

Mikhail G. DELYAGIN

Energy Security: Real and Fictional Problems

Summary: The issue of energy security is a complex problem with its practical and theoretical dimensions. The article assesses this concept from both perspectives offering the analysis of the Russian relation and commitments to the EU in terms of energy security and vice versa as well as the view on Ukrainian crisis from the Russian perspective. It also attempts to respond to the some of the EU's complaints towards Russia concerning the energy issue..

The concept of energy security consists of three basic elements: to ensure the continuous and sufficient supply of energy carriers; under the conditions of the guaranteed stable amounts of the purchased energy; for the prices determined by the transparent market mechanism.

Unfortunately, energy security is usually perceived as the first element and at the same time it is interpreted as the 'security of the customers'. The 'security of the producer' guaranteed within the second element is usually ignored.

The Energy Charter Treaty

At the *Lahti Summit*, Russia had to face the 'unified' pressure of the EU member states which insisted on signing the *Energy Charter Treaty*. This request currently presents a key aspect in the energy security issue discourse.

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Mikhail G. Delyagin works as a Director of the Moscow-based Institute of Globalization Studies.

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Russia is expected to provide free access to its pipeline network without any guarantee regarding the transit and the purchase amount in Russia. In the past such situations usually resulted in priority purchase of energy carriers from sellers competing with Russians, while priorities have been determined politically rather than commercially. Let us mention the issue of the *Bosphorus and the Dardanelles Straits* as a classic example: worried about ecological disasters, Turkey restricted the transport of tankers with Russian oil through the straits. However, it did not restrict the activities of the *Caspian Pipeline Consortium*, which virtually doubled its capacity. If Russia ratifies

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the *Energy Charter Treaty*, the European Union will preferentially purchase energy carriers from its own sellers and will claim that Russian sellers are not 'transparent' or 'they cooperate with Putin's dictatorial regime' or they will find other reasons respectively.

Nevertheless, this problem also has a theoretical dimension. The *Energy Charter Treaty* is designed to protect the customers, not the producers. The fact that the *Treaty* does not offer any transit guarantee does harm to Russian interests, this having been proved by the Ukrainian crisis.

Considering the abovementioned facts, the solution might be in exchange for the access to the Russian transit artery pipeline for the protection of Russian transit interests or for the access to the distribution networks

of the European Union (compensation of the risks by profit). However, both variants – even though neither is ideal – were indignantly refused. Such refusal brought Russia and the West to the brink of a 'cold war', but hopefully the victory of democrats in the US elections will remove this menace.

All this deflects Russia not only from the West as such, but also from the European Union and contributes to the reorientation of Russia as the growing center of world economy – China and the countries of South-East Asia. On one hand, Russia is linked with Europe geographically, traditionally, infrastructurally and culturally, but on the other, the attitude of Europe makes Russia – while maintaining the coordination of the existing infrastructure – not in cooperation with Europe, but with its strategic competitors. Thus Russia balances amongst the West, China and Islamic world. It is obviously

not pleasant, but it is not Russia's will. It is the will of the West giving Russia no other development choices.

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The Ukrainian Crisis

The issue of 'energy security' was brought up after the Ukrainian crisis when Russia was not, for a short-term period, able to ensure gas distribution under the conditions of illegal Ukrainian gas drawing and an extremely cold winter on its own territory. Russia sells gas to the EU on the Western border of Ukraine, therefore Ukrainian problems are the problems of Russia as well. Notwithstanding this fact, it can be stated that the Ukrainian government was, during the crisis, under the dominance of the Europeans, who simply did not want to help themselves. Moreover: the gas supply problem was created by Europeans themselves as they firstly rejected the idea of the gas consortium and then they supported and promoted by all means, anti-Russian attitudes amongst Ukrainians. Perhaps, it is a standard for the EU to blame Russia for the consequences of its own policy. However it is of destructive character and leads only to the disregard of the EU and European values in Russia.

It is worth mentioning that before the world crude-oil prices increased, Gazprom had saved a relatively high amount of resources in Ukraine, for the crude-oil drawing tariffs fell short of the European price more than the gas price did. After the rise in price Gazprom faced losses. All this did affect the Russian attitude towards Ukraine, eventhough the political factor was the most important one. Let me mention one billion dollars, Ukraine received in the form of the tax system change to secure the Yanukovich's victory or Putin's appearance on Ukrainian TV that became the impulse for the Maydan events. However, it is not only Russia that is active in Ukraine: I remember Mr. Kwasniewski speaking loudly in Ukraine – by the way he spoke on behalf of the EU. Let us check both sides of the coin. And, if the EU does not like the idea that 'poor' Ukrainians, Belarusians or Georgians pay too much for Russian gas, the EU can pay instead of them. Russia is not against such an idea. American tax payers maintain the Saakashvilli's government by paying him a salary, so the European ones could pay for the energy Georgia spends. There is precedence for it. In the 90s the US funded the Czech Republic to enable it, not to buy gas from Russia, but rather the more expensive Norwegian gas.

The essential problem is that Ukraine cannot afford to buy gas for European prices. However, that is its domestic problem. If Ukraine was not an independent state but a Russian satellite, Russia would have reason to discount it for subordination. Nevertheless, the European Union insists on the independence of Ukraine and other post-Soviet countries from Russia and Russia fully agrees. Yet, as soon as we recognize the sovereignty of Ukraine also in the field of the energy carriers' prices, the European Union suddenly does not understand Russia and does not support our attempt to gain adequate prices for Russian energy carriers (including by the change of the owner when Ukraine does not possess financial resources). All such issues resulted in the fact that the expression 'European hypocrisy' became an established term just like 'Japanese diligence' or 'American efficiency'.

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Russia is aware of these facts. Therefore it has attempted to protect the EU from Ukrainian domestic policy 'zigzagery' by agreeing with Hungarians about building underground gas reservoirs. Once they are built, the EU will not be the hostage of its Ukrainian partners. Not even when Russia would be forced to reduce the supply to the EU via Ukraine due to illegal gas drawing,

since the EU will be provided with Russian gas from those reservoirs. However, at the time of signing the agreement, the mass anti-governmental protests started which ceased just recently. They were caused by the record of the Prime Minister's hard statement which mystically appeared in state broadcasting. The Prime Ministers' abdication would certainly threaten the building of reservoirs in Hungary.

The EU's Attitude towards Russia

The abovementioned facts point to the irrationality of the EU's approach towards energy security. It does not mean, however, that Russia under the leadership of President Putin is an ideal country. I, myself, have a negative attitude towards President Putin and I consider him a great disaster for Russia. Nevertheless, Putin's shortcomings have nothing to do with the EU's energy security except for one aspect. The main objection to president Putin in relations to the EU lies within the fact that with respect to his experience and inclination to comfort he is willing to make compromises which insufficiently protect Russian interests from the European Union. It is partially related

to the existence of not only Russians, but also of private interests. On the other hand, the EU willingly chooses to take the opportunity to change the satisfaction of the individual private interests of 'Putin's friends' for the refusal of wider social Russian interests such as the Russian gas re-export permit for Germany, France and Italy and for not criticizing the 'Yukos issue' which was issued by president Putin in 2003. It was a price Yukos was not worth. The fact that Russia did not respond to the 'inappropriate' statement of the European Commission which attempted to push for the *Energy Charter Treaty* ratification by blackmailing Russia with the canceling of the EU's positive stance on Russia's WTO integration.

Thus the complaints towards Putin stem from real facts and not from the attempt to harm Russia. They have got nothing to do with the issue of energy security of the EU either.

There is one more issue the European representatives will not certainly open. The issue is that Gazprom overestimated its abilities due to the 'artificial' transformation into the non-transparent multisectoral corporation – the backbone of the Putin-like's state capitalism. Gazprom uses its administrative and financial resources to provide the government's surroundings with the service including the effort to 'get rid' of private entrepreneurship in Putin's economy. Consequently, the new fields are not open. Eventhough they started to make boreholes in the new fields in the Yamal peninsula the progress is not sufficient.

The decision to keep the national control over *Stockman field* offended the developed countries. It is possible that it was assumed that the new field will be changed for WTO membership. However, the change was not realized and the decision was irreversible. It means that no company will start to work and thus the field will remain as that of a reserve character. Yet Russia's old fields gradually run out and production decreases.

In Russia, the amount of gas extraction might be decreasing already from 2007. Such a situation, under the circumstances of gas shortage in the Russian market this summer, will undermine the credibility of Russia to fulfill its export commitments. As the Russian government is focused on personal commercial interests and not for the development of the country, it will export gas for a certain period, the domestic shortcomings notwithstanding. Therefore, the consumers will not have to worry till 2011. However, after 2011, the new pipeline from Kazakhstan via Baku – Tbilisi – Ceyhan could operate and thus cut Russia from gas from Turkmenistan and Uzbekistan. Basically, the overall amount of gas supplies to the EU will not be changed. Nevertheless, the changed transit pipelines might lead to the structural disproportions. Thus, the new 'North-Eastern' EU member states will face

the real, and not fictional, problems for a certain percentage of gas flowing through their territories or neighborhood will be flowing through Turkey. Moreover, the redirection of part of Central European gas supplies to China will result in gas shortages in the EU. It will pose as not only a 'gas disaster' for Russia, but also for the necessary restructuralization of the national economy and international relations. In my opinion, such restructuralization prospects are the key problem of strategic perspective.

Insufficient understanding between the EU and Russia stems from the change of Russia's situation. Over some 15 years, Russia was not present in global politics. It was just a geographical rather than political term. For the time being, the West and especially the EU got used to the idea that Russia had no interests. As soon as Russia realized it had interests and started to promote them, it was a shock for the EU. What arrogance: some losers suddenly want equal voting rights!

Russia: The One to Blame

The EU accuses Russia of using energy as a tool to promote its own interests. Everyone does that though. Russia does not possess 300 or more types of cheese as France has. We also do not have our language being used in worldwide communication as Great Britain has. We do not even have an army. Maybe somebody wants us to use bombs for influencing Europe as the US did seven years ago (some might have forgotten but we have not). We will not bomb Europe. Not only because we cannot, but because we simply do not want to. We have oil and gas and we use it.

Russia is also convinced of negotiating primarily with individual countries rather than with the EU as a whole. This is true, however, and is caused by the fact that negotiations with individual countries could result in an agreement which is not the case as in negotiations with the EU as a whole. The problem lies in the complex harmonization of the EU member states' standpoints. It is so complicated to reach a consensus that it would be impossible to change the adopted decision. Therefore the result is the EU-like dialogue – i.e. dictate. Hence, it means that to have a dialogue with the EU is the same as having a dialogue with a wall or a taped response without any change to the argument. In 2001 after 9/11, president Putin proposed to the EU a strategic exchange in Bundestag: energy for technology. The EU has not responded yet. This also proves that the cooperation with the EU is very limited. The EU's serious problem is that it promoted incompetence to principle.

One has to mention that when the EU's gas market liberalization took place, the EU said that it had new laws and regulations therefore it would not fulfill

the long-term contracts it signed. Russia replied that the contracts were signed and still valid, however the EU once again responded with new regulations. Of course, we wanted the EU to fulfill its commitments and we realized it was a dictate. In addition to this, we kept asking the EU, before the decision on gas market liberalization was adopted, what it would be like and what it would mean for us because we were supposed to adapt a strategy. No one answered. As a matter of fact, we did not have the chance to get any information.

Russia is also blamed for having no energy sector reform. In Russia, the reform of the electro-energy sector started based on the English model and resulted in losses in sector management. This reform became the single threat to energy security; however it is really ridiculous to deny it.

There have also been complaints that European companies have limited access to the Russian market or that they cannot invest in Russia. It is necessary to state that foreign investments have been growing in Russia for several years from 30 to 50 %. Money just returned to Russia six years ago, however currently almost three quarters of it represent foreign capital and at least half of it is of European origin. Additionally, one can observe the private capital 'drain' from Russia. Certainly, there is the problem of replacing Russian private capital with foreign capital for European entrepreneurs who are being protected by their own states, bribe less than Russian ones. Thus the same companies with similar management could show a deficit with the Russian owner or could be highly profitable with the foreign owner.

Russia has been blamed for not increasing gas prices, which is not true. Russia has been increasing them annually from 15 to 20% for some years and thus has been negatively affecting its own economy. The increase was a condition set by the EU for Russia's WTO membership. Notwithstanding the fact that Russia is still not a WTO member, it continues to increase gas prices, and the same Europeans who are responsible for that now say that we are not doing it!

All the appeals to the improvement of the Russian human rights situation are classic examples of double standards: the elections in Iraq are considered democratic and so are the elections in Georgia; however elections in Russia are not. I am not a supporter of president Putin, and even seeing all his incompetence, the authoritarian system in Russia is much better than the democracy built by the West in Iraq and Afghanistan.

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