

## **Europe and Asia : New Partnerships after the Cold War Era**

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### **A. Historical Background**

International system has been changing for many centuries. Through the end of 20<sup>th</sup> century, the world left behind unexpected great developments. The end of the 20<sup>th</sup> century and the beginning of 21<sup>th</sup> century in about ten years, the world accounted great political changes. The effect of these changes on the world economy has been dominant. In the new century the complex structural condition and agitatinal structure of the world are to be going to continue for some time. By the way, global political and economic stability are about to be established.

Dr. Javier Solana said that “developing the partnership between Russia and EU is the most important, the most urgent and the most challenging task that the EU faces at the beginning of the 21st century. It offers great opportunity to affect the course of history. Both the EU and Russia are at the end of one era and on the threshold of another”.<sup>1</sup>

For this reason, the changes in both are brought together. From point of view of economics and politics, the European Community, in the 20<sup>th</sup> century, for the last fifteen years has been in a change of structural situation and therefore it is set to be in the proper place. Russia has undergone an intense eleven-year-period of transformation. After the latest Presidential elections, Vladimir Putin’s administration came to power and now social reforms are today near normal. Both the EU and Russia need to found new partnership about economic, political and social spheres with carefully and securely in the long – term.

In 1985, in the Eastern European Countries (EEC), the social demonstrations started. In 1989, the Wall of Berlin was destroyed. As a result of these developments, the Warsaw Pact ended. That's why the Russian Federation became in the East Europe an Asian superpower in August 19, 1991 as a result of the political changes in Moscow that led to her independent.<sup>2</sup>

### **B . The European Union: New Europasiation and its Development**

The World Wars, the Japanese attack to Pearl Harbor, the usage of atomic bomb, travel to Moon by human beings, the scientific innovations, Autumn-1968 event in Prag, the copy of humans, the Kennedy's assasination, the October Revolution and the end of Russian Czarist regime and destroy of the Berlin Wall all occurred in the 20<sup>th</sup> century. However, after First and Second World Wars, view of political order becomes very important for the process of globalization. In the 20<sup>th</sup> century these two important events dramatically affected international system, especially in Europe. Although the Western countries were developed and pursued imperialist policies before the Second World War, their economies were damaged heavily during the world war. But as a result of the attempts in the course of the regional integration, they improved their internal and external conditions very fast.

At the beginning of the Cold War era, the American administration implemented the Marshall Plan<sup>3</sup> in which it mainly granted \$18 billion financial aid to sixteen European countries in order to improve their social, economic and technical structures. In the meantime, Europe, especially Federal Germany, developed their political situations. At the same time as a result of the American financial aid to the European countries, their financial and economic structures were improved. In Germany, architect of the development was Adolf Hitler. Other European countries, together with Germany, came together to form a unity in Europe against the Soviet Union's revisionist attempts. Such unity was the dream of Hitler. Then they formed the Coal and Steel Community in Europe<sup>4</sup>.

The economic development during the Cold War period made the European countries very strong. In the three stage of this development, which were geographic, financial and political unions, the European Community was established with 15 members to protect their social and economic developments. Nowadays, recently the European countries, eventhough they have started late to form this unity, have been successful.

### **C . Russian Federation: New Sovereignty**

At the beginning of 20<sup>th</sup> century, one of the main events in the world politics was the end of Russian reign. By the Great October Revolution, the Russian reign was ended. Afterthat the Soviet Union formed. Although the Europe became developed, the Socialist Russia was formed in Asia, which was underdeveloped. In Socialism, based on the ideas of Karl Marx and Frederick Engels, there are proletariat class and Communist Party officials, who came forward creals complex relations, which became problem. From 1917 to 1991 there occurred various negative and positive developments. First of all in the Soviet Union a totalitarian regime controlled the power. The Soviet Union divided the Europe by conquering the Eastern European countries. Its military attempts and socialist system led to the emergence of the Cold War. It created the Warsaw Pact as being its leader. In the meantime it succeeded agricultural reform and technological developments, especially in the military industry, within its territory. USSR established its economic unity in ??? (SEV)<sup>5</sup>, economic association center of which is in Moscow. The members of the association used RUBLE, equal to \$0.60, as an official currency between the years 1960 and 1990. Convertibility of Ruble was a serious mistake.

It did not mean that it didn't have any contact with the European states. At the minimum level, especially in the fields of culture and diplomacy, it had certain relations with them. Especially 1970s a detant between the West and Russia lived. They negotiated the

matter of disarmament and arms control. Russia and the European countries continued bilateral trade relations. Such relations has been developing in the post- Cold war era.

#### **D. EU Assistance to Russia**

The EU and Russia are bound to be close partners<sup>6</sup>; because in political terms they are the main players and immediate neighbors in the European continent. Russia is becoming an increasingly important trade partner of the EU. Energy supplies represent 45% of Russia's exports to the EU, which, in turn, account for 42% of the EU's needs in imported natural gas (17% of total gas consumption) and 17% of oil imports.

The Partnership and Cooperation Agreement (PCA) was signed in 1994 between the EU and Russia. Since it came into force on December 1<sup>st</sup> 1997, the EU-Russia relations have been gaining increased momentum. Implementation of the PCA, which has been carried out by means of meetings of the institutions created by the agreement, has led to increased interest and understanding between the EU and Russia. The EU's Tacis programme of technical assistance is a key to the implementation of the PCA agreement.

The main characteristics of the PCA are:

1. **Trade:** Liberal, based on MFN treatment and the elimination of quantitative restrictions;
2. **Political dialogue:** Increased and institutionalized dialogue at all levels;
3. **Economic and legislative co-operation:** A broad menu of co-operation in sectors such as science and technology, energy, transport and the environment;
4. **Justice and Home Affairs:** Cooperation to prevent illegal activities, including cooperation to combat trafficking in drugs, money laundering and organized crime;

5. **Institutions** : Summit, Co-operation Council (at the ministerial level), Co-operation Committee (at the senior official level), Sub-Committees on technical issues.

#### **D. 1. EBRD - Activities in Russia**

The European Bank for Reconstruction and Development (EBRD) was established in 1991. It exists to foster the transition towards open market-oriented economy and to promote private and entrepreneurial initiative in the countries of Central and Eastern Europe. Nowadays the Commonwealth of Independent States (CIS) committed to and applied the principles of multiparty democracy, pluralism and market economics. The EBRD seeks to help them implement structural and sectoral economic reforms. It promotes competition, privatization and entrepreneurship, taking into account the particular needs of countries at different stages of transition. Through its investments, it bolsters private sector activities, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector. The Bank applies sound banking and investment principles in all of its operations.

In fulfilling its role as a catalyst of change, the EBRD encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilize domestic capital, and provides technical cooperation in relevant areas. It works in close cooperation with international financial institutions and other international and national organizations. In all of its activities, the EBRD promotes environmentally sound and sustainable development.<sup>7</sup>

EBRD has started to assist the CIS in 1991. The following subjects are main operating areas of the Bank: Integration of market economics easily, supporting private enterprise, formation of multiparty democratic principles, granting financial aid, preservation of cultural identities, modernization of city life and protecting the environment from

pollution. In the plan of EBRD there exist the countries of independent states. EBRD focuses on the following matters:

- Economic reforms,
- Competitiveness among firms,
- To meet in the norm of legal systems and constitutional regimes,
- Free Trade,
- Reorganization of regulations of banking and financial systems.

The relations started between Russia and EU in 1992 and developed especially after founding the EBRD. The main purpose of EBRD is to establish a capitalist system in these countries, who had socialist regularity, and to help the small – and medium – sized firms through providing technical and financial supports in order to make them bigger and strong. For these reasons, as at 31 December 2000, the EBRD had signed 104 projects in Russia for a total of €3.3 billion of loan and equity financing, with a total project value of about €1.3 billion. EBRD has preferred long- term loans. Especially in the period of USSR established nuclear power stations and research labs, bio-chemical labs and their disposals are one of the main problems of USSR. For this reason the EBRD's financial aid to such establishments examined very carefully. As regard of December 31,1992, the investment agreement made in Russia, the EBRD's total financial aid is 19.7%. In Russia, for the private company as well as for the state companies, the EBRD's financial aids are at the different levels. These aids are non-returnable.

**Table 1: EBRD signed projects in Russia**

Sector	No. of operations	Total cost	EBRD debt	EBRD equity	EBRD total
Financial institutions	34	2,757	787	236	1,033
General industry	19	2,132	399	47	546
Industry and commerce	44	5,507	1,264	123	1,315
Infrastructure	7	902	407	0	367
<b>Total</b>	104	11,298	2,857	406	3,261

Source: [www.ebrd.org](http://www.ebrd.org)

The EBRD focuses on project financing, taking a long-term view. The Bank depends on industrial sponsors for most of its projects. In a context where Russia's macroeconomic environment is likely to remain favorable in the next one to two years, and given the comparative advantages the Bank enjoys, such as its preferred creditor status, extensive experience across sectors and close relationship with different levels of government, the EBRD looks forward to further development of its operations in Russia. The Bank will continue investing in sound projects in Russia in a careful way, seeking to achieve a substantial transition impact with each new project. The private/public sector portfolio ratio for the EBRD's signed operations in Russia was 92:8 as at 31 December 2000. Russian investments amounted to 19.7 per cent of the Bank's total signed commitments at the end of December 2000. Russia also continues to be the largest single recipient of the EBRD's technical cooperation funds, assisting Russian companies and organizations. These grant funds are used on a selective basis for the preparation of projects, bringing them to a level where the EBRD and other potential partners can decide to make an investment, and also for project implementation and provision of training and advisory services.

#### **D. 2. TACIS (Technical Assistance for CIS)**

The EU has been the largest provider of economic and technical assistance to Russia. Since 1991 the EU Tacis programme (technical assistance) has supported the economic and democratic reform process in Russia. The focus is on institutional, legal and administrative

reform, including support for the development of independent media and civil society; fiscal and banking sector reform and social reform. Assistance is aimed at facilitating the implementation of the EU-Russia PCA as well as Russia's eventual accession to the WTO.<sup>8</sup>

Launched by the EC in 1991, the Tacis Programme provides grant-financed technical assistance to 13 countries of Eastern Europe and Central Asia<sup>9</sup>, and mainly aims at enhancing the transition process in these countries.

When Tacis was initiated, technical assistance was a stand-alone activity, whereas the programme is now part of a complex and evolving relationship with each of the 13 countries concerned. Politicians and officials from the partner countries and the EU meet now on a regular basis. With the implementation of PCAs as well as the EU enlargement process, Tacis also becomes a more strategic instrument in the co-operation process between EU and partner countries.

A new regulation, concerning the provision of assistance to the partner states in Eastern Europe and Central Asia, replaces the former legal basis.<sup>10</sup> This new Regulation covers the years 2000-2006.<sup>11</sup> The new regulation is based on an understanding that co-operation is a reciprocal process, encouraging a move from 'demand-driven' to 'dialogue-driven' programming. More flexibility in the way that Tacis is structured will allow potential technical assistance to be mobilised and implemented according to the capacity of each partner country.

The 2000 Regulation concentrates Tacis activities on fewer areas of cooperation:

- Institutional, legal and administrative reform;
- Private sector and economic development;
- Consequences of changes in society, infrastructure networks,
- Environmental protection,



- Rural economy,
- Nuclear safety.

The areas where Tacis funding is used are designed to complement each other, and each national or multi-country program focuses on no more than three of the above-mentioned fields, so that each can be most effective. The new Regulation also focuses on projects of sufficient scale (projects of at least €2 million in Russia and Ukraine and €1 million in the other partner countries) and supports the objectives of the PCAs.

TACIS funding is allocated through:

- *National country programs*: they include indicative programs, valid 3-4 years, which identify priorities and areas of co-operation as well as annual (for Russia and Ukraine) and biannual (for the other countries) action programs setting out the projects to be supported and the funding available, within the guidelines defined by the indicative program.
- *Regional programs*: Multi-country programs are used for areas like environmental protection or the promotion of transport networks. *Cross-border* programs have also been set up to promote the co-operation and the development of links between neighboring communities in different countries. These regional programs are based on indicative and action programs as well.
- *Small projects programs*: A limited number of small project programs are used to address very specific tasks, such as advice to governments in particular fields: trade regulation, co-operation in higher education,

or encouraging EU investment in the partner countries. Since their objectives are not set with pre-defined beneficiaries in mind, they are organized in a different manner, with specific priorities set each year.

Once agreed by the Member States, technical assistance projects are put out to tender. Organizations from the EU (and also the from the accession countries) are selected to implement projects, transferring their know-how to beneficiaries in the partner countries.

Between 1991 and 2000, Russia has received € 2.281 billion in EU assistance, of which €1.391 billion have been allocated within the framework of the Tacis Action Programs, with the remaining €890 million coming from other programs - notably regional programs<sup>12</sup>; nuclear safety; donor coordination<sup>13</sup>; program implementation support and other programs (e.g. Democracy program). The Council adopted in January 2000 a new Tacis Regulation, covering the period 2000-2006. Tacis is increasingly used in support of PCA implementation.

In 2001, Russia is expected to receive €96 million within the framework of Tacis Action Programs in addition to a comparable amount from a variety of programs, including Cross-border Cooperation; nuclear safety and the Baltic line. Over the period 1996-1999, Russia has also benefited from €520.88 million of financial assistance from member-states (credits actually disbursed - including € 13.58 million in debt cancellation) and from € 1.577.50 billion in EBRD credits.

**Table 3: TACIS fund allocations to Russia in million €(Russian Federation Action Programs)**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Institutional, legal and administrative reform	16	30	15	28	28
Private sector support and economic development	29	31	18	14	19
Alleviation of social consequences of transition	11	3		6	16
Development of infrastructure networks	24	20	14	0	3
Environmental protection, natural resources management	5	10	8	4	0
Rural economic development	13	9	5	0	0
Policy advice; Small Project Programs	27	24	20	35	20
Others	8	13	11	11	10
<b>Total</b>	<b>133</b>	<b>140</b>	<b>98</b>	<b>98</b>	<b>96</b>

**Source: The European Commission**

**Table 4: Estimated Allocations to Russia through other Programs (Takis funds) in million €**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Regional programs</b>	27	27	21	17	23
<b>Nuclear safety</b>	34	17	12	33	19
<b>Donor coordination</b>	27	28	28	32	30
<b>Program Implementation support</b>	18	16	17	18	18
<b>Others</b>	6	5	5	2	2
<b>Total</b>	<b>112</b>	<b>93</b>	<b>83</b>	<b>102</b>	<b>92</b>

**Source: The European Commission**

### **D.3. Other Main Assistance Instruments**

The **European Commission Humanitarian Office (ECHO)** has provided €60 million between 1993 and 1998<sup>14</sup>, in targeted humanitarian aid for groups in need. In addition to this, since 1999 € 50 million has been supplied to the victims of the second Chechnya conflict.

A major EU **Food Aid programme** (€415 million) was awarded to Russia at the end of 1998. In addition to this, €400 million was awarded to Russia between 1999 and 2000. Food aid has continued this year, when approximately €25 million has been spent so far.

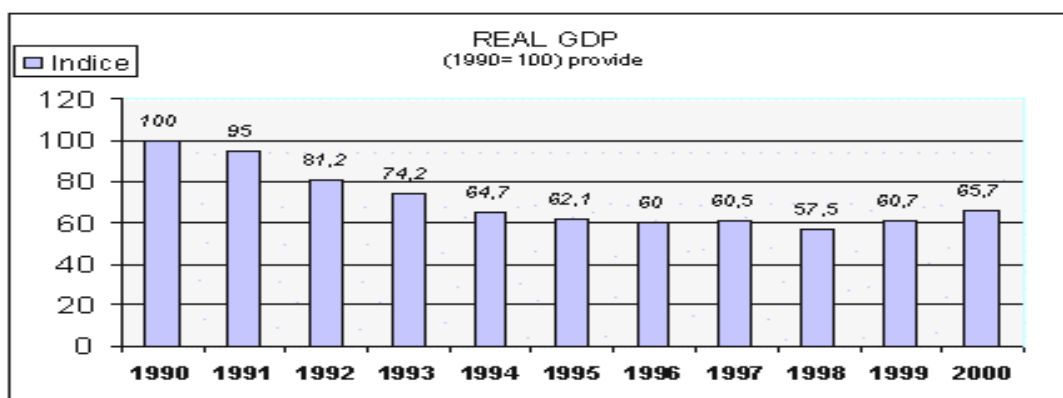
**European Initiative for Democracy and Human Rights (EIDHR)**; It has assisted Russia with approximately €8 million between 1997 and 2000, for projects covering a wide range of the policy objectives of the EU aiming at fostering a civil society and democratization including raising human rights awareness. For years 2002-2004 focuses will be on democratization, good governance and the rule of law. Some of the key areas for support will be projects to strengthen the capacity of civil society, human rights education and training, freedom of expression and independent media. The main implementing partners for these projects are national and international non-governmental organizations (NGOs) as well as international organizations such as the Council of Europe and the UN Office of the High Commissioner for Human Rights.

### **E. Russian Axis: The economic situation**

Russia has made considerable progress in her transition to a democracy and market economy, and is currently pursuing a successful macro-economic stabilization policy. Nevertheless, since the fall of the Soviet Union, GDP, standards of living and social security have fallen dramatically, while poverty has risen. However, due to the devaluation of the ruble caused by the 1998 financial crisis (which boosted demand for local production), macro-economic stability and unexpectedly high world energy prices, GDP growth

rebounded in late 1999 and 2000. It remains to be seen whether genuine progress in economic restructuring can be maintained and whether it would be sustainable in the longer term in the event of a slump in oil and gas prices.

**Schedule 1: Real GDP in Russia**



Source: The Russian State Statistics Committee

In 2000, Russia's real GDP grew by 8.3%, which has been linked to the persistence of high oil and gas prices on the world market. Growth is expected to decelerate to around 4% in 2001.

**Table 5: Foreign Investment (total in \$ billion)**

1994	1995	1996	1997	1998	1999	2000
1.05	2.80	6.51	12.30	11.77	9.5	11.96

Source: The Russian State Statistics Committee

**Table 6: Foreign Direct Investment from the EU (€million)**

1995	1996	1997	1998	1999	2000
314	576	1723	435	1086	1500

Source: Eurostat

Russia has so far not been able to attract foreign direct investment (FDI) on a scale in tune with her investment needs. Since the August 1998 crisis, which was a severe blow to Russia's emerging role in the international financial system, there has been more caution in economic policy. Boosting FDI is a key priority of the Russian Government. On its part, the EU has been stressing the need for Russia to provide a stable and reliable legal and institutional framework, which would encourage foreign investor confidence in the Russian market. This is especially relevant to the ongoing Russia-EU energy dialogue. The EU has emphasised that Russia's ratification of the Energy Charter Treaty would be a major step towards creating such a framework for investment in the energy sector.

Government debt amounted to approximately \$182.4 billion as of 1 January 2001 of which \$162.8 billion was external debt (including \$103 billion inherited from the Soviet Union). Following negotiations with the IMF, the World Bank and the Paris Club, Russia is meeting its obligations to foreign creditors ahead of schedule, without restructuring. The draft 2002 budget foresees a surplus of 1.2%, estimates which are based on a somewhat optimistic appreciation of oil prices. If oil prices remain close to current levels, debt payments, though onerous (in particular in 2003 when it will peak at \$19 billion), should be sustainable even in the medium term.

**Table 7: Budget deficit/surplus (% of GDP)**

1992	1993	1994	1995	1996	1997	1998	1999	2000
-3.4	-4.6	-10.7	-3.2	-4.4	-5.1	-3.6	-1.5	+ 2.5

In 2000, the budget of the Russian Federation displayed a surplus for the first time since the collapse of the Soviet Union. In order to maintain this positive trend, the government will need to continue improving tax legislation and its enforcement, particularly effective tax collection.

## **F . New Partnership and Structural Reforms**

### **F 1 . Trading between the EU and Russia**

The EU represents Russia's largest trade partner, accounting for 24.7% of Russia's imports and 34.9% of its export trade. Russia's share in the EU's external trade in 2000 was 4.0% of the EU's total imports and 1.9% of its exports. In 2000, Russia was the EU's sixth largest trading partner after the USA, Switzerland, Japan, Norway and China, but it is likely to rank higher in 2001 as a result of considerable growth in bilateral trade (2000 is the last year for which full data is currently available; for more recent data, see below). Moreover, the structure of bilateral trade displays a market imbalance, with fuel and primary products representing the bulk of Russian exports - as opposed to the predominance of finished industrial goods in imports from the EU. Russia provides over 15% of the EU's needs in imported fuel.

Bilateral trade showed a dramatic downward trend in the wake of the 1998 financial crisis, which had a particularly strong impact on the EU exports. The devaluation of the rouble has assisted Russian exports to the EU, which increased spectacularly in 2000 (60% year-on-year growth). The modest recovery of the Russian economy has equally enabled a small increase in imports from the EU, which have, nevertheless, not returned to pre-crisis levels - not least due to the persistence of certain protectionist measures, e.g. regarding the import of alcoholic beverages and automobiles.

**Table 8: Russia- EU trade, 1995-2001 (€million)**

Year	EU Exports	? %	EU Imports	? %	Trade balance
1995	14,382.015		20,149.545		- 5,767.530
1996	17,110.360	+18.9%	22,133.042	+9.8%	- 5,022.682
1997	23,146.974	+35.3%	25,683.621	+16.0%	- 2,536.647
1998	19,165.825	-17.2%	21,846.875	-14.9%	- 2,681.050
1999	13,373.547	-30.2%	24,735.083	+13.2%	- 11,361.535
2000	19,837	+ 48.3%	45,316	+ 83.2%	- 25,479
2001*	12,032		24,801		

\* Figures for January – June 2001 Source: Eurostat, Comext

Lastly, in 2000 the exports towards third countries amounted to a total of €1,146,000,000, of which direct export to Russia amounted to €45,460,000. Imports from third countries amounted to €1,069,000,000, of which the Russian share was €19,848,000. Even though these figures for 2001 are provisional, they show the growing tendency of an increase in trade between EU and Russia.

## **F. 2. New Partnership for New Projects<sup>15</sup>**

Russia and the European Union are natural partners in the energy sector. Some figures illustrate their interdependence in this field. Russian energy exports account, in value, for some 45% of exports to the EU. 53% of Russian oil exports (crude and products) of 181 million tonnes of oil equivalent (toe) were to the EU in 1999. Some 63% (130 billion cubic metres (bcm)) of Russia's natural gas exports of 205 Bcm were delivered to the European countries in the year 2000, with contractual requirements to increase deliveries to around 200 Bcm by the year 2008. Approximately 56% (73 Bcm) of the natural gas exported to Europe in 2000 was delivered to the EU.

The energy sector in Russia represents a major opportunity both for foreign investment and for export revenues. The need for new capital in the sector has been



estimated at between \$460 and \$600 billion to the year 2020. Moreover, the EU and Russia have a mutual interest in enhancing the overall energy security of the continent.

The energy dialogue is clearly undertaken at the right time since both partners are defining the main orientations of their energy policies for the next 20 years.<sup>16</sup> The Green Paper of the European Commission underlines the fact that the energy partnership with Russia will need to be considered as one of the key dialogues between energy Producers and Consumers. The overall objective of the energy partnership, which will be established in the legal framework of the *Partnership and Co-operation Agreement*, is to improve energy relations while ensuring that the policies of opening and integrating energy markets are pursued. The energy partnership will cover oil, gas and electricity.

The energy partnership is aimed at improving investment opportunities in the Russia's energy sector in order to upgrade the infrastructure, to promote energy efficient and environment-friendly technologies, and to enhance energy conservation within Russia.

Through the energy partnership, the EU wishes Russia to take concrete commitments in terms of fiscal stability, improvement of the production and protection of investment. It also aims to improve the legal framework in which the European firms operate and to favour the creation of a fast track settlement procedure in Russian law. Finally, the question of access to Russian transport infrastructure will be part of EU's concerns.

Russia aims to accelerate the reforms of its energy monopolies, to attract investments to increase its oil and gas exports by reorienting its energy production and consumption systems and to improve energy efficiency.

The Commission's role in this process is mainly to facilitate discussions between the parties involved in order to identify concrete elements of actions notably regarding the improvement of investment opportunities in Russia's energy sector, the promotion of energy efficient and environmentally friendly technologies in Russia, and the enhancement of

energy conservation within Russia. Companies have expressed great interest in the initiative and have been active in helping to define those particular areas, which require an improvement in the climate for investors. In order to explore at technical level the possibilities for enhanced co-operation, the sole interlocutors decided to establish *four thematic groups* consisting of European and Russian experts from both public and private sectors.

These groups dealt with the following issues:

- Energy strategies and balances;
- Investment;
- Technology transfer and energy infrastructure;
- Energy efficiency and environment.

The four thematic groups met several times. Their co-chairmen have drafted joint conclusions and recommendations which give substance to the dialogue. In May 2001, the Commission adopted a communique on the energy dialogue. This gave an overview of the dialogue, progress to date and the possible next steps. Each of the four thematic groups submitted a final report during June 2001. These reports served as a basis for a Synthesis Report prepared by the two sole interlocutors. This Synthesis Report was presented during the 8th EU-Russian Summit<sup>17</sup> on October 3, 2001 and formed the basis for the annex on the energy dialogue in the Joint Declaration adopted at the Summit.

### **G. The EU's Energy Policy and Bergedorff Forum<sup>18</sup>**

'The Big Game' is the name of the political rivalry among the great powers, which took place within the first half of the 19<sup>th</sup> century and the beginning of 20<sup>th</sup> century. On the other hand, the 21<sup>st</sup> century can be the century of globalization and interdependence. For this reason, it can be called as 'the positive game'. The policy that the EU attempts to develop is

a policy, which has a base of economic interactions. In fact, the means that EU uses to urge regional cooperation is admitted to be important by the powers at the region.

The TRACECA project that regenerated the Historical Silk Road is a successful project that would reduce the need of energy of today. With the regeneration of the Historical Silk Road, free transition to Central Asia and South Caucasian markets will be provided. A similar approach is also exhibited for the development of gas channels and petroleum areas. A different type of regional cooperation is being established at these areas. Within this framework, the EU applied INOGATE, which is 'Gas and Petroleum Attempt for Europe'. By means of these efforts, the governments and the firms will have an opportunity of interaction with one another. Ministers of the EU give great importance to such developments and approved the related treaty.

For many years, the EU had a sensitive approach, because instead of desiring determined political outcomes and determining high political goals in an exaggerated way the EU believes that improving regional cooperation and establishing legal bases for the relations are more useful and effective. For this reason, the EU's sensibility for petroleum and natural gas transition is not politic. Since this approach is beneficial for the EU, construction of east-west multi-pipeline system is an urgent issue. But, different firms decided by themselves upon which pipeline is more effective and profitable economically. For this reason, the EU has not declared their clear manner related to Baku-Tbilisi-Ceyhan route.

According to the EU, declaring preference must not be political and sooner or later must not cause antagonism and conflict but instead it should remove the present handicaps to provide universal pipeline systems and regional cooperation. Without considering the economical bases of its own, the EU seeks an answer for the following question: "Could it be really provided to have good political cooperation and unity on these bases?"

Germany, which has the greatest population in EU, because of the lack of its natural fuel sources, meets its energy needs from the world markets. But, in order not to be dependent on a few numbers of energy sources, Germany gives great importance to verifying its sources. To increase the number of sources has a political importance to supply the country with strategic raw materials such as petroleum. As the opportunity to find new sources for fuel supply, the international relations are becoming more orderly. When talking about security and especially fuel supply guarantee in Europe, Russia and Ukraine are being mentioned.

The policy that is related to increasing economic variety foresees a long period of solidarity. This policy and even that the petroleum sources will be exhausted includes from this time the period in which all the income would be spent. When this takes place, an inclination towards the country's internal sources will be sought. Focusing to increasing economic variety will solve many social problems that are present today.

The EU's energy policy of Russia is not limited to geo-strategic and fuel supply materials. As the expectations and demands are so similar, it reveals the EU to be Russia's ideal partner and leaves it out of doubt of being imperialist. For these reasons, the EU, which carries out a clear and accurate policy against Russia and the Transcaucasian countries, clearly asks for relations based on equal rights without denying all the historical-cultural differences.

It has been agreed that it will be appropriate for Russia to take place in the transportation system of the required amount of raw material variation. The constructive manner of the variation system lies in uniting the countries along the pipeline. This situation, at the same time, will prevent the producer to be dependent on the transit country.

A special attention should be given to the G-8's agreement made in Birmingham summit related to the energy policy: there, especially the ways for entering the market were

seen as the common topics and the Russia's involvement in that matter has been accepted. By doing this, the counter geopolitical interest will be converted into common interests and besides this the balance that would leave a positive effect on the region will be decided. This is on behalf of all the parties.

### **G. 1. Transport and Geo-strategy in Southern Russia**

A 21st Century Silk Road is what people are calling the project for a Eurasian corridor in Southern Russia, which has been launched by the European Union with the backing of the United States. Road and rail networks, ports, pipelines and an air corridor are providing access to the region's newly-independent states, but these routes, which avoid Russia and Iran, increase the crucial role of Turkey. No holds are barred in this struggle to exploit natural resources.<sup>19</sup>

### **G. 2. INOGATE - Interstate Oil & Gas Transport to Europe**

The EU-funded INOGATE Program stands for Interstate Oil & Gas Transport to Europe and this is what the INOGATE Program is all about. The INOGATE Program's overall objective is to improve the security of Europe's energy supply by promoting the regional integration of the oil and gas pipeline systems and facilitating their transport both within the region and towards the export markets of Europe, while acting as a catalyst for attracting private investors and international financial institutions to these pipeline projects. INOGATE, being a technical assistance program, works in much the same way as other technical assistance programs. But it differs in that it addresses issues from a regional co-operation perspective.

Another way that INOGATE differs from the other technical assistance programs is that it transcends its traditional boundaries. That is to say that although the bulk of the INOGATE Program is financed from the Tacis funds [Tacis Regional Co-operation

Program], INOGATE projects are not bound to Tacis countries but encompass a much-wider geographical scope, which includes Phare countries and in the near future, MEDA countries.

INOGATE is a program applied to improve the regional relations based on the energy between the republics, which declared independence after the dispersion of the USSR, within the EU's technical assistance program. Comprising of Central and Eastern European Countries (CEEC), it has been included to the Phare Program. The following basic principles are aimed for the countries include to the program:

1. Rehabilitation, rationalization and modernization of petroleum and gas refineries at the region.
2. Creating alternative possibilities for the transportation of hydrocarbons at Caspian Sea and Central Asia to the Western markets.

To reach these aims, regular meetings are planned between the involved countries. The EU will finance Preparation works and the renovation, modernization and rationalization studies of the needed projects as well.

INOGATE provides technical assistance, and in some cases, investment financing for priority interventions. It is based on a three-pillar approach as follows:

- Pillar I *Networks* - either the rehabilitation of existing oil and gas networks or the development of new strategic oil and gas routes;
- Pillar II *Institutional and contractual arrangements* – development of a flexible yet comprehensive institutional system, common to all countries involved, which aims to minimize investment risk and maximize commercial efficiency of specific transportation systems (pipelines, ports, railroads, associated infrastructure, etc.);

- Pillar III *Investment financing*- is exclusively put toward areas where the private sector is not involved, such as cases of where high safety, security or environmental risk is present.

The strategic concept of INOGATE is ensuring stability of energy supply in the short to medium-term through rehabilitation of existing networks while at the same time, preparing the way, long-term, for investments in new infrastructure and new routes, using the INOGATE Umbrella Agreement framework.

Table presented below displays the more important milestone developments in the INOGATE program.<sup>20</sup>

Years	Projects
1991 - 1992	Identification by the European Commission via Tacis, of the need to support the energy sector of NIS countries both at national level and interstate level, as energy had become a strategic instrument for economic development (i.e. for producing countries, transit revenues). The European Commission was the first to recognize the need for supporting reforms in the energy sector, improving the investment climate and promoting regional co-operation.
1992 – 1993	Tacis Technical Assistance project entitled “Interstate Oil & Gas Pipeline Management” was programmed under the financing budget of 1992 Tacis Program. During the life of this project (i.e. December 1994 to December 1997), significant milestones would be achieved.
1994 – 1995	<p>First results of above project concluded that the countries participating in the project had the hydrocarbon resource potential to meet their foreseeable needs as well as export significant volumes of oil and gas, particularly to Western, Eastern and Central Europe. To realize this potential, however, a number of issues needed to be addressed among which are:</p> <ul style="list-style-type: none"> <li>• The need to attract technical assistance and investment in the identification and development of new reserves and alternative oil and gas export routes;</li> <li>• The need to rehabilitate, rationalize and modernize existing interstate oil and gas infrastructure to ensure safe and reliable oil and gas supply of regional markets;</li> <li>• The need to develop a regulatory and contractual framework within which stable durable commercial relationships could be developed between oil and gas exporter, importer and transit countries along the lines of international treaties, thus securing much needed investment in exploration, production and transport of hydrocarbons.</li> </ul>
22 – 25 November 1995	<p>Prime Ministerial Pipeline Conference entitled “Interstate Oil and Gas Pipeline Management in Trans-Caucasia, Central Asia, Ukraine and Moldova” takes place in Brussels where the first results above were presented. This Conference was truly ground-breaking in that:</p> <ul style="list-style-type: none"> <li>• It was the first time since the break-up of the Soviet Union that representatives of the NIS met to discuss common problems related to oil and gas supply, transport and transit;</li> <li>• It was the first time that problems in oil and gas pipelines were discussed outside the former Soviet Union;</li> <li>• Broad agreement was reached, among the NIS countries as well as International Financial Institutions (IFIs) present, on the importance of regional co-operation in developing long-term solutions for the development of oil and gas interstate trade and transit and in preparing projects suitable for financing by IFIs and the private sector. This agreement was confirmed in the signing of a corresponding Memorandum of Understanding.</li> </ul>

	<p>Lastly participants suggested that the Tacis Interstate Program could provide a forum for discussing these issues and identifying suitable solutions. In this regard, they agreed on the creation of an “Ad Hoc Working Group” whose purpose would be to:</p> <ul style="list-style-type: none"> <li>• Assess the need for technical assistance and training required to identify long-term solutions aiming at securing and improving regional oil and gas trade and exports to international markets;</li> <li>• Identify and prepare projects designed to attract financing from multilateral institutions and private sources;</li> <li>• Recommend institutional and contractual arrangements that would make it possible to mobilize the considerable resources required.</li> </ul> <p>Essentially, this conference, held within the framework of the Interstate Oil and Gas Pipeline Management Project set into motion the making of the INOGATE program.</p>
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Source: [www.inogate.org](http://www.inogate.org)

## I. Conclusion

15 European countries formed the EU as an economic and financial unity in Europe. Some of them have strong economies in today’s world. Benelux, France, England, and the Scandinavian countries-except Norway- have the richest and wide scaled economies with high cultural-educational level, life quality and high indicators in GDP per capita.

After the Second World War, Europe renovated its standardization. With the EU Treaty signed in Maastricht in 1999, it became a union consisting of economic, financial and political unity among the member states. On the other hand the Russian Federation with a broad geography, which covers an area from Eastern Europe to Pacific Ocean, and with about 148 million population, consists of 8 autonomous republics related politically to the Federation.

The 7<sup>th</sup> summit between Russia and the EU held in May 17, 2001. The main subject of the Summit was bilateral economic relationship. It also contented with the energy issue between two sides, because at the present Russia provides 41% of the natural gas needs and 21% of the petroleum needs of the EU countries. President of the European Council, Prudo suggested that the trade with Russia should be made by Euro. He also mentioned the importance of the economic relations between the EU and Russia. Russia is today at the edge of an enterprise explosion.

In addition, economic relations, energy cooperation, European security, ecological issues, political and economic reforms, and nuclear facilities located in the northern regions



of Russia were some of the topics of the Russia-EU Summit. Besides this, the subjects, such as Kaliningrad's situation and Russia's membership to the World Trade Organization (WTO) were also handled.

While the Russian authorities determined that shared strife against terrorism and organized crime and creating economic relations and ecologically secure regions in Europe had a great importance, the EU delegation gave importance to human rights issues and the latest improvements in Chechnya as well. After the Summit a shared statement was published. In the statement it was reported that in order to strengthen the economic cooperation, a common council would be developed.

With the concept of the regional cooperation, the importance of the counter dependency, the contribution to the economic integration and the integration to world economy are meant. The economic relations between Russia and the EU improves within the framework of the planned program. But the greatest handicap for this improvement will probably be the globalization that has been affecting the world affairs for 11 years. In such a situation, the EU can takeover the task of guaranteeing equal rights against political pressure by protecting all the values of the West. This problem seems so familiar when mentioned through steps to globalization. The problem is how strong and what kind of political will should give support to these countries in order to increase their wealth guarantee rather than to straight forward rivalry, to have opportunity to increase the economic standards and to provide new substructures to unite with the global economy?

The EU will give priority to the continued and strengthened implementation of the PCA and in particular the use of the PCA institutions to resolve existing problems that affect the EU's bilateral relations with Russia.

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## Links

Prof. Luzyanin S.G. [http://ng.ru/world/2001-07-14/1\\_dogovor.html](http://ng.ru/world/2001-07-14/1_dogovor.html)

The EU delegation in Moscow : [http://www.eur.ru/eng/neweur/user\\_eng.php?func=index](http://www.eur.ru/eng/neweur/user_eng.php?func=index)

Daily reports on developments in the Russian Federation : <http://www.rferl.org/newsline/>

Meeting documents from the delegation to the EU-Russia Parliamentary Cooperation Committee:

<http://www.europarl.eu.int/meetdocs/delegations/russ/default.htm>

<http://www.economist.com/countries/Russia/index.cfm>

The Ministry of Foreign Affairs of the Russian Federation Web site : <http://www.mid.ru>

The political , economical reports in Russia. <http://www.polit.ru>

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## NOTES

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1. Dr.Javier Solana's speech by the High Representative designates of the EU for CFSP, October 13, 1999, Stockholm.L
2. Russian Federation Former Ministry of Foreign Affairs, Andrei Kozireev mentioned that "All the time and under all the conditions, dialogue is a best result in internatioal relations". See NATO Review, No.1, 1993, p. 5.
3. T. C. Prime Ministry, Türkiye'de Marsal Planı, Ankara, T. C. Prime Ministry Publishing Bureau, May 23, 1952, p. 8.
4. Coal and Steel Community was formed in Europe in 1951 by the Paris Treaty. It was the first step to reshape and reorganize the economic and political unity in the Western Europe.
5. ??? - SEV - Sosyalisticheskaya Ekonomicheskaya Vzaimatnascheniya (Economic Community and Cooperation among the countries of Communist Countries). These countries signed also the Pact of Warsaw.
6. [http://europa.eu.int/comm/external\\_relations/russia/intro/index.htm](http://europa.eu.int/comm/external_relations/russia/intro/index.htm)
7. [http:// www.ebrd.org](http://www.ebrd.org)
8. [http:// www.tacisinfo.ru](http://www.tacisinfo.ru)
9. These countries are; Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgystan, Moldova, Mongolia, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.
10. Council Regulation (EC, Euratom), No.1279/96, which expired on 31 December 1999.
11. Council Regulation (EC, Euratom), No.99/2000 of 29 December 1999.
12. Including, as of 1996, Cross-Border Cooperation.
13. Including support for the International Science and Technology Centre in Moscow and 50% of EBRD Bangkok facility.
14. Including this aid, 30 million for the Northern Caucasus.
15. [http://www.europa.eu.int/comm/energy\\_transport/en/lpi\\_en\\_3.html](http://www.europa.eu.int/comm/energy_transport/en/lpi_en_3.html)
16. The Green Paper of the European Commission « Towards a European strategy for the Security of Energy Supply » and the Energy Strategy of the Russian Federation for 2020.
17. Brussels, 3 October 2001.
18. Bergedorff Forumu 'Energie und Geostrategie im kaspischen Raum-Akteure, Interessen, Konfliktpotentiale' .Protokol Nr.113. 1998.Baku - Herausgeber;Körper-Stiftung.
19. <http://encarta.msn.com>
20. <http://www.inogate.org/html/brief/brief7a.htm>