



EU-Russian relations remain fragile

Diplomatic relations between Europe and its largest energy supplier remain critically fragile, a recent high-level energy dialogue in Berlin showed. The Russians still feel on the defensive, while European business works frantically at damage control.

| by *Stefan Nicola*

The Dalai Lama had spent the night in Berlin's posh Adlon Hotel but his soothing aura didn't stay around for long. Speaking in a large Adlon ballroom, Valeri Yazev, president of the Russian Gas Society and vice-chairman of the Duma, called on Europe to treat Russia with more respect. 'We must have an equal footing in our energy dialogue,' he said. The EU, Yazev added, should be aware of growing competition from Asia. 'The EU isn't invincible in its competitive advantage,' he warned. 'Its exclusivity as our main client has been drastically reduced.'

Organised by the two industry associations, the Russian Gas Society and Eurogas, the one-day conference brought together nearly 500 energy officials from 23 countries. It intended to shed light on the potential of sustainable energy generation in Russia, but several keynote speakers decided to instead comment

on the overall state of EU-Russian energy relations. Konstantin Kosachiov, a Russian parliamentarian who heads the Duma's committee on foreign affairs, complained that Russia constantly had to prove its innocence. 'Not to respect and trust Russia is probably the biggest mistake European politicians are making,' he said. 'That can hurt the EU over the coming years.' So far, political animosities between the EU and Moscow have not significantly damaged the many existing business projects. Yet that could change soon, Russian observers say, because of the EU's energy package, tabled in September 2007. The package contains what some experts have called the '(anti-) Gazprom clause', a provision that restricts foreign ownership of European energy assets. The draft legislation allows non-EU ownership of EU transmission networks only if Brussels strikes an agreement with the foreign company's country of origin. Foreign network buyers are also

forced to prove that they are not 'directly or indirectly' influenced by an energy producer or a non-EU government – a clear note of warning to Gazprom. Brussels argues these provisions are needed to create a level playing field and fair competition between EU and foreign companies. But Russian officials have lashed out at the clause, which they say is hurting the EU-Russian energy relationship.

Ping-pong |

'Due to political motives, laws are being proposed that are counterproductive to Europe's own energy security, and on top of that are discriminatory,' said Alexander Shokhin, president of the Russian Association of Industrialists and Enterprises. He likens the legislative skirmish between Brussels and Moscow to a 'game of ping-pong' in which players respond to opponents' restrictions with more restrictions. Gazprom has long



tried to get access to end consumers in Europe, but has often failed because of public or government resistance. The controversial clause would raise the bar for owning transmission assets in the EU even higher.

This angers Stanislav Tsygankov, who heads the international department at Gazprom. He said the EU's planned separation of production, transmission and distribution would create significant instability in the energy sector. 'Destroying a system is easy. Rebuilding a new one will be difficult.' He adds that large companies might stop investing in crucial infrastructure projects if the EU adopts the energy package as it is.

One of these projects is the Nord Stream Pipeline, which aims to pump some 55 bcm of Russian gas per year under the Baltic Sea directly into Germany. Gazprom and two German firms, Eon Ruhrgas and Wintershall, share stakes in the project, which aims to reduce Russia's dependency on transit countries like Ukraine, Belarus and Poland. Those countries have protested the new pipeline, because it strips them of transit fees. The pipeline's critics argue that it may endanger European energy security because it makes the continent even more dependent on Russia. Yet Rainer Seele, board member at Wintershall, said Nord Stream was too important for Europe

to question. 'Europe is well advised to secure these gas reserves, which are right in our backyard,' he said. Seele's comments mirrored those of many European officials at the conference who have business with Russia. The EU's speaker, Matthias Ruete, who heads the energy and transport directorate at the European Commission, said Russia and the EU 'share the same concerns for stable energy markets, reliable supply and demand'.

Discrimination |

Burckhard Bergmann, former chairman of Eon Ruhrgas and for years the only

interests only, making the Russian gas giant highly unpredictable. Russia's gas production fell by half a percent in 2007. Several EU officials have questioned Russia's ability to fill Nord Stream with enough gas, although Gazprom and its German business partners vow they can. Even Bergmann, a staunch Russian ally, warns that Russia's investments in developing new fields and in infrastructure 'must be increased'.

To lessen its dependence on Gazprom, Europe has embarked on a course of diversification, and rightfully so, says Domenico Dispenza, head of Eurogas

'Not to respect and trust Russia is the biggest mistake European politicians are making'

non-Russian to sit on Gazprom's advisory board, underscores the importance the long-term contracts have. 'There should be no discrimination against Russian investors,' he says. Bergmann is now vice-chairman of the Committee on Eastern European Economic Relations, an influential business association that helps German companies securing business deals in Russia.

Critics of Russia like to point out that Gazprom looks to its own short-term

and a senior official at Italian company Eni. He called on Gazprom to become more transparent, allow access to its infrastructure and protect foreign investments in Russia.

Officials in Brussels remain hopeful. They are banking on Medvedev, the new president, to ease the strains between the EU and Russia. But once again, the Kremlin has sent mixed signals. Medvedev's first foreign trip as Russian president didn't take him to Europe, but to China. ■