MOSCOW – BRUSSELS: THE BEGINNING OF CRISIS OR CARRYING ON COOPERATION IN THE GAS SECTOR.

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INTRODUCTION

It seemed that Moscow-Kyiv gas crisis would cause changes in the EU energy policy with regard to the Russian Federation. The first months after the end of Russian – Ukrainian argument passed in discussions around the EU shared energy policy. It seemed that EU countries would find the solution consisting in the necessity of diversified and hence secure „blue fuel" supply. Recent events related to the EU „silent agreement" on the construction of „North gas pipeline" and „South bypass" seem to contradict assurances of Brussels about the necessity of creation of the gas alliance of the EU countries the fuel importers. In the article I will try to find the answer to the question about the EU energy policy future with particular focus on the gas sector and the role played by the Kremlin since recent events on the „global energy market" prove the Russian Federation to be realizing the strategy of creating „the energy superpower".

1 NATURAL GAS IN THE ECONOMIC RELATIONS BETWEEN MOSCOW – BRUSSELS

The countries which constitute the European Union are forced to import fossil fuel. The truth is that the European Union countries mine both "blue fuel" and petroleum, however, it is on a too small scale to secure these resources for all of them. The European Union countries possess only 0.6% of the world supplies of petroleum, 2% of the global supplies of natural gas and 7.3% of the world coal deposits. As many as 75% of natural resources can be found in Great Britain and Holland but it also should be emphasized that the deposits of "black gold" and "blue fuel" having been exploited for years today are almost depleted[1].

Therefore, import of these resources is really essential for the national economies of the European Union to function properly. Considering geographical situation of the European countries as well as the delivery security, it must be said that a list of the importers is relatively not long. Definitely, owing to the situation, there

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appears unflagging interest in the natural resources of the post-Soviet region, particularly in the Russian resources of gas and petroleum.

Russia is the most important supplier of natural gas to the EU (the European Union). In 2008, according to Gasprom, the most serious recipients of this resource in the EU were Germany (38 billion m3) and Italy (22,4 billion m3). Some European Union countries depend almost totally on the Russian suppliers of "blue fuel" Among such countries there are Slovakia and those ones located along the Baltic Sea which were a part of the Soviet Union in the past. Altogether, the new member states depend on the Russian natural gas supplies even more than the countries which belonged to the EU in the period of "the Cold War".

Nowadays, the level of dependence on the Russian natural gas supply referring to the new member states is estimated up to 85.8%. But if you think about the former members of the EWG Organisation their level of dependence on the Russian natural resources is much lower- 30% - 31%. It must be admitted that those countries prefer to use diversification of the import sources. The "15" European Countries use the Norwegian supplies (20.8%), their own sources (18.1%) and also they import gas from Algieria (18.1%) [2].

The Russian Federation is an intermediary of gas trade in the post- Soviet Central Asia region. Generally, in 2008 Russia gained nearly 66 billion m3 of "blue fuel" out of this region[3]..*

The resource from the former Soviet republics, namely Turkmenistan, Kazakhstan and Uzbekistan goes to Poland and Hungary but it is worth mentioning that the most important recipient of the one is Ukraine which does not belong to the EU. Inspite of that, however, the gas delivery is controlled by the Russian side.

Another vital aspect of economic cooperation between Moscow and Brussels is the Russian investments in the national energy sectors of the European Union countries. On the German market of "blue fuel" Gasprom cooperates with the firms VNG and E.ON. These German consortia have signed long-term contracts with the Russian supplier which will be valid up to the years 2031-36. It proves that Germany has entered a real strategic partnership with Russia. Russians are also on good terms with Italian companies. It should be noticed that there is the most important consortium- ENI which carries into effect common business in the Italian natural gas trade. Both partners have signed contracts valid till 2035. The value of gas delivery contracts together with Gasprom admittance to the trade on the inner market amounts to nearly $22 billion. In addition, the Russian monopolist shares the interests with the Italian consortium Sinergie Italiane. Moscow sets all its hopes on cooperation with Italy as far as natural gas trade on the inner market of "blue fuel" is concerned.

It is worth mentioning that while importing gas from post –Soviet Middle Asia the Russian Federation gains the chance to complete some deficiency on the inner market and at the same time to increase export to the West. A problem of the Russian sector of "blue fuel" is using the source by industrial plants in an inefficient way. During the process of production these plants waste vast amount of gas regardless of the costs. This is because the price of gas in Russia is a few times lower than the one which has to be paid by recipients from the West. Only in 2009 seven the biggest Russian petroleum consortia used almost 20 billion m 3 the resource. This is about 65% of annual output of gas used while producing "black gold". The value of the gas is estimated up to $1.3 billion. A problem is no access to a gas pipeline owned by Gasprom and the necessity to use a lot of money ($8.5 billion) for the resource utilization. In 2009 Russian authorities decreed that companies will have to increase the level of the natural gas utilization up to 95%. It has to be completed by the year 2012. *Ile gazu marnuje się w Rosji?*, "Tydzień na Wschodzie", Warszawa, 24.03.10

Moreover, Russians own the participation in profits on the French gas market. Their chief partner is Gaz de France, the biggest company in France trading gas. The contracts with France are valid till 2030. The amount of the supplies is about 14.5 billion m3 out of which 2.5 billion m3 is going to originate from "North gas pipeline" [2]. Most member states conduct their business cooperating with Gasprom. Mostly it concerns the countries within the former Soviet bloc states. In this case, a problem is not to start good economic relations in gas branch but rather too much dependence on the importer. Increasing dependence on the outer supplies especially if it concerns the only and at the same time the most powerful supplier such as Gasprom, is a kind of threat to the EU. According to the European Commission, in 2030 the EU countries will be dependent on the import of fossil fuel in 66%, whereas in 2005 the indicator was much lower, namely 53% [1]. M. Kaczmarski claims in his paper: "The situation proves that the source of challenges and threats for the European energy safety is going to be from the outer environment rather than from the EU inner problems with functioning of energy market." [3]

Taking it into account, it should be noticed that there is a danger of a potential crisis in the relations between Moscow and Brussels.

2 POLITICAL ASPECT OF COOPERATION WITHIN GAS SECTOR

A common Russian and German decision about constructing "North gas pipeline" negatively influenced energy relations in the EU as well as bilateral relations between Warsaw and Berlin. The approval of the route of the above- mentioned line which has been planned by Russia makes Poland less important as a transit country. Taking into account the demand for natural gas from Russia on the Polish side, there occurs a situation which limits the Polish authorities' manoeuvre. In addition, the negotiating position is quite weak. In the Business Centre Club analysis entitled "Energy Safety of Poland" you can find an opinion which accurately describes the political and economic situation in the Middle-East Europe: "The recent divergent Angela Merkel's statements about the need to aid the construction of three gas pipelines (Nord Stream, South Stream and Nabucco) together with the EU commissioners who prefer to prioritize the Nabucco project, indicate that there is a wide divergence of the most powerful member states with their consortia and the official EU policy on their interests." [4] It should be noticed that there is no sign that such trends are going to be reversed. It is clear that the interests of Paris and Berlin within bilateral relations with Moscow are quite different from the attempts which are made to create the EU shared energy policy. Constructing a new gas pipeline network away from the transit states consolidates the Kremlin on the international arena of politics. It happens in two aspects: as the "key player" on the energy market and also on the global scale as a superpower. That is why Moscow promotes its two key gas projects considered as an element of a wide energy strategy, namely Nord Stream and South Stream. The former one negatively influences the situation in the Middle- East Europe, whereas the aim of the latter one is to weaken Ukraine as an important country for transiting the resource to the West countries. If the Kremlin's plans were fulfilled, Russia would become the main beneficiary of the situation. It means that the Kremlin's impacts would be consolidated particularly in the national sectors of "blue fuel" of the EU countries. In the future Moscow could obtain a lot of concessions of political and economic type from the importers of the resource. As a result, the position of Poland and Ukraine would be weakened but, on the other hand, it would make the Kremlin powerful on the arena of politics in the Middle- East Europe. In consequence, Kiev will be much strongly dependent on Moscow. Ewa Paszyc- the author of a kind of analysis "Nord Stream and South Stream Will not Solve Gasprom's Problems"- notices that "Russian determination to aim at fulfilling these extremely costly projects proves that for Moscow both in a short and long- term perspective it is of crucial importance to solve the problem of Gasprom export dependence on the transit states (Ukraine, Bielarus and Poland) and also of the increasing gas export to Europe." [5]

In both projects there are supposed to be considerable amounts of gas which may cause some fears about certain limits of the gas sent to the West Europe from Russia through the transit states. As to the Nord gas pipeline, Russians are going to transmit annually about 55 billion m3 of gas using two bypasses. It is estimated that some 63 billion m3 of "blue fuel" can be sent by South Stream. If the amount of gas is increased in the Blue Stream which joins Russia and Turkey, there will be a considerable reduction in the amount of gas mediated by Kiev. So the Russian policy is becoming a kind of practice [3].

The European Union takes some action to increase energy safety. However, it is not coherent. A good example to illustrate the situation is the EU diplomatic offensive against Turkmenistan. This is an important producer of natural gas. Its gas sources amounts to 2.9 billion m3- 8.8 billion m3 [6]. In 2008 66.1 billion m3 was mined [7]. It is mainly sold to Russians and for a few months it has also been sold to China. Aszchabad has been cooperating with Teheran since 90s of the 20th century in terms of 'blue fuel" trade. The result of this is a minor gas pipeline which joins the Turkmenistan sources and the Iranian recipient. Because of that, some plans to gain the natural gas for the Nabucco project which is supposed to provide gas for the European market without Russian intervention seem to be less likely to happen [8]. The EU initiatives to make changes into the inner system of gas transmission seem to be more viable. The offer to develop a network of special links between particular national gas systems of the member states appears to be an interesting solution. In this way the EU countries will obtain the chance to gain easier access to "blue fuel" being possessed by different the EU countries. It will make gas transmission among the 27 countries easier in case of some gaps in the process of transmission [9].

A really important idea from Brussels on the safety side is an activity the aim of which is to increase the number of gas stores and to modernize "blue fuel" tanks. The above-mentioned actions will consolidate the position of the EU as well as the condition of the national energy sectors of the EU countries. Constructing gas ports in countries is another idea from Brussels. Financial help addressed from Brussels definitely would be of fundamental importance in this action.

Then it would enable the liquefied natural gas (LNG) transmission to those countries through methane ships.*

However, it is not likely at all to ratify so-called "Energy Agreement". The document would standardize energy relations between Moscow and Brussels. But the Kremlin is not interested in signing an agreement which would make Russia unable to develop the idea of being "an energy superpower" [1], [10].

There is still a lot to discuss about the coherent energy policy in Brussels taking into account the nearest future. Otherwise, being more and more dependent on Moscow in terms of gas transmission may cause new problems in the states which import the resource from Russia. A kind of explanation of the whole situation could partly be the lack of alternative against the Russian action. In addition, recently there has been created so-called "a Chinese demand for resources" problem. Moscow claims that the country is ready to change the direction of gas transmission from the West to the South, namely to China, India and South Korea. Today the idea seems to be a distant perspective because China does not want to sign contracts based on "world prices" for the resource.† This fact together with the global economic crisis, which contributed to decreasing the demand for resources, forced Gasprom to change their plans connected with "blue fuel" export enforced mainly by the global crisis and an obvious decrease in gas demand [11]. Such a policy is something unusual for the consortium. As soon as the crisis weakens, it is most probable that Russians will follow their previous way of dealing with this issue.

3 PERSPECTIVES ON THE DEVELOPMENT OF THE SITUATION

The likelihood of creating the EU shared energy policy is not very high. This is because of a shortage of basic elements which would constitute the Union strategy of energy safety referring to "black gold" and "blue fuel". Resource policy of the EU is put into practice on the basis of national interests that are often contrary to the ones of other the EU countries. Inspite of the fact that there is a need to create a shared policy in the area of energy, no reasonable action is taken This is a weakness of the EU in the sector used by the most powerful exporters of resources, especially Russia. As a consequence, this country will be doing its best to consolidate itself on the "blue fuel" markets of the most serious gas importers. Another solution will be some attempts to take over the shares of natural gas trade by Gasprom. As a result, there will be an opportunity for Russia to influence economic processes taking place in the EU countries. A chance for immediate breaking up the supplies of gas is really impossible. Russia wants to become the most powerful country in this part of the world. This is a long- distance process and there should be taken appropriate action to build that

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* On behalf of the member states there are going to be carried out various actions such as constructing gas installations to collect LNG. Some of the most important investments are the following links: Cieszyn- On On Trzanowice (Poland- the Czech Republic), Brzecław- Baumgareden (the Czech Republic- Austria), Giurgiu-Ruse (Romania- Bulgaria). More is found in M. Bocian, *Europa Środkowa I Bałkany koordynują politykę energetyczną,* „BEST OSW", Warszawa 03.03.10

† You will read more about the relations in the energy sector Moscow – Bejin in D. Mierzejewski, *Rosyjski zwrot. Chińskie relacje a zapotrzebowanie Państwa Środka na surowce naturalne* [w:] J. Marszałek – Kawa (red.), *Chińska polityka zagraniczna i jej uwarunkowania,* Toruń 2008, s. 54 -72

influence. For example it can be slight persuasion in the form of economic promises, political gestures.

To show and emphasize the importance of Gasprom you should find out Vladimir Putin's opinion on the consortium:" Gasprom is the crucial element of the energy safety system of the state and its potential. Also, this is a useful tool used to gain economic and political influence all over the world by Russia." [12]

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