

Euro-Russian Energy Accord Makes Sense

by Rainer Apel

Meetings took place in Moscow on July 21, between European Union envoy Christian Cleutinx and Russian Deputy Energy Minister Aleksandr Voronin, which may prove important for finalization of a project that has been discussed for three years: the continental Strategic Energy Partnership proposal, made by Russian President Vladimir Putin in September 2000. The proposal, adopted by the EU-Russia Summit in Paris, in October that same year, envisages a long-term agreement—for a 20-year period for example—for Russian oil and gas deliveries to Europe at guaranteed prices, in exchange for upgraded direct European investments in the Russian energy and industrial sectors.

Discussion has taken place since then, at numerous EU-Russian meetings, but with little progress made. Two main factors have blocked the project: 1) the resistance of the EU bureaucracy to break with free-market rules and go for long-term state-to-state agreements; 2) the corresponding disinterest of the Russian energy oligarchs, based on illusory expectations that free-market dealings would yield more revenue. In fact, the oligarchs' good relations to the Anglo-American oil majors have not secured them higher revenue, as oil prices and the value of the dollar have been speculated downward on Western markets, in connection with the Iraq War.

But the most recent legal moves by the Putin entourage against the oligarchs may help to contribute to a "rethinking" on the side of the energy firms. And as far as the EU bureaucracy is concerned, there is much frustration with the Anglo-Americans over the Iraq issue and over fluctuations of the dollar value that are deliberately orchestrated by U.S. officials. Therefore there is more openness at the EU headquarters in Brussels for development of relations with other powers on the Eurasian continent. Indicative of that is the fact that in early July, EU Commission President Romano Prodi surprised journalists in Brussels with the forecast that soon, Russia would shift billing its entire oil and gas sales to Europe from dollars to euros. Prodi added that given the importance of secure energy supplies for Europe, this was in the interest of both the EU and Russia.

A Strategic Partnership

At recent summits in St. Petersburg (EU-Russia, at the end of May) and Athens (EU, in June), decisions were taken that indicate that the talks about that strategic partnership will accelerate:

- The EU is going to propose the establishment of four main corridors for oil imports from Russia, partially through upgrading existing pipelines, but also construction of some new ones: 1) Druzhba North, via Poland; 2) Odessa-Brody-Plock, across Poland; 3) Constanta-Trieste, to link with the Druzhba South pipeline, via Romania/Serbia/Croatia; 4) Bourgas-Alexandroupolis, via Bulgaria/Greece;
- The establishment of an expert team, to work out details of the envisaged EU-Russia deals;
- An energy conference in Moscow, in October;
- Energy cooperation to be placed at the top of the agenda for the EU-Russia summit in Rome, in November.

The latter two aspects were discussed in more detail, in the Moscow talks between Cleutinx and Voronin. Related is also the Germany-Russia energy summit in September.

Energy supplies from Russia are vital for Europe, which today imports two-thirds of the oil, gas, and coal that it consumes. These three types of energy account for 80% of the EU's consumption. For Russia, oil and gas exports to the EU account for 50% of its entire export revenue from deals with the Europeans. A strategic long-term agreement that provides Europe with Russian deliveries at an average oil barrel price of 20-25 euros, while guaranteeing a reliable revenue for Russia, is in the interest of both sides. For Germany, the biggest economy of Europe, Russia has already become the number one supplier of oil, securing more than 38 millions tons, or 37%, of Germany's needs (in 2002).

A memorandum that was presented by European economic and financial experts to President Prodi already in May 2001, strongly endorses the promotion of the euro for EU-Russian trade on, among others, the following grounds: It would "foster and strengthen the EU-Russian commercial links and facilitate the eventual transformation of EU-Russian trade into EU direct investments into Russia"; it would "make it easier for Russian fiscal and monetary authorities to fight Russian dollarization"; it would "improve the perception of Europe and of the [latter's] enlargement [to Eastern Europe] among Russian authorities and Russian public opinion"; it would "avoid a useless detour through a currency that does not belong to either of the two economic blocs and entails financial costs and risks for both trade partners"; it would "facilitate Russia-third countries commercial exchanges with the enlarged EU and with those areas linked to the euro (the Balkans and some African states)."

It is said in Berlin that some of these items also were on the agenda of Prodi's surprise meeting with German Chancellor Gerhard Schröder on July 18, and that Prodi, who found agreement in principle with Putin at a Brussels meeting already in May 2001, has been in intense contact with the Russian government on the issue in recent weeks. Moreover, the Italian government, which has the rotating chairmanship of the European Union during this second half-year of 2003, is committed to get the energy partnership agreement with Russia signed by the end of this year.