

Proposals for the EU's future actions

Relations in energy issues with the countries situated between the EU and Russia are certainly a difficult problem for the EU. It seems the EU has three ways of solving the problem.

The first scenario assumes the EU accepts Russia's dominance in this area in energy matters. This would mean, in fact, also accepting Russia's political dominance over their common neighbours, because energy issues play a key role in relations between Kyiv, Chisinau, Minsk and Moscow.

This option would assume consent to the Kremlin's acting on its own terms in the transit countries. In exchange, Russia would guarantee stable supplies of its resources, which would be transported via CIS countries. The EU would in fact declare that it is not interested in the energy issues of its neighbouring states. This would be contrary to the EU's endeavours to include its neighbours in the common energy market as expressed in EU documents. It would also be contrary to the EU's efforts to have Russia follow European guidelines in energy issues. If Russia were allowed to act on its own terms in countries that are Russia's and the EU's common neighbours, it would be even less reasonable to expect Russia to act according to European standards on its own territory. Consequently, Russia's position vis-à-vis the EU in energy issues would be inevitably strengthened.

The second way would be common management of the transit routes by Russia, the transit countries and the EU (Member States, corporations), without attempts to include the transit countries in the European energy policy. The weakness of this solution lies in the ambiguous terms on which such a consortium would operate. Who would set the rules of common management of the pipelines? There would certainly be a high risk of lack of transparency. Bearing in mind Russia's strength in this area in energy issues, it can be assumed that Moscow would make the rules.

In this case, the equal participation of all the stakeholders seems unreal. Accepting this solution would mean accepting a long-term Russian dominance. The end result would be similar to that in the first scenario.

Also, the transit countries (particularly Ukraine) might not be interested in this solution because they would lose a real bargaining tool – the transit pipeline – in their relations with Russia. Forcing such a solution on them would certainly be action in defiance of at least some of the political elites of these countries.

The third scenario would be to gradually integrate the ENP countries into the emerging common energy market of the EU. This would be the most preferable of the three possible scenarios for at least four reasons.

Firstly, it is impossible to gradually strengthen the EU's ties with its Eastern neighbours without energy playing a part. The success of the ENP depends on the success of the EU's co-operation with its neighbours in energy matters. Irrespective of whether the ENP countries are seen in the future in a ring of friends remaining outside the EU or as EU members, co-operation in matters concerning energy, because of its importance, is essential for the achievement of any of these aims. The gradual integration of the ENP countries into the emerging common energy market of the EU would mean expanding the area covered by European standards in a very important sphere of economy and politics.

In turn, for the ENP countries it would mean having to implement fundamental reforms of their energy sectors, primarily by introducing transparency rules (including clear, stable rules governing investment by foreign investors) and efficiency. It is worth emphasising that the first two scenarios would not bring about any transparency or efficiency in the energy sectors of ENP countries.

Secondly, implementing this scenario would boost the EU's credibility because it would be offering ENP countries, especially Ukraine and Moldova, a great deal in energy-related matters – the opportunity for these two countries to join the Energy Community, terms in the Action Plans, general statements in the emerging EU energy policy. For the EU to be credible, these proposals cannot remain rhetorical; they must be implemented.

Thirdly, only this scenario would afford the opportunity of long-term, secure investment by EU corporations in ENP countries. These three countries, especially Ukraine, could be attractive markets for energy corporations.

Fourthly, implementing this scenario would give the EU a stronger position in talks on energy issues with Russia. It would be possible to convince Russia to accept (even partly) European rules in the ENP countries. This could be a sort of experiment for energy co-operation with Russia according to European rules and would also be useful in the case of Russian companies' participating in the internal EU energy market.

However, this scenario has many problems, two of which seem major.

First of all, there are significant differences between the ENP countries. The EU does not have normal relations with Belarus, hence the possibility of exerting any influence in energy matters in this country is non-existent. Despite ambiguities, Ukraine and Moldova do want to co-operate with the EU, but in energy matters, even between these two countries, there are large differences. Russia controls the transport infrastructure in Moldova, but does not have such control in Ukraine.

In addition, Russia's opposition is inevitable. It will treat the EU's involvement in the energy matters of their common neighbours as a threat to its influence in the CIS. Strong resistance from the Kremlin should be expected. The reason for this view is that the Russian authorities see the energy issue as their basic tool helping them maintain their influence in ENP countries.

To implement the third scenario, it would be necessary to overcome the problems indicated. This would require the following action.

Firstly, it would be necessary to exert constant pressure on neighbouring states to have them reform their energy sectors. The EU should clearly state that integration with the EU cannot be achieved without the reform of the energy sectors. EU assistance (including financial aid) could be used to encourage improvements in the energy efficiency of those countries' economies.

Secondly, the approach to different neighbours would have to be different. Ukraine would certainly play a key role in the EU's policy towards its neighbours. The third scenario suits Ukraine best of all. In the case of Moldova, Gazprom's current dominance should not mean that the EU should not show any interest in Moldova's energy matters. From the EU's point of view, where the third scenario is concerned, Belarus is in the worst situation because of the lack of a proper dialogue with Lukashenka. The EU has no influence over Russia's actions, which are intensifying, in Belarus.

Thirdly, attempts to moderate Russia's opposition would have to be made. It must be assumed that Russian capital, which is either legally or in fact controlled by the Kremlin, will continue to be the predominant foreign capital in the energy sectors of the ENP countries. Evidently, with such a significant (and often dominant) participation of Russia in individual ENP countries, the capital from EU countries will remain in the minority. It would

be necessary to constantly repeat to the Russian authorities that the EU's actions are not aimed at removing Russian capital from the energy sectors of the ENP countries; to the contrary – on transparent terms it would be possible to achieve beneficial co-operation (in economic and technological terms) between EU and Russian corporations in ENP countries, with, of course, those countries' consent to such action.

However, there would definitely be tensions between Russia and the EU in energy matters concerning their common neighbours, so it would not be so much a question of leading to situation of no conflict as minimising a conflict.

The EU's consistent policy towards its neighbours to promote their closer relations with the EU would be better for EU–Russia relations than a policy of partial concessions and inconsistencies. This also applies to energy matters. Moderating Russia's opposition should not be based on concessions, but on putting the case forward clearly and seeking benefits for all three parties, while ensuring transparency.

Fourthly, action to the creation of an EU energy policy would be necessary. In an internal EU discussion, it would be necessary to continually stress that a common EU energy policy is also essential to the success of the ENP.

Fifthly, the actions of the EU as a whole, individual Member States and EU-based corporations, would be necessary in neighbouring countries.

Only combined efforts, i.e. on the one hand, including ENP countries in the EU energy policy, and on the other, involving Western corporations, will help bring about real reforms of the energy sectors of the ENP countries and bring them closer to European standards. If efforts are not combined, corporations could be tempted to act according to the current, vague rules, while merely including the ENP countries in the EU energy policy could prove insufficient to allow European standards to become established in ENP countries. The participation of corporations with specific investments is essential to this.

Annex

Map of pipelines and refineries



Map prepared by Wojciech Mańkowski