

The role of Russia in the European energy security

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Hearings at the Foreign Affairs Committee of the
European Parliament
Brussels, February 28th, 2007

Russia and the European energy security

Positive aspects

- Large energy resources
- Natural geographical proximity to Europe
- Established and expanding system of energy supplies

Worrying aspects

- Increasing role of Government in economic affairs
- Restrictions on foreign investment in the national energy sector
- Failure of market reforms and monopolization of the energy sector
- Inefficiency of national energy companies and concerns on reliability of future supplies
- Arbitrary use of state's regulatory powers in order to advance market positions of state affiliated companies
- Systematic denial to enter the international legal framework on energy (Energy Charter Treaty)

General shift in Russian Government's policy agenda in 2000-2006

Before 2003

- Assertive privatization of the remains of public sector
- Improvement of business climate for private sector, removal of regulatory barriers
- Reduction in Government spending
- Encouraging FDI
- Market restructuring of public monopolies
- Largely, liquidation of the non-market sector and separation of economic interests and regulatory functions of the Government

After 2003

- End of privatization
- Shift to 'national champions' strategy
- Increasing role of Government in economic affairs
- Increasing Government spending
- Restrictions on FDI
- Failure to separate regulatory functions and economic interests of the Government
- Active arbitrary use of state's regulatory powers in order to advance market positions of state affiliated companies

**THE PRESENT ENVIRONMENT IS AN
UNAVOIDABLE RESULT OF POLICY
SHIFT IN RUSSIA THAT HAD HAPPENED
SINCE 2003.**

**UNLESS NEW DEMOCRATIC
GOVERNMENT WILL BE IN PLACE IN
RUSSIA, THE SITUATION IS NOT LIKELY
TO CHANGE.**

Possible restrictions for foreign investment in oil & gas sectors

- Draft amendments to subsoil law preliminarily approved by Russian Government on January 31st, 2007, allow Government to establish a list of 'strategic' oil & gas fields, where foreign ownership has to be approved, and will be limited to no more than 50% minus one share
- Participation of state-owned foreign companies in 'strategic' oil & gas fields may be legally limited to no more than 25% minus one share
- But, Russian state owned energy companies wish to buy energy assets in Europe freely
- A strange vision of reciprocity?

Is Russia using national energy companies as a political tool?

‘GAZPROM IS THE KEY ELEMENT OF THE STATE’S ENERGY SECURITY SYSTEM. AND, NOT LESS IMPORTANT, POWERFUL LEVERAGE OF RUSSIA’S ECONOMIC AND POLITICAL INFLUENCE IN THE WORLD.’

Vladimir Putin,
President of Russia

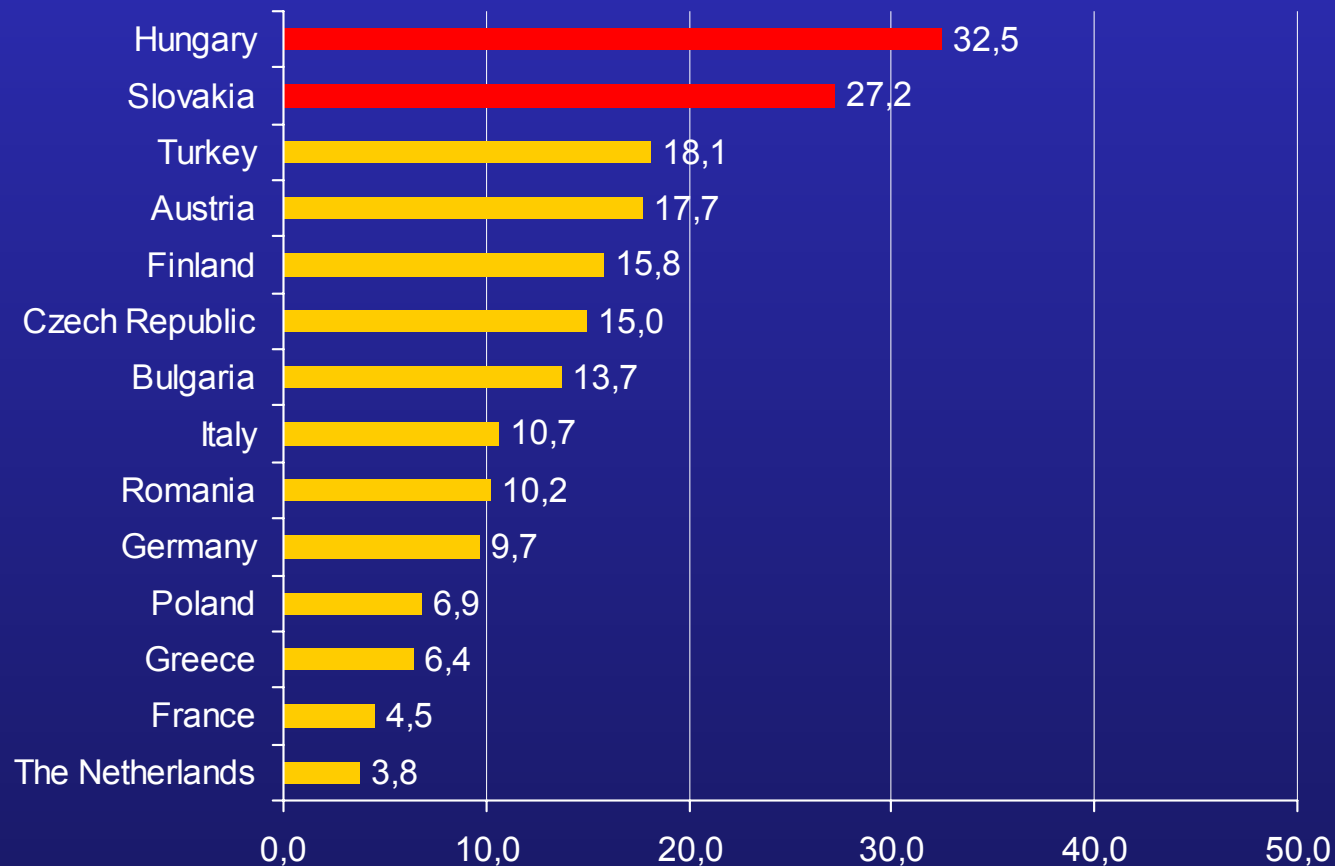
(Speech at the celebration of the 10th anniversary of Gazprom, February 14th, 2003, the Kremlin, Moscow)

Energy Charter Treaty?

- No chance that Russia will ratify
- Charter definitely needs to be modified
- The regional integration clause to the Transit Protocol (article 20 of the Protocol) had destroyed the pro-Charter lobby in Russia – it sets unequal conditions for EU and non-EU states
- A new international energy agreement may be a breakthrough
- Framework like 'Energy Community Treaty' is a more engaging and preferable format than the Charter

How much is Europe *really* dependent on Russian gas?

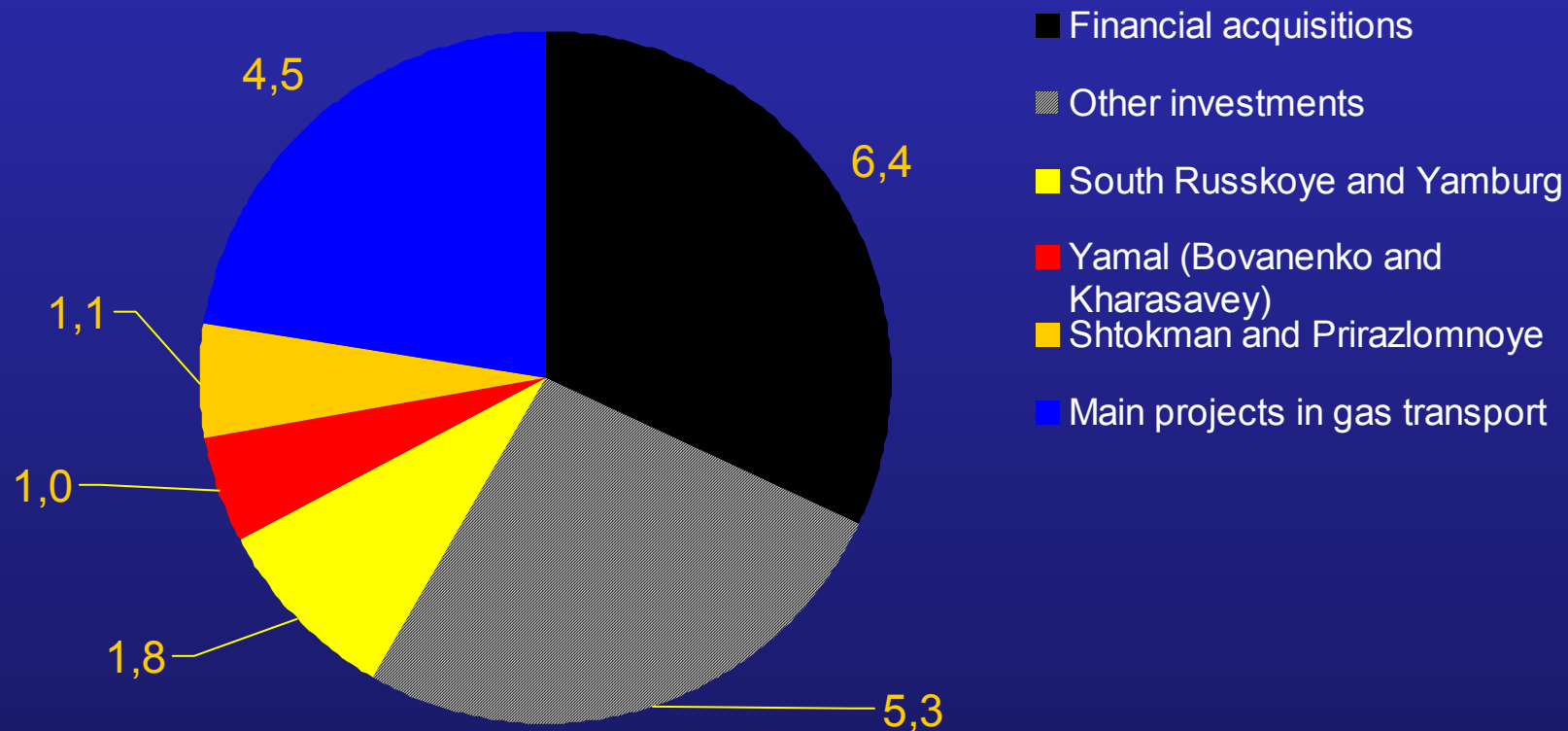
Share of gas imports from Russia in **primary energy consumption**, 2005, %



Source: BP Statistical Review of World Energy 2006 (primary energy consumption),
Gazprom (gas imports by relevant countries)

Will Gazprom invest enough in new gas field development to address the supply challenge?

Structure of Gazprom's investment program for 2007
(in billion US dollars of 2007)



Source: Gazprom's press release of January 16th, 2007