruskoisc gas field in Russia. In cooperation with German gas supplies companies E.ON, Wingas, and Winter-Shall, Gazprom is trying to enter Germany’s domestic gas distribution system on 50% equity minus share basis with these 3 German gas majors. German companies have 20% shares of the Nord Stream project. The German companies have offered a part of their shares to Gas Uni-a Dutch company. The German gas company Ruhrgas which was bought up in 2003 by E.ON, owns 6.5% of Gazprom shares. Russia has developed a special relationship with German energy firms over a period of time. German firms like E.ON, Ruhr gas, RWE, Winter Shell etc. have been given more favorable attention than energy companies from other western countries by Kremlin under Putin’s Presidency.

It is a fact that energy companies from United States, United Kingdom, Japan and Netherlands have had substantial share of investments in Russia, which was confiscated by Kremlin through arbitrary action. On the other hand, the assets belonging to German companies have not been disturbed by Kremlin. All these and many other factors show a clear and favorable energy policy of Russia towards Germany. Putin seems to be intelligent enough to follow a strategy of keeping Europe divided on energy related issues and striving towards strengthening economic ties with Germany particularly in the area of energy. Germany also seems to be helpless as its dependency on import of Russian gas is on the rise and Germans have limited energy options or alternatives. It is also a historical fact that a majority of loans extended to the former Soviet Union were issued by German banks. As Kremlin paid off the German debt after bringing stability in the Russian economy, the Germans
confidence level towards Russians has gone up. Germany’s business and industrial groups also look at Russia as a lucrative country for business investments and business ventures. On top of this, Germany does not have any strategic gas storage facilities which make German consumers (domestic as well as industrial) of Russian gas much more dependent on Russia for their uninterrupted gas supply.

The fall of the Berlin Wall delivered a deadly blow to Russia’s role as a player in the European state system. Putin, when he assumed office of President at the turn of the millennium, was eager, right from the beginning, to devise a new role for Russia; one that is no longer based on military and political domination of East Europe. It became clear by 2005 that Russia had carved out a new role for itself in Europe based on economics and energy. The European Union is Russia’s largest trading partner in energy. 50% of Russia’ energy trade is with these countries. Against the backdrop of rising energy prices, Russia has enjoyed economic growth rates from 7 to over 8% per year. The vibrant Russian economy made the European investors optimistic about Russian stock market and about the burgeoning consumer market. Russia made use of its windfall energy incomes to pay off its debts to Europe before the scheduled date. This had the reverse effect of growing European investment in Russia in spite of the action against Khodorkovsky and the Yukos. Russia’s growing energy trade with the EU has created a new type of inter dependency. If west Europe is dependent on Russia oil and gas Russia is also equally dependent on the EU for its critical foreign exchange revenues necessary for huge investments in the energy sector which is currently facing a serious challenge from ageing technology and declining production in depleted fields.
This is however a superficial surface view which contains some common place facile facts. It is difficult to controvert that Russia has resorted to strong arm tactics vis-à-vis Latvia and Lithuania as already mentioned- Russia’s cut off, in January 2003, of its oil supplies to Latvia’s Vendspils port. This embargo has in retaliation against Riga’s refusal to sell the Port facilities to a Russian energy company. This was followed, in July 2006, by a shut down of pipeline supplying Lithuania’s MazeikiaiNafta refinery. This shutdown also came after a Russian company failed to acquire the Lithuanian refinery. The Gazprom gas monopoly of Russia is predominantly state owned company controlled by high ranking Kremlin officials who do not run it in a transparent way according to the free market rules. Russia’s closure of oil supplies to Latvian and Lithuanian NAFTA related projects did not evoke protest outside Poland and the Baltic states. The official Russian pretext was that this cut off was the result of technical difficulties which were not allowed to be examined by Third Parties. This incident, writes Zeyno Baran, is a clear case of political manipulation given Russia’s status as a repeat offender.” (Baran 2007: 133-134)

The western countries did not want to stand up to Moscow for Lithuania and Latvia, afraid as they were, of ruining their chances to get preferential access to Russian oil and gas. Russia is thus, following the tactic of “divide and conquer” by driving a wedge between West and East Europe. The EU faces a serious challenge in devising a common energy policy.

The EU has also failed to take Russia to task for its illiberal market actions which pose a serious threat to European energy security. The anti-free market policies, followed by the Kremlin bureaucracy run hydrocarbon industry, have raised the prices for consumers. The Russian state does not mind going in for the Nord Stream pipeline under the Baltic Sea even though it is thrice as costly
as an overland route through Lithuania and Poland but it is more important for Moscow to divorce Western Europe’s gas supply from that of Eastern Europe. Nor is Moscow concerned about the environmental cost which it projects prominently while airing its opposition to under sea pipeline from Azerbaijan to Georgia, not to mention the Blue Stream gas pipeline under the Black Sea. Many experts have expressed concern that corruption and inefficiency, together, with Moscow’s refusal to allow significant foreign investment in the energy sector will soon lead the Russian oil and gas industry to burn out (Riley and Umbach, 2007, Online:Web).

The above cited American expert Zeyno Baran wants the United States to lend support to two gas pipelines directly to Europe, one from Turkey to Greece and Italy, called TGT, and the second from Turkey across Bulgaria, Romania and Hungary and into Austria, known as Nabucco. This will facilitate upstream investment in the Shah Deniz field in Azerbaijan and accelerate significant quantities of gas flow from Azerbaijan to Europe. In this calculation, Azerbaijan would start sending small volumes of gas to Greece, by the end of this year, becoming in 9 years, a key gas exporter supplying one third of the amount that Russia currently exports to Europe (Baran 2007: 138) Putin is tying to preempt this project by reaching agreement with Greece and Bulgaria in March, 2007, to send Russian oil via a new pipeline which is being constructed on their territories Burgas – Alexandropolis pipeline and by reaching on agreement with Hungary for making it a gas supply hub for Europe through an extension of the Blue Stream.

Zeyno Baran goes to the extent of positing that as long as Russia maintains its dominance over the pipelines linking Caspian and Central Asian energy producers to Europe, it will not reform either in economic or the political
sphere. Gazprom’s revenues are being squandered to buy up previously independent media. He suggests that to discipline Russia, EU should take recourse to legal actions in terms of article 82 of the European community Treaty (Baran 2007: 141). This article prohibits “abuse … of a dominant position within the common market,” “imposing … unfair trading conditions,” and “making the conclusion of contracts subject to acceptance, … of supplementary obligations which have no connection with the subject of such contracts” (“Consolidated version of the Treaty Establishing the European Community,” Online Web). The EU writes Zeyno Baran has already used this anti trust provision to prosecute Microsoft and blocked a proposed merger between the GE and Honeywell. According to Baran, it should use this power against Gazprom and Transneft, considering that they are the monopoly gas providers for some EU countries (Baran 2007: 141).

A heated debate is currently going on among specialists and experts in the West and Russia over the growing Russian energy clout over Europe. Whereas specialists like Zeyno Baran, a senior fellow and director of the Center for Eurasian Policy at the Hudson Institute in Washington and Keith C. Smith of the Centre for Strategic and International Studies, Washington D.C. are inclined to view the EU – Russia energy relationship as energy imperialism run by Russian oil and gas cartels largely owned by the Russian state and managed not by professional managers but Kremlin bureaucrats, another study brought out under the editorship of Pami Aalto, a member of Eurasia Energy Group, Aleksanteri Institute, University Helsinki, also carrying a contribution by Stanislav L. Tkachenko, Vice – Rector at the St. Petersburg State University presents an optimistic and positive view of Russia – EU energy relationship.
Keith C. Smith Carries the story of arm-twisting of Latvia, Lithuania, Ukraine and Georgia by Russia, to include the case of Russia cut off for one day energy supplies to Czech Republic on technical grounds on 18 July, 2004, i.e., a day after the announcement of U.S. radar in that country as a part of Ballistic Missile Defense. According to Smith this was meant to be a warning (Smith, 2008: 3). While admitting western power too used energy as a foreign policy tool Smith maintains that unlike Russia it was never used against the neighbors. Smith asserts that Russia has been following tactics of energy imperialism of divide and dominates in a favorable international climate created by unilateral US action against Iraq. By talking individually to former chancellor of Germany Gerhard Schroeder then French President Jacques Chirac and Italian Prime Minister, Silvio Berlusconi Russia has sought to drive a wedge between West and East Europe. Both P.M. Putin and his successor President Medvedev repeated earlier public assurances following a short disruption of energy supplies to the Czech Republic that Russia would never use the supply of oil and gas for political reasons. Smith has argued that the pressure tactics are not in the long term interest of Russia and are likely to contribute growth of authoritarianism inefficiency of production and harm to environment. He has also leveled charges of financial favors bestowed by Putin upon, former German Chancellor Gerhard Schroeder and several of Berlusconi’s friends. Former American Senators were also offered lucrative positions in Russian energy companies by Putin. Smith further writes: “in Western Europe one repeatedly hears that Russia has always been a reliable supplier to Europe, while in fact in has used supply – disruptions as a political tool more than 20 times since 1990.” These disruptions have been documented by many European analysts. Nevertheless, many in Western Europe have acted as if “real Europe includes only the countries west of the German-Polish border.”
The confrontation with Ukraine over the alleged non-payment for and under payment of Russian gas has also been dismissed by Smith as a serious factor. According to him there exists an inter-tuning of financial interests between the corrupt energy Mafias in Russia and Ukraine. The intermediary joint companies through which Russia supplies gas to Ukraine surfaced from nowhere. The RosUkrEnergo started with a paltry capital of $37,000. According to Smith, 1 billion dollars yearly were paid to its successor Ural Trans Gas located in a small office on the outskirts of Budapest. These intermediary companies lacked transparency and were used to illegally siphon off huge amounts of money by the corrupt Russian and Ukrainian elite outwardly quarreling over payment of market price by Ukraine and stealing of Russian gas in transit.

**European Union and Russian Policy:**

Smith has accused European Commission for not taking effective measures against Russian mal practices. While asking for action against Russia by EU of Article 82 of the European Treaty Charter, Smith also finds fault with the EU commission not insisting on a reciprocity regime. Moscow has made it clear that it would fight any effort by EU to secure majority control or even grant western firms more than 20% ownership in any Russian natural resource company. In Smith’s view the EU commission should enforce a ‘level playing field’ for European and Russian investors in energy sector. Russia, he insists, should not take refuge behind the argument that it has only signed the Treaty and not ratified it Article 45 makes signing not ratification as important. The treaty comes operational automatically just after state signing it.

As against the above extremist views of Smith and Zeyno Baran, Pami Aalto in his study cited above takes a more positive view of the EU-Russian Energy
relationship. The promise extracted by EU form Russia to gradually abolish differential pricing for domestic and foreign energy buyers in return for EU support for Russian membership of WTO is a positive development in Pami Aalto’s view. The EU – Russia energy relationship condition does not look, “that bad as they might” – writes Aalto (Aalto 2008: 206). He also endorses Russian expert Tkachenko’s analysis that “mutual interdependence is likely to keep Russia pragmatic in the EU direction, striving mainly at economic integration and asset acquisitions rather than forceful domination as may be the case in the CIS” (Aalto 2008: 200). But Aalto also insists that in order to put,” any alarmism to rest,” “it remains that the EU has to accept sovereignty and geopolitical concerns as a major and possibility strengthening factor in its energy relation with Russia. Instead of dealing with a diverse group of actors ranging from Russian region and companies to ministries as seemed the way ahead in the 1990s, the EU have to deal with the Russian state. Aalto also finds the prospects for a “mutually compatible” energy relationship between Europe and Russia far brighter and “promising” than in most regions of the world for example in the Far East. In the latter region the practical realization of the potentially compatible energy relationship is difficult in absence of any regional cooperation frameworks, institutions, infrastructure, multilateralism for reducing risks in expensive and technically demanding projects all of which are found in the wider European area albeit most of them yet in imperfect form( Dusseault et al. 2006, Online :Web).

The 2005 G-8 summit was held at Gleneagles in England? The focus was on pursuit of energy security through concerted approach consistent with common environmental goals. The summit agreed to work under the Plan of Action for Climate Change, Clean Energy and Sustainable Development. While resolved to take forward the dialogue on these issues, the G-8 summit held in St.
Petersburg from 15 – 17 July, 2006 took a comprehensive holistic approach towards the questions of global energy security. As the chair’s summary of the G-8 Documents (Chair’s Summary 2006, Online: Web) stated,” We adopted the St. Petersburg Plan of Action to enhance global energy security through efforts to increase transparency, predictability and stability of the global energy markets, improve the investment climate in the energy sector, promote energy efficiency and energy saving, diversity energy mix, ensure physical safety of critical energy infrastructure, reduce energy poverty and address climate change and sustainable development” . The G-8 St. Petersburg summit agreed that, “dynamic and sustainable development of our civilization depends on reliable access to energy” which is best assured by “strengthened partnership between energy producing and consuming countries, including enhanced dialogue on growing energy interdependence, security of supply and demand issues. It discussed challenges to global energy security and set out “common goals and approaches aimed at ensuring sufficient, reliable and environmentally responsible supplies of energy at prices reflecting market fundamentals”. The St. Petersburg G-8 summit stressed that open, transparent, efficient and competitive energy markets are the cornerstone for our common energy security strategy and also recognized that governments and relevant international organizations play an important role in this area.

Prior to the summit in St. Petersburg, G-8 energy ministers met in Moscow on 15-16th March 2006. The energy ministers in their statement pointed out the importance of further development and strengthening of dialogue among energy producers, transit and consumer countries including information exchange on the current situation as well as medium long term plans and programs of development of their respective energy sectors. The energy ministers’ statement supported appropriate international initiatives such as the
Joint Oil Data Initiative aimed at greater accessibility and transparency of data on reserves, demand and supply, stocks and production capacities. The energy ministers also recognized that a stable future of international energy sector requires “significant investment in the production, transportation and processing of energy resources.” And further added it that to attract investment it is essential for counties to have open and favorable investment regimes including stable and predictable regulations, clear tax laws, and efficient administrative procedures as well as fair and reciprocal access to markets along the energy value chain.”

The G-8 summit in St. Petersburg engaged in lively discussions on energy security, education, injections, diseases and trade. It also discussed the deteriorating situation in Lebanon and North Korea’s development of nuclear weapons and missiles. According to John Kirton, Director of Toronto University independent body “G-8 Research Group”, the Summit at St. Petersburg is the “best summit ever. In the 32 years history of G-8 summits, no other summit delivered “more codified collected decisions and commitments”. Russia, according to him “won a decisive victory in rebuffing the European call for it to ratify the Energy Charter Treaty. Russia agreed to a vaguely worded G-8 statement supporting the principles of the Energy Charter. But without ratification, control of Russia’s gas export pipelines remains fully in the hands of the country’s Gazprom monopoly. Putin told the summit, “The Energy Chapter implies mutual access to production infrastructure of energy resources and to transportation infrastructure” (Bigg 2006: 2, Online: Web) and asked, “Naturally, we can allow our partners access to both. But our question is what will they give us access to? Where is their production or transportation infrastructure?” Russia however suffered one major set back in failing to clear the main hurdle to its long sought entry into the WTO because of the US not
signing a bilateral treaty on this subject. At the G-8 summit, Russia took a tough line on Georgia and Transdniester. In the latter’s Case, Russia refused to recognize Syria and Iran as instigators behind Hezbollah actions against Israel. Putin asked, as why Russia could not mention “other countries that harbor people who are quite obviously terrorists” - an apparent reference to Britain which refuse to extradite the Chechan separatist leader Ahmed Zakayev.

The G-8 St. Petersburg summit adopted an important document titled Global Energy Challenges containing seven points. The core of this document emphasizes the global nature of these challenges and the growing interdependence between producing, consuming and transiting countries. A significant new aspect of this summit is enshrined in point 3 of the above named document which states, “Neither Global Energy Security, nor the Millennium Development Goals can be fully achieved without sustainable access to fuels for the 2.4 billion people and to electricity for the 1.6 billion people currently without such access in developing countries. They can not be forgotten or marginalized”. (Global Energy Challenges 2006, online: Web)

Point 6 of the above mentioned document re-confirmed the G-8 commitment to the following principles:

Strong global economic growth, effective market access, and investment in all stages of the energy supply chain; open, transparent, efficient and competitive markets for energy production, supply, use, transmission and transit service as a by to global energy security;

Transparent, equitable, stable and effective legal and regulatory frameworks, including the obligations to uphold contracts, to generate sufficient, sustainable international investments upstream and downstream;
Enhanced dialogue on relevant stakeholders, perspectives on growing interdependence, security of supply and demand issues; diversification of energy supply and demand issues;

Diversification of energy supply and demand, energy sources, geographical and sectoral market, transportation routes and means of transport;

Promotion of energy saving and energy efficiency measures through initiatives and both national and international levels;

Environmentally sound development and use of energy, and deployment and transfer of clean energy technologies which help to tackle climate change;

Promotion of transparency and good governance in the energy sector to discourage corruption;

Cooperative energy emergency response, including coordinated planning of strategic stocks;

Safeguarding critical energy infrastructure; and addressing the energy challenges for the poorest populations in developing countries.

Besides the above the summit also adopted St. Petersburg Plan of Action for global energy security. The main highlights of this plan are its emphasis of the following key areas.

Increasing transparency, predictability and stability of global energy market;

Improving the investment climate in the energy sector;

Enhancing energy efficiency and energy saving;

Diversifying energy mix;
Ensuring physical security of critical energy infrastructure;
Reducing energy poverty;
Addressing climate change and sustainable development;
Increasing transparency, predictability and stability of Global Energy Markets;
The action plan speaks of the need to attract investment worth trillions of US dollars through “competitive, open, equitable and transparent market. It calls for promoting” predictable regulatory regions, including stable, market – based legal frameworks for investment, medium and long term for costs of energy demand, clear and consistent tax regulations, renewal of unjustified administrative barriers, timely and effective contract enforcement and access to effective dispute settlement procedures.”(Plan of Action 2006, Online: Web)(Point 7)

Some innovative features of the Plan of Action are implementation of Joint Oil Data Initiative (JODI) (point3), introduction of a large scale LNG trade and development of Global LNG market, VLNG trade, cleaner more efficient technologies and practices including carbon capture and storage (point-8)

The Plan of Action places strong emphasis on enhancing energy efficiency and energy saving. It calls for encouragement to energy efficiency labeling programs and increased efforts to adopt the most stringent energy efficiency standards. The Action Plan also calls for financial and tax incentives for promotion of energy efficient technologies. It also mentions the need to provide incentives for consumers to adopt vehicles including clean diesel’s and hybrid cars. It also urges research to develop hydrogen fuels and diversification of energy mix. The Action Plan emphasizes the development of nuclear energy to achieve energy security and climate protection goals with due emphasis’ on reduction of risks associated with the use of nuclear energy by using generation
The Action Plan devotes great attention to large scale use of renewable energy solar, wind hydro, biomass and geothermal energy resources, at a reduced cost.

The action plan also draws attention to potential risks of terrorist attacks on energy infrastructure. A new aspect of the plan is its strategy to address energy poverty. Without addressing this challenge it is impossible to drastically reduce general poverty, support health services, provide clean drinking water and sanitation, promote more productive agriculture and fruit yields and secure investments in job creating enterprises in developing countries. It reiterates the commitment to the UN Millennium Development Goals through facilitating a better access to energy. (Point 44)

The Action Plan lauds the commitments under the Kyoto protocol and underlines the importance to clean development.

**G 8 and Putin’s Energy Policies:**

The action plan adopted at St. Petersburg G-8 summit in July 2006 contains the stamp of Putin’s thinking. In fact, some of the points included in the Action Plan and Global Energy Security G – 8 Document adopted at the St. Petersburg summit were articulated by Vladimir Putin in his speech at the meeting of G-8 energy ministers held in Moscow on 16 March 2006. Putin in his Moscow speech had complimented his country for its “deserved” reputation as a serious and responsible partner on the energy resources markets. He referred to the overall growth of oil and gas production in Russia and proudly mentioned his country’s production of more than 470196 million tons of oil in 2005 which represented an 8% increase on 2004. Putin referred to the development of Shtokman gas field and intensive construction of North European gas pipeline.
He also mentioned that Russia was working on the project to lay a pipeline from Eastern Siberia through to the Pacific Coast, with the branch of the People’s Republic of China. Among the future tasks mentioned by Putin were guaranteeing supplies of traditional energy sources of the World Economy on conditions acceptable for both producer and consumer countries and to combat energy poverty. In Putin’s view, the optimum way to harmonize the interest of all the players on the energy market was to insure against unpredictability and reduction in the level of investment risks. A fair distribution of the risks among energy resource producers, transit service providers and consumers was described by Putin in his Moscow speech as one of the keys to global energy security (Putin’s Speech at meeting with the G8 Energy Ministers on 16-03-2006, Online: Web). Putin emphasized the fact that by 2030 the global energy demand will still be met by hydrocarbon fuels. This fact, in Putin’s view brings to prominence the task of developing environmental friendly ways of producing energy from hydrocarbon resources. Putin also emphasized the need for outside assistance to developing countries to have reliable and affordable access to energy services and offered Russia’s help in this matter.

The Russian Industry and Energy Ministry already approved a plan proposed by Gazprom in the month of September 2007. According to this plan, Gazprom would be investing USD 100 billion in east Siberia and the Russia Far East until 2030 for creation and development of integrated production line, transportation, and supply systems covering approximately 200 billion cubic meters of natural gas. (RIA Novosti, December 26, 2007).

It is worthwhile to note here that a large number of Russia’s new and untapped oil and gas fields are situated in eastern Russia i.e. in the Russian Far East and
in the eastern Siberia. These locations are near to China than older fields that provides energy to Russia and Europe mainly.

According to Gazprom Management Committee, the natural gas sales of Russia from Russian Far East and Siberia to the Asian and pacific nations e.g. China, Japan, and South Korea could reach 50 billion cubic meters by 2007 (RIA Novosti, December 24, 2007).

In the month of April, 2006, Russia also began construction of massive East Siberia Pacific Ocean (ESPO) oil pipeline, which will cost approximately USD 11.5 billion. According to plans, the ESPO pipeline will also carry a branch linking China directly to eastern Siberia. On the similar pattern Russia will also build another new pipeline to deliver big quantity of natural gas to East Asian countries. Therefore we could see a eastward shift in the direction of Russian energy export routes as new supplies flowing towards East Asia in place of Europe in the near future.

Chinese and Russian experts on oil and gas are in agreement that usage of pipelines system for transportation of oil and gas from Russia to China would be far more efficient but both sides are suspicious of one another. One area of complication relates to investments also. Russian firms need considerable foreign capital and technology to exploit and develop these unfavorable, geographically challenging and the remote areas located hydrocarbon fields. China expects that Kremlin should devote resources for the construction of a fixed, permanent and dedicated pipeline to China as a guaranteed commitment towards a long-term and assured supply chain arrangement. However, Russians are apprehensive that building such pipeline might antagonize Europe, Japan and the United States and Russia might be facing problems in attracting much needed capital from the West.
Security cooperation between Russia and China has not been up to the mark despite the fact that their relations have improved on several other important issues. There has been an opportunistic relationship between both countries i.e. China and Russia.

Washington keeps on chasing developments in Russia and China carefully as both these countries are powerful enough to leave an impression in the world politics whatever they do. America also pursues an amalgam of hedging policies that aim to counter future Chinese-Russian alignment if any.

Maintaining a strong US-European and US-Japanese security ties has been an essential hedging strategy of USA against the emergence of a hostile Chinese – Russian military bloc.

America also pursues several policies aimed at preventing a genuine strategic alliance among Russia and China as such an alliance could obstruct the fulfillment of crucial foreign policy objectives of USA.

In the sphere of energy security, the uninterrupted development of the undersea resources in the Pacific Ocean would also increase the efficacy of all three countries (US, China and Russia) to hedge against future disruptions of oil suppliers from Persian Gulf.

Russia and America have also sought their cooperation on resolving the North Korea nuclear dispute as the two governments can continue to work in close cooperation for resolving such an important international security concern (Lavrov 2007).

The global initiative of combating nuclear terrorism, originally launched by Putin and President Bush on the sidelines of July 2006 G-8 summit in St.
Petersburg has been a welcome step towards achieving essential conditions for international security. The initiatives prime objective—denying terrorists access to nuclear materials—promotes a goal which has also gained acceptance from Chinese leadership.

The consensus on nuclear issues among several countries seems to be a distant possibility in near future because of the complexity involved in their resolution. For example the United States might be more worrisome than Russia or China about the nuclear aspirations of Iran and North Korea, Russia has long been concerned about the role of Pakistan as a proliferators. Similarly China is least interested that Japan or Taiwan should develop nuclear weapons as Chinese security officials have shown concern that terrorists might acquire North Korean nuclear explosive device to use it against China (Mc Vadon 2007: 9).

These concerns of many countries prove that the scope still exists for the world’s leading nuclear energy suppliers for cooperation on the issues of nonproliferation keeping in mind the international security.

For example opportunities still exist in the expansion of American—Chinese—Russian collaboration in the area of developing better global arrangement towards supplies of nuclear fuel for power generation or say supply of nuclear fuel only for constructive purposes.

According to Keith C. Smith, “Both European and Russian consumers would benefit if the European Union insists on complete reciprocity in ownership and marketing. This would mean that European energy firms operating in Russia would have the same advantages as Russian firms in Europe. When one considers the history of Russian behavior towards western energy firms operating within Russia, any demand for reciprocity would require close
monitoring and a willingness to retaliate against Russian companies doing business in Europe. Although there is talk within the European Union of demanding reciprocity regarding energy investments, it would be difficult for the commission to complement a reciprocity regime without a sufficient strong enforcement mechanism, something that would be hard to achieve in today’s divided European Commission (Smith 2008: 8).

In the energy matters, Russian officials also see a crucial role of ongoing negotiations and agreements in terms of reciprocity – particularly, the exchange of access to investments and production in Russian energy companies for investment and production opportunities in Western Europe and American refining operations and retail fuel sales. According to them, the increase in the economic interdependence of Russian and western companies would ensure western energy security.

**Oil and ASEAN and China:**

As mentioned earlier, East Asian Community (EAC) comprising the ten ASEAN States, China, Japan and South Korea being the major countries has attracted lot of trading activities in recent years. The center of gravity with respect to Asian trade and investment has been shifted to China instead of USA. Most EAC states have the unsatisfied desire for Russia’s energy resources mainly oil and gas. China had granted Rosneft a USD 6 billion loan to acquire Yugansk as a prepayment for future oil deliveries. China has also granted a USD 1.3 billion loan to St. Petersburg for renovation of its infrastructure. Similarly Japan has agreed to provide a USD 5 billion loan to the Russian monopoly Transnet, which will build a pipeline from eastern Siberia to the pacific enabling Russia to supply oil and LNG (Liquefied Natural Gas) to Japan, to other EAC states and to the US west coast. According to John Letiche,
"While the integration with the European – Atlantic community now looms large among Russia’s foreign policy objectives, its recent expansion of trade and investment with key Asian economies clearly points to the importance of increasing integration with the AEL. At the same time, the global distribution by Russia’s foreign trade and its preparation to enter the WTO suggest that conducting international economic policies predominantly on the basis of multinational equality of treatment would elicit the most favorable responses from Russia’s trading partners and yield the greatest economic returns." (Letiche 2007: 47-48).

Russia’s position in energy exports to China is surprisingly at a low level. Russia’s share to China’s oil imports is approximately 11 – 12 % less than the proportion provided by some distant African and Persian Gulf suppliers. Richard Weitz, in his work, published in a US Government Publication in August 2008 alleges that Russia’s consistent delays in shipments, foot-dragging on the issue of pipeline construction, and attempts to play the Chinese, Asian and European markets against each other have discouraged Chinese policy makers from viewing Russia as a reliable energy security partner (Weitz 2008: 20, Online: Web).

About 80% of Russian oil exported to China is still shipped by railway. The Chitah– Harbin – Vladimir Vladivostok railroad carrying this oil has limited capacity and the cost of transport is high – about $2^{1/2}$ to 3 times as expensive as shipments by pipelines. Different track gauges used by the two counties further add to delay and cost.

The two governments have been engaged in negotiations over pipeline construction over number of year leading to Chinese suspicions that the Russians are using the specter of diverting more energy sales to China to
enhance their negotiating leverage with Japan and Europe. As the Chinese Chief Energy planner Zhang Guo Bao complained at the time of March 2007 Hu – Putin summit:

The Sino –Russia pipeline question is one step forward, two steps back. Today is cloudy with a chance for sun while tomorrow is sunny with a chance for clouds. One moment Russia is saying they have made a decision, the next saying that no decision has been made.... Even though there have been a lot of promises expressing Russia’s interest in exporting natural gas to China, in truth no real progress has been made. As for Russian electricity exports.... During all the years we have been connected together, Russia has only sent a total of 1 billion kilowatt hours of electricity to China (Interfax, World Politics watch, 2007, Online: Web).

The Russians are unwilling to commit their investment on pipelines supplying the Chinese market because of their fear of its adverse effects on their ability to attract western capital. While discussing construction of oil pipeline to China over a decade writes Richard Weitz, “they continue to entice Japan, Europe and even the U.S. with offers of future energy deliveries – encouraging them to offer financial and technical assistance as well as to moderate their policies on other contentions issues e.g. the Japanese – Russian territorial dispute over the Kuril Islands. Many analysts view, with skepticism, Russia’s ability to meet the expanding demand for energy in spite of Russian companies taking over control of central Asian oil and gas resources. The Russian Duma blocked, in 2002, China’s National Petroleum Corporation from acquiring a majority stake in Slavneft, a key Russian oil producer. Even though CNPC’s bid was almost twice as high as that of the eventual domestic winner (Aiyar, The Hindu 2007).

In the opinion of Richard Weitz, “For years, Russians energy companies and government officials have been playing off potential foreign purchasers of its energy against each other. Threatening Europeans with the specter of diverting
future Russian energy shipments of Asia, and vice versa, has been a favorite tactic. For example, in the course of his company’s difficult negotiations with potential Chinese buyers of Russian oil delivered by rail through Mongolia, Sergei Bogdanchikov, the president of Rosenft, warned that “our partners must understand that Russia has a surplus rather than a deficit of pipeline capacity, and we can also supply oil to Europe…. So here is a market situation for you – (which side willingly) pay more”? (Weitz 2008: 24, Online: Web)

Conclusion:

Thus, despite a balanced approach reflected in the Plan of Action adapted at G-8 St. Petersburg summit in July 2006 and the unexceptionable principles permeating the energy security documents adopted at that summit and the pious sentiments about Russian reliability aired by Putin on several occasions, no substantial progress has been made in the energy relationship. The EU is not prepared to replace its energy charter with an alternative set of principles proposed recently by Russia. As a top EU official, EU Energy Commissioner Andris Piebalgs, in Moscow on 28th April 2009, told the press after talks with Russian Energy officials. Russia has refused to ratify the charter arguing that in addition to being a dominant producer, it must also have access to the downstream distribution sector. This was a clear rejection of the document approved by Russian President Medvedev earlier in April this year. The document, the Russian President claimed is aimed to achieve “a balance for all producers of energy resources, transit states, and consumers” (Cloeman 2009, Online: Web). Piebalgs talks with top Russian officials such as Deputy Prime Minister Igor Sachin were intended to improve ties after a cut – off Russian supplies in January left European countries shivering without gas in winter cold.
Russia’s recent tough attitude can be understood, against the backdrop of an agreement between Brussels and Ukraine on modernizing the crucial Ukrainian-Transit network. Russia has voiced fears - it might be cut out of infrastructure development work in Ukraine. The EU energy commissioner denied that EU had any such intention and that it only wanted to modernize the... transport system. However, Medvedev’s energy proposals have not been rejected outright by EU energy commissioner Piebalgs who described them as more “ambitious” and “global” which could be applied “to each and every country to, each and every energy players”. Russia’s Energy Minister Sergei Shmatko justified Medvedev’s proposals saying they were born out of his country’s accumulated experience of investing in upstream energy field and infrastructure. Big oil and gas producers like Russia need guarantees of future demand from downstream consumer said Shmatko. Along with his energy security proposals, President Medvedev has also proposed a revamp of existing security structures in the Euro-Atlantic region. The heightened Russian security concerns following the EU’s recent activism vis-à-vis Ukraine and Georgia are obviously the reasons for this hardening of Russian approach. While willing to go an extra mile in the direction of a win – win situation propelled by geo economics, Moscow can not be totally obvious of its geopolitical interests in the former Soviet space, now called the “Near Aboard” As already pointed out, Putin’s Pragmatic foreign policy course envisages the survival of Russia only through its keeping itself intact as a great power.

188