ENERGY NEXUS BETWEEN RUSSIA AND THE EU: COMPETITION AND DIALOGUE

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Although the European Union's (EU) 27 member states have ceded some national sovereignty to EU institutions in a diversity of areas, with economic and trade policy, energy policy remains mainly the responsibility of the member states. Decisions concerning long-term oil or gas purchases, the expansion and development of energy-related infrastructure, and the use of exacting fuels continue to be made at the national level by individual member states. Collectively, EU member states import half of their energy requirements. Excepting important policy changes, this figure is expected to rise to 65 % by 2030. Today, oil, natural gas, and coal account for 80 % of the energy consumed in the EU.[1]

The Russian Federation is one of the most important partners for the European Union. A key precedence of the European Union is to build an important strategic partnership with Russia based on a solid establishment of common respect. Russia is the largest neighbour of the EU, brought even closer by the Union's 2004 and 2007 enlargements. The 2003 EU Security Strategy highlights Russia as a key actor in geopolitical and security terms at both the global and regional level.

Given that the EU's relations with Russia form a central element of its energy security, the way that it manages this association now and in the near future will be vital to its long-term energy security. The EU-Russia strategic partnership, which is based on the Partnership and Cooperation Agreement and the EU-Russia Four Common Spaces Policy, needs a good structure for an enhanced energy relationship.[2]

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[1] **See:** "Energy Overview, Council of the European Commission", June 2006: **An Energy Policy for Europe, Communication From the Commission to the European Council and the European Parliament.com** (2007) 1. January 10, 2007.

[2] For a more in depth examination of EU-Russia relations, see D. Lynch (ed.) What Russia Sees, Chaillot Paper No. 74, Paris: ISS, 2005: A. Monaghan 'From Plans to Substance: EU-Russia Relations During the British Presidency', Russie. CEI. Visions, No.: 5, August 2005. **www.ifri.org.**

Energy has become an ever more important and major policy issue as the growing competition for access to limited resources has altered the global economy. Russia is previously the largest single energy partner of the EU and is bound to become even more integrated in Europe's energy equation. Russia has been a most consistent energy provider, always respecting the dates, amounts and prices concluded even during periods of internal political turbulence or dramatic world market developments.

The European Union predicts an important increase in the amount of energy it will have to import: imports which currently account for just about 50 % of its energy expenditure, are expected to rise to some 70 % in 2030, in the case of oil products to 90 %.[3] This has raised the profile of the EU's relations with Russia, one of the EU's neighbours, and one of the world's key producers of oil and gas: its proposed oil and gas reserves are almost the largest on earth.

Yet there are developing concerns in many quarters in the EU about any increase in the EU's confidence on Russian hydrocarbons. This is partly because the broader EU-Russia relationship has been problematic of late. Even today, the EU relies on imports for almost 80 % of its oil supplies and about 43 % of its gas consumption. At the same time, Russia has gained the second place after Saudi Arabia in producing 11 % of the world's oil. What seems to be more significant is the fact that Russia has almost one-third of the world's gas reserves, being thus the world's most important producer and exporter of gas. Due to increasing instability in the Middle East, EU relies more and more on the Russian energy resources. Russian gas reserves were the largest of any country, making it both the world's largest gas producer and exporter and its also the world's second largest oil exporter. With gas consumption expected to rise more radically than oil expenditure in the future, some experts calculate that Europe could rely on Russia for more than 40 % of its natural gas by 2020.[4]

The crisis created the EU's dependence on Russian resources – it imports 44 % of its gas and 30 % of its oil from Russia. As the internal hydrocarbon resources of the EU and other constant suppliers such as Norway[5] run dry in the coming years, Europe's dependence on external energy resources will be accentuated; Europe will be importing 70 % of its energy needs by 2030. While Russia's resources and nearness to Europe make Euro-Russian partnership a necessity, Russia's apparent motivation to use its energy wealth to realize

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[3] **Energy: Let Us Overcome Our Dependence, European Commission Green Paper**, 2002. **Luxembourg: Office for Official Publications of the European Communities, 2002**. pp. 2-3, 9.

[4] Keith Smith, **Russian Energy Pressure Fails to Unite Europe**, **Center for Strategic and International Studies (CSIS), Washington, DC**. January 24, 2007.

[5] N**orway, not a member of the EU, is the second-largest exporter of natural gas to the EU, behind Russia**. Norwegian exports represented 17 % of European gas consumption in 2004. Germany (25 %), France (30 %), and the United Kingdom (30 %) are the largest consumers of Norwegian gas exports.

controversial foreign policy objectives has fueled debate within Europe on how best to manage energy relations with Russia.

That's why; Russia and the European Union are natural partners in the energy sector. Russia has been a consistent supplier of energy into the European Union for many years, despite periods of internal problems. Also, the European Union continues to be the dominant market for Russian energy exports. This strong mutual interest and interdependence means that energy is an ideal sector in which relations can be progressed drastically – a kind of test case – for the further development of an EU-Russia strategic partnership. Success in the energy sector could then serve as a model for other areas of common interest.

European concern regarding the security of its energy supply was first prompted by the Arab oil embargo of the early 1970's. Particularly, the embargo gave some issues. After the embargo, European countries began to recognize Russia and other Eurasian countries as potential energy suppliers. In 1991, the European Union launched the Energy Charter Declaration, an initiative intended to promote energy cooperation and diversify Europe's energy supply.[6] The Statement gave way to the 1994 Energy Charter Treaty that entered into legal force in 1998 and recognized a framework of rules and agreements to support international energy cooperation. To date, 51 countries and the EU have signed or acceded to the Treaty.[7] The Treaty try to generate a level playing field of rules concerning the support of foreign energy investments; free trade in energy materials, products and equipment; freedom of energy transit through pipelines and grids; promoting energy competence; and providing mechanisms for addressing disputes.

The legal source for EU relations with Russia is the Partnership and Cooperation Agreement which came into force on 1 December 1997 for an initial period of 10 years, which will be automatically extended beyond 2007 on an annual basis unless either side with draws from the agreement. It sets the principal common objectives, establishes the institutional structure for bilateral contacts, and calls for performance and dialogue in a number of areas. The Partnership and Cooperation Agreement is based upon the following principles and objectives: the promotion of international peace and security; support for democratic norms as well as for political and economic freedoms. It is based on the idea of mutual partnership one meant at support political, commercial, economic, and cultural ties.

Both the EU and Russia accept the importance of working together on the way to a strategic EU-Russia energy partnership, given the importance of

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[6] For more detailed information on the Treaty see An Introduction to the Energy Charter Treaty. The Energy Charter Organization. At [**http://www.encharter.org**].

[7] Although the United States signed the 1991 Energy Charter Declaration, it has not signed the Energy Charter Treaty, so it retains the status of observer to the Charter process. U.S. officials have cited a preference to pursue energy-related matters on a bilateral basis.

ensuring sufficient energy supplies and appropriate energy prices for economic development across the whole of the European continent, as well as the long-term nature of investments in energy production and transport. The European Union continues to treat Russia as though it were still the old Soviet Union. But shared history, geography and common interests – especially in the sale and competence of energy supplies – make an appropriate alliance essential. The Energy Dialogue with Russia has quickly become one of the key issues in bi-lateral EU-Russia relations and one in which the open negotiations have already official considerable progress to be made. The overall objective of the energy partnership is to improve the energy security of the European continent by binding Russia and the EU into a closer relationship in which all cases of mutual concern in the energy sector can be addressed while, at the same time, ensuring that the policies of opening and integrating energy markets are pursued. With the significant mutual dependency and common interest in the energy sector, this is openly a key area of the EU-Russia relations. The EU needs to understand how Russia fits into key political agendas such as security, the increase of democracy, and energy security. As globalization means that there is a triangular relationship between the EU and Russia, it remains low-key and at the period of initial dialogue. In addressing the complicated nature of the EU-Russia energy relations, this paper looks first at the EU-Russia energy dialogue. This paper gives a general setting of the EU-Russia energy link. Then it explores the roles of the Central Asian States in the series of East-West transit activities. As a major economic power, the role played by the EU and the way it seeks to address its increasing dependence on imports will be essential. The Union currently imports nearly 50 % of its energy consumption, a figure which is expected to rise to 70 % by 2030, yet it does not have a common, effective energy strategy and policy. In addition, it lacks organization and foresight. Preparing correct plans to ensure strategic energy security should be its main concern in the energy field. Unease is growing in many quarters that the EU will find itself increasingly dependent on Russia for energy imports and that Moscow could use this as a diplomatic handle. These concerns surfaced during the bilateral summit in London in October 2005, when questions were raised about whether the EU's dependence on Russian energy would undermine its capacity to address disquiet about the country's political developments.

Russian-EU Energy Relations

The EU has traditionally exerted little, if any, influence over individual member state energy policy. However, in March 2007, in the face of increasing concern concerning Europe's reliance on Russian energy resources, and growing public pressure to address global climate change, EU member states arranged on a chain of policy measures intended to form the foundation of an "Energy Policy for Europe." The March agreement aims to increase EU competency to secure and spread European energy supplies, while seeking to

decrease EU-wide carbon emissions by promoting alternative and renewable energy sources.

The EU has been at pains to point out the strong common interest in the energy sector, and it has continually confirmed that Russia has been a reliable supplier and has always appreciated agreed dates, amounts and prices, even during periods of internal political turbulence or impressive world developments. To give for stable development of this key relationship the Russia- EU Energy Dialogue has been launched quite a few years ago.[8] The idea was to make medium and long-term forecasts of the exact dynamics in Europe and respectively to work out the plan of the development of oil and gas fields in Russia and neighboring countries, provide for right capital investment and create the necessary infrastructural capacity. Since 2000 the two sides have been developing a formal energy dialogue which has led to a "true partnership, offering wider prospects which go away from the narrow questions of energy trade and extend to transport-related problems and to the environmental impact of the energy sector".[9] Even with continued Russian reluctance to allow European investment in its energy sector and assume energy market and transportation principles laid out in the Energy Charter, some European nations continue to allow increased Russian influence in their energy sectors.

Officially, the dialogue is considered to have produced positive results acting as a problem solving forum and opening the way to European investment in the Russian energy market.[10] The EU continually stresses strong common interests in the energy sector. Repeatedly, the EU stresses Russia's proven reliability as a supplier, respecting as it has the dates, amounts and prices agreed even during periods of domestic or international turbulence. According to EU officials, there have been no signs from Russian executive officials about Russia using its energy resources as a diplomatic lever against the EU.[11]

The EU-Russia Summit of October 2001 recognized the future direction of the energy dialogue. Recognising that the initial, analytical phase had been profitably concluded, the Summit noted that the Energy Dialogue was now entering a more practical, operational stage, and highlighted that in the short term, progress could be obtained in the following areas:

– Development of the legal basis for energy production and transport in Russia;

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[8] 'Summit Press Release 'Russia-EU Energy Dialogue Synthesis Report No. 1, September 2001', 4 October 2005. **www.europa.eu.int**.

[9] Communication from the Commission to the Council and the European Parliament 'The Energy Dialogue Between the European Union and the Russian Federation Between 2000 and 2004', COM (2004) 777 Final, 13 December 2004. pp. 2, 10.

[10] **www.technologycentre. org**; Communication from the Commission to the Council, 13/12/04 on Energy Dialogue; EU-Russia Energy Dialogue, 5th Progress Report, November 2004.

[11] 'Russia-EU Energy Dialogue Synthesis Report No. 1, September 2001'; **Summit Press Release**, 04/10/05.

– Legal security for long-term energy equipments;

– Ensuring the physical security of transport networks;

– The acknowledgment of confident new transport infrastructures as being of “common interest". Such projects, and the choice of routes, clearly remain the responsibility of the States and companies disturbed;

The functioning of pilot projects in the Arkhangelsk and Astrakhan regions of Russia on rational energy use and savings.

The UK presidency of the EU Council during the second half of 2005 sought to prioritise the energy dialogue and add new vitality to it. Plans and aims were agreed and a framework for the realization these plans established at a Permanent Partnership Council (PPC) meeting, held on 3rd October 2005. This imbued the dialogue with more arrangement, broadening it to include a wider set of interlocutors with vested interests, including business and political authorities from both Russia and the EU. These are represented in four thematic groups, focusing on investment, infrastructure, trade and energy competence. [12]

Definitely, the EU today consists of 27 member states with all having their own independent interests in the energy problems. Some EU countries, especially Germany, France and Italy, view Russia as the indispensable partner necessary for increased energy supplies. Although European leaders increasingly pay lip-service to the need for enhanced energy cooperation, the success of an EU energy strategy will likely depend on the ability of member states to border common objectives in addressing three basic challenges. First, how to build up strong partnerships with energy producing and transit regions; second, how to use and further develop local and alternative energy sources while seeking to curb overall consumption; and third, how to establish an internal system to provide dependable and secure energy supplies to all of Europe.

The EU-Russia energy dialogue was launched on the initiative of Presidents Chirac and Putin and the Commissioner Prodi, in the recognition that Russia and the EU are natural partners with common interests in the energy sector and continental energy security. The objective was to provide a forum for the discussion of all questions of common interest in the energy sector and bind Russia and the EU into a closer relationship. Working groups have met frequently to address energy strategies, technology transfers, investments and energy efficiency. A Technology Centre was established in November 2002 for the exchange of information and the promotion of new energy technology to support Russia in accelerating the development of the oil and gas sectors.

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[12] Joint EU Presidency and European Commission Press release on the EU – Russia Permanent Partnership Council on Energy, 3rd October 2005, London. **http://www.europa. eu. int/comm/external_relations/russia/summit_10_05/ip05_1218. htm.**

The EU is interested in Russian energy market reforms for some reasons. First, energy prices in Russia are only a part of their world market levels. The EU argues that this gives Russian exporters an unfair advantage, particularly in energy-intensive sectors such as aluminium or fertilisers, and that consequently Russia should not join the WTO unless it is prepared to raise energy prices. But everyone in Russia, whether they are pro- or anti-WTO, regards this as an irrational order. The matter of energy prices has become the main bone of contention in the negotiations over Russian membership of the WTO – and since the EU is Russia's prevalent trading partner, it has considerable influence over the development of those negotiations.

The second reason why the EU is pushing Russia on energy market reform is that there is a growing difference between the EU's own efforts to liberalise its energy markets and the supply of Russian gas through a monopolist, namely Gazprom. They allow Gazprom to sell gas to different EU countries at different prices, and they prevent the EU from developing a functioning EU-wide gas market. The Commission has been negotiating with Gazprom on this dilemma and reports some development.

The energy partnership aims to recover the investment opportunities in Russia's energy sector in order to upgrade and increase the energy production and transportation infrastructure as well as develop their environmental impact, to support the ongoing opening up of energy markets, to help the market diffusion of more environmentally friendly technologies and energy resources, and to support energy efficiency and energy savings.

The Union also believes that the energy dialogue has helped to combine the energy market through a number of measures, including the interconnection of electricity grids; agreement on regulatory principles for internal markets and long-term deliver contracts; and improved cooperation in the nuclear energy field and in advanced energy technologies. On the one hand, the EU's focus has been on increasing energy supplies from Russia, on the other hand, this leaves quite free hands for the member states to follow their own agenda with Russia on bilateral level.

So far if it provides a good forum for discussion, positive realistic measures remain marginal and the dialogue has been held up by differing interpretations and priorities. Russia seeks support to modernise its energy sector and keep itself, while the EU wants reform and the opening of the Russian market through the construction of a positive business climate.[13] Such differences were most newly noted by EU Energy Council. While he advocated a 'new-style energy partnership' between the EU and Russia, since both partners were 'mutually dependent', he also stated that it is important in this relationship for

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[13] Lynch, D., **Russia Faces Europe**, Chaillot Paper No. 60. Paris: ISS, 2003, p. 65.

foreign investors to have access to Russia, just as Russia's Gazprom has access to Europe's capital and energy markets.

European Union, Imports From Russia (Mio€)							
SITC Rev. 3 Product Groups	2002	%	2004	%	2006	%	Share of total EU imports
TOTAL	61.999		80.722		136.847		10.16
Primary Products of which:	44.752	72.2	57. 895	71.7	101.298	74	21.2
Energy	37.302	60.2	48.749	60.4	89.534	65.4	28.34
Agricultural prod.	2.538	4.1	2.215	2.7	2.697	2	3.1
Manuf. Products	7.114	11.5	9.131	11.3	11.173	8.2	1.73

Institute of Energy Policy, January 2006

The energy situation with Russia is not yet extreme. Russia will continue to be Europe's main energy supplier for the long-term, and healthy Russian-European relations remain a precedence on both sides. If a common external EU energy security policy is to appear, two options may be considered. First, Europe may move to curb its dependence on Russian energy by increasing its diversification to other regions without intimidating Russia's own market security in Europe.

Importance of Central Asia and the Caspian regions on EU-Russain Energy Dialouge

One of the focal points of European energy diversification strategies is Central Asia and the Caspian and Black Sea regions. Indeed, the EU's January 2007 energy policy paper recommends strengthening the EU's so-called Neighborhood Policy with these areas, and European leaders have sought to bolster ties with countries in these regions. Rather than rely on significant outside investment in its energy infrastructure, observers believe Russia intends to satisfy its long-term gas contracts with European nations through its near monopoly on gas from Central Asia (Kazakhstan, Turkmenistan, and Uzbekistan). Russia currently controls the overwhelming majority of oil and gas transportation routes from Central Asia and, according to analysts, intends to exploit this control and its political leverage over Central Asian governments and European countries to impede European and U.S. efforts to develop alternative pipelines that bypass Russia. Presently, the Caspian Sea region is a significant, but not major, supplier of crude oil to world markets The untapped reserves held by four of these nations might offer Europe an opportunity to move away from increased dependence on Russian energy.

Russia uses its monopoly on Central Asian gas to advance its position in the international market as well as other for other political and economic ends, but

doesn't see how this strategy affects the relations with those states. It has consistently blocked Central Asia's attempts to get access to European markets, has been reluctant to expand the Caspian Pipeline Consortium (CPC), and just recently reneged on a 10 year agreement with Kazakhstan to ship its oil to a refinery in Lithuania. In conclusion, it needs to be said again that energy relations between Russia and the Central Asian states are characterized by a great uncertainty. Russia's assumptions about the availability of Central Asian gas for consumption and export are not few and also not grounded in reality. In the meantime, the Central Asian states are likely to continue to pursue alternative exports routes with the help of Europe and China and much to the chagrin of Russia. Despite positive trends in the development of EU-Russian energy relations, some major questions are still unresolved. Further dialogue is required, for example, concerning the Access of independent energy producers to pipelines in Russia as well as transit routes from Central Asia. Additionally, the issue of disruptions in oil and gas supplies from Russia to the EU, arising from disputes between Russia and transit countries, also needs to be addressed through mutual dialogue.

Changing the region's energy flow from the existing North-South axis to an East-West axis toward Europe could be integral to Europe's energy strategy. Currently, the region relies on three big pipeline projects which will reduce the region's dependence on Russia. The Caspian Pipeline Consortium (CPC) project connects Kazakhstan's Caspian Sea area oil deposits with Russia's Black Sea port of Novorossiysk. Oil loaded at Novorossiysk is then taken by tanker to world markets via the congested Bosporus Straits.

The Baku-Tbilisi-Ceyhan oil pipeline (BTC), which opened in July 2006, exports oil from Azerbaijan and up to 600, 000 bl/d from Kazakhstan along a 1,040 mile route from Baku, Azerbaijan via Georgia to the Turkish Mediterranean port of Ceyhan. This will allow oil to bypass the Bosporus Straits.

The South Caucasus Pipeline (SCP), a new gas pipeline venture completed in December 2006, runs parallel to the BTC oil pipeline for most of its route before connecting to the Turkish energy infrastructure and on to Europe via a transit pipeline through Greece. In addition to these pipelines already in service, several additional projects in Europe could be occupied.

Turkey is by the way becoming a vital energy centre for supplies from the producer regions and is thus of strategic importance for the EU's energy security. The enlargement process with Turkey could donate to promoting the early adoption and performance of the EU's energy acquis by Turkey, while Turkey's early accession to the Energy Community Treaty could also speed up this process. Co-operation on pipeline projects such as the Nabucco project and further projects from the Caspian basin should be realised in the most effective manner. A rapid arrangement of Turkey with EU energy standards and policies

would be highly useful for realising Turkey's great potential as a key energy hub.

Some Problems in the EU-Russia Energy Relationship

Russia's relations with the EU have reached an important but hard period. Moscow considers EU policies to be threatening to Russian domestic and foreign interests. On the EU side, two main problems lie behind the calls for greater diversification of hydrocarbon supplies, predominantly away from Russia. First, some have argued that the EU's addiction on Russian energy undermines its capacity to negotiate with, and particularly to criticise, Russia. The argument runs that whatever reservations they may have about political developments in today's Russia, the Europeans have a 'strong incentive to be tactful' because of its energy dependence on it.[14]

In 2005, Germany and Russia agreed to build a gas pipeline connecting the countries under the Baltic Sea. While Germany maintains that the pipeline will considerably improve German and therefore European energy supply and security, a number of EU member states, including Poland and Lithuania, have protested the decision. They counter that by running the pipeline under sea so it bypasses both countries, and that by failing to organize with EU neighbors when negotiating with Russia, Germany's actions pose a threat to their and broader European energy security.[15]

The EU and Russia are already cooperating in many ways, as well as the modernisation of Russia's economy and its integration into the world economy, security, international issues and cooperation in the common neighbourhood of Eastern Europe. The political relationship is highly institutionalized, with a solid network of ties from Presidential point down to expert and grass-roots level. The EU's enlargement has drastically extended the common border and created a common neighborhood, increasing the assortment and importance of issues to be addressed, particularly border control and migration management, organized crime and crisis management in the new common neighborhood. This dense network of links means that both sides officially think it a Strategic Partnership.

However, the EU-Russia relationship has many high-profile matters, and of late it has been beset by resistance. Since 2002, aggravation with the breakdown to develop logical plans and convert them into practical substance has grown on both sides. Negotiations to develop Four Common Spaces as an umbrella for the progress of the relationship were difficult – the disagreements resulted in the

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[14] "Taking on the Bear", **The Economist**, 07/05/2005: Press Conference following EU-Russia summit, 04/10/2005.

[15] "Polish Press Slams Germany's Schroeder over Gas Pipeline Deal", **Agence France-Presse**, December 12, 2005.

delay of the November 2004 presidential summit in The Hague. Practical development in the relationship has also been irregular.

Exacting disagreements have arisen over visa requirements for transit for Russian citizens between Russia and the exclave region of Kaliningrad and over the elections in Ukraine, in which Brussels and Moscow espoused opposite causes. Furthermore, usual EU criticism of the brutality of Russia's counter terrorist methods in Chechnya and extensive criticism in several EU member states of the ever more authoritarian accessories of President Putin's leadership, have undermined relations.[16] As one commentator noted recently, critics of Russia in Brussels seem to talk of Russia as a 'borderline outlaw nation' – and the build up to the G-8 summit as the 'biggest rethink of Russia's relationship with the West since the collapse of the Soviet Union'.[17] Concurrent to this, there are anxieties about Russia's future dependability as a supplier and the following possible threat to EU interests that Russia might pose if the EU was dependent on Russian hydrocarbons. This has been emphasised twice lately: first in October 2005 at the EU-Russia summit in London, where concerns were articulated by many about the EU's dependence on Russian oil; then in early 2006, when gas supplies in a number of EU member states were artificial by the argument between Russia and Ukraine during which Gazprom turned off supplies to Ukraine.

The new EU members, traumatised by their experience of Soviet communism and possessing the confidence of new converts, have beleaguered the committees concerned with the affairs of the former Soviet Union and mean to convince old Europe that its approach to Russia is naive. They have set themselves up as the champions of CIS countries such as Ukraine and Georgia. Faced with this new Europe which means to anchor the EU securely in the past, old Europe is hesitant, and cannot explain that Franco-German settlement, which was the basis for western European integration, should also provide as a model for relations with Russia.

There are, however, basis for concern about a disruption of Russian hydrocarbon supplies to the EU because of the lack of investment in infrastructure. This will front to technical problems caused by ageing infrastructure or bottlenecks resulting from its partial capacity. As a result,

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[16] Three Human Rights Consultations have taken place since March 2005. Both sides have expressed concerns about human rights – the EU about rights in Chechnya, Russia about the treatment of Russian minorities in the Baltic States. However, although the conflict in Chechnya has receded, the humanitarian situation in the region remains difficult. Some 150, 000 people continue to be internally displaced within the Republic. Many of them are returnees who have come back from Ingushetia over the past few years but could not go home because their houses were destroyed during the conflict. Living conditions remain extremely difficult. Outside Chechnya, around 18.000 people are still displaced in Ingushetia and some 7,000 in Dagestan.

[17] Owen Matthews, "Reversal of Fortune", **Newsweek**, 10/17 April, 2006.

despite Russian hydrocarbon capacity, there may be problems in exporting these resources to meet Europe's rising energy needs in the medium term. There are other important problems for the EU, too. One is the lack of a rational, coordinated energy plan both in Russia and in the Union. The production of competing interests on both sides means that it is not clear what is being negotiated. In a market which requires substantial strategic planning and long-term financial expend, this lack of clarity undermines the sensible possibilities of the relationship.

On the other hand, problems and differences stay, and the two sides have differing interpretations of therelationship and their priorities. Russia seeks support to modernise its energy sector and protect itself, while the EU wants Russia to reform and open up its market by creating a more constructive business climate.[18]

CONCLUSION

This article explored the EU-Russian energy link where the EU relies more and more on the Russian energy resources and where Russia searches for security of energy markets. In this framework, otherwise anonymous EU transforms into a set of independent interests some member states may have in the energy problems while the performance of Russian energy companies balance with the state's foreign policy behaviour. In this energy link, the new resource-poor EU member states supply the role of transit corridors where Russia uses a mixed selection of political tools against those who conflict with her commercial interests or foreign policy goals.

The EU-Russia energy relationship highlights the main questions of international energy security today. First, it emphasises the political dimension predominantly the tense relationship between producers, consumers and transit states. Representation plays an important role, and Gazprom's actions broken Russia's international image as a dependable supplier. Definitely, it formed a crisis of confidence on the EU side, and as a consequence, a number of EU member states are planning to redesign their energy security strategies, with exact stated intentions to diversify away from dependence on Russia. This is beginning to have a knock-on effect on Russian poise, which needs a secure market just as the EU needs a secure foundation.

The energy sector is central to the future economic security and expansion of both Russia and the EU, and is a central component of the EU-Russia relationship. It is a dimension that is of actual significance, more than pretend political desire. It would severely undermine the energy security of both the EU and Russia if the relationship began to drift apart in the search for more apparently reliable sources. Concerns about Russia's reliability cannot be

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[18] D. Lynch, **Russia Faces Europe**, Chaillot Paper No. 60, Paris: ISS, 2003, p. 65. In fact, as Lynch points out, both sides are demandeurs in the negotiations.

dismissed out of hand. But problems must be more exactly pin-pointed. It is of real importance that the language moves away from ideas of "dependence" on the other and producer vs. consumer: the relationship is a mutual one, with profit as well as down-sides for both. Sustained attempt must be made by both sides to create and develop the dialogue and confidence building measures and also the economics and technicalities of the relationship and broaden the range of those with a vested interest – both business and state – to improve its progress.

Unlike the US-Russia relationship, which has been damaged under the Bush Administration, the EU-Russia relationship is more complex. It is, however, currently long on dialogue and short on major sensible progress, even though some bureaucratic breakthroughs are being made, and some highly technical fields have seen development. The pressure between political vision and bureaucratic progress will carry on, though, meaning that any concrete progress will continue to be slow, and the quick renegotiation of the PCA is improbable. Certainly, the political flaws in the relationship mean that the positive bureaucratic improvement being made is susceptible to a change in the political wind or leadership in Russia, which could render much of it irrelevant. Therefore, the increasingly direct foreign policy positions of both sides and the elections in Russia in 2007 and 2008 take on added consequence for the long-term development of EU-Russia relations. Nonetheless, the Finnish Presidency will continue to support the steady development in EU-Russia relations through the renewed dialogue frameworks, mainly the energy dialogue and the Northern Dimension. The EU's financial cooperation instruments should be mobilised in full to support the restructuring and expansion of the partner countries' energy sectors, regional cooperation, infrastructure interconnections, new pipelines, energy efficiency and renewable energy sources for our mutual profit.