

EU policy towards Ukraine, Moldova and Belarus

'I believe that further consideration could also be given to those of the European Neighbourhood countries that are willing to engage in the reform process in their energy sector and apply the principles of the EU internal energy market'²².
Andris Piebalgs, EU Energy Commissioner

Less involvement

The European Union is far less involved than Russia in the energy matters of their common neighbours. This should not be surprising, if only because the EU still has no common energy policy, including such a policy towards non-EU countries, while Russia is implementing a well thought-out energy policy towards CIS countries. This does not mean that the EU is not taking any action at all. In recent years, attempts to draft a common energy policy that would address the necessity of the EU's cohesive action towards its neighbours have been increasing. Energy matters are also present in the EU's European Neighbourhood Policy (ENP), which covers, among others, Ukraine, Moldova and Belarus. The Action Plans concluded by the EU with individual ENP countries, signed by Ukraine and Moldova in February 2005, are an example of this.

²² <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/712&format=HTML&aged=1&language=EN&guiLanguage=en>

Energy issues occupy an important place in the Action Plans negotiated by the EU with Ukraine and Moldova and also with three other former Soviet countries – Georgia, Azerbaijan and Armenia. Belarus is an exception because of its frosty relations with the EU (caused by the authoritarian governments of Alyaksandr Lukashenka) and has not even begun talks concerning the Action Plans.

Energy was most fully discussed in the EU-Ukraine Action Plan. In addition to general terms on the necessity of strengthening co-operation in energy issues, the Action Plan also contained terms concerning more detailed proposals to bring Ukrainian provisions of law more in line with EU regulations on energy and suggestion of Ukraine's participation in EU gas and energy forums. The EU is ready to take part in upgrading the existing transport network and reducing its high level of consumption and in the construction of new pipelines, e.g. the Odessa – Brody – Płock pipeline²³.

The terms of the Action Plans indicate that the EU wishes to partially integrate the countries covered by the ENP with the painstakingly created common energy policy. It is worth stressing that the EU is offering even Belarus, which has not signed an Action Plan, co-operation in the field of energy, on condition the country becomes a democracy²⁴.

A European Commission document dated December 2006 on the need to strengthen the ENP is a supplement to the Action Plans. It emphasises, among others, the significance of multilateral action in energy matters in which the EU's neighbours should take part²⁵, but it seems that the most far-reaching proposal to the countries lying between the EU and Russia is the possibility of Ukraine's and Moldova's joining the Energy Community,

²³ EU/Ukraine Action Plan, http://ec.europa.eu/world/enp/pdf/action_plans/ukraine_enp_ap_final_en.pdf.

²⁴ See: What the European Union could bring to Belarus, Non-Paper, November 2006, http://ec.europa.eu/external_relations/belarus/intro/non_paper_1106.pdf.

²⁵ '[...] consideration of multilateral agreements in energy and transport and strengthening of existing ones; work for the extension of the EU transport and energy networks to neighbouring countries as well as interoperability'. See: *On Strengthening the European Neighbourhood Policy*, p. 9, http://ec.europa.eu/world/enp/pdf/com06_726_en.pdf.

in which they already have observer status. The proposal that Ukraine and Moldova join this structure appeared in the statements of EU politicians in 2006. The Energy Community, the aim of which is to expand a common electricity and gas market to the Western Balkan countries, was set up in 2005²⁶. The EU's proposal was nothing other than a placing of Ukraine and Moldova on the same footing in energy matters as the Western Balkan countries, which the EU has promised full integration. The list of potential Energy Community members does not, however, include other ENP countries from the Southern Caucasus or Mediterranean countries. It is worth stressing that countries that have been invited to the Energy Community also include Norway and Turkey, i.e. a country that could at any moment join the EU and a country that is negotiating accession.

It is currently difficult to establish unequivocally to what extent the EU is determined to become involved in the energy issues of its neighbours and have Ukraine and Moldova join the common energy policy, but at least it can be said that the EU has noticed the problem.

Clearly, energy matters are not only a concern of the EU, but are also an issue that above all is the responsibility of its Member States and private corporations. This is because the Member States want a great deal of freedom in energy matters for at least two reasons: firstly, energy issues are fundamental to state security, and secondly, many Member States continue to doubt the effective operation of the EU as a whole in energy matters. In

²⁶ 'At present, the full participation in the Energy Community is limited to the countries of South East Europe. However, on the occasion of the last week's Ministerial Council of the Energy Community held in Skopje, an observer status was granted to four countries: Moldova, Norway, Turkey and Ukraine. This opens new horizons for the Energy Community's extension'. Andris Piebalgs, Energy Commissioner, *External projection of the EU internal energy market*, Opening speech at the External Energy Policy Conference, Brussels, 20.11.2006, <http://europa.eu/rapid/press-ReleasesAction.do?reference=SPEECH/06/712&format=HTML&aged=1&language=EN&guiLanguage=en>. 'Ensuring the implementation of the Energy Community Treaty, with a view to its further development and possible extension to Norway, Turkey, Ukraine and Moldova' – *Presidency Conclusions*, Council of the European Union in Brussels, 8–9 March 2007, p. 19, http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/PL/ec/93142.pdf.

turn, energy corporations are often linked to the state or, as international structures, want the greatest possible freedom to act.

Different approaches to the countries situated between the EU and Russia are noticeable in Member States. It seems that some of them are inclined to closely co-operate with Russia, to the exclusion or marginalization of ENP countries, while other EU Member States try to maintain a dialogue with ENP countries, especially Ukraine (e.g. Poland on the issue of the Odessa – Brody – Gdańsk pipeline), but also with Belarus, an example of which is the Lithuanian-Belarusian talks concerning crude oil supplies to Belarus via Lithuania, carried on after the crisis in the relations between Minsk and Moscow at the end of 2006 / beginning of 2007²⁷.

Both Poland and Lithuania are interested in creating a coalition of states that would enable the supply of Caspian oil without the intermediary of Russia. An example of an attempt to create such a coalition was the 2007 meeting in Cracow devoted to energy issues, in which presidents of Ukraine, Georgia, Azerbaijan, Lithuania and Poland took part. So far, however, Lithuania's and Poland's actions have been unsuccessful, both in bilateral talks with ENP countries and in multilateral negotiations.

Unlike Russian corporations, corporations from Member States still show little interest in the domestic markets of CIS transit countries (unlike oil and gas producers). Exceptions can be found, for example Shell's operations in Ukraine. Shell became involved in exploring new gas deposits in eastern Ukraine, together with Ukrhazvydobuvannia (UGV), i.e. part of the state-owned Ukrainian Naftohaz (agreements in 2005 and 2006). Shell also entered the market for the retail sale of petrol after it set up a joint venture in 2007 with Russia's Alliance Group, co-owner of the refinery in Kherson. Shell acquired 51% of the shares, taking over 150 petrol stations that will operate with its logo. This involvement is still relatively small, barely 3% of the Ukrainian market, but the new company intends to increase its share to

²⁷ Lithuanian-Belarusian talks in February 2007, See: Kommersant, 15 February 2007.

10%²⁸. Shell's involvement in Ukraine cannot be considered inconsequential, but should be perceived as well thought-out action, probably with the intention of long-term investments.

Another effort to enter the Ukrainian market, which failed, was PKN Orlen's December 2005 attempt to buy 32.9% of the shares in Ukraine's Drohobych refinery near the Polish border²⁹. British Petroleum (BP) is also present on the Ukrainian market, though not directly, but through TNK-BP Ukraine, belonging to Russia's TNK-BP in which the British partner holds 50%. TNK-BP has a refinery in Lysychansk and 51 petrol stations.

There are at least several reasons why corporations from the EU have not shown a willingness to get involved in investments in neighbouring Eastern European countries. One of them is certainly the lack of transparency in the energy sectors of those countries, the conviction that this is the area where Russian companies operate and the fact that the authorities in Moldova, Belarus and Ukraine do not encourage investors to enter the market, which brings huge profits for a very small select circle of 'members'. Moreover, energy is sometimes treated as a strategic sector that should not be sold off to foreign investors. Networks of pipelines for the transport of both gas and oil are protected against take-overs.

But Shell's involvement could be a breakthrough, or at least an important factor in other companies' making the decision. It is an example that it is worth investing in this market as one with prospects. Currently, though, this only applies to Ukraine. Moldova seems too small a market and is much poorer than Ukraine, while for political reasons Belarus is to all intents and purposes closed to Western companies.

Corporations from the EU countries, particularly Germany, have been willing for years to take part in investments in a network of transit pipelines, especially gas lines. They always wanted to invest together with Gazprom

²⁸ See: www.bfai.de/fdb-SE,MKT20070426105531,Google.html.

²⁹ Along with the refinery in Nadvirna, the refinery in Drohobych is one of the smallest refineries in Ukraine – it is capable of processing 3.22 million tonnes of oil per year (in 2004 67.9% of its production capacity was used, and in 2005 – approx. 50%).

and were supported by the German government. Since 2003, a concept of setting up a trilateral – Ukrainian-Russian-German – consortium has been considered, which would take control of the network of gas transit pipelines in Ukraine.

It seems that the political elite in Ukraine is still unwilling to progress with the idea because of the strategic importance of the transport lines to its relations with Russia. This continues to be one of Kyiv's most important bargaining tools in negotiations with Moscow. Ukrainian politicians fear that a trilateral or even a bilateral consortium (with only an investor from the EU) might in the future be taken over by Russian companies (at present, both in the case of gas and oil, this means the Kremlin, in fact).

Unresolved dilemma

It seems that a dilemma still remaining unresolved is the question whether for the European Union and/or individual Member States it would be better if common neighbours were quite simply part of the Russian energy system or were integrated with the EU energy system being created. This dilemma seems to have unprecedented importance because of Russia's conflicts, first with Ukraine and then Belarus, regarding supplies of energy resources, and this has affected the continuity of gas and oil supplies from Russia to the EU.

It might be supposed that some of the large corporations in Member States (especially those that receive Russian resources, primarily gas) are interested in the Kremlin's having control of the oil and gas transport routes from Russia, because they are counting on this removing the risk of interruptions in supplies of resources following disputes between Russia and countries like Ukraine or Belarus. Hence, Moscow's control would have a positive effect on the security of oil and gas supplies from Russia to the EU.

What the view of the political elites of individual Member States is remains unknown. Major differences are visible between individual Member States, but it is certain that politicians, to a greater extent than corporations,

are currently more interested in the CIS countries having greater independence from Russia in energy issues.

From the point of view of certain Member States and corporations, a partial solution to this dilemma would be to build new transport routes for Russian gas that would avoid the ENP countries. That is why certain corporations and Member States are interested in building new gas transport routes that would avoid transit countries – one example is the Nord Stream gas pipeline supported by Germany (Germany's BASF and E.ON each have 24.5% of the shares, but Gazprom holds 51%). In turn, Italy is interested in the South Stream – a gas pipeline from Russia across the Black Sea to Bulgaria, ending at the Apennine Peninsula.

Representatives of corporations from Germany and Italy and also many politicians in those countries appear to believe that eliminating transit countries from the equation will increase the security of supplies of Russian resources (especially gas).

Another serious problem is the still unclear policy of the EU's Eastern neighbours where co-operation with the EU in energy matters is concerned. This applies not only to Belarus, which has no normal relations with the EU, but also to Ukraine and Moldova. The above-mentioned ambiguous relations with Russia and the scheming of interest groups put a question mark over the intentions of the political elites of those countries where co-operation in energy issues is concerned. This situation certainly makes the advisability of the involvement of the EU as a whole, individual Member States and corporations in the energy issues of their neighbours, dubious.

To summarise, the involvement of the EU, whether as a whole or as individual Member States and corporations, in the energy issues of ENP countries is still insufficient. Yet, it would be a mistake to say that there is no interest in this on the EU's part.